Navigating Nigeria's Tax Landscape:

Key Trends and Developments in 2024 and Outlook for 2025

Introduction

Interesting times are ahead for the Nigerian fiscal landscape. With exchange rates now fairly stable at around US$1/NGN1500 and oil production levels stabilising around 1.6 million barrels of oil per day (bpd) (achieving 98.97% of Nigeria's OPEC quota of 1.5 million bpd), Nigeria may well be on its way to economic recovery and tax revenue plays a crucial role in making this happen. The Federal Government of Nigeria ("FGN") has a significant budget deficit of NGN13.39 trillion to fix and hopes to increase tax revenue (like it did in 2024) to bridge the gap. The Federal Inland Revenue Service ("FIRS") reports that in Q3 2024, Companies Income Tax ("CIT") collections rose by 1.7% year-on-year to NGN1.77 trillion, driven by increased contributions of the Mining and Quarrying, Information & Communications and Manufacturing sectors, which grew by 200%, 94% and 48%, respectively. The same sectors also accounted for an 88% year-on-year growth in Value Added Tax (VAT) collections in Q3 2024, each growing by 25.47%, 18.37% and 15.1%, respectively.

This publication highlights some of the key tax developments in 2024 and key provisions of the Nigeria Tax Bill – one of the 4 (four) Tax Reforms Bills proposed by the Presidential Committee of Fiscal Policy and Tax Reforms (the "Committee").

Key Trends and Developments

1. Increased Tax Registration and Compliance Monitoring

Tax registration enforcement is ramping up, with the FIRS requiring businesses and individuals to obtain a Tax Identification Number ("TIN") before carrying out certain transactions. For instance, the FIRS' stamp duties portal has been updated to capture a variety of transactions and entities so that foreign counterparties to agreements relating to transactions in Nigeria are required to provide their TIN as a prerequisite for stamping their documents in Nigeria. Also, vendors who fail to provide a valid TIN face penalties of twice the applicable WHT rate.

This development is a move towards strengthening the Nation's tax administration, ensuring that businesses, including foreign entities, are properly registered and taxed. It reflects a growing emphasis on transparency and accountability in Nigeria's business environment. By requiring all parties involved in Nigerian business activities to have a TIN, the tax authorities are widening the tax base and reducing informal or unregistered transactions that often evade tax obligations.

2. Adjustments to Nigeria's Withholding Tax ("WHT") Regime

The new **Deduction of Tax at Source (Withholding) Regulations 2024** (Gazetted on 30 September 2024) with an effective date of 1 January 2025 (due to the 90-day window for implementation of tax reforms) (the "Regulations") introduces important changes to Nigeria's WHT framework. These are some of the key changes:

- The WHT rate for goods supplied by Nigerian businesses is now 2%, except for goods manufactured or materials supplied directly by the manufacturer or producer, which are exempt.
- Small businesses with annual revenue below NGN25 million are now exempt from the obligation to deduct WHT, provided (a) the supplier/recipient has a valid TIN, and (b) the value of the transaction is NGN2 million or less in the relevant month.
- Transactions such as across-the-counter sales, telephone charges, internet data, and airline tickets are now exempt from WHT to ease businesses' cash flow burdens.
- The government has expanded the application of WHT to previously undertaxed areas, including entertainment, sports, and lottery winnings, aiming to capture a larger revenue share from high-growth sectors.

We published an overview of the Regulations, which can be accessed here

3. Value Added Tax (Modification) Order 2024 (the "Order")

The Minister of Finance and Coordinating Minister of the Economy (the "Minister") issued the Order on 1 September 2024. The Order amends and expands the Value-Added Tax Exemption List ("VAT Exempt List") under Part I and II of the First Schedule to the Value-Added Tax Act. It sets an effective date of 1 September 2024 for implementing its provisions but provides for a retrospective commencement date of 1 October 2023 for the provisions relating to Automotive Gas Oil. The Order primarily sets the tone for Nigeria's energy transition strategy, with a focus on gas as a transition fuel.

Some of the items that have been included in the VAT Exempt List include:

(a) Equipment and Infrastructure related to the expansion of Compressed Natural Gas ("CNG");

(b) Equipment and Infrastructure related to Liquefied Petroleum Gas ("LPG"), including conversion kits;
(c) Domestic Liquified Natural Gas ("LNG") Processing Facilities and Equipment;
(d) Electric Vehicles;
(e) Parts, semi-knock-down units for the assembly of Electric Vehicles;
(f) Biogas and Biofuel equipment and accessories for clean cooking and transportation;
(g) CNG conversion and installation services;
(h) LPG conversion and installation services; and
(i) Manufacturing, assemblage and sale of electric vehicles.

The Order resolves some of the validity issues associated with the "Fiscal Incentives for the Presidential Gas for Growth Initiative" circular issued by the Federal Ministry of Finance in December 2023 (the "Circular"), which, among other things, directed the FIRS and the Nigeria Customs Service ("NCS") to apply a zero per cent (0%) VAT rate on feed gas for all processed gas, CNG, imported LPG, CNG and LPG equipment component, conversion and installation services as well as equipment and infrastructure (including conversion kits) related to the expansion of CNG and LPGs, by including the exemptions in a gazetted Order.

4. The Controversial Windfall Tax on Nigerian Banks

In response to the foreign exchange gains made by banks due to the Naira's devaluation, the FGN proposed a windfall tax through the Finance Act (Amendment) Bill, 2024. Initially set at 50%, the Senate later increased the rate to 70%.

The proposal, however, raised concerns about potential adverse ripple effects. Legal commentators and economists have argued that the windfall tax could reduce banks' net earnings, weaken their capital base, and result in higher service fees and interest rates for customers, as banks may pass the additional tax burden onto their customers.

The status of the implementation of the proposal is unclear.

5. The Oil and Gas Companies (Tax Incentives, Exemption, Remission, etc.) Order, 2024 (the "Gas Incentives Order").

On 6 March 2024, President Bola Ahmed Tinubu signed the Gas Incentives Order to specify incentives applicable to Non-Associated Gas (NAG) and promote investments in NAGs greenfield development. The Gas Incentives Order provides for a Gas Tax Credit (GTC) for NAG greenfield developments in onshore and shallow water locations with first gas production on or before 1 January 2029, at the rate of US$1.00 per thousand cubic feet or 30% of the fiscal gas price (whichever is

lower) if Hydrocarbon Liquids (HCL) content does not exceed 30 barrels per million standard cubic feet (SCF). If HCL exceeds 30 barrels per million SCF but does not exceed 100 barrels per million SCF, a GTC at the rate of US$0.50 per thousand cubic feet or 30% of the fiscal gas price is applicable.

For other greenfield NAG projects with first commercial production after January 1, 2029, a Gas Tax Allowance (GTA) is provided at a rate of US$0.50 per thousand SCF or 30% of the fiscal gas price (whichever is lower), provided that HCL content does not exceed 100 barrels per million SCF. The GTC for NAG operations applies for a maximum of 10 years, after which it becomes a GTA claimable at the outlined rates.

We published more details about the Oil and Gas Order, which can be accessed here

6. Guidelines on Advance Pricing Agreements ("APAs")

On 27 November 2024, the FIRS issued Nigeria's first-ever Guidelines on Advance Pricing Agreements (the "APA Guidelines") to provide guidance on the procedure and conditions for APAs in Nigeria, as well as the administration of executed APAs to enable taxpayers and the FIRS to determine, in advance of controlled transactions, an appropriate set of criteria for the determination of the transfer price of future transactions between taxpayers and related parties that accords with the arm's length principle over a maximum period of 3 (three) years. The terms agreed in an APA may also apply to controlled transactions carried out before the APA's coming into force for a rollback period of not more than 3 (three) years.

The APA Guidelines recognise unilateral, bilateral and multilateral APAs that cover all controlled transactions (including transfers of tangible or intangible property or services) between

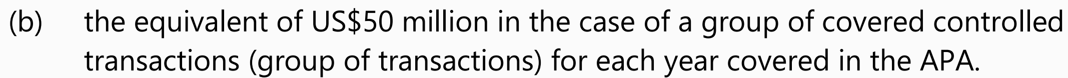
(a) two or more connected persons;

(b) a permanent establishment, fixed base, or any taxable presence and its head office; or

(c) two permanent establishments, fixed bases, or other taxable presence of the same person.

The APA Guidelines set a threshold for APA applications as

(a) the equivalent of US$10 million for each covered controlled transaction (single transaction) for each year or



(b) the equivalent of US$50 million in the case of a group of covered controlled transactions (group of transactions) for each year covered in the APA.

The APA Guidelines were issued on the backdrop of Regulation 9 of the Income Tax (Transfer Pricing) Regulations 2018, which provides the legal basis for a taxpayer to request an APA and suspends the operation of APAs in Nigeria pending the publication by the FIRS, of relevant notices and guidelines on APA, as it has now done. Since the FIRS has now issued the APA Guidelines, we expect to see taxpayers adopt APAs to agree with the FIRS on the price of controlled transactions to avoid any potential disputes between such taxpayers and the FIRS.

You should be on the lookout for our publication of a detailed overview of the APA Guidelines.

7. The Nigerian Tax Reform Bills: A Legislative Overhaul

In October 2024, President Bola Ahmed Tinubu proposed the (i) Nigeria Tax Bill, (ii) Nigeria Revenue Service (Establishment) Bill, (iii) Nigeria Tax Administration Bill and (iv) Joint Revenue Board (Establishment) Bill (together "**the Tax Reform Bills**"). The Tax Reform Bills are the outcome of the Committee's mandate to recommend changes to overhaul the Nigerian fiscal landscape, streamline and consolidate the nation's tax laws and promote consistency in the administration and operation of the tax laws.

The key highlights of the Tax Reform Bills include the:

(a) replacement of the FIRS with the Nigerian Revenue Service and the introduction of an overt collaborative framework between the tax authorities within the federal, state and local governments;

(b) gradual reduction of the CIT rate from 30% to 27.5% (in the 2025 Year of Assessment ("YOA")) and 25% (in the 2026 YOA);

(c) proposed top-up tax where, in any YOA, the effective tax rate of a company is less than 15%. Such a company is expected to recompute and pay the top-up tax, which will make its effective tax rate equal to 15%, and this provision applies to (a) a company that is a constituent entity of a multinational enterprise group, and (b) any other company with an aggregate turnover of NGN20,000,000,000 and above in the relevant YOA;

(d) change of the revenue threshold for categorising small companies in Nigeria from NGN25 million to NGN 50 million;

(e) elimination of minimum tax for companies with low-profit margins and harmonisation and review of tax incentives;

(f) increase to income bands for personal income tax ("PIT") purposes and increase in the PIT rates as follows: 0% for the first NGN300,000, 15% for the next NGN2,000,000, 18% for the next NGN9,000,000, 21% for the next NGN13,000,000, 23% for the next NGN25,000,000 and 25% above NGN50,000,000;

(g) removal of VAT on essential items, and an increase of VAT rates on non-essential commodities from 7.5% to: 10% (in 2025), 12.5% (from 2026 to 2029) and 15% (from 2030 onwards);

(h) proposed new VAT revenue-sharing formula for the FGN and federating states, emphasising a more equitable distribution framework prioritising derivation so that states retain a significant share of the VAT revenue generated within their states, incentivising revenue generation at the subnational level;

(i) change of certain previously VAT-exempt items to zero-rate, the implication being that companies providing those goods or services may be eligible for input VAT refunds from the FIRS instead of expensing the input VAT (or VAT on purchases) through their profit and loss accounts

(j) deemed distributions of the profits of a Limited Liability Partnership, whether or not such profits are actually distributed in a given year;

(k) capital gains tax on the gains derived from the indirect transfer of ownership of companies or assets in Nigeria, where the transfer results in a change in the ownership structure of the group membership of any Nigerian company;

(l) imposition on all Nigerian companies (except small companies) of a Development Levy of 4% in the 2025 and 2026 YOAs, 3% in the 2027 to 2029 YOAs, and 2% in the 2030 and subsequent YOAs. The Development Levy will replace the: (i) Tertiary Education Tax of 3% of assessable profits of Nigerian companies, (ii) National Information Technology Development Levy of 1% of profits before tax of banks and other financial institutions, insurance, telecommunication, cyber and pension-related companies with over NGN100 million in revenue, (iii) National Agency for Science and Engineering Infrastructure Levy of 0.25% of the profit before tax of companies engaged in the business of banking, mobile telecommunication, ICT, aviation, maritime and oil and gas with turnover of NGN100 million and above;

(m) introduction of a clearer taxation regime for lottery and gaming businesses;

(n) introduction of economic development tax credits as a replacement for the Pioneer Status Incentive, which presently grants a maximum of 5 years tax holiday;

(o) apparent exclusion of instruments relating to the transfer of shares in a Nigerian company from the stamp duties exemption list, signalling a clarification that such instruments, including the Share Purchase Agreement and Share Transfer Forms, are liable to stamp duties;

(p) clarity on parties who have an obligation to pay stamp duties, with an upward review of some of the rates;

(q) clarification that when a business restructuring like a merger occurs, certain tax assets such as unabsorbed losses, unutilised capital allowances, and WHT credits can be acquired and used by the surviving entity post-merger, subject to certain conditions.

(r) imposition of excise duties on the exchange of currencies where the actual exchange rate of the transaction exceeds the prevailing official market rate. This is in addition to capital gains tax on the gains accruing on such transactions.

The Tax Reform Bills are undergoing significant deliberations at the National Assembly and are crucial to the FGN's strategy to increase its revenue while maintaining macroeconomic stability.

Outlook for 2025

Stricter Taxation of Multinational Corporations

A combination of Nigeria's Significant Economic Presence ("SEP") regime and the proposed minimum top-up tax may see more multinational companies paying taxes in Nigeria, especially given the gradual implementation of Pillar 2 globally. There is also increased transparency and collaboration among competent authorities, which means the exchange of information (much needed for tax administration) will be at an all-time high.

Increased Oil and Gas activities

As Nigeria gradually diversifies its economy, oil and gas activities will remain a significant source of revenue. With a budget deficit of over NGN 18 trillion, we expect the FGN to encourage more investment in oil and gas activities, including deep offshore areas. The incentives regime, especially for gas production, should see Nigeria attract more investment in the subsector, leading to more revenue for the government and additional tax revenue.

We expect global oil prices to reduce from the US$70 per barrel benchmarked by the FGN; hence, production volumes will need to increase from the targeted 2 million barrels per day to meet Nigeria's projected revenue for 2025.

Increased Investment in Renewable Energy

The exemption of the supply of Electric vehicles, parts and semi-knock-down units for assembling electric vehicles, Biogas and biofuel equipment, accessories for clean cooking and transportation and the manufacturing, assemblage and sale of electric vehicles from VAT should encourage investment in Nigeria's renewable energy sector. Companies that demonstrate a strong commitment to developing or adopting sustainable energy solutions stand to benefit from reduced tax burdens as they contribute to cleaner, more sustainable energy sources.

A Clearer Taxation Regime for Solid Minerals and Other Mining Activities

With mining activities contributing significantly to revenue, we expect new incentives for local beneficiation, clearer tax regimes and policies to boost sustainable mining practices.

The Artificial Intelligence (AI) Revolution and Tax Income for Nigeria

The rise of paid AI tools and foreign-owned digital platforms adopted by Nigerian residents (individual and corporate) presents an emerging tax opportunity. Nigeria could strengthen its taxation of foreign digital services to capture additional revenue. Nigeria already has a regime for taxing foreign companies doing business through digital models in Nigeria (the SEP) and would be looking more closely at driving compliance by these companies.

Conclusion

Nigeria's tax landscape is evolving rapidly. Businesses can expect a tighter tax administration regime, reporting requirements, and disclosure obligations. Businesses must stay informed and compliant as the government pushes for increased tax revenue to finance its ambitious

spending plans. 2025 promises to be a defining year for Nigeria's fiscal policy and those who navigate these changes effectively will be best positioned for success.

We understand that the Presidency expects the Tax Reform Bills to be enacted by Q1 2025, with a commencement date in Q2 or Q3 2025 (after the 90-day window for implementation based on the National Tax Policy). We, therefore, expect the National Assembly to face some pressure to pass the proposed Tax Reform Bills into law. With the proposed 2025 annual National Budget pegged at NGN49.74 trillion, representing a 41.9% increase from the previous year, the Tax Reform Bills would most likely play a central role in positioning the FGN strategically to achieve its fiscal objectives.

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