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End of an Era:

Nigeria Tax Act 2025 Removes Tax Exemption on Interest Payable on Eligible Foreign Loans



For decades, Nigeria's tax system recognised the strategic role of long-term foreign loans in financing infrastructure and private sector projects in the country. To, therefore, attract long-term loans from foreign lenders, the Companies Income Tax Act 2004 (as amended) ("**CITA**") provided for tax exemptions on interest payable on qualifying foreign loans. This was a major incentive for foreign direct investment and helped reduce financing costs for local companies.

The Nigeria Tax Act 2025 ("**NTA**") represents a fundamental shift in Nigeria's tax landscape, consolidating and repealing several laws, including the CITA. One significant change introduced by the NTA is the removal of tiered tax exemption on interest payable on eligible foreign loans. Hence, interest on foreign loans (irrespective of the terms, moratorium and grace period) will now be taxable at the applicable rate, removing a long-standing incentive for both lenders and borrowers. This article examines the position under the CITA, the changes introduced by NTA, and the possible implications for businesses, lenders, and policymakers.

The Position under the CITA – Now Repealed

The CITA provided for a tax exemption on interest payable on eligible foreign loans. Specifically, Section 11(1) of the CITA provides that interest payable on any foreign loan granted on or after 1st April, 1978, was exempted from tax as prescribed in Table I of the Third Schedule. The exemption was not a blanket one, but was based on two key factors, namely, the loan's repayment period and a moratorium grace period.

Prior to the Finance Act 2019 ("**FA 19**"), loans with a repayment period of above seven years and a grace period of at least two years enjoy 100% tax exemption on the interest payment. The Nigerian borrower was not required to withhold tax on the interest payments to the foreign lender. With effect from January 2020, however, the FA 19 reduced this exemption to a maximum of 70%. The tax exemptions applicable to interest payments on foreign loans under the CITA were as follows:

Repayment Period (Including Moratorium)	Grace Period	Tax Exemption Allowed
Above 7 years	Not less than 2 years	70%
5 – 7 years	Not less than 18 months	40%
2 – 4 years	Not less than 12 months	10%
Below 2 years	Nil	Nil



For the purposes of the exemption, “moratorium” referred to the period at the start of a foreign loan when no principal or interest payments are required, with adjustments made if repayments occurred early. On the other hand, the "repayment period" was the agreed duration of the loan, subject to proportional adjustments if repaid prematurely.

This framework was aimed at reducing the withholding tax burden on interest payments to foreign lenders, thereby making Nigeria more attractive for international financing. It created a predictable and favourable tax environment for foreign lenders and Nigerian companies seeking foreign capital. By reducing the effective tax cost on interest payments, Nigeria positioned itself as a relatively more attractive destination for long-term foreign debt.

The Position under the NTA – The Current Law

The NTA, which became effective on 1st January, 2026, consolidates all the principal tax laws, including the CITA, and thereby brings about a significant reform to the Nigerian tax framework. In consolidating the provisions of (and repealing) the CITA, the NTA removed the exemptions on interest payable on eligible foreign loans, regardless of their tenor or terms. This means that interest payments on all foreign loans are now fully subject to WHT in Nigeria at the domestic rate of 10%, unless reduced to 7.5% under any applicable double taxation agreement (“**DTA**”).

Consequently, this change has now eliminated the special, tiered exemption previously available under the CITA. Going forward, therefore, interest on foreign loans will no longer enjoy preferential treatment but will instead be subject to the general rules on withholding of tax and, where the lending is between related parties (excluding banks and insurance companies), to interest deductibility rules.

The interest deductibility rule applicable to related parties lending requires that a company may deduct interest expenses only up to 30% of its earnings before interest, taxes, depreciation, and amortisation (“**EBITDA**”) for the relevant accounting period. Any excess interest above this threshold may be carried forward and utilised against taxable profits for up to five subsequent years of assessment.

One area of potential debate is transitional application to existing loans that meet the criteria for the exemption under the now-repealed CITA. The NTA does not expressly clarify whether the repeal affects only new foreign loans granted after its commencement, or whether it also removes the exemption for existing loans that previously qualified under the CITA. Until regulatory guidance is issued, this could create uncertainty for borrowers and lenders with long-dated financing arrangements in place which were structured to be eligible for the exemption.



Potentialssible Implications of the Removal

The removal of the tax exemption for interest on eligible foreign loans under the NTA carries several implications for businesses, lenders, and the government.

1. **For Borrowers**: The cost of foreign debt financing is likely to increase, particularly for infrastructure projects, oil and gas ventures, and projects in capital-intensive sectors that rely heavily on international loans. This may discourage long-term foreign loans, as the previous incentives favoured longer repayment periods with higher exemptions aimed at giving borrowers long-term financing for projects. The removal will increase interest costs for borrowers as they will now have to bear the burden of grossing up interest payments to lenders.

2. **For Lenders**: Foreign lenders may see reduced net yields on Nigerian exposures unless gross-up provisions apply, especially for lenders that are residents in countries without a DTA with Nigeria. This may affect the appetite for extending long-term loans to Nigerian companies.

3. **For Government**: On the positive side, this reform aligns with the government's goal of boosting government revenue. There is, however, a potential trade-off because it could reduce Nigeria's attractiveness as an investment destination for long term financing. Operators in sectors like infrastructure projects, manufacturing, and energy, which often depend on long term foreign debt, could face higher capital costs, slowing project implementation and economic growth. This could reduce the growth in revenue which the government may be expecting from the removal.

4. **Treaty Considerations**: Nigerian borrowers with lenders resident in countries that have favourable DTA (such as reduced WHT rates on interest) may still obtain some relief. It should, however, be noted that with effect from 1st July, 2022, the Nigeria Revenue Service discontinued the unilateral application of a 7.5% withholding tax rate on interests paid to residents of Nigeria's treaty partners. Hence, the standard 10% WHT now generally applies, except for lenders resident in South Africa, China, Singapore, Sweden, and Spain, which continue to benefit from the reduced 7.5% rate under their respective DTAs. This makes tax treaty planning an even more critical consideration in cross-border financing structures.



Conclusion

No reason was given by the Nigerian government for the removal of the exemption. The removal of the foreign loan interest exemption under the NTA marks a pivotal shift in Nigeria's tax policy, prioritising revenue generation over investment incentives. While this approach is consistent with global efforts to broaden the tax base and curb perceived revenue leakages, it risks increasing borrowing costs and deterring foreign investment in a country like Nigeria which requires long-term financing for critical projects. The immediate challenge for the government is balancing increased revenue with the need to keep Nigeria attractive for long-term financing. There may be a need for the government to reconsider the removal of the exemption and reinstate it with enhanced criteria for qualification. Ahead of that, clear regulatory guidance on transitional arrangements for existing loans should be introduced by the government to minimise uncertainty and disputes.

For borrowers and foreign lenders, the new landscape requires a sharper focus on tax-efficient structuring. Where appropriate and applicable, borrowers may now rely on EBITDA-based interest deductibility rules for related party lending and available treaty reliefs, while multinational groups will need to optimise financing structures to take advantage of favourable provisions in any applicable Nigeria's DTA.

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