The Nigerian Tax Reform Act 2025

INTRODUCTION:

The New Tax Bill is set to significantly reform Nigeria's tax system by eliminating outdated laws and unifying the taxation of income, transactions, and various financial instruments. Scheduled to take effect on January 1, 2025, this legislation addresses modern economic trends, such as the rise of digital assets and online transactions.

Among its key objectives, the Bill aims to simplify tax administration, improve compliance, and ensure a fair distribution of tax responsibilities. By establishing a clearer and more transparent tax environment, it seeks to align Nigeria's practices with global standards, fostering economic growth and development while making it easier for individuals and businesses to navigate their tax obligations.

OBJECTIVES: The New Tax Bill seeks to achieve several overarching objectives:

Consolidation: The consolidation and simplification of tax laws into a single act streamlines compliance for both businesses and individuals. This reduces administrative burdens and makes it easier to understand and follow tax regulations. By having a unified framework, taxpayers can navigate their obligations more efficiently, ultimately saving time and resources

Enhancing Transparency: Providing clearer guidelines and information about tax laws to promote fairness and understanding among taxpayers.

Improving Revenue Collection: Optimizing the tax framework to enhance revenue generation while maintaining taxpayer trust

Modernisation: The Bill updates Nigeria's tax laws to reflect current global economic trends, particularly in digital assets, online services, and technology-driven industries.

Ensuring Equity: Striving for a fairer tax system that addresses disparities and promotes social equity

Company Income Tax (CIT):

The threshold of small companies who are exempted from company income tax is increased from 25,000,000 to 50,000,000 encouraging entrepreneurship and small-scale enterprise growth.

Reduction of company income tax rate from 30% to 27.5% for 2025 tax year and a further reduction to 25% for 2026 tax year and for subsequent years.

The new company income tax eliminates the medium company that was earlier taxed at 20%

Personal Income Tax (PIT):

The new tax provisions deleted the Consolidated Relief Allowance (CRA) and introduces a new personal income tax rate as shown below.

- First ₦800,000: 0%.
- Next ₦2,200,000: 15%.
- Next ₦9,000,000: 18%.

- Next ₦13,000,000: 21%.
- Next ₦25,000,000: 23%.
- Above ₦50,000,000: 25%.

The bill also Introduces a Rent Relief which is computed on the lower of N200,0000 or 20% of actual rent paid.

Value Added Tax (VAT):

Removal of VAT on Rent: In line with the Finance Act, VAT is no longer applicable to rent-related transactions, reducing the financial burden on businesses and individuals who lease properties.

The VAT rate has been increased progressively as shown below.

- 10% for 2025 financial year
- 12.5% for 2026, 2027, 2028 and 2029 financial year
- 15% for 2030 financial year

Development Levy:

Replacement of Education Tax, NITDA, and NASENI levies with a single levy called Development Levy is imposed on the assessable profits of all companies other than small companies and non-resident companies as shown below:

(a) 4% for 2025 and 2026 years of assessment,

(b) 3% for 2027, 2028 and 2029 years of assessment, and

(c) 2% for 2030 year of assessment and there after which shall be solely for the Student Education Loan Fund

Digital Economy Inclusion:

The Bill recognises and introduces taxation for digital assets, online services, and fintech activities, bringing the Nigerian tax system in line with international standards. Gains from digital transactions are now clearly subject to Capital Gains Tax, reflecting the growing importance of the digital economy

Consolidation of Tax Laws:

By merging various tax regulations into a single legal framework, the Bill simplifies tax administration and compliance, reducing complexity for taxpayers.

Withholding Tax (WHT) Adjustments:

The Bill streamlines WHT rates for various transactions, ensuring taxes are deducted at source, reducing the likelihood of tax evasion.

Unilateral double taxation relief:

A unilateral doble taxation relief is introduced for resident companies who derives income from outside Nigeria which have been subjected to tax in the source country. The credit granted is the lower of the-

(a) Nigerian tax, attributable to the foreign income or profit; and

(b) amount of tax paid in the source country.

Economic Development Tax Incentive:

Granting of tax incentives to companies in priority sectors for the purpose of (i) generating employment, (ii) attracting Foreign Direct Investment inflow, (iii) stimulating the growth of some sectors in certain localities

CONCLUSION:

The New Tax Bill represents a significant reform of Nigeria's tax system, providing a comprehensive, unified, and modern framework for taxation. By expanding the tax base, simplifying compliance, and acknowledging emerging sectors like the digital economy, it aims to boost revenue generation while promoting fairness and equity. Set to take effect in 2025, the Bill is expected to streamline tax administration, support business growth, and encourage compliance, all while fostering a tax system that adapts to the needs of a rapidly evolving economy.