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An overview of the Tax Treatment of Collective Investment Schemes under the Nigeria Tax Act 2025 and the Nigeria Tax Administration Act 2025.

Introduction

The tax landscape in Nigeria has undergone a significant transformation with the enactment of the Nigeria Tax Act 2025 (the "NTA") and the Nigeria Tax Administration Act 2025 ("NTAA"), which came into effect on 1st January, 2026. The enactment of these laws forms part of the Federal Government of Nigeria's broader tax reform agenda to simplify Nigeria's tax administration system, broaden the tax base, enhance tax assessment and collection, promote investment, enhance transparency, and improve revenue generation.

Prior to the commencement of the NTA and the NTAA, tax treatment of collective investment schemes ("CISs") and CIS-related transactions was governed by a combination of provisions across several tax statutes, including the Companies Income Tax Act 2004 (as amended) ("CITA"), Personal Income Tax Act 2004 (as amended) ("PITA") and Capital Gains Tax Act 2004 (as amended) ("CGTA"). These statutes have now been repealed and replaced by the NTA. Although certain incentives and exemptions existed under the repealed tax laws, the absence of a consolidated framework often created uncertainty regarding the tax treatment of CISs and their investors. The NTA introduced a more coherent framework for the taxation of CISs, reflecting the increasing recognition and importance of pooled investment vehicles in Nigeria's capital markets.

This article examines the tax treatment of CISs under the new legislative framework introduced by the NTA and the NTAA. It analyses the relevant provisions, identifies the key innovations and departures from the previous regime, and assesses their practical implications for fund managers, unitholders, trustees, and other CIS stakeholders.

Legal and Regulatory Framework Governing CISs in Nigeria

The primary statute governing CISs in Nigeria is the Investments and Securities Act 2025 (the "ISA") and the Securities and Exchange Commission (the "SEC") Consolidated Rules and Regulations 2023 (as amended). The SEC is the primary regulator of CISs in Nigeria and is empowered to register and regulate CIS operations, including the appointment and oversight of trustees, custodians and fund managers. Section 150 of the ISA defines a collective investment scheme as a scheme or arrangement in whatever form, including an open-ended and close-ended investment scheme, under which members of the public or qualified investors are invited or permitted to invest money or other assets in a portfolio, and in terms of which:

(a) two or more investors contribute money or other assets to and hold a participatory interest in a portfolio of the scheme through shares, units or any other form of participatory interest;
(b) such contributions are pooled and the portfolio of the scheme is managed as a whole;

(c) such contributions entitle such investors to hold a participatory interest in the portfolio of the scheme through shares, units or any other form of participatory interest; or

(d) such investors share the risk and the benefit of investment in proportion to their participatory interest in a portfolio of a scheme or on any other basis determined in the deed."

For tax purposes, Section 63(5) of the NTA defines a CIS as "any arrangement made for the purpose of providing facilities for the participation of the public as beneficiaries under a trust in profits or income arising from the acquisition, holding, management or disposal of securities or any other property" And an "authorised collective investment" as a scheme that is authorised by the SEC under the ISA to carry on the business of dealing in a mutual fund scheme or CIS. For tax administration purposes, the Nigeria Revenue Service ("NRS") has jurisdiction over income tax assessed in relation to CISs, corporate unitholders and their trustees. On the other hand, the relevant State Internal Revenue Service would remain responsible for the administration of personal income tax in relation to individual unitholders.

Under Section 151 of the ISA, a CIS may be administered as: (i) a unit trust scheme, (ii) an open-ended or close-ended investment company; (iii) a real estate investment company, trust; (iv) a specialised or alternative investment scheme; or (v) such other schemes as may be approved by the SEC. It is typically managed by a fund manager, who must be incorporated under the Companies and Allied Matters Act 2020 (as amended) and registered with the SEC as a fund or portfolio manager as required under Section 155(1) of the ISA. Other participants in a CIS typically include the trustees, custodians, registrars, and unitholders. The unitholders are the investors in the CIS.

A typical CIS structure involves investors contributing capital to a pooled investment vehicle, a fund manager making investment decisions, a trustee holding assets on behalf and for the benefit of the investors and ensuring compliance with the scheme's constitutive documents, a custodian safeguarding the scheme's assets and funds, and income or profits being distributed to investors in accordance with the relevant constitutive documents. Unitholders acquire beneficial interests in the fund's portfolio without owning any specific assets in the portfolio.

This structure has historically created interpretive difficulties for tax purposes, particularly in relation to whether the trustee should be treated as the taxable entity, whether income should be taxed at the fund level or in the hands of unitholders, and whether distributions should be characterised as dividends or as a pass-through of the fund's underlying income streams. Some of these questions are addressed under the new tax framework.

The Issue with the Tax Treatment of CIS under the Repealed Laws

As noted above, prior to the commencement of the NTA and the NTAA, the taxation of CIS was governed by the repealed laws in varying degrees with no synergy among the laws on the taxation of CIS. Overall, the absence of a comprehensive and consolidated tax framework created uncertainty regarding the tax treatment of CISs under the previous regime. Although the CITA and the CGTA contained provisions dealing with authorised unit trusts and unitholders, those provisions were not sufficiently broad to address all CIS structures recognised under the SEC regulatory framework. This created uncertainty as to whether the tax rules applicable to unit trusts also applied to other forms of CISs.

Tax Treatment of CIS under the NTA AND NTAA: What Has Changed?

(a) Income Tax

Section 63 of the NTA is the primary operative provision for the taxation of CISs under the new tax framework. Section 63 of the NTA applies to income arising to the trustees of a CIS as if the trustees were a company, the rights of the unitholders were shares in that company, and the income accruing to the trustees and available for payment to unitholders were dividends on such shares. The section further provides that references to a company under the NTA include a CIS. For the purpose of determining the profits of an authorised CIS on which tax may be imposed, section 63(2) provides that the profits of the scheme shall be ascertained by taking the income accruing to the trustees from all the investments of the scheme and deducting the sums disbursed as management expenses, including the remuneration of the managers. This provides a clearer basis for identifying the taxable profits of the scheme and recognises the commercial reality that fund managers incur expenses in managing the investments of the scheme.

Section 63(3) also provides that where the trustees of a scheme receive a payment on which the scheme suffers tax by deduction, other than franked investment income, the tax deducted shall constitute an advance payment of income tax and shall be set off against the income tax assessment for that year of assessment in ascertaining the tax payable by the mutual fund or scheme. This mechanism is important because CISs may receive income from different sources, including dividends, interest, rental income and gains from portfolio investments. The set-off mechanism reduces the risk that income flowing through the CIS structure will incur tax at source and then be taxed again at the scheme level without a credit for the tax already deducted.

Section 63(4) further provides that the profit accruing to the trustees of a CIS that is available for payment to unitholders, or for investment, shall be deemed to be dividends paid or payable by the trustees to the unitholders in proportion to their rights, and shall be taxed in the hands of the unitholders. This deeming provision

clarifies the tax character of amounts available for distribution or investment by the trustees and treats them as dividends payable to unitholders.

The more significant reform, however, is contained in section 162(1)(b) of the NTA, which exempts dividends distributed by an authorised CIS from income tax. When read together with section 63, this means that while the NTA characterises profits available for payment to unitholders as dividends, dividends distributed by an authorised CIS are exempt from income tax. By exempting dividends distributed by authorised CISs from tax, the NTA places corporate and individual unitholders on a more equal tax footing. This improves the tax neutrality of CISs and should make CIS products more attractive to retail investors.

(b) Real Estate Investment Companies and Trusts

The NTA also contains specific provisions for Real Estate Investment Companies ("REICos"). Section 162(1)(c) exempts dividend or rental income received by a REICo on behalf of its shareholders, provided that not less than 75% of such dividend or rental income is distributed within 12 months after the end of the financial year in which the dividend or rental income was earned. This treatment is consistent with the objective of allowing qualifying real estate investment vehicles to operate as flow-through structures, provided that they distribute a substantial portion of their income to investors. The NTA, however, expressly provides that the exemption does not: (a) exempt a shareholder of REICo from tax on the dividend or rental income received from the REICo; (b) exempt a REICo from tax on management fees, profits or any other income earned for and on its own account; and (c) apply where the REICo fails to meet the distribution condition stipulated above.

Accordingly, while the NTA preserves favourable tax treatment for qualifying dividends and rental income received by REICos on behalf of shareholders, it also clarifies the limits of that treatment. This distinction is important for fund managers, trustees and sponsors of real estate investment products, particularly where the vehicle earns income from sources other than dividend or rental income received from real estate investments on behalf of shareholders.

(c) Withholding Tax

The exemption under section 162(1)(b) of the NTA should also affect the withholding tax treatment of distributions by authorised CISs to unitholders and not be subject to a withholding of tax. Since withholding tax generally operates as an advance collection mechanism for income tax, except in limited cases, a distribution that is expressly exempt from income tax should not be subject to withholding tax, unless the NTA, the NTAA or any applicable regulation expressly provides otherwise. Dividends distributed by REICOs to their shareholders however, remain subject to the withholding of tax and the tax withheld will be the final tax on that income.

Fund managers and trustees should, however, continue to consider the character of income received by a CIS and the nature of payments made to unitholders to

determine when withholding tax will not be applicable. Interest, rental income, foreign income, gains from portfolio disposals and other income streams may have different income tax and withholding tax consequences, depending on the source of the income, the status of the payer and recipient, and any applicable exemption.

(d) Gains on Disposal

Under section 33 of the repealed CGTA, a specific exemption was provided for gains accruing to unitholders of a unit trust in respect of the disposal of securities, provided that the disposal proceeds were reinvested. The NTA does not appear to contain an equivalent CIS-specific exemption for unitholders. Accordingly, the exemption may no longer be available, and gains arising on the disposal of securities by unitholders, if any, may now be subject to tax, notwithstanding that the disposal proceeds are reinvested. This is because the exemption under section 162(1)(b) of the NTA applies to ‘dividends’, and not to ‘gains’.

Given that section 63 of the NTA provides that unitholders interest in a CIS should be regarded as if they hold shares in the entity, it remains unclear whether taxpayers may be permitted to rely on the general exemption and reinvestment relief available for disposals of shares under section 34 of the NTA. Under section 34, gains arising on the disposal of shares in a Nigerian company are not chargeable gains where, among other things: (a) the aggregate proceeds in a year of assessment is below NGN150 million and the gains below NGN10 million; or (b) the disposal proceeds are reinvested within the same year of assessment in the acquisition of shares in the same or another Nigerian company. Although section 63(1) treats the trustees of a CIS as a company and the rights of unitholders as shares in that company, the NTA does not expressly provide that the reliefs applicable to disposals of shares also extend to disposals of units in a CIS.

In relation to the redemption of units in an open-ended CIS, a unitholder in an open-ended CIS is not necessarily selling the units in the same way that a shareholder sells shares on an exchange or by way of a private transfer. A unitholder is redeeming its interest in the pooled fund and receiving the redemption amount determined in accordance with the scheme documents plus accrued returns, if any. Section 35 of the NTA broadly defines a disposal to include a sale, lease, transfer, assignment, compulsory acquisition, or any other disposition of assets and applies even where no asset is acquired by the person paying the sum, including where a sum is received in return for the forfeiture or surrender of a right or for refraining from exercising a right. It is unlikely that this broad definition will apply to a redemption of interest in an open-ended CIS by a unitholder. This is because a redemption in an open-ended scheme is not a sale of units as a unitholder is only redeeming the interest at its face value with no expectation of any gains other than the accrued coupon (if any). A redemption in an open-ended scheme is, therefore, unlikely to be deemed to constitute a disposal under the NTA.

(e) Stamp Duties

The NTA does not introduce a CIS-specific stamp duty regime. Section 63 of the NTA, however, treats the rights of unitholders in a CIS as shares for the purposes of the CIS tax framework. Accordingly, instruments relating to the transfer of CIS units or interests should fall within the exemption under section 184(h) of the NTA. That provision exempts all documents relating to the transfer of stocks and shares from stamp duties. Stamp duty would, however, remain applicable to transaction documents connected with the establishment and operation of a CIS, including trust deeds, custodial agreements, management agreements and other relevant scheme documents.

Tax Administration Regarding CISs

The NTAA does not materially change the substantive tax characterisation of CISs. Rather, its relevance to CISs lies in the administration, assessment, collection and enforcement of taxes under the new tax framework. For CISs, the NTAA is relevant to compliance matters such as registration with the relevant tax authority, filing obligations, tax deduction and remittance obligations, record-keeping, payment timelines, assessments, objections, appeals, penalties, and enforcement.

Accordingly, while the NTA is the primary statute governing the tax treatment of CISs and their investors, the NTAA provides the administrative framework by which the relevant tax obligations are implemented and enforced. Fund managers, trustees and other CIS participants should, therefore, consider both statutes together: the NTA for the substantive tax treatment, and the NTAA for the compliance and administration of the relevant tax obligations.

Implications for Stakeholders

The reforms introduced under the NTA have significant implications for participants in the CIS ecosystem, particularly unitholders, fund managers, trustees and sponsors of investment products. For individual unitholders, the principal change is the removal of the previous disparity between corporate and individual investors by treating them the same way. By exempting dividends distributed by authorised CISs from tax, the NTA aligns the tax treatment of corporate and individual unitholders and removes a tax disincentive that affected retail participation in collective investment products.

For corporate unitholders, the new framework preserves the favourable tax treatment of qualifying CIS distributions and places that treatment within a broader statutory framework. Corporate investors must, however, continue to distinguish between exempt dividend distributions from authorised CISs and other forms of income or gains that fall outside the exemption.

For fund managers and trustees, section 63 provides a clearer basis for the taxation of CIS income. The treatment of trustees as companies, unitholders' rights as shares, and income available for payment to unitholders as dividends, create a more structured framework for the operation and taxation of CISs. The mechanism for crediting tax deducted at source against the scheme's income tax liability also reduces the risk of double taxation within the fund structure.

The reforms also require careful attention to the character of income received by a CIS and the nature of payments made to unitholders. While dividends distributed by authorised CISs are exempt from income tax, other income streams, including interest income, rental income, foreign income, gains from portfolio disposals and redemption proceeds, must be assessed by reference to their character and the applicable provisions of the NTA and the NTAA.

For sponsors of real estate and alternative investment schemes, the NTA preserves favourable treatment for qualifying dividend and rental income received by a REICo on behalf of its shareholders, provided that the 75% distribution condition is satisfied. The exemption does not, however, extend to all income earned by a REICo. Management fees, profits and other income earned by the REICo for its own account remain taxable. This distinction is important in structuring real estate and alternative investment products. REICos distributions to shareholders remain liable to the withholding of tax.

Overall, the reforms provide greater certainty in relation to authorised CIS distributions, create a more coherent statutory framework for CIS taxation, and enhance the attractiveness of CISs as investment vehicles for both retail and institutional investors.

Conclusion

The enactment of the NTA and the NTAA represents a significant development in the taxation of CISs in Nigeria. The new framework consolidates the tax treatment of CISs within a more coherent statutory regime and replaces the fragmented approach that existed under the previous tax laws. The NTA introduces important reforms by exempting dividends distributed by authorised CISs from income tax, removing the previous disparity between corporate and individual unitholders, and providing a clearer framework for treating trustees as companies, unitholders' rights as shares, and distributable income as dividends. It also provides a stronger basis for analysing gains on the disposal or redemption of CIS units within the general chargeable gains framework. Overall, the reforms provide greater certainty for unitholders, fund managers, trustees and sponsors, and are likely to enhance the attractiveness of CISs as investment vehicles in Nigeria's capital market.

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