

TAXATION (TAX)

STUDY TEXT

THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF NIGERIA

ICAN

Taxation

TAXATION

Study Text

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Foreword

Foreword

As the global economy continues its rapid evolution, the role of the accounting professionals, anchored in technical excellence, professional competence, and ethical integrity, has never been more critical. Today's business landscape, shaped by globalisation, technological disruption, and sustainability priorities, is not merely changing, it is redefining the finance function and raising the bar for the capabilities expected of the modern professional accountants.

To remain relevant in a rapidly evolving environment, the Institute's syllabus and training curriculum are designed to equip students with the knowledge and competencies required to thrive in the dynamic fields of accounting and finance. These are continuously reviewed and updated to reflect emerging trends and the evolving needs of users of accounting and related services.

The Institute of Chartered Accountants of Nigeria (ICAN) remains firmly committed to ensuring that its syllabus and training curriculum are current, responsive, and aligned with global best practices. To this end, the Institute undertakes a comprehensive review of these frameworks every three years, complemented by annual updates to reflect emerging trends and developments within both the national and global accountancy profession.

Following a rigorous and consultative process, the Syllabus Review, Professional Examinations, and Students' Affairs Committees developed a revised 3-level, 15-subject syllabus. This was duly approved by Council and implemented with effect from the November 2025 examination diet.

However, in the light of the introduction of the Tax Reform Acts, 2025 by the Federal Government, replacing the previous tax regime, as well as other emerging developments within the profession, it has become necessary to further review and update the syllabus to ensure continued relevance and alignment with current realities.

Accordingly, the updated syllabus which affects the following five subjects, Corporate and Business Law, Public Sector Accounting and Finance, Taxation, Strategic Business Reporting and Advanced Taxation, is scheduled to take effect from the November 2026 examination diet.

The publication of the Study Texts has consistently accompanied syllabus reviews and contributed significant improvements to the performance of professional examination candidates. In furtherance of its commitment to enhancing student success rates, the Council has also approved the update of Study Texts across the five subjects. This sixth edition has been comprehensively updated to incorporate significant and emerging developments, thereby enriching its contents. It also continues to comply with the requirements of the International

Panel on Accountancy Education (IPAE).

The Institute engaged renowned writers and reviewers, comprising esteemed scholars and seasoned practitioners with extensive experience in their respective areas of specialisation, to update these Study Texts

The Institute's Study Texts, comprising fifteen (15) subjects, are as follows:

Foundation Level		
1.	Business Environment	A1
2.	Financial Accounting	A2
3.	Management Accounting	A3
4.	Corporate and Business Law (Updated)	A4

Skills Level		
5.	Financial Reporting	B1
6.	Audit, Assurance and Forensics	B2
7.	Taxation (Updated)	B3
8.	Performance Management	B4
9.	Financial Management	B5
10.	Public Sector Accounting and Finance (Updated)	B6

Professional Level		
11.	Strategic Business Reporting (Updated)	C1
12.	Advanced Audit, Assurance and Forensics	C2
13.	Strategic Financial Management	C3
14.	Advanced Taxation (Updated)	C4
15.	Case Study	C5

A rigorous quality control process was implemented, featuring a detailed and comprehensive review of the materials developed by the writers and reviewers by the Study Texts Review Technical Subcommittee.

These Study Texts will be valuable resources, not only for our candidates but also for students of other professional bodies, tertiary institutions, and finance and management practitioners, providing them with valuable resources for their studies and practices.

Chibuzor Noel Anyanechi, (Chief), BSc, MBA, FCA
Chairman, Syllabus Review Committee



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The Institute expresses its heartfelt appreciation to the following Syllabus Review Committee members, writers, reviewers, and editorial board members for their invaluable contributions, expertise, and scholarly dedication that enabled the successful production of these new Study Texts: They are:

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SYLLABUS

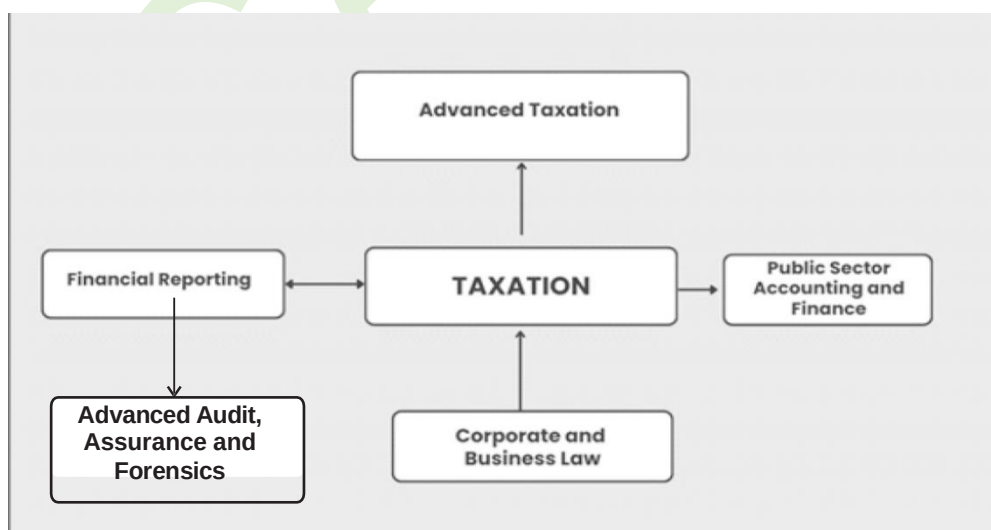
SYLLABUS

Aim

To enable candidates' understand principles of taxation and laws and apply them to individuals and corporate entities in simple situations to be able to support compliance and provide effective professional advice. They are also expected to be able to explain tax consequences of activities of individuals and corporate entities.

Linkage with other related subjects

This diagram depicts the relationship between this subject and other related subjects.



Main competences

On successful completion of this paper, candidates should be able to:

- (a) explain the structure of the tax system, including the roles, duties and powers of various organs of tax administration in Nigeria;
- (b) explain the guiding principles of the revised National tax policy (NTP), 2017;
- (c) explain and apply the five fundamental principles of ethics as specified by the international ethics Standards Board for Accountants (IESBA) and ICAN to any given scenario;
- (d) identify the applicable rates of transactions taxes, compute the tax liabilities and know payment and returns timelines (including offences and penalties);
- (e) apply basic knowledge of tax legislations in computing income tax liabilities relating to individuals and corporate entities in simple situations;
- (f) explain the application of information technology in taxation; and
- (g) attend to queries from relevant tax authorities.

Specification grid

The grid below shows the relative weightings of the main sections within this syllabus and should guide the study time spent on each. Over time, the marks available in the assessment will be within the ranges of weightings below, while slight variations may occur in individual assessments to enable suitably rigorous questions to be set.

Content and competencies – Overview		
	Grid	Weight %
A	Introduction to taxation, tax administration and ethics	20
B	Transaction taxes	20
C	Personal income tax	25
D	Companies income tax	30
E	Information technology in taxation	5
	TOTAL	100

SYLLABUS OVERVIEW

Detailed Syllabus			Chapter	Weighting
A	INTRODUCTION TO TAXATION, TAX ADMINISTRATION, AND ETHICS			20%
	1	Introduction to taxation		
		a) Explain the concept and objectives of taxation.	1	
		b) Explain the types of tax and tax system.	1	
		c) Explain the basic concepts in taxation:	1	
		i) tax base, tax yield, tax rate, tax incidence; and	1	
		ii) tax burden, tax impact, tax shift, tax effect.	1	
		d) Differentiate between tax and levies.	1	
		e) Explain the principles/canons of taxation.	1	
		f) Explain and differentiate between tax avoidance and tax evasion	1	
		g) Explain the following in relation to taxation in Nigeria:	1	
		i) enabling Acts; and	1	
		ii) sources of the tax laws.	1	
	2	Tax administration in Nigeria	2	
		(a) Discuss the objectives and application of Nigeria Tax Administration Act (NTAA), 2025.		
		(b) Discuss the compositions, functions, and powers of:	2	
		(i) Joint Revenue Board;	2	
		(ii) Nigeria Revenue Service and its Governing Board;	2	
		(iii) State Internal Revenue Service and its Management Board;	2	
		(iv) State Joint Revenue Committee; and	2	
		(v) Local Government Revenue Committee;	2	
		(c) Explain the jurisdiction of tax authorities.	2	
		(d) Identify and explain the taxes and levies collectible by States and local governments.	2	
		(e) Explain the establishment, composition, and jurisdiction of a Tax Appeal Tribunal.	2	

Detailed Syllabus			Chapter	Weighting
		(f) Explain the following in relation to tax administration:		
		(i) disclosure of tax planning;	2	
		(ii) accreditation of tax agents;	2	
		(iii) prohibited tax avoidance arrangement;	2	
		(iv) exchange of information and joint audits;		
		(v) establishment of national single window portal;	2	
		(vi) powers of a relevant tax authority to deploy technology to automate tax administration;	2	
		(vii) endorsement of transactions by the Chairman of a relevant tax authority;	2	
		(viii) powers of the President to exempt companies from income tax;	2	
		(ix) obligations during pendency of legal proceedings;	2	
		(x) powers of the relevant tax authority to compound offences;	2	
		(xi) powers of the relevant tax authority to prosecute any of the offences under the Act; and	2	
		(xii) place of offence.	2	
	3	Discuss the role and relationship between Fiscal Policy, Tax legislation and Administration.	3	
	4	Revised National tax policy (NTP), 2017	4	
	a)	Explain the objectives of this policy.	4	
	b)	Explain the policy guidelines as they relate to:	4	
		i) guiding principles of Nigerian Tax System; and	4	
		ii) taxation as a tool for economic management and development, including:	4	
		•wealth creation and employment;	4	
		•taxation and diversification;	4	
		•focus on indirect taxation;	4	
		•convergence of tax rates;	4	
		•special arrangements and other incentives;	4	
		•creating a competitive edge; and	4	
		•international and regional treaties.	4	
	c)	Explain the responsibilities of the following stakeholders:	4	
		i) the government;	4	
		ii) the taxpayer;	4	
		iii) revenue agencies;	4	

Detailed Syllabus				Chapter	Weighting
			iv) professional bodies, tax practitioners, consultants and agents; and	4	
			v) media and advocacy groups.	4	
		d)	Explain the administration of the mandates of the three-tiers of government in accordance with the following:	4	
			i) registration of taxable persons;	4	
			ii) tax compliance;	4	
			iii) efficiency of administration;	4	
			iv) technology and tax intelligence; and	4	
			v) dispute resolution.	4	
		e)	Explain the implementation measures by:	4	
			i) The President and Governors;	4	
			ii) Legislature;	4	
			iii) Ministry of Finance;	4	
			iv) Ministries, departments and agencies (MDAs);	4	
			v) Tax authorities; and	4	
			vi) Independent National Electoral Commission (INEC).	4	
	5	Basic ethical issues in taxation		5	
		a)	Explain the following five fundamental principles of ethics as specified by the International Ethics Standards Board for Accountants (IESBA):	5	
			i) integrity;	5	
			ii) objectivity;	5	
			iii) professional competence and due care;	5	
			iv) confidentiality; and	5	
			v) professional behaviour.	5	
		b)	Discuss the conditions when information on taxpayers may be disclosed to a third party by a tax practitioner.	5	
		c)	Explain what a tax practitioner should do when there is a conflict of interest.	5	
	6	Returns, assessments, remittances, objections and appeals		6	
		a)	Explain the basis for registration and filing of returns with the revenue authorities covering the following:	6	
			i) objectives, uses, and registration for tax identification (Tax ID), including the display of tax identification on all documents		
			ii) time within which to register;	6	

Detailed Syllabus			Chapter	Weighting
		iii) registration requirements and processes;	6	
		iv) contents of a tax return;	6	
		v) due date for filing of tax returns;	6	
		vi) due dates of filing returns by bankers, virtual assets providers, etc	6	
		vii) time within which to pay tax assessed;	6	
		viii) the penalties for non-compliance with filing and remittance obligations.	6	
	b)	Explain the following types of assessments:	6	
		i) self-assessment of tax payable;	6	
		ii) additional assessment back duty assessment;	6	
		iii) best of judgement (BOJ) / administrative assessment;	6	
		iv) deemed profit assessment or income assessment;	6	
		v) assessment based on substitution of dividend for total profit	6	
		vi) assessment based on undistributed profit treated as distributed; and	6	
		vii) when an assessment is final and conclusive.	6	
	c)	Explain the collection and enforcement procedures for assessments	6	
	d)	Explain service of notice of assessment	6	
	e)	Identify and explain the offences and penalties of general application.	6	
	f)	Explain the following dispute resolution mechanism put in place by the government to minimise tax disputes between taxpayers and tax authorities:	7	
		(i) advance ruling by a relevant tax authority;	7	
		(ii) settlement of disputes between the relevant tax authority and the taxable person; and	7	
		(iii) establishment of the office of the Tax Ombud.	7	
	g)	Explain the following procedures in respect to tax objections and appeals:	7	
		i) time limit for objection and appeal;	7	
		ii) contents of a notice of objection and appeal;	7	
		iii) revision of assessment in case of	7	

Detailed Syllabus				Chapter	Weighting
			objection;		
			iv) procedure of the Tax Appeal Tribunal.	7	
			v) procedure following decision of the Tribunal;	7	
			vi) appeal to the Federal High Court; and	7	
			vii) further appeal to Court of Appeal.	7	
		h)	Explain the following in respect of a tax clearance certificate (TCC):	8	
		i)	explanation of TCC and its contents;	8	
		ii)	the conditions for granting a TCC;	8	
		iii)	the transactions for which a TCC is required; and	8	
		iv)	the procedure for processing TCC.	8	
B	Transactions taxes			9	20%
	1	Withholding tax (WHT)		9	
		a)	Explain the nature, objectives and administration of WHT.	9	
		b)	Explain persons required to make deductions at source.	9	
		c)	Explain the deduction at source, including the treatment of WHT on payment made to a non-resident person.	9	
		d)	Explain the eligible transactions subject to WHT and applicable rates	9	
		e)	Explain the exemptions from withholding tax.	9	
		f)	Identify the relevant tax authority for collection of WHT.	9	
		g)	Explain the obligation to deduct at source.	9	
		h)	Discuss the requirement that deductions shall be receipted.	9	
		i)	Explain the procedure for filing WHT returns, list its contents and time frame for compliance.	9	
		j)	Discuss the procedures and provisions relating to WHT refunds and grounds for objection.	9	
		k)	Explain the procedure for remittance of WHT to tax authorities.	9	
		l)	Discuss the administrative bottlenecks and other problems of WHT.	9	

Detailed Syllabus				Chapter	Weighting
		m)	Discuss the merits and demerits of WHT scheme.	9	
		n)	Explain penalties for non-compliance with withholding tax obligations.	9	
	2	Value added tax (VAT)		10	
		(a)	Explain the nature, objectives and administration of VAT.	10	
		(b)	Explain registration and deregistration of value added tax (VAT) for the following:	10	
			(i) residents; and	10	
			(ii) non- residents.	10	
		(c)	Explain the requirements for filing of VAT returns and remittance of VAT liability	10	
		(d)	Explain the following:	10	
			i) goods (tangible and intangible);	10	
			ii) services;	10	
			iii) taxable persons;	10	
			iv) tax invoice;	10	
			v) taxable supplies of goods and services;	10	
			vi) value added tax fiscalisation system; and	10	
			vii) when goods and services shall be deemed to be supplied in Nigeria in accordance with the provisions of the relevant Act.	10	
		e)	Explain the following in relation to VAT:	10	
			i) input tax;	10	
			ii) credit for input tax and remission of VAT;	10	
			iii) output tax;	10	
			iv) exempt supplies;	10	
			v) exemption by Order of the President;	10	
			vi) zero-rated supplies and services;	10	
			vii) taxable supply by non-residents;	10	
			viii) items on which tax is suspended;	10	
			ix) items on which the Minister may vary the classification;	10	
			x) rate of tax;	10	
			xi) time of supply; and	10	
			xii) VAT reverse charge.	10	
		f)	Compute VAT liability, including the treatment of opening and closing inventories.	10	
		g)	Explain the obligations to keep proper records.	10	

Detailed Syllabus				Chapter	Weighting
		h)	Explain collection of VAT by persons other than the supplier.	10	
		i)	Explain the treatment of VAT on imported and exported goods and services;	10	
		j)	Explain the treatment of input VAT under exempt and zero-rated VAT.	10	
		k)	Explain the treatment of VAT on business restructuring.	10	
		l)	Explain vatable services rendered by financial institutions and their VAT exempt income.	10	
		m)	Explain the provision of VAT refund.	10	
		n)	Explain the provision of VAT compliance threshold.	10	
		o)	Explain the VAT sharing formula amongst the tiers of government.	10	
		p)	Discuss the types of VAT.	10	
		q)	Discuss the offences and penalties associated with VAT.	10	
	3	Stamp duties		11	
		a)	Explain the nature and objectives in relation to stamping of instruments.	11	
		b)	Explain the imposition of duties on instruments, including the relevant terminologies.	11	
		c)	Identify and explain the dutiable instruments.	11	
		d)	Identify the instruments exempt from stamp duties.	11	
		e)	Identify the relevant tax authority for the collection of stamp duties.	11	
		f)	Explain the types of stamp duties.	11	
		g)	Explain the following in connection with stamp duties:	11	
		(i)	the administration of stamp duties;	11	
		(ii)	electronic documents received in Nigeria in accordance with IFRS information circular number 2020/05 dated April 29, 2020; and	11	
		(iii)	manner of denoting stamp duties.	11	
		h)	Explain the obligation to stamp.	11	
		i)	Explain admissible evidence.	11	
		j)	Explain the recoverability of outstanding duties.	11	
		k)	Explain the process of adjudication, the limits, and	11	

Detailed Syllabus			Chapter	Weighting
		appeals procedures.		
	l)	Explain the legal implications of unstamped dutiable instruments.	11	
	m)	Explain the mode of calculating ad-valorem duty.	11	
	n)	Explain stamp duty payable on electronic money transfer, including exemptions.	11	
	o)	Explain the duty on the following:	11	
		(i) exchange of a real property for another;	11	
		(ii) leases with respect to letting of land and building;	11	
		iii) share capital;	11	
		iv) loan capital;	11	
		v) instrument for the purpose of issuing marketable security;	11	
		vi) appraisement or valuation;	11	
		vii) duplicates and counter parts of an instrument chargeable;	11	
		viii) one instrument covering multiple transactions;	11	
		ix) multiple instruments covering same transaction; and	11	
		x) non-monetary consideration.	11	
	p)	Compute stamp duty payable.	11	
	q)	Explain the offences and penalties.	11	
4	Customs and excise duties		12	
	a)	Explain the nature, objectives and administration of customs and excise duties in accordance with the provisions of Nigeria Customs Service Act, 2023.	12	
	b)	Discuss post clearance audit.	12	
	c)	Discuss the use of consultants.	12	
	d)	Discuss the determination of duties and customs duties on imported and exported goods	12	
	e)	Explain the collection and remittance of customs duty.	12	
	f)	Identify excisable goods and discuss the valuation.	12	
	g)	Discuss the imposition, collection, and remittance of excise customs duties.	12	
	h)	Discuss the provision of information for customs	12	

Detailed Syllabus				Chapter	Weighting
			formalities and controls.		
		i)	Discuss provisions relating to the furnishing of information by manufacturers and keeping of books.	12	
		j)	Explain the offences and penalties	12	
	5	Surcharge on fossil fuel products		13	
		a)	Explain imposition of surcharge.	13	
		b)	Identify and explain the chargeable transaction and base for surcharge.	13	
		c)	Explain the administration of surcharge.	13	
		d)	Identify and explain the products exempt from surcharge.	13	
		e)	Explain the filing of returns for surcharge.	13	
		f)	Explain the offences and penalties.	13	
C	PERSONAL INCOME TAX				25%
	1	Taxation of employment income		14	
		a)	Explain contract of service and contract for service.	14	
		b)	Explain the following types of employment:	14	
			(i) Nigerian employment; and	14	
			(ii) Foreign employment.	14	
		c)	Distinguish among employment, vocation and profession.	14	
		d)	Identify the relevant tax authority.	14	
		e)	Describe the registration process of an employee and employer with the relevant tax office for the purposes of Pay As You Earn	14	
		f)	Explain an itinerant worker.	14	
		g)	Explain the following terminologies in employment income:	14	
			i) employment income;		
			ii) cash emoluments;	14	
			iii) benefits-in-kind;	14	
			iv) compensation for loss of employment and injury; and		
			v) taxable and tax-exempt incomes.	14	
		h)	Explain the taxation of employment income, gains or profit of a resident individual.	14	
		i)	Explain the exemption of minimum wage earners from the payment of personal income tax.	14	
		j)	Determine and explain the importance of the		

Detailed Syllabus				Chapter	Weighting
			term “residency” for personal income tax purposes.	14	
		k)	Discuss the dispute resolution over residence rule application.	14	
		l)	Ascertain the following in respect of an employee:	15	
			(i) basis of assessment;	15	
			(ii) gross income;	15	
			(iii) non-chargeable gains of an employee;	15	
			iv) deductions allowed and not allowed; and	15	
			v) other deductions as specified under section 28(2)(b) of NTA.	15	
			vi) total income;	15	
			vii) eligible deductions; and	15	
			viii) income tax rates.	15	
		m)	Discuss the requirement of the relevant tax authority for proof of claims from an employee.	15	
		n)	Compute personal income tax.	15	
		o)	Explain the filing of returns for employees and employers.	15	
		p)	Discuss offences and penalties	15	
	2	Taxation of settlement, trusts, and estates		16	
		a)	Discuss settlement, trusts, and estates;	16	
		b)	Identify persons chargeable.	16	
		c)	Identify relevant tax authority.	16	
		d)	Ascertain the basis period.	16	
		e)	Explain allowable and non-allowable expenses.	16	
		f)	Compute income from settlement, trusts, and estates.	16	
		g)	Compute the income assessable in the hands of the trustee	16	
		h)	Compute tax liability in the hands of beneficiaries and trustees.	16	
		i)	Explain the taxation of non-resident trustees	16	
		j)	Identify the accounting period of an estate.	16	
		k)	Explain the procedure for objections and appeals.	16	
		l)	Explain the responsibility of the trustee to pay tax to the relevant tax authority.	16	
		m)	Explain offences and penalties.	16	

Detailed Syllabus			Chapter	Weighting
3	Taxation of sole proprietorship		17	
	a)	Explain meaning of a trade or profession and badges of trade.	17	
	b)	Ascertain gross income.	17	
	c)	Computation of assessable profit of a trade or profession:		
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Guide to examination assessment

ICAN reserves the right to examine any topic in the syllabus at any examination diet.

New laws, regulations and relevant tax circulars may be examined after six months from the dates of issues, even if they take effect in the future.

INTRODUCTION TO TAXATION

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1 Introduction to Taxation

1.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the objectives and basic concepts of taxation, tax principles, differentiation between tax avoidance and tax evasion, and the different classifications of taxes.

1.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) define and identify the objectives of taxation;
- (b) identify the different types of taxes;
- (c) explain the tax system;
- (d) understand the basic concepts in taxation;
- (e) explain the principles of taxation;
- (f) differentiate between tax avoidance and tax evasion;
- (g) identify the relevant tax legislations; and
- (h) identify the various sources of Nigerian tax laws.

1.2 Definitions of tax

The government of Nigeria, like others in different parts of the world, has legislative powers to impose on its citizens, any form of tax and at whatever rate it deems appropriate.

A perusal of the Nigerian tax laws shows that no attempt has been made to define the term "tax".

However, the Oxford Advanced Learner's Dictionary defines 'tax' as:

"Money that you have to pay to the government so that it can pay for public services".

Black law dictionary defines tax as:

"Monetary charge imposed by the government on persons, entities or property, levied to yield public revenue".

Thomas Cooley defines taxes as:

"Enforced proportional contributions from persons and property, levied by the state, by virtue of its sovereignty, for the support of government and for all public needs".

In simple terms, tax is a compulsory contribution levied by a sovereign power, on the incomes, profits, goods, services or properties of individuals and corporate persons, trusts and settlements. Such taxes when collected are used for carrying out governmental functions, such as maintenance of law and order, provision of infrastructure, health and education of the citizens, or as a fiscal tool for controlling the economy.

Other definitions can be gleaned from judicial precedents.

In *Mathew v Chikory Marketing Board of Victoria Australia*, Latham C.J. defined tax as – "a compulsory exaction of money by a public authority for public purposes, or taxation is raising money for the purpose of government by means of contributions from individual persons".

In the American case of *United States v Butler*, Justice Roberts stated – “A tax in the general understanding of the term and as used in the Constitution, signifies an exaction for the support of the government”.

Borrowing from the magnum opus of Chris Whitehouse and Elizabeth Stuart-Buttle, tax has three basic features, namely: a compulsory levy, imposed by government or local authority; and for public purpose or to encourage social justice. The authors admitted that “to describe the main features of a tax is not, however, to define the concept. A tax is not a voluntary payment but a compulsory pecuniary burden placed on taxpayers for the good of the society”.

The most important thing is that it is a pecuniary burden laid upon individuals or persons or property to support the government and is a payment exacted by legislative authority.

Although, tax under any jurisdiction is discriminatory in that it is assessed on persons or property based on profits/income or gain, the benefit conferred on the citizens is without reference to the contributions of individual taxpayers.

The flip side of the resource allocation dimension of a sound taxation policy is its role in promoting investments, as well as ensuring a healthy economy through the creation of new wealth. An assessment of this resource allocation is the level of investment and taxation, which is often used as a driver for savings and as a tool for securing competitive advantages, to aid economic development in an increasingly interdependent world.

In conclusion, tax is described as a form of levy, imposed on all the residents living in, as well as non-residents doing business, within a tax jurisdiction. It is a civic and patriotic responsibility of citizens, to pay taxes imposed, which also come to the government as income or revenue yielding device to finance the provisions of socio- economic and infrastructural amenities and also to enhance industrial efficiency.

The process of levying and collection of tax from taxpayers is known as taxation.

1.3 Objectives and purposes of taxation

In most countries of the world, the primary objective and purpose of taxation are essentially to generate revenue or raise money for government expenditure on social welfare.

Apart from this, the use of taxation as an instrument of economic regulation or control for the purpose of discouraging certain forms of anti-social behaviour is also discernible from tax legislation. Thus, it has been stated that the importance of taxation lies primarily in its ability to raise capital for the public sector, for the development and growth of the economy and also in assisting in the regulation of the consumption pattern, resulting in economic stabilisation and effective redistribution of income.

Today, taxes have an important role to play especially in any government's economic and social policy.

The following major objectives should be taken into consideration whenever the government is designing a tax policy.

- (a) **Revenue generation:** The primary objective of taxation is to raise money to meet government expenditure. Thus, taxation has always been employed to raise sufficient revenue to satisfy the needs of the government, such as in the provision of services like defence, law and order, health services and education. Revenue from taxation can also be spent on capital projects, otherwise called capital expenditure, creating a social and economic infrastructure, which will improve the social life of the people and also enable the economy of the country to grow. The most important objective of any tax reform should be to raise more revenue to the government.
- (b) **Redistribution of income and wealth:** This can be looked at from two angles. The first is the doctrine that taxation should be based on the ability to pay, so that the burden of taxation ought to be heavier for the rich than for the poor, with the taxes collected being used to pay for social services for the less fortunate. This is achieved by the graduation or “progressiveness” of the rates at which the taxes are levied.

This objective sees the present distribution of wealth as being unjust and so attempts to reverse the situation by fixing taxes at concessionary rates in favour of the poor. High taxes on the income and wealth of the rich can produce either incentive or disincentive effects.

Sometimes, a taxpayer's disposable income is reduced through taxation, so he is compelled to work harder in order to meet his financial commitments. Taxes that produce incentive effects therefore increase productivity. On the other hand, a high marginal tax rate can produce a disincentive effect, which makes a worker take to leisure rather than to extra work. This disincentive effect is an indication of economic inefficiency and waste.

- (c) **Management of the economy:** Taxation is important in planning of savings and investments and by harmonising it with developmental strategy and changing economic structure. The government can use taxation as a powerful fiscal weapon to plan and develop the economy.

A tax system can also provide the government with effective and flexible instruments for the day-to-day management of the economy. Consequently, taxation can be used to achieve specific economic objectives of a nation. It can also be designed in such a way as to direct private investment in line with national needs and priorities.

The tax system can be used to regulate or discourage particular activities of citizens, which are considered undesirable on social grounds, such as drinking alcohol, smoking or betting (often referred to as demerit goods).

In Nigeria, the government sometimes introduces tax incentives and attractive tax reliefs, as an instrument to woo and induce local and foreign investors into the areas of manufacturing of goods, export processing, oil/gas exploration and utilisation, and provision of utilities.

- (d) **Harmonisation of economic objectives:** Harmonisation of diverse trade or economic objectives of different countries can be achieved through a good tax system. For example, tax system can be employed by member states of economic committee of West African States (ECOWAS) so as to achieve the

philosophy of the single market (free movement of people and goods) within the region.

- (e) Finally, taxation is a device to improve gross national income, induce economic development and influence favourable balance of payments with other countries.

1.4 Types of taxes and tax system

1.4.1 Types of taxes

The structure of Nigerian tax system, basically, deals with classification of and types of taxes.

Nigerian taxes can be classified in any of the following ways:

Proportional, progressive and regressive taxes (methods); and direct and indirect taxes (incidence).

(a) Proportional tax

This form of tax assesses a taxpayer to tax, at a flat rate on his total assessable income, therefore, the tax payable is proportional to the taxpayer's income.

For instance, at a flat rate of 20%, a taxpayer with total assessable income of ₦100,000 will pay tax of ₦ 20,000, while a taxpayer with income of ₦ 1,000,000 pays tax of ₦ 200,000, and so on.

It is a tax, the objective of which is the redistribution of income from the well-to-do, to the less privileged.

(b) Progressive tax

This form of tax is graduated as it applies higher rates of tax as income increases. For instance, the progressive tax concept can be explained using the current personal income tax table as follows:

Taxable income (Naira)	Tax rate (%)
First ₦ 800,000	0
Next ₦ 2,200,000	15
Next ₦ 9,000,000	18
Next ₦13,000,000	21
Over ₦ 25,000,000	23
Above ₦50,000,000	25

(c) Regressive tax

Under this type of tax, the tax payable decreases as the taxpayer's income increases. This type of tax is not commonly applied.

The second form of classification is by incidence as follows:

(d) Direct tax

This form of tax is assessable directly on the taxpayer who is required to pay tax on his property, income or profit, etc.

The types of taxes that fall under this heading include:

- i. personal income tax (PIT);

- ii. companies income tax (CIT);
- iii. hydrocarbon tax;
- iv. petroleum profits tax; and
- v. federal development levy.

(e) Indirect tax

Indirect taxes are imposed on commodities before they reach the consumer, and are paid not as taxes, but as part of the selling price of a commodity.

Examples are:

- (i) value added tax (VAT);
- (ii) stamp duties;
- (iii) excise duties; and
- (iv) customs duties.

Indirect taxes may affect the cost of living, as they constitute taxation on expenditure.

1.4.2 Tax system

The tax system usually involves three (3) aspects, namely the tax policy, tax laws, and tax administration.

(a) **Tax policies:** Tax policies refer to the guidelines and principles established by government for the imposition and collection of taxes. They usually include:

- (i) movement of emphasis from income tax to consumption tax, which is less prone to tax evasion;
- (ii) pursuance of a tax law regime with the aim of reducing individual tax burden, widening the tax net and encouraging savings and investments; and
- (iii) introduction of the self-assessment scheme to encourage taxpayers' participation in the tax assessment process. The policy can also include movement from coercive method of taxation to voluntary compliance as in the case of Nigeria recently.

(b) **Tax laws:** Tax laws include the following notable tax legislations in Nigeria:

- (i) Nigeria Tax Act (NTA), 2025;
- (ii) Nigeria Tax Administration Act (NTAA), 2025;
- (iii) Nigeria Revenue Service (Establishment) Act (NRSA), 2025;
- (iv) Joint Revenue Board of Nigeria (Establishment) Act (JRBA), 2025;
- (v) Petroleum Industry Act (PIA), 2021 (as amended); and
- (vi) Nigeria Insurance Industry Act (NIIRA), 2025.

In Nigeria, the Constitution vests the legislation of income tax, whether personal or corporate on the Federal Government in order to promote uniformity. However, the three tiers of government share the administration of the various taxes. Tax laws are reviewed periodically in line with the changes in social, political and economic conditions.

The power to impose tax in Nigeria is within the exclusive legislative authority of the Federal Government. There are various machineries set up by the government to ensure strict compliance with these laws. Non-compliance attracts penalties and fines.

(c) **Tax administration:** This involves practical interpretations and applications of the tax laws. The authorities charged with the administration of tax in Nigeria are the Federal, State and Local

governments. The tax authorities of these tiers of government derive their formation from sections of the relevant laws which include:

- (i) Nigeria Revenue Service (NRS), section 3 (1) of the Nigeria Revenue Service (Establishment) Act, 2025;
- (ii) States Internal Revenue Service (SIRS), section 87 (1) of the Nigeria Tax administration Act, 2025; and
- (iii) Local Government Revenue Committee, section 93 (1) of the Nigerian Tax Administration Act, 2025.

1.5 Basic concepts in taxation

There are some basic concepts in taxation, which will assist the reader in having a better understanding of taxation. Some of these concepts are discussed below:

- a. **Tax base**
This is a measure upon which the assessment or determination of tax liability is based. It is that portion of a taxpayer's income or property, which is expected to suffer tax.
- b. **Tax yield**
This is a total revenue a government collects from a specific tax or all taxes combined from the administration of tax on taxpayers. Tax yield is a product of tax rate and tax base.
- c. **Tax rate**
It describes the burden ratio (usually expressed as a percentage) at which a business or person is taxed. For example, the value added tax rate is 7.5% on vatiable goods and services.
- d. **Tax incidence**
It is an economic term for the division of a tax burden between buyers and sellers. It reveals the person who ultimately bears the economic burden of the tax as against who initially pays the tax. For instance, if the government imposes an increased tax rate on cigarettes, the producers may increase the sale price by the tax increase, thus, passing the burden of the additional tax to the consumer.
- e. **Tax burden**
This is the amount of income, property or consumption tax levied on an individual or business. It is the economic costs (financial and/or otherwise) imposed on individuals and businesses through taxation. Tax burdens vary depending on a number of factors, including income level, jurisdiction, and current tax rates.
- f. **Tax impact**
This is the effect of a tax on the production or consumption of a product being taxed. For example, the tax impact of raising the levy on tobacco might be a reduction in tobacco sales.
- g. **Tax shift**
This is also referred to as tax swap. It is a change in taxation that eliminates or reduces one or several taxes and establishes or increases others, while keeping the overall revenue the same.

h. Tax effect

This is a general term that describes the consequences of a specific tax scenario

with respect to a particular tax-paying entity.

1.5.1 Differentiation between taxes and levies

The definition of tax provided by Nightingale (1997) could best be used to differentiate taxes from levies. Nightingale described tax as a, “compulsory contribution imposed by government, even though taxpayers may receive nothing identifiable in return for their contribution, they nevertheless have the benefit of living in a relatively educated, healthy and safe society”.

From this definition, one can affirm that tax is not levied in return for any specific service rendered by the government to the taxpayer. However, levies are paid to the government in return for specific services by government to the taxpayer. For example, a fee (such as court fee) is a payment to defray the cost of the service undertaken by the government, primarily in the public interest, but conferring a special advantage on the taxpayer. Another form of levies is fines and penalties. This is not imposed to collect revenue but serves as a punishment for those who go against the laws of the land (example, traffic offenders).

It follows, therefore, that while all forms of taxes can be described as levies since they constitute imposition, not all levies can be properly described as taxes. For the purpose of illustration, while the tax imposed by section 4(1) of NTA on income, profits or gains of a person accruing in or derived from Nigeria can be rightly described as tax, the penalty and fine imposed by section 127 of NTAA can at best be described as a levy and not tax.

Tax, like levy, is involuntary in the sense that its compliance is compulsory but not intended to be punitive as a levy. Tax must be charged and exacted pursuant to legislative authority, that is, supported by a particular written law and if there is an invalid tax law, a charge cannot suffice for tax.

If it is backed by a particular valid tax law, it is a tax irrespective of whether it is described as levy or tax.

1.5.2 Understanding tax bases and their importance

Aspect	Tax	Levy
Definition	A mandatory financial charge imposed by the government on income, goods, or activities to fund public services.	A broader term that includes taxes but also refers to specific fees, charges or compulsory contributions for particular purposes.
Scope	General (applies broadly to all eligible entities/individuals).	Can be general or targeted (for example, road, tolls, sanitation fees).
Purpose	Funds general government operations (for example, infrastructure, healthcare, defense).	May fund specific projects/services (for example, roads, tolls, sanitation fees).
Legal Basis	Imposed under tax laws (for example, income tax, VAT).	Can be a tax or a special fee/charge (for example, import levies, regulatory fees).
Flexibility	Usually non-negotiable and compulsory.	Some levies are conditional (for example, paid only if using a service).

Examples	Income tax, corporate tax, sales tax (VAT).	Road tolls, customs duties, environmental levies, municipal fees.

1.5.3 Key distinctions

- (a) Taxes are broader, levies can be specific
 - (i) Taxes apply to all within a category (for example, everyone earning income pays income tax).
 - (ii) Levies may target specific groups (for example, a tourism levy on hotel stays).
- (b) Purpose vs funding mechanism
 - (i) Taxes for general budgets
 - (ii) Levies often fund designated projects (for example, a “fire service levy” for local fire departments).
- (c) Legal form
 - (i) All taxes are levies, but not all levies are taxes.
 - (ii) Example: A parking fee (levy) is not a tax, but a fuel tax is both a tax and a levy.

1.6 Principles of taxation

Adam Smith (1776), put forward the under listed as the characteristics, usually called canons of taxation that a modern tax system should be:

- (a) **Equitable:** This affirms that every taxable person should be taxed according to his ability. Thus, the rich should pay more, while the poor pay less.
- (b) **Certain:** The time of payment, the manner of payment and the amount to be paid should be certain and clear to the taxpayer. The determination of tax liability should not be left to the whims and caprices of tax officials.
- (c) **Convenient:** The social and economic standing of the taxpayer must be taken into consideration. Thus, the time of payment should not be inconvenient to the taxpayer.
- (d) **Administratively efficient:** The process of levying and collecting the tax must be economically efficient. Elements of efficiency include:
 - i. ease of compliance;
 - ii. effective enforcement; and
 - iii. minimal distortion.
- (e) **Simple:** The tax system should be such that it is easy to understand by taxpayers.
- (f) **Productive:** The tax system should be such that brings in sufficient revenue to the government. The cost of administering the tax should be less than the revenue such tax will generate.
- (g) **Flexible and stable:** A good tax system should be flexible enough for changes to be effected by any government of the day. This flexibility, however, must be balanced with the need to have a stable tax system.

1.7 Differentiation between tax avoidance and tax evasion

1.7.1 Tax avoidance

This arises in a situation where the taxpayer arranges his financial affairs in a form that would make him pay the least possible amount of tax, whilst still complying with the relevant laws. For example, avoidance of value added tax (VAT) can be achieved by anyone that does not buy the goods and/or services on which VAT is

levied. Apart from boycotting the goods and services, tax avoidance schemes are carried out after a critical review of tax laws.

1.7.2 Tax evasion

Tax evasion is a contravention of tax laws whereby a taxable person neglects to pay tax due or reduces the tax liability by making fraudulent or untrue claims on the income tax forms or returns. Put differently, tax evasion is the act whereby the taxpayer achieves minimisation of tax through illegal means. It involves outright fraud and deceit, for example, through deliberate omission of a source of the taxpayer's income from his return or deliberate understatement of income.

In Nigeria, tax evasion is on a large scale through failure to render tax returns. Tax evasion may be achieved by:

- a) understating income;
- b) overstating expenditure;
- c) making false claims for allowances and reliefs; and
- d) omission of chargeable income from tax returns.

In order to minimise tax avoidance and tax evasion, the NTA in section 4, captures income, profits or gains arising from transactions relating to the disposal or lending of securities, and digital or virtual assets, as chargeable to tax.

1.7.3 Comparison of tax avoidance with tax evasion

Tax avoidance	Tax evasion
(i) Legal	(i) Illegal
(ii) Achievable through exploiting loopholes in the laws	(ii) Achievable through deliberate action of fraud and deceit
(iii) Results in taxpayer paying minimum tax possible without breaking the law	(iii) Results in taxpayer not paying correct tax r paying minimum tax through the breaking of tax laws
(iv) Supported by the courts in decided cases	(iv) No support by the courts
(v) No criminal liability	(v) Tax evader could be charged to court for criminal offences with the consequent fines, penalties and, at times, imprisonment
(vi) When stretched to the extreme, the scheme could be disregarded	(vi) At any level, Revenue Service will frown at tax evasion
(vii) No Revenue Service investigation. Prior years assessments will not be reopened.	(vii) Revenue Service investigation will be instituted. Revenue Service has the power to open prior assessments beyond the six-year statute of limitation subject to the approval of the court.

1.8 Enabling Acts

Enabling Acts are statutes empowering a person or body to take certain actions, especially to make regulations, rules, or orders.

An enabling Act is a piece of legislation by which a legislative body grants an entity,

which depends on it (for authorisation or legitimacy) the power to take certain actions. For example, enabling Acts often establish government agencies to carry out specific government policies in a modern nation.

In Nigeria, the National Assembly is the body saddled with the responsibility for making laws amongst other responsibilities.

1.9 Sources of Nigerian tax laws

The tax system in Nigeria is administered through statutes rather than common law. The sources of Nigerian tax laws are:

(a) Customary laws

These are the native laws and customs, governing the taxation of incomes, goods and properties of persons or communities within an ethnic group. Included under this heading, is the Islamic law, which is the basis of moslem laws that are usually applicable in the Northern part of Nigeria.

Examples of taxes collected under the customary laws are:

- (i) isakole: Payable in Yoruba land, to titular heads of communities or obas on the produce from farm land;
- (ii) osusu-nkwu: Applicable in the Eastern part of Nigeria;
- (iii) zakat tax payable by adherents of the Islamic faith, on their wealth, which has been in their possession for a full year. Such wealth includes money, properties, etc. The Islamic law provides the basis for determining the amount of tax payable and to whom payable.

(b) Statute laws

These are tax legislations passed by Acts of the National and State assemblies and bye-laws by local government authorities in a democratic government or decrees or edicts under a military government. These legislations confer necessary powers on the taxing authorities to impose taxes on the citizens that is, individuals, companies, trusts, settlements, etc.

Examples of such tax legislations are:

- (i) NTA, 2025; and
- (ii) NTAA, 2025.

(c) Case laws

This is the doctrine of stare decisis, that is, judicial precedents. Under this doctrine, judgements pronounced by superior courts of records, namely: High Courts, Appeal Courts, and the Supreme Court, on principles of tax laws and their interpretations of the provisions of tax statutes, are binding on the lower courts.

In view of the fact that Nigerian tax laws had their origin from the English tax laws, it would not be out of place to state that the principles of English common law pronounced upon by the judges in England and interpreted by them, also form another source of Nigerian tax laws.

This position is buttressed by the decision in the case of *Aderawos Timbers Trading Co. Limited v Federal Board of Inland Revenue Service* (1966) LL.R 195, (1969) ALL NLR 247.

In this case, it was held that the decisions of English courts can be invoked for the

purpose of interpreting Nigerian tax statutes where the expression and terms used are similar and substantially the same as those used in English Statutes.

- (d) Circulars issued by and practices of the Inland Revenue.
- (e) Opinions of tax experts and authors in so far as the courts take judicial notice of them.
- (f) Budgets and pronouncements of relevant ministries.
- (g) The Constitution of the Federal Republic of Nigeria.

1.10 History of Nigerian tax system

The history of taxation in Nigeria dates back to the pre-colonial era. Before the colonisation of the different entities which were later amalgamated under the name Nigeria, there were different systems of taxation, existing in the forms of, compulsory services, contribution of goods, money, labour, etc, amongst the various kingdoms, ethnic groups and tribes, controlled by the traditional rulers, in order to sustain their monarchies. The deportation of king Jaja of Opobo in 1893, due to his opposition to imperialist taxation, is illustrative of this point. The traditional rulers-imposed taxes, in one form or the other, on their subjects.

These taxes took the form of “zakkat”, levied on Muslims for educational, charitable and religious purposes; “kudin-kasa”, a form of agricultural tax on the utilisation of land (equivalent to present day land ground rent), “shuka-shuka” levied on the ownership of cattle, based on the number of cattle, “isakole”– contribution of farm products, as a form of land tax, in exchange for the use of land for agricultural purposes, payable to obas, chiefs, family/community heads.

“Owo-ori” is individual taxes payable in cash or kind in return for services. “War-Tax” is payable by a vanquished community, to the victorious one after a war. “Community tax” is payable by all adults within a community to execute projects beneficial to the community. “Osusu, imachi-nkwu” (levies for palm fruits) taxes are payable by those who harvest palm fruits and who are expected to contribute certain sums or a proportion of the palm fruits and palm kernel oil.

In Rivers and Bayelsa States, “block hunting and fishing taxes” are also other forms of taxation, whereby male adults offer assets in form of canoes, boats, nets and other fishing equipment, to fish jointly, while female adults sell the harvested fishes and the sales proceeds are used in financing community projects.

Nigerian taxation, in its present form, is traceable to the establishment of a British colony in Lagos on August 6, 1861, and subsequent amalgamation of the Southern and Northern Protectorates of Nigeria in 1914.

During the colonial era, the imposition of any type of tax on citizens (individuals and corporates) took the form of promulgation of laws by the colonial authority. Examples of such laws include:

- (a) **Proclamation Law 1914**, applicable to the whole of Nigeria;
- (b) **Native Law Ordinance Cap 74 of 1917** applicable to Western Nigeria. This law was enacted in Eastern Nigeria in 1929. One of the features of this law was that for the first time, it imposed taxes on women, resulting in the Aba women’s riots of 1929; and
- (c) **Non-natives Protectorates Tax Ordinance of 1931**, later consolidated with subsequent amendments in 1939. This ordinance was later repealed and incorporated into the Taxation Ordinance, No. 4 of 1940 and subsequently re-enacted as the Income Tax Ordinance, 1943.

The above tax laws were administered on individuals and corporate entities by tax

controllers, that is, District Officers, in the districts, provinces and regions.

In order to achieve uniformity in the system of taxation throughout the geographical entity called Nigeria, the colonial government set up the Raisman Commission in 1958. This Commission recommended the introduction of uniform basic income tax principles, for application in all the regions of Nigeria. The recommendation was accepted by the government, which incorporated same into the 1960 Constitution of the Federal Republic of Nigeria. This led to the promulgation of the Income Tax Management Act, 1961 and the Companies Income Tax Act, 1961.

These legislations were later repealed and re-enacted as the Personal Income Tax Act Cap P8 LFN 2004 (as amended) and the Companies Income Tax Act Cap C21 LFN 2004(as amended), respectively. As a result of the reassessment carried out by the Law Review Commission, these laws have been reviewed and codified, and are included in the laws of the Federal Republic of Nigeria 2004, with some amendments in 2007 and 2011 (Companies Income Tax (amendment) Act, 2007, and Personal Income Tax (Amendment) Act, 2011 refer).

1.11 Chapter review

This chapter explains the nature and objectives of taxation. It deals extensively with the history of Nigerian tax system and laws, which dates back to 1861, when the British colony was established.

Different classifications of taxes grouped into direct and indirect, as well as the distinction between taxes and levies were also explained.

1.12 Worked examples

1.12.1 Questions

- (1) The structure of Nigerian tax system, basically, deals with classifications of taxes.

Required:

- (a) Differentiate (with examples) between direct and indirect taxes.
- (b) Explain the following:
 - (i) progressive tax
 - (ii) proportional tax
 - (iii) regressive tax

- (2) A good tax system must be based on good principles.

Required:

Discuss **four** (4) principles of a good tax system.

- (3) Manufacturers Association of Nigeria (MAN) is hosting a delegation on a trade mission from an emerging economy in Eastern Europe to Nigeria next month. As part of the programmes for the event, MAN intends to organise a workshop on the “Nigerian tax system” for the delegates. The objectives of the workshop are to provide the delegates with relevant information about the nature of Nigerian tax system; and solicit their potential interest in investing in the Nigerian business environment.

Your firm of chartered accountants has been engaged by MAN to provide a resource person to speak on the topic “The Nature of Nigerian Tax System”. As a newly appointed tax officer, your Principal Partner has directed you to draft a paper on the topic and submit to him for review.

Required

Draft a report to the Principal Partner, specifically to cover the following:

- (a) Objectives of taxation
- (b) The **three** (3) aspects of the Nigerian tax system
- (c) Major sources of tax laws in Nigeria

1.12.2 Suggested solutions to questions

(1) **Direct taxes**

(a) Definition and characteristics

These are taxes imposed on individuals or businesses, examples include, personal income tax (PIT), companies income tax (CIT), hydrocarbon tax (HCT), federal development levy, etc.

The taxpayer bears the brunt directly, and are usually progressive, that is, the rate increases with income, for example, PIT, CIT, HCT, etc.

(i) Advantages include:

- reduction in income inequality;
- encouragement of tax compliance; and
- provision of revenue for government.

(ii) Disadvantages include:

- complexity and difficulty in administration; and
- discouragement of entrepreneurship and investment.

Indirect taxes

(a) Definition and characteristics

Indirect taxes are taxes imposed on goods and services. Examples include value-added tax (VAT), excise duty, customs duties, etc. The taxpayer does not bear the tax burden directly.

(i) Advantages include:

- ease of administration and collection;
- encouragement of consumption of essential goods and services; and
- provision of revenue for government.

(ii) Disadvantages include:

- regressive and not low-income individual friendly; and
- encouragement of tax avoidance.

In summary, direct taxes are imposed on individuals or businesses, while indirect taxes are imposed on goods and services. Direct taxes are typically progressive, while indirect taxes are typically regressive.

(b)(i) Progressive tax

A progressive tax is a tax system where the tax rate increases as the taxable amount increases. This means that individuals or businesses with higher incomes or profits are taxed at a higher rate than those with lower incomes or profits.

The idea behind progressive taxation is to reduce income inequality by requiring those who have more wealth to contribute a larger share of their income towards taxes. This approach is often seen as a way to promote social justice and fairness in the tax system.

(b)(ii) **Proportional tax**

A proportional tax, also known as a flat tax, is a tax system where the tax rate remains constant regardless of the taxable amount. This means that all taxpayers, regardless of their income or wealth, are taxed at the same rate. An example of proportional tax is value added tax.

(b)(iii) **Regressive tax**

A regressive tax is a tax system where the tax rate decreases as the taxable amount increases. This means that lower-income individuals or businesses pay a higher proportion of their income in taxes compared to higher-income individuals or businesses.

2. **The key principles of a good tax system include:**

a) **Equity (Fairness)**

Taxpayers with similar incomes and circumstances should pay similar amounts of Tax, whilst those with higher incomes should pay a higher amount of tax.

b) **Efficiency**

Taxes should not distort economic decisions, such as investment or work choices and tax collection and compliance costs should be minimised.

c) **Neutrality**

Taxes should not favour one type of economic activity over another and they should not discriminate against specific groups or individuals.

d) **Certainty**

Tax laws and regulations should be clear, concise, and easily understandable. Taxpayers should have access to information about tax laws, regulations, and procedures.

e) **Simplicity**

Tax laws and regulations should be simple and easy to understand. Tax compliance procedures should be easy to follow and minimise administrative burdens.

f) **Accountability**

Tax authorities should be accountable for their actions and decisions. Taxpayers should have recourse to appeal tax decisions and resolve disputes.

g) **Flexibility**

A good tax system should be capable of adjusting to changing circumstances. The income tax laws, if reviewed annually, would help in alleviating the epileptic economic conditions.

h) **Convenience**

The time of payment should not be inconvenient to the taxpayer. The social and economic standing of the taxpayer must be taken into consideration.

3. **Babatee & Co (Chartered Accountants)
1, Ariyo Street, Lagos**

Internal Memo

Date:

From: The Tax Officer

To: Principal Partner

Re: The Nature of Nigerian Tax System

I refer to our client's request on "The nature of Nigerian tax system" and hereby

present a report for your review before same is presented to the client.

(a) The objectives of taxation include the following:

i) Revenue generation

Taxation provides revenue for governments to fund public goods and services, such as infrastructure, education, healthcare, and defense.

ii) Support government programmes

Taxation supports government programmes, such as social welfare programmes, subsidies, and grants.

iii) Economic stabilisation

Taxation helps regulate economic activity by influencing the level of aggregate demand and supply.

iv) Control of inflation

Taxation can help control inflation by reducing aggregate demand and increasing the cost of production.

v) Promote economic growth

Taxation can promote economic growth by encouraging investment, innovation, and entrepreneurship.

vi) Income redistribution

Taxation can help reduce income inequality by redistributing wealth from the rich to the poor.

vii) Support low-income households

Taxation can support low-income households through tax credits deductions, and exemptions.

viii) Promote international trade

Taxation can promote international trade by reducing tariffs and other trade barriers. Tax evasion and avoidance can be prevented by implementing tax treaties and exchange of information requests.

(b) The three (3) aspects of Nigerian tax system

The Nigerian tax system involves the three (3) aspects, namely, tax policy, tax laws, and tax administration.

Tax policies

Tax policies refer to the guidelines and principles established by government for the imposition and collection of taxes. They usually include:

- (i) Movement of emphasis from income tax to consumption tax, which is less prone to tax evasion;
- (ii) Reduction of individual tax burden and encouraging savings and investments; and
- (iii) Introduction of the self-assessment scheme to encourage taxpayer participation in the tax assessment process.

Tax laws

Tax laws include the following notable tax legislations in Nigeria:

- (i) Nigeria Tax Act, 2025;
- (ii) Nigeria Tax Administration Act, 2025;
- (iii) Petroleum Industry Act, 2021 (as amended);
- (iv) Nigeria Revenue Service (Establishment) Act, 2025; and

(v) Joint Revenue Board of Nigeria (Establishment) Act, 2025

In Nigeria, the Constitution vests the legislation of income tax, whether personal or corporate on the Federal Government in order to promote uniformity. However, the three tiers of government share the administration of the various taxes. Tax laws are reviewed periodically in line with the changes in social, political and economic conditions.

The power to impose tax in Nigeria is within the exclusive legislative authority of the Federal Government. There are various machineries set up by the government to ensure strict compliance with these laws. Non-compliance attracts penalties and fines.

Tax administration: This involves practical interpretations and applications of the tax laws. The authorities charged with the administration of tax in Nigeria are the Federal, State and Local governments. The tax authorities of these tiers of government derive their formation from sections of the relevant laws which include:

- i. The Nigeria Revenue Service (NRS), section 3 (1) of the NTA;
- ii. State Internal Revenue Service (SIRS), section 87 (1) of the NTAA; and
- iii. Local Government Revenue Committee, section 93 (1) of NTAA.

Challenges facing the Nigerian tax system include:

- i) Tax evasion and avoidance: Widespread non-compliance with tax laws;
- ii) Inefficient tax administration: Weaknesses in tax collection and enforcement;
- iii) Limited tax base: Narrow tax base, with many individuals and businesses exempt from tax; and
- iv) Corruption: Corruption in tax administration and enforcement.

(c) The major sources of Nigerian tax laws are:

(i) Customary law: These are the native laws and customs, governing taxation of incomes, goods and properties of persons or communities within an ethnic group. Included under this heading, is the Islamic law, which is the basis of Muslim laws that are usually applicable in the northern part of Nigeria.

Examples of taxes that are collected under the customary law are:

- Isakole: Payable in Yoruba land, to titular heads of communities or Obas on the produce from farm land;
- Osusu, imachi-nkwu: Applicable in the Eastern part of Nigeria; and
- Zakkat: Payable by adherents of the Islamic faith, on their wealth, which has been in their possession for a full year. Such wealth includes money, properties, etc.

(ii) Statutes: These are tax legislations passed by Acts of the National and State assemblies and bye-laws by local government authorities in a democratic government or decrees or edicts under a military government.

These legislations confer necessary powers on the taxing

authorities to impose taxes on the citizens that are, individuals, companies, trusts, settlements, etc. Examples of such tax legislations are:

- Nigeria Tax Act, 2025; and
- Petroleum Industry Act, 2021 (as amended).

(iii) Case laws or court judgements: This is the doctrine of *Stare decisis*, that is, judicial precedents. Under this doctrine, judgements pronounced by superior courts of records, namely: High Courts, Appeal Courts, and the Supreme Court, on principles of tax laws and their interpretations of the provisions of tax statutes, are binding on the lower courts.

In view of the fact that Nigerian tax laws have their origin in the English tax laws, it would not be out of place to state that the principles of English common law pronounced upon by Judges in England and interpreted by them, are also other sources of Nigerian tax laws.

This position is buttressed by the decision in the case of *Aderawos Timbers Trading Co. Limited v Federal Inland Revenue Service Board* (1966) LL.R 195, (1969) ALL NLR 247.

In this case, it was held that the decisions of English Courts can be invoked for the purpose of interpreting Nigerian tax statutes where the expressions and terms used are similar and substantially the same as those used in English Statutes;

- (v) Circulars issued by and practices of the Revenue;
- (vi) Opinions of tax experts and authors insofar as the Courts take judicial notice of them;
- (vii) Budgets and pronouncements of relevant ministries; and
- (viii) The Constitution of the Federal Republic of Nigeria.

TAX ADMINISTRATION IN NIGERIA

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2 Tax Administration in Nigeria

2.0 Learning objective

The objective of this chapter is to ensure that the readers understand the nature and organs of tax administration, taxes collectible by each tier of government, tax appeal procedures, and other tax administrative matters in Nigeria.

2.1 Learning outcomes

On successful completion of this chapter, readers should be able to understand:

- (a) nature of tax administration;
- (b) organs of tax administration: federal, states and local governments, their duties and functions;
- (c) tax jurisdictions;
- (d) taxes imposed and collectible by the tiers of government;
- (e) the establishment, composition, powers, and procedures of the Tax Ombud, Tax Appeal Tribunal; and
- (f) explain the other powers of the relevant tax authority, including that of the President, and further administrative matters.

2.2 Nature of tax administration

The administration of taxation in Nigeria is vested in various tax authorities depending on the type of tax under consideration.

Broadly, there are three tax authorities, namely;

- (a) Nigeria Revenue Service;
- (b) State Internal Revenue Service; and
- (c) The Local Government Revenue Committee.

The enabling law in respect of each type of tax will normally contain a provision as to the body charged with the administration of the tax.

For this purpose, the various enabling tax laws include:

- (i) Nigeria Tax Act, 2025, which imposes tax on the incomes of companies other than corporation soles, individuals, and companies engaged in petroleum operations (upstream operations);
- (ii) Petroleum Industry Act, 2021 (as amended), which imposes tax on the profits of companies, engaged in petroleum operations;
- (iii) Nigeria Tax Administration Act, 2025;
- (iv) Joint Revenue Board of Nigeria (Establishment) Act, 2025;
- (v) Nigeria Revenue Service (Establishment) Act, 2025; and
- (vi) Nigerian Insurance Industry Reform Act, 2025.

2.3 Objective and application of Nigeria Tax Administration Act, 2025 – section 1 of NTAA

The Act ensures the provision of uniform procedures for a consistent and efficient administration of tax laws in order to:

- (a) simplify tax compliance by taxpayers; and
- (b) enhance tax revenue.

It is pertinent to state that this Act applies to any person required to comply with any provision of the tax laws whether personally or on behalf of another person.

2.4 Organs of tax administration

2.4.1 Joint Revenue Board (JRB) - section 3 of JRBA, 2025

The Joint Revenue Board (JRB) was established by section 3 of JRBA, 2025.

(a) Composition

The (JRB) comprises the:

- (i) Chairman, who shall be the Executive Chairman of the Nigeria Revenue Service; and
- (ii) Chairman of each State Internal Revenue Service and the Federal Capital Territory Internal Revenue Service.

In addition to the above, the following persons shall be ex-officio members of the Board:

- (i) a representative of the Minister of Finance not below the rank of a Director;
- (ii) the Director- General of the National Identity Management Commission or representative not below the rank of a Director;
- (iii) the Chairman of the Revenue Mobilisation, Allocation and Fiscal Commission or its representative not below the rank of a Director;
- (iv) the Comptroller-General of the Nigerian Immigration Service or a representative not below the rank of Assistant Comptroller-General;
- (v) the Corps Marshall of the Federal Road Safety Corps or its representative not below the rank of an Assistant Corps Marshall;
- (vi) the Comptroller- General of the Nigeria Customs Service or its representative not below the rank of an Assistant Comptroller - General; and
- (vii) a representative of the Nigeria Revenue Service not below the rank of a Director.

The members of the Board shall serve on part-time basis.

(b) Quorum - paragraph 4 of the First Schedule of JRBA

One-third of members including the Chairman of the Board shall constitute the quorum of any meeting of the Board.

(c) Functions of the JRB -section 5 of JRBA

The Board shall:

- (i) integrate and maintain a database of Taxpayer Identification Numbers for every taxable person in Nigeria in collaboration with the Nigeria Revenue Service, State Internal Revenue Service, Local Government Revenue Committee and other relevant government agencies;
- (ii) resolve disputes between various tax authorities on the issue of determination of residency;
- (iii) advise government on double taxation matters within Nigeria, and in respect of double taxation arrangements concluded or under consideration with any other country, including other taxation matters having effect throughout Nigeria;
- (iv) resolve disputes between different tax authorities;
- (v) maintain a platform for revenue data collection, integration and exchange of information among the various tax authorities in Nigeria;
- (vi) promote harmonisation of taxes, levies, rates, charges and other payments and ensure uniformity in revenue administration across Nigeria;

- (vii) advise the Federal and State Governments on introduction of new taxes and changes to existing ones;
 - (viii) provide periodic impact analysis with recommendations on tax framework and capacity building for all tiers of Government;
 - (ix) collaborate with relevant agencies to carry out surveys, ascertain and publish relevant tax indices and statistics;
 - (x) recommend, participate, facilitate or initiate fiscal and tax policy reform in collaboration with relevant bodies;
 - (xi) receive, collate, analyse and publish periodic tax revenue collected by all tax authorities;
 - (xii) receive, collate, analyse and publish tax expenditure on account of tax waivers, exemptions or incentives granted by each government;
 - (xiii) collaborate with tax authorities to undertake or support research or similar measures with a view to stimulating economic development and determine the manifestation, extent, magnitude and effects of tax fraud, evasion or other matters that affect effective tax administration and make recommendations to the Government on appropriate intervention and preventive measures;
 - (xiv) provide guidance for the accreditation of tax agents by the relevant tax authorities in accordance with the relevant law; and
 - (xv) carry out any other function as may be assigned to it by an Act of the National Assembly.
- (d) Powers of the Board - section 6 of JRBA
The Board is empowered to:
- i. provide general policy guidelines relating to its functions;
 - ii. manage and superintend the policies of the Board on matters relating to the administration of its functions under this Act or any other law;
 - iii. review and approve the strategic plans of the Board;
 - iv. employ and determine the terms and conditions of employment including disciplinary measures of the employees of the Board;
 - v. stipulate remuneration, allowances, benefits and pensions of the staff and employees; and
 - vi. do such other things which in its opinion are necessary to ensure the efficient performance of the functions of the Board under this Act.
- (e) Executive Secretary of the Board - section 10 of JRBA
The Executive Secretary of the Board shall be:
- i. the chief executive and accounting officer of the Board; and
 - ii. responsible for the execution of the policies formulated by the Board
- The Executive Secretary shall:
- i. have requisite qualifications in taxation, accountancy, economics or law; and
 - ii. possess at least 10 years of relevant experience in tax administration or professional tax practice.
- Section 10 (3) of JRBA states that “the Executive Secretary shall hold office:
- i. for a term of four years, renewable for another term of four years and no

more;

- ii. on such other terms and conditions as may be specified in the letter of appointment.”

Based on the provisions of section 10(4) of JRBA, the Executive Secretary shall be responsible for:

- i. issuing notices of meetings of the Board;
- ii. keeping records of the proceedings of the Board;
- iii. conducting the Board's correspondence; and
- iv. carrying out such other duties as the Board may determine.

(f) Cessation of membership of the Board - section 8 of JRBA

A person ceases to be a member of the Board where, the person:

- i. no longer occupies the office by virtue of which the person is a member of the Board;
- ii. resigns from appointment as a member of the Board by notice;
- iii. dies or becomes incapable of carrying on the functions of the office either arising from an infirmity of mind or body;
- iv. becomes bankrupt or makes a compromise with creditors; or
- v. is convicted of a felony or of any offence involving dishonesty or fraud.

2.4.2 Nigeria Revenue Service and its Governing Board - section 6 of NRSA

Section 6 of the Nigeria Revenue Service (Establishment) Act, 2025, established for the Service, a governing board known as the Nigeria Revenue Service Board (“the Board”) which shall be responsible for the overall supervision of the Service as specified in the Act.

The administration of taxation on the profits of incorporated companies is vested in the Nigeria Revenue Service (NRS) and its governing board.

(a) Composition of the Board - section 7 of NRSA

The Board comprises:

- i. the Chairman, who shall be the Executive Chairman of the Service appointed by the President subject to confirmation of the Senate; and
- ii. the following ex-officio members:
 - a representative of the Minister responsible for Finance not below the rank of a Director;
 - a representative of the Minister responsible for National Planning not below the rank of a Director;
 - a representative of the Attorney-General of the Federation not below the rank of a Director;
 - a representative of the Minister responsible for Petroleum and Gas Resources not below the rank of a Director;
 - the Governor of the Central Bank of Nigeria or a representative not below the rank of a Deputy Governor;
 - the Chairman of the Revenue Mobilisation, Allocation and Fiscal Commission or a representative who shall be a Commissioner representing one of the States of the Federation;
 - the Comptroller-General of the Nigeria Custom Service or a representative

- not below the rank of Deputy Comptroller-General;
- the Registrar-General of the Corporate Affairs Commission or a representative not below the rank of a Director; and
- Executive Directors appointed by the President under this Act.

All members of the Board save the Executive Chairman, and the Executive Directors shall serve on a part-time basis.

(b) Powers and functions of the Board - section 8 of NRSA

The Board is empowered to:

- i. provide the general policy guidelines relating to the functions of the Service;
- ii. evaluate the implementation of the policies of the Service on matters relating to the assessment, collection and accounting system under this Part or any other law;
- iii. review and approve the strategic plans of the Service;
- iv. employ staff, and determine the terms and conditions of service, including disciplinary measures, of the employees of the Service;
- v. stipulate remunerations, allowances, benefits and pensions of the staff and employees;
- vi. make rules and issue regulations as, in its opinion, are necessary or expedient for giving effect to the provisions of this Part and for the administration of its provisions and such rules and regulations shall provide compliance requirements and may include consequences for non-compliance, subject to the approval of the Minister;
- vii. assign each Executive Director a directorate as appropriate; and
- viii. do such other things which, in its opinion, are necessary to ensure the efficient performance of the functions of the Service under this section.

(c) Appointment and duties of the Secretary to the Board - Section 13 of NRSA

There shall be a Secretary to the Board who shall be appointed by the Board from within the Service whose duties are to:

- (i) issue notices of meetings of the Board;
- (ii) keep records of the proceedings of the Board; and
- (iii) carry out such duties as the Executive Chairman or the Board may, from time to time, direct.

The Secretary shall be a lawyer, or a chartered accountant or a chartered secretary, who shall not be less than the rank of an Assistant Director.

(d) Tenure of office of the Executive Chairman and other members - section 9 of NRSA

- i. The Executive Chairman and other members of the Board, other than ex-officio members, shall each hold office for a term of four years, renewable for another term of four years and no more; and
- ii. A member of the Board shall hold office on such terms and conditions as in his letter of appointment.

(e) Cessation of membership - section 11 of NRSA

A person ceases to be a member of the Board, where the person:

- i. not being an ex-officio member, resigns by a notice addressed to the President;
- ii. dies or becomes incapable of carrying on the functions of the office either arising from an infirmity of body, or mind;
- iii. becomes bankrupt or makes a compromise with creditors;

- iv. is convicted of a felony or of any offence involving dishonesty or fraud;
- v. not being an ex-officio member, is removed from office by the President on grounds of public interest or in the interest of the Service;
- vi. has been found guilty of contravening the Code of Conduct Bureau and Tribunal Act, or gross misconduct in relation to their duties;
- vii. in the case of a person appointed on the basis of a professional qualification is disqualified from professional qualification by a competent authority;
- viii. the President is satisfied that it is not in the interest of the Service or in the interest of the public for the person to continue in Office and the President removes him from Office;
- ix. not being an ex-officio member, the tenure expires as provided in his letter of appointment; or
- x. ceases to occupy the office by virtue of which the person becomes a member of the Board.

(f) Delegation of power by the Board - section 12 of NRSA

Any power conferred or any duty imposed upon the Board may be exercised or performed by the Board or by an officer authorised by power the Board, generally or specifically in that behalf.

The Board can review any decision made by an authorised officer regarding any tax or taxable income, and the reviewed decision of the Board shall have effect as if it were the original decision made in respect of the matter concerned.

An order, ruling or directive made or given by an approved committee of the Board pursuant to this section shall not be treated as an order, ruling or directive of the Board, until the order, ruling or directive has been ratified by the Board pursuant to the powers vested on the Board under this Act.

(g) Establishment and composition of the Technical Committee of the Board - section 14 of NRSA

This section established a technical committee of the Board ("the Technical Committee") which shall consist of:

- (i) the Executive Chairman as the Chairman;
- (ii) two members of the Board of the Service;
- (iii) the Executive Directors in the Service;
- (iv) the Director Legal of the Service as appointed by the Board; and
- (v) the Director in charge of Tax Policy matters.

The Secretary to the Board shall be the Secretary to the Technical Committee.

The Technical Committee may co-opt, from the Service, such director or officer as it may deem necessary for the effective performance of its functions under this Act.

(h) Functions of the Technical Committee – section 15 of NRSA

The Technical Committee will:

- (i) consider all tax matters that require professional or technical expertise, and make recommendations to the Board;

- (ii) advise the Board on any aspect of the functions and powers of the Service under this Act; and
- (iii) attend to such other matters as may be referred to it by the Board.

2.4.3 Nigeria Revenue Service (NRS)

(a) Establishment of NRS - section 3(1) of NRSA

Section 3(1) of the Nigeria Revenue Service (Establishment) Act, 2025, established the Nigeria Revenue Service which is referred to as “the Service”.

The Service:

- i. shall be a body corporate with perpetual succession, and a common seal;
- ii. may sue or be sued in its name; and
- iii. may acquire, hold or dispose of any property, movable or immovable, for carrying out any of its functions under this Act.

The Service shall have such powers and duties as are conferred on it by this Act or by any other law.

(b) Functions of the Service - section 4 of NRSA

The Service is charged with the responsibility to:

- (i) assess persons including corporations, companies and individuals chargeable with tax, other than individuals, resident in any State of the Federation or the Federal Capital Territory;
- (ii) collect or recover tax assessed, enforce payment of taxes and remit tax collected, under the provisions of this Act or any other law, into designated accounts;
- (iii) account for all revenue accruing to the Government;
- (iv) in collaboration with the relevant Ministries and Agencies of Government, subject to the approval of the National Assembly, review the tax regimes and promote the use of taxation to develop, stimulate and grow economic activities;
- (v) out examination and investigation exercises with a view to enforcing compliance with the provisions of this Act, and any other tax law;
- (vi) make a determination of the extent of financial loss and such other losses by Government arising from tax fraud or evasion, and revenue foregone arising from tax waivers and other related matters;
- (vii) adopt measures to identify, trace, freeze, confiscate or seize proceeds derived from tax fraud or evasion, in line with the provisions of this Act;
- (viii) adopt measures which include compliance and regulatory actions, introduction and maintenance of investigative and control techniques on the detection and prevention of non-compliance with tax laws;
- (ix) collaborate and facilitate exchange of information with relevant national or international agencies or bodies on tax matters;
- (x) undertake exchange of personnel or other experts with complementary agencies for purposes of comparative experience or capacity building;
- (xi) establish and maintain a system for monitoring international dynamics of taxation in order to identify suspicious transactions, and the perpetrators or other persons involved;

- (xii) provide and maintain access to up-to-date and adequate data and information on all taxable persons, individuals, corporate bodies or all agencies of Government involved in the collection of revenue for the purpose of efficient, effective and correct tax administration and to prevent tax evasion or fraud;
- (xiii) maintain database, statistics, records and reports on persons, organisations, proceeds, properties, documents or other items or assets relating to tax administration including matters relating to tax waivers, fraud or evasion;
- (xiv) undertake and support research or similar measures with a view to stimulating economic development and determine the manifestation, extent, and effects of tax waivers, fraud, evasion and other matters that affect effective tax administration and make recommendations to the Government on appropriate intervention and preventive measures;
- (xv) collate and continually review all policies of the Government relating to taxation and revenue generation and undertake a systematic and progressive implementation of such policies;
- (xvi) liaise with the office of the Attorney-General of the Federation, any Government security and law enforcement agency, and such other financial supervisory institutions in the enforcement and eradication of tax related offences;
- (xvii) issue taxpayer identification or any other equivalent identity to every relevant taxable person in collaboration with tax authorities of States or Local Governments, or the Joint Revenue Board;
- (xviii) carry out and sustain public awareness and enlightenment campaign on the benefits of tax compliance;
- (xix) carry out assigned administrative and oversight functions over all taxes and levies accruable to the Government of the Federation and, as it may be required, query, subpoena, sanction or reward any activity pertaining to the assessment, collection of and accounting for revenues accruable to the Government; and
- (xx) provide or receive assistance in the collection of revenue claims or any other administrative assistance in tax matters with respect to any agreement or arrangement made between the Government of the Federal Republic of Nigeria and the Government of any country, person or body as may be deemed necessary.

Based on the approval of the Minister, the Service shall make rules and issue regulations as, in its opinion, are necessary or expedient for giving full effect to the provisions of this Act and for the due administration of its provisions; and such rules and regulations shall provide compliance requirements and may include consequences for non-compliance in line with relevant laws.

The Service shall carry out such other activities as are necessary or expedient for the full discharge of all or any of the functions under this Act, including:

- specifying the form of returns, claims, statements or notices necessary for the due administration of the powers conferred on it by this Act; and
- deploying appropriate technology or digital platforms to automate any of its

tax administration processes or in carrying out any of its functions under this Act.

2.4.4 Assistance of Nigeria Revenue Service in tax collection - section 5 of NRSA

- (a) When the NRS receives a request from a Nigerian State or Local Government, it may assist to collect or administer a tax.
- (b) The assistance referred to in (a) above, shall only be provided in respect of a tax which the requesting government has the statutory right to collect or administer, and such assistance may include:
 - (i) all the actions necessary for the proper assessment, collection, accounting or enforcement of the tax;
 - (ii) administration of personal income tax on any class or group of individual taxpayers; or
 - (iii) collection or enforcement of revenue claims on a particular person.
- (c) Any revenue collected on behalf of a State or Local Government, or another tax authority, under this section, shall be remitted directly to that State or Local Government, or relevant tax authority as may be agreed by the parties.
- (d) Where an agreement or arrangement between the Government of Nigeria and the Government of another country to avoid double taxation or provide administrative assistance in tax matters contains an obligation for the collection of revenue claim due to the Government of that country or any other administrative assistance on tax, the Service shall carry out such obligation as may be prescribed in that agreement or arrangement.
- (e) The Service may enter into agreement with the competent authority of a country with which the Government of Nigeria entered into an agreement or arrangement for the avoidance of double taxation or administrative assistance in tax matters to prescribe the manner of the performance of the administrative assistance obligation contained in that agreement or arrangement.
- (f) The Accountant-General of the Federation shall open a designated account into which revenue claims collected by the Service on behalf of the Government of any other country shall be paid pending the remittance of the amount so collected to that country.
- (g) Where assistance is requested under this section, the Service shall carry out the assistance in line with the provisions of this Act and other relevant laws, except with respect to time limits, and shall apply its powers relating to the enforcement and collection of taxes as if the revenue were a revenue within its jurisdiction under the Nigeria Tax Administration Act.
- (h) The Service may take any interim measure, including any judicial measure, in line with the provisions of this Act or other relevant laws to preserve the collection of any revenue claim for which assistance has been requested under this section.
- (i) The Service may charge a fee as may be agreed with the requesting authority to defray the cost of providing the assistance required under this section.
- (j) For the purpose of this section, "revenue claim" means any amount of tax, levy, fees, charges or statutory contributions, due or owed, including interest, administrative penalties, and cost of collection or conservancy to a Nigerian local or state government and their agencies, or to the government of another country with which the Government of Nigeria has a subsisting agreement or arrangement to avoid double taxation or provide administrative assistance in tax matters.

2.4.5 Miscellaneous provisions

(a) Information and documents to be confidential - section 32 of NRSA

- (i) Without prejudice to the provisions of any other Act concerning data privacy or data protection, institutional information or communication, all internal information, communications, documents or memoranda of the Service are confidential.
- (ii) Except as otherwise provided under this Act, any other law or any enabling agreement or arrangement or as otherwise authorised by the Executive Chairman or management of the Service, any person who discloses or attempts to disclose institutional information, communication, document or memorandum of the Service is liable on conviction to a fine not exceeding ₦5,000,000.00 or to imprisonment for a term not exceeding three years or to both fine and imprisonment.

(b) Official secrecy and confidentiality - section 33 of NRSA

- (i) A person acting in an official capacity or employed in the administration of this Act shall regard and deal with originals or copies of all documents, information, returns, notices or assessment, lists relating to the business, assets, liabilities, profits or items of profits of any person as secret and confidential.
- (ii) A person acting in an official capacity or employed in the administration of this Act who, being in possession of or control of, originals or copies of any document, information, return, notice or assessment, list relating to business, assets, liabilities, profits or items of profits of any person, communicates or attempts to communicate such information or anything contained in the document, return, notice or assessment, list or copy to any person other than:
 - a person authorised by the Service to communicate it;
 - by an order of the court; or
 - for the purpose of this Act or any other tax law in Nigeria,commits an offence under this Act and is liable on conviction, to a fine not exceeding ₦5,000,000.00 or to imprisonment for a term not exceeding three years or to both fine and imprisonment.
- (iii) A person appointed or employed under this Act shall not be required to produce any document, information, return, notice or assessment, or to divulge or communicate any information that comes into his possession in the performance of his duties except as may be necessary in order to institute a legal proceeding or in the course of a legal proceeding relating to tax in Nigeria.
- (iv) The obligation as to secrecy imposed by this Act shall not prevent the disclosure of relevant information to an authorised officer of the Government of a country with which Nigeria has entered into any treaty, agreement or arrangement on tax matters.

(c) Endorsement of transactions - section 34 of NRS

The Executive Chairman or an authorised officer of the Service may endorse anything done or required to be done by the Service pursuant to any of its powers or functions under this Act or the laws listed in the Second Schedule, such as NTA, NTAA, etc.

(d) Service of documents - section 36 of NRSA

A notice, summons or other document required or authorised to be served on the Service under the provisions of this Act or any other law may be served by delivering it to the Executive Chairman, sending it by registered post, courier or substituted service addressed to the Executive Chairman at the principal office of the Service, delivered to a designated e-mail address of the Service, or other electronic means as may be provided by the Service.

(e) Legislations administered by the Service - Second Schedule to the Act

The legislations are:

- i. Nigeria Tax Act, 2025;
- ii. Nigeria Tax Administration Act, 2025;
- iii. Laws imposing collection of taxes, fees and levies collected by other Government entities, including signature bonus, pipeline fees, penalty for gas flared, depot levies and licences, fees for Oil Exploration Licence (OEL), Oil Mining Licence (OML), Oil Production Licence (OPL), royalties, rents (productive and non-productive), fees for licences to operate drilling rigs, fees for oil pipeline licences, haulage fees and all such fees prevalent in the oil industry but not limited to the above listed.
- iv. All regulations, proclamations, order, government notices or rules issued in terms of these legislations or any revenue of the government.
- v. Any other law for the assessment, collection and accounting of revenue accruable to the Government of the Federation as may be made by the National Assembly from time to time or regulation incidental to those laws, conferring any power, duty and obligation on the Service, or where no administrative provisions have been made for such tax, duty or levy.

(f) Forms - section 85 of NTAA

From time to time, the relevant tax authority has the prerogative to specify and simplify forms, statements and notices to be used for the effective administration of taxes under this Act.

(g) List of taxable persons assessed - section 44 of NTAA

- (i) The assessment lists of taxable persons assessed to tax shall be maintained by the relevant tax authority,
- (ii) The contents of the assessment lists are as follows:
 - the names and addresses of the taxable persons assessed to tax;
 - the name and address of any person in whose name any such taxable person is chargeable;
 - the amount of the total profits of each person;
 - the amount of tax payable by the person; and
 - such other particulars as may be determined by the tax authority.
- (iii) Where complete copies of all notices of assessment and all notices amending assessments are filed in the offices of the tax authority, they shall constitute the assessment lists for the purpose of this Act

2.4.6 Establishment and composition of the management board of the State Service - section 89 of NTAA

Section 89 of NTAA, established for each State Service a Management Board (State Board) which shall have overall supervision of the State Service.

(a) Composition - section 89 (2) of the NTAA

A State Board comprises:

- (i) the Executive Chairman of the State Service who shall be the Chairman of the State Board;
- (ii) directors from within the State Service;
- (iii) a director from the State Ministry of Finance;
- (iv) the Legal Adviser to the State Service, who shall serve as Secretary; and
- (v) three other persons appointed by the State Governor on their personal merit, one each representing a Senatorial District in the State, who shall possess relevant experience and knowledge in taxation and other related fields.

The Secretary of the State Board is empowered to summon a meeting of the State Board whenever the business requires its attention or on the request of the Chairman or any member of the State Board.

- (b) Quorum - section 89 (4) of NTAA
Five members of the State Board of whom one shall be the Chairman or a director, shall constitute a quorum.

- (c) Functions of the State Board- section 91 of NTAA

The State Board shall be responsible for:

- (i) provide general policy guidelines relating to the functions of the State Service;
- (ii) manage and superintend policies of the State Service on matters relating to the administration of the revenue assessment, collection and accounting system under this Act or any other law;
- (iii) review and approve the strategic plans of the State Service;
- (iv) employ and determine the terms and conditions of service including disciplinary measures of the employees of the State Service;
- (v) stipulate remuneration, allowances, benefits and pensions of staff and employees in consultation with the Governor;
- (vi) provide an amount of revenue collected, as may be approved by a State House of Assembly, which shall be retained by the State Service to defray cost of collection and administration;
- (vii) make recommendations, where appropriate, to the Unified Revenue Commission on tax policy, reform, legislation, treaties and tax exemption as may be required, from time to time; and
- (viii) do such other things which in its opinion are necessary to ensure efficient performance of the functions of the State Service under this Act.

- (d) Other issues relating to delegation of functions - section 91 (2) of NTAA

The State Board may, by notice in the gazette or in writing, authorise any person to:

- (i) perform or exercise on behalf of the State Board, any function, duty or power conferred on the State Board; and
- (ii) receive any notice or other document to be given or delivered to it or in consequence of this Act or any subsidiary legislation made under it.

- (e) Delegation of powers of the relevant State Board - section 98 of NTAA

Any power conferred or duty imposed under any provision of this Act or other tax laws upon the relevant Board, may be exercised or performed by the relevant

Board or by an officer authorised generally or specifically in that behalf by the Board.

The relevant Board may reverse or modify any decision of any officer, affecting any tax or taxable income, where such decision is discovered to have been made in error, not in accordance with the law or where such decision has been reviewed under dispute resolution and the reversal or modification.

- (f) **Technical Committee of the State Board**
- (i) **Establishment and composition of the Committee - section 92 of NTAA**
This section established the Technical Committee of the State Board, which comprises the:
- Executive Chairman of the State Board, as Chairman;
 - Directors within the State Service; and
 - Legal Adviser to the State Service.
- (ii) **Functions**
The Technical Committee shall:
- have powers to co-opt additional staff from within the State Service, in the discharge of its duties;
 - consider all matters that require professional and technical expertise and make recommendations to the State Board;
 - advise the State Board on all its powers and duties specifically mentioned in section 91 of this Act (functions of the State Board); and
 - attend to such other matters as may, from time to time, be referred to it, by the State Board.

2.4.7 State Internal Revenue Service (SIRS)

- (a) **Establishment of the State Internal Revenue Service - section 87 of NTAA**
Without prejudice to the power of the State Government with respect to the administration of the income tax of individuals, Pay-As-You-Earn, Stamp Duties, there is established for each State, the State Internal Revenue Service (State Service).

The State Service shall be autonomous in the day-to-day running of its financial, technical, professional and administrative affairs.

- (b) **Functions of the State Service - section 88 of NTAA**
The State Service shall:
- (i) assess individuals, estates, trusts and settlements, communities and families;
 - (ii) assess, collect, account and enforce payment of taxes as may be due to the State Government or any of its agencies;
 - (iii) collect, recover and remit to the designated account any tax under the provisions of this Act or any other enactment or law;
 - (iv) carry out examinations and investigations with a view to enforcing compliance with the provisions of this Act, in collaboration with the relevant law enforcement agencies; and
 - (v) carry out such other functions as may be prescribed by a law of the State House of Assembly.

- (c) Appointment of the Executive Chairman of the State Service - section 90 of NTAA

There shall be for the State Service an Executive Chairman, who shall be appointed by the State Governor, subject to confirmation by the State House of Assembly.

The Executive Chairman shall be:

- (i) the Chief Executive and Accounting Officer of the State Service;
- (ii) responsible for the execution of the policy and the day-to-day administration of the affairs of the State service; and
- (iii) a person with experience in taxation and a member of a relevant recognised professional body.

2.4.8 State Joint Revenue Committee (SJRC)

Section 95 of NTAA established the State Joint Revenue Committee for each state of the Federation.

- (a) Composition

It comprises:

- (i) the Executive Chairman of the State Service as the Chairman;
- (ii) the Chairmen of the Local Government Revenue Committees;
- (iii) a representative of the agency responsible for local government affairs, not below the rank of a Director;
- (iv) a representative of the Revenue Mobilisation Allocation and Fiscal Commission, as an observer;
- (v) the State Sector Commander of the Federal Road Safety Commission, as an observer;
- (vi) the Legal Adviser of the State Service; and
- (vii) the Secretary of the Committee who shall be a staff of the State Service.

- (b) Functions - section 96 of NTAA

The functions of the Joint State Revenue Committee shall be to:

- (i) implement the decisions of the Joint Revenue Board;
- (ii) advise the Joint Revenue Board and the State and Local Governments on revenue matters;
- (iii) harmonise tax administration in the State;
- (iv) enlighten members of the public generally on State and Local Government revenue matters; and
- (v) carry out such other functions as may be assigned to it by the Joint Revenue Board.

2.4.9 Local Government Revenue Committee - section 93 of NTAA

This section established Local Government Revenue Committee (LGRC), for each local government area of a State.

- (a) Composition - section 93 (2) of NTAA

The Local Government Revenue Committee (LGRC) shall comprise:

- (i) the Local Government Supervisor for Finance, as Chairman;
- (ii) three local government councillors as members; and
- (iii) two other persons experienced in revenue matters to be nominated by the Chairman of the Local Government on their personal merits.

(b) Functions - section 94 of NTAA

The Committee shall be responsible for the assessment and collection of all taxes, fines and rates, under its jurisdiction and shall account for all amounts so collected, in a manner to be prescribed by the local government.

The Revenue Committee shall be autonomous of the local government treasury and shall be responsible for the day-to-day administration of the Department, which forms its operational arm.

2.5 Jurisdictions of the tax authorities - section 3 of NTAA

2.5.1 The Nigeria Revenue Service (the Service) established under section 3(1) of the Nigeria Revenue Service (Establishment) Act, 2025, shall:

- (a) have exclusive responsibility to administer taxes:
 - (i) on companies;
 - (ii) on persons employed in the Nigerian Army, the Nigerian Navy, the Nigerian Air Force, the Nigeria Police Force, other than in a civilian capacity;
 - (iii) on officers of the Nigerian Foreign Service;
 - (iv) on non-resident persons who derive profit or income from Nigeria or any income derived from employment in Nigeria by a person, not being a resident of any State in Nigeria; and
 - (v) as contained in this Act, including development levy, tax payable by non-resident persons, tax to be paid by companies carrying out specialised trade or business as contained in this Act, tax of income from petroleum operations, value added tax, economic development tax incentive, and exemption from value added tax.
- (b) have power to administer the following taxes:
 - (i) income tax;
 - (ii) taxation of income from petroleum;
 - (iii) stamp duties;
 - (iv) value added tax; and
 - (v) tax incentives.
- (c) exercise such other powers and functions conferred on it by this Act, the Nigeria Revenue Service (Establishment) Act, and any other law as may be enacted by the National Assembly.

2.5.2 According to section 3(2) of NTAA, the relevant tax authority in a State or the Federal Capital Territory, shall under the First Schedule to this Act, be responsible for:

- (a) the administration of taxes for resident individuals in respect of:
 - (i) imposition of tax on income, profits or gains;
 - (ii) ascertainment of profits and income;
 - (iii) ascertainment of assessable profits and income;
 - (iv) ascertainment of total income;
 - (v) ascertainment of chargeable gains;
 - (vi) rates of tax;subject to subsection 2.5.1(a) (ii) - (iv); and
- (b) exercising such other powers and functions conferred on it under any tax law enacted by the National Assembly.

A tax authority, with the approval of the relevant government, may authorise another tax authority to administer taxes within its jurisdiction on its behalf, on such terms as they may agree.

For the purpose of the administration of taxes, the relevant tax authority may do such things as it deems necessary and expedient for the assessment and collection of taxes and shall account for all taxes so collected in accordance with the provisions of this Act, the Nigeria Tax Act and any other law enacted by the National Assembly or a State House of Assembly.

2.6 Taxes and levies imposed and collectible by each tier of government

2.6.1 Taxes collectible by the Federal Government - section 3(1) of NTAA

- (a) Companies income tax
- (b) Withholding tax on companies and non-resident individuals
- (c) Hydrocarbon tax
- (d) Value added tax
- (e) Stamp duties
- (f) Federal development levy
- (g) Economic development tax incentives
- (h) Personal income tax on:
 - (i) members of the armed forces of the Federation of Nigeria;
 - (ii) members of the Nigerian Police Force; and
 - (iii) staff of the Ministry of External Affairs and non-resident individuals.

2.6.2 Taxes and levies collectible by state governments and local governments

Concerted efforts are being put in place to ensure that the model Tax Harmonisation Law developed by the Presidential Fiscal Policy and Tax Reforms Committee, in collaboration with the Joint Revenue Board, are adopted by States and Local Governments. States are expected to domesticate this law which should be passed by the States House of Assembly.

It should be stated that the Taxes and Levies (Approved List for Collection) Act, Cap. T2 LFN 2004 is yet to be repealed or consequentially amended by sections 195 and 196 of the NTA, 2025.

When the States Harmonised Taxes and Levies (Approved List for Collection) Bill, 2025, is fully passed into law by the States House of Assembly, the taxes and levies that are collectible by the States and Local Governments are as follows:

- (a) States
 - The taxes to be collected by the States are as follows:
 - (i) income tax;
 - (ii) stamp duties;
 - (iii) property tax;
 - (iv) road tax;
 - (v) haulage levy; and
 - (vi) economic development levy.
- (b) Local Governments
 - The levies and charges to be collected by the Local Governments are as follows:
 - (i) harmonised levy covering, shops, slaughter slab fee, motor parks, domestic animal fee, bicycles, trucks, canoes, wheelbarrows and carts;
 - (ii) liquor licences;
 - (iii) TV/radio fees and other levy payable to the Local Government;

- (iv) user charge covering, marriage, birth and death registration fees, naming of streets fees, signage and mobile advertisements, sewage and refuse disposal fees, burial ground permit fees, religious places establishment fees and wharf landing charge; and
- (v) daily ticketing covering, all market levies, including transporters' tickets.

2.7 Tax Appeal Tribunal

2.7.1 Establishment of Tax Appeal Tribunal - section 23 of JRBA, 2025

- (a) Pursuant to Section 23 of JRBA, 2025, there shall be established a Tax Appeal Tribunal (hereinafter referred to as "the Tribunal") to exercise the jurisdiction and powers to settle any tax dispute and controversy arising from the administration of this Act or any other laws made by the National Assembly
- (b) The Minister may by notice in the Federal Gazette specify the number of zones, matters and places in relation to which the Tribunal may exercise jurisdiction.

2.7.2 Composition of the Tribunal - section 24 of JRBA

- (a) A Tribunal shall consist of five members (hereinafter referred to as "Tax Appeal Commissioners") to be appointed by the Minister;
- (b) There shall be a Chairman for each zone who shall be a legal practitioner qualified to practice for a period of not less than ten (10) years with cognate experience in tax legislation and tax matters.
- (c) The Chairman shall preside at every sitting of the Tribunal and in his absence; the members shall appoint one of them to be the Chairman.
- (d) The quorum at any sitting of the Tribunal shall be three members.

2.7.3 Qualification of a Tax Appeal Commissioner - section 25 of JRBA

A person shall be qualified for appointment as a Tax Appeal Commissioner if the person:

- (a) has requisite qualification from a recognised institution, with at least 10 years cognate experience in law, accounting, business administration, finance, economics or taxation; or
- (b) is a retired public servant, with at least 10 years' experience in tax administration; or
- (c) is a member of the organised private sector.

For the purpose of this section, "*organised private sector*" means registered business association in Nigeria.

2.7.4 Term of office - section 26 of JRBA

A Tax Appeal Commissioner shall hold office for a term of three years, renewable for another term of three years only and no more.

2.7.5 Cessation of office - section 27 of JRBA

A person shall cease to be a Tax Appeal Commissioner, where the person:

- (a) reaches the age of 70 years;
- (b) resigns by giving three months' notice, addressed to the Minister or until a person duly appointed as his successor assumes his office, whichever is earlier;
- (c) becomes incapable of carrying on the functions of the office arising from an infirmity of mind or body;
- (d) is convicted of a felony or of any offence involving dishonesty or fraud;
- (e) is removed from office by the Minister on grounds of public interest or in the interest of the Tribunal;
- (f) has been found guilty of gross misconduct in relation to the duties of the office; or
- (g) is disqualified from professional qualification by a professional body by virtue of

which the person qualified for the appointment.

2.7.6 Remuneration and conditions of service of Tax Appeal Commissioners – section 31 of JRBA

The salary and allowances payable to and the terms and conditions of service of Tax Appeal Commissioners shall be determined by the Revenue Mobilisation Allocation and Fiscal Commission and shall be prescribed in their letters of appointment, provided that neither the salaries and allowances nor the other terms and conditions of service of a Tax Appeal Commissioner shall be varied to their disadvantage after appointment.

2.7.7 Jurisdiction of the Tribunal, etc. - section 29 of JRBA

- (a) The Tribunal shall have power to adjudicate on tax disputes, and controversies arising from Nigeria Tax Act and Nigeria Tax Administration Act or any tax law made by the National Assembly of the House of Assembly of a State.
- (b) The Tribunal shall apply such provisions of the tax laws referred to in subsection 2.8.7(a) above, as may be applicable in the determination or resolution of any dispute or controversy before it.

2.7.8 Powers and procedures of the Tribunal - paragraph 13 of the Second Schedule to JRBA

- (a) The Tribunal may make rules regulating its procedures.
- (b) The Tribunal shall, for the purpose of performing its functions under this Schedule, have power to:
 - (i) summon and enforce the attendance of any person and examine him on
 - (ii) oath;
 - (iii) require the discovery and production of documents;
 - (iv) receive evidence on affidavits;
 - (v) call for the examination of witnesses or documents;
 - (vi) review its decisions;
 - (vii) dismiss an application for default or deciding matters exparte;
 - (viii) set aside any order or dismissal of any application for default or any order passed by it exparte; and
 - (ix) do anything which in the opinion of the Tribunal is incidental or ancillary to its functions under this Act.

2.8 Disclosure of tax planning - section 30 of NTAA

Any taxpayer who enters or intends to enter into any transaction or agreement, referred to as a disclosable transaction or agreement, whose principal purpose is a benefit which enables, or might be expected to enable, such a person to obtain a tax advantage, shall without notice or request, provide to the relevant tax authority, information relating to that disclosable transaction or agreement.

The relevant tax authority may make regulations specifying:

- (a) the information to be provided by a person in relation to a disclosable transaction or agreement;
- (b) the form and manner of delivery of that information to the relevant tax authority;
- (c) the period of time within which the information referred to in paragraph (1) of this section shall be provided to the relevant tax authority; and
- (d) administrative penalties for non-disclosure, false disclosure, incomplete disclosure or late disclosure.

Whilst "transaction" includes course of action, agreement, scheme or arrangement, it is apposite to state that "tax advantage" means:

- (a) a relief or increased relief from tax;

- (b) repayment or increased repayment of tax;
- (c) avoidance or reduction of a charge to tax or an assessment to tax;
- (d) avoidance of a possible assessment to tax;
- (e) deferral of a payment of tax or advancement of a repayment of tax; or
- (f) avoidance of an obligation to deduct or account for tax.

2.9 Accreditation of tax agents - section 33 of NTAA

- (a) In order to comply with this Act or any other law, a taxpayer may either represent itself or be represented by a tax agent accredited by the relevant tax authority.
- (b) The requirements for accreditation shall be set out by the relevant tax authority.
- (c) No return shall be deemed as duly filed except filed by the taxpayer or an accredited tax agent on behalf of the taxpayer.
- (d) Tax returns shall be accompanied by a declaration or attestation, in the case of:
 - (i) a taxpayer, that the information supplied is true and complete; and
 - (ii) a tax agent, that he has exercised appropriate technical competence, and applied the highest standard of ethics and professional conduct.

2.10 Prohibited tax avoidance arrangement - section 47 of NTAA

- (a) A prohibited tax avoidance arrangement may be counteracted by the relevant tax authority by way of adjustments, disregarding, or re-characterising the arrangement through an assessment, the modification of an assessment, amendment or disallowance of a claim or otherwise, in part or whole, unless the taxable person proves, to the satisfaction of the relevant tax authority, that granting that benefit in these circumstances would be in accordance with the object and purpose of the relevant provisions of this Act or any other tax law.
- (b) For the purpose of this section of the Act, prohibited tax avoidance arrangement means any arrangement where, having regard to the facts and circumstances, it is reasonable to conclude that;
 - (i) the main purpose of the arrangements was to obtain a tax benefit or advantage;
 - (ii) obtaining the tax advantage is contrary to the object and purpose of the provisions of this Act or any other tax law;
 - (iii) it results, directly or indirectly, in the misuse, or abuse, of the provisions of this Act or any other tax law; or
 - (iv) it lacks commercial substance or coherence in whole or in part.
- (c) To be more explicit, "tax benefit or advantage" includes a relief or increased relief from tax, avoidance of possible assessment to tax, etc. as stated in section 2.9 above; whilst "arrangement" includes any agreement, understanding, scheme, transaction or series of transactions, whether or not legally enforceable.

2.11 Exchange of information and joint audits - section 48 of NTAA

The relevant tax authorities have the prerogative to exchange relevant information with each other for ensuring compliance with the provisions of this Act.

Where any tax authority discovers non-compliance in the course of audit of any tax accruing to another tax authority, it shall refer such non-compliance to, or invite that other tax authority for a joint audit.

2.12 Establishment of national single window portal - section 83 of NTAA

- (a) The Service has the right to establish and operate a National Single Window Portal to enhance revenue assurance, streamline import and export processes, facilitate international transit operations, for the purpose of ensuring efficiency and transparency in trade and revenue administration.
- (b) The Window shall be used as a single-entry point and platform for any person involved in import, export, trade and transit processes to:

- (i) digitalisation of economies in trade, lodge documents electronically, including import or export documents for licensing, processing and approval;
 - (ii) make payment of fees and levies due on goods imported or exported, and for other transactions, submitted through the Window; or
 - (iii) provide relevant data or information in respect of the import, export, trade or transit.
- (c) The Service is empowered to make regulations for the administration of this section, including administrative charges on all processes and payments made on the Portal.

2.13 Powers of a relevant tax authority to deploy technology to automate tax administration - section 71 of NTAA

A relevant tax authority is empowered to deploy technology to automate tax administration processes, including tax assessment, collection, accounting and information gathering.

A relevant tax authority can deploy any technology, including third party payment processing platform or computer application to collect or remit taxes due on the supply of digital services to any person in Nigeria, whether or not such supply originates from within or outside Nigeria, provided that nothing in this subsection shall be construed as empowering the tax authority of a State to collect tax from a non-resident or in respect of cross-border transactions.

2.14 Endorsement of transaction by the Chairman of a relevant tax authority - section 70 of NTAA

Anything done or required to be done by the relevant tax authority under this Act or any other tax law shall be endorsed by the Chief Executive Officer or any other authorised officer of the relevant tax authority.

2.15 Power of the President to exempt companies from income tax -section 78 of NTAA

The President shall, subject to the approval of the National Assembly, exempt from income tax:

- (a) any company or class of companies; or
- (b) any profits of any company or class of companies from any source, on any ground which appears to be sufficient, provided that the order is published in the Official Gazette to the company or the class of companies

2.16 Obligations during the pendency of legal proceedings - section 86 of NTAA

Except as may be ordered by a Court or Tribunal of competent jurisdiction, the pendency of a legal proceeding cannot affect the performance of the duties or obligations of any taxable person under this Act or any other tax law.

2.17 Power of the relevant authority to compound offences -section 138 of NTAA

- (a) The relevant tax authority is empowered to compound any offence under this Act by accepting a sum of money not exceeding the tax liability and maximum fine specified for the offence.
- (b) The relevant tax authority shall issue an official receipt for any money received under (a) above.
- (c) Any offence compounded under (a) above does not constitute conviction.

2.18 Power of the relevant tax authority to prosecute any of the offences under

the Act - section 139 of NTAA

The relevant tax authority is empowered to employ its own legal officers who shall have powers to prosecute any of the offences under this Act, subject to the powers of the Attorney-General of the Federation or State in any court in Nigeria.

Notwithstanding any administrative penalty or interest imposed under this Act or any other tax law, the relevant tax authority shall have powers to prosecute any person for an offence specified under the relevant provisions of this Act.

2.19 Place of an offence - section 140 of NTAA

An offence under this Act shall be deemed to occur in the place where the taxable person is registered or resident or at such other place as the relevant tax authority may decide.

2.20 Chapter review

This chapter identifies the organs of tax administration as well as the composition and functions of the Nigeria Revenue Service, State Internal Revenue Service, Joint Revenue Board, Federal and State Technical Committees.

It also discusses taxes being imposed and collectible by the 3-tiers of government.

2.21 Worked examples

2.21.1 Questions

- (1) The administration of taxation in Nigeria is vested in various tax authorities depending on the type of tax under consideration.

Required:

Explain the:

- (a) composition and powers of the Nigeria Revenue Service Board (NRSB)
 - (b) composition and functions of the Board of the State Service
- (2) The Joint Revenue Board was established by section 3 of the Joint Revenue Board of Nigeria, 2025.

Required:

Explain the composition and functions of the Joint Revenue Board and state what constitutes a quorum in the Board's meeting.

- (a) Explain the composition of the Technical Committee of the Nigeria Revenue Service Board.
 - (b) Explain three powers and duties of the Technical Committee of the Nigeria Revenue Service Board.
- (3) In order to assist the NRS in the performance of its duties, provision is made in section 14 of NRSA for the setting up of a Committee of the Board to be known as "the Technical Committee".

Required:

- (a) Explain the composition of the Technical Committee of the Nigeria Revenue Service Board.
 - (b) Explain three powers and duties of the Technical Committee of the Nigeria Revenue Service Board.

2.21.2 Suggested solutions to questions

- (1) (a) **Composition of the NRSB - section 7 of NRSA**

The Nigeria Revenue Service Board comprises:

- (i) the Chairman, who shall be the Executive Chairman of the Service appointed by the President subject to confirmation of the Senate;
 - (ii) the following ex-officio members:
 - a representative of the Minister responsible for Finance not below the rank of a Director;

- a representative of the Minister responsible for National Planning not below the rank of a Director;
- a representative of the Attorney-General of the Federation not below the rank of a Director;
- a representative of the Minister responsible for Petroleum and Gas Resources not below the rank of a Director;
- the Governor of the Central Bank of Nigeria or a representative not below the rank of a Deputy Governor;
- the Chairman of the Revenue Mobilisation, Allocation and Fiscal Commission or a representative who shall be a Commissioner representing one of the States of the Federation;
- the Comptroller-General of the Nigeria Custom Service or a representative not below the rank of Deputy Comptroller-General;
- the Registrar-General of the Corporate Affairs Commission or a representative not below the rank of a Director; and
- Executive Directors appointed by the President under this Act.

All members of the Board, except the Executive Chairman, and the Executive Directors shall serve on a part-time basis.

Powers of NRSB - section 8 of NRSA

The Board shall:

- (i) provide general policy guidelines relating to the functions of the Service;
- (ii) evaluate the implementation of the policies of the Service on matters relating to the assessment, collection and accounting system under this Part or any other law;
- (iii) review and approve the strategic plans of the Service;
- (iv) employ staff, and determine the terms and conditions of service, including disciplinary measures, of the employees of the Service;
- (v) stipulate remunerations, allowances, benefits and pensions of the staff and employees;
- (vi) with the approval of the Minister, make rules and issue regulations as, in its opinion, are necessary or expedient for giving effect to the provisions of this Part and for the administration of its provisions and such rules and regulations shall provide compliance requirements and may include consequences for non-compliance;
- (vii) assign each Executive Director a directorate as appropriate; and
- (viii) do such other things which, in its opinion, are necessary to ensure the efficient performance of the functions of the Service under this section.

(b) Composition of the management board of a State Service - section 89(2) of NTAA

- (i) the Executive Chairman of the State Service, who shall be the Chairman of the State Board;
- (ii) directors from within the State Service;
- (iii) a director from the State Ministry of Finance;
- (iv) three other persons appointed by the State Governor on their personal merit, each representing a Senatorial District in the State, who shall possess relevant experience and knowledge in taxation and other related fields; and
- (v) the Legal Adviser to the State Service, who shall serve as Secretary to the Board.

Functions of the management board of a State Service - section 91 of NTAA

- (i) provide general policy guidelines relating to the functions of the State Service;
- (ii) manage and superintend policies of the State Service on matters relating to the administration of the revenue assessment, collection and accounting system under this Act or any other law;
- (iii) review and approve the strategic plans of the State Service;
- (iv) employ and determine the terms and conditions of service including disciplinary measures of the employees of the State Service;
- (v) stipulate remuneration, allowances, benefits and pensions of staff and employees in consultation with the Governor;
- (vi) provide an amount of revenue collected, as may be approved by a State House of Assembly, which shall be retained by the State Service to defray cost of collection and administration;
- (vii) make recommendations, where appropriate, to the Unified Revenue Commission on tax policy, reform, legislation, treaties and tax exemption as may be required, from time to time; and
- (viii) do such other things which in its opinion are necessary to ensure efficient performance of the functions of the State Service under this Act.

The State Board may, by notice in the Gazette or in writing, authorise any person to:

- (i) perform or exercise on behalf of the State Board, any function, duty or power conferred on the State Board; and
- (ii) receive any notice or other document to be given or delivered to or in consequence of this Act and any subsidiary legislation made under it.

(2) Composition of the Joint Revenue Board - section 4 (1) of JRBA

The Board shall comprise:

- (a) the Chairman, who shall be the Executive Chairman of the Nigeria Revenue Service; and
- (b) the Chairman of each State Internal Revenue Service and the Federal Capital Territory Internal Revenue Service.

The following persons shall be *ex-officio* members of the Board:

- (a) a representative of the Minister of Finance not below the rank of a Director;
- (b) the Director-General of the National Identity Management Commission or representative not below the rank of a Director;
- (c) the Chairman of the Revenue Mobilisation, Allocation and Fiscal Commission or its representative not below the rank of a Director;
- (d) the Comptroller-General of the Nigerian Immigration Service or a representative not below the rank of Assistant Comptroller- General;
- (e) the Corps Marshall of the Federal Road Safety Corps or its representative not below the rank of an Assistant Corps Marshall;
- (f) the Comptroller-General of the Nigeria Customs Service or its representative not below the rank of an Assistant Comptroller-General; and
- (g) a representative of the Nigeria Revenue Service not below the rank of a Director.

Notwithstanding the provisions of subsection (1), the Board can co-opt any person, body or agency on a need basis not exceeding two persons.

Quorum - paragraph 4 of the First Schedule to Joint Revenue Board of Nigeria (Establishment) Act, 2025

The quorum of nay meeting of the Board shall be one-third of members, including the Chairman of the Board.

Functions of the Joint Revenue Board - section 5 of JRBA

The Board shall:

- (a) integrate and maintain a database of Taxpayer Identification Numbers for every taxable person in Nigeria in collaboration with the Nigeria Revenue Service, State Internal Revenue Service, Local Government Revenue Committee and other relevant government agencies;
- (b) resolve disputes between various tax authorities on the issue of determination of residency;
- (c) advise government on double taxation matters within Nigeria, and in respect of double taxation arrangements concluded or under consideration with any other country, including other taxation matters having effect throughout Nigeria;
- (d) resolve disputes between different tax authorities;
- (e) maintain a platform for revenue data collection, integration and exchange of information among the various tax authorities in Nigeria;
- (f) promote harmonisation of taxes, levies, rates, charges and other payments and ensure uniformity in revenue administration across Nigeria;
- (g) advise the Federal and State Governments on introduction of new taxes and changes to existing ones;
- (h) provide periodic impact analysis with recommendations on tax framework and capacity building for all tiers of Government;
- (i) collaborate with relevant agencies to carry out surveys, ascertain and publish relevant tax indices and statistics;
- (j) recommend, participate, facilitate or initiate fiscal and tax policy reform in collaboration with relevant bodies;
- (k) receive, collate, analyse and publish periodic tax revenue collected by all tax authorities;
- (l) receive, collate, analyse and publish tax expenditure on account of tax waivers, exemptions or incentives granted by each government;
- (m) collaborate with tax authorities to undertake or support research or similar measures with a view to stimulating economic development and determine the manifestation, extent, magnitude and effects of tax fraud, evasion or other matters that affect effective tax administration and make recommendations to the Government on appropriate intervention and preventive measures;
- (n) provide guidance for the accreditation of tax agents by the relevant tax authorities in accordance with the relevant laws; and
- (o) carry out any other function as may be assigned to it by an Act of the National Assembly.

(3) (a) Composition of the Technical Committee of NRSB - section 14 of NRSA

The Committee comprises:

- i. the Executive Chairman as the Chairman;
- ii. two members of the Board of the Service;
- iii. the Executive Directors in the Service;

- iv. the Director Legal of the Service as appointed by the Board; and
- v. the Director in charge of Tax Policy matters.

The Secretary to the Board shall be the Secretary to the Technical Committee.

The Technical Committee may co-opt, from the Service, such director or officer as it may deem necessary for the effective performance of its functions under this Act.

(b) Functions of the Technical Committee of Nigeria Revenue Service Board - section 15 of NRSA

The functions of the committee are to:

- i) consider all tax matters that require professional and technical expertise and make recommendations to the board;
- ii) advise the Board on any aspect of the functions and powers of the Service under this Act; and
- iii) attend to such other matters as may from time to time be referred to it by the Board.

ROLES AND RELATIONSHIPS AMONGST FISCAL POLICY, TAX LEGISLATION, AND TAX ADMINISTRATION

Contents

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3 Roles and Relationships Amongst Fiscal Policy, Tax Legislation, and Tax Administration

3.0 Learning objective

The objective of this chapter is to enhance the readers' knowledge of the concepts of fiscal policy, tax legislations, and tax administration, with a view to understanding the roles and relationships amongst the concepts.

3.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- a) explain the concepts of fiscal policy, tax legislations, and tax administration;
- b) explain the roles and objectives of each concept;
- c) identify the tools in use;
- d) evaluate the impact of fiscal policy decisions on tax revenue and economic growth;
- e) assess the importance of explicit tax legislations in supporting tax administration; and
- f) appreciate the interconnected relationships amongst the concepts.

3.2 Fiscal policy

3.2.1 Definition

Fiscal policy refers to the use of government spending and taxation to influence the overall level of economic activity, employment, and inflation. It is a tool used by governments to manage the economy and achieve economic goals.

3.2.2 Objectives/roles

- a) The objectives (goals) of fiscal policy include:
 - i) Economic growth: stimulating economic growth through government spending and taxation policies through jobs creation, improving productive capacity by investing in infrastructure, education, technology, etc;
 - ii) Price stability: controlling inflation and maintaining stable prices;
 - iii) Full employment: promoting job creation and reducing unemployment;
 - iv) Reducing income inequality: redistributing income and wealth through progressive taxation and social welfare programs.
- b) The roles of fiscal policy include:
 - (i) Stabilising the economy: fiscal policy helps to stabilise the economy during times of recession or inflation;
 - (ii) Allocating resources: fiscal policy influences the allocation of resources between different sectors of the economy;
 - (iii) Redistributing income: fiscal policy can reduce income inequality through progressive taxation and social welfare programmes;
 - (iv) Providing public goods and services: fiscal policy enables the government to provide essential public goods and services, such as infrastructure, education, and healthcare;
 - (v) Crisis management: fiscal policy can help mitigate the impact of economic crises;
 - (vi) Long-term growth: fiscal policy can promote long-term economic growth through investments in human capital, infrastructure, and research; and
 - (vii) Social welfare: fiscal policy can support social welfare programmes, such as unemployment benefits and social security.

Overall, fiscal policy plays a crucial role in managing the economy, promoting economic growth, and achieving social objectives.

3.2.3 Tools of fiscal policy

(a) Government spending

- (i) Infrastructure spending on roads, bridges, and public transportation.
- (ii) Social welfare spending: providing benefits for low-income individuals, the elderly, and others in need.
- (iii) Education and healthcare spending: investing in public education and healthcare systems.
- (iv) Defence spending: allocating funds for military personnel, equipment, and operations.

(b) Taxation

- (i) Income taxes: taxing incomes of individuals and businesses.
- (ii) Sales taxes: taxing goods and services.
- (iii) Property taxes: taxing real estate and other property.
- (iv) Tariffs: taxing imported goods.

(c) Other tools

- (i) Transfer payments: providing financial assistance to individuals or businesses.
- (ii) Subsidies: providing financial support to specific industries or businesses.
- (iii) Tax credits: reducing tax liability for individuals or businesses.

These tools can be used to influence the overall level of economic activity, employment, and inflation

3.2.4 Impact of fiscal policy on the tax system and economy

Fiscal policy can have a significant impact on the tax system, including:

a) Tax revenue

- i) Increased tax revenue: fiscal policy can increase tax revenue through increased economic activity or tax rate changes.
- ii) Reduced tax revenue: fiscal policy can reduce tax revenue through tax cuts or decreased economic activity.

b) Tax structure

- i) Progressive taxation: fiscal policy can implement progressive taxation, where higher-income individuals are taxed at higher rate.
- ii) Regressive taxation: fiscal policy can implement regressive taxation, where lower-income individuals are taxed at higher rates relative to their income.

c) Tax incentives

- i) Tax credits: fiscal policy can offer tax credits to encourage specific behaviours or investments.
- ii) Tax deductions: Fiscal policy can offer tax deductions to reduce taxable income.

d) Economic impact

- i) Economic growth: fiscal policy can stimulate economic growth through tax cuts or increased government spending.
- ii) Inflation: fiscal policy can influence inflation rates through changes in aggregate demand.

e) Distributional impact

- i) Income redistribution: fiscal policy can redistribute income through progressive taxation and social welfare programmes.
- ii) Tax burden: fiscal policy can shift the tax burden amongst different groups, such as individuals and businesses.

Overall, fiscal policy can significantly impact the tax system, influencing tax revenue, structure, incentives, and economic outcomes.

3.3 Tax legislations

3.3.1 Definition

The body of laws, regulations and guidelines as regards imposition, assessment, collection, and administration of taxes in Nigeria is referred to as Nigerian tax legislation. These are laws that lay down what individuals, businesses and the government agencies are mandated to do with regards to taxation.

3.3.2 Types

Types of tax legislations include:

- (a) Income tax laws: govern the taxation of individuals and businesses on their incomes.
- (b) Value added tax (VAT) laws: govern the taxation of goods and services.
- (c) Property tax laws: govern the taxation of real property.
- (d) Estate and gift tax laws: govern the taxation of inheritances and gifts.

3.3.3 Objectives/roles

a) Revenue generation

- i) Funding government activities: tax legislations aim to generate revenue for the government to fund its activities and provide public goods and services.
- ii) Supporting economic development: tax revenue can be used to support economic development projects and initiatives.

b) Economic regulation

- i) Influencing economic behaviour: tax legislation can influence economic behaviour by providing incentives or disincentives for certain activities.
- ii) Regulating economic activities: tax legislations can regulate economic activities by imposing taxes on certain goods or services.

c) Social objectives

- i) Redistributing income: tax legislation can redistribute income from high-income individuals to low-income individuals through progressive taxation.
- ii) Promoting social welfare: tax legislation can promote social welfare by providing tax benefits for certain activities, such as charitable donations.

d) Administrative efficiency

- i) Simplifying tax compliance: tax legislation aims to simplify tax compliance and reduce administrative burdens.
- ii) Ensuring tax fairness: tax legislation aims to ensure tax fairness and equity by treating taxpayers consistently.

e) Other objectives

- i) Encouraging investment: tax legislation can encourage investment by providing tax incentives for certain activities.
- ii) Discouraging harmful activities: tax legislation can discourage harmful activities, such as smoking or pollution, by imposing taxes on them.

Overall, tax legislations play a crucial role in supporting the economy, promoting social welfare, and generating revenue for the government.

3.3.4 Key components

- (a) Tax rates: specify the rates at which taxes are levied.
- (b) Tax bases: define the income, goods, or services subject to taxation.
- (c) Tax exemptions: specify the types of income, goods, or services exempt from taxation.
- (d) Tax credits: allow taxpayers to reduce their tax liabilities by a specified amount.
- (e) Tax deductions: allow taxpayers to reduce their taxable income by specified expenses.

3.3.5 Tax legislative process

- (a) Proposal: a tax bill is proposed by the government or a member of the legislature (National Assembly).
- (b) Debate: the tax bill is debated by the legislature
- (c) Vote: the tax bill is voted on by the legislature.
- (d) Assent: the tax bill is signed into law by the President.
- (e) Implementation: the tax law is implemented by the tax authorities.

3.3.6 Importance of tax legislation

- (a) Revenue generation: tax legislation provides the framework for revenue generation.
- (b) Economic growth: tax legislation can influence economic growth by encouraging investment and job creation.
- (c) Fairness and equity: tax legislation can promote fairness and equity by redistributing wealth and income.
- (d) Taxpayer compliance: tax legislation provides the framework for taxpayer compliance and enforcement.

3.3.7 Impact of tax legislation on the tax system and economy

- (a) **Increasing revenue generation:** Nigerian tax laws, such as the Nigeria Tax Act, 2025, Petroleum Industry Act, 2021, etc. have expanded the tax base, increasing government revenue. For instance, Value Added Tax (VAT) was increased from 5% to 7.5% in 2020, leading to higher collections.
- (b) **Improving tax compliance:** the introduction of digital tax payment systems and initiatives, like the voluntary assets and income declaration scheme (VAIDS) has encouraged compliance. The use of the taxpayer identification (Tax ID) for banking transactions also helps in tracking taxpayers.
- (c) **Simplifying and modernising:** legislations, such as the Nigeria Tax Act, 2025, have restructured outdated tax laws, aligning them with international best practices. The introduction of the electronic money transfer levy also reflects a shift towards taxing digital transactions.
- (d) **Addressing tax evasion and avoidance:** new laws target multinational corporations, ensuring they pay appropriate taxes. The adoption of the significant economic presence (SEP) rule now mandates foreign digital service providers (like Netflix and Facebook) to pay taxes in Nigeria.

3.3.8 Impact on the Nigerian economy

- (a) **Enhancing economic diversification:** tax laws have played a role in reducing reliance on oil revenue by increasing non-oil tax collection, particularly through VAT and companies income tax (CIT).
- (b) **Encouraging foreign direct investment (FDI):** while tax incentives attract investors, inconsistent tax policies and multiple taxation challenges sometimes deter FDI. The economic development tax incentives which grant tax holidays, have been a key tool in attracting new investments.
- (c) **Controlling inflation and cost of living:** higher taxes on essential goods and services, such as VAT increases, contribute to inflation. Businesses often pass tax burdens to consumers, raising the cost of living.
- (d) **Boosting small and medium enterprises (SMEs):** recent legislations, such as tax exemptions for small businesses earning below ₦100 million annually, supports SMEs.
- (e) **Boosting public sector development:** revenue from taxation funds infrastructure, healthcare, and education. However, inefficiencies in tax collection and corruption often limit the full potential of these funds.

3.4 Tax administration

3.4.1 Definition

Tax administration means the implementation and enforcing of the tax laws in a specific procedure that follows assessment, collection, and reporting of taxes to the government. Tax administration in Nigeria, therefore, refers to the series of activities by relevant tax authorities at the federal, state and local government

(LG) which aim at getting individuals and corporate organisations to fulfil their tax obligations.

It involves registering of taxpayers, processing returns, auditing and enforcing tax laws, helping in dispute resolution, running public awareness campaigns and adopting technology for efficiency. In Nigeria, State Internal Revenue Service (SIRS) is responsible for administration of state taxes, local government councils administer taxes in their own jurisdictions, while Nigeria Revenue Service NRS is responsible for administration of federal taxes.

3.4.2 Objectives/roles

(a) Objectives

- (i) **Ensuring tax compliance:** encouraging taxpayers to comply with tax laws and regulations.
- (ii) **Maximising tax revenue:** collecting the correct amount of tax revenue.
- (iii) **Promoting tax fairness:** ensuring that taxpayers are treated fairly and consistently.
- (iv) **Minimising tax evasion and avoidance:** prevent tax evasion and discourage avoidance.

(b) Roles

- (i) Tax collection: collecting taxes from individuals and businesses.
- (ii) Tax assessment: determining tax liabilities and ensuring accurate tax payments.
- (iii) Tax audit and enforcement: conducting audits and investigations to ensure compliance with tax laws.
- (iv) Taxpayer services: providing assistance and support services to taxpayers.
- (v) Tax policy implementation: implementing tax policies and laws.
- (vi) Education and awareness: educating taxpayers about tax laws and regulations.
- (vii) Risk management: identifying and managing tax risks.
- (viii) Data analysis: analysing tax data to identify trends and patterns.
- (ix) International cooperation: collaborating with other tax authorities from other jurisdictions to combat tax evasion and avoidance.

Effective tax administration is essential for a country's economic development and revenue generation.

3.4.3 Organs of tax administration

The organs of tax administration in Nigeria include:

(a) Federal level

Nigeria Revenue Service (NRS): responsible for collecting and administering federal taxes, such as income tax, value-added tax (VAT), and hydrocarbon tax.

(b) State level

State Internal Revenue Service (SIRS): responsible for collecting and administering state taxes, such as pay-as-you-earn (PAYE) tax and withholding tax, where applicable.

(c) Local government level

Local Government Revenue Committee (LGRC): responsible for collecting and administering local government taxes, such as harmonised levy.

(d) Other agencies

Joint Revenue Board (JRB): responsible for coordinating tax administration amongst federal, state, and local governments.

In addition to the above, the National Assembly is responsible for making tax laws and policies. These organs work together to ensure effective tax administration and revenue generation in Nigeria.

3.4.4 Tax jurisdictions

In Nigeria, tax jurisdictions refer to the different levels of government that have the authority to collect taxes. These include:

(a) Federal Government

The Nigeria Revenue Service (NRS) collects federal taxes, such as:

- i. companies income tax: tax on companies' profits;
- ii. value-added tax (VAT): tax on goods and services;
- iii. hydrocarbon tax: tax on oil and gas companies' profits; and
- iv. withholding tax: tax on certain types of income, such as dividends and interest.

(b) State governments

State Internal Revenue Service (SIRS) collects state taxes, such as:

- i. Pay-as-you-earn (PAYE) tax: Tax on employees' income;
- ii. Withholding tax: Tax on certain types of income, such as rents and royalties; and
- iii. Stamp duties: Tax on certain documents, such as receipts and agreements;

(c) Local governments

Local Government Revenue Committee (LGRC) collects local government taxes, such as:

- i. harmonised levy;
- ii. user charge; and
- iii. daily ticketing.

Each level of government has its own tax jurisdiction and collects taxes accordingly.

3.5 Impact of the tax system on the economy

The tax system can have a significant impact on the economy, as follows:

a) Positive impact

- i. Revenue generation: taxes provide revenue for government to fund public goods and services.
- ii. Economic stabilisation: taxes can help stabilise the economy by reducing inflation or stimulating economic growth.
- iii. Redistribution of income: taxes can redistribute income from high-income individuals to low-income individuals through progressive taxation.

b) Negative impact

- i. Economic inefficiency: taxes can create economic inefficiencies by distorting market incentives and reducing economic growth.
- ii. Tax evasion and avoidance: taxes can lead to tax evasion and avoidance, reducing tax revenue and increasing inequality.
- iii. Inflation: taxes can contribute to inflation, if they increase the cost of production and consumption.

c) Other impacts

- i. Investment and entrepreneurship: taxes can influence investment and entrepreneurship by affecting the after-tax return on investment.
- ii. Labour market: taxes can affect the labour market by influencing the supply of labour and the demand for labour.
- iii. Business competitiveness: taxes can affect business competitiveness by increasing the cost of doing business.

Overall, the tax system can have a significant impact on the economy, so policymakers must carefully consider the potential impacts when designing tax policies.

3.6 Interconnected relationships amongst fiscal policy, tax legislation, and tax administration

In Nigeria, fiscal policy, tax administration, and tax legislation interact in the following ways:

3.6.1 Fiscal policy and tax administration

- a) Implementing fiscal policy: tax administration plays a crucial role in implementing fiscal policy by collecting
- b) taxes and managing tax revenue.
- c) Achieving fiscal objectives: effective tax administration helps achieve fiscal policy objectives, such as revenue generation, economic stabilisation, and redistribution of income.

3.6.2 Tax legislation and tax administration

- a) Providing legal framework: tax legislation provides the legal framework for tax administration, outlining tax laws, rates, and procedures.
- b) Guiding tax administration: tax legislation guides tax administration in collecting taxes, conducting audits, and enforcing tax laws.

3.6.3 Fiscal policy and tax legislation

- a) Influencing tax policy: fiscal policy influences tax legislation, and policymakers use tax laws to achieve fiscal policy objectives.
- b) Shaping tax structure: fiscal policy shapes the tax structure, including tax rates, exemptions, and deductions.

3.6.4 Interactions in practice

- a) Tax revenue collection: tax administration collects taxes based on tax legislation, which in turn supports fiscal policy objectives.
- b) Tax policy implementation: tax administration implements tax policies, such as tax incentives or tax holidays, as outlined in tax legislation.
- c) Economic impact: the interactions between fiscal policy, tax administration, and tax legislation can have a significant impact on the economy, influencing economic growth, investment, and employment.

Overall, the interactions amongst fiscal policy, tax administration, and tax legislation are critical to achieving fiscal policy objectives and promoting economic development in Nigeria.

3.7 Chapter summary

This chapter deals with the key issues in fiscal policy, tax legislation and tax administration. It also looks at the impact of each of them on the economy. Interrelationships and interdependence of each one of them are also dealt with in details.

Tax legislative process and importance of legislation are also considered.

3.8 Worked examples

3.8.1 Questions

1. Despite its vast economic potentials and growing population, Nigeria continues to face significant challenges in generating sufficient tax revenue due to widespread non-compliance and tax evasion. In the light of this, an urgent conversation is needed around strategies to enhance tax administration and fiscal transparency.

Required:

Explain how Nigeria can improve tax compliance and reduce tax evasion to boost government revenue.

2. For decades, Nigeria's economy has been heavily reliant on oil revenues, making it vulnerable to global price shocks and market volatility. With growing economic uncertainties and the urgent need for sustainable development, there is a pressing need to explore alternative revenue sources and strengthen non-oil sectors through strategic reforms.

Required:

Explain the fiscal and tax reforms Nigeria can implement to diversify its economy away from oil dependence.

3. While increasing tax revenue is vital for Nigeria's development, equally important is ensuring that these funds are used effectively and transparently. Public trust in the tax system remains low, often due to concerns over mismanagement and lack of accountability in how tax revenues are utilised.

Required:

Explain how Nigeria can improve fiscal transparency and accountability in tax revenue utilisation.

3.8.2 Suggested solutions

1. **Nigeria can improve tax compliance and reduce tax evasion by:**

- a) **Strengthening digital tax systems**

- i) Expand the use of NRS's Rev360 and state e-tax platforms to automate filing, payments, and tracking.
- ii) Integrate BVN, NIN, and bank records to identify non-compliant taxpayers.

- b) **Enhancing and enforcing penalties**

- i) Increase audits and risk-based assessments for high-net-worth individuals and corporations;

- and
 - ii) Impose stiffer penalties for evasion, including blacklisting tax defaulters from government contracts.
 - c) **Creating public awareness and incentives**
 - i) Launch nationwide taxpayer education campaigns (radio, social media, workshops, etc.); and
 - ii) Offer tax credits or rebates for timely compliance and whistleblowing on tax fraud.
 - d) **Simplifying tax laws:** reduce multiple taxation (especially for SMEs) and clarify ambiguous provisions in tax laws.
 - e) **Expected outcome:** Higher voluntary compliance, increased revenue, and reduced informality in the economy.
2. **The fiscal and tax reforms Nigeria can implement to diversify its economy away from oil dependence include:**
- a) **Sector-specific tax incentives**
 - i) Expand economic development tax incentives for agriculture, renewable energy, and tech startups; and
 - ii) Reduce CIT for SMEs in non-oil sectors in order to promote formalisation.
 - b) **Infrastructure investment**
 - i) Fund higher capital expenditure on power and digital infrastructure, as well as transport; and
 - ii) Attract funds from the private sector through public private partnerships (PPPs).
 - c) **Improve export promotion policies**
 - i) Propose tax holidays for export-oriented manufacturing firms; and
 - ii) Reduce customs duties on raw materials for local industries.
 - d) **Improve on taxation of digital economy**
 - i) Strengthen enforcement policies on digital service taxes applied by foreign companies, such as Netflix and Google; and
 - ii) Develop fintech-friendly tax policies that can increase innovation of fintech.
 - e) **Expected outcome:** increased non-oil GDP contribution, job creation, and sustainable economic growth.
3. **Nigeria can improve its fiscal transparency and accountability in tax revenue utilisation as follows:**
- a) **Open budget and expenditure tracking**
 - i) Publish real-time budget performance reports online (for example, via open treasury portal); and
 - ii) Use blockchain technology to track revenue allocations to states and LGAs.
 - b) **Independent audits and oversight**
 - i) Strengthen NEITI (Nigeria Extractive Industries Transparency Initiative) for oil/gas revenue monitoring; and
 - ii) Mandate yearly forensic audits of FIRS and state revenue agencies.
 - c) **Citizen engagement and feedback**
 - i) Establish public grievance platforms for reporting mismanagement of tax funds; and
 - ii) Involve Civil Society Organisations and media in budget monitoring (for example, BudgIT Nigeria).
 - d) **Anti-corruption measures**
 - i) Enforce stricter penalties for embezzlement of public funds; and
 - ii) Link taxpayer data with EFCC/ICPC to track illicit financial flows.
 - e) **Expected outcome:** reduced corruption, increased public trust, and better service delivery (healthcare, education, infrastructure, etc.).

NATIONAL TAX POLICY (NTP), 2017

Contents

- 4.0 Learning objective
- 4.1 Learning outcomes
- 4.2 Objectives of this policy
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- 4.5 The administration of the mandates of the three tiers of government
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4 Revised National Tax Policy (NTP), 2017

4.0 Learning objective

The objective of this chapter is to ensure that readers understand the objectives of the NTP, 2017 and the policy guidelines that future taxes are expected to align with. Additionally, readers are expected to know the responsibilities of the key stakeholders, and the administration and implementation measures put in place by various government agencies.

4.1 Learning outcomes

On successful completion of this chapter, readers should be able to explain the:

- a. objectives of the policy;
- b. policy guidelines as they relate to both the guiding principles of the Nigeria tax system and taxation as a tool for economic management and development;
- c. responsibilities of stakeholders;
- d. administration of the mandate of the tiers of government; and
- e. implementation measures by the tiers of government and other governmental agencies.

4.2 Objectives of the NTP

The National tax policy provides the fundamental guidelines for the orderly development of the Nigerian tax system. The policy is expected to achieve the following specific objectives, amongst others:

- (a) guide the operation and review of the tax system;
- (b) provide the basis for future tax legislations and administration;
- (c) serve as a point of reference for all stakeholders on taxation;
- (d) provide benchmark on which stakeholders shall be held accountable; and
- (e) provide clarity on the roles and responsibilities of stakeholders in the tax system.

4.3 Policies guidelines as they relate to:

4.3.1 Guiding principles of Nigerian tax system

All existing and future taxes are expected to align with the following fundamental features:

- (a) **Equity and fairness:** Nigerian tax system should be fair and equitable devoid of discrimination. Taxpayers should be required to pay according to their ability.
- (b) **Simplicity, certainty and clarity:** Tax laws and administrative processes should be simple, clear and easy to understand.
- (c) **Convenience:** The time and manner for the fulfilment of tax obligations shall take into account the convenience of taxpayers and avoid undue difficulties.
- (d) **Low compliance cost:** The financial and economic cost of compliance to the taxpayer should be kept to the barest minimum.
- (e) **Low cost of administration:** Tax administration in Nigeria should be efficient and cost-effective in line with international best practices.
- (f) **Flexibility:** Taxation should be flexible and dynamic in a manner that does not retard economic activities.
- (g) **Sustainability:** The tax system should promote sustainable revenue, economic growth and development. There should be a synergy between tax policies and other economic policies of government.

4.3.2 Taxation as a tool for economic management and development

The tax system should support sustainable growth and development at all times. In this regard, the tax system should be geared towards meeting the following goals:

- (a) Wealth creation and employment

The tax system should be designed to promote social, political and economic development. Accordingly,

- (i) tax policies shall promote employment, export and local production;
 - (ii) tax policies and laws shall not be retroactive;
 - (iii) tax policies and laws should ensure equal investment opportunities and support for businesses whether local or foreign;
 - (iv) tax policies and laws on investments should be long term focused and tenured to enable investors plan with reasonable certainty;
 - (v) any incentive to be granted should be broad, sector based, tenured and transparent. Implementation should be properly monitored, evaluated, periodically reported and kept under review;
 - (vi) revenue forgone from tax incentives or concessions should be quantified against expected benefits and reported annually. Where the benefits cannot be quantified, qualitative factors must be considered; and
 - (vii) tax policies on investments should not promote monopoly such as entry barriers or otherwise prevent competition.
- (b) Taxation and diversification
There should be concerted efforts to attract investments in all sectors of the economy, with more focus on promoting investment in specific sectors as may be identified by government in the overall interest of the country from time to time.
This will boost the revenue base for optimum revenue generation.
- (c) Focus on indirect taxation
The tax system should focus more on indirect taxes which are easier to collect and administer and more difficult to evade.
- (d) Convergence of tax rates
Tax rates should be progressive and should be designed to promote equality. The tax system should gradually seek a convergence of the highest marginal rate of personal income tax, capital gains tax rates and the general companies' income tax rates to reduce opportunities for tax avoidance.
- (e) Special arrangements and other incentives
Special arrangements should be sector based and not directed at entities or persons. Also, special arrangements such as free zones and other tax incentives or waivers should not be arbitrarily terminated except as provided in the enabling legal framework or treaties at the time of creation.
Government may provide tax incentives to specific sectors or for such specific activities in order to stimulate or retain investment in the sector. The process of granting and renewing incentives, waivers and concessions shall be transparent and comply strictly with legislative provisions and international treaties.
- (f) Creating a competitive edge
- (i) Reduction in the number of taxes
Taxes should be few in number, broad-based and high revenue-yielding. The administration of the taxes should also be simplified for ease of enforcement and compliance.
 - (ii) Avoidance of multiple taxation
Taxes similar to those being collected by a level of government should not be introduced by the same or another level of government. The federal, state and local governments shall ensure collaboration in harmonising and eliminating multiple taxation.
- (g) International and regional treaties

A wide network of International and regional treaties would be beneficial to the economy. In this regard, Nigeria shall continue to expand its treaty network in the best interest of the Nigerian State. Generally, treaties should prevent double taxation without creating opportunities for non - taxation.

Existing treaties should be reviewed regularly and where necessary, renegotiated in line with international best practices. New treaties should consider benefits to Nigeria both in the short, medium but more importantly long term.

Nigeria's model double tax treaty should be regularly reviewed to adequately cater for the best interests of the country. Appropriate measures shall be taken to ensure that all treaties duly signed and ratified are implemented.

Taxation is recognised as a very important tool for national development and growth in most societies. One of the major indices by which development and growth can be measured in any society is the amount of wealth, which is created by economic activities undertaken in that society. Furthermore, one of the means of creation of wealth for citizens is through meaningful employment, so that citizens are able to earn income to cater for their needs and also contribute taxes to the government as part of their contribution to national development.

In this regard, taxes do not only provide sustainable revenue for government to carry out its activities and provide development to its citizens, it also puts citizens in the role of stakeholders, who are directly contributing to national development.

In reciprocation, therefore, the Nigerian tax system should be utilised by government as a sustainable platform for ensuring growth in the Nigerian economy. In this way, wealth and employment opportunities can be created for those who are currently outside the tax net, due to low or no income, so that they in turn also earn income on which taxes are paid and the circle of growth and development in the economy is sustained in this manner.

4.4 Responsibilities of the stakeholders

For an orderly and sustainable development of the Nigeria tax system, the federal and state ministries of finance shall have the primary responsibility for tax policy matters, including initiating proposals for amendments to tax laws. Ministries of finance shall collaborate with relevant stakeholders in carrying out their tax policy responsibilities.

The key stakeholders in the Nigeria tax system can be broadly categorised as follows:

4.4.1 The government

All levels and arms of government, ministries, extra-ministerial departments and agencies where applicable shall:

- (a) implement and regularly review tax policies and laws;
- (b) provide information on all revenue collected on a quarterly basis;
- (c) ensure adequate funding, administrative and operational autonomy of tax authorities; and
- (d) ensure a reasonable transition period of between three and six months before implementation of a new tax.

4.4.2 The taxpayer

A taxpayer is a person, group of persons or an entity that pays or is liable to tax. The taxpayer is the most critical stakeholder and primary focus of the tax system. The taxpayer shall consider tax responsibilities as a civic obligation

and constant duty that must be discharged as and when due.

The taxpayer shall be entitled to:

- (a) relevant information for the discharge of tax obligations;
- (b) receive prompt, courteous and professional assistance in dealing with tax authorities;
- (c) raise objections to decisions and assessments and receive response within a reasonable time;
- (d) fair and impartial appeal; and
- (e) self-representation or by any agent of choice, provided an agent acting for financial reward shall be an accredited tax practitioner.

4.4.3 Revenue agencies

Any agency responsible for the collection and administration of revenue shall:

- (a) treat the taxpayer as a customer;
- (b) ensure efficient implementation of tax policies, laws and international treaties;
- (c) facilitate inter-agency co-operation and exchange of information;
- (d) undertake timely audits and investigations;
- (e) undertake tax awareness and taxpayers' education, and
- (f) establish a robust process to prevent, detect and punish corrupt tax officials.

4.4.4 Professional bodies, tax practitioners, consultants and agents

They shall:

- (a) act in accordance with professional code of conduct and ethics;
- (b) not aid and abet tax evasion and corrupt practices, and
- (c) actively promote effective tax compliance.

4.4.5 Media and advocacy groups

They shall:

- (a) promote tax education and awareness;
- (b) articulate, protect and advance taxpayers right;
- (c) advance accountability and transparency in the utilisation of tax revenue;
- (d) ensure accurate, objective and balanced reporting in accordance with their professional code of conduct and ethics; and
- (e) ensure that aspiring political office holders clearly understand the tax policy and the Nigerian tax system, and are able to articulate their plans for the tax system to which they will be held accountable.

4.5 The administration of the mandates of the three-tiers of government

Tax administration in Nigeria cuts across the three-tiers of government. This tax policy document establishes clear guidelines on crucial tax administration issues.

In the context of the Nigeria tax policy, tax authorities at all levels shall administer their mandates in accordance with the following:

4.5.1 Registration of taxable persons

All taxable persons shall be registered and issued with taxpayer identification (Tax ID) applicable nationwide. Tax authorities should leverage on the database of the Central Bank of Nigeria (CBN) on Bank Verification Number (BVN), National Identity Management Commission (NIMC), Nigeria Communication Commission (NCC), Corporate Affairs Commission (CAC), Federal Road Safety Commission (FRSC), Nigeria Immigration Service (NIS) and other relevant sources. The current uncoordinated registration by different agencies should be harmonised.

4.5.2 Tax compliance

Government shall apply all available resources and tools at their disposal to ensure that taxpayers voluntarily comply with their tax obligations. In order to improve voluntary compliance, the relevant authorities should ensure:

- (a) that the option for self-assessment is in place, and the process and procedures are simple;
- (b) development of frameworks for tax amnesty in order to expand the tax net;
- (c) focus on taxpayers' services;
- (d) constant tax education and enlightenment;
- (e) the overall performance of the tax system is measured and reported periodically; and
- (f) the establishment of a system to recognise and honour compliant taxpayers.

4.5.3 Efficiency of administration

The following are important in ensuring an efficient tax administration:

(a) Payment processing and collection

Collection system shall leverage modern technology towards advancing ease of payment and prevention of revenue losses.

(b) Record keeping

Tax authorities shall partner with the relevant agencies to set up automated systems and adequately train tax officials in the use and maintenance of such systems. Electronic systems of record keeping in line with global best practices should be entrenched to enhance the tax administration process.

(c) Exchange of information

Tax authorities shall develop an efficient framework for cooperation and sharing of information with other tax authorities and relevant local and international agencies. This will mitigate tax evasion and revenue losses.

(d) Enforcement of tax laws

Tax authorities shall ensure the enforcement of civil and criminal sanctions as provided under the various tax laws.

(e) Funding of tax authorities

Government shall provide adequate funding for tax authorities. Accordingly, government should ensure that an adequate percentage of revenue collected should be provided to the authority for its operations.

(f) Funding for tax refunds

Government shall provide adequate funding to meet refund obligations. Tax authorities shall ensure timely and efficient payment of refunds.

(g) Ease of paying taxes

Tax authorities shall ensure that payment procedures and documentations are convenient and cost effective. Tax authorities shall work towards ensuring accelerated improvement on the global index of ease of paying taxes.

(h) Revenue autonomy

Governments shall ensure a reasonable level of financial and administrative autonomy for their respective tax authorities to facilitate effective discharge of their duties.

4.5.4 Technology and tax intelligence

Tax authorities shall ensure:

- (a) deployment of technology to aid all aspects of tax administration;
- (b) the integrity and regular update of the database; and
- (c) a workable and secure structure for intelligence and information gathering.

4.5.5 Dispute resolution

In the event of any dispute, the tax authority and relevant stakeholders shall leverage all amicable means of dispute resolution, including arbitration and only resort to judicial determination as a last resort.

4.6 The implementation measures

The effective implementation of the national tax policy (NTP) is crucial for Nigeria to

attain the set goals. The Federal Ministry of Finance has a pivotal role to play in the development and implementation of the tax policy. Accordingly, the ministry shall take appropriate steps to ensure that it receives cooperation from the following:

4.6.1 The President and Governors

The President and Governors shall ensure that budget speeches and presentations for the fiscal year consistently contain the overriding fiscal policies and summary statements of the expected tax revenue. This will give key stakeholders a sense of what government plans to do and enable them to plan accordingly.

The President and Governors should work towards ensuring that there is only one revenue agency per level of government. This would streamline revenue administration and improve efficiency of revenue collection. Ministries, extra-ministerial departments and agencies other than tax authorities should not become tax collecting bodies.

The executive shall sponsor a bill for the establishment of a tax court as an independent body to adjudicate in tax matters.

4.6.2 Legislature

The consideration and passage of tax bills have not fared well within the existing finance committee of the National and State Houses of Assembly. The National and State Houses of Assembly are encouraged to establish taxation committees to focus on tax matters and collaborate with the tax policy implementation committee.

There shall be an establishment Act for the Joint Revenue Board (JRB) towards strengthening and repositioning it to contribute meaningfully to the development of the Nigerian tax system through broader mandate beyond its current advisory role.

The qualification for the lower income tax rate applicable to small businesses should be reviewed in line with current economic realities. The income tax rate for small businesses should be further reduced as an incentive to encourage compliance and promote micros, small and medium enterprises (MSMEs).

4.6.3 Ministry of Finance

The Ministry of Finance shall:

- (a) set in motion machinery for tax reform. Taxation is a dynamic tool. Having reviewed the policy, the tax law and administration cannot remain stagnant. It is imperative to streamline existing and future tax laws for an orderly development;
- (b) establish a tax policy implementation committee to monitor compliance, regularly review the policy and make appropriate recommendations;
- (c) ensure automation of collection and remittance processes of taxes by all ministries, extra-ministerial departments and agencies;
- (d) work with the legislature to ensure that the requisite changes to tax laws are enacted together with the appropriation Act of the same year. This would require the executive to timely present tax laws as executive bills for the prompt consideration of the National and State Houses of Assembly;
- (e) establish an office of tax simplification which shall be responsible for ensuring continuous improvement to tax legislation and administration;
- (f) create a dedicated tax policy website. Apart from sensitising the general public on the provisions of the tax policy, such a platform would facilitate feedback from stakeholders on the existing and future policy proposals;
- (g) give periodic reports to the National Economic Council (NEC) on tax policy

- implementation agenda. Apart from updating NEC, such obligation will ensure that the Ministry of Finance is up to speed in its implementation agenda;
- (h) ensure that tax authorities develop key performance indices for Nigeria to attain a top fifty (50) position on the global index of ease of paying taxes and consistently improve on the ranking; and
 - (i) ensure that there is a minimum threshold for VAT registration and compliance in order to protect micro-businesses.

4.6.4 Ministries, department and agencies (MDAs)

Heads of MDAs shall give periodic report(s) to the Ministry of Finance on the level of implementation of the National Tax Policy. Apart from sensitising the MDAs to the provisions of the tax policy, such reports would afford the Ministry of Finance the opportunity to determine the level of compliance and devise appropriate responses as may be necessary to improve implementation.

4.6.5 Tax authorities

To promote tax awareness and a tax culture in Nigeria, the federal and state tax authorities through the Joint Revenue Board (JTB) shall set aside a uniform day in the year as a national Tax Day. Also, government should make concerted efforts to ensure that taxation is taught at all levels of education.

Tax authorities shall establish administrative framework for amnesty and whistle blowing as part of the strategies for curbing evasion and widening the tax net.

Federal and state tax authorities should respond promptly to the changing business environment as it affects tax administration and develop a workable framework to meet the taxpayers' demands in this respect.

4.6.6 Independent National Electoral Commission (INEC)

The Independent National Electoral Commission (INEC) shall, by necessary regulation and rules, mandate political parties to articulate, prepare, provide and make public their tax agenda before and during election campaigns. This will make political parties reflect more deeply in an organised fashion on the financial implications of their promises and the options of financing them. This would also help the taxpayer know the preferences of each party on tax matters and take informed decision.

4.7 Chapter review

This chapter discusses the objectives of the NTP as well as the policy guidelines that future taxes are expected to align with and also highlights responsibilities of the key stakeholders for an orderly and sustainable development of the Nigerian tax system.

It also discusses the guiding principles of Nigerian tax system, the administration of tax by the three-tiers of government and the role of the Federal Ministry of Finance in the development and implementation of the NTP.

4.8 Worked examples

4.8.1 Questions

- (1) The National tax policy (NTP) recommends certain fundamental features that all existing and future taxes are expected to align with.

Required:

Explain **FIVE** of the recommended principles by the National tax policy (NTP).

- (2) The National tax policy (NTP) recommends that the tax system should always support sustainable growth and development. To achieve this, therefore, the tax system should be geared towards meeting certain goals.

Required:

Explain **THREE** of the goals recommended by the National tax policy (NTP) which will enable a tax system to support sustainable growth and development.

- (3) The responsibilities of the following key stakeholders are clearly identified in NTP 2017.

Required:

Explain the responsibilities of:

- a. The government
- b. The taxpayers
- c. The revenue agencies

- (4) Tax administration in Nigeria cuts across the three-tiers of government. The NTP document establishes clear guidelines on crucial tax administrative issues.

Required:

Explain **three** of the tax administrative issues highlighted in the tax policy document.

- (5) (a) The National tax policy provides the fundamental guidelines for the orderly development of the Nigerian tax system.

Required:

Explain the specific objectives that the NTP is expected to achieve.

- (b) The effective implementation of the National tax policy is crucial for Nigeria to attain the set goals. The Federal Ministry of Finance has a pivotal role to play in the development and implementation of the tax policy.

Required:

Explain the roles of the following in the effective implementation of the NTP:

- (i) The President and Governors
- (ii) The legislature

4.8.2 Suggested solutions to questions

- (1) All existing and future taxes are expected to align with the following NTP recommended principles:

- (a) Equity and fairness: Nigerian tax system should be fair, equitable and devoid of discrimination. Taxpayers should be required to pay according to their ability.
- (b) Simplicity, certainty and clarity: Tax laws and administrative processes should be simple, clear and easy to understand.
- (c) Convenience: The time and manner for the fulfilment of tax obligations shall take into account the convenience of taxpayers and avoid undue difficulties;
- (d) Low compliance cost: The financial and economic cost of compliance to the taxpayer should be kept to the barest minimum.
- (e) Low cost of administration: Tax administration in Nigeria should be efficient and cost-effective in line with international best practices.
- (f) Flexibility: Taxation should be flexible and dynamic to respond to changing circumstances in the economy in a manner that does not retard economic activities.

- (g) Sustainability: The tax system should promote sustainable revenue, economic growth and development. There should be a synergy between tax policies and other economic policies of government.
- (2) The following are the goals recommended by the NTP that will enable a tax system to support sustainable growth and development:
- (a) Wealth creation and employment: The tax system should be designed to promote social, political and economic development. Accordingly:
- (i) tax policies shall promote employment, export and local production;
 - (ii) tax policies and laws shall not be retroactive;
 - (iii) tax policies and laws should ensure equal investment opportunities and support for businesses, whether local or foreign;
 - (iv) tax policies and laws on investments should be long term focused and tenured to enable investors plan with reasonable certainty;
 - (v) any incentive to be granted should be broad, sector based, tenured and transparent. Implementation should be properly reviewed;
 - (vi) revenue forgone from tax incentives or concessions should be quantified against expected benefits and reported annually. Where the benefits cannot be quantified, qualitative factors must be considered; and
 - (vii) tax policies on investments should not promote monopoly, such as entry barriers, or otherwise prevent competition.
- (b) Taxation and diversification
There should be concerted efforts to attract investments in all sectors of the economy, with more focus on promoting investment in specific sectors as may be identified by government in the overall interest of the country from time to time. This will boost the revenue base for optimum revenue generation.
- (c) Focus on indirect taxation
The tax system should focus more on indirect taxes which are easier to collect and administer and more difficult to evade. Tax rates should be progressive and should be designed to promote equality. The tax system should gradually seek a convergence of personal income tax and capital gain tax rates, with corporate income tax rates to reduce opportunities for tax avoidance.
- (d) Convergence of tax rates
Tax rates should be progressive and should be designed to promote equality. The tax system should gradually seek a convergence of the highest marginal rate of personal income tax, capital gains tax rates and the general companies income tax rates to reduce opportunities for tax avoidance.
- (e) Special arrangements and other incentives
Special arrangements should be sector based and not directed at entities or persons. Also, special arrangements, such as free trade zones, and other tax incentives or waivers should not be arbitrarily terminated except as provided in the enabling legal framework or treaties at the time of creation. Government may provide tax incentives to specific sectors or for such specific activities in order to stimulate or retain investment in the sector.

The process of granting and renewing incentives, waivers and

concessions shall be transparent and comply strictly with legislative provisions and international treaties.

- (f) **Creating a competitive edge**
 - (i) **Reduction in the number of taxes:** Taxes should be few in number, broad-based and high revenue-yielding. The administration of the taxes should also be simplified for ease of enforcement and compliance.
 - (ii) **Avoidance of multiple taxation:** Taxes similar to those being collected by a level of government should not be introduced by the same or another level of government. The federal, state and local governments shall ensure collaboration in harmonising and eliminating multiple taxation.
- (g) **International and regional treaties:** A wide network of International and Regional treaties would be beneficial to the economy. In this regard, Nigeria shall continue to expand its treaty network in the best interest of the Nigerian State. Generally, treaties should prevent double taxation without creating opportunities for non-taxation.

Existing treaties should be reviewed regularly, and where necessary, renegotiated in line with international best practices. New treaties should consider benefits to Nigeria both in the short, medium but more importantly long term. Nigeria's model double tax treaty should be regularly reviewed to adequately cater for the best interest of the country. Appropriate measures shall be taken to ensure that all treaties duly signed and ratified are implemented.

- (3) (a) **The government:** The following are the responsibilities of the government:
 - (i) implement and regularly review tax policies and laws;
 - (ii) provide information on all revenue collected on a quarterly basis;
 - (iii) ensure adequate funding, administrative and operational autonomy of tax authorities; and
 - (iv) ensure a reasonable transition period of between three and six months before implementation of a new tax.
- (b) **The taxpayer:** is expected to:
 - (i) provide relevant information for the discharge of tax obligations;
 - (ii) receive prompt, courteous and professional assistance in dealing with tax authorities;
 - (iii) raise objections to decisions and assessments and receive response within a reasonable time;
 - (iv) a fair and impartial appeal; and
 - (v) self-representation or by any agent of choice, provided an agent acting for financial reward shall be an accredited tax practitioner.
- (c) **Revenue agencies:** The revenue agencies are required to:
 - (i) treat the taxpayer as a customer;
 - (ii) ensure efficient implementation of tax policies, laws and international treaties;
 - (iii) facilitate inter-agency co-operation and exchange of information;
 - (iv) undertake timely audits and investigations;
 - (v) undertake tax awareness and taxpayers' education; and
 - (vi) establish a robust process to prevent, detect and punish corrupt tax

officials.

- (4) The following are the tax administrative issues highlighted in the tax policy document:

- (a) **Registration of taxable persons:** All taxable persons shall be registered and issued with taxpayer identification (Tax ID) applicable nationwide.

Tax authorities should leverage the database of the Central Bank of Nigeria (CBN) on Bank Verification Number (BVN), National Identity Management Commission (NIMC), Nigeria Communications Commission (NCC), Corporate Affairs Commission (CAC), Federal Road Safety Commission (FRSC), Nigerian Immigration Service (NIS), and other relevant sources. The current uncoordinated registration by different agencies should be harmonised.

- (b) **Tax compliance:** Government shall apply all available resources and tools at their disposal to ensure that taxpayers voluntarily comply with their tax obligations. In order to improve voluntary compliance, the relevant authorities should ensure:

- (i) that the option for self-assessment is in place, and the process and procedures are simple;
- (ii) development of frameworks for tax amnesty in order to expand the tax net;
- (iii) focus on taxpayers' services, constant tax education and enlightenment;
- (iv) the overall performance of the tax system is measured and reported periodically; and
- (v) the establishment of a system to recognise and honour compliant taxpayers.

- (c) **Efficiency of administration**

The following are important in ensuring efficient tax administration:

- (i) **Payment processing and collection**

Collection system shall leverage on modern technology towards advancing ease of payment and prevention of revenue losses.

- (ii) **Record keeping**

Tax authorities shall partner with the relevant agencies to set up automated systems and adequately train tax officials in the use and maintenance of such systems. Electronic systems of record keeping, in line with global best practices, should be entrenched to enhance the tax administration process.

- (iii) **Exchange of information**

Tax authorities shall develop efficient framework for cooperation and sharing of information with other tax authorities and relevant local and international agencies. This will mitigate tax evasion and revenue losses.

- (iv) **Enforcement of tax laws**

Tax authorities shall ensure the enforcement of civil and criminal sanctions as provided under the various tax laws.

- (v) **Funding of tax authorities**

Government shall provide adequate funding for tax authorities. Accordingly, government should ensure that an adequate percentage of revenue collected should be provided to the authority for its operations.

(vi) Funding for tax refunds

Government shall provide adequate funding to meet refund obligations. Tax authorities shall ensure timely and efficient payment of refunds.

(vii) Ease of paying taxes

Tax authorities shall ensure that payment procedures and documentation are convenient and cost effective. Tax authorities shall work towards ensuring accelerated improvement on the global index of ease of paying taxes.

(viii) Revenue autonomy

Governments shall ensure a reasonable level of financial and administrative autonomy for their respective tax authorities to facilitate effective discharge of their duties.

(d) Technology and tax intelligence: Tax authorities shall ensure:

- (i) deployment of technology to aid all aspects of tax administration;
- (ii) the integrity and regular update of the database; and
- (iii) a workable and secure structure for intelligence and information gathering.

(5) (a) The specific objectives of the national tax policy (NTP) are to:

- (i) guide the operation and review of the tax system;
- (ii) provide the basis for future tax legislation and administration;
- (iii) serve as a point of reference for all stakeholders on taxation;
- (iv) provide benchmark on which stakeholders shall be held accountable; and
- (v) provide clarity on the roles and responsibilities of stakeholders in the tax system.

(b) (i) The President and Governors

The President and Governors shall ensure that budget speeches and presentations for the fiscal year consistently contain the overriding fiscal policies and summary statements of the expected tax revenue. This will give key stakeholders a sense of what government plans to do and enable them to plan accordingly.

The President and Governors should work towards ensuring that there is only one revenue agency per level of government. This would streamline revenue administration and improve efficiency of revenue collection. Ministries, Extra-Ministerial Departments and Agencies, other than tax authorities, should not become tax collecting bodies.

The executive shall sponsor a bill for the establishment of a tax court as an independent body to adjudicate in tax matters.

(ii) Legislature

The consideration and passage of tax bills have not fared well within the existing finance committee of the national and state houses of assembly. The national and state houses of assembly are encouraged to establish taxation committees to focus on tax matters and collaborate with the tax policy implementation committee. There shall be an establishment Act for the Joint Tax Board, towards strengthening and repositioning it to contribute meaningfully to the development of the Nigerian tax system through broader mandate beyond its current advisory role. The qualification for the lower income tax rate, applicable to small

businesses, should be reviewed in line with current economic realities. The income tax rate for small businesses should be further reduced as an incentive to encourage compliance and promote micro, small and medium enterprises (MSMEs).

BASIC ETHICAL ISSUES IN TAXATION

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5 Basic Ethical Issues in Taxation

5.0 Learning objective

The objective of this chapter is to ensure that readers understand the five fundamental principles of ethics as specified by the International Ethics Standards Board for Accountants (IESBA), and when a tax practitioner can disclose information on taxpayers, and what he should do when there is conflict of interest.

5.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) explain the fundamental principles of ethics: integrity; objectivity; professional competence and due care; confidentiality; and professional behaviour, as specified by the International Ethics Standards Board for Accountants (IESBA);
- (b) understand the conditions when information on taxpayers may be disclosed; and
- (c) explain what a tax practitioner should do when there is conflict of interest.

5.2 The FIVE fundamental principles of ethics as specified by the International Ethics Standards Board for Accountants (IESBA)

5.2.1 Integrity

A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships. (Paragraph 111.1)

Integrity implies fair dealing and truthfulness. (Paragraph 111.1 A1).

A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information (paragraph 111.2):

- (a) contains a materially false or misleading statement;
- (b) contains statements or information provided recklessly; or
- (c) omits or obscures required information, where such omission or obscurity would be misleading.

If a professional accountant provides a modified report in respect of such a report, return, communication or other information, the accountant is not in breach of paragraph R111.2. (Paragraph 111.2 A1)

When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information. (Paragraph 111.3)

5.2.2 Objectivity

A professional accountant shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgement because of bias, conflict of interest or undue influence of others. (Paragraph 112.1)

A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgement regarding that activity. (Paragraph 112.2)

5.2.3 Professional competence and due care

A professional accountant shall comply with the principle of professional competence and due care, which require an accountant to:

- (a) attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional service, based on current technical and professional standards

- and
relevant legislation; and
- (b) act diligently and in accordance with applicable technical and professional standards. (Paragraph 113.1).

Serving clients and employing organisations with professional competence requires the exercise of sound judgement in applying professional knowledge and skill when undertaking professional activities. (Paragraph 113.1 A1).

Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments.

Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment. (Paragraph 113.1 A2).

Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis. (Paragraph 113.1 A3).

In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision. (Paragraph 113.2).

Where appropriate, a professional accountant shall make clients, the employing organisation, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or activities. (Paragraph 113.3).

5.2.4 Confidentiality

A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships.

An accountant shall:

- (a) be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
- (b) maintain confidentiality of information within the firm or employing organisation;
- (c) maintain confidentiality of information disclosed by a prospective client or employing organisation;
- (d) not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organisation without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- (e) not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;
- (f) not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and
- (g) take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality. (Paragraph 114.1)

Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organisation to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when

such disclosure might be appropriate:

- (a) disclosure is required by law, for example:
 - (i) production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) disclosure to the appropriate public authorities of infringements of the law that come to light;
- (b) disclosure is permitted by law and is authorised by the client or the employing organisation; and
- (c) There is a professional duty or right to disclose, when not prohibited by law:
 - (i) to comply with the quality review of a professional body;
 - (ii) to respond to an inquiry or investigation by a professional or regulatory body;
 - (iii) to protect the professional interests of a professional accountant in legal proceedings; or
 - (iv) to comply with technical and professional standards, including ethical requirements. (Paragraph 114.1. A1)

In deciding whether to disclose confidential information, factors to consider, depending

on the circumstances, include:

- (a) whether the interests of any parties, including third parties whose interests might be affected, could be harmed, if the client or employing organisation consents to the disclosure of information by the professional accountant;
- (b) whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
 - (i) unsubstantiated facts;
 - (ii) incomplete information; and
 - (iii) unsubstantiated conclusions.
- (c) the proposed type of communication, and to whom it is addressed; and
- (d) whether the parties to whom the communication is addressed are appropriate recipients. (Paragraph 114.1 A2)

A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organisation. When changing employment or acquiring a new client, the accountant is entitled to use prior experience, but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship. (Paragraph 114.2)

5.2.5 Professional behaviour

A professional accountant shall comply with the principle of professional behaviour, which requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might discredit the profession. A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles. (Paragraph 115.1)

Conduct that might discredit the profession include conduct that a reasonable and informed third party would conclude to adversely affect the good reputation of the profession. (Paragraph 115.1 A1)

When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:

- (a) exaggerated claims for the services offered by, or the qualifications or

- experience of, the accountant; or
- (b) disparaging references or unsubstantiated comparisons to the work of others. (Paragraph 115.2)

If a professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the accountant is encouraged to consult with the relevant professional body. (Paragraph 115.2 A1).

5.3 Conditions when information on taxpayers may be disclosed

The need to comply with the principle of confidentiality continues even after the end of relationships between a tax practitioner and a client. When a tax practitioner's engagement with a client ends or is engaged by a new client, the tax practitioner is entitled to use prior experience. However, he shall not use or disclose any confidential information either acquired or received as a result of a professional relationship with the previous client, because doing so, may tantamount to professional misdemeanour and the consequences could be very costly.

Nonetheless, there are instances when a tax consultant may disclose information on a client (whether past or present). The following are circumstances where a tax consultant may disclose information on a taxpayer when:

- a. disclosure is permitted by law;
- b. disclosure is authorised by the client, that is, the taxpayer;
- c. disclosure is required by law, for example:
 - (i) production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) disclosure to the appropriate public authorities of infringements of the law that come to light; and
- d. there is a professional duty or right to disclose, when not prohibited by law, for example:
 - (i) to respond to an inquiry or investigation by a member body or regulatory body, such as ICAN, CITN;
 - (ii) to protect the professional interests of a professional body, that is, ICAN, CITN, etc. in legal proceedings; or
 - (iii) to comply with technical standards and ethical requirements.

5.4 What a tax practitioner should do when there is conflict of interest

A tax practitioner may be faced with conflict of interest when undertaking a professional activity. A conflict of interest creates a threat to objectivity and may create threats to other fundamental principles. Such threats may be created when:

- (a) the tax practitioner undertakes a professional activity related to a particular matter for two or more clients whose interests with respect to that matter are in conflict; or
- (b) the interests of the tax practitioner with respect to a particular matter and the interests of a client for whom the tax practitioner undertakes a professional activity related to that matter are in conflict.

A tax practitioner may be required to resolved the conflict in complying with the fundamental principles.

It may be in the best interest of the tax practitioner to document the substance of the issue, the details of any discussions held, and the decisions made concerning that issue.

If a significant conflict cannot be resolved, a tax practitioner may consider obtaining professional advice from the relevant professional body, that is, ICAN and/or CITN. The tax practitioner generally can obtain guidance on ethical issues without breaching the fundamental principle of confidentiality, if the matter is discussed with the relevant professional body on an anonymous basis or with a legal advisor under

the protection of legal privilege.

If, after exhausting all relevant possibilities, the ethical conflict remains unresolved, a tax practitioner shall, where possible, refuse to remain associated with the matter creating the conflict. The tax practitioner shall determine whether, in the circumstances, it is appropriate to withdraw from the specific assignment or client.

5.5 Key updates based on 2025 IESBA Handbook

This chapter covers the five fundamental principles of ethics as specified by IESBA. This section covers, briefly, the key updates of 2025 IESBA Handbook.

The handbook has incorporated all IESBA ethics and independence standards, including:

- (a) the ethical behaviour for tax planning services and activities beginning after June 30, 2025;
- (b) the International Ethics Standard for Sustainability Assurance (IESSA) which will take effect from December 2026;
- (c) revisions using the work of an external expert, which is effective December 2026; and
- (d) fee-related provisions to ensure auditors' independence, for example, influence of non-audit services on audit fees, percentage of audit fees from public interest entities when it exceeds 15% of the firms' total fees will necessitate disclosure, etc.

5.6 Chapter review

This chapter discusses the five fundamental principles of ethics: integrity; objectivity; professional competence and due care; confidentiality; and professional behaviour, as specified by the International Ethics Standards Board for Accountants (IESBA).

It also discusses the conditions when information on taxpayers may be disclosed as well as what a tax practitioner should do when there is conflict of interest.

5.7 Worked examples

5.7.1 Questions

- (1) The IESBA has specified fundamental principles of ethics.

Required:

Discuss the FIVE fundamental principles of ethics as specified by IESBA

- (2) There are instances when a tax consultant may disclose the information of a client.

Required:

Explain the circumstances when a tax consultant may disclose information on a taxpayer.

- (3) A tax practitioner may be faced with conflict of interest when undertaking a professional activity.

Required:

Explain what a tax practitioner should do when faced with conflict of interest.

5.7.2 Suggested solutions to questions

1. (a) **Integrity:** A professional accountant shall comply with the principle of integrity, which requires an accountant to be straightforward and honest in all professional and business relationships. (Paragraph 111.1)

Integrity implies fair dealing and truthfulness. (Paragraph 111.1 A1).

A professional accountant shall not knowingly be associated with reports, returns, communications or other information where the accountant believes that the information (paragraph 111.2):

- i. contains a materially false or misleading statement;
- ii. contains statements or information provided recklessly; or
- iii. omits or obscures required information, where such omission or obscurity would be misleading.

If a professional accountant provides a modified report in respect of such a report, return, communication or other information, the accountant is not in breach of paragraph R111.2. (Paragraph 111.2 A1)

When a professional accountant becomes aware of having been associated with information described in paragraph R111.2, the accountant shall take steps to be disassociated from that information. (Paragraph 111.3)

- (b) Objectivity:** A professional accountant shall comply with the principle of objectivity, which requires an accountant not to compromise professional or business judgement because of bias, conflict of interest or undue influence of others. (Paragraph 112.1)

A professional accountant shall not undertake a professional activity if a circumstance or relationship unduly influences the accountant's professional judgement regarding that activity. (Paragraph 112.2)

- (c) Professional competence and due care:** A professional accountant shall comply with the principle of professional competence and due care, which require an accountant to:
- i. attain and maintain professional knowledge and skill at the level required to ensure that a client or employing organisation receives competent professional service, based on current technical and professional standards and relevant legislation; and
 - ii. act diligently and in accordance with applicable technical and professional standards. (Paragraph 113.1).

Serving clients and employing organisations with professional competence requires the exercise of sound judgement in applying professional knowledge and skill when undertaking professional activities. (Paragraph 113.1 A1).

Maintaining professional competence requires a continuing awareness and an understanding of relevant technical, professional and business developments.

Continuing professional development enables a professional accountant to develop and maintain the capabilities to perform competently within the professional environment. (Paragraph 113.1 A2).

Diligence encompasses the responsibility to act in accordance with the requirements of an assignment, carefully, thoroughly and on a timely basis. (Paragraph 113.1 A3).

In complying with the principle of professional competence and due care, a professional accountant shall take reasonable steps to ensure that those working in a professional capacity under the accountant's authority have appropriate training and supervision. (Paragraph 113.2).

Where appropriate, a professional accountant shall make clients, the employing organisation, or other users of the accountant's professional services or activities, aware of the limitations inherent in the services or

activities. (Paragraph 113.3).

(d) Confidentiality

A professional accountant shall comply with the principle of confidentiality, which requires an accountant to respect the confidentiality of information acquired as a result of professional and business relationships.

An accountant shall:

- i. be alert to the possibility of inadvertent disclosure, including in a social environment, and particularly to a close business associate or an immediate or a close family member;
- ii. maintain confidentiality of information within the firm or employing organisation;
- iii. maintain confidentiality of information disclosed by a prospective client or employing organisation;
- iv. not disclose confidential information acquired as a result of professional and business relationships outside the firm or employing organisation without proper and specific authority, unless there is a legal or professional duty or right to disclose;
- v. not use confidential information acquired as a result of professional and business relationships for the personal advantage of the accountant or for the advantage of a third party;
- vi. not use or disclose any confidential information, either acquired or received as a result of a professional or business relationship, after that relationship has ended; and
- vii. take reasonable steps to ensure that personnel under the accountant's control, and individuals from whom advice and assistance are obtained, respect the accountant's duty of confidentiality. (Paragraph 114.1)

Confidentiality serves the public interest because it facilitates the free flow of information from the professional accountant's client or employing organisation to the accountant in the knowledge that the information will not be disclosed to a third party. Nevertheless, the following are circumstances where professional accountants are or might be required to disclose confidential information or when such disclosure might be appropriate:

- a. disclosure is required by law, for example:
 - i. production of documents or other provision of evidence in the course of legal proceedings; or
 - ii. disclosure to the appropriate public authorities of infringements of the law that come to light;
- b. disclosure is permitted by law and is authorised by the client or the employing organisation; and
- c. There is a professional duty or right to disclose, when not prohibited by law:
 - i. to comply with the quality review of a professional body;
 - ii. to respond to an inquiry or investigation by a professional or regulatory body;
 - iii. to protect the professional interests of a professional accountant in legal proceedings; or
 - iv. to comply with technical and professional standards, including ethical requirements. (Paragraph 114.1.A1)

In deciding whether to disclose confidential information, factors to consider, depending on the circumstances, include:

- i) whether the interests of any parties, including third parties whose interests might be affected, could be harmed, if the client or employing organisation consents to the disclosure of information

- by the professional accountant;
- ii) whether all the relevant information is known and substantiated, to the extent practicable. Factors affecting the decision to disclose include:
 - unsubstantiated facts;
 - incomplete information; and
 - unsubstantiated conclusions,
- iii) the proposed type of communication, and to whom it is addressed; and
- iv) whether the parties to whom the communication is addressed are appropriate recipients. (Paragraph 114.1 A2)

A professional accountant shall continue to comply with the principle of confidentiality even after the end of the relationship between the accountant and a client or employing organisation. When changing employment or acquiring a new client, the accountant is entitled to use prior experience, but shall not use or disclose any confidential information acquired or received as a result of a professional or business relationship. (Paragraph 114.2)

(e) Professional behaviour

A professional accountant shall comply with the principle of professional behaviour, which requires an accountant to comply with relevant laws and regulations and avoid any conduct that the accountant knows or should know might discredit the profession. A professional accountant shall not knowingly engage in any business, occupation or activity that impairs or might impair the integrity, objectivity or good reputation of the profession, and as a result would be incompatible with the fundamental principles. (Paragraph 115.1)

Conduct that might discredit the profession include conduct that a reasonable and informed third party would conclude to adversely affect the good reputation of the profession. (Paragraph 115.1 A1)

When undertaking marketing or promotional activities, a professional accountant shall not bring the profession into disrepute. A professional accountant shall be honest and truthful and shall not make:

- a. exaggerated claims for the services offered by, or the qualifications or experience of, the accountant; or
- b. disparaging references or unsubstantiated comparisons to the work of others. (Paragraph 115.2)

If a professional accountant is in doubt about whether a form of advertising or marketing is appropriate, the accountant is encouraged to consult with the relevant professional body. (Paragraph 115.2 A1).

2. The following are the instances when a tax practitioner may disclose information on a taxpayer:

- (a) disclosure is permitted by law;
- (b) disclosure is authorised by the client, that is, the taxpayer;
- (c) disclosure is required by law, for example:
 - (i) production of documents or other provision of evidence in the course of legal proceedings; or
 - (ii) disclosure to the appropriate public authorities of infringements of the law that come to light; and
- (d) there is a professional duty or right to disclose, when not prohibited by law; for example

- (i) to respond to an inquiry or investigation by a member body or regulatory body such as ICAN, CITN, etc.;
- (ii) to protect the professional interests of a professional body, that is, ICAN, CITN, etc. in legal proceedings; or
- (iii) To comply with technical standards and ethics requirements.

3. What a tax practitioner should do when faced with a conflict of interest in Nigeria

Tax practitioners are expected to maintain the highest standards of professionalism and integrity. When faced with a conflict of interest, a tax practitioner should:

- a) identify the conflict: be aware of any situation that could potentially create a conflict of interest;
- b) assess the conflict: evaluate the nature and severity of the conflict;
- c) inform the client: disclose the conflict of interest to the client and explain its implications;
- d) obtain client's consent: obtain the client's consent to continue providing services, if possible;
- e) withdraw from the engagement: If the conflict is severe, withdraw from the engagement to avoid any potential harm to the client;
- f) seek independent advice from another tax practitioner or a professional organisation;
- g) implement internal controls to manage the conflict, such as separating duties or using different teams;
- h) document the conflict, including the disclosure to the client and any subsequent actions taken;
- i) report the conflict to professional bodies, such as the Institute of Chartered Accountants of Nigeria (ICAN) or the Chartered Institute of Taxation of Nigeria (CITN);
- j) comply with ICAN and CITN codes and ethics, which provide guidance on managing conflicts of interest; and
- k) maintain professional independence and avoid any actions that could compromise objectivity.

RETURNS, ASSESSMENTS AND COLLECTION PROCEDURES

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- 6.3 Contents of income tax returns
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6 Returns, Assessments and Collection Procedures

6.0 Learning objective

The objective of this chapter is to ensure that readers understand the procedures for registration of taxpayers, filing of returns, assessment, collection and enforcement procedures, and offences and penalties.

6.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) know the registration and filing procedures for tax returns;
- (b) understand assessment procedures for companies;
- (c) explain the assessment and collection procedures;
- (d) explain the enforcement procedures;
- (e) know the timing and currency of payment of tax; and
- (f) explain applicable offences and penalties.

6.2 Registration for tax purposes and uses of Tax IDs

6.2.1 Registration with the relevant tax authority

(a) Registration of resident taxable persons - sections 4 and 5 of NTAA

For the purposes of compliance with tax obligations, every taxable person shall register with the relevant tax authority and obtain a taxpayer identification ("Tax ID").

In addition to the above, every ministry, department or agency of the Federal or a State government, and every local government shall register for tax and obtain Tax ID.

(b) Registration of non-resident taxable persons - section 6 of NTAA

A non-resident person shall register for tax purposes and obtain a Tax ID when he supplies taxable goods or services to any person in Nigeria, or derives income from Nigeria.

A non-resident person who derives only passive income from investment in Nigeria may not be required to register for tax but shall provide relevant information as may be required by the Service.

The relevant tax authority is empowered to issue guidelines for the purpose of giving effect to the provisions relating to registration of taxable persons.

6.2.2 Registration requirements and processes

(a) Limited liability companies

Every limited liability company registering with the NRS for tax purposes is required to submit two letters of registration – one for registration for income tax and the other letter for VAT.

The **registration letter for income tax** shall disclose the following information on the company:

- (i) name of the company;
- (ii) registered office;
- (iii) business address;
- (iv) precise nature of business;
- (v) date of commencement of business;
- (vi) accounting date
- (vii) name and address of bankers;

- (viii) particulars of major shareholders;
- (ix) particulars of directors;
- (x) name and address of auditors; and
- (xi) name and address of tax representative.

Also, the registration letter shall be accompanied by the following documents:

- (i) copy of certificate of incorporation (original for sighting);
- (ii) CTC of memorandum and articles of association;
- (iii) Copy of e-status report or Form CAC 2 and CAC 7 or Form CAC 1.1;
- (iv) recent utility bill of business address;
- (v) company stamp or seal; and
- (vi) the completed taxpayer registration input form for companies.

The **registration letter for VAT** shall be accompanied by the following documents:

- (i) completed copy of VAT form 001, that is, VAT registration form, duly signed by authorised company's representative; and
- (ii) certificate of incorporation.

(b) Business names

A business name is required to register for VAT purposes as follows:

- (i) submit an application for VAT registration on the firm's letterhead addressed to the Tax Controller of the nearest office of NRS;
- (ii) complete all registration forms given (VAT and input forms);
- (iii) provide a copy of certificate of registration and Form CAC/BN/A1 and submit the originals for sighting;
- (iv) recent utility bill; and
- (v) business stamp or seal to be applied on the NRS' forms given.

6.2.3 Issuance of tax ID - section 7 of NTAA

- (a) Upon receiving a request from any taxable person, the relevant tax authority shall, register and issue a Tax ID to the person.
- (b) Where a relevant tax authority refuses to register or issue a Tax ID upon request, it shall, within five working days of the decision, notify that person of the refusal with reasons.
- (c) Based on the information at the disposal of a relevant tax authority, it may register and issue a Tax ID to a person who should apply for a Tax ID, but failed to do so.
- (a) The relevant tax authority shall promptly inform a person registered and issued with a Tax ID under 6.2.2 (c) above.
- (b) There is no need for a taxable person having a valid Tax ID to apply for, or be issued with another Tax ID.
- (c) Any person who is aware that a taxable person has multiple Tax IDs, he shall promptly report to the relevant tax authority for unification.
- (d) A Tax ID issued to one taxable person is not transferable or usable by another taxable person.

6.2.4 Notification of change in particulars - section 9 of NTAA

- (a) Every taxable person shall, within 30 days of the occurrence of a change in

its particulars, notify the relevant tax authority of the change.

- (b) The change referred to in (a) above includes:
- (i) name, including trading name, location of business, telephone numbers or e-mail address, and registered address;
 - (ii) in the case of:
 - an incorporated person, persons holding 5% or more of its share capital, or the beneficial owner of the shares held by nominees;
 - a trust, the full identity, address and other contact details of the trustees and beneficiaries of the trust;
 - a partnership, the full identity, address and other contact details of all the partners; or
 - sale, liquidation, acquisition, take-over or merger of a business, all relevant information regarding the sale, liquidation or merger, and full details of the new owners.

6.2.5 Objectives and uses of Tax ID - section 8 of NTAA

(a) Objectives

Taxpayer identification (Tax ID) is a unique number allocated to each taxpayer with a view to identifying an individual, business or any other entity on tax returns and other documents filed with the tax authorities.

The major objectives of introducing Tax ID, include:

- i. identifying and registering of taxable persons;
- ii. widening of the tax base;
- iii. minimising tax evasion and fraud;
- iv. enhancing efficiency in tax administration;
- v. reducing cost of tax compliance;
- vi. ensuring that it is a condition precedent for the bidding of government contracts; etc.

(b) Uses of Tax ID - section 8 of NTAA

A Tax ID shall be:

- (i) disclosed on a return, notice, correspondence or documents submitted, lodged, or used for the purposes of tax compliance;
- (ii) disclosed on a document prepared, produced, issued or submitted in respect of a transaction; and
- (iii) a condition for entering into a contract with any federal or state ministry, department or agency and local government.

A person engaged in banking, insurance, stock-broking, or other financial services in Nigeria shall make the submission of a tax ID precondition for opening any account or operating an existing account.

6.2.6 Suspension, deregistration and cancellation of tax identification (Tax ID) - section 10 of NTAA

- (a) Where a taxable person temporarily ceases to carry on a trade or business in Nigeria, it shall notify the relevant tax authority of its intention to suspend its registration for tax purposes within 30 days of such temporary cessation of trade or business.
- (b) The relevant tax authority shall classify the Tax ID as dormant and place it on suspension.
- (c) Where a taxable person permanently ceases to carry on a trade or business

in Nigeria, the taxable person shall notify the relevant tax authority of its intention to deregister for tax purposes within 30 days of such cessation of trade or business.

- (d) Where a taxable person permanently ceases to carry on a trade or business, the relevant tax authority shall deregister the Tax ID.
- (e) The relevant tax authority shall deregister or cancel a Tax ID where it is satisfied that:
 - i. the taxable person is deceased, or, in the case of a body corporate, including a government ministry, department or agency is wound up or dissolved; and
 - ii. the person to whom the Tax ID was issued has another one.
- (f) A taxable person whose Tax ID has been suspended shall, upon reapplication, be re-issued with the same Tax ID.

6.3 Contents of income tax returns

6.3.1 Resident companies - section 11(1) of NTAA

Every company, including a company granted exemption from incorporation, whether or not it is liable to pay tax under Nigeria Tax Act or any other tax law, for a year of assessment, with or without notice from the Service, shall file a self-assessment return with the Service in the prescribed form at least once a year and such return shall contain:

- (a) a duly completed self-assessment form as may be prescribed by the Service;
- (b) the audited financial statements, tax and capital allowances computation for the year of assessment in respect of the profit from each and every source computed:
Provided that the return of a small company may contain a statement of accounts attested to by the taxpayer in place of audited financial statements;
- (c) evidence of payment of the tax due;
- (d) computation of the effective tax rate and additional tax payable, where applicable; and
- (e) an attestation of the information contained in the tax returns signed by a principal officer of the company.

6.3.2 Non-resident companies - Section 11 (2) of NTAA

Where a non-resident company derives profit from or is taxable in Nigeria, under Chapter Two of the NTA, such company shall be required to submit a return for the relevant year of assessment, which contains:

- (a) the company's full audited financial statements and the financial statements of the Nigerian operations, attested to by an independent qualified or certified accountant in Nigeria;
- (b) schedules of tax computation based on the profits attributable to its operations in Nigeria;
- (c) a true and correct statement, in writing, indicating the amount of profits from each and every source in Nigeria; and
- (d) duly completed Companies Income Tax Self-assessment Forms;
- (e) evidence of payment of the tax due; and
- (f) a computation of the effective tax rate and additional tax payable, where applicable.

In any year of assessment, where a company other than a Nigerian company only earns income on which withholding tax is the final tax under the Act, the obligation to file a tax return in the manner prescribed shall not apply to such company in that year of assessment.

6.3.3 Companies on cessation - section 11 (4) of NTAA

A company that permanently ceases operations in Nigeria, shall file the returns for the

year of cessation and any outstanding return.

6.4 Due dates for filing of tax returns

6.4.1 Limited liability companies - section 11 (5) of NTAA

The statutory timelines for filing of audited accounts and income tax returns by all companies shall be, in the case of:

- (a) an **existing company**, that is, a company that has been in business for more than eighteen months, the due date for filing tax returns is six months after the end of the company's accounting year;
- (b) a **newly incorporated company**, the due date for filing tax returns is within eighteen months from the date of its incorporation or not later than six months after the end of its first accounting period, whichever is earlier; or
- (c) a company that ceases to carry on trade or business in Nigeria, not later than six months from the date of cessation of trade or business in Nigeria.

6.4.2 Appointment of agents to file returns - section 11 (6) of NTAA

A company has the prerogative to appoint representative(s) to deal with its tax matters and where the person so appointed is an agent, such a person shall be an accredited agent.

6.4.3 Other returns

- (a) Banks, insurance companies, stock-broking firms and other financial institutions - section 29(1) of NTAA

- (i) For tax purposes and without prejudice to the provisions of any other Act relating to data privacy, data protection and unlawful disclosure of taxpayer information (section 142 of this Act), every bank, insurance company, stock-broking firm, or any other financial institution, shall prepare, with or without demand by the Service, annual returns specifying the names, customer location and transactions of new and existing customers in the case of:

- an individual, where the cumulative transactions in a month amount to ₦50,000,000.00 or more; or
- a body corporate, where the cumulative transactions in a month amount to ₦250,000,000.00 or more.

- (ii) Every bank, insurance company, stock-broking firm, other financial institutions, or any other legal arrangement shall, as may be prescribed by way of notice, rules, regulations, guidelines, or circulars issued by the relevant tax authority prepare and submit returns of:

- transactions involving the specified sum;
- names, addresses, including foreign addresses, or any other information of its customers connected with those transactions; or
- names, addresses, or any other information of new or existing customers.

- (iii) Without prejudice to points noted above, for the purpose of obtaining information relative to taxation, the relevant tax authority may give notice to any person including a person engaged in banking business in Nigeria to provide within the time stipulated in the notice, information including the name and address of any person specified in the notice.

- (iv) Notwithstanding the provision of (iii) above, a person engaged in banking

business in Nigeria, shall not be required to disclose any additional information about his customer or his bank under this section unless such additional disclosure is required by a notice signed by the Chief Executive Officer of the relevant tax authority.

(b) Virtual assets service providers (VASP) - section 25 of NTAA

Where a taxable person is engaged in services related to the exchange, custody or management of virtual assets as a Virtual Asset Service Provider (VASP), it shall, with or without a notice, in addition to the returns provided in sections 11 and 13 of this Act (filing of income tax returns), submit to the relevant tax authority, the returns which shall contain:

- (i) a description of the virtual asset service (exchange, sale, or transfer of virtual assets) provided during the month;
- (ii) the date of the transaction;
- (iii) the type and value of the virtual assets involved;
- (iv) the sales value of the virtual assets;
- (v) the name, address, telephone number, email address and Tax ID of the customer including the national identification number of the customer if he is an individual;
- (vi) the name, address, telephone number and email address of any counterparty involved to the transaction; and
- (vii) such other particulars as may be prescribed by the relevant tax authority.

Notwithstanding the information noted above, the relevant tax authority may at any time, with or without a notice, request a VASP to submit further information in a prescribed form, by a specified date.

(c) Priority companies - section 26 of NTAA

Any company granted priority status shall, in accordance with section 11 of this Act (which relates to filing of returns), in each year of assessment, file income tax returns in the manner specified for both priority and non-priority products or services of the company.

(d) Taxable persons enjoying incentives - section 27 of NTAA

- (i) Taxable entities enjoying incentives administered by the relevant tax authorities, including incentives provided under Chapter Eight (income tax exemptions, economic development tax incentives) and section 60 (export processing and free trade zones entities) of Nigeria Tax Act, shall, in addition to annual tax returns, submit Annual Tax Incentives returns to the relevant tax authority in the form prescribed by the Service, covering income tax and any incentive other than those which are generally available to all taxpayers.
- (ii) Where annual tax incentives returns are filed by individuals, the tax authority in each State shall, within 60 days from the end of the due date for filing of the annual tax returns, transmit to the Service the annual tax incentives returns filed.
- (iii) The Service shall, submit its annual report to the Minister under section 23 of Nigeria Revenue Service Act (expenditure of the Service and include the summary of the returns received for tax incentives.
- (iv) The Minister is empowered to issue a regulation for further administration of this

section.

- (e) Returns for deduction of tax at source - section 28 of NTAA

Every person who is charged with the responsibility to deduct and remit tax under this Act or any other tax legislation, shall render monthly returns to the appropriate tax authority, as specified in the regulation issued for that purpose.

6.5 Maintenance of books - section 31 of NTAA

- (a) Every taxable entity, including a company granted exemption from incorporation, shall, whether or not the person is liable to pay tax, maintain books or records of accounts.
- (b) The books or records of accounts shall contain sufficient information or data of all relevant transactions for the ascertainment of the person's tax liability.
- (c) The books and records required to be maintained under (a) above, shall be in English language and shall, for the purpose of tax, be consistent with the format that may be prescribed by the relevant tax authority.
- (d) Where the record is maintained in a language other than the English language, the person shall, on demand by the tax authority, produce, at its own expense, a translation in English language, which shall be certified by a sworn translator.
- (e) Any book or record required to be kept under this section shall be kept for a period not less than six years after the year of assessment in which the income relates.

6.6 Time within which to pay tax assessed - section 49 of NTAA

- (a) Subject to section 11 of this Act (filing of income tax returns) and without prejudice to any other provision of this Act, every taxable person shall make payment of tax due on or before the due date of filing in one lump sum or in instalments, provided that the final instalment shall be paid on or before the due date of filing.
- (b) Tax charged by any assessment which is not or has not been the subject of an objection or appeal shall be payable, after the deduction of any amount to be setoff for the purposes of collection under any provision of this Act, or any amount deposited against the tax, at the place stated in the notice of assessment within 30 days of service of such notice upon the taxable person, provided that the relevant tax authority, in its discretion, may extend the time within which payment is to be made.
- (c) Collection of tax in any case where notice of an objection or appeal has been given by the taxable person shall remain in abeyance until such objection or appeal is determined, provided that the taxable person shall pay the tax which is not the subject of an objection or appeal.
- (d) When an objection or appeal is determined, the relevant tax authority shall serve the taxable person, a notice of the tax payable as so determined, and that tax shall be payable within 30 days of the date of service of such notice.
- (e) Any balance of tax unpaid as at the due date shall attract interest and penalties as provided in this Act or any other relevant law.
- (f) Where a taxable person is granted an extension by the relevant tax authority of the period for the payment of a tax and the person fails to make the payment

within that period of extension, penalty and interest shall accrue from the due date of payment of the tax as if the extension was never granted.

- (g) Where there is no objection or appeal, the relevant tax authority may proceed to enforce the recovery of the tax payable in accordance with the provisions of this Act.

6.7 Penalties for late registration, late filing of returns, and failure to keep proper books or records

6.7.1 Failure to register - section 100 of NTAA

- (a) A taxable person who fails or refuses to register with the relevant tax authority for tax, shall be liable to pay an administrative penalty of:
 - (i) ~~₦~~50,000 in the first month in which the failure occurs; and
 - (ii) ~~₦~~25,000 for each subsequent month in which the failure continues.
- (b) A statutory body or company who awards a contract to an unregistered person, shall be liable to pay an administrative penalty of ₦5,000,000.

6.7.2 Late filing of returns - section 101 of NTAA

A taxable entity who fails or refuses to file returns or knowingly files incomplete or inaccurate returns to the relevant tax authority in accordance with the provisions of this Act, shall be liable to pay an administrative penalty of:

- (a) ~~₦~~100,000.00 in the first month in which the failure occurs; and
- (b) ~~₦~~50,000.00 for each subsequent month in which the failure continues.

6.7.3 Failure to keep proper books

A taxable entity who:

- (a) fails to keep accounts, books and records of business transactions and income, to allow for the correct ascertainment of tax and filing of returns to the relevant tax authority; or
- (b) upon request by the relevant tax authority, fails to provide any record or book prescribed in this Act shall be liable to pay an administrative penalty, in the case of:
 - (i) a person other than a company, ~~₦~~10,000.00, and
 - (ii) in the case of a company, ~~₦~~50,000.00.

6.8 Assessment procedures

Where a company has filed a self-assessment return comprising its audited accounts and tax computations based thereon, the NRS may accept the returns as made, if found satisfactory.

At the expiration of the time limit specified by section 11 (5) of NTAA for the submission of tax returns, audited accounts and tax computations, the NRS, shall proceed to assess every company that fails to file its self-assessment tax returns.

6.8.1 Self-assessment - section 34 of NTAA

- (a) The self-assessment is a system of tax administration in which the taxpayer is granted the right, by law, to compute his own tax liability, submit his return with the relevant tax authority, pays the tax due and files his tax returns with evidence of payment of the tax paid on or before the due date.
- (b) A taxpayer who has submitted a self-assessment return in the prescribed form for a reporting period is deemed to have made an assessment of the amount of tax payable, including a negative or nil amount, for the reporting period to which the return relates.
- (c) When a taxpayer completes and submits a tax return in the approved form electronically, it is a self-assessment notwithstanding that:

- i. the form contains pre-entered information supplied by the tax authority; and
 - ii. an estimate of the tax payable is computed electronically as information is being entered into the form.
- (d) Where a taxable person has delivered a tax return, the relevant tax authority may:
 - i. accept the tax return without making an additional assessment;
 - ii. accept the tax return and make additional assessment; or
 - iii. reject the tax return and, to the best of its judgement, determine the amount of the tax due from the taxable person and make an assessment accordingly.
- (e) Where the taxable person fails to declare the true and correct amount of income or tax payable in its self-assessed tax returns, the taxable person is liable to pay any outstanding tax from the due date of the returns.
- (f) The outstanding tax shall be subject to penalty and interest, in accordance with the provisions of this Act or other relevant tax law from the date the return becomes due.

6.8.2 Additional assessment - section 36 of NTAA

- (a) Where the relevant tax authority discovers or is of the opinion, at any time, that any taxable entity liable to tax has not been assessed or has been assessed at an amount less than that which ought to have been charged, the relevant tax authority may, within six years of an assessment, assess the taxable person at such amount or additional amount, as ought to have been charged.
- (b) The six-year limitation period stipulated in (a) above, shall not preclude the relevant tax authority from continuing with a tax audit and for raising additional assessment where the tax audit commenced before the expiration of the six-year limit.
- (c) The provisions of this Act as to the notice of assessment, appeal and other proceedings shall apply to such assessment or additional assessment and to the tax charged.
- (d) Notwithstanding the time limit specified in (a) above, where there is a deliberate misstatement by a taxable person in connection with any tax imposed under the Nigeria Tax Act or any other tax law, the relevant tax authority may at any time and as often as may be necessary, assess the taxable person to such amount or additional amount as may be necessary for the purpose of making good any loss of tax attributable to the deliberate misstatement.
- (e) All relevant facts shall be considered in the computation of the amount or additional amount of tax that should have been charged under (a) above, even where such facts were not known when a prior assessment or additional assessment was made for the taxable person in the same year.

6.8.3 Best of judgement (BOJ)/administrative assessment - section 35 of NTAA

- (a) Where a taxable entity has not delivered a tax return as provided under this Act, and the relevant tax authority is of the opinion that such taxable person is liable to pay tax, it may, to the best of its judgement, determine the amount of the tax due from the taxable person and make an assessment accordingly.
- (b) The assessment issued under (a) above shall not affect the imposition of any other liability specified in this Act or any other law, incurred by the taxable person by reason of its failure or neglect to deliver a return.
- (c) The relevant tax authority may prescribe the rules, guidelines and procedures for the issuance of administrative assessment under this section.

- (d) An assessment can be made by the relevant tax authority upon a taxable person for any year before the expiration of the time within which it is required to deliver a return or to give notice under the provisions of this Act, if the relevant tax authority considers such assessment to be in jeopardy.

6.8.4 Deemed profit assessment or income statement - section 38 of NTAA

- (a) Where a company or trade produces either no assessable profit or an assessable profit which is less than expected from that business or the true amount of the assessable profit cannot be readily ascertained, the relevant tax authority may, in the case of:
- (i) a resident, assess and charge that taxable person on such fair and reasonable percentage of the gross income from the trade or business as the relevant tax authority may determine; or
 - (ii) a non-resident, the profits shall be any amount resulting from applying the profit margin of the person to the turnover generated from Nigeria.
- (b) For the purpose of (a)(ii) above, "profit margin" shall be the proportion of the Earnings Before Interest and Tax ("EBIT") to income or revenue in the published audited financial statement of the business, and in the case of persons that are not required to publish financial statements, the profit margin as may be ascertained by the relevant tax authority from financial statements of comparative companies.

6.8.5 Substitution of dividend for total profit - section 9 of NTA

- (a) Where a Nigerian company declares dividend out of profits on which no tax is payable due to:
- (i) there being no total profits, or
 - (ii) total profits which are less than the amount of dividend which it declared, whether or not the recipient of the dividend is a Nigerian company, the company paying the dividend shall be charged to tax at the rate prescribed in section 56 of this Act (rates of tax for companies) as if the dividend is the total profits of the company for the year of assessment to which the accounts, out of which the dividend is declared, relates.
- (b) The provisions of (a) above shall not apply to:
- i. dividends declared out of the retained earnings of a company, to the extent that the profits or gains included in the retained earnings have been taxed under the provisions of this Act;
 - ii. dividends declared out of profits or gains that are exempt from income tax by this Act;
 - iii. franked investment income as provided in this Act; or
 - iv. distributions made by a real estate investment company to its shareholders from rental income and dividend income received on behalf of those shareholders, whether such dividends are paid out of profits of the year in which the dividend is declared or out of profits of previous reporting periods.

6.8.6 Assessments based on undistributed profits treated as distributed - section 10 of NTA

- i. A Nigerian company controlled by not more than five individuals which has not distributed to its shareholders as dividend, profits made in any period for which accounts have been made up by such company, the Service may direct that the proportion of the profits of the company, which could have been distributed without detriment to the company's business, be construed as distributed.

- ii. The gross amount of profits construed as distributed under (a) above shall constitute a taxable income in the hand of individual shareholders of the company in proportion to their shareholdings in the ordinary capital of the company on the day of the deemed distribution.
- iii. Any direction by the Service under this section shall be made in writing, and be served on the company, and shall specify the:
 - (i) the day to be taken for the purposes of this section;
 - (ii) the gross amount of those profits so deemed to be distributed;
 - (iii) the rate applied for the deduction at source, being the rate prescribed by Nigeria Tax Administration Act; and
 - (iv) the net amount after the deduction at source.
- iv. For the purposes of this section, the Service may give notice to any company, which it has reason to believe is controlled by not more than five individuals, requiring it to supply, within such time as contained in such notice, full particulars of its shareholders.
- v. In the case of a limited liability partnership, all the profits of the partnership shall be deemed as distributed, and taxable income, proportionately, in the hands of the respective partners.
- vi. Any direction made by the Service under this section with respect to the profits of any accounting period of a company shall be made not later than three years after the receipt by the Service of the duly audited accounts of the company for that period.
- vii. A company in respect of which a direction is made under this section, has the right of appeal in accordance with Chapter Four of Nigeria Tax Administration Act, 2025.

6.8.7 Presumptive tax - section 29 of NTA

Where it is not practicable to ascertain the income of a person chargeable to tax or records are not kept in such a manner as to enable proper assessment of income, then such a person shall be assessed on such terms and conditions as may be prescribed by the Minister on the advice of the Joint Revenue Board in a regulation under a presumptive tax regime.

6.8.7 Assessments to be final and conclusive - section 43 of NTAA

(a) Where:

- i. a company does not lodge a valid objection or appeal within the time stipulated under this Act, (30 days of receiving an assessment) against an assessment as regards the amount of the total income or profits assessed;
 - ii. the amount of the total income or profits has been agreed to;
 - iii. the amount of such total profits has been determined on objection or revised; or
 - iv. the assessment as made, has been agreed to, revised or determined on appeal; such assessment shall be **final and conclusive** for all purposes of this Act as regards the amount of such total profits.
- (b) Where the full amount of tax in respect of any final and conclusive assessment is not paid within 30 days, the provisions relating to the recovery of tax, and to any penalty, shall apply to the collection and recovery.
- (c) The provision in (b) above, shall be subject only to the set-off of the amount of any tax repayable under any claim, made under the relevant provisions of this Act which has been agreed to by the relevant tax authority or determined on any appeal against a refusal to admit any such claim.
- (d) No provisions of this Act shall prevent the tax authority from making any assessment or additional assessment for any year which does not involve re-

opening any issue on the same facts, which has been determined for that year of assessment by agreement or on appeal.

6.8.8 Errors and defects in assessment and notice - section 42 of NTAA

- (a) Any assessment, notice, warrant or other proceeding purporting to be made in accordance with this Act, shall not be invalidated for want of form or be affected by reason of a mistake, defect or omission, if the:
- (i) substance and effect of the assessment is in conformity with the provisions
 - (ii) of this Act; and
 - (iii) company assessed or intended to be assessed or affected is designated according to common intent and understanding.
- (b) An assessment shall not be invalidated or affected by reason of:
- (i) a mistake as to the:
 - name of a company liable or of a person in whose name a company is assessed,
 - the description of any profits, or
 - amount of the tax charged; or
 - (ii) any variance between the assessment and the notice, if in cases of assessment, the notice
 - is duly served on the company intended to be assessed or on the person in whose name the assessment was to be made; and
 - contains, in substance and effect, the particulars on which the assessment is made.

6.8.9 Artificial transactions - section 46 of NTAA

- (a) Where a relevant tax authority is of the opinion that any disposition is not in fact given effect to or that any transaction which reduces or would reduce the amount of any tax payable is artificial or fictitious, it may disregard any such disposition or direct that such adjustments be made, as regards liability to tax, as it considers appropriate so as to counteract the reduction of liability to tax affected, or reduction which would be affected by the transaction and any taxable person concerned shall be assessed accordingly.
- (b) Transactions between persons who are connected shall be deemed to be artificial or fictitious, if in the opinion of the relevant tax authority, those transactions have not been made on terms which might fairly have been expected to have been made by persons engaged in the same or similar activities dealing with one another at arm's length.
- (c) A person in respect of which any direction is made under this section shall have a right of appeal as if such direction were an assessment under this Act.
- (d) The relevant tax authority may issue guidelines or regulations for the purpose of specifying rules for the taxation of connected persons, transactions that are not at arm's length, or for the purpose of implementing other provisions of this section.
- (e) In this section, "disposition" includes any trust, grant, covenant, agreement or arrangement.

6.9.9 Liability of manager or principal officer - section 45 of NTAA

A manager or principal officer of a company shall be liable for doing all such acts, matters and things as are required to be done by virtue of this Act for the assessment of the company and payment of the tax.

Based on the provision of section 52 of NTAA, a manager or agent answerable for payment of tax on behalf of a taxable person:

- (a) may retain out of any money received on behalf of the taxable person so
- (b) much as shall be sufficient to pay the tax; and
- (c) is indemnified against any person for all payments made.

6.9.10 Company wound up - section 53 of NTAA

- (a) In the process of liquidating a company, the liquidator of the company shall not distribute any of the assets of the company to the shareholders unless provision has been made for the payment in full of any tax which may be found payable by the company, including any tax deductions made by the company under any law in effect in any part of Nigeria.
- (b) Where tax is not paid in accordance with the provision of this section or any other law, the liquidator shall be personally liable.

6.9 Collection procedures

6.9.1 Service of notice of assessment - section 40 of NTAA

The relevant tax authority can serve on, or send by registered post, courier service or electronic means to each taxable person, or person in whose name a taxable person is chargeable, a notice of assessment in respect of any tax charged, including the place at which payment should be made, and setting out the rights of that person to apply to the relevant tax authority for the revision and amendment of the assessment made upon it.

6.9.2 Currency of assessment and payment - section 39 of NTAA

Income tax charged on a company shall be paid in the currency of the transaction, that is, the currency in which the income that gives rise to the tax was derived and paid to the company. If a company's transactions are in a foreign currency, tax shall be payable in that currency.

6.9.3 Tax refund - section 55 of NTAA

- (a) Taxpayers shall be entitled to a refund after an audit by the relevant tax authority, such overpayment or any excess of tax as is due.
- (b) The relevant tax authority is empowered to make such rules and conditions necessary to facilitate the refund mentioned in (a) above.
- (c) Any tax refund due shall be made within 90 days of the decision of the relevant tax authority made under (b) above, with the option of a set-off against any tax liability of the taxpayer.
- (d) For the purpose of tax refund, the Accountant-General of the Federation or of a State shall open a dedicated account for each tax-type into which shall be paid money for settling tax refunds.
- (e) For the purpose of (d) above, the relevant tax authority shall provide the Accountant-General of the Federation or of a State an estimate of the amount to be set aside for tax refunds.
- (f) The dedicated accounts created under (d) above, shall, be administered by the relevant tax authority and be funded from the respective accounts of Government into which revenue of each tax-type is remitted.
- (g) No claim for refund of tax under this section shall be allowed unless it is made in writing within six years after the end of the year of assessment to which it relates.

6.9.4 Transfer of tax revenue for refund - section 82 of NTAA

- (a) The relevant tax authority, shall, not later than seven days after the end of each month, furnish the Accountant-General of the Federation or Accountant-General of the State with the schedules containing the summary of taxes collected, and tax refund claims.

- (b) Notwithstanding the provisions of any other law, the Accountant-General of the Federation or of a State shall, before the distribution of tax revenue, deduct an amount equal to the total tax refund claims compiled by the relevant tax authority from the gross revenue realised from tax and remit same to the respective tax refund accounts opened under section 55(4) of this Act.
- (c) The relevant tax authority must, not later than seven days after the end of each month, submit to the Accountant-General of the Federation or of a State, a reconciliation schedule of:
 - (i) the amount received into the tax refund account;
 - (ii) the total tax refund claims paid; and
 - (iii) any amount standing to the credit of the respective Tax Refund Accounts.
- (d) The Accountant-General of Federation or of a State may use the amount standing to the credit of a tax refund account at the end of a month to reduce the amount required for tax refund claims in a subsequent month.

6.10 Enforcement procedures

Where a company has failed to pay any companies income tax assessed on it, the NRS is empowered to either enforce payment or recover the tax due, through any of the methods stipulated in the NTAA

6.10.1 Call for returns, books, documents and information - section 57 of NTAA

- (a) In the process of obtaining information in respect of the tax liability of a taxable entity or for performing any function conferred on the relevant tax authority by this Act or any other tax law, the relevant tax authority may give notice or further notice to any taxable entity to:
 - (i) complete and deliver to the tax authority any return specified in such notice or further notice, whether or not the person is liable to pay tax, and whether or not a return had been previously filed under this Act for a year of assessment;
 - (ii) appear personally before an officer of the tax authority for examination with respect to a matter to which such notice or further notice relates;
 - (iii) produce or cause to be produced for examination, books, documents, records or information relating to any assets, at the place and time stated in the notice or further notice, which time may be from day-to-day, or for such period as the tax authority may deem necessary;
 - (iv) provide orally or in writing, any information specified in such notice or further notice; and
 - (v) grant the tax authority access to records, data or information stored or residing in computers or other electronic devices, including magnetic media or cloud computing facilities maintained, operated, controlled or owned by the individual, company or person.
- (b) The time specified in the notice or further notice under (a) above shall not be less than seven days from the date of service.
- (c) The tax authority shall not be precluded from verifying, by tax audit or investigation, any matter relating to a return or entry in a book, document, accounts, including those stored on a computer, cloud computing facilities, in digital, magnetic, optical or electronic media as may be specified in any guideline by the relevant tax authority.
- (d) A taxable entity may apply in writing to the relevant tax authority for an extension of time within which to comply with the provisions of this section, and other relevant provisions of this Act, provided that the taxable entity:
 - (i) makes the application before the expiration of the time stipulated in the notice or further notice; and

- (ii) shows good cause for inability to comply with this provision.
- (e) If the relevant tax authority is satisfied with the cause shown in the application under d(ii) above, it shall, in writing, grant the extension of the time or limit the time as it may consider appropriate.
- (f) Any return or information delivered under this section shall be accompanied by a declaration or an attestation stating that the information supplied is true and correct.

6.10.2 Power to access lands, buildings, books and documents - section 58 of NTAA

- (a) In spite of anything to the contrary in any other enactment or law, an authorised officer of the relevant tax authority shall at all reasonable times have free access to all land, buildings, places, books and documents, in the custody or under the control of a person, public officer, or institution, for the purpose of inspecting the books or documents, including those stored or maintained in computers, servers, billing systems or on digital, magnetic, optical or electronic media, and any property, process or matter which the officer considers necessary or relevant for the purpose of collecting any tax under any of the relevant enactments or law.
- (b) Where the hard copies of any of the books or documents mentioned in (a) above are not immediately available because they are stored in a computer, servers, billing system or on digital, magnetic, optical or electronic media, the relevant tax authority shall take immediate possession of such removable media and the related removable equipment or computer used to access the stored documents on the media in order to prevent the accidental or intentional destruction, removal or alteration of records and documents, especially where such may be needed as potential evidence in investigation or criminal proceedings.
- (c) Where the relevant tax authority is able to obtain in place of taking physical possession of such equipment, computer or storage media under (b) above, and the relevant tax authority possesses the ability, equipment and computer software to make exact duplicate copies of all information stored on the computer hard drive and preserve all the information exactly as it is on the original computer, the relevant tax authority shall make such copy and use it as digital evidence during investigation or criminal proceedings.
- (d) The occupier of a land, building or place that is entered or proposed to be entered by an authorised officer, shall:
 - (i) provide the officer with all reasonable facilities and assistance for the effective exercise of powers under this section; and
 - (ii) answer questions relating to the exercise of the powers under this section orally, or if required by the authorised officer, in writing or by statutory declaration.
- (e) In spite of (a) above, the authorised officer shall not enter any private dwelling except with the consent of an occupier or pursuant to an authorisation issued under (f) below.
- (f) A judicial officer upon an application by an officer of the relevant tax authority may authorise the officer by warrant to enter into any premises.
- (g) Every authorisation issued under (f) above, shall:
 - (i) be in the form prescribed in the Second Schedule to this Act;
 - (ii) be directed to a named officer of the tax authority;

- (iii) be valid for a period of three months from the date of its issue or such lesser period as the judicial officer considers appropriate;
 - (iv) state its period of validity, or the date on which it expires; and
 - (v) be renewable by the judicial officer on application.
- (h) An officer exercising the power of entry conferred by an authorisation issued under (f) above shall produce the written authorisation and evidence of identity:
- (i) on first entering the private dwelling; and
 - (ii) whenever subsequently reasonably required to do so.

6.10.3 Power to remove books and documents - section 59 of NTAA

- (a) An officer of the relevant tax authority can remove and make copies of books or documents, or any item accessed under section 58 of this Act (power to assess lands, buildings, books and documents), under the authority of the Chief Executive Officer.
- (b) Any copy of the books or documents removed shall be made, and the books or documents returned as soon as practicable.
- (c) A copy of a book or document or digital evidence certified by or on behalf of the Chief Executive Officer of the relevant tax authority is admissible in evidence in court as if it were the original.
- (d) The owner of a book or document or any item that is removed under this section is entitled to inspect and obtain a copy of the book or document at the expense of the owner, at the premises to which the book or document is moved to:
 - (i) at the time the book or document is moved to the premises; and
 - (ii) at reasonable times subsequently.
- (e) A person shall bear any cost incurred for the purpose of removing any book, information, document or item under (a) above.
- (f) Where an officer removes any book, documents or items he shall provide the owner with a written receipt containing the description of the books, documents or items removed and the location and time of removal.

6.10.4 Power to distrain - section 61 of NTAA

- (a) Where an assessment has become final and conclusive and a demand notice has been served on a person or company, or on the person or company in whose name that person is chargeable and the payment of the tax is not made within the time specified by the demand notice, the relevant tax authority may in the prescribed form, for the purpose of enforcing payment of the tax due:
 - (i) distrain that person or corporate body by their goods, chattels, bonds or other securities; or
 - (ii) distrain any land, premises, place or any asset in respect of which that person or corporate body is the owner, and recover the amount of tax due by sale of anything so distrained.
- (b) The authority to distrain under this section shall be in the form contained in the Third Schedule to this Act and such authority shall be sufficient warrant and authority to levy by distrain the amount of any tax due.
- (c) Assets distrained by the Service under this section may, at the cost of that person or corporate body, be kept for 14 days and at the end of that time if the amount due in respect of the tax, cost and charges incidental to the distrain are not paid, they may, subject to (e) below, be sold only with an order of the High Court subject to (f) below.

- (d) Assets distrained by any other relevant tax authority under this section may at the cost of that person or corporate body, be kept for 14 days and at the end of that time if the amount due in respect of the tax, cost and charges incidental to the distraint are not paid, they may, subject to (f) below, be sold, only with an order of the High Court subject to (g) below.
- (e) Where there is a sale in accordance with (d) above, a part of the proceeds of such sale shall, in the first instance, be used to pay the cost of keeping and all expenses incidental to the sale of the asset so distrained, the amount due in respect of the tax shall be paid.
- (f) The balance of the proceeds, if any, shall be refunded to that person with or without a demand made within 90 days of the date of the sale.
- (g) The provision of this section shall not be construed to authorise the sale of any immovable property without an order of a High Court or as prescribed by the rules of court.
- (h) In exercise of the powers of distraint conferred by this section, the person to whom the authority is granted under (c) above, may distraint all assets, goods, chattels and effects belonging to the debtor wherever the same may be found.
- (i) This provision shall also apply in the case of recovery relating to tax evasion and proceeds of crime where the offender cannot be found.

6.10.5 Enforcement of powers - section 62 of NTAA

- (a) The relevant tax authority may request the assistance of any of the law enforcement agencies in the discharge of its duties under this Act.
- (b) The law enforcement officers shall aid and assist an authorised officer in the execution of any warrant of distraint and the levying of distraint.
- (c) Any tax officer armed with the warrant issued by a judicial officer and accompanied by law enforcement officers, as may be determined by the Chief Executive Officer of the relevant tax authority, shall:
 - (i) enter any premises covered by such warrant and search for, seize and take possession of any book, document or other article used or suspected to have been used in the commission of an offence, including the property or asset;
 - (ii) inspect, make copies of or take extracts including digital copies from any book, record, document or computer, regardless of the medium used for their storage or maintenance;
 - (iii) for the purpose of c (i) and (ii), the taxpayer shall provide passwords, access codes and other relevant information required to access the books, records, documents or computers.
 - (iv) search any person who is in or on such premises;
 - (v) open, examine and search any article, container or receptacle;
 - (vi) open any door or window of a premises and enter or otherwise forcibly enter the premises and every part of the premises; or
 - (vii) remove by reasonable force any obstruction to such entry, search, seizure or removal.

- (d) A person shall not be bodily searched under this section except by a person who is of the same gender as the person to be bodily searched.

6.10.6 Power of substitution - section 60 of NTAA

- (a) The relevant tax authority can, by notice in writing, appoint any person to be the agent of a taxable person, where:

- (i) any tax has become due and payable and the taxable person has refused or failed to pay; or
 - (ii) the agent appointed is in possession or is expected to be in possession of the money, funds or assets of the taxable person.
- (b) The agent appointed under (a) above, shall be required to pay any tax payable by the taxable person from any money, funds or asset of the person which may be held by the agent of the person.
- (c) Where the agent referred to in (b) above defaults, all such enforcement and recovery actions, including the power to distrain the money, funds or asset of the person shall apply as if the agent so appointed were originally liable.
- (d) For the purpose of this section, the relevant tax authority may require any person to give information as to money, funds or other assets which may be held for, or due to any person.
- (e) The provisions of this Act with respect to objections and appeals shall apply to any notice given under this section as if such notice were an assessment or demand notice.

6.10.7 Remission of penalty - section 66 of NTAA

The relevant tax authority must, for any good cause shown, remit the whole or any part of penalty or interest due under this Act or any other tax law, and make a monthly report to the Minister or Commissioner responsible for finance containing details of the taxpayers, circumstances and the amounts waived.

6.10.8 Recovery of tax - section 67 of NTAA

- (a) Without prejudice to any other provision of this Act or any other relevant law, anytax due shall constitute a debt due to the relevant tax authority.
- (b) Where the tax due is not paid within 30 days, the relevant tax authority may issue demand notice for the payment of the tax plus the penalty and interest due.
- (c) Where the tax plus the penalty and interest is not paid on the date indicated in the notice, the relevant tax authority may exercise any of the powers under this Act for the recovery of the amount due, including by a legal action brought against the taxable person.
- (d) Where any tax has been:
 - (i) under-assessed, the taxable person who should have paid the amount under-assessed, shall on demand by the relevant tax authority, pay the amount under-assessed; or
 - (ii) erroneously repaid, the taxable person to whom the repayment has erroneously been made, shall on demand by the relevant tax authority, pay the amount erroneously repaid.
- (e) The amount referred to in (a) above, may be recovered by the relevant tax authority as if it were tax to which a person to whom the amount was so under-assessed or erroneously repaid were liable.
- (f) The relevant tax authority shall not make any demand after six years from the date of under-assessment or erroneous repayment, unless the under-assessment or erroneous repayment was caused by the production of a document or the making of a statement which was found to be untrue.

6.10.9 Assignment of tax debts -section 68 of NTAA

- (a) The relevant tax authority may assign outstanding tax debts, in whole or in part, to an accredited third party who shall assume responsibility for recovering the tax

debts in accordance with the provisions of this Act or regulations issued by the Service.

- (b) The relevant tax authority shall only assign outstanding tax debts to a third party where -
 - (i) all legal steps for tax debt recovery under this Act have been exhausted, including notifications, payment demands and enforcement actions; and
 - (ii) the debt to be recovered is deemed to be of significant value and has been outstanding for a period considered appropriate by the relevant tax authority.
- (c) A taxpayer whose debt is assigned to a third party shall be notified in writing, the details of the third party responsible for recovering the tax debt.
- (d) Notwithstanding (a) above, the relevant tax authority may reverse the assignment of the tax debt at any time and resume responsibility for recovery, where necessary.
- (e) For the purposes of this section:
 - (i) "third party" includes banks and other financial institutions, debt recovery practitioners or any other person accredited by the relevant tax authority; and
 - (ii) "assign" includes the transfer of the rights to recover a tax debt, including the sale or delegation of the authority to recover, manage and enforce the debt, in whole or in part.

6.10.10 Power to pay reward - section 69 of NTAA

- (a) The relevant tax authority may pay a reward to any person, not being a person employed or a person related to the person employed in the relevant tax authority, in respect of any information which may be of assistance to it in the performance of its duties under this Act, on such conditions and quantum of reward as may be determined by the relevant tax authority.
- (b) The identity of the person who gave information to the relevant tax authority shall be kept confidential and any person that discloses the identity of such person shall be dealt with in accordance with the provisions of section 114 of this Act (offence by persons authorised and unauthorised persons employed in connection with assessment and collection of tax).
- (c) The tax authority may partner with a relevant agency to verify the information supplied and such verification shall not compromise the identity of the person referred to in (a) above.

6.11 Service of notice of assessment - section 40 of NTAA

The relevant tax authority can serve on, or send by registered post, courier service or electronic means to each taxable person, or person in whose name a taxable person is chargeable, a notice of assessment in respect of any tax charged, including the place at which payment should be made, and setting out the rights of that person to apply to the relevant tax authority for the revision and amendment of the assessment made upon it.

6.12 Offences and penalties

6.12.1 Failure to pay tax on due date - section 65 of NTAA

- (a) Subject to section 67 of this Act (recovery of tax), where any tax is not paid within the period (within 30 days) prescribed under this Act:
 - (i) a sum equal to ten percent of the amount of the tax payable shall be added thereto, and the provisions of this Act relating to the collection and recovery of tax shall apply to the collection and recovery of the sum;
 - (ii) in the case of naira remittances, the tax due shall carry interest at the prevailing monetary policy rate of the Central Bank of Nigeria plus spread to be determined by the Minister from the date when the tax

becomes payable until it is paid, and the provisions of this Act relating to collection and recovery of tax shall apply to the collection and recovery of the interest; and

- (iii) in the case of foreign currency remittance, the tax due shall incur interest at the prevailing Secured Overnight Financing Rate ("SOFR") or any successor rate, plus spread to be determined by the Minister from the date when the tax becomes payable until it is paid, and the provisions of this Act relating to collection and recovery of tax shall apply to the collection and recovery of the interest.
- (b) The relevant tax authority shall serve a demand notice upon the company or person in whose name a tax is chargeable and where payment is not made within 30 days from the date of the service of such demand notice, the relevant tax authority may proceed to enforce payment under this Act.
- (c) The penalty and interest imposed under this subsection shall not be deemed to be part of the tax paid for the purpose of claiming relief under any of the provisions of this Act or any other tax law.

6.12.2 Failure to grant access for the deployment of technology - section 103 of NTAA

A person who refuses to grant access to the relevant tax authority to deploy technology after 30 days of receipt of the notice under this Act, is liable to an administrative penalty of ₦1,000,000 for the first day of default and ₦10,000 for each subsequent day of default.

6.12.3 Failure to use fiscalisation system - section 104 of NTAA

A taxable entity that fails to process a taxable supply through the fiscalisation system is liable to an administrative penalty of ₦200,000 plus 100% of the tax due and an interest at the prevailing Central Bank of Nigeria Monetary Policy rate per annum.

6.12.4 Failure to deduct tax - section 105 of NTAA

A person who is under an obligation to collect, deduct or withhold tax under the relevant tax laws, and fails to collect, deduct or withhold the tax due, is liable to an administrative penalty of 40% of the amount not deducted.

6.12.5 Failure to make attribution - section 106 of NTAA

A person who is required to make attribution but fails to do so or having done so, fails to notify the relevant tax authority, is liable to pay an administrative penalty of ₦1,000,000.

6.12.6 Failure to attend to demands, request or notices - section 108 of NTAA

- (a) A person who:
 - (i) fails to comply with the requirements of a notice served under this Act or any other tax law;
 - (ii) fails to attend or provide answers to a notice, summons or process served under this Act or any other tax law; or
 - (iii) having attended, fails to answer any question lawfully put to him, is liable to an administrative penalty of ₦100,000 in the first day of default and ₦10,000 for every subsequent day where the default continues.
- (b) A person who fails or refuses to supply information, documents, or records as demanded or requested for by an authorised officer relating to any tax issue under this Act or any other tax law within the time provided under this Act or any

other tax law, is liable to an administrative penalty of ₦200,000 in the first day of default and ₦10,000 for each subsequent day where the refusal continues.

- (c) A person who fails or refuses to comply with obligations to submit information relating to a legal arrangement or other obligations as may be prescribed by notice, rules, regulations, guidelines, or circulars issued by the Service or any other relevant tax authority, is liable to an administrative penalty of ₦1,000,000 for the first day of default, in addition to ₦10,000.00 for each subsequent day in which the failure continues, or any other administrative penalty as may be specified in such notice, rules, regulations, guidelines, or circulars.

6.12.7 Failure to notify change of address - section 112 of NTAA

A taxable entity who fails to notify the relevant tax authority of any change of address within 30 days of such change, gives a wrong address or fails to comply with the requirement for notification of permanent cessation of trade or business under the relevant tax laws shall be liable to administrative penalty of:

- (a) ₦100,000 for the first month in which the failure occurs; and
- (b) ₦50,000 for each subsequent month the failure continues.

6.12.8 Offence by authorised and unauthorised persons - section 114 of NTAA

A person, whether or not appointed for the administration of this Act, any other tax law or employed in connection with the assessment and collection of a tax who:

- (a) demands or accepts any gratification from a taxable person in the performance of his functions under this Act or any other tax law;
- (b) withholds for his own use or otherwise any portion of the amount of tax collected;
- (c) renders a false return, whether orally or in writing, of the amount of tax collected or received by him;
- (d) defrauds any person, embezzles money or otherwise uses his position to deal wrongfully with the relevant tax authority;
- (e) steals or misuses the documents of the relevant tax authority; or
- (f) compromises on the assessment or collection of any tax, commits an offence and is liable on conviction to a fine equivalent to 200% of the sum in question or imprisonment for a term not exceeding three years or to both fine and imprisonment.

6.12.9 Inducement of an authorised officer - section 115 of NTAA

A person who makes an attempt to induce, influence or entice an authorised officer in order to obtain any tax benefit in the course of duty, commits an offence and is liable on conviction to:

- (a) in the case of an individual, a penalty of ₦500,000; and
- (b) in the case of a body corporate, a penalty of ₦2,000,000 or to imprisonment for a term not exceeding 3 years or to both fine and imprisonment, in addition to paying the tax due.

6.12.10 Use of weapon - section 116 of NTAA

- (a) A person who, in the commission of an offence under this Act, is armed with any offensive weapon is liable on conviction to imprisonment for a term not exceeding five years.
- (b) A person who, while armed with an offensive weapon, causes injury to any officer or authorised officer of the relevant tax authority in the performance of any function or duty under this Act, is liable on conviction to imprisonment for a term not exceeding 10 years.

6.12.11 Impersonation of an authorised officer - section 117 of NTAA

Any person who is not an authorised officer, but assumes the name, designation or impersonates the character of an authorised officer, for any purpose under this Act or any other tax law, is liable on conviction to a fine not exceeding ₦1,000,000 or to imprisonment for a term not exceeding three years or both.

6.12.12 Aiding and abetting commission of offence - section 118 of NTAA

An officer of the relevant tax authority or any other person who aids, abets, incites or induces the commission of any of the offences under this Act, is liable on conviction to a fine of ₦1,000,000 or imprisonment for a term not exceeding three years or both the fine and imprisonment.

6.12.13 Obstruction - section 119 of NTAA

A person who:

- (a) obstructs, hinders, molests or assaults any person or authorised officer in the performance of any function or the exercise of any power under this Act;
- (b) does anything which impedes or is intended to impede the carrying out of a search, seizure, removal or distraint;
- (c) rescues, damages or destroys anything liable to seizure, removal or distraint;
- (d) does anything intended to prevent the procuring or giving of evidence as to whether or not anything is liable to seizure, removal or distraint; or
- (e) prevents the arrest of any person by an authorised person duly engaged or acting or rescues any person so arrested is:
 - (i) liable to an administrative penalty of ₦1,000,000; and
 - (ii) on conviction to a fine not exceeding ₦1,000,000 or imprisonment for a term not exceeding three years or to both fine and imprisonment.

6.12.14 Unauthorised disclosure - section 120

Except as provided under this Act, any other law or any enabling agreement or arrangement on exchange of information or as otherwise authorised by the Minister:

- (a) a member or former member of the Board of the relevant tax authority;
- (b) an employee or former employee of the tax authority; or
- (c) an agent or any person,

who communicates or attempts to communicate taxpayer information or information considered confidential to any person other than to a person legally authorised to receive such information or misuses the information is liable on conviction to a fine not exceeding ₦1,000,000 or to imprisonment for a term not exceeding three years or both.

6.12.15 False claim of tax refund - section 121 of NTAA

- (a) A person that receives a refund under section 55 of this Act, through a false or fictitious claim, is in addition to the recovery of the amount so received, liable to a penalty of 50% of that amount, plus interest at the prevailing Central Bank of Nigeria Monetary Policy Rate.
- (b) The provision in (a) above, shall not be construed as preventing the relevant tax authority from prosecuting that person in accordance with the relevant provisions of this Act.

6.12.16 False declaration - section 124 of NTAA

- (a) A person that makes or signs, or causes to be made or signed, delivers or causes to be delivered to the relevant tax authority or any of its officers, any declaration, notice, certificate or other document being a document or statement produced or made for any purpose of tax, which is untrue, is liable:
 - (i) to an administrative penalty of ₦1,000,000 in addition to the payment of the tax undercharged or not charged in consequence of the false declaration,

- plus payment of the amount of tax unpaid or over payment made in respect of any repayment; or
 - (ii) on conviction to a fine of ₦1,000,000 or to imprisonment not exceeding three years or both in addition to payment of the amount of tax unpaid or over payment made in respect of any repayment.
- (b) A person that makes any statement in answer to any question or enquiry put to him by an officer which he is required to answer by or under this Act or any other law, being a document or statement produced or made for any purpose of tax, which is untrue, is liable:
- (i) to an administrative penalty of ₦1,000,000 in addition to the payment of the tax undercharged or not charged in consequence of false declaration, plus payment of the amount of tax unpaid or over payment made in respect of any repayment; or
 - (ii) upon conviction, to a fine of ₦1,000,000 or to imprisonment not exceeding three years or both in addition to payment of the amount of tax unpaid or over payment made in respect of any repayment.

6.12.17 Counterfeiting documents - section 125 of NTAA

A person that:

- (a) counterfeits or falsifies any document which is required by or for the transaction of any business under this Act or any other relevant tax law;
- (b) knowingly accepts, receives or uses any document so counterfeited or falsified;
- (c) alters any such document after it is officially issued; or
- (d) counterfeits any seal, signature, initial or other mark of, or used by, any officer for the verification relating to tax, is liable to an administrative penalty of ₦1,000,000 and on conviction, to imprisonment not exceeding 3 years or fine of ₦1,000,000 or to both such fine and imprisonment.

6.12.18 Offence by a body corporate section 126 of NTAA

Where an offence under this Act is committed by a body corporate, firm, trust, association of individuals or any other legal arrangement:

- (a) a director, manager, secretary or other similar officer of the body corporate;
- (b) a partner or officer of the firm;
- (c) trustees, settlors, beneficiaries or any person involved in the management of the trust;
- (d) a person concerned in the management of the affairs of the association or legal arrangement; or
- (e) a person who acts or purports to act in any of the above capacities, is liable to be proceeded against and punished for the offence in like manner as if the person committed the offence, unless that person proves that the act or omission constituting the offence took place without the knowledge, consent or connivance of the person.

6.12.19 General penalty - section 127 of NTAA

Any person who contravenes the provisions of this Act for which no specific penalty was provided, commits an offence and he is liable:

- (a) to an administrative penalty of ₦1,000,000; or
- (b) on conviction, to imprisonment for a term not exceeding three years or to a fine or both.

6.13 Chapter review

In this chapter, the need for incorporated companies to file annual tax returns, the nature and composition of such returns, as well as the time limits prescribed by the Act, for filing the returns are discussed.

This chapter also discussed in detail, assessment and collection procedures, including

the time limit for the payment (depending on the basis of assessment), currency of payment, penalties for late payment and Revenue authority's enforcement procedures.

6.14 Worked examples

Questions

- (1) The powers to assess the incomes of corporate organisations to taxes are vested in Nigeria Revenue Service as entrenched in Nigeria Tax Administration Act, 2025.

To comply with the statutory provisions, corporate organisations are required to file tax returns within a specified period of time to the relevant tax authority.

Required:

Highlight the:

- (a) Documents/information required to be forwarded to the relevant tax authority when registering with the nearest integrated tax office
 - (b) Time lag for filing the first set of returns and subsequent ones
 - (c) Penalty for late filing of returns at the due dates
- (2) Not all assessments raised on a company by the NRS are final and conclusive.

Required:

Explain when an assessment becomes final and conclusive.

- (3) The self-assessment system was introduced with effect from January 1, 1996, to run parallel and in conjunction with the existing government assessment for both individual and corporate taxpayers.

Required:

Explain the operation of self-assessment system and its benefits.

- (4) When a company has filed a self-assessment return, comprising its audited accounts and tax computations, after the due date, the NRS may raise a penalty.

Required:

Explain the penalty for late payment of tax.

6.14.2 Suggested solutions to questions

- (1) (a) Corporate organisations are required by law to file tax returns to Nigeria Revenue Service. The returns must be submitted to the integrated tax office nearest to the registered address of the business.

- (i) Limited liability companies

Every limited liability company registering with the NRS for tax purposes is required to submit two letters of registration – one for registration for income tax and the other letter for VAT.

The **registration letter for income tax** shall disclose the following information on the company:

- name of the company;
- registered office;
- business address;
- precise nature of business;

- date of commencement of business;
- accounting date
- name and address of bankers;
- particulars of major shareholders;
- particulars of directors;
- name and address of auditors; and
- name and address of tax representative.

Also, the registration letter shall be accompanied by the following documents:

- copy of certificate of incorporation (original for sighting);
- CTC of memorandum and articles of association;
- copy of e-status report or Form CAC 2 and CAC 7 or Form CAC 1.1;
- recent utility bill of business address;
- company stamp or seal; and
- the completed taxpayer registration input form for companies.

The **registration letter for VAT** shall be accompanied by the following documents:

- completed copy of VAT form 001, that is, VAT registration form, duly signed by authorised company's representative; and
- certificate of incorporation.

(ii) Business names

A business name is required to register for VAT purposes as follows:

- submit an application for VAT registration on the firm's letterhead addressed to the Tax Controller of the nearest office of NRS;
- complete all registration forms given (VAT and input forms);
- provide a copy of certificate of registration and Form CAC/BN/A1 and submit the originals for sighting;
- recent utility bill; and
- business stamp or seal to be applied on the NRS' forms given.

(b) The time lag for filing the first set of returns and subsequent ones:

(i) First set of returns

Within 18 months from the date of incorporation or 6 months after the end of its first accounting period, whichever is earlier.

(ii) Subsequent returns

Within 6 months from the accounting year end of the business entity.

(c) Penalty for late filing of returns on the due dates:

Section 101 of NTAA, makes provision for payment of penalty by any company that fails to comply with the requirements for filing of tax returns.

A defaulting company shall pay:

- (i) ~~₦~~100,000 in the first month in which it fails to file its annual returns; and
- (ii) ~~₦~~ 50,000 for each subsequent month in which the failure continues.

(2) Assessments to be final and conclusive - section 43 of NTAA

(a) Where:

- (i) a company does not lodge a valid objection or appeal within the time stipulated under this Act, (30 days of receiving an assessment)

- against an assessment as regards the amount of the total income or profits assessed;
- (ii) the amount of the total income or profits has been agreed to;
- (iii) the amount of such total profits has been determined on objection or revised; or
- (iv) the assessment as made, has been agreed to, revised or determined on appeal; such assessment shall be **final and conclusive** for all purposes of this Act as regards the amount of such total profits.

- (b) Where the full amount of tax in respect of any final and conclusive assessment is not paid within 30 days, the provisions relating to the recovery of tax, and to any penalty, shall apply to the collection and recovery.
- (c) The provision in (b) above, shall be subject only to the set-off of the amount of any tax repayable under any claim, made under the relevant provisions of this Act which has been agreed to by the relevant tax authority or determined on any appeal against a refusal to admit any such claim.
- (d) No provisions of this Act shall prevent the tax authority from making any assessment or additional assessment for any year which does not involve re-opening any issue on the same facts, which has been determined for that year of assessment by agreement or on appeal.

(3) Self-assessment system in Nigeria (section 34 of NTAA) and its benefits

- (a) The self-assessment is a system of tax administration in which the taxpayer is granted the right, by law, to compute his own tax liability, submit his return with the relevant tax authority, pays the tax due and files his tax returns with evidence of payment of the tax paid on or before the due date.
- (b) A taxpayer who has submitted a self-assessment return in the prescribed form for a reporting period is deemed to have made an assessment of the amount of tax payable, including a negative or nil amount, for the reporting period to which the return relates.
- (c) When a taxpayer completes and submits a tax return in the approved form electronically, it is a self-assessment notwithstanding that
 - (i) the form contains pre-entered information supplied by the tax authority; and
 - (ii) an estimate of the tax payable is computed electronically as information is being entered into the form.
- (d) Where a taxable person has delivered a tax return, the relevant tax authority may:
 - (i) accept the tax return without making an additional assessment;
 - (ii) accept the tax return and make additional assessment; or
 - (iii) reject the tax return and, to the best of its judgement, determine the amount of the tax due from the taxable person and make an assessment accordingly.
- (e) Where the taxable person fails to declare the true and correct amount of income or tax payable in its self-assessed tax returns, the taxable person is liable to pay any outstanding tax from the due date of the returns.

- (f) The outstanding tax shall be subject to penalty and interest, in accordance with the provisions of this Act or other relevant tax law from the date the return becomes due.

Benefits of self-assessment system include:

- a) Improved tax compliance: self-assessment encourages taxpayers to take responsibility for their tax obligations, leading to improved compliance.
- b) Reduced administrative burden: the FIRS reduces its administrative burden, as taxpayers compute and report their own tax liabilities.
- c) Increased transparency: self-assessment promotes transparency, as taxpayers are required to disclose their financial information.
- d) Efficient tax collection: self-assessment enables the FIRS to collect taxes efficiently, as taxpayers pay their tax liabilities directly.
- e) Reduced tax evasion: self-assessment helps reduce tax evasion, as taxpayers are more likely to report their true income and pay the correct amount of tax.
- f) Improved taxpayer education: self-assessment educates taxpayers about their tax obligations and encourages them to seek professional advice, when needed.

4. Penalty for late payment of tax - section 65 of NTAA

- (a) Subject to section 67 of this Act (recovery of tax), where any tax is not paid within the period (within 30 days) prescribed under this Act:
 - (i) a sum equal to ten percent of the amount of the tax payable shall be added thereto, and the provisions of this Act relating to the collection and recovery of tax shall apply to the collection and recovery of the sum;
 - (ii) in the case of naira remittances, the tax due shall carry interest at the prevailing monetary policy rate of the Central Bank of Nigeria plus spread to be determined by the Minister from the date when the tax becomes payable until it is paid, and the provisions of this Act relating to collection and recovery of tax shall apply to the collection and recovery of the interest; and
 - (iii) in the case of foreign currency remittance, the tax due shall incur interest at the prevailing Secured Overnight Financing Rate ("SOFR") or any successor rate, plus spread to be determined by the Minister from the date when the tax becomes payable until it is paid, and the provisions of this Act relating to collection and recovery of tax shall apply to the collection and recovery of the interest.
- (b) The relevant tax authority shall serve a demand notice upon the company or person in whose name a tax is chargeable and where payment is not made within 30 days from the date of the service of such demand notice, the relevant tax authority may proceed to enforce payment under this Act.
- (c) The penalty and interest imposed under this subsection shall not be deemed to be part of the tax paid for the purpose of claiming relief under any of the provisions of this Act or any other tax law.

OBJECTIONS AND APPEAL PROCEDURES

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7 Objections and Appeal Procedures

7.0 Learning objective

The objective of this chapter is to enhance the readers' knowledge of objections to assessments received from the NRS and the appeal procedures available to taxpayers.

7.1 Learning outcomes

On successful completion of this chapter, readers should be able to understand:

- (a) the need for a relevant tax authority to make an advance ruling on a provision of a tax law;
- (b) the procedure for settlement of a dispute between the relevant tax authority and the taxable person;
- (c) the relevance of the establishment of the office of the Tax Ombud;
- (d) the procedures available to a taxpayer for raising objections to tax assessments;
- (e) how to file an appeal before the Tax Appeal Tribunal;
- (f) how the hearing of an appeal is conducted; and
- (g) the other appeal options available.

7.2 Advance rulings - sections 73 to 76 of NTAA

7.2.1 Definition – Section 147 of NTAA

Advance ruling is defined as “any ruling issued by the tax authority in respect of any disputed or controversial tax matter to the taxpayers in accordance with provision of this Act, the Nigeria Tax Act or any other tax law enacted by the National Assembly, or any written opinion or decision issued to a taxpayer by the relevant tax authority on a transaction, proposed transaction or any tax matter with a view to providing direction or clarification in accordance with the provisions of this Act”.

7.2.2 Issuance of advance rulings - section 73 of NTAA

- (i) A relevant tax authority may issue an advance ruling for the purpose of clarity, consistency and certainty regarding the interpretation and application of any tax law that does not constitute an amendment or replacement of the law.
- (ii) The relevant tax authority may:
 - make an advance ruling on any provision of a tax law, administration, precedence and policies; and
 - issue an advance ruling upon application by a taxable person within 21 days of the receipt of the application or give reasons in writing for inability to issue such ruling.
- (iii) An advance ruling may be issued in the prescribed form and manner and shall be signed by an authorised officer of the relevant tax authority and shall contain:
 - a statement on whether the ruling is applicable generally or limited to the taxpayer;
 - the name, Tax ID and postal address of the taxpayer;
 - the relevant statutory provisions or legal issues addressed in the ruling;
 - any assumptions made or conditions imposed by the relevant tax authority in connection with the validity of the ruling; and
 - the period for which the ruling is valid.
- (iv) An application for advance ruling shall be made in the prescribed form and manner by a person who is a party to any tax related issue or transaction, or by two or more parties to a tax related issue or transaction.
- (v) An application shall contain:
 - the name, Tax ID, postal address, email address and telephone number of the taxable entity;

- a complete description of the tax issue or transaction in respect of which the ruling is sought, including its financial implications, if any;
 - a complete description of the impact the issue or transaction may have on the tax liability of the taxpayer or any connected person in relation to the issue or transaction;
 - details of any ongoing audit, previous correspondence and decisions of the relevant tax authority on the issue;
 - the relevant statutory provisions or legal basis relied on by the applicant;
 - the reasons why the taxpayer believes that the proposed ruling should be granted; and
 - a written statement on whether or not the matter is before any tribunal or court of competent jurisdiction.
- (vi) The relevant tax authority may request additional information from an applicant.
- (vii) Where necessary, the relevant tax authority shall provide an applicant with a reasonable opportunity to make representations or provide clarifications.
- (viii) An applicant may withdraw an application at any time before a ruling is issued.

7.2.3 Rejection of application for advance rulings - section 74 of NTAA

The relevant tax authority is empowered to reject an application for an advance ruling where it requires the rendering of an opinion, conclusion or determination regarding:

- (a) the application or interpretation of the laws of a foreign country;
- (b) an issue already before a court or tribunal of competent jurisdiction;
- (c) the interpretation of the Constitution of the Federal Republic of Nigeria;
- (d) an issue that is academic, hypothetical, frivolous or vexatious; and
- (e) a ruling that will interfere substantially with an ongoing audit, investigation or other proceeding involving the applicant or persons connected to the applicant.

7.2.4 Effect of advance rulings - section 75 of NTAA

- (a) The effect of the ruling is limited to the applicant and the transaction in relation to which the ruling is given.
- (b) The ruling is rendered on a set of facts before the relevant tax authority and cannot be of general application.
- (c) An advance ruling is void where:
 - (i) the issue or transaction as described in the ruling is materially different from the issue or transaction actually carried out;
 - (ii) there is fraud, misrepresentation or non-disclosure of a material fact; or
 - (iii) an assumption made or condition imposed by the relevant tax authority is not satisfied or carried out by the taxpayer.
- (d) Notwithstanding any provision to the contrary contained in a tax law, an advance ruling ceases to be effective where:
 - (i) a provision of the tax law that was the subject of the advance ruling is repealed or amended in a manner that materially affects the advance ruling in which case the advance ruling will cease to be effective from the date that the repeal or amendment is effective; or
 - (ii) a court overturns or modifies an interpretation of the tax law on which the advance ruling is based, in such case, the advance ruling shall cease to be effective from the date of the judgement unless such decision is overturned.

7.2.5 Withdrawal or modification of advance rulings - section 76 of NTAA

The relevant tax authority shall withdraw or modify an advance ruling at any time and retrospectively if the ruling was fraudulently obtained.

The relevant tax authority may specify the date the decision to withdraw or modify the advance ruling becomes effective.

7.3 Settlement of disputes between the relevant tax authority and a taxable person - section 141 of NTAA

- (a) Without prejudice to any provision of this Act or any other law, the relevant tax authority and the taxable person can initiate to resolve any tax matters amicably at any stage of the dispute, subject to such terms and conditions as may be prescribed under this Act or any other law.
- (b) The relevant tax authority is empowered to settle disputes in whole or in part, where:
 - (i) such settlement will be in the interest of public revenue or public policy;
 - (ii) due consideration is given to the cost of litigation in comparison to the possible benefits;
 - (iii) a participant or a group of participants in a tax arrangement has accepted the position of the relevant tax authority in the dispute, in which case the settlement may be negotiated in a manner required to adjust the tax arrangements or disposition; or
 - (iv) under a whistleblowing arrangement, the settlement will facilitate full disclosure of undisclosed tax planning or evasion schemes which may lead to significant recovery of tax revenue.
- (c) Settlement of dispute shall not be considered where:
 - (i) the action by the taxable person concerned leading to the 'dispute' constitutes intentional tax evasion or fraud inimical to the government revenue; or
 - (ii) it is in the public interest to have judicial clarification of the issue and the case will significantly promote taxpayer compliance with the relevant tax law.
- (d) The procedure for settlement of disputes shall be as follows:
 - (i) a person participating in a settlement procedure shall disclose all relevant facts during the discussion phase of the process of settling a dispute and such facts disclosed only for the purpose of settlement shall be confidential;
 - (ii) a dispute settled in whole or in part shall be evidenced by an agreement in writing between the parties in the prescribed format as may be determined by the relevant tax authority and must include details on:
 - how each particular issue is settled;
 - relevant undertakings by the parties;
 - treatment of the issue in future years;
 - withdrawal of objections and appeals; and
 - arrangements for payment; and
 - (iii) the agreement shall be signed by authorised officers of both parties.
- (e) Finality of settlement agreement is where the:
 - (i) settlement agreement represents the final agreed position between the parties and it is a full and final settlement of all or specified aspects of the dispute in question between the parties; and
 - (ii) relevant tax authority shall enforce collection of the settlement amount under the collection provisions of this Act as a debt due to the relevant tax authority.

7.4 The Tax Ombud

7.4.1 Establishment of the Office of the Tax Ombud - section 36 of Joint Revenue Board of Nigeria (Establishment) Act (JRBEA), 2025

This section has established a body known as the Office of the Tax Ombud, which:

- (a) shall be a body corporate with perpetual succession and a common seal;
- (b) may sue and be sued in its corporate name; and
- (c) may own or dispose of property whether movable or immovable.

The Office of the Tax Ombud shall have its head office in the Federal Capital Territory and at least a branch office in each of the six geo-political zones.

7.4.2 Appointment of the Tax Ombud - section 37 of JRBEA

A Tax Ombud shall:

- (a) be appointed by the President on the recommendation of the Minister;
- (b) be a citizen of Nigeria;
- (c) have relevant qualifications and at least 10 years cognate experience in taxation, law, accounting, auditing, administration or dispute resolution; and
- (d) hold office for a term of 4 years and may be renewed for a further term of 4 years and no more.

The Tax Ombud shall be the Chief Executive and Accounting Officer of the Office of the Tax Ombud.

7.4.3 Cessation of tenure of the Tax Ombud - section 38 of JRBEA

The tenure of a Tax Ombud shall cease, where he:

- (a) resigns from the appointment by a notice addressed to the President;
- (b) becomes incapable of carrying on the functions of the office either arising from an infirmity of mind or body;
- (c) becomes bankrupt or makes a compromise with creditors;
- (d) is convicted of a felony or of any offence involving dishonesty or fraud;
- (e) is removed from office by the President on grounds of public interest;
- (f) has been found guilty of contravening the Code of Conduct Bureau and Tribunal Act, or gross misconduct in relation to their duties; or
- (g) is disqualified from professional qualification by a professional body by virtue of which the person qualified for the appointment.

7.4.4 Oath administration and document authentication - section 40 of JRBEA

An officer of the Office of the Tax Ombud is empowered to administer oaths and to authenticate various affidavits, affirmations or declarations.

Any authenticated document shall be accepted as evidence in legal proceedings and no further verification or proof of the individual's signature, seal or official capacity is required in this regard.

7.4.5 Powers and functions of the Office of the Tax Ombud - section 41 of JRBEA

- (a) The Office of the Tax Ombud has the powers necessary or expedient for the performance of its functions under this Act, including power to:
 - (i) serve as an independent and impartial arbiter to review and resolve complaints relating to tax, levy, regulatory fee and charges, customs duty or excise matters;
 - (ii) review complaint against tax officials and authorities and resolve it through mediation or conciliation by adopting informal, fair and cost-effective procedures;
 - (iii) receive and investigate complaints lodged by taxpayers regarding the actions or decisions of the tax authorities, agencies or their officials;
 - (iv) enter and inspect any premises or place where any tax authority, agency or official performs any function or duty under any law imposing taxes, levies, charges and fees for the purpose of carrying out investigation;
 - (v) invite and examine any person who may have information or evidence relating to a complaint or an investigation;
 - (vi) make recommendations of its findings to the revenue authorities and other government agencies on matters relating to taxes, levies, charges and fees, for implementation;
 - (vii) institute legal proceedings on behalf of the taxpayer;
 - (viii) provide information and raise awareness of taxpayer rights and obligations, functions of the tax authorities and the role of the office of the Tax Ombud;
 - (ix) identify and review systemic and emerging issues on fiscal policies and its impact on the tax system, in collaboration with the relevant agencies;

- (x) serve as a watch-dog against any arbitrary fiscal policy of the Government or by any of its agency and report such policy to the National Assembly;
 - (xi) issue guidelines, directives or orders for the resolution of complaints or the implementation of recommendations; and
 - (xii) delegate any of the powers or functions to any officer of the Tax Ombud.
- (b) The Office of the Tax Ombud shall not charge a fee in the exercise of its functions under the Act.

7.4.6 Conflict of interest - section 42 of JRBEA

In the exercise of his functions, an officer of the Office of the Tax Ombud, shall:

- (a) act in utmost good faith, with care, skill and diligence;
- (b) maintain independence and impartiality at all times;
- (c) not act in any circumstance where personal interests conflict with the functions of the Office of the Tax Ombud;
- (d) disclose any conflict of interest in relation to any complaint or investigation and an officer so conflicted shall refrain themselves from dealing with such complaint or investigation;
- (e) not make secret profit in the course of discharging official duties;
- (f) not accept any gift or advantage in whatever form or manner, for anything done or likely to be done with respect to their responsibilities under this Act; and
- (g) publish studies, research, findings, recommendations, insights, or proposals concerning any matter under consideration by the Office of the Tax Ombud.

7.4.7 Limitations on authority of the Office of the Tax Ombud - section 43 of JRBEA

The Office of the Tax Ombud shall not have power to:

- (a) interpret tax legislations other than to the extent that it relates to operational, procedural or administrative issues arising from the application of the provisions of the relevant tax law;
- (b) review or determine issues that are subjudice before a court of competent jurisdiction or tribunal on the date of the receipt of a complaint;
- (c) determine any tax liability or duty or issue tax assessment; or
- (d) review any complaint by or on behalf of a tax official concerning matters relating to the relevant tax authority in respect of any personal grievance relating to the office.

7.4.8 Procedure of the Office of the Tax Ombud - Third Schedule to JRBEA

(a) Complaints - paragraph 1 of the Third Schedule to JRBEA

- (i) A person can lodge a complaint in writing or through any other means or platform with the Office of the Tax Ombud, as may be provided by the Office of the Tax Ombud.
- (ii) A complainant shall only lodge a complaint with the Office of the Tax Ombud, if the issue is unresolved by the relevant agencies.
- (iii) The complaint shall be reviewed and assessed by the Tax Ombud to determine whether it falls within its jurisdiction and mandate.
- (iv) The Office of the Tax Ombud shall not entertain anonymous complaints.
- (v) Where the Office of the Tax Ombud finds a complaint to be false or misleading in any material respect, it may strike out or disregard such complaint.
- (vi) Where a complaint relates to malicious misrepresentation of facts of a criminal nature, the matter shall be referred to the relevant law enforcement agency for further investigation and possible prosecution.

(b) Investigation - paragraph 2 of the Third Schedule to JRBEA

- i. Investigations can be initiated by the Office of the Tax Ombud by:

- engaging the complainant, the officer or the relevant revenue or government agency to acquire additional information and evidence; and
 - conducting site visits, interviews or inspections.
- ii. An investigation under this section shall be conducted within 14 days of receipt of the complaint, provided that the Office of the Tax Ombud may, where necessary, extend the period of an investigation by seven days.
 - iii. The conduct of an investigation shall not affect any action taken or to be taken by the relevant revenue or government agency.
 - iv. Where the Office of the Tax Ombud decides not to conduct an investigation, a statement of the reasons for not conducting the investigation shall be communicated to the complainant within seven days of receipt of the complaint.
- (c) Resolution and recommendations - paragraph 3 of the Third Schedule to JRBEA
- (i) A complaint can be resolved by the Office of the Tax Ombud by making recommendations to the relevant revenue or government agency or the complainant.
 - (ii) Where the Office of the Tax Ombud is of the opinion that the complaint amounts to abuse of office or breach of procedure, it shall communicate its recommendations to the relevant tax authority or the persons concerned within a period of 14 days after determination of the complaint.
 - (iii) Where the Office of the Tax Ombud has reason to believe that a relevant revenue or government agency has acted beyond the scope of authority or in a manner warranting criminal proceedings against such an officer, the matter shall be referred to the relevant revenue or government agency authority for necessary action, provided that where the relevant tax authority fails to take appropriate action in respect of the allegations within 30 days, the Office of the Tax Ombud shall refer the matter to the relevant law enforcement agency for necessary action.
- (d) Non-compliance with recommendations - paragraph 4 of the Third Schedule to JRBEA
- (i) The relevant revenue or government agency shall report to the Office of the Tax Ombud within 21 days of receiving its recommendations stating reasons for non-compliance with the recommendations of the Office of the Tax Ombud.
 - (ii) Where a relevant revenue or government agency fails to implement a recommendation, without providing satisfactory reasons for non-compliance, the Office of the Tax Ombud shall refer the matter to the National Assembly or the State House of Assembly to perform its oversight functions over such recommendation.
- (e) Dispute resolution process - paragraph 5 of the Third Schedule to JRBEA
- (i) The Office of the Tax Ombud may encourage parties to explore alternative dispute resolution mechanisms with respect to the complaint lodged before it.
 - (ii) The representative of the relevant revenue or government agency, its officers or the complainant shall:
 - appear before the Tax Ombud when requested to do so;
 - not take any step which will impede or will be capable of obstructing the Office of the Tax Ombud in the performance of its functions; or

- not take any action which tends to prejudice or undermine a matter before the Office of the Tax Ombud.

(iii) Where a party to the issue fails to comply with the provisions e(ii) above, the complaint shall be deemed to be resolved against such party.

7.5 Time limit for objection and appeal - section 41 of NTAA

If any company disputes a tax assessment raised on it by the tax authority, it may give a written notice of objection, delivered in person, by courier or via electronic means to the NRS, seeking a revision and amendment of the assessment. However, the time limit for objection is within thirty days from the date of service of the disputed notice of assessment.

7.6 Contents of a notice of objection - section 41 (2) of NTAA

For a notice of objection to be valid, it must:

- (a) be in writing, delivered in person, by courier service or via electronic mail and addressed to the Chairman, NRS;
- (b) state the grounds of objection, namely:
 - (i) specific issues disputed or errors observed with their monetary values,
 - (ii) amendment required to be made so as to resolve the dispute or correct the error,
 - (iii) justification for the amendments,
 - (i) amount of assessable and total profits, income or value of transactions admitted by the taxable person for the relevant reporting period, and
 - (ii) amount of tax admitted by the taxable person or that no amount of tax is admitted as payable.

The relevant tax authority may, for any satisfactory and good cause shown, extend the time for making the application to such reasonable time in the particular circumstances.

7.7 Revision of assessment in case of objection - section 41 of NTAA

When the notice of objection is received by the relevant tax authority, it may:

- (a) require the taxable person to furnish such particulars as it may deem necessary and to produce all books or other documents relating to the profits, income or transactions of the taxable person; and
- (b) summon any person to give evidence in respect of the assessment to appear for examination before an authorised officer of the relevant tax authority or make a declaration on oath in respect of the assessment.

Where the taxable person and the relevant tax authority agree as to the amount of tax to be assessed, the disputed assessment shall be amended, and a revised notice of the tax payable shall be served upon the taxable person.

The relevant tax authority shall respond to the objection notice within 90 days otherwise the objection of the taxpayer shall be upheld.

Where the relevant tax authority considers the notice of objection submitted by the taxable person as invalid, or where the taxable person and the relevant tax authority do not agree as to the amount of tax to be assessed, the taxpayer may exercise the right of appeal.

7.8 Procedure of the Tax Appeal Tribunal

7.8.1 Appeals from the decisions of the relevant tax authority - section 35 of JRBEA and second paragraph of the Second Schedule to the Act

- (a) A taxable entity that is aggrieved by an assessment, demand notice, action, decision of the tax authority, or a dispute as to residency under the provisions of the tax laws, may appeal against such decision or assessment within the period stipulated under this Act to the Tribunal.

- (b) A period of 30 days is needed to file an appeal from the date on which a copy of the assessment, demand notice, action or decision which is being appealed against is made, or deemed to have been made by the relevant tax authority and it shall be in such form and be accompanied by such fee as may be prescribed.
- (c) Notwithstanding the provisions of (b) above, the Tribunal may entertain an appeal after the expiry of the said period of 30 days if it is satisfied that there was sufficient cause for the delay.
- (d) Where the appellant does not give a notice of appeal as required under this paragraph within the period specified, the assessment or demand notices shall become final and conclusive and the relevant tax authority may charge interests and penalties in addition to recovering the outstanding tax liabilities which remain unpaid from any person through proceedings at the Tribunal.

7.8.2 Appeal by relevant tax authorities - Third paragraph of the Second Schedule to JRBEA

A relevant tax authority aggrieved by the non-compliance by a taxable entity in respect of any provision of the tax laws or in respect of any assessment, demand notice, action or decision may appeal to the Tribunal in the Zone where the taxable person is resident giving notice in writing through the Secretary to the Tribunal.

7.8.3 Liquidated money claim affidavit - Fourth paragraph of the Second Schedule to JRBEA

Any Appeal made to the Tribunal in respect of a claim to recover a debt or liquidated money demand and the Appeal is supported by an affidavit setting forth the grounds upon which the claim is based and stating that in the deponent's belief there is no defence, the Tribunal shall, if satisfied that there are good grounds for believing that there is no defence, enter the Appeal for hearing in what shall be called the "Liquidated Money Claim Appeal".

7.8.4 Appeal by Summons - Fifth paragraph of the Second Schedule to JRBEA

The Tribunal shall hear and determine the Appeal by affidavit evidence, where the issue before the Tribunal is on interpretation of taxing provisions, other tax laws, rules or regulation without dispute of fact.

7.8.5 Settlement out of Tribunal - Paragraph 6 of the Second Schedule to JRBEA

- (a) Where an Appeal is before the Tribunal for the first time, the Chairman may grant to the parties time, not exceeding 30 days, within which parties may explore possibilities for settlement of the dispute under the provision of the Nigeria Tax Administration Act.
- (b) The case shall proceed to trial where the parties fail to settle within 30 days or such other period as the Tribunal may grant.

7.8.6 Procedure before Tax Appeal Tribunal - Seventh paragraph of the Second Schedule to JRBEA

- (a) Tax Appeal Commissioners shall meet as often as may be necessary to hear appeals in the jurisdiction or zone assigned to that Tribunal.
- (b) The Secretary to the Tribunal shall give a notice of seven clear days to the parties of the date and place fixed for the hearing of each appeal, except in respect of any adjourned hearing for which the Tax Appeal Commissioners have fixed a date at their previous hearing.
- (c) Notices, documents, other than decisions of the Tribunal, may be signified under the hand of the Secretary.

- (d) Appeals before the Tax Appeal Commissioners shall be held in public.
- (e) The responsibility of proving that the assessment complained of is excessive or due for payment, as the case may be, shall be on the appellant. At the hearing of an appeal, where the representative of the relevant tax authority proves to the satisfaction of the Tribunal appeal that:
 - (i) the appellant has for the year of assessment concerned, failed to prepare and deliver to the tax authority returns required to be furnished under the relevant provisions of the Nigeria Tax Act and Nigeria Tax Administration Act;
 - (ii) the appeal is frivolous or vexatious or constitutes an abuse of the appeal process; or
 - (iii) it is expedient to require the appellant to pay an amount as security for prosecuting the appeal, the provisions of (g) and (h) below, shall apply.
- (f) The Tribunal may adjourn the hearing of the appeal to any subsequent day and order the appellant to deposit with the tax authority, before the day of the adjourned hearing, an amount on account of the tax charged by the assessment under appeal equal to, the lesser of:
 - (i) the tax charged upon the appellant for the preceding year of assessment; and
 - (ii) one half of the tax charged by the assessment under appeal.
- (g) Where the appellant fails to comply with the order, the assessment against which he has appealed shall be confirmed and the appellant shall have no further right of appeal in the tribunal with respect to that assessment.
- (h) The Tribunal may, after giving the parties an opportunity of being heard, confirm, reduce, increase or annul the assessment or make any such order as it deems fit.
- (i) The Chairman shall record in writing every decision of the Tribunal and a certified copy of such decision shall be supplied to the appellant or the tax authority by the Secretary, upon a request made within 7 days of the decision.
- (j) Where on the hearing of an appeal:
 - (i) no accounts, books or records relating to profits were produced by or on behalf of the appellant;
 - (ii) such accounts, books or records were produced but rejected by the Tribunal on the ground that it had been shown to its satisfaction that they were incomplete or unsatisfactory;
 - (iii) the appellant or a representative, at the hearing of the appeal, has neglected or refused to comply with a notice from the Secretary to the Tribunal, without showing any reasonable cause; or
 - (iv) the appellant or any person employed, whether confidentially or otherwise, by the appellant or an agent (other than a legal practitioner or accountant acting for them in connection with their liability to tax) has refused to answer any question put to them by the Tribunal, without showing any reasonable cause, the Chairman of the Tribunal shall record particulars of the same in his written decision.

7.8.7 Application of the Evidence Act - paragraph 8 of the Second Schedule to JRBEA

The proceedings and the decisions of the Tribunal shall be in compliance with the provisions of the Evidence Act.

7.9 Procedure following decision of the Tribunal

7.9.1 paragraph 9 of the Second Schedule to JRBEA

- (a) Notice of the amount of the tax chargeable under the assessment as determined by the Tribunal shall be served by the relevant tax authority upon the taxpayer or upon the person in whose name the taxpayer is chargeable.
- (b) An award or judgement of the Tribunal shall be enforced as if it were a judgement of the Federal High Court upon registration of a copy of such award or judgement with the Chief Registrar of the Federal High Court by the party seeking to enforce the award or judgement.

7.9.2 Right to Presentation - paragraph 11 of the Second Schedule to JRBEA

- (a) A complainant or appellant, may either appear in person or authorise one or more legal practitioners, a professional with the requisite knowledge and experience in tax matters or any of its officers to represent him or its case before the Tribunal.
- (b) Where the representative in any matter before the Tribunal is unable for good cause to attend hearing, the Tribunal may adjourn the hearing for such reasonable time as it deems fit, or admit the appeal to be made by some other person or by way of a written address.

7.9.3 Application of Status of Limitation - paragraph 12 of the Second Schedule to JRBEA

The provisions of any statute of limitation and pre-action notice under this Act or the provision of the Public Officer Protection Act, shall not apply to any appeal brought before the Tribunal.

7.9.4 Oaths - paragraph 14 of the Second Schedule to JRBEA

Each party to an appeal shall bear its own cost.

7.10 Appeal to the Federal High Court - paragraph 10 of the Second Schedule to JRBEA

- (a) Where a person is dissatisfied with a decision of the Tribunal constituted under this Act, he may appeal against such decision on a point of law to the Federal High Court upon giving notice in writing to the Secretary to the Tribunal within 30 days after the date on which such decision was given.
- (b) A notice of appeal filed pursuant to (a) above, shall set out the grounds of law on which the appellant's case is based.
- (c) Where the relevant tax authority is dissatisfied with the decision of the Tribunal, it may appeal against such decision to the High Court on points of law by giving notice in writing as specified in (a) above, to the Secretary within 30 days after the date on which such decision was given.
- (d) On receipt of a notice of appeal under (a) and (c) above, the Secretary to the Tribunal shall cause the notice to be given to the Chief Registrar of the High Court along with all the exhibits tendered at the hearing before the Tribunal.
- (e) The Chief Judge of the High Court may make rules providing for the procedure in respect of appeals made under this Act and until such rules are made, the High Court rules relating to hearing of appeals shall apply to the hearing of an appeal under this Act.

7.11 Further Appeal to Court of Appeal - paragraph 15 of the Second Schedule to JRBEA

An appeal against the decision of the Federal High Court at the instance of either party shall lie to the Court of Appeal.

7.12 Chapter review

This chapter deals with the procedure for raising an objection to a tax assessment served on a company/taxpayer (Appellant), by the Nigeria Revenue Service (NRS).

The options available to an aggrieved appellant are: Appeal to the Tax Appeal Tribunal, and if no respite or relief, appeal to the Federal High Court. The chapter also highlights procedures for the hearing under both options.

Beyond the Federal High Court, an appellant can proceed to the Court of Appeal.

7.13 Worked examples

7.13.1 Questions

- (1) There are specific particulars that must be included in a notice of appeal against an assessment pending before the Tax Appeal Tribunal.

Required:

Explain the specific particulars that must be included in a notice of appeal against an assessment pending before the Tax Appeal Tribunal.

- (2) There are laid-down procedures for an appeal against decision of a Tax Appeal Tribunal.

Required:

Explain the procedure for an appeal against the decision of a Tax Appeal Tribunal.

- (3) As a tax consultant, the Managing Director of your client brought an assessment notice served on the company by the Nigeria Revenue Service complaining that the assessment was outrageous. You observed that the amount assessed was higher than what is supposed to be based on the documents submitted.

Required:

Explain what could be done in this circumstance.

7.13.2 Suggested solutions to questions

- (1) **Notice of appeal shall specify the following specific particulars:**
- (a) the official number of the assessment and the year of assessment for which it was made;
 - (b) the amount of the tax charged by such assessment;
 - (c) the amount of the total profit upon which such tax was charged as appearing in the notice of assessment;
 - (d) the date upon which the appellant was served with notice of refusal by the FIRS to amend the assessment as desired;
 - (e) the precise grounds of law on which the appellant's case is based;
 - (f) an address for service of notices, receipts or other documents to be given by the Secretary to the Tax Appeal Tribunal, provided that at any time the appellant may give notice to such Secretary and to the NRS, by delivering the same by registered post, of a change of such address but any such notice shall not be valid until delivered or received; and
 - (g) evidence of payment of the lesser of the tax charged upon the appellant for the preceding assessment year or 50% of the tax charged by the assessment under appeal.

(2) Appeal against the decision of the Tax Appeal Tribunal

- (a) Where a person is dissatisfied with a decision of the Tribunal constituted under this Act, he may appeal against such decision on a point of law to the Federal High Court upon giving notice in writing to the Secretary to the Tribunal within 30 days after the date on which such decision was given.
- (b) A notice of appeal filed pursuant to (a) above, shall set out the grounds of law on which the appellant's case is based.
- (c) Where the relevant tax authority is dissatisfied with the decision of the Tribunal, it may appeal against such decision to the High Court on points of law by giving notice in writing as specified in (a) above, to the Secretary within 30 days after the date on which such decision was given.
- (d) On receipt of a notice of appeal under (a) and (c) above, the Secretary to the Tribunal shall cause the notice to be given to the Chief Registrar of the High Court along with all the exhibits tendered at the hearing before the Tribunal.
- (e) The Chief Judge of the High Court may make rules providing for the procedure in respect of appeals made under this Act and until such rules are made, the High Court rules relating to hearing of appeals shall apply to the hearing of an appeal under this Act.

Where the appellant or the relevant tax authority, is not satisfied with the decision of the Federal High Court, an appeal shall lie to the Court of Appeal.

(3) The actions to be taken to remedy the disputed tax assessment

- (a) The tax consultant will review the accounts and documents which were earlier sent to the tax office to determine whether there was any basis for the variation in the assessments. If there is any genuine reason for the increase in the assessment, the taxpayer will be advised not to pursue the disputed assessment, but to make payment without any further delay.
- (b) However, if there is no ground or basis for the variation in the assessment, then a valid notice of objection will be written to the NRS within 30 days of the receipt of the notice of assessment. The notice of objection will contain the grounds of objection.
- (c) The tax consultant will expect the NRS to see reasons and amend the assessment, which if satisfactorily would be remitted. On the other hand, where the NRS refuses to revise and amend the assessment, the taxpayer may exercise the right to appeal; and
- (d) Where the relevant tax office fails to respond to the objection within 90 days, the objection of the taxpayer shall be upheld.

TAX CLEARANCE CERTIFICATE (TCC)

Contents

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- 8.2 Definition
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8. Tax Clearance Certificate (TCC)

8.0 Learning objective

The objective of this chapter is to enable the readers understand the procedure for applying for TCC, contents, problems associated with its issuance, and the uses of TCC.

8.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- a. define a tax clearance certificate;
- b. explain the procedure for applying for a TCC;
- c. explain the conditions for granting a TCC;
- d. explain the problems of obtaining a TCC;
- e. identify the transactions for which a TCC is required; and
- f. explain the penalties for providing false information to obtain TCC.

8.2 Definition of TCC

A tax clearance certificate is a document issued by the Nigeria Revenue Service in respect of Companies and the States Board in respect of individuals showing that the applicant's tax affairs are in order.

In Nigeria, a tax clearance certificate is issued only upon application by the taxpayer. Therefore, in issuing the certificate, the relevant tax authority would have satisfied itself that, the tax assessed on the income of the applicant for the three years immediately preceding the current year of assessment, has been fully paid or that no tax is due on such income or that the applicant is not liable to tax for any of the three years.

The certificate must be issued within two weeks of demand, otherwise, the relevant tax authority must give reasons for the delay or denial. Meanwhile, the payment of current year tax shall not be made a condition, for the issuance of the certificate, unless the applicant is leaving the country finally - section 72 of NTAA.

8.3 Procedure for applying for tax clearance certificate (TCC)

Furthermore, registration for TCC issuance shall be dependent on whether the applicant is a new company or an existing company:

8.3.1 A new company

The following is the procedure for obtaining a TCC by a new company:

- (a) Register with the NRS for tax identification (Tax ID).

A company can choose to either engage the service of a consultant or carryout the registration by itself through an employee. Notwithstanding who the company chooses for this exercise, the company will need to write a formal application letter (in a prescribed format) which shall be accompanied with the following documents and information:

Documents to be submitted shall include:

- (i) Certificate of incorporation;
- (ii) Memorandum and articles of association;
- (iii) Form CAC 2 and CAC 7;

Information contained in the registration letter shall include:

- (i) Name of company;
- (ii) Registered office;

- (iii) Business address;
- (iv) Precise nature of business;
- (v) Date of commencement of business;
- (vi) Name and address of bankers; and
- (vii) Particulars of major shareholders.

(b) Register with NRS for VAT

This registration is to be done concurrently with registration for Tax ID. A formal application letter (in a prescribed format) is also required and shall be accompanied with the following documents:

- (i) Completed copy of VAT form 001; and
- (ii) Certificate of incorporation.

It is important to highlight that following the recent introduction of the electronic solution (e-service) by the FIRS, the above process can now be done on-line.

(c) Validation of the issued Tax ID at the NRS office

As a consequence of the e-service solution introduced by the NRS, all companies are now required to validate their Tax IDs at their local NRS office so as to transact all their business with the NRS electronically. Therefore, once the NRS has validated a company's Tax ID, the company can then apply for the issuance of TCC electronically on the NRS web portal.

(d) Application for TCC

As soon as a company has uploaded and has submitted copies of its statement of affairs, the company can then apply for TCC electronically via the NRS online application portal.

(e) Processing and issuance of TCC

As soon as a company has filed its application for TCC electronically, the NRS would then commence processing. However, NRS shall approve TCC within two weeks of application. Once the TCC is approved, an electronic email confirmation shall be sent to the company and the company can subsequently download a copy of the TCC.

8.3.2 An existing company:

The procedure for obtaining a TCC by an existing company is as follows:

a) Payment of income tax and filing of income tax returns

An existing company that requires TCC shall first ensure payment and filing (both electronically and hard copies of returns submission at the NRS office) of companies income tax returns within the statutory timeline, that is, six months after end of its financial year.

b) Application for TCC

As soon as a company has uploaded and has also submitted copies of its returns and the evidence of payment of income tax at the NRS office, the company can then apply for TCC electronically via the NRS online application portal.

c) Processing and issuance of TCC

As soon as a company has filed an application for TCC electronically, the NRS would then commence processing. However, NRS shall approve TCC within two weeks of application. Once the TCC is approved, an electronic email confirmation shall be sent to the company and it can subsequently download a copy of the TCC.

8.4 The conditions for granting a TCC - section 72 (1) of NTAA

The following are the conditions for granting TCC:

- (a) taxes have been paid up to date;
- (b) penalties and interest raised have been paid;
- (c) returns have been filed up to date; and
- (d) there are no outstanding tax queries, audit or investigation.

8.5 Contents of TCC - section 72 (3) of NTAA

A tax clearance certificate shall disclose in respect of the last three years of assessment:

- (a) total profits or chargeable income;
- (b) tax payable;
- (c) tax paid; and
- (d) tax outstanding or alternatively, a statement to the effect that no tax is due.

In addition to the following, a TCC also discloses:

- (a) TCC number, tax office, date of issue, name of company, RC number, date of incorporation, tax identification (Tax ID), effective business address;
- (b) revenue/turnover;
- (c) source of income;
- (d) other comments; and
- (e) expiration date.

8.6 Problems of obtaining TCC

Although, a tax clearance certificate is issued based on tax compliance for the preceding year, the tax authorities sometimes require that taxpayers comply with tax payments to date of application for the certificate. This often poses a challenge, as the Revenue could use the opportunity to issue additional assessments and demand payment before issuing the certificate.

The certificate, also, often takes a long period to be issued, notwithstanding the two weeks' limit stated in the tax legislation. A taxpayer could, therefore, lose an opportunity to win a major contract or be unable to clear imported goods, where such taxpayer is unable to obtain a tax clearance certificate on time.

Another issue is the authenticity of tax clearance certificates, as evidence of tax compliance. The certificates are sometimes issued under questionable circumstances or may be forged in extreme cases. The security features of tax clearance certificates should be enhanced to avoid forgery. Also, the process should be computerised as much as possible, to facilitate the prompt issuance and reduce human intervention with the attendant implications.

8.7 Transactions for which a TCC is required - section 72 (4) of NTAA

Any person who has any dealing with any Ministry, department or agency of Government or commercial bank with respect to any of the following transactions, shall on demand by the afore-mentioned institutions, submit a tax clearance certificate of three years immediately preceding the current year of assessment:

- (a) application for certificate of occupancy;
- (b) approval of building plans;
- (c) application for award of contract by government or its agencies;
- (d) application for firearms licence;
- (e) application for import and export licence; and
- (f) application for trade licence.

8.8 Penalties

A person who:

- (a) for the purpose of obtaining a tax clearance certificate, gives incorrect information in relation to any matter or thing affecting his liability to tax is liable to an administrative penalty of ₦1,000,000 in addition to the payment of the tax undercharged or not charged and on conviction to a fine of ₦1,000,000 or to imprisonment not exceeding three years or both in addition to payment of the amount of tax unpaid or over-payment made in respect of any repayment **(section 124(1) of NTAA); or**
- (b) counterfeits or falsifies any document which is required by or for the transaction of any business under this Act or any tax law, knowingly accepts any counterfeited document, alters the document after its official issuance or forges any seal or signature, is liable to an administrative penalty of ₦1,000,000 and on conviction, to imprisonment not exceeding 3 years of fine of ₦1,000,000 or both such fine and imprisonment **(section 125 of NTAA)**

8.9 Chapter review

This chapter discusses the procedure for applying for TCC and the associated problems, contents of TCC, the transactions which require the submission of a tax clearance certificate, and the offences and penalties.

8.10 Worked examples

8.10.1 Questions

- (1) It is the habit of some taxable individuals or companies to avoid paying tax. One of the measures introduced by the government to bring taxpayers into the tax net was the introduction of Tax Clearance Certificate.

Required:

List any ten transactions in respect of which tax clearance certificate must be produced.

- (2) A tax clearance certificate is a document issued by the Nigeria Revenue Service to a company and stating that the company's tax affairs are in order at the date of issue.

Required:

Explain the procedure for applying for a tax clearance certificate.

- (3) A TCC is a very important document necessary for various corporate transactions in Nigeria.

Required:

Explain the conditions for granting tax clearance certificate in Nigeria.

8.10.2 Suggested solutions

- (1) The transactions in respect of which tax clearance certificate must be produced are as follows:

- (i) application for certificate of occupancy;
- (ii) approval of building plans;
- (iii) application for award of contract by government or its agencies;
- (iv) application for firearms licence;
- (v) application for import and export licence; and
- (vi) application for trade licence.

- (2) **Procedure for applying for a tax clearance certificate in Nigeria**

In Nigeria, a Tax Clearance Certificate (TCC) is a document issued by the

Nigeria Revenue Service (NRS) or State Internal Revenue Service (SIRS) to confirm that a taxpayer has fulfilled their tax obligations.

The procedure for applying for a TCC by a taxpayer is as follows:

- a) ensure that all tax liabilities have been settled;
- b) verify that all tax returns have been filed and that there is no outstanding tax issue;
- c) ensure that the Tax ID is up-to-date and accurate;
- d) ensure that all tax returns for the relevant years have been completed and submitted;
- e) gather receipts for all tax payments made;
- f) submit the application online through the NRS or SIRS portal;
- g) alternatively, submit the application manually at the nearest NRS or SIRS office;
- h) pay the application fee online through the NRS portal;
- i) alternatively, pay the application fee at a designated bank;
- j) wait for the application to be processed by NRS or SIRS by verifying the application and supporting documents, which may take several days or weeks; and
- k) once the application is approved, collect the TCC from the NRS or SIRS office.

It is pertinent to state that the procedure and requirements for obtaining a TCC may vary depending on the state or local government. Taxpayers are advised to consult the relevant tax authority or a tax professional to ensure compliance with all requirements.

(3) Conditions for granting tax clearance certificate in Nigeria

In Nigeria, the Nigeria Revenue Service and State Internal Revenue Service (SIRS) grant Tax Clearance Certificates (TCCs) to taxpayers who meet the following specific conditions:

- a) the taxpayer must be registered with the NRS or SIRS and have a valid taxpayer identification number (TIN);
- b) the taxpayer must have filed all required tax returns, including income tax, value-added tax (VAT), and withholding tax (WHT);
- c) the taxpayer must have paid all taxes due, including any interest and penalties;
- d) the taxpayer must be in compliance with all tax laws and regulations; and
- e) the taxpayer must have answered all tax queries, including those relating to audit and investigation.

It is apposite to state that NRS or SIRS may request for additional information or documentation to verify the taxpayer's compliance with these conditions before issuing a TCC.

WITHHOLDING TAX (WHT)

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9 Withholding Tax (WHT)

9.0 Learning objective

The objective of this chapter is to enhance the readers' knowledge of the provisions of Deduction of Tax at Source (Withholding) Regulations, 2024, with a view to identifying the operational procedures, problems associated with the system, and offences and penalties.

9.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) explain the nature of withholding tax, objectives, and enabling laws; transactions/income subject to WHT and relevant tax authority for collection of WHT;
- (b) identify persons required to make deductions at source;
- (c) identify eligible transactions subject to withholding tax;
- (d) explain exemptions from withholding tax;
- (e) identify the relevant tax authority;
- (f) explain the obligation to deduct at source;
- (g) explain the obligation to issue receipts for deductions;
- (h) explain the procedure for filing withholding tax, content, timeframe, refund procedure and grounds for objection;
- (i) explain the procedures and provisions relating to remittances and issuance of credit note, and treasury receipts;
- (j) explain the administrative bottlenecks and other problems of WHT (including merits and demerits of WHT scheme);
- (k) explain the operation of the WHT system, currency of payment and rights and obligations of taxpayers; and
- (l) explain the offences and penalties for non-compliance with withholding tax obligations.

9.2 Nature of withholding tax - regulation 5

Withholding tax is a tax deducted at source from payments made to a taxable person for the supply of goods and services.

It is not another form of tax, but simply an advance payment of tax, as the withholding tax deducted at source is off-settable against any subsequent tax liability that may be due in respect of other income. It shall not be included in the contract price.

In certain cases, the withholding tax deducted at source is the final tax in the hands of the recipients.

Peculiarities of withholding tax

- (a) A taxpayer has no option as to whether to pay it or not, as the person making the payment except it is a small company or a body unincorporate, where the supplier has valid tax identification (Tax ID), and the value of transaction is ₦2,000,000 or less during the relevant calendar month, is statutorily required to deduct (regulation 4). Failure to deduct attracts sanctions.
- (b) It is an advance payment of income tax and can therefore be utilised as tax credit against income tax liability of the year to which the income relates and any unutilised withholding tax may be carried forward and set-off against income tax of future years.
- (c) It represents the final tax in certain cases, such as dividend.

9.3 Objectives of the Regulations and withholding tax - regulation 1

The objectives of withholding tax include, to:

- (a) discourage, minimise or prevent incidence of tax evasion;
- (b) widen the tax net of the government;
- (c) serve as a veritable source of revenue to the government;
- (d) serve as a collection mechanism for income tax;
- (e) reduce the rates of deduction for sectors with low margins;
- (f) give exemptions for small businesses and manufacturers;
- (g) reduce arbitrage between corporate and non-corporate business structures; and
- (h) embrace global best practices in the deduction of tax at source.

9.4 Administration of withholding tax - regulation 2

Taxes may be collected by any of the three tiers of government in Nigeria – the federal, state or local government. Both the Nigeria Tax Administration Act, 2025 and the Deduction of Tax at Source (Withholding) Regulations, 2024, clearly specify the ultimate government beneficiary of withholding taxes. These are the state government through the agency of the State Internal Revenue Service (SIRS) and the federal government through the Nigeria Revenue Service.

Therefore, the administration of withholding tax is within the purview of both the NRS and the SIRS.

9.5 Withholding tax enabling law relating to deduction at source, including non-resident persons

As stated above, the relevant enabling laws in respect of withholding tax are NTAA and Deduction of Tax at Source (Withholding) Regulations, 2024.

9.6 Persons required to make deductions at source (regulation 4), including the treatment of WHT on payment made to non-resident recipients (section 51 of NTAA)

- (a) For the purpose of regulation 4, the following persons are empowered to deduct tax at source on eligible transactions:
 - (i) a body corporate or unincorporate, other than an individual;
 - (ii) a Government Ministry, Department or Agency;
 - (iii) a statutory body;
 - (iv) a public authority;
 - (v) any other institution, organisation, establishment or enterprise including those exempt from tax; and
 - (vi) a payment agent representing any person under paragraphs (a)-(e) of this sub-regulation.
- (b) Notwithstanding the provisions of this regulation, a body corporate, being a small company as defined under section 147 of NTAA and a body unincorporate of equivalent attributes are exempt from the requirement to deduct tax at source from any transaction, provided that the:
 - (i) supplier has a valid Tax Identification (Tax ID); and
 - (ii) value of the transaction is ₦2,000,000 or less during the relevant calendar month.
- (c) In line with the provisions of section 51 of NTAA:
 - (i) any payment that is made to a person, the person making the payment shall, at the date when payment is made or otherwise settled, deduct the tax at

the rate prescribed in regulations relating to deduction of tax at source;

- (ii) in the case of dividend, interest, rent, royalty, directors' fee and payment to entertainers and sportspersons, the tax, when paid over to the relevant tax authority, shall be the final tax due from a non-resident recipient of the payment;
- (iii) dividend distributed by a Nigerian company and received by a person after deduction of the tax prescribed in this section and regulations relating to deduction of tax at source, shall be regarded as franked investment income of the person receiving the dividend and shall not be charged to further tax;
- (iv) where a franked investment income is redistributed and tax is to be accounted for on the gross amount of the distribution in accordance with regulations relating to deduction of tax at source, the company may set off the amount deducted at source which it has itself suffered on the same income;
- (v) interest on short term securities and corporate bonds earned by an individual after deduction of tax at source, shall not be charged to further tax;
- (vi) income tax chargeable on an employee whether or not the assessment has been made, shall be deducted from any emolument payable, or from any payment made on account of the emolument, by the employer to the employee;
- (vii) in arriving at the amount of income tax to be deducted from any payment of or on account of the emolument to an employee, the employer shall ensure that the aggregate amount of all the deductions made during a year of assessment shall equal the income tax chargeable on the employee in respect of his emoluments for that year;
- (viii) notwithstanding (i) to (vi) above, a non-resident company that provides technical, consulting, professional or management services to a labelled startup shall be subjected to a 5% deduction on income derived from the provision of such services, which shall be the final tax to be paid by such non-resident company; and
- (ix) regulations relating to deduction of tax at source shall apply for the purpose of giving effect to the above stated provisions.

9.7 Transactions subject to WHT and applicable rates

FIRST SCHEDULE

[regulation
3(a)]

ELIGIBLE TRANSACTIONS AND APPLICABLE RATES

Transactions	Corporate recipients		Non- corporate recipients		Remarks
	Resident	Non resident	Resident	Non resident	
Dividend, Interest	10%	10%	10%	10%	Rates as specified in the law
Royalty	10%	10%	5%	5%	Rates as specified in the law
Rent, Hire or Lease	10%	10%	10%	10%	Rates as specified in the law
Commission, consultancy, technical, management, and professional fees	5%	10%	5%	10%	Higher rate for non-residents to serve as final tax
Supply of goods or materials other than by the manufacturer or producer	2%	N/A	2%	N/A	Simplified description and reduced rate to address low margin
Co-location and telecommunication tower services	2%	5%	2%	5%	Lower rate to reflect low industry margins
Supply or rendering of services other than those specifically listed in this Schedule.	2%	5%	2%	5%	Simplified description and reduced rates
Construction of road, bridges, building and power plants	2%	5%	2%	5%	Further rate reduction to reflect lower margin
Any other form of construction and related activities	5%	10%	5%	10%	Amount due from non-resident is final
Brokerage fee	5%	10%	5%	10%	Subject to Paragraph 10(1)(l)

Transactions	Corporate recipients		Non- corporate recipients		Remarks
	Resident	Non resident	Resident	Non resident	
Directors' fees	N/A	N/A	15%	20%	<i>Rates reflect marginal PIT rate for directors</i>
Compensation for loss of employment	N/A	N/A	10%	10%	<i>Section 36 of the CGT Act</i>
Entertainers and sports persons	N/A	15%	N/A	15%	<i>Applies on amounts earned in Nigeria</i>
Winnings from lottery, gaming, reality shows, etc.	N/A	N/A	5%	15%	<i>With effect from 1 January 2025</i>

Notes:

The term "Contract of Supplies" covers all forms of supplies, deliveries, or the like through competitive bidding tenders, LPOs or other arrangements, whether oral or written. The term does not cover the across counter cash sales or supplies in the ordinary course of sales.

Contract, which is outright sale and purchase of goods and property in the ordinary course of business are exempted from withholding tax.

Reduced rates as specified under a treaty between Nigeria and any other country for the avoidance of Double Taxation shall apply to an eligible recipient who is resident in a treaty country to the extent that such reduced rates are contained in the relevant treaty or protocol duly ratified by the National Assembly.

In the case of supply of goods, rendering of service or any eligible transaction involving non-passive income, the amount to be deducted at source shall be twice the rate specified in the Schedule where the recipient has no tax identification number.

9.8 Exemptions from withholding tax - regulation 10

The following transactions are exempt from deduction at source:

- compensating payments under a Registered Securities Lending Transaction as defined in section 201 of NTA;
- any distribution or dividend payment to a Real Estate Investment Trust or Real Estate Investment Company as defined in section 201 of NTA;
- across-the-counter transactions as defined under these Regulations;
- interest and fees paid to a Nigerian bank by way of direct debit of the funds which are domiciled with the bank;
- goods manufactured or materials produced by the person making the supply;
- imported goods where the transaction does not create a taxable

- presence in Nigeria for the foreign supplier;
- (g) any payment in respect of income or profit which is exempt from tax;
- (h) telephone charges, internet data and airline tickets;
- (i) out-of-pocket expense that is normally expected to be incurred directly by the supplier and is distinguishable from the contract fees;
- (j) insurance premium;
- (k) supply of Liquefied Petroleum Gas (LPG), Compressed Natural Gas (CNG), Premium Motor Spirits (PMS), Automotive Gas Oil (AGO), Low Pour Fuel Oil (LPFO), Dual Purpose Kerosene (DPK), and JET-A1;
- (l) commission retained by a broker from money collected on behalf of the principal in line with the industry norm for such transactions; and
- m) winnings from a game of chance or a reality show with contents designed exclusively to promote entrepreneurship, academics, technological or scientific innovation.

An exemption from deduction at source in this regulation shall not be deemed as an exemption from the relevant income tax except as provided in the enabling law.

On November 30, 2020, the Tax Appeal Tribunal (TAT), Lagos Zone, in the case of Tetra Pak West Africa Limited vs Federal Inland Revenue Service, in its ruling, provided the following criteria in ascertaining what constitutes “sales in the ordinary course of business”;

- (a) the inclusion of the transaction/activity in the objects of the memorandum of associations;
- (b) the nature and practice of the taxpayer’s business and industry;
- (c) the history of the taxpayer in relation to the activity, and
- (d) the frequency of the type of transaction.

9.9 Relevant tax authorities for collection of WHT - regulation 2

The relevant tax authorities for the collection of WHT are both the State Internal Revenue Service (SIRS) and the Nigeria Revenue Service (NRS).

While the SIRS collects withholding taxes due from individuals and unincorporated business entities residing in the state during a year of assessment, the NRS collects withholding tax from amount due to corporate bodies, military and police officers, external affairs offices. However, with effect from 2015, the FCT IRS is responsible for collecting withholding tax from non-residents in Nigeria and residents of Federal Capital Territory (FCT).

In the case of savings interest, the relevant tax authority is the tax authority of the place where the branch of the bank paying the interest is located.

9.10 Obligation to deduct at source - regulation 6

The obligation to deduct at source shall arise at the earlier of when:

- (a) payment is made, or
- (b) the amount due is otherwise settled.

In the case of a payment due between related parties, deduction shall be made at the time of payment or when the liability is recognised, whichever is earlier.

The amount deducted on any payment to a non-resident person shall be the final tax except where the income is liable to further tax by reason of a taxable presence in Nigeria.

9.11 Obligation for deductions to be receipted - regulation 8

A person who makes a deduction from any payment shall, upon remittance to the relevant authority, issue a receipt for the tax so deducted and a statement in the format prescribed in the Third Schedule to these Regulations or as may be prescribed by the relevant tax authority from time to time, containing the following information, that is the:

- (a) name, address and the Tax ID of the person from whom the deduction was made; provided that where the beneficiary has no Tax ID, such a person shall provide, in the case of:
 - (i) an individual, a NIN, and
 - (ii) a company, an RC number;
- (b) nature of transaction in respect of which the payment was made;
- (c) gross amount payable or settled;
- (d) amount deducted; and
- (e) month to which the payment relates.

A person from whom a deduction has been made may submit the receipt under sub-regulation (1) of this regulation to the relevant tax authority as evidence of the amount deducted for the purpose of claiming tax credit for the amount so deducted.

Where a person issues a receipt for any amount deducted and yet to be remitted to the relevant authority, the beneficiary shall nevertheless be credited by the relevant tax authority and the amount so unremitted shall be treated as the tax liability of the person who made the deduction, and shall be recoverable with applicable penalty and interest.

9.12 Procedure for filing WHT returns - regulation 7(2)

It is expected that a schedule of withholding tax payable should be prepared by applying the correct WHT rate on each transaction/payment made during the month. Thereafter, a cheque for the amount due to the NRS is raised and forwarded plus the WHT schedule (in both soft and hard copies) to one of the approved collecting banks for processing.

The WHT schedule is then uploaded onto the NRS portal and once accepted, an electronic receipt (e-receipt) is generated as acknowledgement that the process is successful.

Thereafter, the bank submits copies of the WHT schedule and evidence of payment at the local NRS office for processing of both the bulk receipt and individual receipts (WHT credit notes).

9.13 Contents of WHT returns/payment schedule - regulation 7(3)

Each withholding tax cheque, being paid to the Revenue must be accompanied with a payment schedule, which is a list of those who suffered the deductions that make up the cheque. The payment schedule must contain the following particulars:

- a. names of the taxpayers who suffered the deductions;
- b. their addresses;
- c. the nature of their activities/services and period covered;
- d. their tax file numbers [now Taxpayer Identification (Tax ID)];
- e. the total amount payable;
- f. the rate of tax applied;
- g. the amount of tax withheld;

- h. the balance paid to the taxpayer;
- i. the tax contract for which returns were being made;
- j. the date of payment; and
- k. the cheque number and date.

The template for remittance and returns of amounts deducted at source is as shown below:

SECOND SCHEDULE

[regulation 7(2) and (3)]

TEMPLATE FOR REMITTANCE AND RETURNS OF AMOUNTS DEDUCTED AT SOURCE

Name of Payer:

Taxpayer Identification (Tax ID) of Payer:.....

Month Covered:.....

Relevant Tax Authority:.....

Currency of Remittance:

S/N	Name and address of beneficiary	Tax ID	Nature of Transaction	Gross Amount	Rate	Amount deducted

Declaration:

I, ..., being authorised personnel of the paying entity, hereby certify that the information provided in this schedule is true, correct and complete to the best of my knowledge.

Name:.....

Designation:

Signature:

Date:.....

9.14 Time frame for compliance with WHT returns

For WHT deducted from companies, this should be remitted to NRS whilst those deducted from individuals should be remitted to the State Internal Revenue Service where the recipient is resident.

The time frame for compliance with WHT returns in respect to companies and individuals is 21 days and 30 days respectively, from the date the duty to deduct WHT arose or when it was deducted, whichever is earlier.

9.15 Withholding tax refunds and grounds for objection - section 55 (3) of NTAA

Where it is proved that the person who suffered a withholding tax deduction is not liable to income tax for the year or that the tax withheld is in excess of the tax assessed, the

Board has obligation to grant a refund of the over-payment.

Section 55(3) of NTAA provides that any tax refund due shall be made within 90 days of the decision of the relevant tax authority, with the option of a set-off against any tax liability of the taxpayer.

9.16 Remittance of WHT to tax authorities - regulation 7

Taxes are to be withheld from payments due to corporate bodies and individuals at the specified rates and remitted to the relevant tax authorities within 21 days (in case of corporate bodies) or 30 days (in the case of individuals) from the date the amount was deducted, or from the time the duty to deduct arose, whichever is earlier. Additionally, in respect of Pay-As-You-Earn, not later than the 10th day of the month following the payment.

In line with regulation 5, the tax, when paid to the Service, shall be the final tax due from a:

- (a) on-resident recipient of the payment; and
- (b) unit trust recipient of the payment.

9.17 Withholding tax credit notes

When payment is made to the bank or the Withholding Tax Section of the Revenue in respect of withholding tax deducted at source, the NRS will issue credit notes, in favour of the taxpayers whose names are contained in the withholding tax schedule. The credit notes are to be forwarded by the collection agents to the taxpayers who suffered the deductions, to enable them claim tax credits against their tax liabilities for the relevant assessment year(s).

It is important to emphasise that the presentation of a letter from the collection agent, showing that a taxpayer has suffered deductions, is not enough for the NRS to grant withholding tax credit.

Similarly, government treasury receipts issued by other government departments, showing that they have deducted tax from a taxpayer, is not enough to grant tax credit since only the NRS can collect tax for the federal government and will, therefore, issue credit notes for only the taxes that have been paid into its coffers.

Each state government is expected to design forms that will enable credit to be granted to those from whose incomes, tax has been withheld.

9.18 Payment certificate and treasury receipt

A payment certificate is issued in favour of the tax agents, when payments are made to the tax office, in respect of withholding taxes they deducted at source. This certificate is the only documentary evidence that the tax agent would have, pending the issuance of the Inland Revenue Withholding Tax Receipt, which would be issued, only after, the cheque paid by the agent has been cleared in the bank.

9.19 Administrative bottlenecks and other problems of WHT

Since the introduction of withholding tax scheme into the Nigerian tax system, the scheme has been bedevilled by some challenges, which include:

- (a) inconsistency in the interpretation of and the applicable WHT rate applicable to some transactions in the information circular on withholding tax issued by the NRS;
- (b) bureaucracy in the process of claiming withholding tax credit;
- (c) penalty for failure to deduct. Taxpayers who are essentially obliged under the income tax law to register for income tax, does so as an unpaid agent of the

- relevant tax authority. Therefore, penalising the tax agent for failure to deduct withholding tax may be considered as counter-productive considering that the tax agent is not paid for assisting the relevant tax authority in this regard;
- (d) appropriate WHT rate to apply to transactions. In most cases, tax agents are in a dilemma as to determine and apply WHT rate correctly on different transactions; and
 - (e) bureaucracy in the process of withholding tax refund.

9.20 Merits and demerits of WHT scheme

9.20.1 Merits

The following are some of the merits of withholding tax scheme:

- a. source of government revenue;
- b. it helps in expanding the tax net by bringing into the tax net persons who were previously unknown to the tax authorities;
- d. it helps in determining a person's turnover and thus ascertaining the correct income for tax purposes;
- e. it makes tax payment less cumbersome to the taxpayer who may not have to bother himself going to the tax office to pay his tax;
- g. it reduces incidence of tax evasion;
- h. it involves little or no cost of collection as it is self-accounting in nature; and
- i. it saves time for the revenue officers to attend to other duties.

9.20.2 Demerits

The demerits of the withholding tax scheme are:

- a. a high rate of withholding tax is likely to affect the operational performance of most businesses;
- b. the application of withholding tax affects the cash flow of most businesses as they receive amounts less than what they have estimated or budgeted for per the invoices they have issued; and
- c. it is likely to discourage hard work by revenue officers since it is self-accounting in nature.

9.21 Withholding tax rate and double taxation relief

The principle behind double taxation relief is to avoid being taxed more than once. Where there is a double taxation treaty between Nigeria and any other country, the resident of such a country, in receipt of income in Nigeria, will be entitled to double taxation relief at the rates contained in the double taxation treaty. The withholding tax rate is 7.5% for dividend, interest, and royalty for recipients of a country which has double taxation agreement with Nigeria. The reduced rate will only apply to payments on passive income made to investors resident in treaty countries, where the double taxation agreements specify WHT at 7.5%

Nigeria has active double taxation treaties with the following countries:

- (a) Canada;
- (b) Czech Republic;
- (c) France;
- (d) Netherlands;
- (e) Pakistan;
- (f) Romania;
- (g) Italy (air and shipping only);
- (h) United Kingdom;
- (i) South Africa
- (j) Philippines;

- (k) Belgium;
- (l) China;
- (m) Rwanda;
- (n) Singapore;
- (o) Slovakia; and
- (p) Spain.

9.22 Operation of the withholding tax system

When any of the payments listed in the table above is being made by the payer who is an agent of the relevant tax authorities, for the collection and remittance of withholding tax at the appropriate rate, the tax must be correctly deducted from the payment and the net paid to the supplier.

Except for dividends which can only be paid by a body corporate, the payer has been defined as a company (corporate or unincorporated), Government Ministries and departments, parastatals, statutory bodies, institutions and other established organisations approved for the operation of Pay-As-You-Earn system, notwithstanding that the payer is in itself not liable to pay tax. For example, an Embassy which is in itself not liable to pay tax, has an obligation to withhold tax when it makes a payment in respect of any of the items listed.

The total amount withheld monthly, is to be remitted to the relevant tax authority through a cheque or bank draft, made payable to the relevant tax authority. In the case of withholding tax payable to NRS, the cheques are to be drawn in favour of "FGN-NRS-WHT Account".

9.23 Currency of deduction

The currency in which tax is to be deducted and paid over to the relevant tax authorities is the currency of transaction. Where the transaction is in foreign currency, the tax is to be withheld in the foreign currency and paid to the relevant tax authority, through the Central Bank of Nigeria (CBN). The CBN would then effect the necessary conversion, using the ruling rate of exchange and then credit the appropriate government account with the sum.

9.24 Dual role of ministries, parastatals and other agencies of government

The various ministries and agencies of government play a dual role since January 1995 in the tax collection procedure, namely:

- (a) Act as agent in the deduction of withholding tax from contract sums payable to their contractors; and
- (b) Act as agent in the collection of VAT on payments made to contractors.

The distinction between deduction of withholding tax from contract sums and collection of VAT from contractors when they are paid is very important.

The withholding tax is paid to the relevant tax authority depending on whether the taxpayer is a corporate body or an individual. The VAT, on the other hand, can only be paid to the NRS under the Nigerian tax laws.

9.25 Rights and obligations of taxpayers - regulation 8

The recipient of a payment that has suffered tax by deduction at source is entitled to demand from the payer, evidence that the payer has not only deducted the tax, but has also accounted for the tax to the relevant tax authority. The evidence should be the original receipt issued by the relevant tax authority; otherwise, he is unlikely to be given credit for the tax already paid against his total tax liability for a given year of

assessment.

In completing his annual tax return, the recipient is obliged to disclose his income from all sources and claim the tax reliefs that are due to him.

Even where an income is tax exempt, he is obliged to disclose or declare the income and claim the exemption. Failure to declare a source of income, even though the income may be exempt from tax, borders on tax evasion which is a punishable offence.

9.26 Penalties for non-deduction and late remittance of withholding tax

(a) Failure to deduct withholding tax - section 105 of NTAA

Any person who is obliged to collect, deduct or withhold tax under the relevant tax laws, and fails to collect, deduct or withhold the tax due is liable to an administrative penalty of 40% of the amount not deducted.

(b) Failure to remit tax deducted at source or self-account - section 107 of NTAA

(i) A person charged with the responsibility to deduct, collect or withhold any tax under this Act, and fails to remit the amount deducted, collected or withheld by the 21st day of the month immediately succeeding the month in which the amount was deducted, collected or withheld, is liable to pay:

- the amount deducted, collected or withheld but not remitted;
- an administrative penalty of 10% per annum of the tax deducted, collected or withheld but not remitted; and
- interest at the prevailing Central Bank of Nigeria monetary policy rate.

(ii) A person required to self-account under this Act and fails to self-account within the time prescribed by this Act, is liable to pay:

- the tax not self-accounted for;
- an administrative penalty of 10% per annum of the amount not self-accounted for; and
- interest at the prevailing Central Bank of Nigeria monetary policy rate.

(c) A convict of any of the offences under this section, shall be liable to a term of imprisonment not exceeding three years, or a fine of not less than the principal amount due plus penalty of not more than 50% of the sum, or both.

Notes

- (a) Withholding tax deductions from payments due to companies are payable to the NRS.
- (b) Withholding tax deductions from payments due to individuals are payable to the State Internal Revenue Service, where the recipient is resident.
- (c) Withholding taxes on dividend, interest, rent and royalties when suffered by non-residents represent final tax. Also, with effect from January 1996, withholding tax on interest and dividend is final tax for individuals.

9.27 Chapter review

In this chapter, explanations have been given on the nature, and peculiarities of withholding tax, along with the enabling laws. A profile of the transactions/payments attracting withholding tax, and the rates applicable to each of them, vis-a-vis the category of taxpayers (Corporate entities or Individuals), suffering the tax are provided.

Details of the relevant tax authorities for purposes of collection, the nature of offences/penalties with regards to the tax and the incidence of double taxation relief have been

clearly addressed.

The operation of the WHT, highlighting the scenario where transactions are in foreign currency, contents of the payment schedule, issuance of withholding tax credit notes and payment certificate/treasury receipts including the need for refunds and set-offs where necessary, have been fully covered. Finally, the dual role of ministries, parastatals and other agencies of governments, as well as the rights and obligations of the taxpayers, have been fully discussed.

9.28 Worked examples

9.28.1 Questions

- (1) Withholding tax is not another type of tax, but simply an advance payment of tax.

Required:

- (a) Explain the main features of withholding tax.
- (b) Identify the relevant tax authorities in relation to withholding tax in Nigeria.
- (c) Identify the contents of a payment schedule for the remittance of withholding tax.

- (2) Aseye Insurance Plc engaged the services of Desu Consulting Limited for corporate re-structuring and strategic management in line with the decision of the directors to reposition the company as first amongst equals. The fee for the assignment is ₦65 million.

As the leading company in the new mega insurance company, Aseye Insurance paid the agreed fee on the June 30, 2026, but no Withholding tax was deducted.

Required:

Explain the tax implication of this action.

- (3) A prospective client, XYZ Nigeria Limited, bid for a contract, the terms of which, included the payment of value added tax (VAT).

The client sought your advice on the tax implications.

Required:

Explain the differences between value added tax and withholding tax.

- (4) Kuba Limited a medium scale manufacturing company made the following transactions during the year ended December 31, 2025.

February 7, 2025	₦250,000 was paid to Mr. Okon, an estate surveyor, for the services rendered to the company during the month.
April 11, 2025	₦650,000 was paid to Armani Limited as a fee for technical services rendered.
May 15, 2025	₦800,000 was paid as interim dividends to individual shareholders of the company.
July 19, 2025	₦18,000,000 was paid to Binlad Limited for purchases of goods used in the ordinary course of business.
September 23, 2025	₦360,000 was paid to a management consultant – R.O. Pedro
November 26, 2025	₦1,000,000 was paid to Kasi Limited as royalty.

December 29, 2025 ₦500,000 was paid to the directors of the company as directors' fees.

Required:

Compute the withholding tax payable to:

- (a) NRS
- (b) State Board of Internal Revenue Service.

9.28.2 Suggested solutions to questions

- 1 (a) Main features of withholding tax include:
 - (i) payment of withholding tax is statutory on a person making the payment;
 - (ii) withholding tax credit cannot be used to off-set tax liabilities of prior years;
 - (iii) it is an advance payment of income tax which is utilised as tax credit against income tax liability of the year to which the income relates;
 - (iv) withholding tax represents the final tax on Franked Investment Income, in the hands of the recipients.
- (b) The relevant tax authorities in relation to withholding tax in Nigeria are:
 - (i) NRS for corporate bodies; and
 - (ii) State Internal Revenue Service for individuals.
- (c) Contents of the payment schedule for the payment of withholding tax must include:
 - (i) names of the taxpayers who suffered the deductions;
 - (ii) their addresses;
 - (iii) the nature of their activities/services and period covered;
 - (iv) their tax file numbers [now Taxpayer Identification (Tax ID)];
 - (v) the total amount payable;
 - (vi) the rate of tax applied;
 - (vii) the amount of tax withheld;
 - (viii) the balance paid to the taxpayer;
 - (ix) the tax contract for which returns were being made;
 - (x) the date of payment; and
 - (xi) the cheque number and date.
- 2 The tax implications to Aseye Insurance Plc for failure to deduct according to section 105 of NTAA is that the company will be liable to an administrative penalty of 40% of the tax not deducted in addition to payment of the tax itself. Specifically, this is equal to:
 - (a) Payment of the penalty = 40% of the tax (₦3,250,000) = ₦1,300,000
 - (b) Payment of the tax, that is, 5% of ₦65million, which is ₦3,250,000
- 3 The major differences between VAT and WHT are as shown in the table below:

	Value added tax	Withholding tax
a	An indirect tax	A direct tax
b	Imposed on goods and service	Imposed on incomes at source
c	Imposed at 7.5%	Rate applicable is dependent on type of transaction
d	Backed by NTA	Backed by Deduction of Tax at Source (Withholding) Regulations, 2024, NTA,

		and NTAA
e	Is governed only by NRS	Is governed by State Internal Revenue Service and NRS
f	VAT is shared by the 3 tiers of government	Withholding tax is not shared by the 3 tiers of government

4) Kuba Limited

(a) Computation of withholding tax payable to NRS

Date	Transaction	Amount ₦	WHT Rate %	WHT ₦
11/04/24	Payment of technical fees to Armani Limited	650,000	5	32,500
26/11/24	Payment of royalty to Kasi Limited	1,000,000	10	100,000
	Total WHT payable to FIRS			<u>132,500</u>

(b) Computation of withholding tax payable to State Internal Revenue Service (SIRS)

Date	Transaction	Amount ₦	WHT Rate %	WHT ₦
7/02/24	Payment to Mr. Okon	250,000	5	12,500
15/05/24	Payment of dividends to individuals	800,000	10	80,000
26/11/24	Payment to management consultant	360,000	5	18,000
29/12/24	Payment of director's fees	500,000	15	75,000
	Total WHT payable to SIRS			<u>185,500</u>

VALUE ADDED TAX (VAT)

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10. Value Added Tax (VAT)

10.0 Learning objective

The objective of this chapter is to ensure that readers understand the administration, regulatory framework, and VAT model in Nigeria.

10.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) understand the nature, objectives and administration of VAT in Nigeria;
- (b) understand the basic terms and terminologies of VAT;
- (c) understand the regulatory framework of VAT in Nigeria;
- (d) appreciate the structure of the VAT model in Nigeria;
- (e) compute VAT payable and prepare VAT account;
- (f) identify the taxable services rendered by financial institutions and their VAT- exempt income;
- (g) understand the provisions of NTA and NTAA relating to VAT; and
- (h) explain the offences and penalties associated with VAT.

10.2 Nature, objectives and administration of VAT

10.2.1 The nature of VAT

The advent of the VAT concept in the early part of twenty-first century brought about a global acceptance by many countries. This was due largely to the ease of administration and high collection yield.

VAT as a consumption tax is a multi-stage levy collected at every stage of production and sale of goods and rendition of services.

10.2.2 Objectives of VAT

The objectives of VAT are to:

- a. increase government revenue;
- b. make the tax system more transparent;
- c. avoid cascading effect;
- d. reduce tax evasion;
- e. increase exports;
- f. simplify tax collection procedure; and
- g. check income tax evasion by concealment of actual income by taxpayers.

10.2.3 Administration of VAT - section 3 of NTAA

This section empowers the Nigeria Revenue Service to administer VAT. It is pertinent to state that the NRS is the central body responsible for administering all federal taxes, including VAT.

10.3 Registration and deregistration of value added tax

10.3.1 Registration

- (a) Residents - sections 4 and 5 of NTAA
 - (i) Every taxable entity shall register with the relevant tax authority and obtain a taxpayer identification (Tax ID) for the purposes of compliance with tax obligations.
 - (ii) Every ministry, department or agency of the Federal or a State government, and every Local Government shall register for tax and obtain a Tax ID.
- (b) Non- residents - section 6 of NTAA

A non-resident person that supplies taxable goods or services to any person in Nigeria, or derives income from Nigeria shall register for tax purposes and obtain a Tax ID:

Provided that a non-resident person who derives only passive income from investment in Nigeria may not be required to register for tax but shall provide relevant information as may be prescribed by the Service.

10.3.2 Deregistration

- (a) A taxable person that temporarily ceases to carry on a trade or business in Nigeria, shall notify the relevant tax authority of its intention to suspend its registration for tax purposes within 30 days of such temporary cessation of trade or business.
- (b) The relevant tax authority shall classify the Tax ID as dormant and place it on suspension.
- (c) A taxable person that permanently ceases to carry on a trade or business in Nigeria, the taxable person shall notify the relevant tax authority of its intention to deregister for tax purposes within 30 days of such cessation of trade or business.
- (d) Where a taxable person permanently ceases to carry on a trade or business, the relevant tax authority shall deregister the Tax ID.
- (e) The relevant tax authority shall deregister or cancel a Tax ID where it is satisfied that
 - (i) the taxable person is deceased, or, in the case of a body corporate, including a government ministry, department or agency is wound up or dissolved; and
 - (ii) the person to whom the Tax ID was issued has another one.
- (f) A taxable person whose Tax ID has been suspended, shall, upon reapplication, be re-issued with the same Tax ID.

10.4 Requirements for filing of VAT returns and remittance of VAT liability – section 22 of NTAA

A taxable person is required, in respect of value added tax (VAT), with or without a notice and whether or not an economic activity has taken place, file a return to the Service in the prescribed form, on or before the 21st day of the following month.

- (a) An extension of the period for filing the returns under this section, where granted by the Service, such extension shall not imply the extension of time to pay the tax.
- (b) The input tax paid, output tax collected and value added tax payable in respect of all taxable supplies in the preceding month shall be reflected in the return.
- (c) The provision stated in (a) above, shall not apply to a small business.
- (d) A small business may, subject to a written notice addressed to the Service, choose to opt out of the exemption granted to small businesses under this Part, including registration, charging of tax on its taxable supplies and filing of returns.
- (e) A business, upon ceasing to be a small business, shall file monthly VAT returns.
- (f) In determining whether a person meets the threshold of being a small company, the value of the following taxable supplies shall be excluded:
 - (i) supply of a capital asset of the person; and
 - (ii) supply made solely as a consequence of the person selling the whole or a part of its business or permanently ceasing to carry on business.
- (g) A small business is exempt from the requirements of payment of VAT to a supplier (section 151 of NTA) and from the penalties relating to provisions to register (section 100) and failure to keep books (section 102) of NTAA.
- (h) The provisions of (e) above, shall not apply to companies engaged in petroleum operations as defined in the Nigeria Tax Act.

- (i) Where technology is deployed by the Service, a taxable person shall render returns in real time or at such other time as the Service may prescribe.
- (j) For the purpose of attribution, any return under this section shall provide details of consumption of taxable supplies, irrespective of where the return is filed.

10.5 Goods - section 201 of NTA

Goods have been defined by section 201 of NTA to mean “all forms of tangible properties, movable or immovable”.

10.6 Services

10.6.1 Definition

“Services” means:

- (a) “anything, other than goods or services provided under a contract of employment; and
- (b) includes any intangible or incorporeal (product, asset or property) over which a person has ownership or rights, or from which he derives benefits, and which can be transferred from one person to another, excluding interest in land and building, money or security”.

10.6.2 Exported service - section 201 of NTA

A service will be regarded as exported service when a service is rendered to a non-resident person outside Nigeria by a taxable person regardless of where the service is rendered, provided that a service rendered to the Nigerian permanent establishment of a non-resident person shall not qualify as exported.

10.7 Taxable persons - section 201 of NTA

A taxable person includes a company, individual or body of individuals, family, community, corporations sole, trustee, executor or any other legal arrangement, or a person who carries out an economic activity, a person exploiting tangible or intangible property for the purpose of obtaining income therefrom by way of trade or business, or a person or agency of government acting in that capacity.

10.8 VAT invoice - section 152 of NTA

- (a) When a taxpayer makes a taxable supply, he shall maintain a sequential invoice numbering, and shall in respect of a supply, furnish the purchaser with a VAT invoice containing, the following:
 - (i) supplier's tax ID;
 - (ii) name and address of the supplier and sequential invoice number;
 - (iii) supplier's incorporation or business registration number as applicable;
 - (iv) the date of supply;
 - (v) name of purchaser or client;
 - (vi) gross amount of transaction; and
 - (vii) VAT charged and the rate.
- (b) Whether or not payment is made at the time of supply, a VAT invoice shall be issued on supply.
- (c) VAT invoice shall be issued by a taxable person making a taxable supply or such other person as may be appointed by the Service.
- (d) For the purpose of (a) above, the Service may direct any taxpayer who makes taxable supplies to adopt the use of electronic invoice, provided that it gives a notice of, at least 30 days to the person.

10.9 Taxable supplies of goods and services -section 201 of NTA

Based on section 201 of NTA, “taxable supplies” means any transaction for sale of goods or the performances of a service, for a consideration.

10.9.1 Value of imported taxable supplies - section 149 of NTA

The value of imported taxable supply is the amount which is equal to the price of the taxable supply imported plus:

- (a) taxes, duties and other charges levied either outside or by reason of importation into Nigeria, other than VAT imposed under this Act; and
- (b) costs by way of commission, parking, transport and insurance up to the port or point of entry.

10.9.2 Value of taxable supplies - section 148 of NTA

- (a) The value of taxable supplies shall be determined as follows, where the supply is:
 - (i) for a money consideration, its value shall be the amount which with the addition of the VAT chargeable is equal to the consideration; and
 - (ii) not for a money consideration, the value of the supply shall be its market value.
- (b) Where a taxable supply is not the only transaction to which a consideration relates, the supply shall be the part of the consideration as is properly attributable to it.
- (c) The market value of a taxable supply, where it is not for money consideration, or for a supply between connected persons, shall be the money consideration as may be payable by a person in a transaction at arm's length.

10.10 Value added tax fiscalisation system

10.10.1 Value added tax fiscalisation system - section 23 of NTAA

- (a) Where the Nigeria Revenue Service deploys an Electronic Fiscal System (EFS), any person making a taxable supply shall use the EFS for recording and reporting all supplies.
- (b) Taxable persons shall be responsible for maintaining accurate records of all transactions passing through the EFS.
- (c) The Service shall specify the fiscalisation system to be adopted and a transition arrangement for its implementation.
- (d) The Service shall issue a regulation to give effect to the provisions of this section.

10.10.2 Fiscalisation of supplies of VAT - section 157 of NTA

- (a) A taxable person making a taxable supply shall implement the fiscalisation system deployed by the Service in accordance with Nigeria Tax Administration Act.
- (b) The fiscalisation system may include fiscal equipment consisting of electronic devices, software solutions or a communication system involving a secured network, or any such combination of the components for electronic invoicing and data transfer as the Service may prescribe or deploy.

All registered businesses are mandated to use NRS-sanctioned, real-time e-invoicing systems known as "Merchant Buyer Solution (MBS)" for all transactions. In order to facilitate digital tracking and proper allocation of VAT across states, invoices are required to indicate specific location of consumption of taxable supplies.

The NRS adopts a clearance model which allows for the validation of invoices before being sent to buyers. The official platform is the NRS e-invoicing portal where businesses are required to register.

10.11 When goods and services shall be deemed to be supplied in Nigeria - section 145 of NTA

A taxable supply shall be deemed to take place in Nigeria where, in respect of:

- (a) goods:

- (i) the goods are physically present, imported into, assembled or installed in Nigeria at the time of supply; or
 - (ii) the beneficial owner of the rights in or over the goods is a taxable person in Nigeria and the goods or right is situated, registered or exercisable in Nigeria;
- (b) a service:
 - (i) the service is provided to and consumed by a person in Nigeria, regardless of whether the service is rendered within or outside Nigeria or whether or not the legal or contractual obligation to render such service rests on a person within or outside Nigeria, or
 - (ii) the service is connected with existing immovable property, including the services of agents, experts, engineers, architects, valuers, etc., where the property is located in Nigeria; and
- (c) an incorporeal:
 - (i) the exploitation of the right is made by a person in Nigeria or whose place of usual residence is Nigeria,
 - (ii) the right is registered in Nigeria, assigned to or acquired by, a person in Nigeria, regardless of whether the payment for its exploitation is made within or outside Nigeria, or
 - (iii) the incorporeal is connected with a tangible or immovable asset located in Nigeria.

10.12 Input VAT - section 151 of NTA

Tax paid by a taxable person to the supplier of taxable goods and a service purchased or supplied to him is known as **input VAT**.

10.13 Credit for input tax and remission of VAT - section 155 of NTA

- (a) A taxable person shall, not later than the due date for rendering the relevant tax return prescribed by the Nigeria Tax Administration Act, where the:
 - (i) output VAT exceeds the input VAT, remit the excess to the Service;
 - (ii) input VAT exceeds the output VAT, be entitled to utilise the excess tax as a credit against subsequent months.
- (b) A taxable person shall be entitled to a refund of excess VAT not utilised as a credit, upon request to the Service and provision of such information or documents as the Service may require.
- (c) An importer of taxable goods shall, before clearing those goods, pay to the Service the VAT on the goods.
- (d) Input tax incurred by a registered person on any taxable supply, including services and fixed assets made to such person, may be deducted from the tax payable by the person on its taxable supplies at the end of the tax period in which the supply occurred, but only to the extent that the input tax was incurred for the purpose of consumption, use or supply in the course of making taxable supplies.
 Provided that:
 - (i) where any input tax is incurred in making both taxable and non-taxable supplies, only the proportion relating to making taxable supplies may be deducted;
 - (ii) the input tax shall be allowable for deduction within five years after the end of the tax period in which the input tax was incurred.
- (e) The input tax which may be deducted in line with (d) above of this Section shall be limited to taxable supplies made as from the commencement of this Act.

10.14 Output VAT -section 153 of NTA

Tax collected by a taxable person on the supply of taxable goods and services to his

accredited distributor, agent, client or customer, as the case may be, is known as **output VAT**.

10.15 Exempt supplies - section 185 of NTA

The following supplies are VAT exempt:

- (a) oil and gas exports;
- (b) crude petroleum oil and feed gas for all processed gas;
- (c) goods purchased for use in humanitarian donor funded projects provided that the humanitarian donor shall first pay the VAT and request a refund from the Service;
- (d) baby products;
- (e) locally manufactured sanitary towels, pads or tampons;
- (f) military hardware, arms, ammunitions and locally manufactured uniforms supplied to armed forces, para-military and other security agencies of a Nigerian government;
- (g) shared passenger road-transport service;
- (h) purchase, hire, rental or lease of tractors, ploughs and other equipment used for agricultural purposes.
- (i) supplies consumed by an approved entity in the export processing or free trade zones, provided that the supplies are consumed on its approved activity;
- (j) goods or services supplied to a diplomatic mission, diplomat or person recognised under the Diplomatic Immunities and Privileges Act whose activity is in public interest, and not-for-profit;
- (k) plays and performances conducted by educational institutions as part of learning;
- (l) land or building, including interest in land or building;
- (m) money, stakes or securities, including interest in money or securities;
- (n) Government licences; and
- (o) Assistive devices and disability-related products, including hearing aids, wheelchairs, and braille materials.

10.16 Exemption by Order of the President - section 187 of NTA

The President may, by an order published in the Official Gazette, where, a government or an agency of a government in Nigeria has entered into an agreement with the government of another country or a donor agency for the provision of developmental financing for any project in Nigeria, and such agreement provides for the exemption of supplies made under the project from VAT, give effect to the exemption.

10.17 Zero-rated supplies and services - section 186 of NTA

The following taxable supplies are charged to VAT at the rate of zero percent:

- (a) basic food items;
- (b) all medical and pharmaceutical products including medicinal herbal products;
- (c) educational books and materials;
- (d) fertilisers;
- (e) locally produced agricultural chemicals;
- (f) locally produced veterinary medicine;
- (g) locally produced animal feeds;
- (h) live cattle, goats, sheep and poultry;
- (i) agricultural seeds and seedlings;
- (j) electricity generated by generation companies (GENCOs) and supplied to National Grid or Nigeria Bulk Electricity Trading Company (NBET);
- (k) electricity transmitted by Transmission Company of Nigeria (TCN) to electricity distribution companies (DISCOs);
- (l) medical services;
- (m) tuition relating to nursery, primary, secondary or tertiary education;

- (n) exported goods excluding oil and gas;
- (o) exported services;
- (p) exported incorporeal property; and
- (q) medical equipment.

10.18 Taxable supply by non- residents - section 150 of NTA

- (a) A non-resident person shall register for tax and include VAT on its invoice in respect of all taxable supplies made to Nigeria.
- (b) Where a non-resident person is making taxable supplies from outside Nigeria to persons in Nigeria, the taxable person to whom the supply is made in Nigeria shall withhold the VAT due on the supply and remit it to the Service.
- (c) The Service may, by notice, appoint any person, including a non-resident supplier of taxable supplies, to collect the VAT and remit it to the Service.
- (d) Where a person appointed under (c) above, has made a taxable supply to a taxable person in Nigeria, the taxable person shall not have the obligation to withhold the VAT, except where the person appointed has failed to collect the VAT.
- (e) Where a person appointed under (c) above does not process payments in respect of the supplies but receives commission relating to the supplies, the appointed person shall use the mechanism with which it collects its commission to collect the VAT.
- (f) A non-resident person that makes a taxable supply to a person in Nigeria may appoint a representative for the purpose of compliance with its VAT obligations.
- (g) The Service may issue guidelines for the purpose of giving effect to the provisions of this section, including the form, time and procedure for filing returns and payment by non-resident suppliers appointed by the Service under (c) above.
- (i) Where taxable goods are imported into Nigeria through an online electronic or digital platform operated by a non-resident supplier and VAT has been collected by the Service or any person appointed by the Service, the goods shall not be further subjected to VAT before clearing upon provision of proof of payment of the VAT.

10.19 Items on which tax is suspended - section 185(2) of NTA and paragraph 1 of the Eleventh Schedule to the Act

The Minister by an Order issued in the Official Gazette has the prerogative to indicate the date of commencement or suspension of the charging and collection of VAT on the following items:

- (a) petroleum products;
- (b) renewable energy equipment;
- (c) compressed natural gas (CNG);
- (d) liquified petroleum gas (LPG); and
- (e) other gaseous hydrocarbons.

10.20 Items on which the Minister may vary the classification - paragraph 2 of the Eleventh Schedule to the NTA

The following items may be classified as exempt or zero-rated supplies by an order issued by the Minister in the Official Gazette:

- (a) all equipment, components and infrastructure related to the conversion and installation or expansion of Compressed Natural Gas (CNG) and Liquefied Petroleum Gas (LPG), including conversion kits; and

- (b) all services relating to the conversion and installation of Compressed Natural Gas (CNG) and Liquefied Petroleum Gas (LPG).

10.21 Rate of VAT - section 147 of NTA

VAT is charged at the rate of 7.5% on the value of all taxable supplies.

10.22 Time of supply - section 146 of NTA

- (a) A taxable supply takes place at the time an invoice or receipt is issued by the supplier, or where the goods are delivered or made available for use, or payment is due to or received by the supplier in respect of that supply, whichever occurs first.
- (b) A taxable supply shall be deemed to take place where the supplier and recipient are connected persons and invoices are not issued, in the case of:
- (i) a supply of goods which are to be removed, the time of removal of the goods;
 - (ii) a supply of goods which is not to be removed at the time when they are available to the recipient;
 - (iii) furnishing of a service, upon commencement of the furnishing of the service; or
 - (iv) an incorporeal, when such incorporeal becomes available for the use of the recipient.
- (c) Notwithstanding the provisions of (a) and (b) above:
- (i) where goods are supplied under any rental agreement or where services are furnished under any agreement or law which provides for periodic payments, they shall be deemed to be successively supplied for successive parts of the periods of the agreement or as determined by such law, and each of the successive supplies shall be deemed to occur when payment becomes due or is received, whichever is earlier;
 - (ii) where, and to the extent that, taxable supplies are:
 - progressively or periodically made under any agreement or law which provides for the consideration for that supply to be paid in instalments or periodically and in relation to the progressive or periodic supply, or
 - made in relation to any construction, assembly, manufacturing, alteration, improvement or repair activity under any agreement or law which provides for the consideration for that supply to become due and payable in instalments or periodically in relation to the progressive nature of the work, the supplies shall be deemed to be successively made, and each successive supply shall be deemed to take place whenever any payment becomes due or is received or an invoice relating to only that payment is issued, whichever occurs first; and
 - (iii) where a taxable supply is made under an instalment credit agreement, the supply shall be deemed to take place at the time the taxable supply is delivered or the time any payment of consideration is received by the supplier in respect of the supply, whichever occurs first.

10.23 VAT reverse charge -section 150 of NTA

VAT reverse charge is a mechanism where the recipient of a supply is required to account for VAT, instead of the supplier. Put differently, the seller of the goods or services does not charge VAT on the invoice.

Reverse charge applies to supplies made by non-resident suppliers who are not registered for VAT in Nigeria and in situations where local vendors fail to charge VAT.

The recipient of the supply is responsible for accounting for VAT, must self-assess the VAT payable and remit same to NRS.

10.23.1 Benefits

- a) Reverse charge simplifies VAT compliance by non-resident suppliers.
- b) It reduces the administrative burden on non-resident suppliers.
- c) It ensures that VAT revenue is collected on supplies made by non-resident suppliers.

10.23.2 Challenges

- a) Reverse charge is complex to implement and administer.
- b) It can place a significant compliance burden on recipients.
- c) It can lead to errors in VAT accounting and remittance.

10.24 Computation of VAT liability, including the treatment of opening and closing inventories

In computing VAT liability, the VAT output is first determined by applying VAT rate of 7.5% on the total sales net of allowable sales adjustments (see VAT form 002). Thereafter, VAT input is determined by applying VAT rate of 7.5% on purchases net of allowable purchases adjustments (see VAT form 002). VAT liability for the period is then the Output VAT less Input VAT.

However, the VAT liability for the current period can further be adjusted if there are VAT reverse charges already deducted by third parties (that is, oil and gas, governmental agencies, such as MDA's, etc.) during the same period. Also, a further adjustment may be made if there was a VAT credit (that is, excess of Input VAT over Output VAT) in a previous period.

The net VAT after the above adjustments, may either result in VAT credit or VAT payable. Nonetheless, if VAT liability computation includes inventories (that is, stocks), then, there would be need to further adjust the input VAT. To do this, the period purchases is first adjusted by adding cost of opening inventory and thereafter cost of closing inventory is then deducted. The net result is then further adjusted as earlier explained. Input VAT is then computed by applying the VAT rate of 7.5%.

It is important to note that inventories are measured at the lower of cost and net realisable value. The cost of inventories shall comprise all costs of purchase; costs of conversion and other costs incurred in bringing the inventories to their present location and condition (see IAS2).

Illustration 10.1

XYZ Nigeria Limited was incorporated many years ago and it commenced business in February 2015. The company is engaged in the importation and sale of chemical products. The company keeps proper records for VAT purposes.

The Chief Accountant of the company resigned in January 2026, and in a chance meeting with the Managing Director, he intimated you that the management of the company would want to ascertain the VAT remittable to the relevant tax authority based on the following financial transactions which took place in February 2026:

N

(i) The total value of taxable supplies (goods and services), including exempted/zero – rated supplies and VAT	18,600,000

(ii)	Value of exempted/zero – rated supplies included in (a) above	4,800,000
(iii)	VAT on domestic supplies/purchases for which invoicing requirements have been met	110,300
(iv)	VAT on import	285,600
(v)	VAT on purchases not wholly used in making vatable supplies	62,000
(vi)	VAT paid on transactions relating to taxable supplies:	
	• VAT paid on equipment	97,500
	• VAT paid on professional fees	48,000
	• Bank charges (VAT inclusive)	93,000

All the goods were received and sold during the month.

Required:

Compute the VAT remittable to the relevant tax authority in March 2026.

Solution to Illustration 10.1

XYZ Nigeria Limited

VAT remittable to NRS in March 2026

	N	N
Value of taxable supplies, including exempted/zero-rated supplies and VAT	18,600,000	
Value of exempted/zero-rated supplies included in the above	<u>(4,800,000)</u>	
Total supplies subject to VAT	<u><u>13,800,000</u></u>	
VAT received on supplies ($7.5/107.5 \times \text{N}13,800,000$)		962,791
VAT on domestic supplies/purchases for which invoicing requirements have been met	110,300	
VAT on import	<u>285,600</u>	
	395,900	
VAT on purchases not wholly used in making vatable supplies	<u>(62,000)</u>	
	333,900	
VAT paid on equipment	97,500	
VAT paid on professional fees	48,000	
VAT included in bank charges ($7.5/107.5 \times \text{N} 93,000$)	<u>6,488</u>	
		<u>(485,888)</u>
VAT remittable		<u><u>476,903</u></u>

Tutorial notes

- The input VAT to be allowed as a deduction from output VAT is to be limited to the VAT paid on goods purchased or imported directly for resale and goods which form the inventory in trade used for direct production of any product on which output tax is charged.
- VAT paid on any overhead, service and general administration of a business outfit are allowed as part of input VAT if they are directly attributable to the taxable supplies.
- Ditto for VAT paid on any capital items.

10.25 Obligation to keep books of accounts - section 31 of NTAA

A person who is registered with the NRS for the purpose of the tax (that is, VAT) is obligated to keep such records and books of all transactions, operations, imports and other activities relating to taxable goods and services as are sufficient to determine the correct amount of tax due under this Act.

- (a) Every person, including a company granted exemption from incorporation, shall, whether or not the person is liable to pay tax, maintain books or records of accounts.
- (b) The books or records of accounts shall contain sufficient information or data of all relevant transactions for the ascertainment of the person's tax liability.
- (c) The books and records required to be maintained under (a) above, shall be in English language and shall, for the purpose of tax, be consistent with the format that may be prescribed by the relevant tax authority.
- (d) Where the record is maintained in a language other than the English language, the person shall, on demand by the tax authority, produce, at its own expense, a translation in English language, which shall be certified by a sworn translator.
- (e) Any book or record required to be kept under this section shall be kept for a period not less than six years after the year of assessment in which the income relates.

10.26 Collection of VAT by persons other than the supply - section 155 of NTA

- (a) The following persons shall collect or withhold VAT on taxable supplies made to them and remit it to the Service within the time prescribed by this Act, the Nigeria Tax Administration Act, or any regulation made pursuant thereto:
 - (i) Federal, State, Local Governments and their respective Ministries, Departments or Agencies; or
 - (ii) any other person appointed by the Service to collect or withhold VAT for the purposes of this Part.
- (b) The Service may direct a taxable person to whom taxable supplies is made in Nigeria and issued an invoice on which VAT is not included, to self-account for the VAT payable and remit it to the Service.
- (c) The remission of the VAT under (a) and (b) above, shall be accompanied with a schedule showing the name, Tax ID and address of the contractor or supplier, invoice number, gross amount of invoice, amount of the VAT and the month to which the return relates.
- (d) The VAT collected, withheld or self-accounted under this section shall be remitted to the Service on or before the 14th day of the month immediately following the month of the transaction or as may be prescribed by the Service.
- (e) A person having an obligation to collect VAT shall keep proper records, make appropriate returns and remittances, and all provisions relating to compliance obligation in Nigeria Tax Act, the Nigeria Tax Administration Act or related tax laws shall apply to such person as though it is the taxable person.

10.27 Treatment of VAT on imported and exported goods and services

10.27.1 VAT on imported goods and services

- (a) On imported goods, VAT will be charged on non-exempted imported goods into Nigeria, and it is based on government assessment via Nigeria Custom Service.

There are basically four points of VAT payments for imported goods. They are through:

- i. Nigeria Customs Service (NCS);
- ii. Nigerian Port Authority (NPA);
- iii. shipping companies or airlines; and
- iv. clearing and forwarding agents.

The VAT assessment payable through Nigeria Customs Service (NCS) is usually calculated via the summation of the following:

- Cost, insurance and freight (CIF) value of goods imported;
- Import duty value;
- Sur-charge; and
- Any other charges which are collectable by the Nigeria Customs Service.

The total sum above is multiplied by VAT rate of 7.5 % to arrive at the VAT payable on import.

- (b) On imported services: VAT is payable on services received from outside Nigeria if such services are supplied to a Nigerian customer.

10.27.2 VAT on export

All exported goods and services are exempted from VAT. This is in line with the **concept of destination principle**, which allows for value added taxes to be retained by the country where the taxed product is being sold/consumed.

10.28 Treatment of input VAT under exempt VAT and zero-rated VAT

10.28.1 VAT exempt items

VAT exempt items refer to supplies that are not subject to VAT. Input VAT on exempt supplies is not recoverable. Given the fact that exempt supplies are not subject to VAT, the input VAT incurred on these supplies cannot be recovered.

Input VAT on exempt supplies is treated as a cost.

10.28.2 Zero-rated items

Zero-rated items refer to supplies that are subject to VAT at a rate of 0%. Input VAT on zero-rated supplies is recoverable because zero-rated supplies are subject to VAT, the input VAT incurred on these supplies can be recovered, even though the output VAT is 0%.

An example is where a company exports goods that are zero-rated for VAT purposes. The company can recover the input VAT incurred on the goods, even though the output VAT is 0%.

The input VAT on zero-rated supplies is treated as a recoverable input tax credit.

10.29 Treatment of VAT on business restructuring - section 189 of NTA

- (a) In the event of restructuring of trades or businesses, the following rules shall apply:

(i) in the case of a merger of two or more trades or businesses:

- a new trade or business shall not be deemed to have commenced as a result of the merger, and the provisions of this Act as they relate to cessation of trade or business shall not apply to the trade or business that ceased as a result of the merger,
- chargeable gains shall not apply to the assets transferred to the new or surviving trade or business as a result of the merger,
- assets of the merging trades or businesses shall be deemed to have been transferred at the residue of the qualifying capital expenditure on the day following the merger,
- the remaining basis periods in which allowance may be made, shall be the number of years of assessment for which allowance is to be made less the number of years of assessment for which allowance has previously been made,
- unutilised capital allowance on the assets transferred shall be available for the use of the new or surviving trade or business,
- unabsorbed losses of the merging entities shall be available to the surviving trade or business provided that such losses were incurred by the merged trade or business, and
- taxes deducted at source in respect of the merged trades or businesses shall be available to the merged trade or business;

(ii) in the case of a sale or transfer of a trade or business which results into the cessation of a trade or business:

- the provisions of cessation of trade, business, profession or vocation shall apply to the trade or business that was sold or transferred,
- the asset sold or transferred shall be recognised at the value of which they are sold or transferred,
- unutilised capital allowance on the assets sold or transferred shall not be available for use in the new or surviving trade or business,
- unabsorbed losses of the old business shall not be available for use in the new or surviving trade, business, profession or vocation, and
- taxes deducted at source from the old trade or business, shall not be available for use by the new or surviving trade or business;

(iii) in the case of a sale or transfer of a business asset which does not result into the cessation of the trade or business, and where the parties agreed to sell or transfer the asset for an amount not exceeding the sum of the residue of the qualifying capital expenditure and unutilised capital allowance of the asset:

- capital allowance under the provisions of the First Schedule to this Act shall apply to the residue of the asset only,
- the unutilised capital allowance on the asset sold or transferred shall be available for use by the buying trade or business,
- the trade or business that sold or transferred the assets shall not claim any part of the unutilised capital allowance pertaining to the asset sold or transferred:
- chargeable gains shall not apply to the asset sold or transferred under this paragraph.

(b) The relevant tax authority shall be notified of any restructuring of a trade, business, profession or vocation prior to commencing such arrangement.

(c) Where a business, or a part of the business, which is capable of separate operation is transferred as a going concern and the purchaser uses the assets

in the same kind of business, such transfer shall not be treated as a supply of goods or services for the purposes of VAT, provided that the purchaser is registered for the purposes of compliance with tax obligations.

Notes

- (i) Any reference to trade or business includes references to any part of the trade or Business.
- (ii) VAT shall not apply to business restructuring carried out in accordance with the provisions of this Act.

10.30 Vatable services rendered by financial institutions and their VAT exempt income

10.30.1 Introduction

The NRS provided clarification on how services rendered by financial institutions are liable to value added tax (VAT). Given the fact that services rendered by microfinance banks, people's banks and mortgage institutions are specifically VAT exempt, hence services provided by other financial institutions are liable to VAT.

10.30.2 Definition of financial institutions

"Financial institution" means any bank, individual, body, association or group of persons whether corporate or unincorporated, licensed under Banks and other Financial Institutions Act (BOFIA) and any other related Act which carries on the business of a discount house, finance company, money brokerage and those whose principal objects include factoring, project financing, equipment leasing, debt administration, fund management, private ledger services, investment management, local purchases, order financing, export finance, project consulting, financial consultancy, pension fund management and such other business as the Central Bank of Nigeria, Nigeria Deposit Insurance Corporation, Pension Commission and any other regulatory body may, from time to time designate.

10.30.3 Services rendered by financial institutions that are liable to VAT

Commissions, fees or other charges for services rendered by financial institutions to their customers are liable to VAT.

It should be noted that loans and advances granted to customers and interests chargeable on such transactions are not liable to VAT. However, additional services, such as documentation and perfection of loan or overdraft agreements are subject to VAT.

Where insurance companies, brokers, agents, loss adjusters, surveyors, and other service providers in the insurance industry (including staff of the financial institution) each fee or commission for services rendered to insurance companies, such income is liable to VAT. Premium received on policies is not vatable.

10.30.4 Services rendered by financial institutions that are vatable

In the consideration of services of financial institutions that are vatable, it is apposite to differentiate between activities that constitute return on investment and consumption of services rendered by financial institutions.

Charges which arise from services rendered by financial institutions attract VAT and these include:

- (a) commissions charged on forex trading or remittance;
- (b) commissions on sale of bank drafts/certified cheques;
- (c) commissions paid to brokers, reinsurers, underwriters and other insurance agents by an insurer;
- (d) commission on asset trading;

- (e) account maintenance fees, ledger fee, etc;
- (f) legal and other fees chargeable on lease arrangements;
- (g) fees charged for advisory services, for example, mergers and acquisitions, financial strategy counselling, etc;
- (h) fees charged on public/private issues;
- (i) debt conversion fees;
- (j) fees on asset trading;
- (k) fees earned on fund management;
- (l) fees earned on letters of credit/documentary collection to finance import/export;
- (m) fees charged on stock-brokerage and trust services;
- (n) fees charged on electronic banking, POS and ATM charges;
- (o) fees charged on electronic bill payments; and
- (p) fees charged on mobile money transactions and other like transactions.

10.30.5 Non-vatable income of financial institutions

In order to ascertain income subject to VAT, it is necessary to identify those that relate to return on investment or consideration for risk, etc. which are different from those that constitute supply of services.

Income that relate to return on investment or consideration for risk etc. are not vatable and these include:

- a) interest on loans and advances, including overdraft facilities;
- b) interest on savings accounts;
- c) interest on bank deposits;
- d) interest on interbank placements.;
- e) premium on insurance policies;
- f) dividends; and
- g) profit or gain on disposal of securities.

10.30.6 Registration for VAT and rendition of returns

Financial institutions are expected to register for VAT and obtain tax identification (Tax ID).

VAT is expected to be remitted to the relevant tax office within twenty-one days of the month following the month of transaction.

10.30.7 Treatment of input tax

VAT paid on any capital item is now allowable as an input VAT provided that the payment directly relates to supplies that are subject to VAT. In addition, VAT paid on any overhead, service and general administration of a business outfit is also allowable if it meets the afore-mentioned requirement

In a case where a financial institution pays VAT on goods supplied to customers, the input tax paid on the goods will be allowed against the output tax on same.

10.30.8 Duty to account for VAT

It is the responsibility of the service provider to charge and remit VAT to the relevant tax office, though the duty may change on the following occasions:

- a) The duty to charge and remit VAT is that of the agent or broker where they act as intermediaries between the service provider and the customers in a case of agency or broker arrangements;
- b) A financial institution is expected to self-account and remit VAT to the FIRS where the agent or broker fails to charge VAT; and
- c) A financial institution has the responsibility to self-account and remit VAT to the FIRS where the agent or broker cannot charge VAT due to being either individuals or being a person below the VAT threshold.

10.31 VAT refund - section 56 of NTAA

- (a) A request shall be made to the Service in the prescribed form by a taxable person that qualifies for VAT refund.
- (b) The request referred to in (a) above, shall be made not later than 12 months after the transaction giving rise to the refund, otherwise it shall lapse.
- (c) Where a valid request is received from a taxable person, the Service shall not later than 30 days of the receipt of that request, refund the tax to the taxable person or the amount shall be eligible for set-off against any tax liability of the taxpayer.

10.32 VAT compliance threshold

Based on the provisions of the NTA, only taxable persons with taxable supplies of ₦ 100 million and above are required to charge, collect, remit the tax and file monthly returns to the NRS. Put differently, a business that earns gross turnover of N 100 million or less per annum with a total fixed assets not exceeding N 250 million is not required to pay VAT. It should be stated that professionals are required to charge, collect, remit the tax and file monthly returns to the NRS irrespective of his turnover.

It should be noted that based on the provision of section 22(5) of NTAA, a small business may, subject to a written notice addressed to the Service, choose to opt out of the exemption granted small businesses, including registration, charging of tax on its taxable supplies and filing of returns.

Illustration 10.2

A taxable person achieved taxable supplies of ₦100 million in January 2026. When should he collect tax and file monthly VAT returns?

Solution to Illustration 10.2

The taxable person having achieved taxable supplies of ₦100 million in January 2026, should charge, collect tax and file monthly VAT returns in February 2026.

10.33 VAT sharing formula amongst the tiers of government - section 81 of NTAA

- (a) The net revenue accruing from VAT, shall be distributed as follows:
 - (i) 10% to the Federal Government;
 - (ii) 55% to the State Governments and the Federal Capital Territory; and
 - (iii) 35% to the Local Governments.
- (b) The amount of the VAT revenue standing to the credit of States and Local Governments shall be distributed among them on the following basis:
 - (i) Equally - 50%;
 - (ii) Population - 20%; and
 - (iii) Consumption - 30%.
- (c) For the purpose of this section, consumption is determined by the place of consumption, irrespective of where the return is filed.

10.34 Types of VAT

10.34.1 Gross product type variant of VAT

This is a method of computing value added tax (VAT) based on the gross value of goods and services produced or sold without deducting input VAT.

Businesses are not allowed to deduct input VAT from their VAT liability. A single VAT rate is applied to the gross value of goods and services.

(a) Advantages of gross product type variant of VAT include:

- (i) simplification of VAT administration, as businesses do not need to track input

VAT;

- (ii) reduction in compliance costs, as businesses incur lower compliance costs, as they do not need to maintain detailed records of input VAT; and
- (iii) enhancement of economic growth as businesses are incentivised to produce and sell more goods and services.

(b) Disadvantages of gross product type variant of VAT include:

- i. double taxation, as VAT is charged on the gross value of goods and services, without deducting input VAT;
- ii. inequitable distribution of VAT burden as businesses that produce and sell more goods and services will bear a disproportionate share of the VAT burden; and
- iii. difficulty in implementation, especially in countries with complex tax systems.

Countries that use gross product type variant of VAT include Brazil and Argentina.

10.34.2 Income type variant of VAT

This is a method of calculating value added tax (VAT) based on the income or profits earned by businesses.

The VAT base is the income or profits earned by businesses, rather than the value of goods and services sold. A single VAT rate is applied to the income or profits earned by businesses.

Businesses are allowed to deduct certain expenses, such as input VAT, wages, and raw materials, from their income or profits before calculating VAT.

(a) Advantages of income type variant of VAT include:

- i. reduction of tax burden on businesses, especially those with low profit margins;
- ii. encouragement of investment, as businesses are incentivised to invest in new projects and expand their operations; and
- iii. simplification of VAT administration as businesses only need to report their income or profits, rather than tracking input VAT and output VAT.

(b) Disadvantages of income type variant of VAT include:

- i. complexity of implementation, especially in countries with complex tax systems;
- ii. difficulty in defining income or profits for VAT purposes, especially for businesses with complex financial structures;
- iii. high risk of tax evasion, as businesses may underreport their income or profits to avoid paying VAT.

Currently, no country uses the income type variant of VAT.

10.34.3 The consumption type variant of VAT

This is a method of computing value added tax (VAT) based on the value of goods and services consumed by households and businesses.

The VAT base is the value of goods and services consumed by households and businesses.

A single VAT rate is applied to the value of goods and services consumed. Businesses are allowed to deduct input VAT from their output VAT liability.

(a) Advantages of consumption type variant of VAT include:

- i. ensuring neutral taxation, as VAT is levied on the value of goods and services consumed, rather than on the production process;
- ii. encouragement of economic growth, as businesses are incentivised to produce and sell goods and services that meet the demands of households and businesses; and
- iii. simplification of VAT administration as taxpayers only need to report their output VAT liability and claim input VAT deductions.

(b) Disadvantages of consumption type variant of VAT include:

- i. difficulty in ascertaining the value of goods and services consumed, especially in the case of exempt or zero-rated supplies;
- ii. high risk of tax evasion, as taxpayers may underreport their output VAT liability or overclaim input VAT deductions; and
- iii. complexity in cross-border transactions as businesses may need to account for VAT in multiple jurisdictions.

Countries that use consumption type variant of VAT include Canada, Australia, and Nigeria.

10.35 VAT enforcement and practice

10.35.1 VAT visits

VAT inspectors from the local VAT office, from time to time, visit the premises of every vatiable person for the following purposes, to:

- (a) ensure compliance with the VAT law;
- (b) ensure that amounts deducted as VAT are promptly accounted for;
- (c) examine method of keeping transactions and offer suggestions where necessary; and
- (d) educate VAT agents on new developments in the system.

10.35.2 VAT drive

This is to take place periodically at the instance of the zonal coordinators. Such tax drives are to stimulate the collection of VAT proceeds from defaulters.

10.36 VAT audit and investigation

This is to be instituted on regular basis by the headquarters of NRS. It involves checking both VAT officers and VAT payers' records to ensure strict compliance with the provisions of the Act and accountability of the proceeds collected.

10.37 Merits and demerits of VAT

10.37.1 Merits

These include:

- a) reliable source of government revenue;
- b) it eliminates the narrow scope and cascading effect of the repealed sales tax;
- c) It is a consumption tax, hence very easy to collect;
- d) fairness is established because consumers pay the tax in line with their consumption of goods and services received; and
- e) it can be used as a tool of fiscal policy. Items can be exempted; tax rate can be changed to achieve specific economic objectives.

10.37.2 Demerits

These include:

- (a) high administrative cost on the part of the government;

- (b) high cost of keeping records by the companies/agents;
injustice in the distribution of the VAT proceeds;
- (c) corruption on the part of tax officials can render VAT ineffective; and
- (d) problem of inadequate information can make VAT administration ineffective.

10.38 Offences and penalties

10.38.1 Failure to register for VAT - section 100 of NTAA

- (a) A taxable person who fails or refuses to register for tax, shall be liable to pay an administrative penalty of:
 - (i) ₦50,000 in the first month in which the failure occurs; and
 - (ii) ₦25,000 for each subsequent month in which the failure continues.
- (b) A statutory body or company who awards a contract to an unregistered person, shall be liable to pay an administrative penalty of ₦5,000,000.

10.38.2 Failure to file VAT returns - section 101 of NTAA

A taxable person who fails or refuses to file returns or knowingly files incomplete or inaccurate returns to the relevant tax authority in accordance with the provisions of this Act, shall be liable to pay an administrative penalty of:

- (a) ₦100,000.00 in the first month in which the failure occurs; and
- (b) ₦50,000.00 for each subsequent month in which the failure continues.

10.38.3 Other general offences and penalties relating to tax

Please see Chapter 6.12 of the Study Text and sections 100 to 127 of NTAA.

10.39 Interpretations - section 188 of NTA

For the purposes of VAT:

"Baby Products" means products made for the use of babies from birth to 3 years of age and described below:

- (a) baby activity and entertainment products, for example, baby safety car and home accessories, high chairs, cots/bassinets/baskets/cribs etc. along with parts and accessories;
- (b) baby bathtub, sponges, towels, etc. baby grooming kit, baby creams, powders, lotions etc.;
- (c) baby carriage and parts, for example, carriers/slides/bouncers/swing/rockers etc along with parts and accessories;
- (d) baby garments and clothing of any material;
- (e) feeding products, for example, feeding bottle, feeding bottle warmers and related accessories;
- (f) plates, spoons, cups, sippy cups, etc., breast pumps and accessories, nursing and feeding pillows etc.;
- (g) sanitary wares, for example, diapers, wipes and related products, diaper bags, potty and toilet training devices, baby mattress waterproof cover, baby toiletries, changing table and mat; and
- (h) others, for example, baby monitors along with parts and accessories;

"Basic Food Items" means an agriculture-based or aquatic-based staple food, including:

- (a) locally produced table honey;
- (b) white bread and brown bread;
- (c) cereals including maize, rice, wheat, millet, barley, sorghum, oats, fonio and finer millet, in the form of grain, flour, crop, whether raw or semiprocessed, whether in bulk or retail;
- (d) cooking oils including, vegetable oil, soya oil, palm oil, groundnut oil, shea butter, beniseed oil, olive oil, coconut oil; provided that they are of a type and grade

- suitable for culinary purposes, and do not contain any substance such as, fragrance, which will make them unsuitable for culinary use;
- (e) culinary herbs including, curry, thyme, onions, ginger, mint, whether raw or processed;
 - (f) fish of all kinds other than ornamental, whether live, fresh, frozen, smoked or dried;
 - (g) flour and starch including, corn flour, plantain flour, cassava flour, beans flour, wheat flour, rice flour, yam flour, cassava flakes (garri), whether bleached or unbleached, refined or unrefined; provided that it is suitable for culinary purposes;
 - (h) fruits, including pineapples, oranges, mangoes, guavas, grape fruit, banana, pawpaw, etc., whether fresh or dried;
 - (i) live or raw meat from cow, goat, lamb, pig, poultry, whether butchered or in parts, fresh or frozen, and including poultry eggs;
 - (j) milk, whether fresh or processed into liquid or powdered form;
 - (k) nuts for human consumption such as, groundnut, walnut, cashew nut, hazelnut, kolanut, tigernuts, coconut, etc. whether raw, roasted, dried, fried, boiled or seasoned, cracked or in the shells;
 - (l) pulses for human consumption, including beans, lentils, peas, chickpeas and tamarind, etc., whether raw, roasted, fried, boiled, salted or in their shells;
 - (m) tubers (roots) of yam, cocoyam, potatoes, water-yam, cassava, etc. whether in raw form, flakes or flour for human consumption;
 - (n) salt for only culinary use, means fine salt and salt in retail packs, and excludes industrial salt;
 - (o) vegetables including pepper, melon, lettuce, okra, cabbage, carrot, etc., whether fresh, dried or ground;
 - (p) water means natural water and table water, including spring water, rain water, pipe borne water or well water excluding:
 - (i) sparkling or flavoured water,
 - (ii) water sold in restaurants, hotels, eateries, lounges, cafes, canteens and other similar settings, and
 - (iii) water sold by contractors, caterers or similar persons;

"Educational Books" means physical or electronic books used to implement instruction and facilitate learning in educational institutions providing pre-primary, primary, secondary, tertiary, special, adult, vocational, technical science or religious education, including booklets, brochures, pamphlets and leaflets ; newspapers, journals and periodicals, children's books, picture and painting books, music (printed, duplicated or manuscript), maps, charts and topographical plans, covers, cases and other articles supplied together with the books ;

"Educational Materials" means materials used for instructional purposes, for active learning, assessment and administration, including physical or electronic materials used to implement instruction and facilitate learning in educational institutions providing pre-primary, primary, secondary, tertiary, special, adult, vocational, technical science, or religious education;

"Equipment" refers tools, which may be devices, machines or specialised industrial vehicles that assist a person in achieving an action beyond the normal capabilities of a human;

"Exported Goods" means goods produced or procured for commercial purposes by a person in Nigeria and supplied to a person outside Nigeria;

"Farming Machinery and Implements and Farming Transportation Equipment" means equipment used exclusively for farming or for any other agricultural production

including tractors, ploughs, harrows, ridgers, harvesters, and equipment of the same kind;

"Fertilisers" means all fertilisers for agricultural purposes;

"Humanitarian donor funded projects" includes projects undertaken by Non-Governmental Organisations and religious and social clubs or societies recognised by law whose activity is not for profit and in the public interest;

"Locally produced agricultural or veterinary medicines" means:

- (a) drugs and vaccines produced in Nigeria for the treatment of animals, fish and plants including veterinary pharmaceuticals in various prescription presentations; veterinary nutraceuticals in various prescription presentations; veterinary biological vaccines, anti-sera, plasma, bacterins, hormones, toxoids, etc.; veterinary biosecurity, for example, disinfectants, antiseptics, feed sanitizers and water sanitizers;
- (b) drugs and vaccines produced in Nigeria for treatment of fishes, including dietary supplements for fishes including feed grade amino acids as single biochemical, for example, lysine, methionine, tryptophan; feed grade minerals as single entity; feed grade vitamins as single entity; feed grade enzymes; feed grade inorganic compounds as single entity, for example, calcium phosphate, vaccines for fishes, including killed vaccines; attenuated vaccines; deoxyribonucleic vaccines; acid (DNA) vaccines; recombinant vector vaccines; subunit vaccines; genetically modified vaccines; synthetic peptide vaccines;
- (c) drugs and vaccines produced in Nigeria for treatment of plants such as chemical crop protection products commonly referred as pesticides or agro-chemical including insecticides; rodenticides; fungicides; herbicides; anti-sprouting products and similar products;

"Locally produced animal feeds" means feeds for poultry, cattle, fish, etc.;

"Machinery" refers to a mechanical device or the parts that operate together to perform a single task, including the accessories necessary to the working of a machine;

"Medical Equipment" refers to devices requiring calibration, maintenance, repair, user-training and decommissioning, medical equipment used for the specific purposes of diagnosis and treatment of disease or rehabilitation following disease or injury, used either alone or in combination with any accessory, consumable or other piece of medical equipment, including veterinary equipment and devices, excluding cosmetology or fitness devices and other similar devices;

"Medical Products" refers to articles, instruments, apparatus, machine or software used in the prevention, diagnosis or treatment of illness or disease, or for detecting, measuring, restoring, correcting or modifying the structure or function of the body for some health purpose which include implantable, disposable or single-use medical devices but excludes cosmetology or fitness devices and other similar devices;

"Medical Services" means healthcare services for both humans or animals, rendered by a qualified health practitioner, excluding cosmetology, spa, gymnasium or similar services;

"Pharmaceutical Products" refer to components or finished products of both modern and traditional medicine intended for human use in the diagnosis, cure, mitigation, or treatment of disease or injury, and prevention of disease provided such products are approved by the relevant regulatory authority;

"Plant" refers to an assemblage of fixtures, tools, machinery, and apparatus which are necessary to carry on a trade or industrial business, including land, buildings, specialised structures, and equipment purchased off a shelf as a whole or an accumulation of parts which form a plant following a process of construction, installation, assemblage and transformed into a state for usage at the site of business;

"Purchase" means to obtain, acquire or take possession of a given asset, property, item or right by paying money or money's worth;

"Shared passenger road-transport service" means passenger road transport service which is available for use by the general public excluding leased, hired or rented motor vehicles, transportation apparatus for business or private use, car or ride hailing;

"Stake" means amount wagered on a game;

"utilisation of gas in downstream petroleum operations" refers to the marketing and distribution of natural gas for commercial purposes, and includes its use in power generation, liquefied natural gas production, gas to liquid production or fertiliser plants, and gas distribution pipelines; and

"Water" means natural water and table water, spring water, rain water, pipe borne water, well water and all-natural water of the same kind, all table water other than sparkling or flavoured water, except water sold:

- (a) in restaurants, hotels, eateries, lounges, cafes, canteens and other similar settings; and
- (b) by contractors, caterers and other similar vendors.

10.40 Chapter review

This chapter introduces the nature, objectives and administration of value added tax (VAT), specifying the taxable persons and taxable supplies of goods and services. A brief write-up on the obligation for registration, records and accounts keeping, valid VAT invoice and preparation of VAT accounts, including the requirements for filing of VAT returns and remittance of VAT liability, treatment of VAT on imported and exported goods and services, types of VAT and offences and penalties associated with VAT.

The chapter also addresses issues bordering on returns, remittances, and refund of tax as well as matters relating to the administration of the tax as well as VAT enforcement and practice in all its ramifications.

Details of merits and demerits of VAT are highlighted, including glossary of definitions of certain titles/terms encountered under the VAT Act.

10.41 Worked examples

10.41.1 Questions

- (1) Jonathan Ekpudu Trading Company is registered for value added tax (VAT) purposes. The accounting records of the company revealed the following projected information for the year ending December 31, 2026:

The projected financial transactions relate to taxable supplies:

	₦
Revenue (VAT inclusive)	30,400,500
Purchase of raw materials (VAT inclusive)	20,140,650
Transport and travelling (VAT inclusive)	1,215,800
Vehicle running expenses (VAT inclusive)	850,420
Office equipment (VAT inclusive)	2,100,500
Furniture and fittings (VAT inclusive)	1,500,000
Motor vehicle (VAT inclusive)	2,000,600
Audit and accountancy fees (VAT inclusive)	150,000
Bank charges (VAT inclusive)	185,050
Miscellaneous expenses (VAT inclusive)	550,500

The relevant expenses were incurred for the purpose of consumption, use or supply in the course of making taxable supplies.

Required:

Compute the VAT payable by Jonathan Ekpudu Trading Company for the year ending December 31, 2026.

- (2) Olabisi Limited is a manufacturing outfit based in Mowe, Ogun State. The company sold its vatiable products to a wholesaler, Ake Enterprises, for ₦2,000,000 in 2025. The wholesaler in turn sold the products to a retailer, Mrs. Ojelade, for ₦3,500,000, who finally sold them to consumers for ₦4,200,000.

Assume there was no closing inventory at each stage of the transactions.

Required:

Compute total VAT payable to Federal Inland Revenue Service.

- (3) VAT is a consumption tax which is a multi-stage levy collected at every stage of production, sale of goods, and rendition of services.

Required:

Explain:

- (a) The gross product type variant
- (b) The income type variant
- (c) The consumption type variant

- (4) Mr. James Clark, the accountant of XYZ Limited, resigned his appointment on December 31, 2025. The company was unable to file its VAT returns as and when due. Tax inspectors intend to visit the company on January 2, 2027, to remind the directors of the need to regularise the filing of monthly VAT returns.

The company filed monthly VAT returns relating to transactions up to December 31, 2025, but does not intend to file those returns on all transactions for the year ending December 31, 2026.

Required:

Compute the penalties payable by the company for failing to file returns on transactions relating to the year ending December 31, 2026.

10.41.2 Suggested solutions to questions

**(1) Jonathan Ekpudu Trading Company
Computation of VAT payable
For the year ending December 31, 2026**

	₦
Output tax (Revenue) W1	2,120,965
Less: Input VAT (Purchases of raw materials) W2	<u>(1,405,162)</u>
	715,803
Less: Input VAT:	
Transport and travelling (7.5/107.5 x ₦ 1,215,800)	(84,823)
Vehicle running expenses (7.5/107.5 x ₦ 850,420)	(59,332)
Office equipment (7.5/107.5 x N2,100,500)	(146,547)
Furniture and fittings (7.5/107.5 x N1,500,000)	(104,651)
Motor vehicle (7.5/107.5 x N2,000,600)	(139,577)
Audit and accountancy fees (7.5/107.5 x N150,000)	(10,465)
Bank charges (7.5/107.5 x N185,050)	(12,910)
Miscellaneous expenses (7.5/107.5 x N550,500)	<u>(38,407)</u>
	<u>119,091</u>

Working Notes:

(W1) Output tax

$$= \frac{7.5}{107.5} \times \text{₦}30,400,500$$

$$= \text{₦}2,120,965$$

(W2) Input tax on raw materials

$$= \frac{7.5}{107.5} \times \text{₦}20,140,650$$

$$= \text{₦}1,405,162$$

**2. Computation of total VAT payable to NRS
For the ended December 31, 2025**

Stages	Computations	₦	VAT payable ₦
A	Manufacturer - Sales value	2,000,000	
	Gross VAT at 7.5%	150,000	
	Net VAT	150,000	150,000
B	Wholesaler - Sales value	3,500,000	
	Gross VAT at 7.5%	262,500	
	Net VAT (₦262,500 – ₦150,000)		112,500
C	Retailer - Sales value	4,200,000	

Gross VAT at 7.5%	315,000	
Net VAT (~~N~~ 315,000 – ~~N~~ 262,500)		52,500
Total VAT payable to NRS		<u>315,000</u>

3. Types of VAT

(a) Gross product type variant of VAT

This is a method of computing value added tax (VAT) based on the gross value of goods and services produced or sold without deducting input VAT.

Businesses are not allowed to deduct input VAT from their VAT liability. A single VAT rate is applied to the gross value of goods and services.

(i) Advantages of gross product type variant of VAT include:

- simplification of VAT administration, as businesses do not need to track input VAT;
- reduction in compliance costs, as businesses incur lower compliance costs, as they do not need to maintain detailed records of input VAT; and
- enhancement of economic growth as businesses are incentivized to produce and sell more goods and services.

(ii) Disadvantages of gross product type variant of VAT include:

- double taxation, as VAT is charged on the gross value of goods and services, without deducting input VAT;
- inequitable distribution of VAT burden as businesses that produce and sell more goods and services with bear a disproportionate share of the VAT burden; and
- difficulty in implementation especially in countries with complex tax systems.

Countries that use gross product type variant of VAT include Brazil and Argentina.

(b) Income type variant of VAT

This is a method of calculating value added tax (VAT) based on the income or profits earned by businesses.

The VAT base is the income or profits earned by businesses, rather than the value of goods and services sold. A single VAT rate is applied to the income or profits earned by businesses.

Businesses are allowed to deduct certain expenses, such as input VAT, wages, and raw materials, from their income or profits before calculating VAT.

(i) Advantages of income type variant of VAT include:

- reduction of tax burden on businesses, especially those with low profit margins;
- encouragement of investment as businesses are incentivized to

- invest in new projects and expand their operations;
- simplification of VAT administration as businesses only need to report their income or profits, rather than tracking input VAT and output VAT.

(ii) Disadvantages of income type variant of VAT include:

- complexity of implementation, especially in countries with complex tax systems;
- difficulty in defining income or profits for VAT purposes, especially for businesses with complex financial structures;
- high risk of tax evasion, as businesses may underreport their income or profits to avoid paying VAT.

Currently, no country uses the income type variant of VAT.

(c) The consumption type variant of VAT

This is a method of computing value added tax (VAT) based on the value of goods and services consumed by households and businesses.

The VAT base is the value of goods and services consumed by households and businesses.

A single VAT rate is applied to the value of goods and services consumed. Businesses are allowed to deduct input VAT from their output VAT liability.

(i) Advantages of consumption type variant of VAT include:

- ensuring neutral taxation, as VAT is levied on the value of goods and services consumed, rather than on the production process;
- encouragement of economic growth, as businesses are incentivized to produce and sell goods and services that meet the demands of households and businesses; and
- simplification of VAT administration as taxpayers only need to report their output VAT liability and claim input VAT deductions.

(ii) Disadvantages of consumption type variant of VAT include:

- difficulty in ascertaining the value of goods and services consumed, especially in the case of exempt or zero-rated supplies;
- high risk of tax evasion, as taxpayers may underreport their output VAT liability or overclaim input VAT deductions; and
- complexity in cross-border transactions as businesses may need to account for VAT in multiple jurisdictions.

Countries that use consumption type variant of VAT include Canada, Australia, and Nigeria.

(4) XYZ Limited
Computation of monthly VAT penalties

Month	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Monthly Total
	N	N	N	N	N	N	N	N	N	N	N	N	N
Jan	-												-
Feb	100,000	-											100,000
Mar	50,000	100,000	-										150,000
Apr	50,000	50,000	100,000	-									200,000
May	50,000	50,000	50,000	100,000	-								250,000
June	50,000	50,000	50,000	50,000	100,000	-							300,000
July	50,000	50,000	50,000	50,000	50,000	100,000	-						350,000
Aug	50,000	50,000	50,000	50,000	50,000	50,000	100,000	-					400,000
Sep	50,000	50,000	50,000	50,000	50,000	50,000	50,000	100,000	-				450,000
Oct	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	100,000	-			500,000
Nov	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	100,000	-		550,000
Dec	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	100,000	-	600,000
Total	600,000	550,000	500,000	450,000	400,000	350,000	300,000	250,000	200,000	150,000	100,000	-	3,850,000

STAMP DUTIES

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11 Stamp Duties

11.0 Learning objective

The objective of this chapter is to enhance the readers' knowledge of the provisions of NTA and NTAA relating to the administration and operations of stamp duties.

11.1 Learning outcomes

On successful completion of this chapter, the readers should be able to:

- (a) understand the nature of stamp duties;
- (b) appreciate the administration of Stamp Duties Act; and
- (c) gain knowledge and understanding of other issues relating to stamp duties.

11.2 Nature and objectives

Section 147 of NTAA defines "Stamp duty" as a duty on dutiable instruments under NTAA, the NTA or any other laws.

The primary objective of stamping of documents is specifically mentioned in section 126 of NTA. The primary objective is to ensure the validity of instruments, legal enforcement, and enhance efficient tax collection, amongst others.

11.3 Imposition of duties on instruments, including relevant terminologies

11.3.1 Imposition of duties - section 123 of NTA

Duties shall be imposed on dutiable instruments at the specified rates in the Ninth Schedule to this Act, being any instrument, which is:

- (a) first executed in Nigeria; or
- (b) executed outside Nigeria, and relates to any property situated or to any matter or thing done in Nigeria.

11.3.2 - section 201 of NTA

The definitions given in this section include:

- (a) "*ad valorem*" means the value of a transaction or property;
- (b) "*receipt*" includes a note, memorandum, writing or electronic inscription whereby money, a bill of exchange or promissory note for which money is acknowledged or expressed to have been received, deposited or paid, or whereby a debt or demand, or any part of a debt or demand is acknowledged to have been settled, satisfied or discharged, or which signifies or imports any such acknowledgement, and whether the same is or is not signed with the name of a person;
- (c) "*instrument*" includes any document relating to transactions consummated through conventional, electronic or other means.

11.3.3 Other definitions

- (a) Bill of exchange - section 127 of NTA

"*bill of exchange*" includes draft, order, cheque and letter of credit, and any document or writing, except a bank note entitling or purporting to entitle a person, whether named therein or not, to payment by any other person of or to draw upon any other person for, any sum of money:

"*bill of exchange payable on demand*" includes an order for the payment of any sum or money:

- (i) by a bill of exchange or a promissory note, or for the delivery of any bill of exchange or promissory note in satisfaction of any sum of money or for

payment of any sum of money out of any particular fund which may or may not be available, or upon any condition or contingency which may or may not be performed or happen; and

- (ii) weekly, monthly or at any other stated periods, an order for the payment by a person at any time after the date thereof of any sum of money, and sent or delivered by the person making the same to the person by whom the payment is to be made and not to the person to whom the payment is to be made, or to any person on his behalf.

(b) Promissory note - section 128 of NTA

"promissory note" includes any document or writing, except a bank note, containing a promise to pay any sum of money.

A note promising the payment of any sum of money out of any particular fund which may or may not be available, or upon any condition or contingency which may or may not be performed or happen, shall be deemed a promissory note for that sum of money.

(c) Sale or purchase of options - section 129 of NTA

- (i) Contract notes shall apply to any contract under which an option is given or taken to purchase or sell any stock or marketable security at a future time at a certain price, as it applies to the sale or purchase of any stock or marketable security.

- (ii) Where under the contract in (i) above, a double option is given or taken, the contract shall be deemed to be a separate contract in respect of each option.

(d) Conveyance on sale - section 130 of NTA

Every transfer of interest or rights in real property shall be subject to duty under this section as conveyance on sale.

(e) Conveyance in consideration of a debt - section 131 of NTA

Where a property is conveyed to a person in consideration, wholly or in part, of a debt due to the person, the debt shall be deemed the consideration in respect of which the conveyance is chargeable with *ad valorem* duty.

11.4 Dutiable instruments - Ninth Schedule to NTA

These instruments are as follows:

Ninth Schedule
Sections 123,
132,
135, 136 (1),
(2)(c) and 141 (2)

<i>S/N</i>	<i>Name of Instruments</i>	<i>Type</i>	<i>New Rate</i>	<i>Persons liable to Pay Duty</i>	<i>Exemptions</i>

<i>S/N</i>	<i>Name of Instruments</i>	<i>Type</i>	<i>New Rate</i>	<i>Persons liable to Pay Duty</i>	<i>Exemptions</i>
1.	Agreement or Contract accompanied with a deposit (see Mortgage)	Ad Valorem	0.375%	Mortgagee	Relates to property less than ₦10,000,000
2.	Agreement for sale of real property (see Conveyance on sale)	Ad Valorem	1.5%	Transferee	
3.	Annuity (see Conveyance on Sale)	Ad Valorem	1.5%	Transferee	
4.	Assignment (by way of security or of any security) (see Mortgage)	Ad Valorem	0.375%	Mortgagee	Relates to property less than
5.	Irrevocable Assignment (upon a sale)	Ad Valorem	1.5%	Transferee	
6.	Bill of Exchange - of any other Kind (Local & Foreign)	Ad Valorem	0.10%	Payee	
7.	Bonds (Repayment of money & Transfer Stocks)	Ad Valorem	0.375%	Party taking Security	
8.	Capital Duty on Nominal Shares	Ad Valorem	0.75%	Company	
9.	Capital Duty on Loan capital	Ad Valorem	0.125%	Borrower	Overdraft at the bank Loan raised for a period not exceeding 12 months Loan obtained for onward disbursement to any other person in an onlending arrangement
10.	Capital Duty on Loan Capital issued wholly or partly for the purpose of converting or consolidating existing	Ad Valorem	0.1%	Lender	

<i>S/N</i>	<i>Name of Instruments</i>	<i>Type</i>	<i>New Rate</i>	<i>Persons liable to Pay Duty</i>	<i>Exemptions</i>
11.	Contract notes for marketable security	Ad Valorem	0.8%	Transferee	Contract note sent by a broker or agent to his principal where the principal is himself acting as a broker or agent for a principal.
12.	Contract notes (continuation note)	Ad Valorem	0.08%	Transferee	
13.	Contract note (Option note)	Ad Valorem	0.04%	Transferee	
14.	Contract note (following a duly stamped option note)	Ad Valorem	0.04%	Transferee	
15.	Conveyance or transfer on sale	Ad Valorem	1.5%	Transferee	• Where the property has a value of ₦10,000,000 or less • Where the transfer is between associated companies holding at least 90% shareholding in each other or through a third-party, provided it had been stamped upon initial purchase
16.	Conveyance or transfer by way of security of any property or security (see Mortgage)	Ad Valorem	0.375%	Mortgagee	Relates to property less than ₦10,000,000
17.	Conveyance or transfers (dispositions inter vivos except to entity created	Ad Valorem	1.5%	Transferee	

<i>S/N</i>	<i>Name of Instruments</i>	<i>Type</i>	<i>New Rate</i>	<i>Persons liable to Pay Duty</i>	<i>Exemptions</i>
18.	Covenant (payment of money or transfer or re-transfer of stock) (see mortgage)	Ad Valorem	0.375%	Mortgagee	Relates to property less than ₦10,000,000
19.	Covenant on annuity (original creation and sale) (see conveyance)	Ad Valorem	1.5%	Transferee	
20.	Covenant on annuity (not original creation and sale) (see Bond, Covenant)	Ad Valorem	0.375%	Party taking security	
21.	Defeasance (of any conveyance, apparently absolute but intended only as a security for money or stock) (see Mortgage)	Ad Valorem	0.375%	Mortgagee	Relates to property less than ₦10,000,000
22.	Demise (see Lease)	Ad Valorem	Up to 7 years = 0.78%.	Lessee	Property of an annual value less
23.	Further charge of further security	Ad Valorem	0.375%	Mortgagee	
24.	Marketable security (all types)	Ad Valorem	0.225%		
25.	Mortgage, Bond, Debenture, Covenant (See bonds)	Ad Valorem	0.375%	Party taking security	
26.	Mutual disposition (see Exchange)	Ad Valorem	1.5%	Transferee	
27.	Partition or Division (see Conveyance on sale)	Ad Valorem	1.5%	Transferee	
28.	Policy of insurance (life insurance) (on premium)	Ad Valorem	0.075%	Policy Holder	
29.	Policy of insurance (of any other kind)	Ad Valorem	0.075%	Policy Holder	

<i>S/N</i>	<i>Name of Instruments</i>	<i>Type</i>	<i>New Rate</i>	<i>Persons liable to Pay Duty</i>	<i>Exemptions</i>
30.	Promissory note (see Bill of Exchange)	Ad Valorem	0.1%		
31.	Reconveyance (of any security) (see Mortgage)	Ad Valorem	0.375%	Mortgagee	Relates to property less than ₦10,000,000
32.	Superannuation annuity (see Bond, Covenant)	Ad Valorem	0.375%	Party taking security	Relates to property less than ₦10,000,000
33.	Transfer (see Conveyance)	Ad Valorem	1.5%	Transferee	
34.	Transfer of Mineral Assets	Ad Valorem	2%	Transferee	
35.	Agreement or Contracts (all types)	Fixed duty	₦1,000	Beneficiary of service	• Relates to a subject, the value of which is less than ₦1,000,000. • Is for the hire of any labourer, employee, artificer, manufacturer or menial servant. • Is made for or relating to the sale of any goods, wares or merchandise, including a hire purchase agreement.

<i>S/N</i>	<i>Name of Instruments</i>	<i>Type</i>	<i>New Rate</i>	<i>Persons liable to Pay Duty</i>	<i>Exemptions</i>
36.	Agreement or Memorandum of Agreement under hand	Fixed duty	₦500	Beneficiary of service	(See Agreement)
37.	Bill of Exchange - Payable on Demand	Fixed duty	₦500	Payee	
38.	Bill of Lading	Fixed duty	₦500		Master's Copy
39.	Cheque leaf (Bill of Exchange)	Fixed duty	₦50	Account owner	
40.	Counterpart or Duplicate	Fixed duty	₦500	(Same as original)	
41.	Draft for money (see Bill of Exchange)	Fixed duty	₦50	Payee	
42.	Guarantee	Fixed duty	₦500	Guarantor	
43.	Letter of credit (see Bill of Exchange)	Fixed duty	₦500		
44.	Order (for the payment of money) (see Bill of Exchange)	Fixed duty	₦50	Payee	
45.	Policy of marine insurance	Fixed duty	₦500	Policy Holder	Cover notes, slips or other instruments made in anticipation of a formal marine insurance policy

<i>S/N</i>	<i>Name of Instruments</i>	<i>Type</i>	<i>New Rate</i>	<i>Persons liable to Pay Duty</i>	<i>Exemptions</i>
46.	Policy of insurance against personal injury	Fixed duty	₦500	Policy Holder	Insurance policies on personal or household effects.
47.	Receipt (for value from N10,000)	Fixed duty	₦50	(Same as liable for underlying transaction)	
48.	Electronic receipt or Transfer of N10,000 upwards	Fixed duty	₦50	Transferor	Money paid into one's own account or transferred electronically between accounts of the same owner within the same bank

11.5 Instruments exempt from stamp duties - section 184 of NTA

The instruments that are exempt from stamp duties are:

- (a) transfer of shares in Government or legislative stocks or funds of Nigeria;
- (b) any instrument for sale, transfer or other disposition, either absolutely or by way of mortgage, or otherwise, of any ship or vessel or any part, interest, share or property of or in any ship or vessel;
- (c) any instrument on which the duty would be payable by a Nigerian Government or any of its ministries, departments or agencies;
- (d) any instrument in which the duty would be payable by any consular officer arising out of his official functions provided the foreign government he represents grants similar exemption to Nigerian consular officers;
- (e) any instrument executed by or on behalf of a co-operative society registered under any Act or law;
- (f) shares, stocks or securities transferred by a lender to its approved agent or a borrower in furtherance of a Regulated Securities Lending Transaction;

- (g) shares, stocks or securities returned to a lender or its approved agent by a borrower under a Regulated Securities Lending Transaction;
- (h) all documents relating to the transfer of stocks and shares; or
- (i) electronic transfer or electronic receipts of money of a sum below ₦10,000 or its equivalent in other currencies, transfers for salary payment and intra-bank self-transfers.

11.6 Relevant tax authority for collection – section 3(1)(b) of

The Nigeria Revenue Service (the Service) established under the Nigeria Revenue Service (Establishment) Act, 2025 is empowered to administer stamp duties.

11.7 Types of stamp duties

There are two types of stamp duties. These are:

11.7.1 Fixed duties

These are duties that do not vary with the consideration for the document being stamped.

Examples of instruments being assessed by fixed duties are:

- (a) agreement of contracts (all types);
- (b) bill of exchange payable on demand;
- (c) bill of lading;
- (d) cheque leaf (bill of exchange);
- (e) counterpart or duplicate;
- (f) guarantee;
- (g) letter of credit; and
- (h) electronic receipt or transfer of N10,000 upwards.

11.7.2 Ad-valorem

These are duties that vary with the amount of consideration and are in accordance with a scale prescribed by the Act. The relevant tax authority will need to know the amount involved in the transaction. This will enable him determine the appropriate duty to be paid.

Examples of instruments that are assessed based on ad-valorem basis are:

- (a) contract note;
- (b) bonds (repayment of money and transfer stocks);
- (c) annuity;
- (d) conveyance or transfer on sale;
- (e) promissory note;
- (f) marketable security;
- (g) mortgage, bond, debenture, covenant;
- (h) capital duty on loan capital;
- (i) agreement for sale of real property legal mortgage and debenture loans;
- (j) capital duty on nominal shares; and
- (k) irrevocable assignment.

11.8 Administration of stamp duties

11.8.1 Nigeria Revenue Service - section 3(1)(b) of NTAA

This section empowers the Nigeria Revenue Service (the Service) to administer stamp duties without distinguishing between corporate and individuals. Before the

enactment of the NTAA, NRS was empowered to collect stamp duties on transactions involving a company, body of individuals or banking transactions, even if the parties are individuals.

11.8.2 State Internal Revenue Service - section 87 of NTAA

This section also empowers states to collect stamp duties. This section appears to contradict section 3(1)(b) of NTAA which empowers only the NRS to administer stamp duties.

Before the enactment of the NTAA, states were allowed to collect only stamp duties on transactions amongst individuals.

11.9 Electronic documents received in Nigeria - NRS circular No. 2020/05 dated April 29, 2020

For an electronic document, receipt or instrument executed outside Nigeria to be regarded as received in Nigeria, it must be:

- (a) retrieved or accessed in or from Nigeria;
- (b) stored or an electronic copy of it is also stored on a device (including a computer, magnetic storage, etc.) and brought into Nigeria; or
- (c) stored or an electronic copy of it is also stored on a device or computer in Nigeria.

Illustration 11.1

In 2026, XYZ Limited and ABC Limited carried out a transaction in Togo, using electronic records. These records were stored on a server in Togo or a cloud facility.

ABC Limited using an electronic device in Nigeria was able to view a copy of the electronic records stored in Togo.

Required:

Were the electronic records received in Nigeria.

Suggested solution 11.2

ABC Limited having assessed the electronic instrument which comprises the electronic records in Nigeria, the electronic documents are regarded as received in Nigeria.

11.10 Manner of denoting stamp duties – section 124 of NTA

- (a) Duties payable on any instrument shall be paid and denoted by any of the following means:
 - (i) tax stamps;
 - (ii) a die;
 - (iii) electronic or digital tagging;
 - (iv) electronic receipt;
 - (v) issuance of certificate; or
 - (vi) any other means as may be determined by the relevant tax authority.
- (b) The Minister is empowered by the regulation published in the Gazette determine any other modes of denoting duties payable under (a) above, and may specify the processes and requirements for the application of the taxation of dutiable instruments.

Illustration 11.2

In response to the amount sent by Mr. James, an employee of Circular Limited, the Chief Accountant of Apex Limited sent a message to him on his WhatsApp page, which reads “this is to acknowledge the receipt of the sum of ₦200,000”.

Required:

Is stamp duty payable based on the message?

Solution 11.2

The WhatsApp message sent by the Chief Accountant of Apex Limited to Mr. James evidencing the receipt of ₦200,000, constitutes a receipt, hence stamp duty is payable.

Mr. James is expected to inform the relevant tax authority using the e-stamp duty platform. Thereafter, the relevant tax authority raises an assessment and stamp duty certificate or an acknowledgement is issued after the payment of the appropriate stamp duties.

11.11 Obligation to stamp - section 125 of NTA

- (a) Any dutiable instrument executed in Nigeria, shall be stamped not later than 30 days after its execution by the person required to pay the appropriate duty.
- (b) A person, being the transferee of interest in a real property, other than in a voluntary disposition during the lifetime of the transferor, or beneficiary of a service for which consideration was paid, or any other person taking the security in a transaction for which an instrument is executed, shall be responsible for paying the duty relating to the transaction.

11.12 Admissible evidence - section 126 of NTA

- (a) Any unstamped dutiable instrument shall not be admissible in evidence in any court, judicial or arbitration proceedings, and in satisfying any evidentiary requirements unless otherwise stated by this Act.
- (b) Notwithstanding the provisions of (a) above, an unstamped instrument may be given in evidence in a criminal proceeding.

11.13 Recoverability of outstanding duties - section 67 of NTAA

- (a) Given the fact that stamp duty is a tax, any duty due shall constitute a debt due to the relevant tax authority.
- (b) Where the tax due is not paid within 30 days, the relevant tax authority may issue demand notice for the payment of the tax plus the penalty and interest due.
- (c) Where the tax plus the penalty and interest is not paid on the date indicated in the notice, the relevant tax authority may exercise any of the powers for the recovery of the amount due, including by a legal action brought against the taxable person.
- (d) Where any tax has been:
 - (i) under-assessed, the taxable person who should have paid the amount under-assessed, shall on demand by the relevant tax authority, pay the amount under-assessed; or
 - (ii) erroneously repaid, the taxable person to whom the repayment has erroneously been made, shall on demand by the relevant tax authority, pay the amount erroneously repaid.
- (e) The amount referred to in (a) above, may be recovered by the relevant tax authority as if it were tax to which a person to whom the amount was so under-assessed or erroneously repaid were liable.
- (f) The relevant tax authority shall not make any demand after six years from the date of under-assessment or erroneous repayment, unless the under-

assessment or erroneous repayment was caused by the production of a document or the making of a statement which was found to be untrue.

11.14 Process of adjudication, the limits and appeals procedure

11.14.1 Adjudication

This is the process of determining the correct amount of duty by the relevant tax authority. A document will be duly stamped and adjudicated only when the applicable duty has been paid.

Benefits of adjudication

These include:

- (a) it is the first step in disputing the views of stamp duties office on the correct amount of duty;
- (b) it shows the document is genuine;
- (c) it satisfies the statutory requirement; and
- (d) it makes an instrument once adjudicated, admissible for all purposes notwithstanding any objection as to the duty to be paid.

11.14.2 Time limit - section 125 of NTA

Every dutiable instrument is required to be stamped not later than 30 days after its execution by the person required to pay the appropriate duty.

11.14.3 Appeals procedure

This is a judicial review of the adjudication process.

(a) Dispute resolution mechanism

Section 36 of JRBEA established the office of the Tax Ombud to serve as an independent and impartial arbiter to review and resolve complaints relating to tax, levy, etc.

Paragraph 2 of the Third Schedule to the JRBEA allows a taxpayer to lodge a complaint to the office of the Tax Ombud and an investigation shall be conducted within 14 days of receipt of complaint.

(b) Appeal to the Tax Appeal Tribunal (TAT) - section 23(1) of JRBA

This section empowers TAT to settle any tax dispute arising from adjudication of stamp duties. An appeal must be filed within 30 days of receiving the notice of assessment from the tax authority.

(c) Further appeals

(i) Federal High Court - paragraph 10 to the Second Schedule of JRBEA

Any person who is dissatisfied with the decision of the Tribunal is at liberty to appeal against such decision on a point of law to Federal High Court within 30 days after the date the decision was taken.

(ii) Court of Appeal - paragraph 15 of the Second Schedule to the JRBEA

An appeal against the decision of the Federal High Court shall lie to the Court of Appeal.

11.15 Legal implications of unstamped dutiable instruments - section 126 of NTA

- (a) Any unstamped dutiable instrument shall not be admissible in evidence in any court, judicial or arbitration proceedings, and in satisfying any evidentiary requirements unless otherwise stated by this Act.
- (b) Notwithstanding the provisions of (a) above, an unstamped instrument may be given in evidence in a criminal proceeding.

11.16 Mode of calculating ad-valorem duty – Ninth Schedule to the NTA

Under the ninth schedule to the NTA, stamp duties are calculated based on the type of instrument with rates ranging from flat fees to ad valorem, that is, percentage of value.

Ad valorem

The duties are calculated at a specified percentage of the value of transaction.

Fixed duties

These are applied at a flat rate, such as ₦1,000, ₦500 etc. fixed duty for some instruments.

11.17 Stamp duty on electronic money transfer - Ninth Schedule to the NTA

A ₦50 stamp duty is payable on electronic money transfers of ₦10,000 and above. The duty is to be paid by the sender, not the receiver. The banks deduct the amounts for onward transmission to the NRS.

It should be noted that money paid into one's own account or transferred electronically between accounts of the same owner within the same bank, salary payments are exempt.

11.18 Provisions as to exchange of real property - section 133 of NTA

Any consideration exceeding ₦1,000,000 or a sum equal to the annual national minimum wage, whichever is higher, on an exchange of a real property for another, shall be charged to duty with the same ad valorem duty as a conveyance on sale.

11.19 Duty on leases with respect to the letting of land and building – section 134 of NTA

Any agreement for a lease, with respect to the letting of land or building, shall be subject to duty on grant of a lease or sublease, or the assignment of a lease, and shall be charged with the same duty as if it were an actual lease made for the term and consideration mentioned in the agreement, provided that lease agreements for which the annual value is less than ₦10,000,000 or 10 times the annual minimum wage, whichever is higher, shall not be chargeable with any duty.

11.20 Duty on share capital - section 135 of NTA

Based on the Ninth Schedule to the NTA, the share capital of a company shall be charged with an *ad valorem* duty as specified in the schedule, of the amount of such capital, or increase of capital, as the case may be.

11.21 Duty on loan capital - section 136 of NTA.

- (a) The loan capital of a company shall be charged with *ad valorem* duty, as specified in the Ninth Schedule to the NTA.
- (b) "*Loan capital*" means any debenture stock, other stock or funded debt by whatever name known or any debt raised by any corporation, company or body of persons formed or established in Nigeria but does not include -
 - (i) an overdraft;
 - (ii) loan obtained for a period not exceeding twelve months; and
 - (iii) loan obtained for onward disbursement to any other person in an on-lending arrangement:

Provided that for the purpose of subsection (iii) above, the beneficiary of the disbursement shall be responsible to pay the duty as prescribed in the Ninth Schedule to the NTA.

11.22 Duty on instrument made for the purpose of issuing marketable security - section 137 of NTA

An instrument made for the purpose of issuing marketable securities by or on behalf of a company or body of persons, corporate or unincorporated, formed or established in Nigeria shall be subject to duty, whether the securities are issued in Nigeria or not.

11.23 Duty on appraisements - section 138 of NTA

- (a) Every appraisal or valuation carried out for the purpose of ascertaining the value of a real property is subject to duty, which shall be accounted for by the appraiser.
- (b) "appraiser" means any person who values or appraises any estate or real property, or any interest, whether in possession or not, in any estate or real property, for a fee.

11.24 Duplicates and counterparts of a dutiable instrument - section 139 of NTA

The duplicate or counterpart of an instrument chargeable with duty shall not be deemed duly stamped, unless it is stamped as an original instrument or certified by the relevant tax authority that the full duty on the original instrument has been paid.

11.25 Duty relating to one instrument covering multiple transactions - section 140 of NTA

Where an instrument contains or relates to more than one transaction or several distinct matters, each transaction or distinct matter shall be charged to duty separately.

11.26 Duty relating to multiple instruments covering same transaction – section 141 of NTA

- (a) Where multiple instruments chargeable with *ad valorem* duties are executed for effecting the same transaction, only one of the instruments, as may be determined by the relevant tax authority, shall be charged with the *ad valorem* duty.
- (b) Any other instrument referred to in (a) above, shall be stamped as counterparts at flat rates prescribed in the Ninth Schedule to this Act.

11.27 Provisions on non-monetary consideration - section 142 of NTA

Where an instrument chargeable with *ad valorem* duty consists of non-monetary consideration, the value shall be deemed as the market value of the consideration or part thereof.

11.28 Computation of stamp duty payable

The first step is to capture the type of instrument with a view to ascertaining if it is subject to fixed duty or *ad-valorem* duty.

For instruments with fixed duty, the stamp duty is a flat fee as specified in the Ninth Schedule to the NTA.

For those that relate to *ad valorem* rates, stamp duty is based on the instrument type and value, that is, multiply the value by the specified rate. Where there is no monetary value, use the market value.

11.29 Offences and penalties

11.29.1 Failure to stamp - section 110 of NTAA

Any person that fails to stamp dutiable instruments in accordance with the relevant provisions of the Nigeria Tax Act, is liable to pay 10% of the unpaid duty and interest at the prevailing Central Bank of Nigeria Monetary Policy Rate.

11.29.2 Failure to disclose facts in a dutiable instrument - section 111 of NTAA

Any person that fails, neglects or omits to fully disclose all the facts and circumstances relating to dutiable instrument or underpays any duty is liable, in addition to the payment of the duty due:

- (a) to an administrative penalty of ₦100,000; or
- (b) on conviction, to a fine of ₦50,000 or for a term of imprisonment not exceeding three

years or both fine and imprisonment.

11.29.3 Fraud in relation to stamps - section 113 of NTAA

Any person who:

- (a) removes or causes to be removed from a document any revenue stamp, with intent that the stamp may be reused;
- (b) affixes to any other document the revenue stamp which has been removed, for the purpose of evading the payment of duty;
- (c) sells or offers for sale, any revenue stamp so removed; or
- (d) forges a stamp or any implement for denoting stamp duties, is liable on conviction to imprisonment for a term not exceeding three years or a fine not less than ₦2,000,000 or both fine and imprisonment.

11.29.4 Other offences and penalties of general application

For other offences, such as non-registration for tax, late filing of returns, etc., please see chapter 6 of this Study Text or sections 100 to 137 of NTAA.

11.30 Chapter review

This chapter explains stamp duties and its importance to the legalisation of instruments, under the NTA and NTAA. Some definitions have been provided for a number of terms used in the Acts. The Acts also state:

- (a) the powers of the relevant tax authority in relation to Stamp Duties;
- (b) manner of denoting stamp duties; and
- (c) stamping authority as between federal and state governments, with the understanding that duties are to be charged at the respective rates specified for the various instruments listed in the Schedule to the NTA.

The mode of calculating ad-valorem duty, that is, duty rate that varies with the value of the subject matter of the Instrument, is also discussed. The chapter concludes with a comprehensive listing of transactions/instruments that would require stamping for legalisation, as well as those specifically exempt, according to the Act.

11.31 Worked examples

11.31.1 Questions

- (1) Stamp duties are duties basically on instruments (defined to include every written document. The scope of instruments liable to stamp duties was expanded to include electronic documents”.

Required:

Explain the following:

- (a) Fixed duties
- (b) Ad-valorem duties
- (c) Manner of denoting duty

- (2) Both sections 3(1)(b) of the NTAA and section 87 of the NTAA grant the NRS and the State Internal Revenue Service to administer stamp duties, respectively.

Required:

- (a) Explain the administration of stamp duties in Nigeria.
- (b) Identify **TEN** instruments that are chargeable to stamp duties.

- (3) Section 100 of NTAA provides for offences and penalties of general application.

Required:

Explain the offences and penalties relating specifically to stamp duties under the NTA, 2025.

11.31.2 Suggested solutions to questions

1 (a) Fixed duties

These are duties that do not vary with the consideration for the document being stamped.

Examples of instruments being assessed by fixed duties are:

- (i) agreement of contracts (all types);
- (ii) bill of exchange payable on demand;
- (iii) bill of lading;
- (iv) cheque leaf (bill of exchange);
- (v) counterpart or duplicate;
- (vi) guarantee;
- (vii) letter of credit; and
- (viii) electronic receipt or transfer of N10,000 upwards.

(b) Ad-valorem

These are duties that vary with the amount of consideration and are in accordance with a scale prescribed by the Act. The relevant tax authority will need to know the amount involved in the transaction. This will enable him determine the appropriate duty to be paid.

Examples of instruments that are assessed based on ad-valorem basis are:

- (i) contract note;
- (ii) bonds (repayment of money and transfer stocks);
- (iii) annuity;
- (iv) conveyance or transfer on sale;
- (v) promissory note;
- (vi) marketable security;
- (vii) mortgage, bond, debenture, covenant;
- (viii) capital duty on loan capital;
- (ix) agreement for sale of real property legal mortgage and debenture loans;
- (x) capital duty on nominal shares; and
- (xi) irrevocable assignment.

(c) Manner of denoting duty

- (i) Duties payable on any instrument shall be paid and denoted by any of the following means:
 - tax stamps;
 - a die;
 - electronic or digital tagging;
 - electronic receipt;
 - issuance of certificate; or
 - any other means as may be determined by the relevant tax authority.
- (ii) The Minister is empowered by the regulation published in the Gazette to determine any other modes of denoting duties payable under (a) above, and may specify the processes and requirements for the application of the taxation of dutiable instruments.

2 (a) Administration of stamp duties in Nigeria

- (i) Nigeria Revenue Service - section 3(1)(b) of NTAA

This section empowers the Nigeria Revenue Service (the Service) to administer stamp duties without distinguishing between corporate and individuals. Before the enactment of the NTAA, NRS was empowered to collect stamp duties on transactions involving a company, body of individuals or banking transactions, even if the parties are individuals.

(ii) State Internal Revenue Service - section 87 of NTAA

This section also empowers states to collect stamp duties from individuals. This section appears to contradict section 3(1)(b) of NTAA which empowers only the NRS to administer stamp duties.

Before the enactment of the NTAA, states were allowed to collect only stamp duties on transactions amongst individuals.

(b) Instruments that are chargeable to stamp duties

(i) Fixed duties

Examples of instruments being assessed by fixed duties are:

- agreement of contracts (all types);
- bill of exchange payable on demand;
- bill of lading;
- cheque leaf (bill of exchange);
- counterpart or duplicate;
- guarantee;
- letter of credit; and
- electronic receipt or transfer of N10,000 upwards.

(ii) Ad-valorem

Examples of instruments that are assessed based on ad-valorem basis are:

- contract note;
- bonds (repayment of money and transfer stock);
- annuity;
- conveyance or transfer on sale;
- promissory note;
- marketable security;
- mortgage, bond, debenture, covenant;
- capital duty on loan capital;
- agreement for sale of real property legal mortgage and debenture loans;
- capital duty on nominal share; and
- irrevocable assignment.

3 Offences and penalties for late stamping in relation to stamp duties

(a) Failure to stamp - section 110 of NTAA

Any person that fails to stamp dutiable instruments in accordance with the relevant provisions of the Nigeria Tax Act, is liable to pay 10% of the unpaid duty and interest at the prevailing Central Bank of Nigeria Monetary Policy Rate.

(b) Failure to disclose facts in a dutiable instrument - section 111 of NTAA

Any person that fails, neglects or omits to fully disclose all the facts and circumstances relating to dutiable instrument or underpays any duty is liable, in addition to the payment of the duty due:

- (i) to an administrative penalty of ₦100,000; or
- (ii) on conviction, to a fine of ₦50,000 or for a term of imprisonment not exceeding three years or both fine and imprisonment.

(c) Fraud in relation to stamps - section 113 of NTA

Any person who:

- (i) removes or causes to be removed from a document any revenue stamp, with intent that the stamp may be reused;
- (ii) affixes to any other document the revenue stamp which has been removed, for the purpose of evading the payment of duty;
- (iii) sells or offers for sale, any revenue stamp so removed; or
- (iv) forges a stamp or any implement for denoting stamp duties, is liable on conviction to imprisonment for a term not exceeding three years or a fine not less than ₦2,000,000 or both fine and imprisonment.

CUSTOMS AND EXCISE DUTIES

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11 Customs and Excise Duties

12.0 Learning objective

The objective of this chapter is to enhance readers' knowledge of the provisions of the Nigeria Customs Service Act, 2023, in relation to the administration of customs and excise duties in Nigeria.

12.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) explain the nature, objectives, and administration of customs and excise duties;
- (b) explain post clearance audit;
- (c) justify the use of consultants;
- (d) determine the values of imported and exported goods and ascertain duties and customs duties payable;
- (e) explain the collection and remittance of customs duties;
- (f) identify excisable goods and compute their valuations;
- (g) explain the imposition, collection and remittance of excise customs duties;
- (h) explain prohibitions and restrictions on imports and exports;
- (i) explain the provisions of information for customs formalities and controls;
- (j) explain the provisions relating to furnishing of information by manufacturers and keeping of books; and
- (k) explain the various offences and penalties under this Act.

12.2 Nature, objectives and administration of customs and excise duties

12.2.1 Nature

The Nigeria Customs Service (NCS) is one of the major revenue generating agencies for the Federal Government of Nigeria.

Nigeria Customs Service Act 2023 was enacted to repeal the Customs and Excise Management Act, Cap. C45, Laws of the Federation of Nigeria, 2004, and other Customs and Excise legislations.

12.2.2 Nigeria Customs Service (NCS)

a) Scope and application

Nigeria Customs Service hereinafter referred to "the Service":

- (i) shall be a body corporate with perpetual succession and a common seal;
- (ii) may sue or be sued on its corporate name;
- (iii) may acquire, hold and dispose of any property, whether movable or immovable; and
- (iv) shall direct, manage and enforce the provisions of the Act and the customs and excise laws listed in the Act.

b) Functions of the Service

The functions of the Service are to:

- (i) administer, direct, manage and enforce the provisions of this Act and the customs and excise laws;
- (ii) collect and account for revenue from customs duties, excise duties, charges, fees and special assignments as may be assigned to it by the government;
- (iii) administer trade and fiscal policies of the government as it relates to the

- Act;
- (iv) promote trade facilitation in line with international conventions and agreements as it relates to customs administration;
 - (v) prevent smuggling, customs fraud and all other violations under this Act;
 - (vi) carry out all border enforcement and regulatory activities required by law in collaboration with relevant agencies;
 - (vii) collate and publish accurate trade statistics and other relevant data as they relate to customs and excise;
 - (viii) engage in regular consultations with individual traders, trade associations and other relevant stakeholders to promote industrial harmony.
 - (ix) approve and licence customs agents, who shall be citizens of Nigeria; and
 - (x) do such other things as are necessary for or incidental to the performance of its functions and discharge of its duties under this Act and the laws of Nigeria.

c) Powers of the Service

The Service shall, subject to the approval of the Board have the power to:

- (i) acquire, hold, purchase, mortgage and deal with property, whether moveable or immovable, real or personal;
- (ii) enter into contracts or obligations;
- (iii) advise or develop regulations on the management and administration of customs and excise management; and
- (iv) issue operational guidelines for the efficient administration and operation of the provisions of the Act.

It should be noted that all officers shall have the same powers, authorities and privileges given by law to police officers.

12.2.3 Establishment of Nigeria Customs Service Board, membership, functions and powers – section 7.

a) Membership of the Board

The Board shall comprise:

- (i) a Chairman, who shall be the Minister of Finance,
- (ii) the Comptroller-General, who shall be the Deputy Chairman;
- (iii) all the Deputy Comptroller-General of the Service;
- (iv) the Legal Adviser to the Service, who shall also head the Legal Department to be appointed from the Office of the Attorney General of the Federation;
- (v) a representative not below the rank of a director, from the following Federal Ministries:
 - Industry;
 - Trade and Investment;
 - Transport;
 - Aviation; and
 - Foreign Affairs;
- (vi) the Executive Chairman of the Federal Inland Revenue Service; and
- (vii) two members representing the organised private sector for a term of four years renewable for another term of four years and no more.

12.2.4 Functions and powers of the Board

The Board shall be responsible for:

- (a) formulating the general policy guidelines and regulations for the Service;
and
reviewing and approving strategic plans for the Service;
- (b) recruitment, promotion and discipline of officers of the Service; and
- (c) determining the remuneration, allowances, pension and other benefits of officers and employees of the Service.

In performing its functions under this Act, the Board shall create enabling environment for synergy with Government Ministries and Agencies, and maintain liaison with relevant law enforcement agencies for the economic development and effective compliance with the provisions of this Act.

The Board may, subject to such conditions as it may deem fit, delegate any its powers under this Act to.

- (a) the Service;
- (b) any officer in the Service; or
- (c) a committee consisting of such number of persons as the Board may decide.

12.2.5 Establishment of the Management Committee – section 14(5)

There is established, for the purpose of coordinating the supervision of the Service and its operations, a body that is referred to as “the Management Committee”.

(a) Composition of the Management Committee – section 6

The Management Committee shall consist of:

- (i) the Comptroller-General;
- (ii) all Deputy Comptroller-General;
- (iii) the Legal Adviser;
- (iv) all Assistant Comptrollers – General; and
- (v) the Secretary of the Board

(b) Functions of the Management Committee – section 14(7)

The functions of the Management Committee shall be to:

- (i) consider all custom matters that require professional and technical expertise and make recommendations to the Board;
- (ii) coordinate the supervision of operations of administration of the Service;
- (iii) ensure compliance with the provisions of the Act by supervision of its operations;
- (iv) work in collaboration with relevant agencies and ministries and review Service operations to promote revenue generation, trade facilitation and to stimulate economic activities and development;
- (v) work in collaboration with the relevant law enforcement agencies to carry out compliance with the provisions of this Act;
- (vi) adopt measures which include compliance and regulatory actions, introduction and maintenance of investigative and control techniques on the detection and prevention of non-compliance;
- (vii) collate and continually review all policies of the government relating to customs and excise matters in matters connected to revenue generation and to undertake a systematic and progressive implementation of service policies;
- (viii) enforce disciplinary regulations under this Act on misconducts by officers and any other regulation made by the Board; and

- (ix) carry out such other activities given to it by the Board which are necessary or expedient for the performance of all or any of the functions under this Act.

12.2.6 Funding of the operations of the Customs Service – section 18

The Service shall keep and maintain bank accounts as may be approved by appropriate authority of the government into which shall be paid:

- (a) not less than 4% of the free-on-board value of imports according to international best practices;
- (b) revenues derived from assessment and collection of cost-based user fees;
- (c) annual or supplementary budgetary provisions made by the government to the Service; and
- (d) grants, aids or donations from local or international development partners.

The President may propose an increase to the 4% referred to above to the National Assembly under cogent and verifiable factors from the Service.

12.3 Post clearance audit – section 36

12.3.1 Powers of the Service

The Service may conduct a post clearance audit after clearance of goods. At the sole discretion of the Service, post clearance audits may be held at the offices of the Service or at the consignee's premises or the premises of other persons directly or indirectly involved in the relevant transactions.

Post clearance audits shall be made on inspection by the Service of:

- a) relevant documentation of accounts and records; or
- b) data in electronic processing systems or the goods and the transaction means identified as at the time of the audit.

Persons subject to post clearance audit include:

- a) importers and exporters;
- b) customs agents;
- c) warehouse operators;
- d) zone operators;
- e) banks and other financial institutions;
- f) transport firms;
- g) freight forwarders;
- h) express couriers;
- i) excise traders; and
- j) other persons directly or indirectly engaged in international trade.

12.3.2 Procedure for conducting post clearance audit – section 37

An entity to undergo post clearance audit shall be given a:

- a) written notice stating the date and time of the audit; and
- b) questionnaire setting out the questions to be answered and returned.

Any person to be audited shall produce all relevant information, including:

- a) all documents and records, paper or electronic, maintained in the normal course of business containing information relevant to the customers transactions under examination, such as:

- (i) accounting data;
 - (ii) physical inventory and inventory records;
 - (iii) recording of sales and other transactions;
 - (iv) recording books;
 - (v) account records; and
 - (vi) bank transfers.
- b) all documents related to import and export transactions maintained in magnetic or data processing files that have a direct or indirect relation to the audit.

The Service may, where appropriate, examine the goods and mode of transportation.

The person to be audited shall cooperate with the auditors, and where he fails to do so, the auditor shall:

- (i) stop the audit;
- (ii) retain all documents and data procured in the course of the audit; and
- (iii) make a report of the refusal to cooperate by the person being audited to the Comptroller – General or his representative.

Refusal to cooperate by a person undergoing audit under this section shall be liable to a fine of N1,500,000 for each day of such refusal and where the refusal continues for more than seven days, the person may be suspended from all customs transactions.

Where an audit discloses an attempt to evade the payment of duties, customs duties and fees or any criminal activity:

- (i) the audit may be suspended; and
- (ii) the matter reported to the Comptroller – General or his representative.

The person audited may within seven working days after the conclusion of the audit, forward a written explanation on any issue raised in the audit findings to assist in the preparation of the final audit report.

12.3.3 Audit disclosure of attempted evasion of duties – section 38

Any person undergoing audit shall:

- (a) assist the auditors, as may be required;
- (b) allow access to all parts of the facilities, to the goods, books, documents, electronic records and means of transport;
- (c) present all documents and electronic records required by the auditors, and comply with the auditors' request within a reasonable time; and
- (d) be represented by a person of his choice who shall be able to provide all the required information.

12.3.4 Payment of additional duties and customs duties on completion of audit – section 39

On completion of an audit, where the person audited owes additional duties or customs duties, the Service shall:

- a. give a notice of underpayment to the audited person; and
- b. request the audited person to pay the additional duties or customs duties, including any interest and penalties.

Where the audited person made excess payment of duties and customs duties, the excess amounts shall be reforwarded to him.

The interest referred to in this section shall be determined based on the monetary policy rate by the Central Bank of Nigeria.

12.3.5 Trader's system audit – section 40

Where a trader's system audit discloses that:

- (a) the trader's system audit is reliable;
- (b) records are generally in order; and
- (c) no infractions have occurred,

the person may in accordance with the provisions of this Act, qualify for the application of Special Simplified Customs Procedures.

12.4 Use of consultants – section 42

Subject to the approval by the Board, the Service may employ consultants to provide services and advice on the adoption of new customs control measure; and for other purposes, provided that a consultant shall not be authorised to carry out customs control measure.

12.5 Determination of duties and custom duties on imported and exported goods

12.5.1 Rates

The customs duties are levied on goods coming into the country at varying rates from 5% to 35% of import value at each port of entry (airport, land border, sea port or inland waterway), and assessed with reference to the prevailing harmonised commodity and coding system (HS code) .

Airlines registered in Nigeria and providing commercial air transport services are entitled to duty-free importation of their aircraft, engines, spare parts, and components, whether purchased or leased.

12.5.2 Basis of computation

The primary basis for the customs value of goods shall be the transaction value. The transaction value is the price actually paid or payable for the goods when sold for export to the Federal Republic of Nigeria, adjusted, when necessary, in accordance with the provisions of this Act.

However, where the customs value of the imported goods cannot be determined under the provisions of this Act, the customs value shall be the transaction value of similar goods sold for export to Nigeria and exported at or about the same time as the goods being valued.

An alternative way of determining the customs value of goods, if such goods cannot be sufficiently determined is by using reasonable means which is consistent with the principles and general provisions of the World Trade Organisation's Agreement on Implementation of Article VII of General Agreement on Trade and Tariff 1994 and on the basis of data available in Nigeria.

The rate on the specified item as may be determined by the Tariff Technical Committee and approved by the President is then applied to the quantity of import or export to derive the duty payable on such an item. In determining the rates, classification, valuation and origin standards contained in the Act to imported and exported goods are used as guide.

12.5.3 Computation of the customs value of imported goods – section 69 to 74

(a) Transaction value – section 69

The primary basis for the customs value of goods is the transaction value. This is the price actually paid or payable for the goods when sold for export to the Federal Republic of Nigeria, adjusted, when necessary, in accordance with the provisions of Article 8 of the Agreement on Customs Valuation which provide for the inclusion in the transaction value of certain considerations which may pass

from the buyer to the seller in the form of specified goods or services, not necessarily in the form of money.

The transaction value shall be applied if:

- (i) there are no restrictions as to the disposition or use of the goods by the buyer than restrictions which:
 - are imposed or required by law or by the Federal Republic of Nigeria;
 - limit the geographic area in which the goods may be resold; or
 - do not substantially affect the value of the goods;
- (ii) the sale or price is not subject to some conditions or considerations for which a value cannot be determined with respect to the goods being valued;
- (iii) no part of the proceeds of any subsequent resale, disposal or use of the goods by the buyer will accrue directly or indirectly to the seller unless an appropriate adjustment can be made; and
- (iv) the buyer and seller are not related, or where the buyer and seller are related, the importer must be able to prove that the relationship did not influence the price. Related parties include:
 - officer or director of one another's business;
 - employer and employee;
 - direct or indirect ownership, control of 5% or more of the outstanding voting stock or shares of either of the person;
 - when one of the persons directly or indirectly controls the other;
 - when the persons are directly or indirectly controlled by a third person;
 - when together the persons directly or indirectly control a third person; or
 - when the persons are members of the same family.

(b) Transaction value of identical goods – section 70

Where the customs value of goods cannot be determined under the provisions of section 69 of the Act, the customs value shall be the transactions value of identical goods sold for export to Nigeria and exported at or about the same time as the goods being valued.

The transaction value of identical goods in a sale at the same commercial level and in substantially the same quantity as the goods being valued shall be used to determine the customs value and where no such sale is found, the transaction value of identical goods sold at a different commercial level or in different quantities, adjusted to take account of differences attributable to commercial level or to quantity, shall be used, provided that such adjustment can be made on the basis of demonstrated evidence which clearly establishes the reasonableness and accuracy of the adjustment, whether the adjustment leads to an increase or a decrease in the value.

Where more than one transaction value of identical goods is found, the lowest of such value shall be used to determine the customs value of the imported goods.

(c) Transaction value of similar goods – Section 71

Where the customs value of the imported goods cannot be determined under (a) and (b) above, the customs value shall be the transaction value of similar goods sold for export to Nigeria and exported at or about the same time as the goods being valued.

In the application of the provision of this section, the transaction value of similar goods in a sale at the same quantity as the goods being valued shall be used to determine the customs value. When no such sale is found, the transaction value of similar goods sold at a different commercial level or in different quantities, adjusted to take account of other of difference attributable to commercial level or

to quantity shall be used:

Provided that such adjustments can be made on the basis of demonstrated evidence which clearly establishes the reasonableness and accuracy of the adjustment, whether the adjustment leads to an increase or a decrease in value. Where more than one transaction of similar goods is found, the lowest of such value shall be used to determine the customs value of the imported goods.

(d) Deduction value – section 72

When the customs value of the imported goods cannot be determined using the transaction value of the imported goods, or identical or similar goods, and the imported goods or identical or similar goods are sold in Nigeria in condition imported, it will be determined using the unit price at which the imported goods or identical or similar goods are sold in the greatest aggregate quantity at or about the time of importation of the goods being value to persons who are not related to the persons from whom the goods were bought subject to the following deductions:

- (i) either the commissions usually paid or agreed to be paid or the additions usually made for profit and general expenses in connection with sales in such country of imported goods of the same class or kind;
- (ii) the usual cost of transport and insurance and associated costs incurred within the country of importation; and
- (iii) the customs duties and other customs duties and charges payable in Nigeria by reason of the importation or sale of the goods.

Where neither the imported goods nor identical nor similar imported goods are sold at or about the time of importation of the goods being valued, the customs value, shall be based on the unit price at which the imported goods or identical or similar goods are sold in the country of importation in the condition as imported at the earliest date after the importation of the goods being valued but before the expiration of 90days after the importation.

Where neither the imported goods nor identical nor similar imported goods are sold in Nigeria in the condition imported, then, if the declarant so requests, the customs value shall be based on the unit price at which the imported goods after processing, are sold in the greatest aggregate quantity to persons in Nigeria who are not related to the persons from whom such goods were bought, due allowance being made for the value added by the further processing and the deductions noted above.

(e) Computed value – Section 73

This is the most difficult method and it is rarely used in the determination of customs value of imported goods.

The computed value is based on the sum of:

- (i) the cost or value of materials and fabrication or other processing used in producing the imported goods;
- (ii) an amount for profit and general expenses equal to that usually reflected in sale of goods of the same class or kind as the goods being valued which are made by producers in the country of exportation for export to Nigeria; and
- (iii) the additions to transaction value, such as the cost of transport of the imported goods to the port or place of importation loading, unloading and handling charges associated with the transport of the imported goods to the port or place of importation, and the cost of insurance.

A person not resident in Nigeria may be required to produce for examination or to allow access to, any account or other record for the purposes of determining a computed value.

Information supplied by the producer of the goods for the purposes of determining the customs value may be verified in Nigeria with the agreement of the producer and provided sufficient advance notice is given to the Government of the country concerned that Government does not object to the investigation.

(f) Residual value – section 74

Where the customs value of the imported goods cannot be determined using the previous methods, the customs value shall be determined using reasonable means consistent with the principles and general provisions of relevant international convention on implementation of Article VII of General Agreement on Tariff and Trade 1994 and on the basis of data available in Nigeria.

Section 74 (2) states that the customs value shall not be determined on the basis of:

- (i) the selling price in Nigeria of goods produced in Nigeria;
- (ii) a system which provides for the acceptance for customs purposes of the higher of two alternative values;
- (iii) the price of goods on the domestic market of the country of exportation;
- (iv) the cost of production other than computed value which have been determined for identical or similar goods;
- (v) the price of goods for export to a country other than Nigeria;
- (vi) minimum customs values; or
- (vii) arbitrary or fictitious values.

(g) Valuation methodology for the determination of goods for exports – section 76

The valuation methodology applicable to goods shall be used to determine the value of goods for export and for the assessment of all duties, customs duties and fees on imports, exports and the collection of statistics.

(h) Computation of total duty payable to Customs

How to calculate import duty (ID) and other levies

ID = H_s % of CIF, where:

ID stands for import duty (surface duty);

H_s code is the harmonised commodity description and coding system;

% is the percentage of tariff for the goods; of is multiplication;

C is the commercial invoice;

I is the marine insurance; while

F is the freight rate.

Other levies and taxes

ECOWAS trade liberalisation scheme (ETLS) levy

In addition to the custom duties, 0.5% levy of CIF value on all goods imported from outside Africa will be paid, effective January 1, 2023.

Comprehensive import supervision scheme (CISS) levy

Importers shall continue to pay an administrative charge of 1% of FOB value of all imports based on the exchange rate on the approved e-form "M".

Surcharge

This shall be 7% of import duty (surface duty).

Valued added Tax (VAT)

This is computed at 7.5% of the CIF plus all the charges, that is, 7.5% of (CIF,

IDF, ETLS, CISS and Surcharge).

In addition to extant customs duties and other approved charges, a levy of 0.5% is imposed on all eligible goods imported into Nigeria from outside Africa to finance capital contributions, subscriptions and other financial obligations to the African Union, African Development Bank, African Export-Import Bank, ECOWAS Bank for Investment and Development, Islamic Development Bank, United Nations and other multilateral institutions as may be designed by regulation issued by Minister responsible for Finance.

12.6 Collection and remittance of custom duty

Customs duties on imported goods are administered and collected by the Nigeria Customs Service (NCS) whilst the importer's bank, if it is a designated bank, is saddled with the responsibility to process the e-form "M", collect and remit the duties to the Central Bank of Nigeria (CBN).

Where an importer processes the e-form "M" through a non-designated bank, payment of import duty shall be at any designated bank and a copy of the duty payment receipt shall be submitted to the processing bank.

The designated bank is required to send an e-confirmation message to NCS to acknowledge the receipt of duty and taxes and it is expected to ensure a daily electronic transfer to the respective pool accounts with the CBN.

Based on the circular issued by Nigeria Customs Service Board with reference number NCS/PR/SP/S.582//025/027/VOL111 dated September 7, 2025, it approved \$300 as Nigeria's official De Minimis threshold. This exemption applies to low-value imports, e-commerce consignments, and passenger baggage and it is restricted to four importations per annum. Under this regulation, goods valued at \$300 or less are exempt from import duties and taxes, provided they are not prohibited or restricted items.

12.7 Excisable goods and their valuations

12.7.1 Excisable goods

These are goods that are subject to excise duty, a type of tax levied on the production, sale, or consumption of certain goods. In Nigeria, excisable goods include:

- (a) alcoholic beverages, for example, beer, wine, spirits, and other alcoholic drinks;
- (b) tobacco products, for example, cigarettes, cigars, snuff, and other tobacco products;
- (c) soft drinks, such as carbonated drinks, fruit juices, and other soft drinks;
- (d) cosmetics, such as perfumes, cosmetics, and other toiletries;
- (e) plastic and rubber products, for example, plastic bags, rubber tires, and other plastic and rubber products; and
- (f) telecommunication services.

12.7.2 Valuation of excisable goods

The valuation of excisable goods is essential in determining the amount of excise duty payable. In Nigeria, the valuation of excisable goods is based on:

- a) manufacturers' price, that is, the price at which the manufacturer sells the goods to the distributor or retailer; or
- b) ex-factory price which is the price of the goods at the factory gate, excluding transportation costs; or
- c) retail price, that is, the price at which the goods are sold to the final consumer.

Methods of valuation include:

- (a) transaction value method is determined by the price at which they are sold;

- (b) comparable uncontrolled price method is determined by comparing the price of similar goods sold in the same market; and
- (c) cost-plus method is determined by adding a markup to the cost of production.

12.8 Imposition, collection and remittances of excise customs duties

12.8.1 Imposition of excise duty – section 170

Excise duty shall be:

- (a) imposed and chargeable on excise goods produced in the excise factory; and
- (b) collected at the time a dutiable transaction occurs.

The excise duty to be imposed shall be based on the value of excisable goods or by a stated amount per unit of excisable goods, as specified in the regulations.

In the case of excisable goods, produced in the customs territory, the dutiable transaction is the removal of excisable goods from the production premises, however, goods are not considered to be removed from the production premises during the time they are stored in a bonded warehouse.

For imports, the dutiable transaction is the entry of excisable goods into the customs territory of Nigeria, and the term “entry” for excise duty purposes has the same meaning as for custom purposes.

Goods removed from the production premises for export or for loading as stores on a vessel bound out of Nigeria are exempted from excise duties.

The Service may by regulations specify restrictions and make provisions for accounts to be rendered for goods exempted from excise duties.

12.8.2 Collection and remittance of excise customs duties – section 171

The Service shall ensure the monthly collection of excise customs duties on excisable goods and the duty for each month shall be paid by a manufacturer of excisable goods, within the first 21 working days of the succeeding month, failure of which, the duty shall attract a penalty of 10 percent of the amount due for each month the excise duty due remains unpaid.

12.8.3 Amount of excise duty – section 172

Where excise duty is based on number of units, the amount of excise duty is the stated amount per unit multiplied by the quantity of units.

Where excise duty is based on the value of excisable goods, the amount of excise duty is a percentage of value determined by multiplying the value of the excisable goods by the excise duty rate.

For excisable goods produced in the customs territory, the value of excisable goods is determined on the basis of the compensation receivable by the duty payer from the customer or any other person excluding excise duty and value added tax, but not more than the ex-factory gate which is the value at which the product will ordinarily be sold at the factory gate which is exclusive of selling and distribution expenses, related charges and other non-production related expenses excise duty and value added tax and if the producer sells at both wholesale and the retail, the value used for excise duties purposes is the ex-factory price.

For imports, the amount of the dutiable transaction is the customs value of the goods, determined in accordance with customs law, but not less than the cost, insurance and

freight invoice exclusive of other charges and levies excluding excise duty and value added tax, plus the amount of custom duties and other customs duties payable on the import of the goods into the customs territory excluding excise duty and value added tax.

Except for returnable containers, the price of the container is included in determining the value of excisable goods.

The manufacture of excisable goods, without a valid license is prohibited.

12.9 Prohibitions and restrictions on imports and exports

Based on the Nigeria Customs Service Act, 2023, the President may by order:

- (a) prohibit the importation or exportation of all or any specified goods; and
- (b) notwithstanding the provision in (a) above, allow the importation or exportation of all or any specified goods except the general or special permission in writing of a specified authority or authorities.

Imports and exports shall, where applicable, be subject to prohibitions and restrictions relating to:

- (i) public security, public morals and public policy;
- (ii) prevention or relief of critical shortages of food stuffs;
- (iii) the protection of the health and life of humans, animals or plants;
- (iv) the protection of the environment;
- (v) the protection of national treasure possessing artistic, historic or archaeological value;
- (vi) the protection of the environment as contained in relevant laws and conventions;
- (vii) currency and other negotiable instruments as prescribed in the Money Laundering Prohibition Act;
- (viii) fishery conservation;
- (ix) controlled goods imported or exported in line with relevant international laws, conventions and agreements; and
 - relevant international laws, conventions and agreement on the Trade of Wild Endangered Species of Fauna and Flora (CITES);
 - chemicals monitored under the global shield programme of the World Customs Organisation.

Goods prohibited under any law or regulation found within the customs territory shall prima facie be deemed to have been imported illegally and the Customs Service shall take appropriate enforcement measures in respect of such goods.

12.10 Provision of information for customs formalities and controls – section 22

(a) Provision of information to the Service – section 22

- (i) Any person directly or indirectly involved in the carrying out of customs formalities or in the application of customs controls shall, at the request of the Service and within any specified time limit, provide the Service with the required documents and information, in the prescribed form, and provide all the assistance necessary for the completion of the customs formalities and controls;
- (ii) The lodging of a goods declaration, or notification or any other decision, shall render the person concerned responsible for:
 - the accuracy and completeness of the information given in the declaration, notification or application;
 - the authenticity of any documents lodged or made available; and
 - where applicable, compliance with all of the obligations relating to the placing of the goods in question under the customs procedure concerned, or to the conduct of the authorised operations.

- (iii) First bullet of (ii) above shall also apply to the provisions of any information in any other form required by or given to the Service.
- (iv) Where the declaration or notification is lodged, the application is submitted or information is provided by a customs representative of the person concerned, the customs representative shall also be subject to the obligations in this section.

(b) Provision of information by the Service – section 22(2)

The Service shall ensure that all relevant information of general application pertaining to customs matters is readily available to any interested person on the Service website and at any other designated place or form.

In carrying out the obligation under this section, the Service shall ensure that it does not disclose information of a private or confidential nature affecting the Service or third parties unless disclosure is required by law.

Where the Service cannot provide information, under this section free of charge, any charge shall be limited to the appropriate cost of the services provided.

The Service shall promptly publish on the Service website and at any other designated place or form, the following information:

- (i) importation, exportation or transit procedures, including seaport, airport, and other entry point procedures and the required forms and documents;
- (ii) applied rates of duties, or charges of any kind in connection with importations and exportations;
- (iii) rules for the classification, valuation or determination of origin of goods;
- (iv) import, export or transit restrictions or prohibitions;
- (v) all fees and charges imposed by the Service and other agencies in connection with importation, exportation or transit procedures;
- (vi) penalty provisions applicable to breaches of import, export or transit procedures;
- (vii) appeal procedures;
- (viii) applicable international agreements relating to the importation, exportation, excise or transit of goods;
- (ix) allowances and duty -free concessions;
- (x) clearing agent and broker's notice; and
- (xi) the current law establishing the Service.

12.11 Provisions relating to the furnishing of information by manufacturers and keeping of goods

12.11.1 Provisions relating to the furnishing of information by manufacturers

Manufacturers of excisable goods are required to furnish the following information to the relevant authorities:

- (a) production data on their activities, including the quantity and value of goods produced;
- (b) inventory data levels, including the quantity and value of goods in stock;
- (c) sales data on their activities, including the quantity and value of goods sold;
- (d) information on their pricing policies, including the prices at which goods are sold; and
- (e) other relevant information may be required, such as data on their raw materials, labour costs, and overhead expenses.

Manufacturers of excisable goods are required to furnish information to the relevant authorities at the following frequencies:

- (a) monthly returns to the Comptroller-General of Customs, providing data on their production, inventory, and sales activities; and
- (b) annual returns to the Comptroller-General of Customs, providing data on their production, inventory, and sales activities for the preceding year.

12.11.2 Keeping of records by manufacturers of excisable goods

The manufacturers of excisable goods are required to keep the following accurate and detailed records of their activities:

- a) production records of activities, including the quantity and value of goods produced;
- b) records of inventory levels, including the quantity and value of goods in stock;
- c) sales records of activities, including the quantity and value of goods sold;
- d) records of purchases made, including the quantity and value of raw materials and other inputs; and
- e) records of financial transactions, including receipts, payments, and other financial activities.

Records must be kept for at least 6 years from the date of the transaction or activity.

12.12 Offences and penalties

This table represents some selected offences and their corresponding penalties.

S/N	Offence	Penalty
01	Section 37(5) Refusal to cooperate by a person undergoing audit	He shall be liable to a fine of ₦1,500,000 for each day of such refusal and where the refusal continues for more than seven days, the person may be suspended from all customs transactions.
02	Section 37 (6) Where an audit discloses an attempt by a person to evade the payment of duties, Customs duties and fees or any criminal activity	The audit may be suspended and the matter reported to the Comptroller-General or his representative.
03	Section 46 (5) Where a person fails to report on importation and exportation of goods as required, he is liable on conviction to a fine of ₦10,000,000 or imprisonment for a term of five years or both and any goods required to be reported which are not duly reported may be detained by the proper officer until so reported or until the omission is explained	On conviction, the person is liable to a fine of ₦10,000,000 or imprisonment for a term of five years or both and any goods required to be reported which are not duly reported may be detained by the proper officer until so reported or until the omission is explained to the satisfaction of the Service and may in the meantime, be deposited in a government warehouse
04	Section 46 (7) If at any time after a ship, aircraft or vehicle carrying goods brought therein from any place outside Nigeria enters Nigeria and before report has been made under this section — a. bulk is broken; b. any alteration is made in the stowage of any goods carried so as to facilitate the unloading of any part of it; c. any part of the goods is staved,	The master of the ship, the captain of the aircraft or the person in charge of the vehicle commits an offence and, unless the matter be explained to the satisfaction of the Service, is liable on conviction to a fine of ₦20,000,000 or imprisonment for a term of 10 years or both.

S/N	Offence	Penalty
	destroyed or thrown overboard; or d. any container opened, without the knowledge and consent of the proper officer	
05	Section 92 (2) At the request of a debtor and upon the provision of a guarantee and a proof of fulfilling the criteria set out in Part XII of this Act for special simplified treatment, the Service may permit deferment of payment of the duty, excise tax, other Customs duties and fees for a period of 30 days. Where payment is deferred, the period of deferment shall begin on the day following the day on which the debt is notified to the debtor. Where a customs debt remains unpaid within the prescribed period	Where a customs debt remains unpaid within the prescribed period, the Service shall take all necessary legal measures to recover the debt. Interest on arrears shall be charged from the date the payment became due until the date the payment is received by the Service and the rate of interest on any arrears shall be the monetary policy rate or other appropriate rate applied by the Central Bank of Nigeria at the time the payment became due.
06	Section 120 Where a person imports goods into the customs territory and abandons such goods, the person or the holder of the goods shall bear the cost of destruction or disposal of the goods.	The person or the holder of the goods shall bear the cost of destruction or disposal of the goods.
07	Section 122 (8) A warehouse shall not be operated as a customs warehouse without a license issued by the Service to the warehouse keeper. A warehouse keeper who without the prior written approval of the Service, makes any alteration to, or addition to, a warehouse.	A warehouse keeper who, without the prior written approval of the Service, makes any alteration to, or addition to, a warehouse shall be liable to a penalty of ₦10,000,000 and upon review may, at the determination of the Service, have the license revoked.
08	Section 122 (9) A warehouse keeper who uses his warehouse, or permits the warehouse to be used, in contravention of the conditions of the license.	The warehouse keeper shall be liable to a penalty of ₦10,000,000 or revocation of the license or to both.
09	Section 122 (10) Where an owner or occupier of a building uses the building or permits it to be used, for the deposit of goods for warehousing purposes without a valid license issued under this section	The owner or occupier of a building shall be liable to a penalty of ₦20,000,000 and, in addition to a penalty of ₦1,000,000 for each day, or part of a day, during which the building is used or is permitted to be so used for warehousing purposes.

S/N	Offence	Penalty
10	Section 124 (3) A bonded warehouse keeper shall at his own expense provide and maintain at the warehouse office accommodation and related facilities conducive for work by a proper officer and other employees at the warehouse as the Service may prescribe. Where any warehouse keeper fails to comply with any of the provisions of this section, the Service may direct that no further goods shall be warehoused by that warehouse keeper until compliance by the warehouse keeper with any requirement prescribed to the satisfaction of the Service. Where a warehouse keeper contravenes any direction given by the Service under the provision of subsection (2)	The warehouse keeper who contravenes any direction given by the Service under the provision of subsection (2) shall be liable to a penalty of ₦20,000,000 in addition to a fine of ₦1,000,000 for each day, or part of a day, during which such contravention continues.
11	Section 125 (2) The Service may by regulations specify the times at which goods may be received and removed from a warehouse. Where goods are received or removed in contravention of this section, or regulations made by the Service under this section, the bonded warehouse keeper and the person responsible for removing the goods commit an offence.	The bonded warehouse keeper and the person responsible for removing the goods commit an offence and are severally liable on conviction to a fine of ₦20,000,000 or imprisonment for a term of five years or both and repeated violations of the provision of this section may result in the revocation of the warehouse license.
12	Section 126 (1) Upon the arrival of any goods at a bonded warehouse, the warehouse keepers shall immediately report the arrival to the proper officer, and where the warehouse keeper fails to report the arrival of any goods, he commits an offence.	The warehouse keeper is liable to a fine of ₦3,000,000.

S/N	Offence	Penalty
13	Section 126 (5) The warehouse keeper shall mark the containers or lots of warehoused goods in such manners as the proper officer in charge may direct, subject to any such further directions, the warehouse keeper shall keep the goods so marked while they are warehoused. A warehouse keeper who fails to comply with the provisions of subsection (4) commits an offence.	The warehouse keeper is liable to a fine of ₦3,000,000.
14	Section 132 (2) Where a customs warehouse is closed, the person concerned shall be given 90 days after written notice of the closure to remove their goods to another customs warehouse or place the goods under another customs procedure. Failure to remove goods from a closed warehouse within the time allotted by the Services is an offence.	Failure to remove the goods shall result in forfeiture of same
15	Section 133(1) Any person who, except with the authority of the proper officer, opens any of the doors or locks of a bonded warehouse or government warehouse or makes or obtains access to any such warehouse or government warehouse or to any goods warehoused therein commits an offence	The person is liable on conviction to a fine of ₦10,000,000 or imprisonment for a term of five years or both.
16	Section 133 (2) Any person who fails to leave any bonded warehouse or government warehouse or any part of a bonded warehouse or government warehouse when requested to do so by any officer commits an offence.	The person is liable to a fine of ₦5,000,000 or to imprisonment for a term of three years or both.
17	Section 133 (3) Any person who, except as permitted under this Act, wilfully destroys or damages any goods in a bonded warehouse or government warehouse commits an offence	The person is liable on conviction to a fine of ₦10,000,000 or imprisonment for a term of five years or both.
18	Section 147 (1)	

S/N	Offence	Penalty
	Drawbacks shall be calculated by deducting from the amount of duties, excise Customs duties and other Customs duties paid on the goods, an amount equivalent to the proportionate cost to the Service for administering the drawback programme. The amount of drawback shall be reduced by the value of any merchantable scrap or waste resulting from the manufacturing process. Where any person obtains or attempts to obtain, or does anything for any person to obtain any amount as drawback of any duty or tax in respect of any goods which a person is not lawfully entitled to or which is greater than the amount he is entitled to, such a person commits an offence.	The person is liable on conviction to a fine of ₦10,000,000 or imprisonment for a term of three years or both.
17	Section 150(1)(b) Where any person except as provided under this Act, exports or is involved in exporting any goods chargeable with a duty which has not been paid ; or any goods contrary to any prohibition ; or loads for exportation or as stores or brings to any place in Nigeria for the purpose of exporting or loading as stores any goods the exportation of which is contrary to any prohibition, or assists or is involved in the loading or bringing of the goods with intent to evade any duty or any prohibition, the person commits an offence.	He is liable on conviction to: (i) imprisonment for a term of two years without the option of a fine; (ii) forfeiture of the goods where the exportation is prohibited, or (iii) where duty is chargeable, a fine of ₦3,000,000 or two times the value of goods, whichever is greater.
18	Section 177(2) An unauthorised person shall not carry on any of the activities listed under section 181 of this Act (prohibition on the use of methylated spirits). An unauthorised person who contravenes the provision of section 181 of this Act commits an offence.	The person is liable on conviction to a fine of ₦2,000,000 or imprisonment for a term of one year.
19	Section 177(3) Where there is insufficient evidence to convict a person for an offence under section 181 of this Act, and it is proved that the offence was committed on a part of premises belonging to or occupied by that person in such circumstances that it could not have been committed without that person's knowledge	That person is liable on conviction to a fine of ₦1,000,000 or imprisonment for a term of 6 months.

S/N	Offence	Penalty
20	Section 201 (2) It is unlawful to manufacture excisable goods subject to section 202 of this Act (conditions of issuance of excise license) otherwise than under and in accordance with an excise license, and any excisable goods a person makes or possesses without a proper license, and any plant, materials, vessels, utensils, or other material the person possesses that are capable of being used in the manufacture of the goods, are subject to forfeiture. A person who manufactures or possesses excisable goods and services without a proper license commits an offence.	That person is liable on conviction to a fine of ₦5,000,000 or imprisonment for a term of three years.
21	Section 201 (3) Failure to comply with any regulation made under section 200 of this Act (regulations relating to the manufacture of other goods subject to excise duty) constitutes an offence.	Any goods or article in respect of which the offence was committed are subject to forfeiture and a person convicted is liable to a fine of ₦5,000,000 or imprisonment for a term of three years or both.
22	Section 206 (4) Every holder of an excise license shall keep at the licensed premises all records required under the excise laws, and shall make the required entries relating to the manufacture, storage and delivery of excisable goods and materials, and each entry shall be made legibly and shall not be altered in any manner other than by cancellation, or by amendment. All records required to be kept under the provisions of the excise laws shall at all times be available for inspection by the proper officer, and the officer may take copies of the records. Records may be kept in electronic form, subject to safeguards and conditions as the Service may specify in the regulations. It is an offence for an excise license holder to contravene any of the provisions of this section.	The holder of the excise licence is liable on conviction to: (a) a fine of ₦5,000,000 and ₦50,000 for every day the default continues; or (b) imprisonment for a term of three years.

S/N	Offence	Penalty
23	Section 207 (4) The Service may require an excise license holder to submit annually, or at such other time as the Service may require, a certificate of audit by an approved accountant certifying — - the correctness of all the books and records, including electronic records, required by or under this Act to be kept by the holder of the excise license; and - any of the matters referred to in subsection (1) (b) as the Service may require. For the purpose of this section, an "approved accountant" means an accountant who is a member of one of the professional bodies that the Service, by notice in the Federal Government Gazette, has declared to be approved for the purposes of this section. A license holder who without reasonable cause fails to comply with the requirements of this section commits an offence.	The license holder is liable on conviction to: - a fine of ₦5,000,000 and ₦50,000 for every day the default continues; or - imprisonment for a term of three years.

Source: Nigeria Customs Service Act, 2023

12.13 Chapter review

This chapter fully explains the objectives, nature and administration of the Nigeria Customs Service, duties and functions of the Customs Service and its Commission. Rates and basis of computation, excisable items, furnishing of information by manufacturers, and offences and penalties under the Act are well discussed.

12.14 Worked examples

12.14.1 Questions

- The Nigeria Customs Service Act, 2023, was enacted to repeal the Customs and Excise Management Act, Cap. C45 Laws of the Federation of Nigeria, 2004 (as amended) and other customs and excise legislations.

Required:

Explain the functions of the Nigeria Customs Service.

- Mr. Larry Obinna, a licenced importer and exporter of alcoholic drinks, imported the following items from the United Kingdom through one of Nigerian sea ports on October 13, 2025:

Item	Quantity (bottles)	Price (£) (per bottle)	Value (£)
ABC super wine	2,700	12.00	32,400

XYZ standard spirit	3,000	14.50	43,500
PQR action stout	6,000	5.00	30,000
			<u>105,900</u>

The following additional information is available:

- (a) A bottle of any of the items contains 25 centilitre liquids;
- (b) The exchange rate is assumed to be ~~₦~~2,100 to £1; and
- (c) Duties payable per centilitre for the items are as follows:
 - (i) ABC super wine - ~~₦~~1.25
 - (ii) XYZ standard spirit - ~~₦~~1.50
 - (iii) PQR action stout - ~~₦~~0.30

Required:

Determine the import duties payable to the Nigeria Customs Service by Mr. Larry Obinna on items imported.

3. XYZ Limited is an importer of goods from London. It has provided the following information in respect of goods imported in August 2025.

	₦
Free on board	2,500,000
Insurance	40,000
Freight	500,000

Assume the following :

- (i) Import duty - 5% on CIF
- (ii) Surcharge - 7% on the surface duty
- (iii) Ecowas trade liberalisation scheme (ETLS) levy - 0.5% CIF value
- (iv) Comprehensive import supervision scheme levy - 1% of free on board
- (v) AU / Multilateral levy on goods imported from outside Africa - (0.5% of CIF)
- (v) Value added tax - 7.5% of the total value

Required:

Compute the total duty payable to Nigeria Customs Service.

12.14.2 Suggested solutions to questions

(1) The functions of the Nigeria Customs Service are to:

- (a) administer, direct, manage and enforce the provisions of this Act and the customs and excise laws;
- (b) collect and account for revenue from customs duties, excise duties, charges, fees and special assignments as may be assigned to it by the governments;
- (c) administer trade and fiscal policies of the government as it relates to the Act;
- (d) promote trade facilitation in line with international conventions and agreements as it relates to customs administration;
- (e) prevent smuggling, customs fraud and all other violations under this Act;

- (f) carry out all border enforcement and regulatory activities required by law in collaboration with relevant agencies;
- (g) collate and publish accurate trade statistics and other relevant data as they relate to Customs and Excise;
- (h) engage in regular consultations with individual traders, trade associations and other relevant stakeholders to promote industrial harmony.
- (i) approve and licence customs agents, who shall be citizens of Nigeria; and
- (j) do such other things as are necessary for or incidental to the performance of its functions and discharge of its duties under this Act and the laws of Nigeria.

**(2) Mr. Larry Obinna Determination of import duties
For items imported on October 13, 2025**

ABC super wines

Units imported = 2,700 bottles

Conversion to centilitres = $2,700 \times 25 = 67,500$
centilitres Duty payable per centilitre = ₦1.25

Amount of import duty payable = $67,500 \times ₦1.25 = ₦84,375$.

XYZ standard spirit

Units imported = 3,000 bottles

Conversion to centilitres = $3,000 \times 25 = 75,000$
centilitres Duty payable per centilitre = ₦1.50

Amount of import duty payable = $75,000 \times ₦1.50 = ₦112,500$.

PQR action stout

Units imported = 6,000 bottles

Conversion to centilitre = $6,000 \times 25 = 150,000$
centilitres Duty payable per centilitre = ₦0.30

Amount of import duty payable = $150,000 \times ₦0.30 = ₦45,000$.

The total import duties payable by Mr. Larry Obinna =
 $₦84,375 + ₦112,500 + ₦45,000 = ₦241,875$

Note

Price per bottle should be ignored in the computation as the requirement of the question does not include computation of VAT payable.

3. XYZ Limited

**Computation of total duty payable to Nigeria Customs Service
On goods imported in August 2025**

	₦
Free on board	2,500,000
Insurance	40,000
Freight	<u>500,000</u>
Cost, insurance, and freight (CIF)	<u><u>3,040,000</u></u>
Surface duty (import duty) 5% of CIF	152,000
Surcharge (7% of surface duty)	10,640
CISS levy (1% of free on board)	25,000

ETLS levy (0.5% of CIF)	15,200
AU/Multilateral levy on goods imported from outside Africa (0.5% of CIF)	<u>15,200</u>
	218,040
VAT (7.5% of CIF + the duty/ levies), that is 7.5% of (N3,040,000 + N218,040)	<u>244,353</u>
Total duty payable to Nigeria Customs Service	<u>462,393</u>

SURCHARGE ON FOSSIL FUEL PRODUCTS

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- 13.0 Learning objective
- 13.1 Learning outcomes
- 13.2 Imposition of surcharge
- 13.3 Chargeable transaction and base for surcharge
- 13.4 Administration of surcharge
- 13.5 Products exempt from surcharge
- 13.6 Filing of returns for surcharge
- 13.7 Offences and penalties
- 13.8 Chapter review
- 13.9 Worked examples

13 Surcharge on Fossil Fuel Products

13.0 Learning objective

The objective of this chapter is to enhance readers' knowledge of the administration, computation of surcharge, filings, offences and penalties.

13.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) explain imposition of surcharge;
- (b) explain administration of surcharge;
- (c) explain chargeable transaction and base for surcharge;
- (d) identify products exempt from surcharge;
- (e) explain the filing of returns for surcharge; and
- (f) explain the offences and penalties.

13.2 Imposition of surcharge – Section 159(1) of NTA

For the purpose of ascertaining surcharge on fossil fuel product, the chargeable transaction shall be the supply, sale or payment, whichever occurs first.

13.3 Chargeable transaction and base for surcharge – Section 159(2) of NTA

The computation of surcharge shall be based on the retail price of all chargeable fossil fuel products.

13.4 Administration of surcharge – Section 160(1) of NTA

The effective date of commencement of the administration of the surcharge on fossil fuel products shall be based on the date indicated in an order issued by the Minister in the Official Gazette.

13.5 Products exempt from surcharge – Section 161 of NTA

The following fossil fuel products shall be exempt from surcharge:

- (a) clean or renewable energy products;
- (b) household kerosene;
- (c) cooking gas; and
- (d) compressed natural gas (CNG).

For the purpose of this section, "clean or renewable energy" means energy from solar, wind, hydropower, geothermal or plant and animal waste, which are naturally replenishing, produce little or no environmental pollution or greenhouse gas emissions, and do not deplete over time.

13.6 Filing of returns for surcharge – Section 24 of NTAA

A taxpayer engaged in the provision of chargeable services shall, in respect of surcharge imposed on fossil fuel products, submit a return to the Service in the prescribed form specified by the Nigeria Revenue Service.

The return shall be rendered on or before the 21st day of the following month or such other time as may be determined by the Service.

The following information shall be included in the return:

- (a) description of the chargeable service during the month;
- (b) value of the chargeable service on which surcharge is payable;
- (c) amount of surcharge payable; and
- (d) such other particulars as may be prescribed by the Service.

13.7 Offences and penalties

There are specific and general offences and penalties relating to surcharge on fossil fuel products.

13.7.1 Specific offences and penalties - section 136 of NTAA

(a) Failure to file returns to the Service - section 136(1) of NTAA

Any person who fails to file the required returns to the Service under section 24 of NTAA, is liable to an administrative penalty of ₦ 10,000,000.

(b) Failure to pay surcharge - section 136(2) of NTAA

Any taxable person who fails to pay surcharge, shall be liable to a sum equal to 10% of the amount payable in addition to the surcharge due, and interest at the prevailing Central Bank Monetary Policy Rate.

13.7.2 General offences and penalties

(a) Failure to register for tax – section 100 of NTAA

A taxpayer who fails or refuses to register for tax under section 4 of this Act, shall be liable to pay an administrative penalty of:

- (i) ₦50,000 in the first month in which the failure occurs; and
- (ii) ₦25,000 for each subsequent month in which the failure continues.

A statutory body or company who awards a contract to an unregistered person, shall be liable to pay an administrative penalty of ₦5,000,000.

(b) Failure to file returns – Section 101 of NTAA

A taxpayer who fails or refuses to file returns or knowingly files incomplete or inaccurate returns to the relevant tax authority in accordance with the provisions of this Act, shall be liable to pay an administrative penalty of:

- (i) ₦100,000.00 in the first month in which the failure occurs; and
- (ii) ₦50,000.00 for each subsequent month in which the failure continues.

(c) Failure to keep books – Section 102 of NTAA

A taxpayer who:

- (i) fails to keep accounts, books and records of business transactions and income, to allow for the correct ascertainment of tax and filing of returns to the relevant tax authority; or
- (ii) upon request by the relevant tax authority, fails to provide any record or book prescribed in this Act shall be liable to pay an administrative penalty, in the case of:
 - a person other than a company, ₦10,000, and
 - in the case of a company, ₦50,000.

(d) Failure to deduct tax – section 105 of NTAA

A person who has an obligation to collect, deduct or withhold tax under the relevant tax laws, and fails to collect, deduct or withhold the tax due is liable to an administrative penalty of 40% of the amount not deducted.

(e) Failure to remit tax – section 107 of NTAA

A person, that deducts, collects or withholds any tax under this Act, and fails to remit the amount deducted, collected or withheld by the 21st day of the month

immediately succeeding the month in which the amount was deducted, collected or withheld, is liable to pay:

- (i) the amount deducted, collected or withheld but not remitted;
- (ii) an administrative penalty of 10% per annum of the tax deducted, collected or withheld but not remitted; and
- (iii) interest at the prevailing Central Bank of Nigeria monetary policy rate.

A person required to self-account under this Act and fails to self-account within the time prescribed by this Act, is liable to pay:

- (i) the tax not self-accounted for;
- (ii) an administrative penalty of 10% per annum of the amount not self-accounted for; and
- (iii) interest at the prevailing Central Bank of Nigeria monetary policy rate.

(f) General penalty – section 127 of NTAA

Any person who contravenes the provisions of this Act for which no specific penalty was provided, commits an offence and is liable as follows:

- (i) to an administrative penalty of ₦1,000,000; or
- (ii) on conviction, to imprisonment for a term not exceeding three years or to a fine or both.

(g) Incorrect account – section 131 of NTAA

A person who without reasonable excuse:

- (i) makes up or causes to be made up any incorrect accounts by omitting or understating any profits or overstating any losses which is required under this Act to make up accounts;
- (ii) prepares or causes to be prepared any incorrect schedule or statement required to be prepared under section 17 of this Act by overstating any expenditure or overstating any royalties or other sums or by omitting or understating any amounts repaid, refunded, waived or released; or
- (iii) gives or causes to be given any false or misleading information in relation to any matter or thing affecting his liability to tax, is liable to an administrative penalty of ₦15,000,000 and 1% of the amount of tax which has been undercharged in consequence of such incorrect account, schedule, statement or information or would have been so undercharged if the account, schedule, statement or information had been accepted as correct, whichever is higher, and is also liable for the appropriate tax which would have been charged.

Notwithstanding (i) - (iii) above, a person who gives or causes to be given, any false or misleading information in relation to any matter or thing affecting his liability to tax, commits an offence and on conviction is liable to a fine of ₦15,000,000 and 1% of the amount of tax which has been undercharged in consequence of such incorrect account, schedule, statement or information, or would have been so undercharged if the account, schedule, statement or information had been accepted as correct, whichever is higher, and is also liable for the appropriate tax which would have been charged.

13.8 Chapter review

This chapter discusses administration and imposition of surcharge on fossil products whilst it also identifies the exempt products.

13.9 Worked examples

13.9.1 Questions

- (1) Section 159 of NTA, 2025, identifies the chargeable transactions and base for surcharge.

Required:

Explain the chargeable transactions and the base for the computation of surcharge.

- (2) Despite the proposed surcharge on chargeable fossil fuel products under section 158 of NTA, some products are exempt from the 5% surcharge under section 161 of NTA.

Required:

Identify the products that are exempt from surcharge.

- (3) Section 136 of NTAA stipulates the specific offences and penalties relating to the filing and payment of surcharge on fossil fuel products.

Required:

Explain the specific offences and penalties relating to surcharge on fossil products.

13.9.2 Suggested solutions to questions

1. For the purpose of ascertaining surcharge on fossil fuel product, the chargeable transaction shall be the supply, sale or payment, whichever occurs first.

The computation of surcharge shall be based on the retail price of all chargeable fossil fuel products.

2. The following fossil fuel products shall be exempt from surcharge:

- (a) clean or renewable energy products;
- (b) household kerosene;
- (c) cooking gas; and
- (d) compressed natural gas (CNG).

For the purpose of this section, "clean or renewable energy" means energy from solar, wind, hydropower, geothermal or plant and animal waste, which are naturally replenishing, produce little or no environmental pollution or greenhouse gas emissions, and do not deplete over time.

3. Specific offences and penalties - section 136 of NTAA

These are:

- (a) Failure to file returns to the Service - section 136(1) of NTAA

Any person who fails to file the required returns to the Service under section 24 of NTAA, is liable to an administrative penalty of ₦ 10,000,000.

- (b) Failure to pay surcharge - section 136(2) of NTAA

Any taxable person who fails to pay surcharge, shall be liable to a sum equal to 10% of the amount payable in addition to the surcharge due, and interest at the prevailing Central Bank Monetary Policy Rate.

TAXATION OF EMPLOYMENT INCOME

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- 14.4 Distinction between employment, vocation and profession
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14 Taxation of Employment Income

14.0 Learning objective

The objective of this chapter is to enhance the readers' knowledge of the registration of an employee for tax purposes, types of employment, terminologies, conditions for taxation of income from employment, and the issue of residency for personal income tax purposes.

14.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) draw a distinction between contract of employment and contract for employment;
- (b) differentiate between the two types of employment;
- (c) distinguish among employment, vocation and profession;
- (d) identify the relevant tax authority;
- (e) understand registration for Pay-As-You-Earn (PAYE);
- (f) explain the operation of PAYE regulations;
- (g) identify an itinerant worker;
- (h) understand the basis for valuing benefits-In-kind received by employees;
- (i) identify when gain or profit from employment is deemed to be derived from Nigeria;
- (j) define place of residence and principal place of residence;
- (k) discuss the significance of residence for tax purposes; and
- (l) explain how a dispute over the determination of an individual's territory of residence can be resolved.

14.2 Employment, contract of service and contract for service

Sections 147 and 201 of NTAA and NTA, respectively, define **employment** to include any appointment or office, whether public or otherwise for which remuneration is payable.

However, the Employment and Labour Laws and Regulations 2025, defines **an employment** as a contractual relationship - whether written or implied - where an employee agrees to perform work for an employer, under the supervision of the employer, in exchange for wages

A **contract for employment** is an agreement whereby a person is engaged as an independent contractor, such as a self-employed person or vendor engaged for a fee to carry out an assignment or a project for the company. In a contract for employment, there is no employer-employee relationship in the contract and the self-employed person is not covered by the Labour Act.

An individual under a contract of employment is commonly referred to as an employee, while an individual under a contract for employment is referred to as an independent contractor or self-employed person. The following distinctions can be drawn between a contract of employment and a contract for employment:

- (a) an individual under a contract of employment earns remuneration (that is, salary or wages), while an individual under a contract for employment earns profit;
- (b) an individual under a contract of employment is assessed to tax on actual year basis, while an individual under a contract for employment is

- assessed to tax on preceding year basis;
- (c) a self-employed person is required to register for value added tax, while an employee is not required to do so; and
 - (d) an employee has the right not to be unlawfully dismissed and to receive redundancy payment and other employment rights, while a self-employed person does not have such rights.

14.3 Types of employment

Paragraphs 1 to 3 of the First Schedule to the NTAA, specify three types of employment as follows:

14.3.1 Nigerian employment - paragraph 2 of the First Schedule to the NTAA and paragraph 2 of the Twelfth Schedule to the NTA.

This means any employment, not being a foreign employment, the duties of which are wholly or partly performed in Nigeria.

An individual who holds a Nigerian employment on the first day of January in a year of assessment, or who first becomes liable to income tax in Nigeria for that year by reason of his entering that employment during that year, shall be deemed to be resident for that year in the territory in which he has a place or principal place of residence on that day or, as the case may be, on the day on which he enters upon the full duties of that employment in Nigeria:

Provided that if the individual is on leave from a Nigerian employment on the first day of January in a year of assessment, he shall be deemed to be resident for that year by reference to his place or principal place of residence immediately before his leave began.

14.3.2 Foreign employments - paragraph 1 of the First Schedule to the NTAA and paragraph 1 of the Twelfth Schedule to the NTA

An individual, who is not a non-resident person, who holds a foreign employment on 1st January in a year of assessment, or who first becomes liable to income tax in Nigeria for that year by reason of his entering that employment during that year, shall be deemed to be resident for that year where the duties are:

- (a) wholly performed outside Nigeria, in the territory in which the principal office of his employer is situated on that day or on the day his foreign employment commences, as the case may be; and
- (b) performed or exercised in Nigeria for a foreign employer, in the place of residence, and in the absence of such, in the place where the person usually resides.

14.3.3 Other employments - paragraph 3 of the First Schedule to the NTAA and paragraph 3 of the Twelfth Schedule to the NTA

- (a) an employee whose remuneration is subject to income tax in Nigeria for a year of assessment, but who has no place or principal place of residence in the territory of a State in Nigeria for that year under 14.3.1 above, shall be deemed to hold a foreign employment, and if he has no territory of residence in a State for that year under 14.3.1 above, shall be deemed to be a non-resident person.
- (b) An employee who is subject to income tax in Nigeria for a year of assessment, but whose place of residence is in the Exclusive Economic Zone of Nigeria or

territorial waters of Nigeria beyond the littoral States and has no principal place of residence in any of the littoral States.

14.4 Distinguish among employment, vocation and profession

The differentiation among employment, vocation and profession can easily be established from the definition of employment, vocation and profession as explained below:

14.4.1 Employment

Employment is an agreement between an employer and an employee that the employee will provide certain services on the job and in the employer's designated workplace, to facilitate the accomplishment of the employer organisation's goals and mission, in return for compensation. The agreement can be verbal, implied, or an official employment contract.

In employment, the employer determines the where, when, how, why, and what of the work that is performed by the employee. The degree of input, autonomy and self-directedness that an employee experiences on the job is a by-product of an employer's philosophy of management and employment. Employment ends at the prerogative of the employer or the employee.

14.4.2 Vocation

A vocation is a specified occupation or profession or trade to which a person is specially drawn or for which he or she is suited, trained, or qualified. Vocation can either be an activity that serves as an individual's regular source of livelihood or as an activity engaged in especially as a means of passing time.

14.4.3 Profession

A profession refers to an occupation that requires specialised education, knowledge, training and ethics. Although professionals make their living in what they do, this paid work is often more than just a job or occupation alone. Whether the occupation is accounting, administration, law, medicine, plumbing, writing, interior design or baseball, those who are in it are expected to meet and maintain common standards.

Professions are, ideally, made up of people with high ethical standards who have special knowledge and skills. The responsibility of people in certain occupations to the public is an important distinction from those who may participate in the fields on an amateur or non-professional basis. For example, if a homeowner hires a non-licensed plumber to save money, he or she wouldn't be able to hold this person to the same standards as a licensed professional in the same industry.

Based on the above definitions, we can draw the following distinctions amongst employment, vocation and profession:

- a. employment is an agreement between an employer and an employee in which the employee is required to provide certain services on the job in a workplace in return for compensation, that is, salary and other emoluments. Vocation and profession are specified occupation or profession or trade to which a person is specially drawn or for which he or she is suited, trained, or qualified;
- b. employment income includes any salary, wages, fee and allowance including compensations, bonuses, premiums, benefits or other perquisites. Vocation and profession income includes gains or profits, fees, etc;
- c. employment can be exercised under a contract of service, while vocation and profession can be exercised in a contract for service; and
- d. employment can be brought to an end at the prerogative of the employer or the

employee. Vocation and profession would usually come to an end at the end of a contract or upon the delivery of a service.

14.5 Relevant tax authority - section 3 of the NTA

The relevant authority depends on individuals as follows:

- (a) The Nigeria Revenue Service (the Service) established under the Nigeria Revenue Service (Establishment) Act, 2025, has the exclusive responsibility to administer taxes on:
 - (i) on persons employed in the Nigerian Army, the Nigerian Navy, the Nigerian Air Force, the Nigeria Police Force, other than in a civilian capacity,
 - (ii) on officers of the Nigerian Foreign Service, and
 - (iii) on non-resident persons who derive profit or income from Nigeria or any income derived from employment in Nigeria by a person, not being a resident of any State in Nigeria.
- (b) The relevant tax authority in a State or the Federal Capital Territory, shall under be responsible for the administration of taxes for resident individuals in respect of:
 - (i) imposition of tax on income, profits or gains;
 - (ii) ascertainment of profits and income;
 - (iii) ascertainment of assessable profits and income;
 - (iv) ascertainment of total income;
 - (v) ascertainment of chargeable gains; and
 - (vi) rates of tax.

14.6 Registration process of an employee and employer with the relevant tax office for the purposes of Pay-As-You-Earn (PAYE) - section 4 of NTAA

Every taxable person shall register with the relevant tax authority and obtain Taxpayer Identification ("Tax ID") for the purposes of compliance with tax obligations.

14.6.1 Registration for pay-as-you-earn (PAYE)

An employer shall register with the relevant tax authority for the purposes of deducting income tax from his employees with or without formal notification or direction by the relevant tax authority.

14.6.2 Operation of PAYE regulations

(a) Deduction of tax, etc

- (i) The employer shall deduct tax from emoluments of his employees and remit it monthly to the relevant tax authority.
- (ii) An employer who fails or refuses to register with the relevant tax authority commits an offence and is liable to pay an administrative penalty of:
 - ₦ 50,000 in the first month in which the failure occurs; and
 - ₦ 50,000 for each subsequent month in which the failure continues.
- (iii) Income tax chargeable on an employee whether or not the assessment has been made, shall be deducted from any emolument payable, or from any payment made on account of the emolument, by the employer to the employee - section 51(6) of NTAA.
- (iv) In arriving at the amount of income tax to be deducted from any payment of or on account of the emolument to an employee, the employer shall ensure

that the aggregate amount of all the deductions made during a year of assessment shall equal the income tax chargeable on the employee in respect of its emoluments for that year - section 51(7) of NTAA.

(b) Records of deductions

An employer shall record, either on the tax deduction card or in such other form as may be authorised by the relevant tax authority, the following particulars regarding emoluments of his employees, that is, the:

- i. month of payment;
- ii. amount of emolument;
- iii. contribution by the employee to an approved pension fund;
- iv. cumulative net emoluments in relation to the said date;
- v. cumulative free emoluments in relation to that date;
- vi. cumulative taxable emoluments in relation to that date;
- vii. corresponding cumulative tax; and
- viii. tax, if any, deducted or repaid on making the payment.

(c) Cumulative net emoluments, etc

- (i) Before payment of emolument to any employee, the employer shall ascertain the cumulative net emoluments after due deduction of an approved pension fund, the cumulative free emoluments, the cumulative taxable emoluments, and the corresponding cumulative tax.
- (ii) Where the cumulative tax is less than the previous cumulative tax, the employer shall refund the difference to the employee.
- (iii) Where an employee in respect of whom a tax deduction card has been issued ceases to be in employment, the employer shall send to the relevant tax authority a certificate on the prescribed form containing the:
 - name of the employee;
 - number used to identify the employer;
 - address of the employee;
 - date on which the employment commenced;
 - date on which the employment ceased;
 - "relief from income tax", if any, appropriate to the employee's case;
 - cumulative emoluments at the date of leaving; and
 - corresponding cumulative tax.

(d) Certificate of deduction of tax

- i. The employer shall make on the prescribed form two copies of the said certificate and deliver them to the employee on the date on which the employment ceases.
- ii. On the commencement of another employment, the employee shall deliver the two copies of the certificate to the new employer who shall:
 - insert on one copy of the certificate the address of the employee (if different from the existing entry made by the former employer), any number used to identify the employee, and the date on which the employment commences, and shall send that copy to the collector of taxes for the tax deductions while the employer retains a copy; and
 - prepare a tax deduction card in accordance with the particulars given in the copies of the certificate and record on the card the cumulative free emoluments, if any, and the corresponding cumulative tax as from the month the employee left his former employment.

(e) Death of employee

- (i) On the death of an employee in respect of whom a tax deduction card has been issued, the employer shall send to the collector of taxes the certificate (relating to cessation of employment) and shall insert thereon the name and address of the personal representative of the deceased employee.
- (ii) If any emoluments are paid by the employer to the deceased employee's next of kin, the employer shall, in making such payment, deduct tax.

(f) Remittance of tax deducted

- (i) Within ten days of the end of every month, an employer shall pay to the nearest tax office or to any bank (as may be prescribed or designated by the relevant tax authority) all taxes deducted under these regulations.
- (ii) The tax officer shall give the employer a receipt on the prescribed form for the total amount paid.

(g) Demand for remittance of taxes

If after ten days of the end of any month an employer fails to remit tax to the tax officer or to any bank designated for such payments, the collector of taxes shall demand for the immediate remittance of the tax due.

(h) Inspection of records

Every employer shall produce for inspection, at the employer's premises, all wages records, tax deductions cards, vouchers and other documents and records relating to payment of emolument to his employees and deduction of tax thereof.

(i) Duty of successor in title

If any employer is unable to perform the duties under this regulation by reason of death, incapacitation, liquidation or for any other reason, his personal representative or successor shall perform such duties.

(j) Notice to render returns

The relevant tax authority may give notice to an employer requiring him to render returns of any emolument paid to the employees before the end of that year, and any such returns shall be rendered to the relevant tax authority within the time specified in the notice.

(k) Notice of assessment

The relevant tax authority shall serve a notice of assessment on every employee assessed to tax.

14.7 Itinerant worker

14.7.1 Definition - section 201 of NTA

"Itinerant worker" means an individual irrespective of his status, who works at any time in any state during a year of assessment, other than as a government security officer, for wages, salaries or livelihood by working in more than one state and work for a minimum of twenty (20) days in at least three (3) months of every assessment year.

14.7.2 Imposition of tax

In the case of an itinerant worker, tax may be imposed for any year by any state in which the itinerant worker works for a minimum of twenty (20) days in at least

three (3) months of every assessment year.

14.8 Employment income - section 4 (2)(a) of NTA

Employment income includes any salaries, wages, fees, allowances, compensations, bonuses, premiums, benefits or other perquisites allowed, given or granted by any person to any employee other than so much of any sums as or expenses incurred by him in the performance of his duties, and from which it is not intended that the employee should make any profit or gain.

14.8.1 Cash emoluments

Cash emoluments are the remuneration an employee receives from the employer in cash. Cash emoluments include salary, wages, fee, allowance or other gain or profit from employment, including compensations, bonuses, premiums, benefits, share of profits received by an employee. Non-cash benefits-in-kind, such as company car, are excluded unless they can be converted to cash

14.8.2 Benefits-in-kind (BIK) - section 14 of NTA

Benefits-in-kind mean those expenses incurred by an employer in the provision of benefits to the employee. Such benefits often include: furnished living accommodation, gardener/stewards (domestic servants), use of official car for private purpose by employees, installation of air conditioners or generator in employees' residences. These benefits are regarded as part of the employee's taxable income if these relate to services rendered by the employee. Benefits-in-kind will also include such benefits which are actually provided to the spouse, family, servant, dependant or guest of the employee.

14.8.3 Taxable and tax-exempt incomes - section 14 of NTA

- (a) Where an employer incurs an expense in the provision of any benefit or perquisite, other than the provision of living accommodation, the following provisions shall apply:
 - (i) where any asset belonging to the employer is used wholly or partly in the making of such provisions, the employee is deemed to have earned annual benefit of an amount equal to 5% of the amount expended by the employer in acquiring the asset, but if that amount cannot be so ascertained, 5% of the market value of the asset at the time of the acquisition, as may be determined by the relevant tax authority;
 - (ii) where any sum by way of rent or hire is payable by the employer in respect of any such asset, the employee is deemed to have earned annual benefit of an amount equal to the annual amount of the rent or hire payable by the employer on the asset; and
 - (iii) in any other case, the employee is deemed to have earned annual benefits equal to the annual amount expended by the employer in connection with the benefit thereon.
- (b) The amount of benefit under (a) above shall be reduced by so much of any expense made by the employee in respect thereon.
- (c) The following expenses incurred by an employer for an employee shall not be subject to tax:
 - (i) provision of meals in any canteen in which meals are provided for the staff generally or meal vouchers for employees;
 - (ii) provision of any uniform, overall or other protective clothing, work tools or work equipment; or
 - (iii) cost relating to change in place of residence of the employee by reason of a change of the employee's employment or place of exercising the employment.

- (d) Any reference to expenses incurred in connection with any matter includes a reference to a proportion of any expenses incurred partly in connection with that matter.
- (e) Any reference to anything provided for an employee shall, unless the reference is expressly to something provided for the employee, be construed as including a reference to anything provided for the spouse, family, servant, dependant or guest of that employee by the employer.
- (f) Where premises in Nigeria are made available by an employer to the employee, the spouse or family, and the employee:
 - (i) pays no rent for the premises; or
 - (ii) pays a rent less than the annual rental value of the premises, the employee shall be treated as being in receipt of additional emoluments equal to the annual rental value of the premises, subject to a maximum of 20% of annual gross income from the employment, excluding the rental value.
- (g) "*Annual value of the premises*" means:
 - (i) in relation to premises that are subject to a law governing assessment of local rates, the annual rental value of the premises as determined for the purposes of local rates under that law;
 - (ii) in any other case, the annual rental value as determined by the relevant tax authority; and
 - (iii) a reference in this section to annual value shall include a reference, where applicable, to such proper proportion of the annual value in relation to:
 - a period of occupation within a year,
 - the part of the premises occupied, or
 - both a period of occupation within a year and the part of the premises occupied, as may be determined by the relevant tax authority.

14.8.4 Compensation for loss of employment and injury - section 50 of NTA

- (a) Amount not exceeding ~~N~~50,000,000 obtained by way of compensation or damages for any wrong or injury suffered by an individual in his person or in his profession or vocation, including compensation for loss of office or employment, wrong or injury for libel, slander or enticement shall not be chargeable gains.
- (b) Where the amount exceeds ~~N~~50,000,000, only the excess amount shall constitute a chargeable gain.
- (c) For the purposes of (a) and (b) above, any person who pays compensation for loss of office or employment to an individual is required, at the point of payment of such compensation, to deduct and remit the tax due under this section to the relevant tax authority.
- (d) The tax so deducted shall be remitted within the time specified under the Pay-As-You-Earn or Deduction of Tax at Source Regulations issued under the Nigeria Tax Administration Act.

14.9 Taxation of employment income, gains or profit of a resident individual - Section 13 of NTA

- (a) The income, gain or profit from an employment shall be deemed to be received in Nigeria where:

- (i) the employee is a resident of Nigeria; or
 - (ii) the duties of the employment are wholly or partly performed in Nigeria and the remuneration is accruing to the employee while in Nigeria is not duly liable to tax in the employee's country of tax residence.
- (b) The gains or profits from an employment by a Government in Nigeria shall be deemed to be derived from Nigeria wherever the remuneration is paid if the employee performs the duties of that employment in a country other than Nigeria which under an agreement or diplomatic privilege exempts the employee from tax on those gains or profits.

14.10 Exemption of minimum wage earners from the payment of personal income tax - section 58 of NTA

The income tax payable on the chargeable income of an individual, other than an individual earning the Minimum Wage, in respect of each year of assessment, shall be based on the rates specified in the Fourth Schedule to this Act.

14.11 Determination and importance of the term "residency" for personal income tax purposes

In personal taxation, determination of residence is vital, for the purpose of identifying the relevant tax authority of a taxpayer.

14.11.1 Resident individual - section 201 of NTA

"Resident individual" means an individual that, in any year of assessment:

- (a) is domiciled in Nigeria;
- (b) has a permanent place available for his domestic use in Nigeria;
- (c) has place of habitual abode in Nigeria;
- (d) has substantial economic and immediate family ties in Nigeria;
- (e) sojourns in Nigeria for a period or periods amounting to an aggregate of not less than 183 days in a 12-month period inclusive of annual leave or temporary period of absence, or
- (f) serves as a diplomat or diplomatic agent of Nigeria in another country.

14.11.2 Non-resident individual - section 201 of NTA

"Non-resident individual" means an individual that, in any year of assessment:

- (a) is not domiciled in Nigeria;
- (b) has no permanent place available for his domestic use in Nigeria;
- (c) has no place of habitual abode in Nigeria;
- (d) has no substantial economic and immediate family ties in Nigeria;
- (e) sojourns in Nigeria for a period or periods amounting to an aggregate of less than 183 days in a 12-month period inclusive of annual leave or temporary period of absence; and
- (f) is not serving as a diplomat or diplomatic agent of Nigeria in another country.

14.11.3 Residence and nationality

Residence should not be confused with nationality. The Nigerian tax laws attach importance to residence and not nationality. Therefore, whether you are a citizen of Nigeria or a citizen of another country, the same standards apply to you as far as you are resident in Nigeria. The same condition will also apply to an individual who is not resident in Nigeria whether he is a Nigerian or a foreign national.

14.11.4 Place of residence - paragraph 12 of the First Schedule to the NTAA

“Place of residence” in relation to an individual, means a place available for his domestic use in Nigeria on a relevant day, and does not include any hotel, rest-house or other place at which he is temporarily lodging, unless no more permanent place is available for his use on that day.

14.11.5 Principal place of residence - paragraph 12 of the First Schedule to the NTAA

“Principal place of residence” in relation to an individual with two or more places of residence on a relevant day, not being both within any one territory means, in the case of an individual:

- a. with no source of income other than a pension in Nigeria, that place in which he usually resides;
- b. who has a source of earned income other than a pension in Nigeria, that place which on a relevant day is nearest to his usual place of work;
- c. who has a source or sources of unearned income in Nigeria, that place he usually resides; or
- d. who works in the branch office or operational site of a company or other body corporate, the place at which the branch office or operational site is situated; provided the operational site shall include oil terminals, oil platforms, flow stations, factories, quarries, construction sites with a minimum of 50 workers, etc.

14.11.6 Pension - paragraph 5 of the First Schedule to the NTAA

- (a) An individual whose only source of earned income arising in Nigeria on January 1 in a year of assessment was a pension, and who had a place or principal place of residence on that day shall be deemed to be resident for that year in the territory in which that place or principal place of residence was situated on that day.
- (b) An individual whose only source of earned income arising in Nigeria on January 1 in a year of assessment was a pension, and who had no place of residence on that day, shall be deemed to be resident for that year, if the pension is:
 - (i) a Nigerian pension wholly payable by the Government of a territory, not being a Nigerian pension in respect of non-residents, in that territory;
 - (ii) not a Nigerian pension, in the territory in which the principal office in Nigeria of the pension fund or other person authorising payment of the pension is situated.
- (c) An individual whose only source of earned income arising in Nigeria on January 1 in a year of assessment was a Nigerian pension, and who had no place of residence on that day shall, if the pension is payable by more than one government, or payable by a person other than a government or if there are two or more pensions arising in different territories to the individual on that day, will be subject to the exclusive tax authority of the Nigeria Revenue Service.

14.12 Meaning of income

Income chargeable to tax, is the aggregate amount, each of which is the income of every taxable person, for the year, from a source inside or outside Nigeria, including:

- a. Gain or profit from any trade, business, profession or vocation for whatever period of time such trade, business, profession or vocation may have been carried on or exercised; and
- b. Any salary, wage, fee, allowance or gain or profit from employment including compensation, bonuses, premiums, benefits or other perquisites allowed, given or granted by any entity to an employee, other than those specifically stated as non-taxable.

For the purposes of personal income tax and place of residence, income is

classified into earned and unearned.

14.12.1 Earned income - paragraph 12 of the First Schedule to the NTAA

“Earned income” in relation to an individual, means income derived by him from a trade, business, profession, vocation or employment carried on or exercised by him and a pension derived by him in respect of a previous employment. It includes profits, salaries, wages, commission, bonuses, etc.

14.12.2 Other earned income - paragraph 6 of the First Schedule to the NTAA

An individual, other than a corporation sole or body of individuals, who has a source of earned income in Nigeria for a year of assessment, other than an employment or a pension, shall be deemed to be resident for that year in the territory in which he had a place or principal place of residence on January 1 in that year provided that:

- (a) where the source of the income is first acquired by the individual during the year of assessment, and he had no place or principal place of residence on the first day of that year, he shall be deemed to be resident for that year in the territory where he first establishes a place of residence during that year; and
- (b) in any other case where the individual had no place or principal place of residence, he shall be deemed to be resident for that year in any territory from which his earned income arising in Nigeria is derived, or the territory from which any part of the earned income is derived, if the income is derived from more than one territory.

14.12.3 Unearned income - paragraph 7 of the First Schedule to the NTAA

An individual, other than a corporation sole or body of individuals, who has no source of earned income in Nigeria for a year of assessment but who has one or more source of unearned income in Nigeria for that year shall be deemed to be resident for that year in the territory in which he has a place or principal place of residence on January 1 of that year, provided that where:

- (a) all the unearned income of the individual for that year arises in one territory, and he has no place of residence on that day, he shall be deemed to be resident for that year in that territory;
- (b) the unearned income of the individual arises for that year in more than one territory, and he has no place of residence on that day, he shall be deemed to be resident for that year in the territory from which any part of the unearned income arises.

14.12.4 Corporation sole or body of individuals - paragraph 9 of the First Schedule to the NTAA

A Corporation sole or body of individuals other than a family or community, shall be deemed to be resident for a year of assessment, in the territory in which its principal office in Nigeria is situated, on the 1st day of January in that year or, if it has no office in Nigeria on that day, in a territory in which any part or the whole of its income liable to tax in Nigeria, arises for that year.

14.12.5 Family income - paragraph 10 of the First Schedule to the NTAA

Income of a family shall be taxed only by the territory in which the member of that family who customarily receives that income in the first instance in Nigeria usually resides.

14.13 Resolving disputes over residence rule application

14.13.1 Joint Revenue Board of Nigeria - section 5(b) of the JRBEA, 2025

This section empowers the Board to “resolve disputes between various tax authorities on the issue of determination of residency.

14.13.2 Other dispute resolution mechanisms

These include:

- (a) Establishment of the Office of the Tax Ombud - section 49 of the JRBEA and the Third Schedule to the Act; and
- (b) Establishment of the Tax Appeal Tribunals - section 23 of the JRBEA and the Second Schedule to the Act.

These issues were fully discussed in Chapter 7 - objections and appeal procedures.

14.14 Chapter review

This chapter fully addresses taxation of income from employment under Pay- As -You- Earn (PAYE) scheme as well as issues relating to an itinerant worker.

14.15 Worked examples

14.15.1 Questions

- (1) Mr. Alexis Sanchez was employed by Zenat Limited as Director, Commercial (West and Central Africa) with effect from March 1, 2025. He arrived Nigeria on the date his employment became effective and remained in Nigeria till August 25, 2025. He returned to Nigeria on January 15, 2026, and remained in Nigeria till July 31, 2026.

Required:

Explain the basis for the taxation of the income earned by Mr. Alexis Sanchez in Nigeria for the relevant tax years.

- (2) Mr. Abass works with Federal Ministry of Works, Abuja. He lives in a self-contained flat in Gwagwalada and travel every weekend to see his first wife and children in Kaduna. He also visits and stays with his second wife and children in Nyanya, Nassarawa State on Thursdays and Fridays of every week.

Required:

Determine the tax authority to which Mr. Abass would be liable to tax in the relevant year of assessment.

- (3) In personal taxation, determination of residence is vital for the purpose of identifying the relevant tax authority of a taxpayer. The First Schedule to Nigeria Tax Administration Act (NTAA), 2025 provides the details for determination of residence.

Required:

Explain the following terms in relation to the First Schedule to the NTAA:

- (a) Resident individual
- (b) Non-resident individual
- (c) Place of residence
- (d) Principal place of residence

14.15.2 Suggested solutions to questions

- (1) The taxation of the income earned by Mr. Alexis Sanchez in Nigeria would be determined by the period of his residence. Under the Nigerian income tax laws, a person is deemed resident if he:

- (a) has a permanent place available for his domestic use in Nigeria;
- (b) has place of habitual abode in Nigeria;
- (c) has substantial economic and immediate family ties in Nigeria;
- (d) sojourns in Nigeria for a period or periods amounting to an aggregate of not less than 183 days or more in a 12-month period inclusive of annual leave or temporary period of absence; and
- (e) serves as a diplomat or diplomatic agent of Nigeria in another country.

Based on the details provided, it can be established that in 2025, Mr. Alexis Sanchez stayed in Nigeria for 178 days (that is, 1/3/25 – 25/8/25). Based on the rule of residence, Mr. Alexis Sanchez having stayed for only 178 days, therefore, he is not liable to Nigerian tax in 2025.

In 2026, Mr. Alexis Sanchez stayed in Nigeria 198 days (that is, 15/1/26 – 31/7/26). However, based on the current law, Mr. Alexis Sanchez is liable to Nigerian tax in 2026 after staying in the country for more than 183 days.

- (2) Based on the above question, it is obvious that Mr. Abass has three places of residence that are not within the same state, therefore, there would be the need to establish his principal place of residence for tax. Mr. Abass principal place of residence would be the place nearest to his place of employment which in the case is Gwagwalada, FCT, Abuja.

- (3) (a) Resident individual - section 201 of NTA

"Resident individual" means an individual that, in any year of assessment:

- (i) is domiciled in Nigeria;
- (ii) has a permanent place available for his domestic use in Nigeria;
- (iii) has place of habitual abode in Nigeria;
- (iv) has substantial economic and immediate family ties in Nigeria;
- (v) sojourns in Nigeria for a period or periods amounting to an aggregate of not less than 183 days in a 12-month period inclusive of annual leave or temporary period of absence, or
- (vi) serves as a diplomat or diplomatic agent of Nigeria in another country.

- (b) Non-resident individual - section 201 of NTA

"Non-resident individual" means an individual that, in any year of assessment:

- (i) is not domiciled in Nigeria;
- (ii) has no permanent place available for his domestic use in Nigeria;
- (iii) has no place of habitual abode in Nigeria;
- (iv) has no substantial economic and immediate family ties in Nigeria;
- (v) sojourns in Nigeria for a period or periods amounting to an aggregate of less than 183 days in a 12-month period inclusive of annual leave or temporary period of absence; and
- (vi) is not serving as a diplomat or diplomatic agent of Nigeria in another country.

- (c) Place of residence - paragraph 12 of the First Schedule to the NTAA

“Place of residence” in relation to an individual, means a place available for his domestic use in Nigeria on a relevant day, and does not include any hotel, rest-house or other place at which he is temporarily lodging, unless no more permanent place is available for his use on that day.

(d) Principal place of residence - paragraph 12 of the First Schedule to the NTAA

“Principal place of residence” in relation to an individual with two or more places of residence on a relevant day, not being both within any one territory means, in the case of an individual:

- i. with no source of income other than a pension in Nigeria, that place in which he usually resides;
- ii. who has a source of earned income other than a pension in Nigeria, that place which on a relevant day is nearest to his usual place of work;
- iii. who has a source or sources of unearned income in Nigeria, that place he usually resides; or
- iv. who works in the branch office or operational site of a company or other body corporate, the place at which the branch office or operational site is situate; provided the operational site shall include oil terminals, oil platforms, flow stations, factories, quarries, construction sites with a minimum of 50 workers, etc.

COMPUTATION OF PERSONAL INCOME TAX

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15. Computation of Personal Income Tax

15.0 Learning objective

The objective of this chapter is to enhance readers' knowledge of the computation of personal income tax, the filing of returns by employees and employers, and offences and penalties.

15.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) explain the basis of assessment;
- (b) ascertain gross income;
- (c) identify the non-chargeable gains of an employee;
- (d) explain the deductions specifically allowable and disallowable by the Act in ascertaining the tax liability of an individual;
- (e) ascertain total income;
- (f) identify eligible deductions;
- (g) explain the requirement of the relevant tax authority for proof of claims from an employee;
- (h) compute personal income tax;
- (i) explain filing of returns by employees and employers; and
- (j) identify offences and penalties.

15.2 Basis of assessment - section 26 of NTA

The basis of assessment used by the relevant tax authority for the determination of personal income tax liability of an individual shall be on actual year basis. It is, however, pertinent to note that in determining the gross income of an individual, income from employment is based on actual year basis, while unearned incomes are based on preceding year basis.

- (a) With respect to income from an employment or pension, the assessable income of an individual shall be the amount of the income of the year of assessment.
- (b) For the purpose of (a) above, income from an employment shall be deemed to arise from day to day except to the extent that it is derived from any bonus, commission or allowance payable on one occasion only or at intervals exceeding one month, and to that extent it shall be deemed to be income:
 - (i) of the day on which it is paid; or
 - (ii) where it is paid after the cessation of the employment, of the last day of the employment including any terminal benefit arising therefrom.
- (c) With respect to disposal of a chargeable asset, the assessable income of an individual shall be the amount of the chargeable gains accruing from assets disposed during the year immediately preceding the year of assessment, except for chargeable gains accruing from the disposal of chargeable assets used in the individual's trade, business, profession or vocation, which shall be those disposed during the year immediately preceding the year of assessment.

15.3 Gross income - section 28 of NTA

- (a) Section 147 of NTAA defines "gross income" as total income of an individual in any particular year of assessment from all sources ascertained under the provisions of the NTAA.
- (b) The taxable income as per section 28 of NTA is the aggregate amount of:
 - i. assessable profits from trade, business, profession or vocation;
 - ii. employment income;

- iii. income from investing activities;
- iv. profits or income from any other source; and
- v. chargeable gains from the disposal of chargeable assets.

The total income of an individual for any year of assessment is the taxable income less total deduction.

15.4 Non-chargeable gains of an employee - sections 50 - 54 of NTA

15.4.1 Personal injury - section 50 of the NTA

- (a) Amounts not exceeding N50,000,000 obtained by way of compensation or damages for any wrong or injury suffered by an individual in his person or in his profession or vocation, including compensation for loss of office or employment, wrong or injury for libel, slander or enticement shall not be chargeable gains.
- (a) Where the sum exceeds ~~N~~50,000,000, only the excess amount shall constitute a chargeable gain.
- (b) For the purposes of (a) and (b) above, any person who pays compensation for loss of office or employment to an individual is required, at the point of payment of such compensation, to deduct and remit the tax due under this section to the relevant tax authority.
- (d) The tax so deducted shall be remitted within the time specified under the Pay-As-You-Earn or Deduction of Tax at Source Regulations issued by the Nigeria Tax Administration Act.

15.4.2 Principal private residences - section 51 of NTA

- (a) The gains accruing to an individual are exempt from tax in respect of the disposal of, or an interest in:
 - (i) a dwelling-house or part of such dwelling-house; and
 - (ii) land, other than land used for commercial purposes, immediately adjoining the dwelling house up to a maximum of one acre.
- (b) The exemption under this section shall be enjoyed once in the lifetime of an individual.
- (c) The consideration shall be apportioned where a person disposes of only a part of a dwelling-house or a house used partly as dwelling place and partly for carrying out a trade, business, profession or vocation.

15.4.3 Personal chattels - section 52 of NTA

- (a) A gain accruing on a disposal of an asset which is tangible movable property being personal chattels of an individual shall not be a chargeable gain if the total amount or value of the consideration for the disposal does not, in a period of assessment, exceed ~~N~~5,000,000 or three times the annual national minimum wage, whichever is higher.
- (b) Where two or more assets, whether or not forming part of a set of articles, are disposed by a person to the same person or to persons acting in concert or to connected persons, whether on the same or different occasions, the two or more transactions shall be treated as a single transaction disposing of a single asset, but with any apportionments, where necessary.
- (c) Where the disposal is part of a right or interest in, or over tangible movable property, (a) above shall apply in relation to the asset as a whole, taking the consideration as including the market value of what remains undisposed of, in addition to the actual consideration.

- (d) The provisions of this section shall apply to a gain accruing on a disposal of two or more assets, not necessarily forming part of a set of articles of any description, which are tangible movable properties in the same manner as they apply in relation to a gain accruing on a disposal of an asset, or two or more assets forming part of a set of articles.
- (e) This section shall not apply to a disposal of currency of any description.

15.4.4 Motor vehicle - section 53 of NTA

- (a) A motor vehicle used solely for private or non-profit purposes shall not be an asset for the purposes of taxation.
- (b) The exemption under this section shall be limited to not more than two motor vehicles by an individual in any year of assessment.

15.4.5 Gifts - section 54 of NTA

- (a) Where a person disposes by way of a gift, an asset acquired by him by way of a gift or any other form of gift, not being an acquisition on a devolution on death, the gains accruing from the disposal shall not be chargeable gains.
- (b) An asset is acquired or disposed of by way of gift where no consideration is paid or received for the acquisition or disposal.

15.5 Deductions allowed and not allowed

15.5.1 Deductions allowed - section 20 of NTA

- (a) For the purposes of ascertaining the profits or loss from any trade, business, profession or vocation under this Act, there shall be deducted all expenses for that period **wholly** and **exclusively** incurred in the production of the income, including:
 - (i) any sum payable by way of interest on debt employed in generating the income of the trade, business, profession or vocation, subject to the deductibility of excess interest on loans relating to connected persons;
 - (ii) rent and premiums, incurred during that period, in respect of land or building occupied for the purposes of generating the income;
 - (iii) any outlay or expenses incurred in respect of:
 - salary, wages or other remuneration paid to employees, and
 - cost to the company of any benefit or allowance provided to its employees;
 - (iv) any expense incurred for repair of premises, plant, machinery or fixtures employed in acquiring the income, or for the renewals, repair or alteration of any implement, utensil or articles so employed;
 - (v) any amount of expenditure incurred for establishing, preserving or defending title to or rights over an asset;
 - (vi) any contribution to any staff pension, provident or other retirement benefits fund, society or scheme approved under the Pension Reform Act or any similar enactment in Nigeria;
 - (vii) any expense proven to the satisfaction of the relevant tax authority to have been incurred, being damage to, or loss of stock or inventory of the trade, business, profession or vocation;
 - (viii) bad or doubtful debts incurred during a trade or business, notwithstanding that the debts were due and payable before the commencement of the basis period, being:
 - debts becoming bad during the said basis period other than bad debt incurred in respect of transaction with a related party,

- doubtful debts estimated in accordance with generally acceptable accounting principles and to the extent that it is proven, to the satisfaction of the relevant tax authority, that the debts in respect of which a deduction is claimed were incurred during the company's business operations that produced the assessable profits;
 - (x) any expense incurred by the trade, business, profession or vocation on research and development for the period;
 - (xi) any other expense incurred during any previous period for the purpose of such trade or business, or specifically for the period which the profits are being ascertained, provided that any expenditure incurred within six years prior to commencement of business which would have been deductible if incurred after commencement of business, shall be deemed to have been incurred on the first day of commencing the trade or business;
 - (xii) dividends or mandatory distributions made by a real estate investment company duly approved by the Securities and Exchange Commission, to its shareholders;
 - (xiii) compensating payments made by a lender to its approved agent or a borrower in a regulated securities lending transaction, which qualify as interest;
 - (xiv) any expense incurred by a person on assistive devices and disability-related products including hearing aids, wheelchairs, and braille materials.
- (b) Notwithstanding the provision of (a)(viii) above, in determining bad or doubtful debts deductible:
- (i) appropriate reduction shall be made in respect of any amount that had been allowed for deduction in any previous period in respect of the same debt; and
 - (ii) all sums recovered on account of sums previously written off or allowed for deduction in respect of bad or doubtful debts shall be added to the profits of the trade, business, profession or vocation in the period of recovery.
- (c) Liability waived, released or recovered shall be included in the assessable profits or chargeable gains.
- (d) Notwithstanding anything to the contrary contained in any law, an expense incurred in a currency other than the Naira may only be deducted to the extent of its Naira equivalent at the official exchange rate published by the Central Bank of Nigeria for the relevant date or period.

15.5.2 Deductions not allowed - section 21 of NTA

A deduction shall not be allowed for the purposes of ascertaining the profits or income from any trade, business, profession or vocation in respect of:

- (a) capital repaid or withdrawn from a trade, business, profession or vocation;
- (b) any expenditure of a capital nature;
- (c) domestic or private expense, or expenditure on assets not used for the purpose of trade, business, profession or vocation;
- (d) any sum recoverable under an insurance or contract of indemnity;
- (e) taxes on profit or incomes levied in Nigeria or elsewhere;
- (f) any payment to a savings, widows and orphans, pension, provident or other retirement benefit fund, society or scheme not approved under the Pension Reform Act or any similar enactment in Nigeria;
- (g) depreciation or impairment of any fixed asset, investment or an unrealised exchange difference on any item denominated in foreign currency;
- (h) any sum reserved out of profits subject to 15.5.1(a)(xi) above;
- (i) any payment to a connected person that is not consistent with the Transfer Pricing Regulations issued by the Service;

- (j) any expense incurred in deriving an income that is exempt from income tax;
- (k) any expense allowable as a deduction in determining chargeable gains under this Act;
- (l) penalty or fine imposed under any law;
- (m) any tax or penalty borne on behalf of another person;
- (n) any compensating payment made by a borrower, which qualifies as dividends under this Act, to its approved agent or to a lender in a regulated securities lending transaction;
- (o) any compensating payment made by an approved agent, which qualifies as interest or dividends under this Act, to a borrower or lender in a regulated securities lending transaction; or
- (p) any expense on which Value Added Tax is due under this Act but was not charged, or in the case of imported items, any expense on which the applicable import duty or levy was not paid.

15.6 Other deductions as specified under section 28(2)(b) of NTA

The total deduction is the sum of:

- (i) any loss ascertained in from trade, business, profession or vocation;
- (ii) capital allowance computed in accordance with the provisions of Part I of the First Schedule to this Act;
- (iii) income of the individual that is exempt from tax under this Act; and
- (iv) income of the individual on which the tax deducted at source under section 51 of Nigeria Tax Administration Act is the final tax, such as dividend, interest on short term securities and corporate bonds, etc.

The loss to be deducted in arriving at the total income of an individual is:

- (a) the amount of a loss incurred by the individual during the year or preceding year of assessment in a trade, business, profession or vocation; and
- (b) the amount of loss incurred on the disposal of a chargeable asset: Provided that:
 - (i) in no circumstances shall the aggregate loss deductions from income exceed the amount of that loss;
 - (ii) the loss shall be deducted as far as possible from assessable profit of a trade, business, profession or vocation of the first year of assessment after that in which the loss was incurred, and in subsequent years until the loss is fully recouped;
 - (iii) the loss incurred during any year of assessment shall be computed, in accordance with the basis period contained in Chapter Two, Part V of this Act; and
 - (iv) any loss incurred in any period from sales, disposal or any transaction in digital or virtual assets shall only be deductible against the profit or gain from digital or virtual assets.

15.7 Total income - section 28(1) of NTA

The total income of an individual for any year of assessment is the taxable income less total deduction.

15.8 Eligible deductions - section 30(2) of NTA

- (a) "*eligible deductions*" include payments made by the individual in a year of assessment in respect of:
 - (i) the individual's contributions under the National Housing Fund;
 - (ii) the individual's contributions under the National Health Insurance Scheme;
 - (iii) the individual's contributions under the Pension Reform Act, 2014;

- (iv) interest on loans for developing an owner-occupied residential house;
- (v) annual amount of any annuity or premium paid by the individual during the year preceding the year of assessment in respect of insurance on his life or the life of his spouse, or contract for a deferred annuity on his own life or the life of his spouse; and
- (vi) rent relief of 20% of annual rent paid, subject to a maximum of ₦500,000, whichever is lower, provided that the individual accurately declares the actual amount of rent paid and other relevant information as may be prescribed by the relevant tax authority; and

(b) "*total income*" means total income as defined in 15.7 above.

The eligible deductions are further explained as follows:

National housing fund contribution

Section 45 of the Business Facilitation (Miscellaneous Provisions) Act, 2022, amended section 4 of the National Housing Fund Act, making contributions by private sector employees to the National Housing Fund (NHF) voluntary. This means private sector employees are no longer mandated to contribute 2.5% of their monthly income to the NHF.

Employees in the public sector earning the national minimum wage are required to contribute 2.5% of their monthly basic salary. The employer is to deduct the contribution from the employee's monthly salary and remit to the Federal Mortgage Bank of Nigeria within one month of making the deduction. The Act mandates the Federal Mortgage Bank of Nigeria to collect, manage and administer the fund. Contributions made to the fund are tax deductible.

Convicted corporate employers who fail to remit contributions of employees to the Federal Mortgage Bank within one month, are to pay a fine of ₦ 50,000, while authorised officers face ₦ 20,000, five years imprisonment or both.

National health insurance scheme

The National Health Insurance Scheme (NHIS) was set up by The National Health Insurance Act, Cap N 42 LFN 2004, but was repealed by National Health Insurance Authority (NHIA) Act, 2022, to make health insurance mandatory for all legal residents in Nigeria. For the purposes of this Act, residents include:

- (a) all employers and employees in the public and private sectors with five staff and above;
- (b) informal sector employees; and
- (c) all other residents.

Section 31 of the Act, states that contributions under:

- (a) formal sector shall be paid by the employers and employees at rates determined by the Councils of the various State health insurance schemes; and
- (b) informal sector shall be paid by individuals, groups and families at rates determined by the Councils of the various State health insurance schemes.

An employer under the scheme shall cause to be deducted from an employee's wages the negotiated amount of any contributions payable by the employee.

The employer's contributions and the contributions in respect of its employees are to be paid into the account of a designated health maintenance organisation (HMO). Contributions to the scheme are tax deductible.

Life assurance premium

A deduction of the annual amount of any premium paid by the individual during the year preceding the year of assessment to an insurance company in respect of insurance on his life or the life of his spouse, or contract for a deferred annuity on his own life or the life of his spouse.

National pension scheme

The Pension Reform Act 2014 (PRA), establishes a uniform contributory pension scheme for payment of retirement benefits of employees. It is mandatory for employers with at least three employees to register and contribute to the contributory pension scheme. Employees of organisations with less than three employees and self-employed persons shall be entitled to participate voluntarily in the contributory pension scheme via the Micro Pension Plan.

The rate of contribution to the scheme shall be a minimum of 8% of employee's monthly emolument (that is, basic salary, housing allowance and transport allowance) as contribution for employees in the public and private sectors and at least 10% of the monthly emoluments as employer's contribution. It is pertinent to state that "monthly emoluments" include all payments stated in the employee's contract of employment, provided they are not less than the sum of the employee's basic salary, housing, and transport allowances.

However, contributions made by an employee to the scheme shall be tax deductible.

Notwithstanding the foregoing mode of contribution to the scheme, an employer may agree or elect to bear the full burden of the scheme, provided that in such a case, the employer's contribution shall not be less than 20% of the monthly emoluments of the employee - section 4(4)(b) of the Act.

It is pertinent to state that the tax relief is only limited to pension contributions to schemes, provident or retirement benefits fund that are recognised under the Pension Reform Act, 2014 - section 30(2)(iii) of NTA.

In line with the provision of section 31 of the NTA, deduction shall not be allowed to any person for a year of assessment, unless claimed in writing in such form as the relevant tax authority may prescribe.

15.9 Chargeable income - section 30(1) of NTA

The chargeable income of an individual, is the total income of that individual as ascertained in 15.7 above, less eligible deductions.

15.10 Income tax rates - section 58 and the Fourth Schedule to the NTA

Having ascertained the total deductions and eligible deductions, that are deductible from the gross income of the individual in order to arrive at the chargeable income, the graduated tax rates are applied in order to obtain the tax payable. The graduated rates currently applicable are as follows:

Income to be taxed	Rate of tax		Percent (%)
For every naira of the first ₦ 800,000	0k per ₦1	or	0
For every naira of the next ₦ 2,200,000	15k per ₦1	or	15
For every naira of the next ₦ 9,000,000	18k per ₦1	or	18
For every naira of the next ₦ 13,000,000	21k per ₦1	or	21
For every naira of the next ₦ 25,000,000	23k per ₦1	or	23

For every income above ₦ 50,000,000 25k per ₦1 or 25

15.11 The requirement of the relevant tax authority for proof of claims from an employee - section 32 of NTA

- (a) The relevant tax authority may require a claimant to an eligible deduction to produce such documentary evidence as may be necessary in support of any claim and in the absence of such evidence, or where such evidence is inadequate, the relevant tax authority may refuse to allow the deduction or such part of the amount claimed.
- (b) Notwithstanding any provision of this Part, where:
- (i) an individual fails to produce satisfactory documentary evidence in support of a claim in respect of an eligible deduction, any objection to an assessment or, to any rate at which tax is to be deducted, shall be accompanied by a copy of the available documentary evidence or a declaration that such required documentary evidence does not exist; and
 - (ii) an individual claims a deduction under this Act for a year of assessment, or produces evidence in support of a claim previously made but not admitted or not admitted in full by the relevant tax authority, such repayment, set-off of tax or reduction in any assessment shall be made so as to give effect to any amount or additional amount of the deduction as appropriate.

15.12 Computation of personal income tax of an individual - section 28 of NTA

- (a) In computing the personal income tax liability of an individual, the following format can be used as a guide:

	₦	₦
(a) Assessable profits from trade, business, profession or vocation		xx
(b) Employment income		xx
(c) Income from investing activities		xx
(d) Profits or income from any other source		xx
(e) Chargeable gains from the disposal of chargeable assets		<u>xx</u>
Taxable income		xxx
Deduct: Total deduction		
(a) Loss incurred in respect of trade, business, profession or vocation	xx	
(b) Loss incurred on the disposal of a chargeable asset	xx	
(c) Loss incurred from sales, disposal or any other transaction relating to digital or virtual assets which shall only be deductible against profit or gain from digital or virtual assets	xx	

	₦	₦
(d) Capital allowance	xx	
(e) Income of the individual that is exempt from tax	xx	
(f) Income of the individual on which the tax deducted at source is the final tax	xx	
Total deductions	<u>xxx</u>	<u>(xxx)</u>
Total income		xxx
Deduct: Eligible deductions:		
(a) Contributions to National Housing Fund	xx	
(b) Contributions to National Health Insurance Scheme	xx	
(c) Pension contributions under Pension Reform Act	xx	
(d) Interest on loans for developing an owner-occupied residential house	xx	
(e) Life assurance premium	xx	
(f) Rent relief of 20% of annual rent paid, subject to a maximum of ₦ 500,000, whichever is lower	<u>xx</u>	
Total of eligible deductions	<u>xxx</u>	<u>(xxx)</u>
Chargeable income		<u>xxx</u>

Thereafter, the tax rates are applied to the chargeable income determine the gross tax liability payable. The final tax is derived by subtracting the withholding taxes earlier paid on the unearned income items, except dividend, from the gross tax liability payable.

Computation of personal income tax

	₦
First ₦ 800,000 @ 0%	xx
Next ₦ 2,200,000 @ 15%	xx
Next ₦ 9,000,000 @ 18%	xx
Next ₦13,000,000 @ 21%	xx
Next ₦ 25,000,000 @ 23%	xx
Above ₦ 50,000,000 @ 25%	<u>xx</u>
Tax payable	xxx
Less withholding tax paid	<u>(xx)</u>
Net tax liability payable	<u>xxx</u>

Illustration 15.1

Mr. Yaya Ogunsowo, an employee of Cool Beauty Products Limited, has the following salary package for the year ending December 31, 2026: He maintains adequate records for tax purposes.

- (a) Gross salary - ~~₦~~6,500,000 per annum;
- (b) Enjoyed the service of two domestic servants and a night guard fully paid for by the company as follows:
 - (i) domestic servants – ~~₦~~400,000 each
 - (ii) night guard – ~~₦~~450,000
- (c) Collected a sum of ~~₦~~88,250 during the year as reimbursement of travelling expenses for official assignments;
- (d) Lived in a company house with annual rental value of ~~₦~~ 2,450,000 per annum; and
- (e) Used an official car purchased at a cost of ~~₦~~7,400,000 by the company.
- (f) Further information about him:
 - (i) Married with two children of school age
 - (ii) Has an aged mother whom he maintains with ~~₦~~30,800 per annum
 - (iii) Paid the sum of ~~₦~~480,000 as life assurance premium in 2025.
 - (iv) Dividends received (net of withholding tax) from shares in a blue-chip company on:

	₦
5/7/2025	99,000
31/12/2025	63,000
30/03/2026	90,000
31/05/2026	95,000

Required:

Compute his tax payable for the relevant assessment year.

Solution to Illustration 15.1

Mr. Yaya Ogunsowo Computation of personal income tax liability For 2026 assessment year

	₦	₦
Earned income:		
Gross salary		6,500,000
Benefits-in-kind - Domestic servants (~~₦~~ 400,000 x 2)	800,000	
Night guard	450,000	
Accommodation -restricted to 20% of gross income	1,624,000	
Company's car (~~₦~~ 7,400,000 x 5%)	<u>370,000</u>	<u>3,244,000</u>
		9,744,000
Unearned income		
Dividend (gross) (~~₦~~ 99,000/0.9 + ~~₦~~ 63,000/0.9)		<u>180,000</u>
		9,924,000
Dividend (gross)		<u>(180,000)</u>

	9,744,000
Less: eligible deduction:	
Life assurance relief	(480,000)
Chargeable income	<u>9,264,000</u>

Computation of personal income tax payable

First ₦ N800,000 at 0% =	0
Next ₦ 2,200,000 at 15% =	330,000
Next ₦ <u>6,264,000</u> at 18% =	<u>1,127,520</u>
	<u>9,264,000</u>

Personal income tax payable	<u><u>1,457,520</u></u>

Notes

- (a) Gross income includes gross salary and benefits-in-kind, excluding the annual rental value, that is:

	₦
(i) Gross salary	6,500,000
(ii) Domestic servants	800,000
(iii) Night guard	450,000
(iv) Company's car	<u>370,000</u>
Gross income	<u>8,120,000</u>

- (b) It is pertinent to state that unearned income is excluded from an employee's gross employment income when determining the taxable benefit of employer-provided accommodation.

15.13 Filing of returns: employees and employers

15.13.1 Employees - section 13 of NTAA

- (a) A return of income shall be filed, in the prescribed form, with the relevant tax authority in each year of assessment and without notice or demand, by:
- every taxable person whether or not liable to pay tax; and
 - non-resident persons liable to pay tax in Nigeria.
- (b) The return required to be filed under this section shall contain -
- a duly completed self-assessment form;
 - the amount of income from every source for the year preceding the year of assessment computed in accordance with the provisions of the Nigeria Tax Act or any regulation made under this Act;
 - personal relief and tax computation;
 - in the case of income earned from trade, business, profession or vocation, audited financial statements or a statement of accounts attested to by the taxpayer; and
 - evidence of payment of the tax due.

15.13.2 Employers - section 14 of NTAA

- (a) An employer shall file a return with the relevant tax authority for all emoluments paid to its employees, not later than 31st January of each year in respect of all employees in its employment in the preceding year.
- (b) The returns shall disclose for each employee, gross emoluments, including allowances and benefits in kind, total deductions, net emoluments and tax deducted.
- (c) Notwithstanding the provisions of (a) above, an employee shall file an annual return of income from all sources, including employment income, in accordance with income tax returns for individuals.

Section 15 of NTAA states that notwithstanding 15.13.1 above, a relevant tax authority may issue guidelines for the filing of a simplified income tax return by low-income earners or persons operating in the informal sector.

15.14 Offences and penalties

15.14.1 Failure to register - section 100 of NTAA

- (a) A taxable person who fails or refuses to register for tax under, shall be liable to pay an administrative penalty of:
 - (i) ~~₦~~50,000 in the first month in which the failure occurs; and
 - (ii) ~~₦~~25,000 for each subsequent month in which the failure continues.
- (b) A statutory body or company who awards a contract to an unregistered person, shall be liable to pay an administrative penalty of ~~₦~~5,000,000.

15.14.2 Failure to or refusal to file returns - section 101 of NTAA

A taxable person who fails or refuses to file returns or knowingly files incomplete or inaccurate returns to the relevant tax authority in accordance with the provisions of this Act, shall be liable to pay an administrative penalty of:

- (a) ~~₦~~100,000 in the first month in which the failure occurs; and
- (b) ~~₦~~50,000 for each subsequent month in which the failure continues.

15.14.3 Failure to keep accounts, books and records of business transactions and income - section 102 of NTAA

A taxable person who:

- (a) fails to keep accounts, books and records of business transactions and income, to allow for the correct ascertainment of tax and filing of returns to the relevant tax authority; or
- (b) upon request by the relevant tax authority, fails to provide any record or book prescribed in this Act shall be liable to pay an administrative penalty, in the case of:
 - (i) a person other than a company, ~~₦~~10,000, and
 - (ii) in the case of a company, ~~₦~~50,000.

15.14.4 Other general offences and penalties - sections 100 - 127 of NTAA

Readers are advised to read chapter 6 of this Study Text and sections of NTAA mentioned above for other general offences and penalties.

15.15 Chapter review

Under the Nigerian revenue laws, individuals are granted tax reliefs generally referred to as “total deductions” and “eligible deductions”. This is designed to bring equity among taxable persons under the Pay-As-You-Earn system.

Finally, personal income tax liabilities are computed after the total deductions and eligible deductions are deducted from the earned and unearned income (gross income). Chargeable income is charged on the basis of established tax rates as graduated under the relevant tax laws.

15.16 Worked examples

15.16.1 Questions

- (1) Mallam Sule Yusuf is an employee of Temidire Limited. His gross salary in 2026 is ₦5,000,000 per annum.

He is married with five children. The first two are from his first wife and the remaining from the second wife. The two wives live with him. The eldest child is now a university graduate and teaches in a secondary school in Kaduna while the remaining children are university students.

Malam Sule Yusuf has a life assurance policy with Jabu Insurance Limited. The sum assured is ₦ 600,000 and he paid a premium of ₦ 6,000 per month in 2025.

Mallam Yusuf who keeps adequate records for tax purposes, also contributes ₦5,000 monthly to a pension scheme approved by the Joint Revenue Board. The following information is made available:

- (a) the company pays for his accommodation which has an annual rental value of ₦ 1,180,000 per annum and provides him with an official car which has a market value of ₦ 4,000,000;
- (b) he spends ₦ 66,000 annually on his aged father and ₦ 67,000 on his aged mother. Both have no sources of income due to old age; and
- (c) he will be retiring on December 31, 2026 and will be paid a gratuity of ₦300,000.

Required:

Compute his tax liability for the relevant year of assessment.

- (2) Mr. Willi Willi was employed by Zenat Bank Limited as Head of banking operations, effective June 1, 2026.

The details of his salary are as follows:

	₦
Basic salary per annum (p.a.)	48,000,000
Housing allowance	12,000,000
Transport allowance	2,000,000
Utility allowance	800,000
Meal allowance	500,000
Leave allowance	4,800,000
Clothing allowance	2,000,000

Mr. Willi Willi was provided with official car. The cost of the car is ₦ 7,500,000. He was also provided with a driver and a private personal assistant who were paid

~~₦~~300,000 and ~~₦~~500,000 per annum respectively.

Prior to joining Zenat Bank Limited, Mr. Willi Willi was on annual salary of ~~₦~~32,000,000 while working with Caban Bank Plc. He resigned from the bank, effective May 31, 2026.

Additional information:

- (a) Mr. Willi Willi is married with 6 children, all are of school age. He maintains his aged parent who lives with him in Lagos.
- (b) He paid an annual life assurance premium of ~~₦~~3,000,000 in 2025.
- (c) His employers deducted and remitted on his behalf the following mandatory deduction of ~~₦~~4,900,000 and ~~₦~~1,166,667 for NHF and pension, respectively for 2026.
- (d) He paid NHIS premium of ~~₦~~750,000 in 2026 to a health service provider to provide medical cover for himself and his family.
- (e) He pays an annual rent of N 7,500,000.
- (f) He maintains adequate records for tax purposes.

Required:

Compute the tax liability of Mr. Willi Willi for the relevant assessment year.

3. Alhaji Oriowo Olanihun is married with seven children. Details about his children are as follows:

- (a) Olumide Deji is 23 years and a lecturer in one of the private tertiary institutions.
- (b) His daughter, Mrs. Anike Ibe, is a housewife and married to Mr. Cornelius Ibe, a protocol officer, in the Ministry of Youths and Sports.
- (c) Zeb Irekari is an undergraduate in Ladoke Akintola University of Technology and is aged 18 years.
- (d) Dupe Oyare is a student in Nick secondary school and her age last birthday was 13 years.
- (e) Tolulope is in one of the elitist private schools as a student. She is 8 years old.
- (f) Kemi is in Command secondary school and is 16 years old.
- (g) Kikelomo is three years old.

You are provided with the following information:

- (i) He took out a life insurance policy for which he paid an annual premium of ~~₦~~400,000 in 2025.
- (ii) His employer deducted ~~₦~~2,137,500 and ~~₦~~712,500 for pension and NHF, respectively from his salary and remitted same on his behalf in compliance with the Pension Reforms Act and NHF Act.
- (iii) His aged parents live with him. They have no income of their own.
- (iv) In 2026, he is on a gross salary of ~~₦~~28,500,000 per annum. In addition, his employer provided him with an official car and accommodation.
- (v) The cost of his official car is ~~₦~~5,000,000 and the annual rental value of the property is ~~₦~~6,000,000.

Required:

Compute Alhaji Oriowo Olanihun's personal income tax payable for 2026 year of assessment.

15.16.2 Suggested solutions to questions

(1) (a) **Mallam Sule Yusuf**
Computation of tax liability
For 2026 assessment year

	₦	₦
Gross salary		5,000,000
Benefits-in-kind:		
Company accommodation - restricted to 20% of gross income (₦5,000,000 plus ₦200,000)	1,040,000	
Official car - 5% of ₦ 4 million	<u>200,000</u>	<u>1,240,000</u>
Gross emoluments		6,240,000
Less eligible deductions:		
(i) Life assurance relief	72,000	
(ii) Contribution to pension scheme	<u>60,000</u>	<u>(132,000)</u>
Chargeable income		<u><u>6,108,000</u></u>
Tax payable		₦
First ₦800,000 @ 0%		0
Next ₦2,200,000 @ 15%		330,000
Next <u>₦3,108,000</u> @ 18%		<u>559,440</u>
<u>6,108,000</u>		<u><u>889,440</u></u>
Tax payable		<u><u>889,440</u></u>

(2) **Mr. Willi Willi**
Computation of tax liability for 2026 assessment year

	₦	₦
Income – Zenon Bank Limited 1/6/26 – 31/12/26:		
Basic salary – 7/12 x ₦ 48,000,000		28,000,000
Housing allowance – 7/12 x ₦12,000,000		7,000,000
Transport allowance – 7/12 x ₦2,000,000		1,166,667
Utility allowance – 7/12 x ₦ 800,000		466,667
Meal allowance – 7/12 x ₦ 500,000		291,667
Leave allowance – 7/12 x ₦4,800,000		2,800,000
Clothing allowance – 7/12 x ₦ 2,000,000		1,166,667
BIK:		
Car – 7/12 x (5% of ₦ 7,500,000)	328,125	
Domestic servant:		
Driver – 7/12 x ₦ 300,000	175,000	
Personal assistant – 7/12 x ₦ 500,000	<u>291,667</u>	<u>794,792</u>
		41,686,460
Add: Income – Caban Bank Plc – 1/1/26-30/5/26:		

5/12 x ₦ 32,000,000

13,333,333

Gross emoluments

55,019,793

Less: eligible deductions:

Pension

4,900,000

Life assurance premium

3,000,000

NHF

1,166,667

NHIS

750,000

Rent relief - 20% of annual rent paid but limited to

500,000

(10,316,667)

Chargeable income

44,703,126

Apply tax rates:

₦ : K

First ₦ 800,000 @ 0%

0:00

Next ₦ 2,200,000 @ 15%

330,000:00

Next ₦ 9,000,000 @ 18%

1,620,000:00

Next ₦ 13,000,000 @ 21%

2,730,000:00

Next ₦ 19,703,126 @ 23%

4,531,718.98

44,703,126

Tax liability

9,211,718.98

**(3) Alhaji Oriowo Olanihun
Computation of tax liability
For 2026 assessment year**

Salary

₦

₦

28,500,000

Add: B.I.K:

Accommodation – 20% of gross income

5,750,000

(~~₦~~28,500,000 plus ~~₦~~250,000)

Car – 5% x ₦ 5,000,000

250,000

6,000,000

34,500,000

Less: eligible deductions:

Life assurance premium

400,000

Pension

2,137,500

NHF

712,500

(3,250,000)

Chargeable income

31,250,000

Apply tax rates:

₦

First ₦ 800,000 @ 0%

0

Next ₦ 2,200,000 @ 15%

330,000

Next ₦ 9,000,000 @ 18%

1,620,000

Next ₦ 13,000,000 @ 21%

2,730,000

Next ₦ 6,250,000 @ 23%

1,437,500

31,250,000

Tax liability

6,117,500

SETTLEMENT, TRUSTS AND ESTATES

Contents

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16 Computation of Personal Income Tax

16.0 Learning objective

The objective of this chapter is to enhance readers' understanding of the computation of personal income tax as it relates to settlement, trusts and estates.

16.1 Learning outcomes

After studying this chapter, readers should be able to:

- (a) Understand the meaning and nature of settlement, trusts and estates;
- (b) Appreciate the relevant tax laws guiding settlement, trusts and estates; and
- (c) Understand the computation of tax liabilities relating to settlement, trusts and estates.

16.2 Definitions of settlement, trusts and estates

16.2.1 Settlement - paragraph 9 of the Fifth Schedule to the NTA

A settlement is a means by which enjoyment of an estate, or part of it is transferred to another person, either through a disposition, trust, or covenant, agreement, arrangement or transfer of assets by reference to a Trust, for the benefit of persons specified.

16.2.2 Trust

The term trust relates to equitable obligation, binding a person, called the trustee, to deal with a property, over which he/she has custody (which is called the trust property), for the benefit of persons (beneficiaries) of which he/she may be one.

16.2.3 Estate

An estate is the total of the properties of a person and is commonly used in executorships. It also means the property of a deceased person.

16.3 Explanations of other definitions - paragraph 9 of the Fifth Schedule to the NTA

- (a) **"Child"** includes a stepchild, an adopted child and an illegitimate child;
- (b) **"Settlor"** in relation to a settlement, includes a person by whom the settlement was made or entered into directly or indirectly, and in particular, including a person who has provided or undertaken to provide funds directly or indirectly for the purpose of the settlement, or has made with another person a reciprocal arrangement for that other person to make or enter into the settlement.
- (c) **"Personal representative"** - section 201 of NTA
is the person, whether executor or administrator, who is charged with the administration of the estate of a deceased person, and in whom the estate is vested for the purpose of distribution.
- (d) **Executor** - section 147 of NTAA
Includes any person administering the estate of a deceased person.

16.4 Persons chargeable

16.4.1 The settlor - paragraph 1 of the Fifth Schedule to the NTA

The income of a settlement or trust shall be deemed to be the income of the settlor or person creating the trust, where the:

- (a) settlor or person retains or acquires an immediately exercisable general power of appointment over the capital assets of the settlement or trust or over the income derived therefrom;
- (b) settlor or person makes use, directly or indirectly, by borrowing or otherwise, of any part of the income arising under the settlement or trust; or
- (c) settlement or trust is revocable in circumstances whereby that settlor or person, or the spouse, resumes control over any part of the income or assets comprised therein.

Provided that a settlement or trust shall not be regarded as revocable solely by reason of the fact that an income or asset comprised therein may revert to that settlor or person, or the spouse, in the event of a beneficiary predeceasing that settlor or person, or of the happening of an uncertain event upon which the settlement or trust is limited.

16.4.2 Annuitant - paragraph 11 of the Fifth Schedule to the NTA

An individual in receipt of an annuity of fixed annual amount paid out of the income of a settlement, trust or an estate shall be assessable to tax on the full amount of the annuity.

16.4.3 Trustee, executor, etc. - paragraph 12 of the Fifth Schedule to the NTA

The income arising from a settlement, trust or an estate assessable to tax under a provision of this Schedule in the hands of any settlor, trustee, executor, beneficiary or annuitant for a year of assessment shall be the amount of the income ascertained under the foregoing provisions of this Schedule of the year preceding that year.

16.5 Relevant tax authority - paragraph 11 of the First Schedule to the NTAA

Income of a trustee of any settlements or trusts, or estates or to an executor of any estate of a deceased person, shall be taxed only by the territory in which the settlor or the person creating the trust is resident and to the extent provided in the Fifth Schedule to the Nigeria Tax Act.

16.6 Basis period - section 26(4) of NTA

The basis period for assessing the income of any trustee, executor, beneficiary or annuitant for any year of assessment is the income of that person for the year preceding that year of assessment. A trustee of a settlement or trust in Nigeria, and the executor of an estate in Nigeria, shall prepare accounts of the income from all sources of the settlement, trust or estate for successive periods to the thirty-first day of December in each year, and to the date on which the assets of the settlement, trust or estate are finally distributed.

Note that the commencement and cessation provisions do not apply under a settlement, trust and estate arrangement.

16.7 Allowable and non-allowable expenses - paragraph 3 of the Fifth Schedule to the NTA

The allowable expenses peculiar to an estate include:

- (a) expenses of the trustee or executor (or administrator) connected with the

settlement, trust or estate, which are authorised by the trust deed or Will; and
(b) any fixed annuity paid out of income under the deed or Will.

Where the income includes any gain or profit from a trade, business, profession or vocation, or a rent or premium, there shall be added or deducted, any sum which would have been added or deducted in the relevant year of assessment under the provisions of Chapter Two of this Act, as if the income from those sources had been the assessable income of an individual for that year.

16.8 Computation of income from settlement, trusts and estates - paragraphs 3 and 12 of the Fifth Schedule to the NTA

The computed income of a settlement, trusts or estate is simply the difference between the total income and allowable expenses. Where the income of the trusts or settlement include any gain or profit from a trade, business, profession or vocation or a rent or premium, such additions and expenses thereon shall ordinarily be taken into account in arriving at the computed income.

16.9 Computation of the income assessable in the hand of the Trustee - paragraph 10 of the Fifth Schedule to the NTA

16.9.1 Capital allowances

Where an asset of a trade or business, profession or vocation forms part of the estate of a deceased individual, being an asset in respect of which capital allowance may be claimed in arriving at the total income of that individual for the year of assessment in which the individual died, the estate shall be deemed to have incurred qualifying expenditure on the acquisition of the asset equal in amount to the residue of the expenditure on the day following the death of the individual.

16.9.2 Losses - section 28(3) of the NTA

The loss to be deducted in arriving at the computed income of a trust is:

- (a) the amount of a loss incurred by it during the preceding year of assessment in a trade, business, profession or vocation; and
- (b) the amount of loss incurred on the disposal of a chargeable asset: Provided that:
 - (i) in no circumstances shall the aggregate loss deductions from income exceed the amount of that loss;
 - (ii) the loss shall be deducted as far as possible from assessable profit of a trade, business, profession or vocation of the first year of assessment after that in which the loss was incurred, and in subsequent years until the loss is fully recouped;
 - (iii) the loss incurred during any year of assessment shall be computed, in accordance with the basis period contained in Part V of Chapter Two of this Act; and
 - (iv) any loss incurred in any period from sales, disposal or any other transaction in digital or virtual assets shall only be deductible against the profit or gain from digital or virtual assets.

16.9.3 Discretionary payments

These are fixed amounts payable to direct beneficiary or beneficiaries as authorised by the trust deed. A trustee or executor has no power to make discretionary payments to the beneficiaries unless authorised by the instrument appointing him.

Where the instrument authorises the making of discretionary payments, it would generally provide for the apportionment of the net income after such payments.

That is, the adjusted income would be apportioned after deducting such discretionary payments. **It is important to note that discretionary payments are not expenses but appropriations of the income of the estate. They are, therefore, not to be deducted in computing the computed income.**

16.9.4 Special provisions as to settlement on unmarried children

(a) Paragraph 5 of the Fifth Schedule to NTA

Where, by virtue or in consequence of a settlement and during the life of the settlor, an income is paid to or for the benefit of a child of the settlor in a year of assessment, the income shall, if at the time of payment the child was an infant and unmarried, be treated for the purposes of this Act as the income of the settlor for that year and not as the income of any other person.

Income paid to or for the benefit of a child of a settlor shall not be treated as provided above for any year of assessment in which the aggregate amount of the income paid to or for the benefit of that child, which but for this provision, would be so treated by virtue of the above provision, does not exceed the National Minimum Wage or its equivalent.

The above shall not apply in relation to an income arising under a settlement in a year preceding a year of assessment if the settlor is not in Nigeria at any time during that year of assessment, or is not in Nigeria for a period or periods amounting to one hundred and eighty-three days or more in any twelve months period commencing in the calendar year and ending either in the same year or the following year.

(b) Paragraph 6 of the Fifth Schedule to the NTA

For the purposes of paragraph 5:

- (i) income which, by virtue or in consequence of a settlement may become payable or applicable to or for the benefit of a child of the settlor in the future (where on the fulfilment of a condition or on the happening of a contingency, or as a result of the exercise of power or discretion conferred on any person, or otherwise) shall be deemed to be paid to or for the benefit of that child; and
- (ii) an income dealt with as aforesaid which is not required by the settlement to be allocated, at the time when it is so dealt with, to any particular child or children of the settlor shall be deemed to be paid in equal shares to or for the benefit of each of the children to or for the benefit of whom or any of whom the income or assets representing the income will or may become payable or applicable.

(c) Paragraph 7 of the Fifth Schedule to the NTA

- (i) Where, by virtue of paragraph 5 of this Schedule, any income tax becomes chargeable on and is paid by the settlor, he shall be entitled:
 - to recover from any trustee or other person to whom the income is payable by virtue or in consequence of the settlement the amount of the tax so paid; and
 - for that purpose, to require the relevant tax authority to furnish to the settlor a certificate specifying the amount of income in respect of which he has so paid tax and the amount of the tax so paid, and any certificate

so furnished shall be conclusive evidence of the facts appearing therein.

- (ii) Where the settlor obtains from a trustee or any other person a payment in excess of the amount he is entitled to recover, then, an amount equal to the excess shall be paid by him to the trustee or other person to whom the income is payable by virtue, or in consequence of the settlement, or where there are two or more such persons, the amount shall be apportioned among those persons as the case may require.
- (iii) If a question arises as to the amount of any payment or as to any apportionment to be made, that question shall be decided by the relevant tax authority and its decision thereon shall be final and not subject to an appeal or any review whatsoever by any court of law.

(a) Paragraph 8 of the Fifth Schedule to the NTA

In the case of any settlement where there are more than one settlor (paragraph 2 of this Schedule) shall, subject to the provisions of this paragraph, have effect in relation to each settlor as if he were the only settlor.

In the case of a settlement as aforesaid, income originating from that settlor or person may, for the purposes of paragraph 2 of this Schedule, be taken into account, in relation to any settlor, as income paid by virtue or in consequence of the settlement to or for the benefit of a child of the settlor.

16.10 Computation of tax liability payable by beneficiaries and trustees

(a) Paragraph 1 of the Fifth Schedule to the NTA

The income of an individual or of a trustee or executor from a settlement, trust or estate of deceased person, made, created or administered in Nigeria, or in the case of a settlement or trust made, created or administered in Nigeria, is ascertained in accordance with the provisions of the Fifth Schedule to the NTA.

The assessable income of a trustee or of an executor of the estate of a deceased individual, or of a beneficiary of a trust or estate for any year of assessment shall be the income of that person as determined under the following paragraphs and on preceding year basis.

The income of a settlement or trust shall be deemed to be the income of the settlor or person creating the trust, as the case may be, if:

- (i) that settlor or person retains or acquires an immediately exercisable general power of appointment over the capital assets of the settlement or trust or over the income derived therefrom; or
- (ii) that settlor or person makes use, directly or indirectly, by borrowing or otherwise, of any part of the income arising under the settlement or trust; or
- (iii) the settlement or trust is revocable in circumstances whereby that settlor or person, or the spouse thereof, resumes control over any part of the income or assets comprised therein.

Provided that:

A settlement or trust shall not be regarded as revocable, solely by reason of the fact that an income or asset comprised therein may revert to that settlor, or person, or the spouse thereof, in the event of a beneficiary pre-deceasing that settlor or person, or of the happening of an uncertain event

upon which the settlement or trust is limited.

The income of a settlement or trust, other than a settlement or trust or of the estate of a deceased individual shall be so much of that income as is derived from a source in Nigeria and any of the income brought into or received in Nigeria.

(b) Paragraph 3 of the Fifth Schedule to the NTA

The amount of the income (otherwise known as the “computed income”) of each period of twelve months ending on the thirty-first day of December in each year shall be ascertained, as though the provisions of Chapter Two of this Act and the relevant provisions of the Nigeria Tax Administration Act are applicable and:

(i) there shall be deducted:

- any expenses of the trustee or executor relative to the settlement, trust or estate which is authorised by the terms of the deed of settlement or trust or of the Will as the case may be;
- Any annuity of fixed annual amount paid out of the income of the settlement, trust or estate in accordance with the provisions of the deed or Will; and

(ii) If the income includes any gain or profit from a trade, business, profession or vocation, or a rent or premium, there shall be added or deducted, as the case may require, any sum which would have been added or deducted for the next following year of assessment, if the income from those sources had been the assessable income of an individual for that year of assessment.

(c) Paragraph 4 of the Fifth Schedule to the Act

The computed income of a year of a settlement, trust or estate shall be apportioned for the assessment in the following manner:

(i) Where:

- the terms of the deed of settlement or trust or of a will provide that the whole income of the settlement, trust or estate after deduction of any authorised expense or annuity of fixed amount is to be divided in specific proportions among the beneficiaries entitled thereto, from time to time; or
- by operation of law, on an intestacy, the income of an individual is to be divided in the manner referred to in the above paragraph, the income of each beneficiary of any year from the settlement, trust or estate shall be his similarly apportioned share of the computed income.

(ii) Where a trustee or executor has discretion to make any payment (other than a payment on account) to a beneficiary out of the income of a settlement, trust or estate in such amount as he sees fit, from time to time, then:

- the amount of the payment to a beneficiary made in the course of a year shall be treated as income of that year which is assessable to tax in the hands of that beneficiary; and
- out of the remainder of the computed income after deducting the aggregate amount of all the payments during any year, there shall be apportioned to each beneficiary who has any specified proportional

interest in the income of the settlement, trust or estate, so much thereof as is obtained by applying the proportion to that remainder.

Provided that if the aggregate amount exceeds the computed income, the amount of each payment to be treated as income in the hand of a beneficiary shall be reduced proportionally so that the aggregate of the amount reduced does not exceed the computed income.

- (iii) Any remainder of the computed income of a settlement, trust or estate of any year after deducting all amounts apportioned to beneficiaries, or treated as income in the hands of beneficiaries shall be apportioned to the trustee or executor for assessment in his name as trustee of the settlement or trust or as executor of the estate.

16.11 Taxation of non- resident trustees - paragraph 2 of the Fifth Schedule to the NTA

The income of a settlement or trust of the estate of a deceased individual shall be, in the case of a:

- (a) resident person, income derived from a source in Nigeria and outside Nigeria; and
- (b) non-resident person, income derived from a source in Nigeria and income brought into or received in Nigeria.

Based on the provision of section 17(2) of NTA, gains derived by a non-resident person from disposal of chargeable assets are taxable in Nigeria where the gains relate to:

- (a) a trade, business, profession or vocation carried on by the non-resident person in Nigeria;
- (b) any asset located in Nigeria; or
- (c) any asset deemed to be located in Nigeria under this Act.

Section 17(3) of the NTA states that “profits derived from any trade, business, profession or vocation carried on by a non-resident person are taxable in Nigeria where:

- (a) the person has a permanent establishment or significant economic presence in Nigeria to the extent that the profit is attributable to the permanent establishment or significant economic presence;
- (b) payment is made by a person resident in Nigeria or a permanent establishment of a non-resident person in Nigeria, in respect of services furnished from outside of Nigeria to a resident of Nigeria or a Nigerian permanent establishment of a non-resident person, except where the payment is made:
 - (i) to an employee of the person making the payment under a contract of Employment;
 - (ii) by an individual for teaching in an educational institution or for teaching by an educational institution; or
 - (iii) by a foreign permanent establishment of a Nigerian resident and the expense is borne by that permanent establishment; and
- (c) payment is made to that person by a person resident in Nigeria or a Nigerian permanent establishment of a non-resident person, in respect of insurance premiums or risks insured from the territory of Nigeria”.

Section 17(9) of the NTA provides that:

- (a) A non-resident person is deemed to have a permanent establishment in Nigeria where the person:

- (i) has a place, in Nigeria, through which its business is wholly or partly carried on or at its disposal for the purposes of its business;
 - (ii) operates a trade or business through a person in Nigeria authorised to conduct on its behalf, or on behalf of some other persons controlled by it, or which have a controlling interest in it;
 - (iii) maintains a stock of goods or merchandise in Nigeria from which deliveries are made by a person on its behalf;
 - (iv) solely or together with any other person, executes a project in Nigeria involving surveys, designs, deliveries, building, construction, assembly or installation, commissioning or decommissioning or any supervisory activity in connection with those activities, irrespective of any split or number of entities that performed any of the activities of the project and whether or not only part of the project was carried out in or outside Nigeria; or
 - (v) furnishes any service in Nigeria through employees, agents, subcontractors or other persons engaged by it for such purpose;
- (b) a non-resident person shall, subject to any regulations that may be issued by the Minister to that effect, have a significant economic presence in Nigeria where the person transmits, emits or sends by itself or through other person, signals, sounds, messages, images or data of any kind by cable, radio, electromagnetic systems or any other electronic or wireless apparatus to Nigeria in respect of any activity, including electronic commerce, application store, high frequency trading, electronic data storage, online adverts, participative network platform, online payments, supply of user-data, search engines, digital content services, online gaming, cloud computing, online teaching services, and so on, and profit can be attributable to such activity; and
- (c) a non-resident person shall not be deemed to have a permanent establishment or significant economic presence in Nigeria solely by reason of employing persons resident in Nigeria, to the extent that the duties of such employment are not performed primarily for customers in Nigeria.

Based on the provision of **section 19 of NTA**, there shall be no further tax charged in respect of any dividend received by a non-resident from a Nigerian company other than tax deducted at source under the Nigeria Tax Administration Act.

16.12 Accounting period of an estate - paragraph 3 of the First Schedule to the NTA

This paragraph requires the preparation of accounts of an estate for each period of twelve months to end on December 31, each year. Responsibility for the preparation of the accounts rests with the trustee or executor - paragraph 15 of the Fifth Schedule to the NTA.

16.13 Procedure for objections and appeals - paragraph 16 of the Fifth Schedule to the NTA

The procedure for an objection or appeal against the application of any provision of this Schedule is explicitly stated in chapter 7 of this Study Text.

16.14 Responsibility of the trustee to pay tax to the relevant tax authority - paragraph 14 of the Fifth Schedule to the NTA

A trustee of a settlement or trust, and every executor, shall be answerable for all things to be done in connection with the tax under this Act and an income

apportioned to a trustee or executor shall be assessable by the relevant tax authority in relation to that settlement, trust or estate.

16.15 Offences and penalties - sections 100 to 127 of the NTAA

All the offences and penalties relating to individuals, such as non-registration for tax, late filing and payment of tax, false statement and returns, etc. as stated in chapter 6 of this Study Text apply.

16.16 Chapter review

This chapter defines settlement, trust, estate and related income, including annuities payable to beneficiaries. It explains the distinction between income taxable in the hands of the beneficiaries and that of the trustees.

16.17 Worked examples

16.17.1 Questions

- (1) Mr. Akwa created a trust for his four children: Ade, Baruwa, Chidi and Dafur. The projected financial information of the trustee for the year ending December 31, 2026, has revealed the following information:

	₦
Profit from trading activities	980,000
Interest received on fixed deposits	270,000
Rent from property (gross)	620,000
Other income	163,000

Other relevant information include:

- (i) Dafur is to get a fixed annuity of ₦35,000 per annum.
- (ii) The remuneration of the trustee is fixed at ₦20,000 per annum, plus 2.5 per cent of computed income.
- (iii) The allowable expenses of the trustee amounted to ₦25,000.
- (iv) The trustee made the following discretionary payments:
Ade - ₦40,000, Baruwa - ₦30,000, Chidi - ₦20,000 and Dafur - ₦15,000
- (v) Capital allowance agreed for the business of the trustee was ₦22,000.
- (vi) Half of the net distributable income of the settlement is to be shared equally among the beneficiaries.

You are required to:

- (a) Compute the income of the settlement chargeable to tax in the hands of each of the beneficiaries.
 - (b) Compute the amount of undistributed income of the settlement assessable to tax in the hands of the trustee.
- (2) In relation to provisions of the Fifth Schedule to the NTA, 2025, explain the following terms:
- (a) Settlement
 - (b) Settlor
 - (c) Personal representative
 - (d) Child

- (3) Baba Ali Musa is the trustee of a settlement made by late Mallam Junaid Dikko in favour of his four children, grandchildren and others. He submitted the following information to the Zamfara State Internal Revenue Service for assessment purposes for the fiscal year ending December 31, 2026:

	₦
Interest received	2,000,000
Dividend (gross)	8,000,000
Rental income	6,000,000
Business profit	18,000,000
Miscellaneous income	3,200,000
Trustee's remuneration:	
Fixed (2% of gross income)	450,000
Fixed annuity to grandchildren:	
Aminat	50,000
Danladi	30,000
Admin. expenses	2,600,000

Additional information:

- (i) Trustee made discretionary payments in line with the trust deed to the beneficiaries as follows:

	₦
Wakilu	150,000
Aishat	200,000
Illyasu	250,000
Badamasi	180,000

- (ii) Each beneficiary is entitled to 1/6th share of 2/3rd of the distributable income.
 (iii) Capital allowance agreed with relevant tax authority - ₦4,200,000

Required:

- (a) Compute the net income assessable in the hands of the trustee.
 (b) Assessable income in the hand of each beneficiary.
- (4) Dr. Solomon Olubiyo created a trust for his children- Kemmy, Busayo and Samuel before he died in 2025. For the year ending December 31, 2026, the following projected information was extracted from the records of the trustee:

	₦
Projected adjusted trading profit for the year ending December 31, 2026	2,400,000
Rental income (gross) 2026	1,100,000
Other miscellaneous income	1,100,000

The following information is also relevant:

- (i) Fixed annuity to a beneficiary – Kemmy - ~~₦~~120,000
- (ii) Fixed remuneration for the trustee - ~~₦~~80,000
- (iii) Variable trustee remuneration - 5% of total computed income
- (iv) Other expenses - ~~₦~~400,000
- (v) The trust provides discretionary payments to the children towards their maintenance and education as follows: Kemmy ~~₦~~240,000); Busayo (~~₦~~230,000) and Samuel (~~₦~~250,000).
- (vi) Capital allowance was agreed at ₦240,000
- (vii) ₦300,000 of other expenses are not tax deductible.
- (viii) It is stipulated in the trust that the beneficiaries are to share half of the distributable income equally.

Required: Calculate

- (a) The net computed income
- (b) The amount each beneficiary will include in his/her income tax returns in the relevant year of assessment.

16.17.2 Suggested solutions to questions

(1) (a)

**Ade, Baruwa, Chidi and Dafur
Computation of income chargeable to tax in the hands of each of the beneficiaries**

	Ade ₦	Baruwa ₦	Chidi ₦	Dafur ₦	Total ₦
Share of distributable income	222,363	222,363	222,363	222,363	889,451
Add:					
Fixed annuity	-	-	-	35,000	35,000
Discretionary payments	<u>40,000</u>	<u>30,000</u>	<u>20,000</u>	<u>15,000</u>	<u>105,000</u>
	<u>262,363</u>	<u>252,363</u>	<u>242,363</u>	<u>272,363</u>	<u>1,029,451</u>

**(b) Ade, Baruwa, Chidi and Dafur
Computation of undistributable income assessable to tax in the hands of the trustee**

	₦	₦
Profit from trading activities	980,000	
Deduct: capital allowances agreed	<u>22,000</u>	958,000
Interest received on fixed deposits		270,000
Rent from property (gross)		620,000
Other income		<u>163,000</u>
		2,011,000
Deduct: allowable expenses		

	₦	₦
Dafur's fixed annuity	35,000	
Trustees' fixed remuneration	20,000	
Trustees' remuneration based on computed income:		
2.5/102.5 of (₦ 2,011,000 - ₦ 35,000 - ₦ 20,000 - ₦25,000)	47,098	
Allowable expenses of the trustee	<u>25,000</u>	(127,098)
Computed income		1,883,902
Less: discretionary payments		<u>105,000</u>
Distributable income		<u>1,778,902</u>
Deduct: 1/2 of income distributable among the beneficiaries		<u>889,451</u>
Net distributable income assessable to tax in the hands of the trustee		<u>889,451</u>

(2) (a) **Settlement:** it is a means by which enjoyment of an estate, or part of it is transferred to another person, either through a disposition, trust, or covenant, agreement, arrangement or transfer of assets by reference to a trust, for the benefit of persons specified.

(b) **Settlor:** in relation to a settlement, includes a person by whom the settlement was made or entered into directly or indirectly, and in particular (but without prejudice to the generality of the foregoing) includes a person who has provided or undertaken to provide funds directly or indirectly for the purpose of the settlement, or has made with any other person a reciprocal arrangement for that other person to make or enter into the settlement.

(c) **Personal representative**

This is the person, whether executor or administrator, who is charged with the administration of the estate of a deceased person, and in whom the estate is vested for the purpose of distribution.

(d) **Child**

It includes a stepchild, an adopted child and an illegitimate child.

3. (a) **Mallam Junaïd Dikko settlement**

Computation of assessable income in the hands of the trustee

For 2027 assessment year

	₦	₦
Income:		
Interest received		2,000,000
Dividend (gross)		8,000,000
Rental income		6,000,000
Business profit	18,000,000	
Less: capital allowance	<u>(4,200,000)</u>	13,800,000

Miscellaneous income		<u>3,200,000</u>
Gross Income		33,000,000
Less: allowable expenses:		
Trustee's remuneration:		
Fixed	450,000	
Variable– 2% of gross Income (2% x ₦ 33,000,000)	660,000	
Fixed annuity to grandchildren:		
Aminat	50,000	
Danladi	30,000	
Admin expenses	<u>2,600,000</u>	<u>3,790,000</u>
Computed income		29,210,000
Less: discretionary payments		
Wakilu	150,000	
Aishat	200,000	
Illyasu	250,000	
Badamasi	<u>180,000</u>	<u>(780,000)</u>
		28,430,000
Less: franked investment income:		
Dividend (gross)		<u>(8,000,000)</u>
Amount available for distribution		20,430,000
Less: Distribution:		
Wakilu (₦ 13,620,000 x $\frac{1}{6}$)	2,270,000	
Aishat (₦13,620,000 x $\frac{1}{6}$)	2,270,000	
Illyasu (₦13,620,000 x $\frac{1}{6}$)	2,270,000	
Badamasi (₦13,620,000 x $\frac{1}{6}$)	2,270,000	
Aminat (₦13,620,000 x $\frac{1}{6}$)	2,270,000	
Danladi (₦13,620,000 x $\frac{1}{6}$)	<u>2,270,000</u>	<u>(13,620,000)</u>
Balance assessable in the hand of the trustee		<u>6,810,000</u>

(b) **Mallam Junaid Dikko settlement**

Computation of assessable income in the hand of each beneficiary

	Wakil ₦	Aisha ₦	Illyasu ₦	Badamasi ₦	Aminat ₦	Danladi ₦
Fixed annuity	0	0	0	0	50,000	30,000
Discretionary Payments	150,000	200,000	250,000	180,000	0	0
Distributed Income	<u>2,270,000</u>	<u>2,270,000</u>	<u>2,270,000</u>	<u>2,270,000</u>	<u>2,270,000</u>	<u>2,270,000</u>
Beneficiary's assessable income	<u>2,420,000</u>	<u>2,470,000</u>	<u>2,520,000</u>	<u>2,450,000</u>	<u>2,320,000</u>	<u>2,300,000</u>

NOTE:

In order to avoid the dividend received to be taxed twice, it will be treated as part of

the income in the hands of the trustee and beneficiaries, but it will not be subjected to further tax.

4 Dr. Solomon Olubiyo trust
Computation of amount due to each beneficiary
For 2027 tax year

	Total ₦	Kemmy ₦	Busayo ₦	Samuel ₦
Income				
Adjusted trading profit	2,400,000			
Less: capital allowances	<u>(240,000)</u>			
	2,160,000			
Rental income (gross)	1,100,000			
Other income	<u>1,000,070</u>			
Total income	4,260,070			
Less: expenses:				
Trustee remuneration:				
-fixed	80,000			
-variable (w1)	186,670			
Other expenses (440-300)	140,000			
Fixed annuity (Kemmy)	<u>120,000</u>	120,000	-	-
	<u>(526,670)</u>			
Computed income	3,733,400			
Less: discretionary payments:	<u>(720,000)</u>	240,000	240,000	240,000
Remainder of computed income	3,013,400			
Share of distributable income (50%)	<u>1,506,700</u>	<u>502,233.34</u>	<u>502,223.33</u>	<u>502,223.33</u>
Trustees' income	<u>1,506,750</u>			
Due to beneficiaries		<u>862,233.34</u>	<u>742,233.33</u>	<u>742,233.33</u>
<u>Variable trustee's remuneration</u>				
		₦	₦	
Total income				4,260,070
Less:				
Other expenses		140,000		
Fixed trustee remuneration		80,000		
Fixed annuity (Kemmy)		<u>120,000</u>		
				<u>(340,000)</u>
				<u>3,920,070</u>

Variable remuneration = 5 / 105 × ₦ 3,920,070 = ₦186,670

TAXATION OF SOLE TRADERS/SELF-EMPLOYED INDIVIDUALS

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17 Taxation of Sole Traders /Self-employed Individuals

17.0 Learning objective

The objective of this chapter is to enhance readers' knowledge of the computation of gross income, chargeable income, and the tax liabilities of sole traders/self-employed individuals.

17.1 Learning outcomes

On completion of this chapter, readers should be able to:

- (a) understand what constitutes a business or trade;
- (b) explain the factors that should be taken into consideration when deciding whether or not an individual is engaged in a trade or business;
- (c) differentiate between revenue receipts and capital receipts;
- (d) explain the expenses specifically disallowed by the Act in ascertaining the income or loss of an individual;
- (e) compute adjusted profit or loss of an individual from a trade, business, profession and vocation; and
- (f) compute the tax liabilities of individuals who derive income from trade or business.

17.2 Meaning of a trade or profession and explanation of badges of trade

This chapter covers unincorporated entities, that is, sole proprietorship. In this section, what constitutes a business, a trade and badges of trade are discussed.

17.2.1 What constitutes a business

The term "business" includes a trade, profession or vocation. It follows, therefore, that every trade, profession or vocation is a business and this makes the concept of business very wide.

17.2.2 What constitutes a trade

The difficulty in determining what constitutes a trade has led to many litigations and the huge number of tax cases that exist on the issue. The problem from the decided cases is that of finding an absolute test for identifying a trade. The conclusion has always been that there are no fixed rules but that each case must be examined on its own facts. However, three decided cases are presented as a guide.

Case 1: Fry v Burma Corporation Limited – Lord Atkins interpreted the word 'trade' to mean the various activities of commerce, these include, the winning and using the product of the earth, or multiplying the product of the earth and selling them; the purchase and sale of commodity or the offering of services for reward. From the judicial decision, it is obvious that there could be no infallible test to determine what constitutes a trade.

Case 2: Glasgow Heritable Trust Limited v I.R.Comrs – The decision of the presiding judge is that the fact that a former owner of a business was carrying on a trade was not a conclusive evidence of trade.

Case 3: Building and Civil Engineering Holidays Scheme Management Limited v Clark. The decision here is that the fact that an activity generates a surplus does not necessary turn the activity into a trade. Rather, it will appear that the Court will favour an examination of the fact and circumstances of every

transaction to find out if the transaction said to have given rise to a taxable profit bear any of the badges of trade.

17.2.3 Badges of trade

The Royal Commission on the Taxation of Profits and Income (1951- 1955) that was chaired by Lord Radcliffe, gave a summary of considerations that influence the identification of the badges of trade and they include:

- (a) the subject- matter of the realisation;
- (b) the length of period of ownership;
- (c) the frequency or number of similar transactions;
- (d) supplementary work on or in connection with the property realised;
- (e) the circumstances that were responsible for the realisation; and
- (f) the motive.

The following case is used to provide justification for the definition of badges trade.

Case 1: Trustees of Methodist Church Mission v FBIR – An assessment was raised on the income from Wesley House, a property developed by the trustees and leased out to tenants. Objection to the assessment was based on the status of the owners (Methodist Church) which enjoys exemption under the Act as being engaged in ecclesiastical activities.

The Federal Revenue Court held that the company is doing precisely what it was formed to do, namely, carrying on the business of a company dealing in real estate. Therefore, it cannot claim to be exempted from the incidence of taxation because it is established that the relevant income is derived from a trade or business.

17.3 Definition of gross income - section 147 of NTAA

This section defines “gross income” as total income of an individual in any particular year of assessment from all sources ascertained under the provisions of the NTAA.

17.4 Computation of assessable profit of a trade or profession

17.4.1 Taxable and non-taxable income

(a) Taxable income - section 28 of NTA

This is the aggregate amount of:

- (i) assessable profits from trade, business, profession or vocation;
- (ii) employment income;
- (iii) income from investing activities;
- (iv) profits or income from any other source; and
- (v) chargeable gains from the disposal of chargeable assets.

(b) Non-taxable income

(i) Personal injury - section 50 of the NTA

- Amounts not exceeding ₦50,000,000 obtained by way of compensation or damages for any wrong or injury suffered by an individual in his person or in his profession or vocation, including compensation for loss of office or employment, wrong or injury for libel, slander or enticement shall not be chargeable gains.

- Where the sum exceeds ₦50,000,000, only the excess amount shall constitute a chargeable gain.
- For the purposes of the first two bullets above, any person who pays compensation for loss of office or employment to an individual is required, at the point of payment of such compensation, to deduct and remit the tax due under this section to the relevant tax authority.
- The tax so deducted shall be remitted within the time specified under the Pay-As-You-Earn or Deduction of Tax at Source Regulations issued the Nigeria Tax Administration Act.

(ii) Principal private residences - section 51 of NTA

- The gains accruing to an individual are exempt from tax in respect of the disposal of, or an interest in:
 - a dwelling-house or part of such dwelling-house; and
 - land, other than land used for commercial purposes, immediately adjoining the dwelling house up to a maximum of one acre.
- The exemption under this section shall be enjoyed once in the lifetime of an individual.
- The consideration shall be apportioned where a person disposes of only a part of a dwelling-house or a house used partly as dwelling place and partly for carrying out a trade, business, profession or vocation.

(iii) Personal chattels - section 52 of NTA

- A gain accruing on a disposal of an asset which is tangible movable property being personal chattels of an individual shall not be a chargeable gain if the total amount or value of the consideration for the disposal does not, in a period of assessment, exceed ₦5,000,000 or three times the annual national minimum wage, whichever is higher.
- Where two or more assets, whether or not forming part of a set of articles, are disposed by a person to the same person or to persons acting in concert or to connected persons, whether on the same or different occasions, the two or more transactions shall be treated as a single transaction disposing of a single asset, but with any apportionments, where necessary.
- Where the disposal is part of a right or interest in, or over tangible movable property, (a) above shall apply in relation to the asset as a whole, taking the consideration as including the market value of what remains undisposed of, in addition to the actual consideration.
- The provisions of this section shall apply to a gain accruing on a disposal of two or more assets, not necessarily forming part of a set of articles of any description, which are tangible movable properties in the same manner as they apply in relation to a gain accruing on a disposal of an asset, or two or more assets forming part of a set of articles.

(iv) Motor vehicle - section 53 of NTA

- A motor vehicle used solely for private or non-profit purposes shall not be an asset for the purposes of taxation.
- The exemption under this section shall be limited to not more than two motor vehicles by an individual in any year of assessment.

(v) Gifts - section 54 of NTA

- Where a person disposes by way of a gift, an asset acquired by him by way of a gift or any other form of gift, not being an acquisition on a devolution on death, the gains accruing from the disposal shall not be chargeable gains.
- An asset is acquired or disposed of by way of gift where no consideration is paid or received for the acquisition or disposal.

(vi) This section shall not apply to a disposal of currency of any description.

It should be noted that sole traders with an annual turnover of ₦ 100 million or less are exempt from the payment of companies income tax (CIT). Additionally, those who generate income from agricultural businesses are exempt from tax for the first five years.

17.4.2 Allowable and non-allowable deductions

(a) Deductions allowed - section 20 of NTA

- (i) For the purposes of ascertaining the profits or loss from any trade, business, profession or vocation under this Act, there shall be deducted all expenses for that period **wholly** and **exclusively** incurred in the production of the income, including:
- any sum payable by way of interest on debt employed in generating the income of the trade, business, profession or vocation, subject to the deductibility of excess interest on loans relating to connected persons;
 - rent and premiums, incurred during that period, in respect of land or building occupied for the purposes of generating the income;
 - any outlay or expenses incurred in respect of:
 - salary, wages or other remuneration paid to employees, and
 - cost to the company of any benefit or allowance provided to its employees;
 - any expense incurred for repair of premises, plant, machinery or fixtures employed in acquiring the income, or for the renewals, repair or alteration of any implement, utensil or articles so employed;
 - any amount of expenditure incurred for establishing, preserving or defending title to or rights over an asset;
 - any contribution to any staff pension, provident or other retirement benefits fund, society or scheme approved under the Pension Reform Act and any similar enactment in Nigeria;
 - any expense proven to the satisfaction of the relevant tax authority to have been incurred, being damage to, or loss of stock or inventory of the trade, business, profession or vocation;
 - bad or doubtful debts incurred during a trade or business, notwithstanding that the debts were due and payable before the commencement of the basis period, being:
 - debts becoming bad during the said basis period other than bad debt incurred in respect of transaction with a related party,
 - doubtful debts estimated in accordance with generally acceptable accounting principles and to the extent that it is proven, to the satisfaction of the relevant tax authority, that the debts in respect of which a deduction is claimed were incurred during the company's business operations that produced the assessable profits;
 - any expense incurred by the trade, business, profession or vocation on research and development for the period;
 - any other expense incurred during any previous period for the purpose of such trade or business, or specifically for the period which the profits are

- being ascertained, provided that any expenditure incurred within six years prior to commencement of business which would have been deductible if incurred after commencement of business, shall be deemed to have been incurred on the first day of commencing the trade or business;
- dividends or mandatory distributions made by a real estate investment company duly approved by the Securities and Exchange Commission, to its shareholders;
 - compensating payments made by a lender to its approved agent or a borrower in a regulated securities lending transaction, which qualify as interest;
 - any expense incurred by a person on assistive devices and disability-related products including hearing aids, wheelchairs, and braille materials.
- (ii) Notwithstanding the provision relating to bad or doubtful debts above, in determining the amount deductible:
- appropriate reduction shall be made in respect of any amount that had been allowed for deduction in any previous period in respect of the same debt; and
 - all sums recovered on account of sums previously written off or allowed for deduction in respect of bad or doubtful debts shall be added to the profits of the trade, business, profession or vocation in the period of recovery.
- (iii) Liability waived, released or recovered shall be included in the assessable profits or chargeable gains.
- (iv) Notwithstanding anything to the contrary contained in any law, an expense incurred in a currency other than the Naira may only be deducted to the extent of its Naira equivalent at the official exchange rate published by the Central Bank of Nigeria for the relevant date or period.
- (b) Deductible donations - section 163 of NTA
- (i) For the purposes of ascertaining the profits or loss from any trade, business, profession or vocation, there shall be deducted the amount of any donation made for that period by that company to any fund, body or institution in Nigeria to which this section applies.
- (ii) Without prejudice to restriction on expenses allowed, any donation made by a company under (a) above, may be deducted from the profits of that period notwithstanding that the donation is of a revenue or capital nature.
- (iii) This section shall apply to donations made to:
- public funds;
 - statutory bodies or institutions;
 - religious, charitable, educational and scientific institutions, established in Nigeria;
 - bodies recognised under the Diplomatic Immunities and Privileges Act; or
 - any pandemic, natural disaster or other public emergency interventions.
- (iv) A company making a deduction for a donation shall provide requisite document evidencing the donation to the relevant tax authority.

- (v) The total deduction to be allowed to a company, under this section, for any year of assessment, shall not exceed an amount equal to 10% of the profit before tax of that company for that year.
 - (vi) In the case of a donation other than in cash, the value for the purpose of this section shall be the lower of the market value at the time of the donation or the consideration paid for the item when it was acquired.
- (c) Deduction for research and development - section 164 of NTA
- i. Notwithstanding anything contained in section 20 of this Act (deductions allowed), for the purpose of ascertaining the profit or loss of any company for any period from any source chargeable with tax, there shall be deducted the amount incurred in that period by that company for research and development.
 - ii. The deduction to be allowed to a company under (a) above for any year of assessment shall not exceed an amount which is equal to 5% of the turnover for that year.
 - iii. Where a company to which this section applies subsequently sells or transfers the outcome of the research and development to another person for exploitation or commercialisation, the proceeds of such sale or transfer shall be taxed accordingly.

(d) Deductions not allowed - section 21 of NTA

A deduction shall not be allowed for the purposes of ascertaining the profits or income from any trade, business, profession or vocation in respect of:

- i. capital repaid or withdrawn from a trade, business, profession or vocation;
- ii. any expenditure of a capital nature;
- iii. domestic or private expense, or expenditure on assets not used for the purpose of trade, business, profession or vocation;
- iv. any sum recoverable under an insurance or contract of indemnity;
- v. taxes on profit or incomes levied in Nigeria or elsewhere;
- vi. any payment to a savings, widows and orphans, pension, provident or other retirement benefit fund, society or scheme not approved under the Pension Reform Act or any similar enactment in Nigeria;
- vii. depreciation or impairment of any fixed asset, investment or an unrealised exchange difference on any item denominated in foreign currency;
- viii. any sum reserved out of profits subject to (a) (xii) above;
- ix. any payment to a connected person that is not consistent with the Transfer Pricing Regulations issued by the Service;
- x. any expense incurred in deriving an income that is exempt from income tax; any expense allowable as a deduction in determining chargeable gains under this Act;
- xii. penalty or fine imposed under any law;
- xiii. any tax or penalty borne on behalf of another person;
- xiv. any compensating payment made by a borrower, which qualifies as dividends under this Act, to its approved agent or to a lender in a regulated securities lending transaction;
- xv. any compensating payment made by an approved agent, which qualifies as interest or dividends under this Act, to a borrower or lender in a regulated securities lending transaction; or
- xvi. any expense on which Value Added Tax is due under this Act but was not charged, or in the case of imported items, any expense on which the applicable import duty or levy was not paid.

17.5 Ascertainment of total income - section 28(1) of NTA

The total income of an individual for any year of assessment is the taxable income less total deduction.

17.6 Eligible deductions - section 30(2) of NTA

- (a) "*eligible deductions*" include payments made by the individual in a year of assessment in respect of:
- (i) the individual's contributions under the National Housing Fund,
 - (ii) the individual's contributions under the National Health Insurance Scheme,
 - (iii) the individual's contributions under the Pension Reform Act, 2014
 - (iv) interest on loans for developing an owner-occupied residential house,
 - (v) annual amount of any annuity or premium paid by the individual during the year preceding the year of assessment in respect of insurance on his life or the life of his spouse, or contract for a deferred annuity on his own life or the life of his spouse;
 - (vi) rent relief of 20% of annual rent paid, subject to a maximum of ₦500,000, whichever is lower, provided that the individual accurately declares the actual amount of rent paid and other relevant information as may be prescribed by the relevant tax authority; and
- (b) "*total income*" means total income as defined in 17.5 above.

17.7 Ascertainment of chargeable income -section 30(1) of NTA

The chargeable income of an individual, is the total income of that individual ascertained under the provisions of section 28 of this Act less eligible deductions.

17.8 Basis period of assessment

17.8.1 Commencement of business - section 22 of NTA

The profits of any trade, business, profession or vocation for each year of assessment (the assessable profits) shall be the profits of the accounting period immediately preceding the year of assessment from all sources.

The above notwithstanding, the assessable profits of the first year of assessment for a new business, shall be the profits from the date in which such trade, business, profession or vocation commences in Nigeria to the end of the first accounting period.

17.8.2 Change in accounting date - section 23 of NTA

Where a taxable person changes the date to which it usually computes its assessable profits, the basis period for the computation of the assessable profits for the relevant year of assessment shall be the period commencing from the first day after the basis period of the immediately preceding year of assessment up to the new date on which the account was made, and the assessable profits of subsequent years of assessments shall be computed on the basis of the new accounting period.

The taxable person shall notify the relevant tax authority, where there is a change in the accounting date, not later than 30 days before the usual due date of filing its income tax returns.

17.8.3 Cessation of trade or business - section 24 of NTA

- (a) Where a trade, business, profession or vocation permanently ceases to carry on operations in Nigeria in an accounting period, the assessable profits for the relevant year of assessment shall be the amount of the profits from the beginning of the accounting period to the date of cessation and the tax shall be payable within six months from the date of cessation.
- (b) Where, after the date of cessation, the trade, business, profession or vocation, or its receivers or liquidators, receive or pay any sum which ought to have been included in or deducted from the profits of that trade or business if it had been received or paid prior to that date, such sum shall be deemed for the purposes of this Act to have been received or paid by the trade, business, profession or vocation on the last day before such cessation occurred and such sums shall be disclosed to the relevant tax authority within one month of the receipt or payment.
- (c) Where the situation in (b) above arises, any additional assessment or claim for reduction of assessment or repayment of tax shall be made as may be necessary to give effect to the provisions, provided that the provisions of the Nigeria Tax Administration Act relating to objections and appeals shall apply to the additional assessment or claim of reduction of assessment or repayment of tax under this subsection.
- (d) In the case of a deceased individual, where the personal representative after death, receives or pays any sum which would have been included in or deducted from the gains or profits from the trade, business, profession or vocation carried on prior to death, that sum shall be deemed for all purposes of this Act to have been received or paid by the deceased, on the last day prior to the death.

17.8.4 Continuity of trades - section 25 of NTA

An individual carrying on a trade, business, profession or vocation, shall not be treated as having commenced or ceased to do so solely by reason of a change in the territory in which the individual is resident from one year to another, or by reason of becoming or ceasing to be a partner in a partnership if the nature of the trade carried on by that partnership is the same as that carried on before or after the individual became or ceased to be a partner.

17.9 Loss relief and treatments

Loss relief procedure, for an individual is similar to that under the incorporated companies except for current year loss. It is apposite to state that losses can be carried forward indefinitely.

17.9.1 Current year loss relief - section 28(3) of NTA

The loss to be deducted in arriving at the total income of an individual is:

- (a) the amount of a loss incurred by the individual during the year or preceding year of assessment in a trade, business, profession or vocation; and
- (b) the amount of loss incurred on the disposal of a chargeable asset: Provided that:
 - (i) in no circumstances shall the aggregate loss deductions from income exceed the amount of that loss;
 - (ii) the loss shall be deducted as far as possible from assessable profit of a trade, business, profession or vocation of the first year of assessment after that in which the loss was incurred, and in subsequent years until the loss is fully recouped,

- (iii) the loss incurred during any year of assessment shall be computed, in accordance with the basis period contained in Part V of Chapter Two of this Act, and
- (iv) any loss incurred in any period from sales, disposal or any other transaction in digital or virtual assets shall only be deductible against the profit or gain from digital or virtual assets.

17.9.2 Carry forward loss relief - section 27(6) of NTA

- (a) The amount of loss that can be deducted in the ascertainment of total profits of companies shall be subject to the following conditions:
 - (i) in no circumstances shall the aggregate loss deductions from the assessable profits or income exceed the amount of that loss;
 - (ii) loss can only be deducted from the trade or business in which the loss was incurred;
 - (iii) the loss shall be deducted to the extent possible from the amount of the assessable profits of the first year of assessment after that in which the loss was incurred, and in subsequent years until the loss is fully recouped; and
 - (iv) the loss incurred during any year of assessment shall be computed, in accordance with the basis period used to compute assessable profits or income.
- (b) Notwithstanding (a) above, or any provision of this Act, any loss incurred in any period from sales, disposal or any other transaction in digital assets shall only be deductible in determining the profits from the business relating to digital or virtual assets.

17.9.3 Treatment of losses under commencement and cessation of business - section 28(3) of NTA

On commencement of business, loss incurred can be carried forward indefinitely. When a trade ceases, any terminal loss resulting therefrom which could not be relieved in the year of cessation due to insufficiency or non-availability of profit, is deemed lost.

17.10 Computation of capital allowances (CA)

17.10.1 Definitions of qualifying capital expenditure and capital allowances

Capital allowance can be defined as a relief that is claimable by a taxpayer who incurs qualifying capital expenditure (QCE) during a basis period in respect of assets in use for the purpose of trade or business at the end of the basis period. Capital allowance can also be defined as allowance granted a taxpayer in lieu of depreciation charged which is treated as a non-allowable expense for tax purposes.

17.10.2 Qualifying capital expenditure - First paragraph of the First Schedule to the NTA

Subject to the First paragraph of the First Schedule to the NTA, qualifying capital expenditure means expenditure incurred in a basis period for the acquisition, refurbishment and improvement of the value of the asset which is:

- (a) capital expenditure incurred on plant and equipment expenditure;
- (b) capital expenditure incurred on the construction of buildings, structures or work of a permanent nature, other than expenditure which is included in (a),(c) or (d);
- (c) capital expenditure (qualifying mast expenditure) incurred on tall upright pole erected on, fastened to land or other structure;

- (d) capital expenditure incurred in connection with, or in preparation for, the working of a mine, oil well or other sources of mineral deposits of a wasting nature (other than expenditure which is included in sub-paragraph (a) above:
 - (i) on the acquisition of deposits, or of rights in or over, the deposits or on the purchase of information relating to the existence and extent of the deposit;
 - (ii) on searching for or on discovering and testing deposits, or winning access thereto; or
 - (iii) on the construction of any work or building which is likely to be of little or no value when the source is no longer worked or, where the source is worked under a concession, which is likely to become valueless when the concession comes to an end to the individual working the source immediately before the concession comes to an end; or
- (e) capital expenditure (qualifying agriculture expenditure) incurred:
 - (i) in connection with a plantation, on the clearing of land for planting, planting other than replanting, maintenance of the plantation and other pre-production expenses in connection with that plantation shall be qualifying agriculture expenditure, incurred on the first day on which the trade or business commences;
 - (ii) in respect of ranching on:
 - structures used primarily for ranching;
 - raising herds of animals for the purpose of breeding, and does not include raising of animals for the purpose of sale;
 - animals that function as apparatus with which a trade is carried on and the life expectancy is more than 5 years;
- (f) capital expenditure (qualifying intangible assets expenditure), incurred in respect of research and development of:
 - (i) equipment and facilities, patents, licences, secret formulas or process,
 - (ii) information concerning the development of industrial, commercial or scientific process, technical feasibility or products or processes, or
 - (iii) the discovery and testing of products or processes for future market use and such other similar costs which have brought into existence an asset;
- (g) capital expenditure (qualifying motor vehicle expenditure), incurred on:
 - (i) a fleet of buses of not less than three used for public transportation,
 - (ii) public transportation inter-city new mass transit coach of twenty-five seats and above operated by a private establishment, or
 - (iii) other motor vehicles;
- (h) capital expenditure (qualifying heavy transportation expenditure), incurred on:
 - (i) aircraft engine and fuselages,
 - (ii) pipeline and cables,
 - (iii) vessels,
 - (iv) ships engine,
 - (v) train engine, railway carriages or train tracks and coaches;
- (i) capital expenditure (qualifying software expenditure) incurred on the acquisition of software or other such capital outlays on electronic applications;
- (j) capital expenditure (qualifying furniture and fittings expenditure), incurred on furniture and fittings including those used in vessels, ships, aircrafts, trains, plants, and buildings for the purposes of trade or business;

17.10.3 Capital allowance

It is pertinent to state that Nigeria Tax Act, 2025, does not recognise initial

allowance, and balancing adjustment, hence only annual allowance is captured in this section.

Annual allowance (AA)

(a) Basis period - paragraph 1 of the First Schedule

The *basis period* for an allowance means the basis period for assessable profit or income, provided that in the case of a trade or business:

- (i) where there is an interval between the end of the basis period for one year of assessment and the basis period for the next year of assessment, then the interval shall be part of the second basis period; or
- (ii) where there is an interval between the end of the basis period for the year of assessment preceding that in which the trade or business permanently ceases to be carried on by a company or an individual and the basis period for the year in which it ceases, the interval shall form part of the first basis period.

(b) Computation of AA - paragraph 6 of the First Schedule to the NTA

A person that has incurred qualifying expenditure wholly and exclusively for the purposes of its trade or business, in a basis period for a year of assessment, there shall be made to the person for each year of assessment in the basis period for which that asset was used for the purposes of that trade or business, an allowance (capital allowance) at the rate specified in Table I of this Schedule: Provided that:

- (i) there shall be recorded in the capital allowance computation schedule for statistical purposes 1% of qualifying capital expenditure until the asset is disposed which being a notional amount, shall not increase or reduce the amount of capital allowance claimable; and
- (ii) where the basis period for any year of assessment is a period of less than one year, the allowance for that year of assessment shall be granted proportionately.

17.10.4 Conditions for granting capital allowances - section 27 (2) of NTA

The capital allowance to be granted in accordance with the provisions of Part I of the First Schedule, shall be the amount relating to the qualifying capital expenditure incurred in generating the assessable profits:

Provided that:

- (a)
 - i in the case of companies in the priority sector, certificate of acceptance issued by the Industrial Inspectorate Department shall be obtained in respect of the qualifying capital expenditure; and
 - ii. where value added tax is due under this Act but not charged on an asset, or in the case of an imported item, where the applicable import duty or levy was not paid, the relevant expenditure shall not be eligible as a qualifying capital expenditure.
- (b) where the qualifying capital expenditure is in relation to an asset that is only partly utilised in generating the assessable profits, the capital allowance on such qualifying capital expenditure shall be prorated and only the portion relating to the taxable income shall be allowed as a deduction.
- (c) The capital allowance computed shall not be prorated where the non-taxable income constitutes less than 10% of the total income of the company.

- (d) Notwithstanding the provisions of (c) above, the portion of capital allowance attributable to priority activities of a company that enjoys economic development incentive under this Act shall be deducted only from the assessable profits of the priority business.

In addition to the above, paragraph 7 of the First Schedule states that “a capital allowance in respect of qualifying expenditure incurred in respect of an asset shall be made to a person for a year of assessment if at the end of a basis period, the person:

- (c) is the owner of the asset; and
(d) used the asset for the purposes of its trade or business.

17.10.5 Capital allowances for small companies

Capital allowance on QCE incurred by small companies are deemed utilised during the periods such companies are tax-exempt.

17.10.6 Capital allowances rates

These are as indicated below:

TABLE I (PARAGRAPH 6) of the First Schedule to the NTA

CAPITAL ALLOWANCE		
Class	Rate	Qualifying capital expenditure
1	10%	(i) Building expenditure (ii) Agricultural expenditure (iii) Mast expenditure (iv) Intangible assets expenditure (v) Heavy transportation expenditure
2	20%	(i) Plant expenditure (ii) Agricultural equipment expenditure (iii) Furniture and fittings expenditure (iv) Mining expenditure (v) Other equipment expenditure
3	25%	(i) Motor vehicle expenditure (ii) Software expenditure (iii) Other capital expenditure

17.10.7 Capital allowances under hire purchase transactions or finance lease agreement - paragraph 2 of the First Schedule to the NTA

Section 201 of NTA defines “hire purchase” as a financial arrangement in which a person acquires immediate use of an asset by making regular instalment payments over a specified period and may gain ownership of the asset on the completion of the payments.

Section 201 also defines “finance lease” as a lease arrangement where the lessee effectively assumes most of the risks and rewards associated with asset ownership.

In relation to any asset acquired by any hirer or lessee under a hire-purchase or finance lease agreement, the following shall apply:

- (a) the qualifying capital expenditure in any basis period shall, in relation to any asset so acquired under that agreement, be limited to the amount of the instalments paid by the hirer or lessee up to that basis period, excluding any interest paid under the agreement;
- (b) the "owner" of the asset shall be construed to be the hirer or lessee under the hire-purchase or finance lease agreement; and
- (c) the person letting the asset to the hirer or lessee under the agreement shall not be entitled to an allowance.

17.10.8 Capital allowances under an operating lease -paragraph 15 of the First Schedule to the NTA

Section 201 of NTA defines "operating lease" as an arrangement involving the transfer of the right to an asset by the lessor in return for rental payments from lessee over an obligatory period but the asset is not wholly amortised during the period.

- (a) Where in a basis period, the owner of an asset leases the asset to another person under an operating lease, the provisions of this part shall apply, as though such expenditure were incurred for the purpose of a trade or business carried on by the owner or lessor.
- (b) Where an asset is acquired for use by a hirer or lessee under a hire purchase or finance lease contract for the purpose of a trade or business carried on by such hirer or lessee, the hirer or lessee shall be deemed to be the owner of the asset and the provisions of this part shall apply to the hirer or lessee, to the exclusion of the hiree or lessor under the contract.
- (c) For the purposes of this paragraph in relation to the trade or business, the basis period for any year of assessment shall be taken to be the year immediately preceding that year of assessment.

17.11 Computation of personal income tax liabilities of a sole trader - format

	N	N
(a) Assessable profits from trade, business, profession or vocation		xx
(b) Income from investing activities		xx
(c) Profits or income from any other source		xx
(d) Chargeable gains from the disposal of chargeable assets		<u>xx</u>
Taxable income		xxx
Deduct: total deduction		
(a) Loss incurred in respect of trade, business, profession or vocation	xx	
(b) Loss incurred on the disposal of a chargeable asset	xx	
(c) Loss incurred from sales, disposal or		

	~~N~~	~~N~~
any other transaction relating to digital or virtual assets which shall only be deductible against profit or gain from digital or virtual assets	xx	
(d) Capital allowance	xx	
(e) Income of the individual that is exempt from tax	xx	
(f) Income of the individual on which the tax deducted at source is the final tax	<u>xx</u>	
Total deductions	<u>xxx</u>	<u>(xxx)</u>
Total income		xxx
Deduct: eligible deductions:		
(a) Contributions to National Housing Fund	xx	
(b) Contributions to National Health Insurance Scheme	xx	
(c) Pension contributions under Pension Reform Act	xx	
(d) Interest on loans for developing an owner-occupied residential house	xx	
(e) Life assurance premium	xx	
(f) Rent relief of 20% of annual rent paid, subject to a maximum of ~~N~~ 500,000, whichever is lower	<u>xx</u>	
Total of eligible deductions	<u>xxx</u>	<u>(xxx)</u>
Chargeable income		<u>xxx</u>

Thereafter, the tax rates are applied to the chargeable income determine the gross tax liability payable. The final tax is derived by subtracting the withholding taxes earlier paid on the unearned income items, except dividend, from the gross tax liability payable.

Computation of personal income tax

	~~N~~
First ~~N~~ 800,000 @ 0%	xx
Next ~~N~~ 2,200,000 @ 15%	xx
Next ~~N~~ 9,000,000 @ 18%	xx
Next ~~N~~ 13,000,000 @ 21%	xx
Next ~~N~~ 25,000,000 @ 23%	xx
Above ~~N~~ 50,000,000 @ 25%	<u>xx</u>
Tax payable	xxx

Less withholding tax paid

(xx)

Net tax liability payable

xxx

ICAN 2026

17.12 Chapter review

This chapter fully explains the constituents of a business and trade and addresses the taxation of income from business, profession and vocation.

17.13 Worked examples

17.13.1 Questions

- (1) Dominion Enterprises commenced on January 2, 2026, and makes up accounts to March 31, every year.

The adjusted profits as provided are as follows:

	N
January 2, 2026 to March 31, 2026	41,300,050
April 1, 2026 to March 31, 2027 (projected)	52,750,000

The company acquired the following capital expenditure in 2026 as follows:

	Date	N
Motor vehicles	January 6, 2026	12,500,000
Office equipment	January 8, 2026	2,420,000
Furniture and fittings	January 10, 2026	1,390,000

All the relevant documents for tax purposes are kept handy by the company.

Required:

Compute the chargeable profit of the business for the relevant assessment years.

- (2) Capital allowance is a form of relief granted to any company which incurred capital expenditure for the purpose of a trade or business during a basis period in respect of property, plant and equipment that are in use at the end of the basis period.

Capital allowance is granted in place of depreciation which is usually disallowed for income tax purposes.

Required:

- (a) Explain qualifying capital expenditure.
 - (b) Explain the conditions for granting capital allowances.
 - (c) Discuss the special provisions regarding assets purchased under hire purchase agreements or leases.
- (3) Dr. Eniola Ajayi, who resides in Lagos, has been trading for several years. The projected statement of profit or loss of her business for the year ending December 31, 2026, is as shown below:

	₦	₦
Gross profit		50,000,000
Profit on sale of vehicle		<u>1,200,000</u>
		51,200,000
Less: Expenses		
General administration	3,000,000	
Staff salaries	12,219,500	
Stationery and printing	800,000	
Postage and telephone	400,000	
Electricity	700,000	
Entertainment	250,500	
Vehicle repairs and maintenance	455,000	
Bank charges	800,000	
Donations	4,500,000	
Periodicals and technical journals	80,000	
Audit and accountancy fee	2,500,000	
Defalcation and embezzlement	1,200,000	
Repairs and renewals	4,485,000	
Depreciation	5,010,000	
VAT paid on equipment	2,800,000	
Bad and doubtful debts—Specific	<u>200,000</u>	<u>(39,400,000)</u>
Net Profit		<u>11,800,000</u>

You are provided with the following additional information:

- Legal expense of ₦360,000 formed part of staff salary instead of capital items.
- Donations made to The Boys Scout of Nigeria
- She agreed with the Inspector of Taxes that one third of vehicle repairs and maintenance related to private use.
- Further examination of accounts revealed that salary of ₦ 800,000 was paid to an unknown person.
- The Chief Accountant perpetrated 75% of the defalcation.
- Allowable expenses of ₦230,000 have been omitted from the accounts.
- Repairs and renewals comprised:

	₦
Partitioning of new office	930,500
Repairs to plant and machinery	825,000
Repairs of office roof	<u>2,729,500</u>
	<u>4,485,000</u>

Required:

- Compute the chargeable profit of the business for the relevant assessment year.
- Explain three conditions that must be met before donations can be allowed as an expense.

- (4) Dr. Zuba Zuniga has been the sole proprietor of his business for several years. His detailed projected statement of profit or loss for the year ending December 31, 2026, is as follows:

Revenue	₦	₦
Gross trading profit		30,000,000
Dividend (gross)		2,500,000
Rental income (gross)		800,000
Profit on sale of PPE		<u>1,200,000</u>
		34,500,000
Less: Expenses:		
Salaries and wages	3,500,000	
General expenses	1,600,000	
Finance costs	900,000	
Rates and electricity	500,000	
Repairs and maintenance	2,500,000	
Depreciation	4,800,000	
Bad debt	<u>2,000,000</u>	<u>(15,800,000)</u>
Net profit		<u>18,700,000</u>

Additional information:

	₦
(i) Salaries and wages include:	
Salary paid to Mrs Zuniga who is a full-time employee of the company	350,000
Wages to Mrs Zuniga's housemaid	50,000
Salaries of other employees	<u>3,100,000</u>
	<u>3,500,000</u>
(ii) General expenses include:	
Subscription for trade magazines	200,000
Cost of company's branded gifts	750,000
Fines paid for traffic offence committed by Mrs. Zuniga	100,000
Stationery	250,000
Hiring of generator set for Mr. Zuniga's private residence	<u>300,000</u>
	<u>1,600,000</u>
(iii) Finance cost includes ₦ 200,000 in respect of Mr. Zuniga's private loan.	
(iv) Mr. Zuniga has a life insurance policy on his life for which he pays an annual premium of ₦ 350,000.	
(v) Mr. Zuniga made contribution of ₦ 150,000 to national health insurance scheme (NHIS) during the year.	
(vi) Mr. Zuniga has 3 children and maintained his aged parent.	
(vii) Capital allowance agreed with the relevant tax authority is ₦ 5,500,000.	
(viii) All relevant documents needed for tax purposes are kept handy by the	

proprietor.

Required:

- (a) Compute adjusted profit for the relevant tax year.
- (b) Compute the tax liability of Mr. Zuniga for the relevant tax year.
(WHT rate on dividend and rent is 10%)

17.13.2 Suggested solutions to questions

**(1) Dominion Enterprises
Computation of the chargeable profit
For assessment years 2027 and 2028**

	N	N
<u>Assessment year 2027</u>		
Assessable profit (2/1/26 – 31/3/26)		41,300,050
Capital allowances		<u>(971,750)</u>
Chargeable profit		<u>40,328,300</u>
<u>Assessment year 2028</u>		
Assessable profit (April 1, 2026 – March 31, 2027)		52,750,000
Capital allowances		<u>(3,887,000)</u>
Chargeable profit		<u>48,863,000</u>

Computation of capital allowances

	Motor vehicles	Office equipment	Furniture and fittings	Total
Annual allowance (%)	25%	20%	20%	
	N	N	N	N
Cost	12,500,000	2,420,000	1,390,000	<u>16,310,000</u>
<u>Assessment year 2027</u>				
Annual allowance (A.A)	(781,250)	(121,000)	(69,500)	<u>971,750</u>
W.D.V. c/f to A.Y. 2028	<u>11,718,750</u>	<u>2,299,000</u>	<u>1,320,500</u>	

Assessment year 2028

Annual allowance	<u>(3,125,000)</u>	<u>(484,000)</u>	<u>(278,000)</u>	<u>3,887,000</u>
W.D.V. c/f to A.Y. 2029	8,593,750	1,815,000	1,042,500	

2. (a) Qualifying capital expenditure - First paragraph of the First Schedule to the NTA

Subject to the First paragraph of the First Schedule to the NTA, qualifying capital expenditure means expenditure incurred in a basis period for the acquisition, refurbishment and improvement of the value of the asset, which is:

- (i) capital expenditure incurred on plant and equipment expenditure;
- (ii) capital expenditure incurred on the construction of buildings, structures or work of a permanent nature, other than expenditure which is included in (i),(iii) or (iv);
- (iii) capital expenditure (qualifying mast expenditure) incurred on tall upright pole erected on, fastened to land or other structure;
- (iv) capital expenditure incurred in connection with, or in preparation for, the working of a mine, oil well or other sources of mineral deposits of a wasting nature (other than expenditure which is included in sub-paragraph (a) above:
 - on the acquisition of deposits, or of rights in or over, the deposits or on the purchase of information relating to the existence and extent of the deposit;
 - on searching for or on discovering and testing deposits, or winning access thereto; or
 - on the construction of any work or building which is likely to be of little or no value when the source is no longer worked or, where the source is worked under a concession, which is likely to become valueless when the concession comes to an end to the individual working the source immediately before the concession comes to an end; or
- (v) capital expenditure (qualifying agriculture expenditure) incurred:
 - in connection with a plantation, on the clearing of land for planting, planting other than replanting, maintenance of the plantation and other pre-production expenses in connection with that plantation shall be qualifying agriculture expenditure, incurred on the first day on which the trade or business commences;
 - in respect of ranching on:
 - structures used primarily for ranching;
 - raising herds of animals for the purpose of breeding, and does not include raising of animals for the purpose of sale;
 - animals that function as apparatus with which a trade is carried on and the life expectancy is more than 5 years;
- (vi) capital expenditure (qualifying intangible assets expenditure), incurred in respect of research and development of:
 - equipment and facilities, patents, licences, secret formulas or process,
 - information concerning the development of industrial, commercial or
 - scientific process, technical feasibility or products or processes, or
 - the discovery and testing of products or processes for future market use and such other similar costs which has brought into existence an asset;
- (vii) capital expenditure (qualifying motor vehicle expenditure), incurred on:
 - a fleet of buses of not less than three used for public transportation,
 - public transportation inter-city new mass transit coach of twenty-five seats and above operated by a private establishment, or

- other motor vehicles;
- (viii) capital expenditure (qualifying heavy transportation expenditure), incurred on:
 - aircraft engine and fuselages,
 - pipeline and cables,
 - vessels,
 - ships engine,
 - train engine, railway carriages or train tracks and coaches;
- (ix) capital expenditure (qualifying software expenditure) incurred on the acquisition of software or other such capital outlays on electronic applications; and
- (x) capital expenditure (qualifying furniture and fittings expenditure), incurred on furniture and fittings including those used in vessels, ships, aircrafts, trains, plants, and buildings for the purposes of trade or business;

(b) Conditions for granting capital allowances - section 27 (2) of NTA

The capital allowance to be granted in accordance with the provisions of Part I of the First Schedule, shall be the amount relating to the qualifying capital expenditure incurred in generating the assessable profits:

Provided that:

- (i)
 - in the case of companies in the priority sector, certificate of acceptance issued by the Industrial Inspectorate Department shall be obtained in respect of the qualifying capital expenditure; and
 - where value added tax is due under this Act but not charged on an asset, or in the case of an imported item, where the applicable import duty or levy was not paid, the relevant expenditure shall not be eligible as a qualifying capital expenditure;
- (ii) where the qualifying capital expenditure is in relation to an asset that is only partly utilised in generating the assessable profits, the capital allowance on such qualifying capital expenditure shall be prorated and only the portion relating to the taxable income shall be allowed as a deduction;
- (iii) the capital allowance computed shall not be prorated where the non-taxable income constitutes less than 10% of the total income of the company; and
- (iv) notwithstanding the provisions of (c) above, the portion of capital allowance attributable to priority activities of a company that enjoys economic development incentive under this Act shall be deducted only from the assessable profits of the priority business;

In addition to the above, paragraph 7 of the First Schedule states that “a capital allowance in respect of qualifying expenditure incurred in respect of an asset shall be made to a person for a year of assessment if at the end of a basis period, the person:

- (i) is the owner of the asset; and
- (ii) used the asset for the purposes of its trade or “business”.

(c) Special provisions for assets purchased under hire purchase agreements or leases:

Capital allowances under hire purchase transactions or finance lease agreement - paragraph 2 of the First Schedule to the NTA

In relation to any asset acquired by any hirer or lessee under a hire-purchase or finance lease agreement, the following shall apply:

- (i) the qualifying capital expenditure in any basis period shall, in relation to any asset so acquired under that agreement, be limited to the amount of the instalments paid by the hirer or lessee up to that basis period, excluding any interest paid under the agreement;
- (ii) the "owner" of the asset shall be construed to be the hirer or lessee under the hire-purchase or finance lease agreement; and
- (iii) the person letting the asset to the hirer or lessee under the agreement shall not be entitled to an allowance.

Capital allowances under an operating lease -paragraph 15 of the First Schedule to the NTA

- i. Where in a basis period, the owner of an asset leases the asset to another person under an operating lease, the provisions of this part shall apply, as though such expenditure were incurred for the purpose of a trade or business carried on by the owner or lessor.
- ii. Where an asset is acquired for use by a hirer or lessee under a hire purchase or finance lease contract for the purpose of a trade or business carried on by such hirer or lessee, the hirer or lessee shall be deemed to be the owner of the asset and the provisions of this part shall apply to the hirer or lessee, to the exclusion of the hiree or lessor under the contract.
- (iii) For the purposes of this paragraph in relation to the trade or business, the basis period for any year of assessment shall be taken to be the year immediately preceding that year of assessment.

3 (a)

Dr. Eniola Ajayi
Computation of chargeable profit from trade
For 2027 assessment year

	₦	₦
Net profit as per accounts		11,800,000
Add back: Disallowable expenses:		
Staff salary – capital item	360,000	
Vehicles repairs and maintenance – private use 1/3 x ₦ 455,000	151,667	
Salary – paid to unknown person	800,000	
Defalcation – 75% x ₦ 1,200,000	900,000	
Repairs and renewal – partitioning cost	930,500	
- repairs of office roof	2,729,500	
Donation- disallowed (N 4,500,000 - 10% of ₦ 11,800,000)	3,320,000	
Depreciation	5,010,000	
VAT	<u>2,800,000</u>	<u>17,001,667</u>
		28,801,667
Less: Non-taxable income		
Profit on sale of vehicle	(1,200,000)	
Less: Allowable expenses omitted	<u>(230,000)</u>	<u>(1,430,000)</u>
Assessable profit		27,371,667
Capital allowances		

Chargeable profit	(7,500,000)
	<u>19,871,667</u>

(b) Deductible donations - section 163 of NTA

- (ii) For the purposes of ascertaining the profits or loss from any trade, business, profession or vocation, there shall be deducted the amount of any donation made for that period by that company to any fund, body or institution in Nigeria by company to any fund, body or institution in Nigeria to which this section applies.
- (ii) Without prejudice to restriction on expenses allowed, any donation made by a company under (a) above, may be deducted from the profits of that period notwithstanding that the donation is of a revenue or capital nature.
- (iii) This section shall apply to donations made to:
 - public funds;
 - statutory bodies or institutions;
 - religious, charitable, educational and scientific institutions, established in Nigeria;
 - bodies recognised under the Diplomatic Immunities and Privileges Act; or
 - any pandemic, natural disaster or other public emergency interventions.
- (iv) A company making a deduction for a donation shall provide requisite document evidencing the donation to the relevant tax authority.
- (v) The total deduction to be allowed to a company, under this section, for any year of assessment, shall not exceed an amount equal to 10% of the profit before tax of that company for that year.
- (vi) In the case of a donation other than in cash, the value for the purpose of this section shall be the lower of the market value at the time of the donation or the consideration paid for the item when it was acquired.

4 (a) Dr. Zuba Zuniga
Computation of adjusted profit
For the year ending December 31, 2026 (assessment year 2027)

	₦	₦
Net profit		18,700,000
Add: Disallowable expenses:		
Salaries and wages		
Wages paid to Mrs. Zuniga's maid	50,000	
General expenses:		
Fines paid for traffic offence committed by Mrs. Zuniga	100,000	
Hire of generating set for Dr. Zuniga's private residence	300,000	
Finance cost:		

Interest in respect of Dr. Zuniga's private loan	200,000	
Depreciation	<u>4,800,000</u>	<u>5,450,000</u>
		24,150,000
Less: Non-taxable income:		
Dividend (gross)	2,500,000	
Profit on sale of PPE	<u>1,200,000</u>	<u>(3,700,000)</u>
Adjusted profit		<u><u>20,450,000</u></u>

(b) Dr. Zuba Zuniga
Computation of tax liability
For 2027 assessment year

	₦	₦
Adjusted profit	20,450,000	
Less: Capital allowance	<u>(5,500,000)</u>	14,950,000
Deduct: eligible deductions:		
Life insurance premium	350,000	
NHIS contribution	<u>150,000</u>	<u>(500,000)</u>
Chargeable income		<u><u>14,450,000</u></u>
Computation of personal income tax		₦
First ₦ 800,000 @ 0%		0
Next ₦ 2,200,000 @ 15%		330,000
Next ₦ 9,000,000 @ 18%		1,620,000
Next ₦ <u>2,450,000</u> @ 21%		514,500
<u>₦ 14,450,000</u>		<u>2,464,500</u>
Tax liability		2,464,500
Less: WHT earlier deducted from rent (10% x N 800,000)		<u>(80,000)</u>
Tax payable (net)		<u><u>2,384,500</u></u>

PARTNERSHIPS

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18 Partnerships

18.0 Learning objective

The objective of this chapter is to enhance readers' knowledge of the computation of the tax liabilities of individual partners in partnerships.

18.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) understand the meaning of a partnership and the contents of a partnership agreement;
- (b) explain the need for the registration of a partnership deed with the relevant tax authority;
- (c) explain the continuity of trades as it relates to a partnership business;
- (d) determine a partnership's residence and the relevant tax authority in relation to a partnership for a year of assessment;
- (e) explain allowable and non-allowable expenses;
- (f) explain the tax treatments under change in a partnership business
- (g) ascertain the income of a partnership and each partner's assessable income from partnership;
- (h) explain the treatment of capital allowances under a partnership business
- (i) ascertain the loss relief available to a partner when a partnership incurs a loss;
- (j) understand how to compute the tax liability of individual partners in a partnership; and
- (k) discuss the taxation of profits of companies in partnership.

18.2 Definition of partnership

The Partnership Act, 1890, defines a "partnership as a relationship that exists or subsists between or among persons carrying on business in common with a view of profit". Partnership is an association of two or more persons who come together with a view to making profit. A partnership has a minimum of two and a maximum of 20 members. However, Section 19(2)(b) of the Companies and Allied Matters Act (CAMA) allows a partnership of more than twenty persons to be formed in Nigeria provided it is for the purpose of carrying on practice as Legal Practitioners, Chartered Accountants, etc. by persons each of whom is a Legal Practitioner, or Chartered Accountant by persons each of whom is entitled by legal practice or accounting practice, simultaneously.

18.3 Partnership agreement and registration of the certified true copy with the relevant authority - section 15(7) of NTA

The conduct of a partnership business will usually be in accordance with certain terms and conditions as agreed to by all the partners. A partnership agreement or deed would spell out the rights, duties and interest of the partners in the business.

The following are some of the matters usually dealt with in a partnership agreement:

- (a) amount to be contributed by each partner as capital;
- (b) the rate of interest payable, if any, on capital;
- (c) salary, if any, payable to a partner;
- (d) the rate of interest payable on loan provided by any partner to a partnership;
- (e) profit and loss sharing ratio; and
- (f) the rate of interest on drawings made by a partner.

However, where no fixed terms are agreed upon by the partners or the partnership agreement is not in writing, then the content of the partnership deed of the

Partnership Act of 1890 would guide the conduct of the partners in the partnership business and they include:

- (a) each partner is to contribute the same amount of capital;
- (b) no partner is entitled to interest on capital;
- (c) no partner shall be entitled to salary;
- (d) profits and losses are to be shared equally; and
- (e) a partner who advances the partnership shall be entitled to an interest of 5% per annum on such an advance.

Nigeria Tax Act, 2025, requires the partnership, employee or agent in charge of the principal office or place of business of a partnership in Nigeria shall without notice or demand thereof register or cause to be registered with the relevant tax authority, a certified copy of the partnership deed or, where no written deed is in existence, particulars of any written or oral agreement under which the partnership is currently established and where any such particulars have been so registered, notice of any subsequent change therein agreed between the partners shall be similarly registered with that tax authority within thirty days of the agreement.

Where the particulars of any partnership have been registered under the provisions of the section 15(7) of the Act, the computation of the gains or profits of a partner therein may be made by the relevant tax authority on the basis of those particulars as they apply at any relevant time and in the event of failure by a partnership to comply with any demand made under the foregoing subsection, notwithstanding the provisions of section 15(7), tax may be assessed and charged by the relevant tax authority as though the whole gains or profits of such partnership accrued to any individual partner therein or were divisible between any partner therein as may appear just and reasonable to the tax authority.

18.4 Continuity of trades as it relates to a partnership business - section 25 of NTA

An individual carrying on a trade, business, profession or vocation, shall not be treated as having commenced or ceased to do so solely by reason of a change in the territory in which the individual is resident from one year to another, or by reason of becoming or ceasing to be a partner in a partnership if the nature of the trade carried on by that partnership is the same as that carried on before or after the individual became or ceased to be a partner.

18.5 Relevant tax authority/principal place of residence of a partner in a partnership business - paragraph 4 of the First Schedule to the NTAA and section 15(6) of NTA

The "principal place of residence" in relation to an individual who is a partner in a Nigerian partnership shall, where the individual is:

- (a) engaged in the performance or exercise of the duty of the partnership, be the territory in Nigeria of the office where he performs or exercises the duty of the partnership;
- (b) a dormant partner in the partnership, be the territory in Nigeria which he usually resides; and
- (c) a dormant partner that does not reside in a territory in Nigeria, be deemed to be a non-resident person.

18.6 Allowable and non-allowable expenses

Allowable and non-allowable expenses to a partnership business are the same as those dealt with under chapter 17. Please refer to chapter 17 for allowable and

disallowable expenses.

18.7 Tax treatments under change in a partnership business - paragraph 19 of the First Schedule to the NTA

- (a) Where a trade or business is carried on by persons in a partnership, the trade or business of the partnership is treated as a single enterprise and any allowance that applies to the individual partners are computed as if the single enterprise conducted all the trade or business activities performed by the individual partners involved in that trade or business during the period.
- (b) Where a partner joins or leaves the partnership during a basis period, it shall be treated as if the business ceased at that time and recommenced immediately thereafter, and the provisions of paragraph (17) of this part shall apply in respect of the assets transferred to the new business, that is, the partnership shall be deemed to have bought the asset immediately after disposal for a price equal to the residue of the qualifying expenditure at the date of the disposal.

18.8 Computation of the income of a partnership business

The computation of the income of a partnership is similar to that of a sole trader save that salaries, interest on capital payable to partners and cost of passages to and from Nigeria wholly or mainly undertaken or for the purpose of leave or recreation, are allowable expenses in computing a partnership income unlike the case of individuals or sole traders.

It is pertinent to add that private or domestic expenses of a partner are not allowable in ascertaining the computed income of a partnership.

18.9 Treatment of capital allowances under a partnership - paragraphs 19 - 22 of the First Schedule to the NTA

- (a) Capital allowances related to assets shall be apportioned among the partners in their profit-sharing ratio at the end of the basis period.
- (b) Where capital allowance is required to be recomputed as a result of the application of admission and resignation rules, all such additional assessments or repayments of tax shall be made as may be necessary to give effect to the provisions of this paragraph.
- (c) Where the application of this paragraph is inconsistent with any of the provisions of the other paragraphs of this part, the provisions shall apply with such modifications as the relevant tax authority may consider necessary and prescribe rules embodying those modifications.
- (d) Any reference in this part to an allowance made includes a reference to an allowance which would have been made but for an insufficiency of assessable profit or income against which to make it.
- (e)
 - (i) An allowance shall not be made to a person for a year of assessment unless it is claimed by the person for that year or where the relevant tax authority is of the opinion that it would be just to the taxpayer and reasonable to do so.
 - (ii) Where an allowance is not claimed in the year of assessment in the basis period for which that asset was used for the purposes of that trade or business, it shall be carried forward to subsequent period(s).

- (f) (i) An allowance to be made to a person shall be subtracted from the remainder of the assessable profits or income for the relevant year of assessment.
- (ii) the remainder of the assessable profits or income of a person for a year of assessment shall be determined by giving full effect, as it relates to the deduction of a loss.
- (f) Where a deduction cannot be fully made for a year of assessment due to no remainder or insufficient remainder of assessable profit or income, the deduction, or the part not yet made, shall be treated as a deduction for the next year, and for succeeding years until fully utilised.

18.10 Taxable income of partners - section 15 of NTA

The gains or profits of a partner from a partnership shall be the sum of:

- (a) any remuneration, interest on capital, cost of passages wholly or mainly undertaken for the purpose of leave or recreation, or any other perquisite or benefits-in-kind which is charged to the partnership accounts in respect of that partner; and
- (b) the partner's share in the profits of the partnership, computed in accordance with the provisions of this Act after the deduction of charges to which paragraph (a) above applies in respect of all the partners but before the deduction of any other expenses of the partnership referable to a partner which would have been private or domestic expenditure disallowed by the Act if incurred directly by that partner.

18.11 Partnership profits and losses -section 15(2) - (5) of NTA

- (a) Where the income computed for the partnership results in a loss, the partner's share of the loss shall be deducted from the gains or profits ascertained for the partner and he shall be deemed to have incurred a loss in the trade or business of the partnership to the extent, if any, by which the deductible share of loss exceeds those gains or profits.
- (b) a partner's share of the partnership's profits or losses shall be determined in the proportion specified in the partnership agreement as if the entire profits or losses were distributed among the partners, and where there is no partnership agreement, the profits or loss of the partnership shall be distributed equally among the partners:

Provided that any person, whether resident or non-resident, who directly or indirectly, shares in the profits of a Nigerian partnership shall file returns in his name and pay the applicable tax.

- (c) The gains, profits or losses of a partner for any period, ascertained under this section, shall be deemed to be the partner's income or loss from a trade, business, profession or vocation carried on during that period.
- (d) The determination of the profits or losses that is attributable to a partner from a partnership shall be made by the relevant tax authority in relation to that partnership, and where any partner is taxable for a year of assessment in the territory of another relevant tax authority, the relevant tax authority in relation to that partnership shall make available to that other tax authority, particulars of the determination of profits or losses.
- (e) The income of a partner from a partnership in Nigeria shall be attributable to relevant territories in Nigeria in accordance with the Twelfth Schedule to this Act,

that is, the territory in Nigeria of the office where an active partner performs or exercises the duty of the partnership, residence of a dormant partner, or Nigeria Revenue Service for a non-resident partner.

18.12 Computation of income tax payable by partners

The key steps in ascertaining a partner's income tax liability are as follows:

- (a) In order to arrive at the income tax payable by partners, it is necessary to first ascertain the computed income of the partnership.
- (b) Hitherto, capital allowance was deducted before arriving at the computed income but paragraph 19(3) of the First Schedule to the NTA, requires that capital allowances related to assets shall be apportioned among the partners in their profit-sharing ratio at the end of the basis period.
- (c) Allocate the share of profit based on the profit-sharing ratio to each partner and add partners' income as specified in (18.10) above, together with income from other sources to arrive at the taxable income.
- (d) From the taxable income, deduct capital allowance, share of loss, if any, and other total deductions to arrive at the total income.
- (e) From the total income, deduct eligible deductions to arrive at the chargeable income.
- (f) Apply the graduated personal income tax rates (ranging from 15% to 25%) to the chargeable income to arrive at the personal income tax payable by a partner.

18.13 Taxation of profits of companies in partnership - section 11 of NTA

- (a) Where two or more companies carry out a trade or business in a partnership, joint venture or a similar arrangement in Nigeria, any income or profit arising therefrom shall constitute a source of profits and each company's share shall be taxed separately.
- (b) Where any of the companies in the partnership is a non-resident, its share of income or profit from the partnership is chargeable to tax under this Act.
- (c) In the case of partnership carried on in a country other than Nigeria, the partner that is taxable in Nigeria shall include its share of revenue and cost, or profits in its assessable profits for the relevant year of assessment, and shall supply to the tax authority, particulars of the determination of the revenue and cost, or profit, with necessary adjustments.
- (d) The provisions of this section shall not apply to any partnership engaged in petroleum operations.

18.14 Chapter review

This chapter addresses the ascertainment of the computed income of a partnership business and taxable income of partners. It also highlights the importance of a partnership agreement and the provisions requiring the registration of the agreement with the relevant tax authority.

18.15 Worked examples

18.15.1 Questions

- (1) Erewa, Sola and Wole have been in partnership as medical practitioners for about seven years. The projected operational result of the partnership for the year ending December 31, 2026, has revealed the following:

	₦	₦	₦
Gross profit			40,200,000
Deduct:			
Salaries and wages	13,550,000		
Transport and travelling	1,600,000		
Insurance	350,000		
Rent and rates	800,000		
Office expenses	1,400,000		
Professional fees	3,000,000		
Allowance for doubtful debts	650,000		
Staff loan written off	270,000		
Depreciation	7,800,000		
Interest on loan by Erewa	455,000		
Interest on capital accounts:			
Erewa	225,000		
Sola	315,000		
Wole	<u>360,000</u>	<u>900,000</u>	<u>(30,775,000)</u>
Net profit for the year			<u>9,425,000</u>

Other relevant information is as follows:

- (i) Office expenses include a donation of ₦ 800,000 to an old people's home.
- (ii) Capital allowance agreed with the Revenue is ₦9,500,000.
- (iii) Only Erewa is married with two children below 16 years of age.
- (iv) Partners' profit-sharing ratio is Erewa - 5, Sola - 7 and Wole – 8.
- (v) Salaries are drawn in this order:

Erewa	₦ 3,300,000
Sola	₦ 4,700,000
Wole	₦ 5,550,000

You are required to ascertain:

- (a) The computed income of the partnership for tax purposes
 - (b) The chargeable income of each partner for tax purposes
 - (c) The tax payable by each of the partners
- (2) Dejo, Akanbi and David have been in partnership for many years, providing specialised engineering services to the oil sector. Accounts are made to December 31, each year. The following are the adjusted profits for:

	₦
Year ended December 31, 2024	1,440,000
Year ended December 31, 2025	1,650,000
Year ending December 31, 2026 (projected)	2,400,000

Additional information is provided as follows:

- (i) Partners are to share profits in the ratio 1:2:1
- (ii) Salaries are drawn in this order:

Dejo	₦ 360,000
Akanbi	₦ 240,000
David	₦ 180,000

- (iii) Interest on capital is 6%.
- (iv) The capital account of each partner is:

Dejo	₦ 150,000
Akanbi	₦ 300,000
David	₦ 210,000

- (v) On May 31, 2026, Dejo retired and Dandy was admitted on June 1 of the same year, on a salary of ₦ 180,000 per annum. He brought in a capital of ₦ 210,000 and was to have the sharing ratio which Dejo used to enjoy.

You are required to:

- (a) Compute each partner's income from the partnership business for 2027 year of assessment.
- (b) Itemise the rules of commencement in respect of partnership business.
- (3) Professor Wachukwu and Dr. Orlando are partners in a legal firm based in Calabar. The firm of Worland & Associate (Legal Practitioners) renders legal and secretarial services. The projected statement of profit or loss of the firm for the year ending December 31, 2026, disclosed the following details:

	₦	₦
Legal fees		33,000,000
Fees for secretarial services	9,500,000	
Sundry incomes	4,500,000	
Interest on fixed deposit	<u>2,800,000</u>	16,800,000
		49,800,000
Expenses:		
Salaries	13,200,000	
Office rent	2,200,000	
Sundry expenses	1,200,000	
Depreciation	4,800,000	
Finance cost	900,000	
Administrative expenses	200,000	
Repairs and maintenance	<u>700,000</u>	(23,200,000)
Net profit		<u>26,600,000</u>

Additional information:

- (i) Salary includes salaries paid to the partners:
- | | |
|--------------------|-------------|
| Professor Wachukwu | ₦ 5,550,000 |
| Dr. Orlando | ₦ 4,400,000 |
- (ii) Sundry expenses include ₦ 300,000 paid to Dr. Orlando's personal driver as salary for the year.

(iii) Finance cost is made up of:

	₦
Interest on loan to the firm	300,000
Bank charges	150,000
Interest on partners' private loans:	
Professor Wachukwu	150,000
Dr. Orlando	100,000
Interest paid to Professor Wachukwu on loan to the firm	<u>200,000</u>

(iv) Repairs and maintenance is made up of: 900,000
Maintenance of residence of each partner:

Professor Wachukwu	200,000
Dr. Orlando	200,000
Office repairs	<u>300,000</u>
	<u>700,000</u>

(v) Both partners are married with 3 children all are of school age. Professor Wachukwu maintains his aged parents and incurred ₦ 30,000 annually on them.

(vi) Dr. Orlando paid life insurance premium of ₦2,800,000 annually on his life.

(vii) Sundry income includes profit on sale of property, plant and equipment amounting to ₦980,000.

(viii) Capital allowance agreed with the relevant tax authority amounted to ₦6,400,000.

(ix) Profits and losses are to be shared equally.

Required:

Compute the assessable income and tax liabilities of the partners for the relevant tax year.

18.15.2 Suggested solutions to questions

(1) (a) Erewa, Sola and Wole Computation of adjusted income of the partnership For 2027 year of assessment

	₦	₦
Net profit for the year		9,425,000
Add disallowable expenses:		
Allowance for doubtful debts	650,000	
Office expenses (donation)	800,000	
Depreciation	7,800,000	
Staff loans written off	<u>270,000</u>	<u>9,520,000</u>
Divisible profit or computed income		<u>18,945,000</u>

(b) Computation of partners' chargeable income

	Erewa ₦	Sola ₦	Wole ₦
Earned income			
Salaries	3,300,000	4,700,000	5,550,000
Interest on capital	225,000	315,000	360,000
Share of profit [5:7:8]	<u>4,736,250</u>	<u>6,630,750</u>	<u>7,938,000</u>
	8,261,250	11,645,750	13,848,000
Unearned income			
Interest on loan	<u>455,000</u>	-	
Total income	8,716,250	11,645,750	13,848,000
Deduct:			
Capital allowance	<u>(2,375,000)</u>	<u>(3,325,000)</u>	<u>(3,800,000)</u>
Chargeable income	<u>6,341,250</u>	<u>8,320,750</u>	<u>10,048,000</u>

(c) Computation of tax payable by partners

	Erewa ₦	Sola ₦	Wole ₦
Tax liability			
First ₦800,000 @ 0%	0	0	0
Next ₦2,200,000 @ 15%	330,000	330,000	330,000
Next ₦3,341,250 @ 18%	<u>601,425</u>		
Next ₦5,320,750 @ 18%		<u>957,735</u>	
Next ₦7,048,000 @ 18%			<u>1,268,640</u>
	<u>931,425</u>	<u>1,287,735</u>	<u>1,598,640</u>

(2) (a) **Dejo, Akanbi & David in partnership**
Computation of each partner's income
For assessment year 2027

Preceding year basis: Basis period 1/1/2026-31/12/2026 (Income assessable):

	Dejo	Akanbi	David	Dandy
	₦	₦	₦	₦
Salaries	150,000	240,000	180,000	105,000
Interest	3,750	18,000	12,600	7,350
Share of profit	<u>250,000</u>	<u>1,200,000</u>	<u>600,000</u>	<u>350,000</u>
Partners' income	<u>403,750</u>	<u>1,458,000</u>	<u>792,600</u>	<u>462,350</u>

Computation of interest on capital

Dejo = $6\% \times \frac{5}{12} \times \text{₦}150,000 = \text{₦} 3,750$ (1/1/2026-31/5/2026)

Dandy = $6\% \times \frac{7}{12} \times \text{₦}210,000 = \text{₦} 7,350$ (1/6/2026-31/12/2026)

Akanbi $6\% \times \text{₦} 300,000 = \text{₦} 18,000$

David $6\% \times \text{₦} 210,000 = \text{₦} 12,600$

Computation of partners' salaries

Dejo = $\frac{5}{12} \times \text{₦} 360,000 = \text{₦} 150,000$

Dandy $\frac{7}{12} \times \text{₦} 180,000 = \text{₦} 105,000$

Akanbi (full salary) = ~~₦~~ 240,000

David (full salary) = ~~₦~~ 180,000

Computation of share of adjusted profit

Adjusted profit		<u>2,400,000</u>
Dejo ($\frac{1}{4} \times \frac{5}{12} \times 2,400,000$)	250,000	
Dandy ($\frac{1}{4} \times \frac{7}{12} \times 2,400,000$)	350,000	
Akanni ($\frac{1}{2} \times 2,400,000$)	1,200,000	
David ($\frac{1}{4} \times 2,400,000$)	<u>600,000</u>	
		<u>2,400,000</u>

Note

Section 25 of NTA on continuity of trades, states that "an individual carrying on a trade, business, profession or vocation, shall not be treated as having commenced or ceased to do so solely by reason of a change in the territory in which the individual is resident from one year to another, or by reason of becoming or ceasing to be a partner in a partnership if the nature of the trade carried on by that partnership is the same as that carried on before or after the individual became or ceased to be a partner".

(b) Commencement of a new trade – section 22(2) of NTA

The assessable income of an individual from a trade, business, profession or vocation carried on by him in Nigeria, for the year of assessment in which he commenced trade, business, profession or vocation in Nigeria and for the two

following years of assessment (which years are, in this subsection, respectively referred to as, “the first year”, “the second year” and “the third year”) shall be ascertained in accordance with the following provisions:

- (i) For the first year, the assessable income shall be the income from the date on which the individual commenced such trade, business, profession or vocation in Nigeria to the end of its first accounting period;
- (ii) For the second year, the assessable income shall, be the income from the first day after the trade of business’ first accounting period to the end of its second accounting period;
- (iii) For the third year, and each subsequent year thereafter, the assessable income shall be the profits from the day after accounting period just ended.

3. Worland & Associate

Ascertainment of computed income and tax liabilities of partners for 2027 assessment year

	Total ₦	Professor Wachukwu ₦	Dr. Orlando ₦
Net profit	26,600,000		
Add: Disallowed expenses:			
Sundry expenses –salary paid to Dr. Orlando’s personal driver	300,000		
Depreciation	4,800,000		
Interest on partners’ loan:			
Professor Wachukwu	150,000		
Dr. Orlando	100,000		
Repairs and maintenance:			
Professor Wachukwu	200,000		
Dr. Orlando	<u>200,000</u>		
	32,350,000		
Sundry income:	<u>(980,000)</u>		
Computed income	31,370,000		
Share of divisible profit:			
Professor Wachukwu			
50% x ₦31,370,000	(15,685,000)	15,685,000	
Dr. Orlando			
50% x ₦31,370,000	<u>(15,685,000)</u>		15,685,000
	<u>0</u>		
Interest on partner’s loan		200,000	0
Salaries		<u>5,550,000</u>	<u>4,400,000</u>

	21,435,000	20,085,000
Capital allowance (50:50) ~~N~~ 6,400,000	<u>(3,200,000)</u>	<u>(3,200,000)</u>
	18,235,000	16,885,000

Deduct: eligible deductions:

Life insurance premium

Chargeable income

(0)	(2,800,000)
<u>18,235,000</u>	<u>14,085,000</u>

Computation of tax liabilities

	₦	₦
First ~~N~~ 800,000 @ 0%	0	0
Next ~~N~~ 2,200,000 @ 15%	330,000	330,000
Next ~~N~~ 9,000,000 @ 18%	1,620,000	1,620,000
Next ~~N~~ 6,235,000 @ 21%	<u>1,309,350</u>	
Next ~~N~~ 2,085,000 @ 21%		<u>437,850</u>
Total tax liabilities	<u><u>3,259,350</u></u>	<u><u>2,387,850</u></u>

TAXATION OF INVESTMENT INCOME

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- 19.1 Learning outcomes
- 19.2 Definition of investment income
- 19.3 Computation of rental income chargeable to tax on property, including contractor-financed projects
- 19.4 Tax implications of dividends, royalties, and interests in the hands of the Beneficiary
- 19.5 Interest income
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- 19.7 Taxation of dividend, interest, rent, royalty, directors' fees paid to non-residents - section 51(2) of NTA
- 19.8 Bases of assessments and payment of taxes on investment incomes
- 19.9 Franked investment income
- 19.10 Chapter review
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19 Taxation of investment income

19.0 Learning objective

The objective of this chapter is to enhance readers' knowledge on bases of assessments and payments of taxes on investment incomes.

19.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) discuss the basis of assessment of an investment income;
- (b) compute the tax liability of an individual earning investment income; and
- (c) explain franked investment income.

19.2 Definition of investment income- section 201 of NTA

This section explains income from investing activities to include dividend, interest, royalty and any other income of similar nature. Investment incomes are incomes received primarily from investments. Investment decisions include, purchase of shares, property for letting purposes, placement of cash in fixed and other interest yielding accounts, etc. The incomes that accrue as a result of the investment decisions are called investment incomes and they include dividend, interest, rent, royalty, etc.

19.3 Computation of rental income chargeable to tax on property, including contractor-financed projects

19.3.1 Rental income

The gain or profit arising from other person for the use or occupation of any property is chargeable to tax. Thus, rental income is generally deemed to accrue to the recipient daily (that is, from day to day) over those periods covered by the payment.

Section 185 (1) exempts income from the letting or renting of residential property from VAT.

It is pertinent to state that rental income generated from property, including those financed by contractors will be subject to withholding tax at 10%.

Where the annual value of a lease agreement is less than ₦10 million or ten times the annual minimum wage, whichever is higher, shall not be subject to stamp duty - section 134 of NTA.

19.3.2 Rent received in advance

When a landlord receives rental income in advance, the amount is taxable in the year it is received, not when it is earned.

19.3.3 Allowable rental expenses - section 20 of NTA

In computing the gain or profit from rental income for tax purposes, the following expenses are allowable deductions:

- (a) tenement rates or land use charges;
- (b) cost of collecting rent, for example, fees paid to a caretaker, estate agent, legal representative, etc.;
- (c) cost of advertising for tenants;
- (d) any expenses incurred for repairs and maintenance of the building;
- (e) bad debt incurred;

- (f) interest on money borrowed and employed in acquiring or renovating the property;
- (g) commission paid to agent or caretaker;
- (h) insurance premium paid on the property; and
- (i) water rate.

19.3.4 Disallowable expenses - section 21 of NTA

The following are disallowable expenses;

- (a) any expenses not incurred for the purpose of earning the rental income;
- (b) any expenditure of capital nature;
- (c) depreciation of the building; and
- (d) appropriation of profit, including income tax, drawings, reserves, etc.

19.4 Tax implications of dividends and interests

19.4.1 Dividend income

(a) Section 4(6)(b) of NTA

Dividend includes, in relation to:

- (i) a company that is not in the process of being wound up or liquidated, profits, in any form, shared or distributed to the shareholders, including an amount equal to the nominal value of bonus shares, debentures or securities awarded to the company's shareholders;
- (ii) a company that is being wound up or liquidated, any distribution, whether in money or money's worth, earned before or during the winding up or liquidation; and
- (iii) regulated securities lending transaction, compensating payments received by a lender from its approved agent or borrower.

(b) Section 7 of NTA

(i) Nigerian dividends include:

- dividend distributed by a Nigerian company, and shall be the gross amount of that dividend before any deduction; and
- any amount of the undistributed profit of a Nigerian company, which is treated as distributed under the provisions of any law in Nigeria; and

(ii) The income from a dividend distributed by a Nigerian company is deemed to arise on the day on which payment of that dividend becomes due.

(c) Section 8 of the NTA

- (i) A company shall include dividend income in its profits, gross of any tax paid or deducted at source.
- (ii) Dividends received by a Nigerian company by way of shares of the paying company shall not be included in its profits chargeable to tax under this Act and shall not be subject to deductions.

19.4.2 Dividend exempt from tax - section 162 of NTA

The following dividend incomes are exempt from tax:

- (a) dividend distributed by authorised collective investment scheme;
- (b) dividend received from investments in wholly export-oriented businesses;
- (c) dividend derived from outside Nigeria and brought into Nigeria through approved channels;

- (d) dividend or rental income received by a real estate investment company on behalf of its shareholders, where not less than 75% of the 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, provided that nothing in this subsection shall be construed to exempt a:
 - (i) shareholder from tax on the dividend or rental income received from a real estate investment company;
 - (ii) real estate investment company from tax on management fee, profits or any other income earned for and on its own account; and
 - (iii) real estate investment company from tax on dividend or rental income if it does not meet the conditions stipulated above;
- (e) compensating payments, which qualify as dividends received by a lender from its approved agent or a borrower in a Regulated Securities Lending Transaction; and
- (f) compensating payments, which qualify as dividends, received by an approved agent from a borrower or lender on behalf of a lender or borrower in a Regulated Securities Lending Transaction.

19.4.3 Nigerian dividends received by non-resident persons - section 19 of NTA

Any dividend received by a non-resident from a Nigerian company shall not be subject to further tax other than tax deducted at source.

19.4.4 Relevant territory in which dividend paid by a Nigerian company arises - section 3(1)(a)(iv) of NTAA

Where a dividend is distributed or paid by a Nigerian company, the dividend, whenever necessary, shall be deemed to be derived from the territory in which the recipient of the dividend resides or, where the recipient is not resident in Nigeria, the person shall be deemed to be a person resident outside Nigeria and who derives income or profit in Nigeria. The relevant tax authority of a corporate or an individual non-resident who receives dividends from Nigeria is Nigeria Revenue Service (NRS).

19.4.5 Other provisions relating to dividend - section 51(3) and (4) of NTAA

- (a) In the case of dividend, interest, rent, royalty, directors' fee and payment to entertainers and sportspersons, the tax, when paid over to the relevant tax authority, shall be the final tax due from a non-resident recipient of the payment.
- (b) Dividend distributed by a Nigerian company and received by a person after deduction of the tax prescribed in this section and regulations relating to deduction of tax at source, shall be regarded as franked investment income of the person receiving the dividend and shall not be charged to further tax.
- (c) Where a franked investment income is redistributed and tax is to be accounted for on the gross amount of the distribution in accordance with regulations relating to deduction of tax at source, the company may set off the amount deducted at source which it has itself suffered on the same income.

19.5 Interest income - section 4(6)(a)(i)- (iv) of NTA

19.5.1 - Definition

Interest:

- (a) accrues in Nigeria where the liability to its payment falls upon a resident of Nigeria or Nigerian permanent establishment of a non-resident person regardless of where or in what form the interest is paid;
- (b) includes, penal interests and any payment similar to interest, income from any government or corporate securities, bonds or debentures, premiums or prizes

- attaching to such securities, bonds or debentures, discounts, fees, premium, share of profit in non-interest finance arrangements, finance cost element in a finance lease, or foreign exchange differences arising in relation to securities, any payment in relation to derivatives used in hedging securities, or any other payment of similar nature;
- (c) in respect of debts, includes return on discounted papers, income from debt claims of every kind, whether or not secured by mortgage and whether or not carrying a right to participate in the debtor's profits or foreign exchange differences arising in relation to a debt; and
 - (d) in respect of regulated securities lending transactions, includes compensating payments received by a borrower from its approved agent or a lender, provided that the underlying transaction giving rise to the compensating payment is a receipt of interest by a lender on the collateral it received from its approved agent or a borrower.

19.5.2 Interests from sources outside Nigeria - section 162 of NTA

Where an individual is resident in Nigeria, the interest accruing to him from a source outside Nigeria which is brought into Nigeria through approved channels, is tax-exempt.

19.5.3 Relevant territories in which interests paid by a Nigerian company arises - section 3(1)(a)(iv) of NTAA

Where interest is paid by a Nigerian company, the interest, whenever necessary, shall be deemed to be derived from the territories in which the recipient of the interest resides or, where the recipient is not resident in Nigeria, the person shall be deemed to be a person resident outside Nigeria and who derives income or profit in Nigeria. The relevant tax authority of a corporate or an individual non-resident who receives interests from Nigeria is Nigeria Revenue Service (NRS).

19.5.4 Interests that are tax-exempt

These include:

- (a) Interest derived from outside Nigeria and brought into Nigeria through approved channels - section 162(1)(a)(s) of NTA;
- (b) compensating payments, which qualify as interest received by an approved agent from a borrower or lender on behalf of a lender or borrower in a Regulated Securities Lending Transaction -section 162(1)(a)(e) of NTA;
- (c) Interests received on bonds issued by the Federal and State governments; and
- (d) Interest on any loan granted by a bank on or after January 1, 1997, to a person engaged in:
 - (i) agricultural trade or business;
 - (ii) the fabrication of any local plant and machinery; and
 - (iii) any cottage industry established by the person under the Family Economic Advancement Programme as working capital, if the moratorium is not less than 12 months and the rate of interest on the loan is not more than the base lending rate at the time the loan was granted, refinanced or otherwise restructured.

19.5.5 Interest on short term securities and corporate bonds - section 51(5) of NTAA

Interest on short term securities and corporate bonds earned by an individual after deduction of tax at source, shall not be charged to further tax.

19.6 Royalty income

19.6.1 Definition - section 4(6)(c) of NTA

"*royalty*" includes payments of any kind received or receivable, paid or payable as a consideration for the use of, or the right to use or exploit any property.

Royalty is a payment to an owner for the use of property, especially patents, copyrighted works, franchises or natural resources. A royalty payment is made to the legal owner of a property, patent, copyrighted work or franchise by those who wish to make use of it for the purposes of generating revenue or other such desirable activities. In most cases, royalties are designed to compensate the owner for the asset's use and are legally binding.

19.6.2 Income chargeable

(a) Introduction

Royalties are often expressed as a percentage of the revenues obtained using the owner's property, but can be negotiated to meet the specific needs of an arrangement. The use of royalties is common in situations where an inventor or original owner chooses to sell his/her product to a third party in exchange for royalties from the future revenues it may generate.

(b) Non-allowance as a deduction - section 17(5)(e) of NTA

It shall not be allowed as a deduction in respect of amounts paid or payable, by a permanent establishment to the non-resident person or any of its connected persons, by way of royalties, fees or similar payments in return for the use of patents or other rights, other than towards reimbursement of actual expenses.

(c) Chargeable asset - section 34 (1)(a) of NTA

Any form of property shall be a chargeable asset, whether situated in Nigeria or not, including any form of asset, shares, options, rights, debts, digital or virtual assets and incorporeal property generally.

Royalties and intellectual property rights having been included in "chargeable assets", the chargeable gains will now attract 30% companies income tax for large companies.

19.6.3 Income exempted from tax - section 162 (1)(s) of NTA

Royalty earned from abroad and brought into Nigeria through approved channels shall be exempt from tax.

19.7 Taxation of dividend, interest, rent, royalty, directors' fees paid to non-residents - section 51(2) of NTA

Dividend, interest, rent, royalty, directors' fee and payments to entertainers and sportspersons, the tax, when paid over to the relevant tax authority, shall be the final tax due from a non-resident recipient of the payment.

19.8 Basis of assessment and payment of taxes on investment income

The basis of assessment of dividend, interest, rent and royalty is the preceding year basis. The assessable income from each year of assessment is the income of

the year immediately preceding the year of assessment.

19.9 Franked investment income

Dividend received by a company after deduction of withholding tax at source by a paying company is regarded as franked investment income of the company receiving the dividend. Such income is not subject to further tax in the hands of the recipient company as the withholding tax deducted at source is the final tax.

Based on the provision of section 8(1) of NTA, dividend income shall be included in its profits, gross of any tax paid or deducted at source

Where dividend received (that is, franked investment income) is distributed by the recipient company, it has a right to set off the withholding tax paid on the dividend received from the withholding tax payable on the redistributed dividend. This provision helps to prevent double taxation.

19.10 Chapter review

This chapter provides a detailed explanation of the various investment incomes, including, dividend, interest, rent and royalty. It also highlights investment incomes that are exempted from tax.

19.11 Worked examples

19.11.1 Questions

- (1) Mr. Chukwuemeka Okoye completed the construction of his building, a two-wing duplex located at Gwagwalada, Abuja, on December 31, 2022. He rented out both flats with effect from January 1, 2023, through an estate agent and received rent for two years. He made available the following details of his income and expenses for the relevant period:

	2023	2024
	₦	₦
Rent received (Gross)	13,500,000	13,500,000
Expenses:		
Repairs and maintenance	520,000	850,000
Water rate	82,000	105,000
Agent's commission	850,000	850,000
Professional charges	100,000	150,000
Insurance	152,000	152,000
Caretaker's wages	218,000	222,000
Tenement rate	25,000	32,000

Additional information:

- (i) Capital allowances agreed with the relevant tax authority for 2024 and 2025 were ₦ 680,000 and ₦ 520,000, respectively.
- (ii) Repairs and maintenance comprised:

Depreciation	₦ 100,000	₦ 85,000
Repairs of tenant's bathroom	0	₦ 180,000
Repairs of Mr. Chukwuemeka's residence	₦ 420,000	₦ 585,000

- (iii) Tenement rate includes tenement rate of ₦ 5,000 and ₦ 20,000 paid on the private residence of Mr. Chukwuemeka for 2023 and 2024, respectively.

Required:

Compute the amount of rental income assessable to tax for the relevant assessment years.

- (2) Nelson and Sons Limited is a company owned by the members of Nelson family. Its issued share capital of 20,000,000 ordinary shares of ₦1 each are held by:

Williams Nelson	8,000,000 shares
Samuel Nelson	4,000,000 shares
Tamara Nelson	2,000,000 shares
Malia Nelson	6,000,000 shares

For the year ended December 31, 2025, the company made a net profit before tax of ₦53,000,000. The company has not paid dividend since it was established 8 years ago.

The Nigeria Revenue Service is of the opinion that the non-payment of dividend by the company was with a view to reducing the tax payable by its shareholders. In exercise of the powers conferred on it by the Nigeria Tax Act, 2025, the NRS has directed that ₦15,900,000 of the profit be treated as having been distributed as dividend.

Required:

Compute the amount deemed to be income in the hands of the company's shareholders.

- (3) Investment incomes are incomes received primarily from investments which include decisions, such as purchase of shares, property for letting purposes, placement of cash in fixed and other interest yielding accounts, etc.

Required:

Explain the following:

- (a) Dividend income
 - (b) Royalty income
- (4) (a) There are some unique considerations when it comes to the taxation of rental income.

Required:

Explain the provisions of the tax laws in respect of rental income received in advance.

- (b) In computing the gains or profit from rental income, certain expenses are allowed as deductible.

Required:

Identify **five** examples of expenses that can be deducted when computing rental income.

19.11.2 Suggested solutions to questions

(1) Mr. Chukwuemeka Computation of rental income For the relevant assessable years

	2024		2025	
	₦	₦	₦	₦
Rent received		13,500,000		13,500,000
Allowable expenses:				
Water rate	82,000		105,000	
Agent's commission	850,000		850,000	
Professional charges	100,000		150,000	
Insurance	152,000		152,000	
Caretaker's wages	218,000		222,000	
Tenement rate	<u>20,000</u>	<u>(1,422,000)</u>	<u>12,000</u>	<u>(1,491,000)</u>
Assessable rent		12,078,000		12,009,000
Less: Capital allowances		<u>(680,000)</u>		<u>(520,000)</u>
Chargeable rent		<u>11,398,000</u>		<u>11,489,000</u>

(2) Nelson & Sons Limited Computation of amount deemed as income in the hands of shareholders

	Deemed		Dividend
		₦	₦
Williams Nelson	<u>8,000,000</u>	X ₦ 15,900,000	6,360,000
	20,000,000		
Samuel Nelson	<u>4,000,000</u>	X ₦ 15,900,000	3,180,000
	20,000,000		
Tamara Nelson	<u>2,000,000</u>	X ₦ 15,900,000	1,590,000
	20,000,000		
Malia Nelson	<u>6,000,000</u>	X ₦ 15,900,000	4,770,000
	20,000,000		

(3) (a) Dividend income: Section 4(6)(b) of NTA

(i) Section 4(6)(b) of NTA

Dividend includes, in relation to:

- a company that is not in the process of being wound up or liquidated, profits, in any form, shared or distributed to the shareholders, including an amount equal to the nominal value of bonus shares, debentures or securities awarded to the company's shareholders,
- a company that is being wound up or liquidated, any distribution, whether in money or money's worth, earned before or during the winding up or liquidation, and
- regulated securities lending transaction, compensating payments received by a lender from its approved agent or borrower.

(ii) Section 7 of NTA

Nigerian dividends include:

- dividend distributed by a Nigerian company, and shall be the gross amount of that dividend before any deduction; and

- any amount of the undistributed profit of a Nigerian company, which is treated as distributed under the provisions of any law in Nigeria;

The income from a dividend distributed by a Nigerian company is deemed to arise on the day on which payment of that dividend becomes due.

(iii) Section 8 of the NTA

- A company shall include dividend income in its profits, gross of any tax paid or deducted at source.
- Dividends received by a Nigerian company by way of shares of the paying company shall not be included in its profits chargeable to tax under this Act and shall not be subject to deductions.

(iv) Dividend exempt from tax - section 162 of NTA

The following dividend incomes are exempt from tax:

- dividend distributed by authorised collective investment scheme;
- dividend received from investments in wholly export-oriented businesses;
- dividend derived from outside Nigeria and brought into Nigeria through approved channels;
- dividend or rental income received by a real estate investment company on behalf of its shareholders, where not less than 75% of the 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, provided that nothing in this subsection shall be construed to exempt a:
 - shareholder from tax on the dividend or rental income received from a real estate investment company;
 - real estate investment company from tax on management fee, profits or any other income earned for and on its own account, and
 - real estate investment company from tax on dividend or rental income if it does not meet the conditions stipulated above;
- compensating payments, which qualify as dividends received by a lender from its approved agent or a borrower in a Regulated Securities Lending Transaction; and
- compensating payments, which qualify as dividends, received by an approved agent from a borrower or lender on behalf of a lender or borrower in a Regulated Securities Lending Transaction.

(v) Nigerian dividends received by non-resident persons - section 19 of NTA

Any dividend received by a non- resident from a Nigerian company shall not be subject to further tax other than tax deducted at source.

(b) Royalty income

(i) Definition - section 4(6)(c) of NTA

"royalty" includes payments of any kind received or receivable, paid or payable as a consideration for the use of, or the right to use or exploit any property.

Royalty is a payment to an owner for the use of property, especially patents, copyrighted works, franchises or natural resources. A royalty payment is made to the legal owner of a property, patent, copyrighted work or franchise by those who wish to make use of it for the purposes of generating revenue or other such desirable activities. In most cases, royalties are designed to compensate the owner for the asset's use, and are legally binding.

(ii) Income chargeable

- Introduction
 - Royalties are often expressed as a percentage of the revenues obtained using the owner's property, but can be negotiated to meet the specific needs of an arrangement. The use of royalties is common in situations where an inventor or original owner chooses to sell his/her product to a third party in exchange for royalties from the future revenues it may generate.
- Non-allowance as a deduction - section 17(5)(e) of NTA
 - It shall not be allowed as a deduction in respect of amounts paid or payable, by a permanent establishment to the non-resident person or any of its connected persons, by way of royalties, fees or similar payments in return for the use of patents or other rights, other than towards reimbursement of actual expenses.
- iii. Chargeable asset - section 34 (1)(a) of NTA
 - Any form of property shall be a chargeable asset, whether situated in Nigeria or not, including any form of asset, shares, options, rights, debts, digital or virtual assets and incorporeal property generally.
 - Royalties and intellectual property rights having been included in "chargeable assets", the chargeable gains will now attract 30% companies income tax for large companies.

4. (a) Rent received in advance

When a landlord receives rental income in advance, the amount is taxable in the year it is received, not when it is earned.

(b) Allowable rental expenses

In computing the gain or profit from rental income for tax purposes, the following expenses are allowable deductions:

- (i) tenement rates or land use charge;
- (ii) cost of collecting rent, for example, fees paid to a caretaker, estate agent, legal representative, etc.;
- (iii) cost of advertising for tenants;
- (iv) any expenses incurred for repairs and maintenance of the building;

- (v) bad debts incurred;
- (vi) interest on money borrowed and employed in acquiring or renovating the property;
- (vii) commission paid to agent or caretaker;
- (viii) insurance premium paid on the property; and
- (ix) water rate.

ASCERTAINMENT OF ASSESSABLE PROFIT

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20 Ascertainment of Assessable Profit

20.0 Learning objective

The objective of this chapter is to enhance the readers' knowledge of computation of assessable profit.

20.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) identify the persons chargeable to companies income tax;
- (b) explain the types of companies based on turnover and applicable income tax rates;
- (c) explain effective tax rate;
- (d) identify and explain income, profits or gains chargeable to tax;
- (e) identify and explain income, profits or gains that are tax exempt;
- (f) identify and explain allowable deductions and deductions not allowed;
- (g) explain the tax implications of business restructuring;
- (h) ascertain the basis for computing assessable profits for trade or business; and
- (i) compute assessable profit.

20.2 Introduction

In a trade or business, the profit or loss of the company is the difference between the income and expenses incurred in generating the income. This can be illustrated using the following proforma:

XYZ Limited
Statement of profit or loss
For the year ended December 31, 2025

	N'000
Revenue	xxx
Cost of sales	<u>(xx)</u>
Gross profit	xxx
Deduct:	
Overhead expenses	<u>(xx)</u>
Net profit/(loss)	<u>xx</u>

The net profit as ascertained above is an accounting profit, having been arrived at after taking into consideration, all known principles of accounting, as well as the company's accounting policies.

However, the accounting profit/loss arrived at above, cannot be used for the purpose of computing the tax payable by a company.

The accounting profit has to be converted to tax profit usually referred to as adjusted profit/loss before it is used for the determination of total profit/loss and, consequently, the computation of tax payable.

The process of converting the accounting profit to arrive at the tax profit or adjusted profit involves the application of the provisions of tax laws that allow for the exclusion from tax of some income/profit, that is, exempted income/profit and allowable/ disallowable expenses. Simply put, the conversion is achieved using a pro-forma computation for the purpose of illustration as follows

XYZ Limited
Computation of adjusted profit
For the year ended December 31, 2025 (assessment year 2026)

	N'000
Net profit per accounts	xxx
Deduct:	
Non-taxable incomes	<u>xx</u>
	xxx
Add:	
Disallowable expenses	<u>xx</u>
Adjusted profit/(loss)	<u>xxx</u>

20.3 Persons chargeable to companies income tax

20.3.1 Definition of Nigerian company - section 147 of NTAA

"Nigerian Company" means:

- a.** any company formed or incorporated under any law in Nigeria; or
- b.** any company whose effective place of management or control is Nigeria, provided that the Minister may by regulations prescribe what constitutes effective place of management or control.

20.3.2 Chargeability to tax - section 5 of NTA

A company is charged to tax:

- a) in its own name;
- b) in the name of any principal officer, attorney, factor, agent or representative of the company in Nigeria in the same manner or amount that the company would have been charged; or
- c) in the name of its receiver, liquidator, or administrator, in the same manner or amount that the company would have been charged if no receiver, liquidator or administrator had been appointed.

20.3.3 Taxation of resident persons - section 6 of NTA

- (a) The profits of a Nigerian company are deemed to accrue in Nigeria wherever the profits arise and whether or not such profits have been brought into or received in Nigeria.
- (b) Where a foreign company which is controlled by a Nigerian company has not, in a year, distributed profits to its shareholders, the proportion of the profits of the controlled foreign company attributable to the Nigerian company, which could have been distributed without detriment to the company's business shall be construed as distributed and included in the profits of the Nigerian company for the purposes of (a) above.
- (c) Where the income tax paid by a non-resident company which is a subsidiary of a Nigerian company or a member of a multinational group of a Nigerian company in any year yields less than the minimum effective tax rate prescribed by this Act, the Nigerian parent company shall pay an amount to make that non-resident subsidiary's income tax equal to the minimum effective tax rate.
- (d) The Nigeria Revenue Service (the Service) shall provide detailed rules for the implementation of (b) and (c) above.

20.3.4 Taxation of non-resident persons - section 17 of NTA

- (a) The income, profits or gains of a non-resident person accruing in, or derived from Nigeria are chargeable to tax in accordance with the provisions of this Act.
- (b) Gains derived by a non-resident person from disposal of chargeable assets are taxable in Nigeria where the gains relate to -
- a trade, business, profession or vocation carried on by the non-resident person in Nigeria;
 - any asset located in Nigeria; or
 - any asset deemed to be located in Nigeria under this Act.
- (c) Profits derived from any trade, business, profession or vocation carried on by a non-resident person are taxable in Nigeria where:
- the person has a permanent establishment or significant economic presence in Nigeria to the extent that the profit is attributable to the permanent establishment or significant economic presence;
 - payment is made by a person resident in Nigeria or a permanent establishment of a non-resident person in Nigeria, in respect of services furnished from outside of Nigeria to a resident of Nigeria or a Nigerian permanent establishment of a non-resident person, except where the payment is made:
 - to an employee of the person making the payment under a contract of employment;
 - by an individual for teaching in an educational institution or for teaching by an educational institution; or
 - by a foreign permanent establishment of a Nigerian resident and the expense is borne by that permanent establishment; and
 - payment is made to that person by a person resident in Nigeria or a Nigerian permanent establishment of a non-resident person, in respect of insurance premiums or risks insured from the territory of Nigeria.

20.4 Types of companies based on turnover and applicable income tax rates - section 56 of NTA

S/N	Classification	Threshold (gross turnover)	Tax rate	Remarks
1.	Small company	~~₦~~ 100,000,000 and below	0%	The total fixed assets should be less than ~~₦~~ 250,000,000, provided that any business providing professional services shall not be classified as a small business - section 147 of NTA
2.	Any company other	Above ~~₦~~ 100,000,000	30%	This can be reduced to 25%, effective from a date as may be determined in the Order issued by the President on the advice of the National Economic Council.

20.5 Effective tax rate - section 57 of NTA

(a) The effective tax rate is determined thus:

- (i) notwithstanding any provision of this Act or any other enactment, where, in any year of assessment, the effective tax rate, that is, covered taxes as a percentage of net income, of a company is less than 15%, such company shall recompute and pay an additional tax that makes its effective tax rate equal to 15%;
- (ii) covered taxes for the purpose of this section means companies income tax, petroleum profit tax, and hydrocarbon tax paid or payable, development levy, and priority sector tax credit; and
- (iii) net income refers to the profit before tax as reported in the audited financial statements excluding franked investment income and unrealistic gains or losses:

Provided that the net income for a life insurance company shall not include gross income and investment income for policyholders.

Arising from the above, it is obvious that the provisions of this section are silent on the deduction of five percent of depreciation and personnel cost from net profits before tax as reported in a company's audited financial statements, in the ascertainment of effective tax rate. The international best practices require the deduction of these costs from the net profits of a company in the computation of effective tax rate.

Apart from the fact that the exclusion of these costs from net profits aligns with OECD international tax rules, it reduces the amounts of profits subject to the minimum tax rates, thereby reducing the tax impact on business operations which include hiring of staff and construction of building infrastructure.

(b) The provisions of this section shall apply to:

- (i) a company that is a constituent entity of a Multinational Entity group, with aggregate group turnover of at least £750 million or its equivalent; and
- (ii) any other company with an aggregate turnover of ₦50,000,000,000 and above in the financial year.

(c) The provisions of subsection (a)(1) above, shall not apply to an approved enterprise operating in a free zone with respect to its approved activities except:

- (i) with respect to sale within the customs territory; and
- (ii) an entity as prescribed under b(i) above.

(d) The Service may issue regulations to give effect to the provisions under this section and may prescribe a higher threshold under b(ii) above.

20.6 Income, profits or gains chargeable to tax - section 4 of NTA

These are income, profits or gains of a person accruing in or derived from Nigeria, including:

- (a) profits or gains from any trade, business, profession or vocation for whatever period of time such a trade or business may have been carried on;
- (b) royalties, fees, rents or interests arising from a right granted for the use, exploitation or occupation of any property;
- (c) dividends, premium, charges or annuities;
- (d) fees, dues, allowances, or any remuneration for services rendered;
- (e) discounts or rebates;
- (f) disposal of money or money instruments;
- (g) income, profits or gains from disposal or lending of securities;
- (h) prizes, winnings, honoraria, grants, awards, laurels, etc;
- (i) profits or gains from the disposal of property or fixed assets;
- (j) profits or gains from transactions in digital assets;
- (k) any other income, profit or gain not falling within the preceding categories.

20.7 Income, profits or gains that are tax exempt - section 162 of NTA

The following shall be exempt from tax:

- (a) the profits accruing to, or gains from disposal of assets of any person being:
 - (i) a statutory or registered friendly society, where the profits or gains are not derived from a trade or business carried on by such society;
 - (ii) a co-operative society registered under any enactment or law relating to co-operative societies, not being profits or gains from any trade or business carried on by that society;
 - (iii) engaged in educational, religious or charitable activities of a public character where the profits or gains are not derived from a trade or business carried on by such person;
 - (iv) a trade union registered under the Trade Unions Act where the profits or gains are not derived from a trade or business carried on by such trade union;
 - (v) a Federal, State or Local Government in Nigeria, their Ministries, Departments and Agencies and other public institutions, other than profits or gains derived from trade or business or any instrumentality established for the purpose of trade or business; and
 - (vi) a government purchasing authority established by an enactment and empowered to acquire any commodity for export or redistribution;
- (b) dividend distributed by authorised collective investment scheme;
- (c) dividend or rental income received by a real estate investment company on behalf of its shareholders, where not less than 75% of the 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, provided that nothing in this subsection shall be construed to exempt a:
 - (i) shareholder from tax on the dividend or rental income received from a real estate investment company;
 - (ii) real estate investment company from tax on management fee, profits or any other income earned for and on its own account; and
 - (iii) real estate investment company from tax on dividend or rental income if it does not meet the conditions stipulated in this paragraph;
- (d) compensating payments, which qualify as dividends, received by a lender from its approved agent or a borrower in a Regulated Securities Lending Transaction;
- (e) compensating payments, which qualify as dividends or interest, received by an approved agent from a borrower or lender on behalf of a lender or borrower in a Regulated Securities Lending Transaction;
- (f) consular fees received on behalf of a foreign State, or by a consular officer on behalf of the State, and the employment income of such officer, other than income in respect of any trade, business, profession or vocation carried on by the officer or in respect of any other employment exercised by him in Nigeria:
Provided that this exemption shall not apply to the income of an employee engaged in domestic duties, or where the officer or employee ordinarily resides in Nigeria and is not a national of the foreign State;
- (g) an income in respect of which tax is remitted or exempt under the provisions of the Diplomatic Immunities and Privileges Act or of any enactment, order or notice continued in force or effected by that Act;
- (h) pension funds and assets created under the Pension Reform Act;
- (i) pension, gratuity or any retirement benefits granted in accordance with the Pension Reform Act;

- (j) wound and disability pensions granted to members of the armed forces or of any recognised national defence organisation, or to a person injured as a result of enemy action;
- (k) a sum received by way of death, gratuities or as consolidated compensation for death or injuries;
- (l) redundancy lump sum payment and other compensation of capital nature for loss of employment;
- (m) gains accruing from the disposal of assets by an angel investor, venture capitalists, private equity fund, accelerators or incubators with respect to a labelled startup provided the assets have been held in Nigeria for a minimum of 24 months;
- (n) income earned from bonds issued by a State or the Federal Government of Nigeria;
- (o) emoluments of any person serving as other rank and other personnel serving in combat zones, hazardous areas or in designated operations, provided that where any other income accrues to the person, not being income by way of personal emoluments, that income shall be liable to tax;
- (p) income generated by companies engaged in agricultural businesses including crop production, livestock, aquaculture, forestry, dairy and such other businesses as described in the Thirteenth Schedule to this Act, for the first five years upon commencement of business;
- (q) dividend received from investments in wholly export-oriented businesses;
- (r) profits of a company engaged in sporting activities;
- (s) dividend, interest, rent or royalty derived from outside Nigeria and brought into Nigeria through approved channels;
- (t) income of a person from an employment where such person earns gross income of national minimum wage or less from such employment;
- (u) wages and salaries of military officers; and
- (v) The following shall not constitute chargeable gains:
 - (i) pension funds and assets approved under the Pension Reform Act, and
 - (ii) an individual from disposal of investment held as part of any national provident fund or other retirement benefits schemes established under the provisions of any Act or enactment for employees throughout Nigeria;
 - (b) gains on the disposal of a decoration, awarded for valour or gallant conduct which a person acquires otherwise than for consideration in money or money's worth.

20.8 Deductions allowed and deductions not allowed

20.8.1 Deductions allowed - section 20 of NTA

- (a) In order to ascertain the profits or loss from any trade, business, profession or vocation under this Act, there shall be deducted all expenses for that period wholly and exclusively incurred in the production of the income, including:
 - (i) any sum payable by way of interest on debt employed in generating the income of the trade, business, profession or vocation, subject to the provisions of the Third Schedule to this Act, that is, subject to the restriction on the deductibility of interest;
 - (ii) rent and premiums, incurred during that period, in respect of land or building occupied for the purposes of generating the income;

- (iii) any outlay or expenses incurred in respect of:
 - salary, wages or other remuneration paid to employees, and
 - cost to the company of any benefit or allowance provided to its employees;
 - (iv) any expense incurred for repair of premises, plant, machinery or fixtures employed in acquiring the income, or for the renewals, repair or alteration of any implement, utensil or articles so employed;
 - (v) any amount of expenditure incurred for establishing, preserving or defending title to or rights over an asset;
 - (vi) any contribution to any staff pension, provident or other retirement benefits fund, society or scheme approved under the Pension Reform Act any similar enactment in Nigeria;
 - (vii) any expense proven to the satisfaction of the relevant tax authority to have been incurred, being damage to, or loss of stock or inventory of the trade, business, profession or vocation;
 - (viii) bad or doubtful debts incurred during a trade or business, notwithstanding that the debts were due and payable before the commencement of the basis period, being:
 - debts becoming bad during the said basis period other than bad debt incurred in respect of transaction with a related party,
 - doubtful debts estimated in accordance with generally acceptable accounting principles and to the extent that it is proven, to the satisfaction of the relevant tax authority, that the debts in respect of which a deduction is claimed were incurred during the company's business operations that produced the assessable profits;
 - (ix) any expense incurred by the trade, business, profession or vocation on research and development for the period;
 - (x) any other expense incurred during any previous period for the purpose of such trade or business, or specifically for the period which the profits are being ascertained, provided that any expenditure incurred within six years prior to commencement of business which would have been deductible if incurred after commencement of business, shall be deemed to have been incurred on the first day of commencing the trade or business;
 - (xi) dividends or mandatory distributions made by a real estate investment company duly approved by the Securities and Exchange Commission, to its shareholders;
 - (xii) compensating payments made by a lender to its approved agent or a borrower in a regulated securities lending transaction, which qualify as interest; and
 - (xiii) any expense incurred by a person on assistive devices and disability-related products including hearing aids, wheelchairs, and braille materials.
- (b) Notwithstanding the provision of a(viii) above, in determining bad or doubtful debts deductible:
- (i) appropriate reduction shall be made in respect of any amount that had been allowed for deduction in any previous period in respect of the same debt; and
 - (ii) all sums recovered on account of sums previously written off or allowed for deduction in respect of bad or doubtful debts shall be added to the profits of the trade, business, profession or vocation in the period of recovery.
- (c) Liability waived, released or recovered shall be included in the assessable profits or chargeable gains in accordance with section 194 of this Act.
- (d) Notwithstanding anything to the contrary contained in any law, an expense incurred in a currency other than the Naira may only be deducted to the extent of its Naira equivalent at the official exchange rate published by the Central Bank of

Nigeria for the relevant date or period.

In addition to the above, **section 162(3) of NTA** enables a company to be entitled to an additional deduction of 50% in the relevant years of assessment in respect of costs incurred in any two calendar years from 2023 to 2025 on the following:

- (a) wage awards, salary increases, transportation allowance or transport subsidy granted to a low-income worker, which bring the gross monthly remuneration of the worker up to an amount not exceeding ₦100,000

Provided that any additional award or salary increase to an employee earning above ₦100,000 as monthly salary shall not qualify for the additional deduction under this subsection; and

- (b) salaries of any new employee constituting a net increase in the average number of new employees hired in 2023 and 2024 calendar years over and above the average net employment in the three preceding years, provided that such new employees are not involuntarily disengaged within a period of three years post-employment.

"Net employment" means the total number of persons employed less the total number of persons disengaged during the calendar year, whether such disengagement is voluntary or not.

20.8.2 Deductible donations - section 163 of NTA

- (d) For the purposes of ascertaining the profits or loss from any trade, business, profession or vocation, there shall be deducted the amount of any donation made for that period by that company to any fund, body or institution in Nigeria to which this section applies.
- (b) Without prejudice to restriction on expenses allowed, any donation made by a company under (a) above, may be deducted from the profits of that period notwithstanding that the donation is of a revenue or capital nature.
- (c) This section shall apply to donations made to:
 - (i) public funds;
 - (ii) statutory bodies or institutions;
 - (iii) religious, charitable, educational and scientific institutions, established in Nigeria;
 - (iv) bodies recognised under the Diplomatic Immunities and Privileges Act; or
 - (v) any pandemic, natural disaster or other public emergency interventions.
- (d) A company making a deduction for a donation shall provide requisite document evidencing the donation to the relevant tax authority.
- (e) The total deduction to be allowed to a company, under this section, for any year of assessment, shall not exceed an amount equal to 10% of the profit before tax of that company for that year.
- (f) In the case of a donation other than in cash, the value for the purpose of this section shall be the lower of the market value at the time of the donation or the consideration paid for the item when it was acquired.

20.8.3 Deduction for research and development - section 164 of NTA

- (a) Notwithstanding anything contained in section 20 of this Act (deductions allowed), for the purpose of ascertaining the profit or loss of any company for any period from any source chargeable with tax, there shall be deducted the amount incurred in that period by that company for research and development.

- (b) The deduction to be allowed to a company under (a) above for any year of assessment shall not exceed an amount which is equal to 5% of the turnover for that year.
- (c) Where a company to which this section applies subsequently sells or transfers the outcome of the research and development to another person for exploitation or commercialisation, the proceeds of such sale or transfer shall be taxed accordingly.

20.8.4 Deductions not allowed - section 21 of NTA

In the ascertainment of the profit or loss of a company from trade, business, profession or vocation, for a period, the following expenses are not allowed as deductions:

- (a) capital repaid or withdrawn from a trade, business, profession or vocation;
- (b) any expenditure of a capital nature;
- (c) domestic or private expense, or expenditure on assets not used for the purpose of trade, business, profession or vocation;
- (d) any sum recoverable under an insurance or contract of indemnity;
- (e) taxes on profit or incomes levied in Nigeria or elsewhere;
- (f) any payment to a savings, widows and orphans, pension, provident or other retirement benefit fund, society or scheme not approved under the Pension Reform Act or any similar enactment in Nigeria;
- (g) depreciation or impairment of any fixed asset, investment or an unrealised exchange difference on any item denominated in foreign currency;
- (h) any sum reserved out of profits subject to the provisions of section 20 (j) - reincorporation expenses - of this Act;
- (i) any payment to a connected person that is not consistent with the Transfer Pricing Regulations issued by the Service;
- (j) any expense incurred in deriving an income that is exempt from income tax;
- (k) any expense allowable as a deduction in determining chargeable gains under this Act;
- (l) penalty or fine imposed under any law;
- (m) any tax or penalty borne on behalf of another person;
- (n) any compensating payment made by a borrower, which qualifies as dividends under this Act, to its approved agent or to a lender in a Regulated Securities Lending transaction;
- (o) any compensating payment made by an approved agent, which qualifies as interest or dividend under this Act, to a borrower or lender in a regulated securities lending transaction; or
- (p) any expense on which Value Added Tax is due under this Act but was not charged, or in the case of imported items, any expense on which the applicable import duty or levy was not paid.

20.8.5 Expenses incurred in deriving exempt income - section 21(j) of NTA

Where a deductible expense is incurred for the purposes of generating both exempt and non-exempt income, only the portion that relates to the income assessable to tax shall be allowed as a deduction.

Illustration 20.1

Crystal Clear Limited generated a profit of ₦2,000,000 during the year ended December 31, 2025. It incurred deductible expenses of ₦250,000. Out of the business profit of ₦2,000,000, only ₦1,400,000 is assessable to tax.

Required:

Compute how much of the expenses will be allowed for deduction for income tax purposes.

Solution 20.1

The formula to be applied is

$$\frac{A}{A + B} \times C$$

Where:

A = Income assessable to tax

B = Tax exempt income

C = Total available expenses

Arising from the above, the portion of the deductible expenses to be allowed as a deduction is computed thus:

$$\frac{\text{₦1,400,000}}{\text{₦1,400,000} + \text{₦600,000}} \times \text{₦250,000} = \text{₦175,000}$$

20.8.6 Restriction on the deductibility of interest- section 20(1)(a) of NTA and the Third Schedule to the Act

- (a) Notwithstanding any provisions of Chapter Two of this Act, that is, taxation of income of persons, where a Nigerian company or permanent establishment of a non-resident company in Nigeria, incurs any expenditure by way of interest or of similar nature in respect of debt issued by a connected person, the excess interest thereon shall be a disallowable deduction for the purpose of Chapter Two of this Act.
- (b) The provision in the previous paragraph, explains that the excess interest shall mean an amount of total interest paid or payable to a connected person in excess of 30% of earnings before interest, taxes, depreciation and amortisation of the Nigerian company in that accounting period.
- (c) The provisions of (a) above, shall not apply to a Nigerian subsidiary of a foreign company which is engaged in the business of banking or insurance.
- (d) Where for any assessment year, the interest expenditure is not wholly deducted against income, the interest expenditure that has not been deducted, shall be carried forward to the following assessment year or assessment years, and it shall be allowed as a deduction against the profits, if any, of any business carried on by it and assessable for that assessment year to the extent permitted in accordance (b) above:

Provided that interest expenditure shall not be carried forward under this paragraph for more than five assessment years immediately succeeding the assessment year for which the excess interest expenditure was first computed.

It is pertinent to state that section 201 of NTA explains "*connected persons*" to include, in the case of:

- (a) individuals, the individuals are married or are relatives;
- (b) a trustee in relation to a settlement, the trustee and the settlor, or the spouse or a relative of the settlor;
- (c) a partnership, a person is related to the person, or spouse or a close relative of the person with whom he is in partnership;
- (d) a company:

- (i) a person is connected to a company of which he, or his spouse or a close relative has control,
- (ii) a company is connected to another company where the same person has control over both companies, or connected persons acting separately have control over the companies,
- (iii) a company is connected to two or more persons who acting together, or through a person acting on their directions exercise control over the company,
- (iv) two companies are connected where one company participates directly or indirectly in the management, control or capital of the other company, or the same persons participate directly or indirectly in the management, control or capital of a company and another company;
- (e) other cases, two persons are connected where:
 - (i) one may reasonably be expected to act in accordance with the directions, requests, suggestions, or wishes of the other person;
 - (ii) both persons may reasonably be expected to act in accordance with the directions, requests, suggestions, or wishes of a third person; or
 - (iii) one person has the practical ability to control the business decisions of another person:

Provided that two persons are not connected solely by reason of the fact that one person is the employee or client of the other, or both persons are employees or clients of a third person.

Illustration 20.2

Jones Nigeria Limited was incorporated on November 2, 2021, and it commenced business on April 4, 2022. ABC (Canada) Limited is its subsidiary in Canada.

An extract of the financial statements of Jones Nigeria Limited for the year ended December 31, 2025, revealed the following:

	N
Net profit	5,000,000
Interests and depreciation deducted before arriving at the net profit of N5,000,000, are as follows:	
Interest on loan paid to:	
- Other creditors	1,500,000
- ABC (Canada) Limited	1,750,000
Depreciation	1,300,000

It was stated that out of the loan paid to other creditors, N200,000 was in respect of a loan obtained in generating tax-exempt profits.

Required:

- (a) Compute the interest deductible in the relevant assessment year.
- (b) Explain how the excess interest not deductible in the relevant assessment year will be treated.

Solution 20.2

(a) Jones Nigeria Limited

Computation of interest deductible in 2026 assessment year

Computation of earnings before interest, taxes, depreciation and amortisation (EBITDA)

	N	N
Net profit		5,000,000
Add:		
Interests deducted	3,250,000	
Depreciation	<u>1,300,000</u>	
	<u>4,550,000</u>	<u>4,550,000</u>
EBITDA		<u>9,550,000</u>
Interest deductible before restriction:		
Interest paid to other creditors	1,500,000	
Interest paid to ABC (Canada) Limited	<u>1,750,000</u>	
Total interest expenses	3,250,000	
Interest for tax exempt profit	<u>(200,000)</u>	
Interest qualifying for deduction	<u>3,050,000</u>	

Restriction:

$$30\% \text{ of EBITDA (30\% of } \text{N}9,550,000) = \text{N}2,865,000$$

Amount of interest deductible in 2025 assessment is the lower of:

(i)	30% of EBITDA (N9,550,000)	=	N2,865,000; or
(ii)	Interest qualifying for deduction	=	N3,050,000

This is N2,865,000.

(b) Treatment of excess interest not deductible in the relevant assessment year

The excess interest of N3,050,000 less N2,865,000, which is N185,000, will be carried forward and added to the interest expense for that year with a view to computing the restriction for that year.

It should be noted that the excess interest of N185,000 may only be carried for a period not exceeding five years, that is, 2031 assessment year, whilst applying for each of the years, the same rule based on which the excess interest expenditure was first computed.

20.9 Tax implications of business restructuring - section 189 of NTA

The tax implications of business restructuring include:

(a) in the case of a merger of two or more trades or businesses:

- a new trade or business shall not be deemed to have commenced as a result of the merger, and the provisions of this Act as they relate to cessation of trade or business shall not apply to the trade or business that ceased as a result of the merger;
- the provisions of Part VIII of Chapter Two of this Act - ascertainment of chargeable gains - as they relate to chargeable gains shall not apply to the

- assets transferred to the new or surviving trade or business as a result of the merger;
- (iii) assets of the merging trades or businesses shall be deemed to have been transferred at the residue of the qualifying capital expenditure on the day following the merger;
 - (iv) the provisions of the First Schedule to this Act - capital allowance - shall apply on the remaining useful life of the asset transferred because of the merger,
 - (v) unutilised capital allowance on the assets transferred shall be available for the use of the new or surviving trade or business;
 - (vi) unabsorbed losses of the merging entities shall be available to the surviving trade or business provided that such losses were incurred by the merged trade or business; and
 - (vii) taxes deducted at source in respect of the merged trades or businesses shall be available to the merged trade or business;
- (b) in the case of a sale or transfer of a trade or business which results into the cessation of a trade or business:
- (i) the provisions of Part V of Chapter Two of this Act as regards cessation of trade, business, profession or vocation shall apply to the trade or business that was sold or transferred;
 - (ii) for the purposes of the First Schedule to this Act - capital allowance-, the asset sold or transferred shall be recognised at the value of which they are sold or transferred;
 - (iii) unutilised capital allowance on the assets sold or transferred shall not be available for use in the new or surviving trade or business;
 - (iv) unabsorbed losses of the old business shall not be available for use in the new or surviving trade, business, profession or vocation; and
 - (v) taxes deducted at source from the old trade or business; shall not be available for use by the new or surviving trade or business;
- (c) in the case of a sale or transfer of a business asset which does not result into the cessation of the trade or business, and where the parties agreed to sell or transfer the asset for an amount not exceeding the sum of the residue of the qualifying capital expenditure and unutilised capital allowance of the asset:
- (i) capital allowance under the provisions of the First Schedule to this Act shall apply to the residue of the asset only,
 - (ii) the unutilised capital allowance on the asset sold or transferred shall be available for use by the buying trade or business,
 - (iii) the trade or business that sold or transferred the assets shall not claim any part of the unutilised capital allowance pertaining to the asset sold or transferred;
 - (iv) the provisions of Part VIII of Chapter Two of this Act as regards chargeable gains shall not apply to the asset sold or transferred under this paragraph.

20.10 Basis of computing assessable profits for trade or business - section 22 of NTA

20.10.1 Commencement of business -section 22(1) of NTA

- (a) *Based on section 201 of NTA "commencement of business"* means the starting of operation of a business; whilst *"commencement date"* means the date that an entity carries out its first transaction which shall be the earliest of the date it:
- (i) begins to market or first advertises its products or services for sale;
 - (ii) obtains an operating license from a regulatory authority in Nigeria;
 - (iii) first sale or purchase;

- (iv) execute its first trading contract after incorporation;
 - (v) issues or receives its first invoice;
 - (vi) delivers or receives its first consignment of goods; or
 - (vii) first renders services to its customers.
- (b) The assessable profits of the first year of assessment for a new business, shall be the profits from the date in which such trade, business, profession or vocation commences in Nigeria to the end of the first accounting period.
- (c) For subsequent years of assessment, the profits of any trade, business, profession or vocation for each year of assessment (the assessable profits) shall be the profits of the accounting period immediately preceding the year of assessment from all sources.

Illustration 20.3

XYZ Limited commenced business on March 1, 2025, and makes up accounts to October 31, each year.

Required:

State the relevant assessment year and the profits to be assessed.

Solution 20.3

The first assessment year is 2026 and the profits to be assessed will relate to March 1, 2025 to October 31, 2025.

Illustration 20.4

XYZ Limited commenced business on April 1, 2025 and makes up accounts to November 30, each year.

Required:

Determine the basis periods for the first four years of assessment

Solution 20.4

XYZ Limited basis periods for the first four years of assessment

YOA	Basis period
2026	1/4/2025 – 30/11/2025
2027	1/12/2025 – 30/11/2026
2028	1/12/2026 – 30/11/2027
2029	1/12/2027 – 30/11/2028

Ascertainment of the end of the first accounting period

The ascertainment of the end of the first accounting period is key in the determination of basis period and the first year of assessment.

The first accounting period begins from the date of commencement of business to the end of its first accounting year-end.

In a situation where a company prepares the audited financial statements for a period shorter or longer than the first accounting period, the assessable profits for the first accounting year will be determined on pro-rata basis.

Illustration 20.5

Orion Limited was incorporated in December 2024 and commenced business on October 1, 2025. The first set of financial statements prepared by the company

covered a period of 15 months, that is, October 1, 2025 to December 31, 2026 and the adjusted profit was ₦3,000,000.

Required:

Ascertain the relevant basis periods and the assessable profits for the relevant assessment years.

Solution 20.5

Orion Limited

Ascertainment of the relevant basis periods and assessable profits for the relevant assessment years

YOA	Basis period	Assessable profit ₦
2026	1/10/25 – 31/12/25	600,000
2027	1/1/26 - 31/12/26	<u>2,400,000</u>
		<u>3,000,000</u>

20.10.2 Change in accounting date - section 23 of NTA

- (a) Where a taxable person changes the date to which it usually computes its assessable profits, the basis period for the computation of the assessable profits for the relevant year of assessment shall be the period commencing from the first day after the basis period of the immediately preceding year of assessment up to the new date on which the account was made, and the assessable profits of subsequent years of assessments shall be computed on the basis of the new accounting period.
- (b) Where there is a change in the accounting date under (a) above, the taxable person shall notify the relevant tax authority not later than 30 days before the usual due date of filing its income tax returns.

Illustration 20.6

XYZ Nigeria Limited was incorporated on October 3, 2022, but did not commence business until April 2, 2023.

One of the production strategies of the company is to change its accounting date to align with that of one of the suppliers of its raw materials and also enjoy some discounts on purchases. The company changed its accounting date from December 31, to March 31 in 2026.

Extracts from the financial records of the company revealed the following adjusted profits:

	₦
Period ended December 31, 2023	24,500,000
Year ended December 31, 2024	42,700,000
Year ended December 31, 2025	63,500,000
Period ended March 31, 2026 (3 months)	31,300,000
Projected financial results for the year ending March 31, 2027 is	130,500,000

Required:

Compute the assessable profits for the relevant assessment years.

Solution 20.6

The relevant assessment years are as follows:

Assessment year	Basis period	Assessable profits ₦
2024	April 2, 2023 - December 31, 2023	24,500,000
2025	January 1, 2024 - December 31, 2024	42,700,000
2026	January 1, 2025 - December 31, 2025	63,500,000
2027	January 1, 2026 - March 31, 2026	31,300,000
2028	April 1, 2026 - March 31, 2027	130,500,000

20.10.3 Cessation of trade or business - section 24 of NTA

- Where a trade, business, profession or vocation permanently ceases to carry on operations in Nigeria in an accounting period, the assessable profits for the relevant year of assessment shall be the amount of the profits from the beginning of the accounting period to the date of cessation and the tax shall be payable within six months from the date of cessation.
- Where, after the date of cessation, the trade, business, profession or vocation, or its receivers or liquidators, receive or pay any sum which ought to have been included in or deducted from the profits of that trade or business if it had been received or paid prior to that date, such sum shall be deemed for the purposes of this Act to have been received or paid by the trade, business, profession or vocation on the last day before such cessation occurred and such sums shall be disclosed to the relevant tax authority within one month of the receipt or payment.
- Where the provisions of (b) above apply, any additional assessment or claim for reduction of assessment or repayment of tax shall be made as may be necessary to give effect to the provisions, provided that the provisions of the Nigeria Tax Administration Act relating to objections and appeals shall apply to the additional assessment or claim of reduction of assessment or repayment of tax under this subsection.
- In the case of a deceased individual, where the personal representative after death, receives or pays any sum which would have been included in or deducted from the gains or profits from the trade, business, profession or vocation carried on prior to death, that sum shall be deemed for all purposes of this Act to have been received or paid by the deceased, on the last day prior to the death.

Illustration 20.7

Apeku Nigeria Limited that was incorporated in 1995, ceased operation on March 31, 2025, having been in business for over 25 years. The accounting year-end of the company is December 31, annually.

Required:

Determine the relevant years of assessment and the due dates of payment of tax.

Solution 20.7

YOA	Basis period	Due date of payment of tax
2025	1/1/24 – 31/12/24	June 30, 2025 (PYB)
2025	1/1/25 – 31/3/25	September 30, 2025 (Six months

after the date of cessation)

Illustration 20.7

Given the same scenario stated above, assume the company ceased operation on August 31, 2025.

Suggested solution to illustration 20.7

YOA	Basis period	Due date of payment of tax
2025	1/1/24 – 31/12/24	June 30, 2025 (PYB)
2026	1/1/25 – 31/8/25	February 28, 2026 (Six months after the date of cessation)

20.11 Computation of assessable profit

The assessable profit of a company is its adjusted profits or part thereof that is assessed to companies income tax, in an assessment year.

While adjusted profit is computed based on the accounts of a company for whatever period covered by such accounts (normally twelve months), assessable profit is determined and assessed to tax for an assessment year.

Conversely, a company's accounting year, is the period for which it prepares its annual accounts. It is usually a twelve (12)-month period, which may begin and end in the same year (for example, January 1 – December 31) or commence in a year and end the following year (for example, July 1 – June 30).

20.12 Chapter review

This chapter distinguishes between accounting profits/losses and taxable profits, including workings/adjustments required to arrive at total profits, from accounting profits. Clear examples of allowable/non-allowable expenses are provided as well as some classes of profits/incomes, that are exempt in the computation of companies income tax. It also explains the concepts of bases of assessments.

20.13 Worked examples

20.13.1 Questions

- (1) Section 189 of NTA explains the tax implications of business restructuring in the case of a:
- (a) merger of two or more trades or businesses;
 - (b) sale or transfer of a trade or business; and
 - (c) sale or transfer of a business asset which does not result into the cessation of the trade or business.

Required:

Discuss the tax implications of business restructuring.

- (2) The interest on loan relating to primary agricultural production included in the income of ABC Bank Limited for the year ended December 31, 2025, amounted to ₦5million.

The breakdown of the interest income based on the loan terms are as follows:

Repayment Period	Moratorium period	Interest rate p.a. %	Agric loan Interest ₦
5 years	24 months	15	2,500,000

3 years	6 “ “	20	800,000
2 years	18 “ “	14	700,000
5 years	6 “ “	35	<u>1,000,000</u>
			<u>5,000,000</u>

Base lending rate in respect of the facilities is 21% p.a.

Required:

Compute the loan interest exempted from tax.

- (3) Pius Ojo Limited changed its accounting date from December 31 to June 30. The following information is made available:

	₦
12 months to 31/12/2025	5,288,000
06 months to 30/06/2026	3,320,000
12 months to 30/06/2027 - projected	7,250,000

Required:

Compute the assessable profits for the relevant assessment years.

20.13.2 Suggested solutions to questions

- (1) Tax implications of business restructuring under section 189 of NTA are as follows:

- (a) in the case of a merger of two or more trades or businesses:

- (i) a new trade or business shall not be deemed to have commenced as a result of the merger, and the provisions of this Act as they relate to cessation of trade or business shall not apply to the trade or business that ceased as a result of the merger;
- (ii) the provisions of Part VIII of Chapter Two of this Act – ascertainment of chargeable gains - as they relate to chargeable gains shall not apply to the assets transferred to the new or surviving trade or business as a result of the merger;
- (iii) assets of the merging trades or businesses shall be deemed to have been transferred at the residue of the qualifying capital expenditure on the day following the merger;
- (iv) the provisions of the First Schedule to this Act - capital allowance - shall apply on the remaining useful life of the asset transferred because of the merger,
- (v) unutilised capital allowance on the assets transferred shall be available for the use of the new or surviving trade or business;
- (vi) unabsorbed losses of the merging entities shall be available to the surviving trade or business provided that such losses were incurred by the merged trade or business; and
- (vii) taxes deducted at source in respect of the merged trades or businesses shall be available to the merged trade or business;

- (b) in the case of a sale or transfer of a trade or business which results into the cessation of a trade or business:

- (i) the provisions of Part V of Chapter Two of this Act as regards cessation of trade, business, profession or vocation shall apply to the trade or business that was sold or transferred;

- (ii) for the purposes of the First Schedule to this Act - capital allowance-, the asset sold or transferred shall be recognised at the value of which they are sold or transferred;
 - (iii) unutilised capital allowance on the assets sold or transferred shall not be available for use in the new or surviving trade or business;
 - (iv) unabsorbed losses of the old business shall not be available for use in the new or surviving trade, business, profession or vocation; and
 - (v) taxes deducted at source from the old trade or business; shall not be available for use by the new or surviving trade or business;
- (c) in the case of a sale or transfer of a business asset which does not result into the cessation of the trade or business, and where the parties agreed to sell or transfer the asset for an amount not exceeding the sum of the residue of the qualifying capital expenditure and unutilised capital allowance of the asset:
- (i) capital allowance under the provisions of the First Schedule to this Act shall apply to the residue of the asset only,
 - (ii) the unutilised capital allowance on the asset sold or transferred shall be available for use by the buying trade or business,
 - (iii) the trade or business that sold or transferred the assets shall not claim any part of the unutilised capital allowance pertaining to the asset sold or transferred;
 - (iv) the provisions of Part VIII of Chapter Two of this Act as regards chargeable gains shall not apply to the asset sold or transferred under this paragraph.

(2) ABC Bank Limited

**Loan interest exempted from tax for the year ended December 31, 2025
(assessment year 2026)**

	Moratorium period	Interest rates %	Agric loan interest ₦	Exempt interest income ₦
(i)	24 months	15	2,500,000	2,500,000
(ii)	6 months	20	800,000	-
(iii)	18 months	14	700,000	700,000
(iv)	6 months	35	<u>1,000,000</u>	<u>-</u>
			<u>5,000,000</u>	<u>3,200,000</u>

Note:

(ii) & (iv) are not tax exempt as they fail to meet the two conditions as to moratorium period and base lending rate.

**(3) Pius Ojo Limited
Computation of assessable profits
For 2026, 2027 and 2028 assessment years**

YOA	Basis Period	Amount ₦
2026	1/1/25 - 31/12/25	5,288,000
2027	1/1/26 – 30/06/26 (six months)	3,320,000
2028	1/07/26 – 30/06/27	<u>7,200,000</u>

15,808,000

It is pertinent to state that section 23 of NTA has not made any provision for the comparison of the assessable profits based on the old and the new accounting bases with a view to ascertaining which is more favourable to the Revenue.

LOSS RELIEF

Contents

- 21.0 Learning objective
- 21.1 Learning outcomes
- 21.2 Introduction
- 21.3 Types of loss reliefs
- 21.4 Rules on loss relief
- 21.5 Treatment of losses under commencement, change of accounting date, and cessation of business
- 21.6 Chapter review
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21 Loss Relief

21.0 Learning objective

The objective of this chapter is to enhance readers' knowledge of loss relief principles and the treatment of losses under commencement, change of accounting date, and cessation of business.

21.1 Learning outcomes

On completion of this chapter, readers should be able to:

- (a) understand what constitutes loss relief;
- (b) identify the basis for granting loss relief;
- (c) know the rules guiding claims for loss relief; and
- (d) explain the treatment of losses under commencement, change of accounting date, and cessation of business.

21.2 Introduction

A company makes a loss from its trade or business, when its allowable operating expenses exceed its total income or earnings.

A company that makes a loss from its trade or business is entitled to relieve such loss by carrying it forward for set-off against the assessable profits of subsequent assessment years commencing from the year following that in which the loss occurs.

21.3 Types of loss reliefs

21.3.1 Current year loss relief - section 28(3) of NTA

This is one of the methods of relieving losses. It is applicable to only individuals. In this case, losses incurred from a particular source of income can be relieved against other sources.

In order to enjoy this relief, a written claim must be made in such form as the relevant tax authority may prescribe - section 31 of NTA.

21.3.2 Carry forward loss relief - section 27(6) of NTA

This relief is available only against profit from the same source of income where the loss originally occurred. It does not require approval before the relief can be granted. The relief also applies to both individuals and corporate bodies.

21.4 Rules on loss relief

The following points are to be noted in the application of the rules on loss relief for individuals and companies:

21.4.1 Individuals - section 28(3) of NTA

In order to arrive at the total income of an individual, the loss to be deducted is:

- (a) the amount of a loss incurred by the individual during the year or preceding year of assessment in a trade, business, profession or vocation; and
- (b) the amount of loss incurred on the disposal of a chargeable asset: Provided that:
 - (i) in no circumstances shall the aggregate loss deductions from income exceed the amount of that loss;
 - (ii) the loss shall be deducted as far as possible from assessable profit of a trade, business, profession or vocation of the first year of assessment after

- that in which the loss was incurred, and in subsequent years until the loss is fully recouped;
- (iii) the loss incurred during any year of assessment shall be computed, in accordance with the basis period used in ascertaining the assessable profits and income; and
 - (iv) any loss incurred in any period from sales, disposal or any other transaction in digital or virtual assets shall only be deductible against the profit or gain from digital or virtual assets.

21.4.2 Companies - section 27(6) – (7) of NTA

The amount of loss to be deducted in ascertaining the total profits of a company shall be subject to the following conditions:

- (a) in no circumstances shall the aggregate loss deductions from the assessable profits or income exceed the amount of that loss;
- (b) loss can only be deducted from the trade or business in which the loss was incurred;
- (c) the loss shall be deducted to the extent possible from the amount of the assessable profits of the first year of assessment after that in which the loss was incurred, and in subsequent years until the loss is fully recouped;
- (d) the loss incurred during any year of assessment shall be computed, in accordance with the basis period used in ascertaining the assessable profits and income; and
- (e) Notwithstanding the provisions of this subsection or any provision of this Act, any loss incurred in any period from sales, disposal or any other transaction in digital assets shall only be deductible in determining the profits from the business relating to digital or virtual assets.

21.5 Treatment of losses under commencement, change of accounting date, and cessation

All the rules mentioned in section 20.4 above, apply to the treatment of losses under commencement, change of accounting date, and cessation of business.

Illustration 21.1

Posu Nigeria limited has been sustaining losses for many years but it is expected to make a good recovery in 2026. The adjusted results of the company for the following years are as follows:

		₦
Year ended Dec 31 2024	Loss	(450,000)
Year ended Dec.31, 2025	Loss	(520,000)
Year ending Dec.31, 2026 (projected)	Profit	700,000

Capital allowances for the periods are as follows:

Assessment year:	₦
2025	37,500
2026	32,000
2027	45,000

For each of the years stated above, the company was able to achieve a minimum turnover of ₦ 150,000,000.

Required:

Compute the income tax liabilities for the relevant assessment years.

Suggested solution to Illustration 21.1

POSU Nigeria Limited Computation of income tax liabilities For the relevant years of assessment

	₦	₦
<u>Assessment year 2025</u>		
Basis period (1/1/24 – 31/12/24)		
Loss for the year		(450,000)
Add:		
Capital allowance for the year		<u>(37,500)</u>
Unrelieved loss and capital allowance c/f		<u>(487,500)</u>
 Companies income tax payable		<u>Nil</u>
 Tertiary education tax payable (3% of adjusted profit)		<u>Nil</u>
 <u>Assessment year 2026</u>		
Basis period (1/1/25 – 31/12/25)		
Loss for the year		(520,000)
Add		
Unrelieved loss b/f		<u>(450,000)</u>
		(970,000)
Capital allowance for the year	32,000	
Capital allowance b/f	<u>37,500</u>	<u>(69,500)</u>
Unrelieved losses and capital allowances c/f		<u>(1,039,500)</u>
 Companies income tax payable		<u>Nil</u>
 Tertiary education tax payable (3% of adjusted profit)		<u>Nil</u>
 <u>Assessment year 2027 - recovery year</u>		
Basis period (1/1/26 – 31/12/26)		
Profit for the year		700,000
Losses brought forward		<u>(970,000)</u>
		(270,000)
Less capital allowances - for the year	45,000	
- b/f	<u>69,500</u>	<u>(114,500)</u>
		<u>(384,500)</u>
 Companies income tax payable		<u>Nil</u>
 Federal development levy payable (4% of adjusted profit)		<u>28,000</u>

Illustration 21.2

Mr J.K has been in business for a long time, producing beverages for consumption in Nigeria. The company has just been integrated as part of group that adopts an accounting year end of December 31.

Effective June 30, 2026, the company changed its accounting year-end to align with other companies in the group. The adjusted profits of the company for the following periods are as follows:

	₦
Year ended Dec. 31, 2024 (Loss)	(3,000,000)
Year ended Dec. 31, 2025	2,700,000
Period ended June 30, 2026	1,400,000

Capital allowances for the relevant years agreed with the Revenue are as follows:

Year of assessment	Capital allowance ₦
2025	180,000
2026	240,000
2027	300,000

Required:

Compute the assessable profits for the relevant years of assessment.

Suggested solution to illustration 21.2

New basis		
Year of assessment	Basis period	Assessable profit / (loss) ₦
2025	1/1/2024 – 31/12/2024	(3,000,000)
2026	1/1/2025 - 31/12/2025	2,700,000
2027	1/1/26 – 30/06/ 26	<u>1,400,000</u>
		<u>1,100,000</u>

Illustration 21.3

Raposa Nigeria Limited, a company located in Sambisa Forest, Kutunwegi State of Nigeria, commenced operations on November 1, 2020. The accounting year-end was September 30.

As a result of stiff government policy on the importation of rice which the company deals with, the going concern of the business became threatened and the Board of Directors decided to cease operations on December 31, 2025.

The adjusted profits/ (loss) for the relevant periods are as follows:

	₦
Period to September 30, 2022	2,100,000
Year ended September 30, 2023	2,400,000

Year ended September 30, 2024	3,640,000
Year ended September 30, 2025	6,300,000
Period to December 31, 2025	(500,000)

You are provided with the following additional information:

- (i) Bad debt in the sum of N120,000 which was written off in 2023 assessment year, was recovered in October, 2024.
- (ii) A sum of N20,000 was spent to recover the debt.
- (iii) An expenditure of N350,000 incurred in assessment year 2023, though considered in the statement of profit or loss was not paid until August, 2025.

On cessation, the Revenue Authority intended to conduct a back-duty investigation and the taxpayer was duly informed. As a Tax Consultant, you have been invited to ascertain the assessable profits for the periods covered from the commencement of trade to cessation of business.

You are required to:

- a. Explain **THREE** reasons why a business may cease trading.
- b. Compute net terminal adjusted result for the relevant assessment year.

Suggested solution to illustration 21.3

a. Possible reasons why a business could cease business include:

- i. government legislation - the Federal Government may declare the activities of a business illegal and thus, this may lead to the end of such business;
- ii. permanent dearth or inability of sourcing raw materials;
- iii. loss of major market due to stiff competitors or economic prices;
- iv. inability to settle the debts owed by the company;
- v. loss of key personnel with technical know-how;
- vi. agreement by the management of the company;
- vii. liquidity problem;
- viii. mismanagement of funds;
- ix. complying with the order of the Court through an application of creditors or debenture holders of the company;
- x. failing objectives - continuous decline in profits;
- xi. natural disasters, for example, fire, earthquake or flood disaster; and
- xii. death of all shareholders, etc.

b. Raposa Nigeria Limited

Computation of net terminal adjusted loss

For 2026 assessment year

	N
The net terminal loss was	(500,000)

Notes:

- (i) Bad debts recovered in October 2024 must have been captured in the relevant accounting year.
- (ii) Amount spent in recovering the debt must also have been captured in the same accounting year.
- (iii) The expenditure of N350,000 was actually passed through the books before the year of cessation.
- (iv) Any loss sustained in the year of cessation is deemed lost and cannot be recovered.

Given the fact that the transactions occurred before the date of cessation, informed the decision to ignore same in the computation of the net terminal adjusted loss.

21.6 Chapter review

This chapter defines what constitutes a loss for a company in trade or business, and goes on to provide guidelines regarding loss relief rules, by clearly explaining how the loss relief rules are applied, using detailed worked examples.

21.7 Worked examples

21.7.1 Questions

- (1) A company makes a loss from its trade or business, when its allowable operating expenses exceed its total income or earnings.

A company that makes a loss from its trade or business is entitled to relieve such loss by carrying it forward for set-off against the assessable profits of subsequent assessment years commencing from the year following that in which the loss occurs.

Required:

Explain the following:

- (a) Current year loss relief
 - (b) Carry forward loss relief
- (2) There are specified rules to be taken into consideration in the application of loss relief.

Required:

- (a) Explain the rules governing the claim for loss relief.
 - (b) Explain the major advantages of loss relief to a taxpayer.
- (3) Oworu Nigeria Limited, was incorporated on February 1, 2018, and commenced business on May 1, 2018. The company makes up its accounts to December 31, each year. The following additional information is provided;

i. Adjusted profit(loss) for	₦'000
Year ended December 31, 2022	(80,000)
Year ended December 31, 2023	40,000
Year ended December 31, 2024	20,000
Year ended December 31, 2025	50,000

- ii. Capital allowances for each year of assessment are as given under:

	₦'000
2023	5,000
2024	3,500
2025	2,700
2026	2,500

For each of the years, the turnover of the company was N101,300,000.

Required:

Compute the income tax payable for the relevant years of assessment.

21.7.2. Suggested solutions to questions

(1) (a) **Current year loss relief - section 28(3) of NTA**

This is one of the methods of relieving losses. It is applicable to only individuals. In this case, losses incurred from a particular source of income can be relieved against other sources.

In order to enjoy this relief, a written claim must be made in such form as the relevant tax authority may prescribe - section 31 of NTA.

(b) **Carry forward loss relief - section 27(6) of NTA**

This relief is available only against profits from the same source of income where the loss originally occurred. Carry forward loss relief does not require approval before the relief is granted. It applies to both individuals and corporate bodies.

(2) (a) The rules governing loss relief are as follows:

(i) Individuals - section 28(3) of NTA

In order to arrive at the total income of an individual, the loss to be deducted is:

- the amount of a loss incurred by the individual during the year or preceding year of assessment in a trade, business, profession or vocation; and
- the amount of loss incurred on the disposal of a chargeable asset: Provided that:
 - in no circumstances shall the aggregate loss deductions from income exceed the amount of that loss;
 - the loss shall be deducted as far as possible from assessable profit of a trade, business, profession or vocation of the first year of assessment after that in which the loss was incurred, and in subsequent years until the loss is fully recouped;
 - the loss incurred during any year of assessment shall be computed, in accordance with the basis period used in ascertaining the assessable profits and income, and
 - any loss incurred in any period from sales, disposal or any other transaction in digital or virtual assets shall only be deductible against the profit or gain from digital or virtual assets.

(ii) Companies - section 27(6) of NTA

The amount of loss to be deducted in ascertaining the total profits of a company shall be subject to the following conditions:

- in no circumstances shall the aggregate loss deductions from the assessable profits or income exceed the amount of that loss;
- loss can only be deducted from the trade or business in which the loss was incurred;
- the loss shall be deducted to the extent possible from the amount of the assessable profits of the first year of assessment after that in which the loss was incurred, and in subsequent years until the loss is fully recouped; and

- the loss incurred during any year of assessment shall be computed, in accordance with the basis period used in ascertaining the assessable profits and income.
- Notwithstanding the provisions of this subsection or any provision of this Act, any loss incurred in any period from sales, disposal or any other transaction in digital assets shall only be deductible in determining the profits from the business relating to digital or virtual assets.

(b) The major advantage of a loss relief to a taxpayer is the consequential reduction in the amount of assessable profit of a year or future years. This has major impact on the total tax payable with a corresponding cash flow advantage for a taxpayer.

3. Oworu Nigeria Limited Computation of income tax payable For the relevant assessment years

	N'000	N'000
2023 assessment year		
Adjusted loss		(80,000)
Loss relieved		<u>Nil</u>
Unrelieved loss c/f		<u>(80,000)</u>
Capital allowance for the year	5,000	
Capital allowance utilised	<u>Nil</u>	
Unutilised capital allowance c/f	<u>5,000</u>	
Total profit		<u>Nil</u>
Companies income tax @ 30%		<u>Nil</u>
Tertiary education tax		<u>Nil</u>
2024 assessment year (normal)		
Adjusted profit		40,000
Loss brought forward		<u>(80,000)</u>
Loss carried forward		<u>(40,000)</u>
Capital allowance brought forward	5,000	
Capital allowance for the year	<u>3,500</u>	
Utilised capital allowance c/f	<u>8,500</u>	
Total profit		<u>NIL</u>
Companies income tax at 30% of total profit		<u>NIL</u>
Tertiary education tax at 2.5% of assessable profit		<u>N1,000</u>

2025 assessment year

Adjusted profit for the year		20,000
Unrelieved loss b/f		<u>(40,000)</u>
Unrelieved loss c/f		<u>(20,000)</u>

Capital allowance for the year	2,700	
Unutilised capital allowance b/f	<u>8,500</u>	
Unutilised capital allowance c/f	<u>11,200</u>	

Total profit		<u>Nil</u>
Companies income tax @30% of total profit		<u>Nil</u>
Tertiary education tax @3% of adjusted		<u>600</u>

2026 assessment year

Adjusted profit		50,000
Loss brought forward		<u>(20,000)</u>
		30,000

Capital Allowance for the year	2,500	
Unutilised capital allowance b/f	<u>11,200</u>	
Unutilised capital allowance	<u>13,700</u>	<u>(13,700)</u>
Total profit		<u>16,300</u>

Companies income tax @30% of total profit		<u>4,890</u>
Tertiary education tax @3% of adjusted profit		<u>1,500</u>

CAPITAL ALLOWANCES

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- 22.1 Learning outcomes
- 22.2 Definitions and types of qualifying capital expenditure
- 22.3 Explanation of annual allowance
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- 22.8 Computation of capital allowance
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22 Capital Allowances

22.0 Learning objective

The objective of this chapter is to enhance the readers' knowledge of the computation of capital allowances.

22.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) appreciate the meaning of capital allowances;
- (b) understand the categories of qualifying capital expenditure;
- (c) ascertain conditions for granting capital allowances;
- (d) establish basis period for capital allowances;
- (e) understand various restrictions on capital allowances claims; and
- (f) compute capital allowances on qualifying capital expenditure, including hire purchase transactions, and finance and operating leases.

22.2 Definitions and types of qualifying capital expenditure - First paragraph of the First Schedule to the NTA

"Qualifying capital expenditure" means expenditure incurred in a basis period for the acquisition, refurbishment and improvement of the value of the asset, which is:

(a) capital expenditure (qualifying plant and equipment expenditure; incurred on:

- (i) plant;
- (ii) machinery;
- (iii) manufacturing industrial plant;
- (iv) construction plant,

Including plant, machinery and equipment in use in agricultural trade or business;

- (b) capital expenditure incurred on the construction of buildings, structures or work of a permanent nature, other than expenditure which is included in (a),(c) or (d);
- (c) capital expenditure (qualifying mast expenditure) incurred on tall upright pole erected on, fastened to land or other structure;

(d) capital expenditure incurred in connection with, or in preparation for, the working of a mine, oil well or other sources of mineral deposits of a wasting nature (other than expenditure which is included in sub-paragraph (a) above:

- (i) on the acquisition of deposits, or of rights in or over, the deposits or on the purchase of information relating to the existence and extent of the deposit;
- (ii) on searching for or on discovering and testing deposits, or winning access thereto; or
- (i) on the construction of any work or building which is likely to be of little or no value when the source is no longer worked or, where the source is worked under a concession, which is likely to become valueless when the concession comes to an end to the individual working the source immediately before the concession comes to an end; or

- (e) capital expenditure (qualifying agriculture expenditure) incurred:
 - (i) in connection with a plantation, on the clearing of land for planting, planting other than replanting, maintenance of the plantation and other pre-production expenses in connection with that plantation shall be qualifying agriculture expenditure, incurred on the first day on which the trade or business commences;
 - (ii) in respect of ranching on:
 - structures used primarily for ranching;
 - raising herds of animals for the purpose of breeding, and does not include raising of animals for the purpose of sale; and
 - animals that function as apparatus with which a trade is carried on and the life expectancy is more than 5 years;
- (f) capital expenditure (qualifying intangible assets expenditure), incurred in respect of research and development of:
 - (i) equipment and facilities, patents, licences, secret formulas or process;
 - (ii) information concerning the development of industrial, commercial or scientific process, technical feasibility or products or processes; or
 - (iii) the discovery and testing of products or processes for future market use and such other similar costs which have brought into existence an asset;
- (g) capital expenditure (qualifying motor vehicle expenditure), incurred on:
 - (i) a fleet of buses of not less than three used for public transportation;
 - (ii) public transportation inter-city new mass transit coach of twenty-five seats and above operated by a private establishment; or
 - (iii) other motor vehicles;
- (h) capital expenditure (qualifying heavy transportation expenditure), incurred on:
 - (i) aircraft engine and fuselages;
 - (ii) pipeline and cables;
 - (iii) vessels;
 - (iv) ships engine; and
 - (v) train engine, railway carriages or train tracks and coaches;
- (i) capital expenditure (qualifying software expenditure) incurred on the acquisition of software or other such capital outlays on electronic applications; and
- (j) capital expenditure (qualifying furniture and fittings expenditure), incurred on furniture and fittings including those used in vessels, ships, aircrafts, trains, plants, and buildings for the purposes of trade or business.

It should be stated that paragraph 14 to the First Schedule to the NTA excludes the following expenditure as part of qualifying expenditure:

- (a) expenditure allowed for deduction under section 20 of the Act - ascertainment of profits and income; and
- (b) excess amount incurred on assets acquired in foreign currency and paid for with foreign currency obtained from the unofficial foreign exchange market at a rate above the prevailing official market rate on the date of the acquisition.

22.3 Explanation of annual allowance

22.3.1 Definition

Capital allowance is a form of relief granted to any company which incurred qualifying capital expenditure for the purpose of a trade or business during a basis

period in respect of property, plant and equipment that are in use at the end of the basis period. Capital allowances are granted in place of depreciation which is usually disallowed for income tax purposes.

22.3.2 Annual allowance (AA)

This is a tax relief granted every year, to individuals and companies on qualifying capital expenditure to reduce chargeable income or total profit. Annual allowance is computed on a straight-line basis.

22.4 Conditions for granting capital allowances - section 27(2) of NTA

The capital allowance to be granted in accordance with the provisions of Part I of the First Schedule, shall be the amount relating to the qualifying capital expenditure incurred in generating the assessable profits:

Provided that:

- (a) (i) in the case of companies in the priority sector, certificate of acceptance issued by the Industrial Inspectorate Department shall be obtained in respect of the qualifying capital expenditure; and
- (ii) where value added tax is due under this Act but not charged on an asset, or in the case of an imported item, where the applicable import duty or levy was not paid, the relevant expenditure shall not be eligible as a qualifying capital expenditure.
- (b) where the qualifying capital expenditure is in relation to an asset that is only partly utilised in generating the assessable profits, the capital allowance on such qualifying capital expenditure shall be prorated and only the portion relating to the taxable income shall be allowed as a deduction.
- (c) The capital allowance computed shall not be prorated where the non-taxable income constitutes less than 10% of the total income of the company.
- (d) Notwithstanding the provisions of (c) above, the portion of capital allowance attributable to priority activities of a company that enjoys economic development incentive under this Act shall be deducted only from the assessable profits of the priority business.

In addition to the above, paragraph 7 of the First Schedule states that “a capital allowance in respect of qualifying expenditure incurred in respect of an asset shall be made to a person for a year of assessment if at the end of a basis period, the person:

- (a) is the owner of the asset; and
- (b) used the asset for the purposes of its trade or business.

Paragraph 8(2) of the First Schedule to the NTA also states that “capital allowance shall only be made for an asset that is in use for the purpose of the trade or business at the end of the basis period of the year of assessment.

22.5 Capital allowances rates and restrictions

22.5.1 Capital allowances rates

Table I (Paragraph 6) of the First Schedule to the NTA

Capital allowance		
Class	Rate	Qualifying capital expenditure
1	10%	(i) Building expenditure (ii) Agricultural expenditure (iii) Mast expenditure (iv) Intangible assets expenditure (v) Heavy transportation expenditure
2	20%	(i) Plant expenditure (ii) Agricultural equipment expenditure (iii) Furniture and fittings expenditure (iv) Mining expenditure (v) Other equipment expenditure
3	25%	(i) Motor vehicle expenditure (ii) Software expenditure (iii) Other capital expenditure

22.5.2 Restrictions on capital allowances

Capital allowances are also restricted when:

- there is no proof of compliance with section 27(2) of NTA, that is, where VAT and import duties were not paid or fully paid;
- the qualifying capital expenditure is being partly used for generating taxable income but capital allowance can still be granted in full where the non-taxable income is less than 10% of the total income - section 27(3) of NTA;
- the owner partly uses the asset for trade or business, the allowance shall be apportioned as the relevant tax authority may deem fit - paragraph 16 of the First schedule to the NTA; and
- the basis period is less than 12 months, restrict amount calculated to the number of months in the basis period - paragraph 6(b) of the First Schedule to the NTA.

22.6 Basis period for capital allowances - paragraph 1 of the First Schedule to the Act

The *basis period* for an allowance means the basis period for assessable profit or income, provided that in the case of a trade or business:

- where there is an interval between the end of the basis period for one year of assessment and the basis period for the next year of assessment, then the interval shall be part of the second basis period; or
- where there is an interval between the end of the basis period for the year of assessment preceding that in which the trade or business permanently ceases to be carried on by a company or an individual and the basis period for the year in which it ceases, the interval shall form part of the first basis period.

Illustration 22.1

A company commenced business on January 2, 2026 and makes up its accounts to December 31, every year. It paid VAT and custom duties, where applicable, and the

projected costs of the following property, plant and equipment are as follows:

Date	Assets purchased	Cost
1/2/2026	Building	₦55 million
1/2/2026	Furniture	₦1.5 million
1/4/2027	Machinery	₦2 million
3/5/2027	Jeep motor vehicle	₦30 million

The turnover for each of the relevant assessment years is projected to be over ₦ 250 million.

Required:

Determine the basis periods and compute the capital allowances for all the relevant assessment years, taking into consideration the relevant provisions of the NTA, 2025.

Suggested solution 22.1

(a) Determination of basis period

YOA	Basis period for assessment	Basis period for capital allowance
2027	1/2/26 – 31/3/26	1/2/26 – 31/3/26
2028	1/4/26 – 31/3/27	1/4/26 – 31/3/27

(b) Determination of basis period

Allowances	Building	Furn.	Mach.	Motor vehicle	Total
Annual allowance (%)	10	20	20	25	
	₦ '000	₦ '000	₦ '000	₦ '000	₦ '000

Assessment Year – 2027

Cost:

1/2/26 – Building	55,000	
1/2/26 – Furniture		1,500

Allowances:

Annual allowance	(917)	(50)			<u>967</u>

Written Down Value – c/f	<u>54,083</u>	<u>1,450</u>

Assessment Year – 2028

Cost:

1/4/26 – Machinery			2,000	
3/5/26 – Jeep	-	-	-	50,000

Allowances:

Annual allowance	(5,500)	(300)	(400)	(12,500)	<u>18,700</u>

Written down value – c/f	<u>48,583</u>	<u>1,150</u>	<u>1,600</u>	<u>37,500</u>

22.7 Application of capital allowances to assets acquired under hire purchase or lease agreement

22.7.1 Hire purchase and finance lease

(a) Definition of hire purchase - section 201 of NTA

“Hire purchase” is a financial arrangement in which a person acquires immediate use of an asset by making regular instalment payments over a specified period and may gain ownership of the asset on the completion of the payments.

(b) Definition of finance lease - section 201 of NTA

“Finance lease” is a lease arrangement where the lessee effectively assumes most of the risks and rewards associated with asset ownership.

(a) The rules to be applied - Paragraph 2 of the First Schedule to the NTA

In relation to any asset acquired by any hirer or lessee under a hire-purchase or finance lease agreement, the following shall apply:

- i. the qualifying capital expenditure in any basis period shall, in relation to any asset so acquired under that agreement, be limited to the amount of the instalments paid by the hirer or lessee up to that basis period, excluding any interest paid under the agreement;
- ii. the “owner” of the asset shall be construed to be the hirer or lessee under the hire-purchase or finance lease agreement; and
- iii. the person letting the asset to the hirer or lessee under the agreement shall not be entitled to an allowance.

22.7.2 Capital allowances under an operating lease -paragraph 15 of the First Schedule to the NTA

Section 201 of NTA defines “operating lease” as an arrangement involving the transfer of the right to an asset by the lessor in return for rental payments from lessee over an obligatory period but the asset is not wholly amortised during the period.

- (a) Where in a basis period, the owner of an asset leases the asset to another person under an operating lease, the provisions of this part shall apply, as though such expenditure were incurred for the purpose of a trade or business carried on by the owner or lessor.
- (b) Where an asset is acquired for use by a hirer or lessee under a hire purchase or finance lease contract for the purpose of a trade or business carried on by such hirer or lessee, the hirer or lessee shall be deemed to be the owner of the asset and the provisions of this part shall apply to the hirer or lessee, to the exclusion of the hiree or lessor under the contract.
- (c) For the purposes of this paragraph in relation to the trade or business, the basis period for any year of assessment shall be taken to be the year immediately preceding that year of assessment.

22.8 Computation of annual allowance

22.8.1 Capital allowance - paragraph 6 of the First Schedule to the NTA

In a basis period for a year of assessment, a person has incurred qualifying expenditure wholly and exclusively for the purposes of its trade or business, there shall be made to the person for each year of assessment in the basis period for

which that asset was used for the purposes of that trade or business, an allowance (capital allowance) at the rate specified in 22.5.1 above:

Provided that:

- (a) there shall be recorded in the capital allowance computation schedule for statistical purposes 1% of qualifying capital expenditure until the asset is disposed which being a notional amount, shall not increase or reduce the amount of capital allowance claimable; and
- (b) where the basis period for any year of assessment is a period of less than one year, the allowance for that year of assessment shall be granted proportionately.

22.8.2 Computation of capital allowances for small companies - section 56 of NTA

Despite the fact that capital allowances are claimable on capital expenditure used to generate taxable income, these allowances are not allowable or carried forward in the case of small companies. Such a company can only claim the capital allowances on capital expenditure when it crosses the threshold of ₦100m as it will now qualify as a large company.

22.8.3 Claims for allowance - paragraph 21 of the First Schedule to the NTA

- (a) An allowance shall not be made to a person for a year of assessment unless it is claimed by the person for that year or where the relevant tax authority is of the opinion that it would be just to the taxpayer and reasonable to do so.
- (b) Where an allowance is not claimed in the year of assessment in the basis period for which that asset was used for the purposes of that trade or business, it shall be carried forward to subsequent period(s).

22.9 Other provisions relating to capital allowances

2.9.1 Extension of application of "in use" - paragraph 13 of the First Schedule to the NTA

- (a) An asset is deemed to be in use during a period of temporary disuse.
- (b) where an asset acquired for the purposes of a trade or business has not been used for the trade or business carried on by the owner, the asset shall be deemed to be in use, for the purposes of that trade or business on the date on which the expenditure was incurred, provided that where an allowance has been made and the first use to which the asset is put is not for the trade or business, additional assessments shall be made to counter-act the benefit obtained from the giving of the allowance.
- (c) The approval of the relevant tax authority shall be obtained for the purpose of (b) above.

22.9.2 Manner of making allowance - paragraph 22 of the First Schedule to the Act

- (a) An allowance to be made to a taxpayer shall be subtracted from the remainder of the assessable profits or income for the relevant year of assessment.
- (b) For the purpose of this paragraph, the remainder of the assessable profits or income of a person for a year of assessment shall be determined by giving full effect to the provisions of section 27 of this Act in the case of a company, and section 28 of this Act in the case of an individual, as it relates to the deduction of a loss.
- (c) Where a deduction under (b) above cannot be fully made for a year of assessment due to no remainder or insufficient remainder of assessable profit or income, the deduction, or the part not yet made, shall be treated as a deduction for the next year, and for succeeding years until fully utilised.

22.9.3 Transitional rules for capital allowances - paragraph 23 of the First Schedule to the Act

- (a) Where a capital allowance has been granted in respect of an asset before the commencement of this Act, the remaining basis periods in which allowance may be made under this Part, shall be the number of years of assessment for which allowance is to be made under this Part less the number of years of assessment for which allowance has previously been made.
- (b) Where capital allowances were granted, in respect of an asset before the commencement of this Act, for years of assessment equal to or greater than the number of years allowable under this Act, a single allowance shall be granted for the residue upon the commencement of this Act provided that there shall be recorded in the capital allowance computation schedule for statistical purposes, 1% of the qualifying capital expenditure until the asset is disposed which being a notional amount shall not increase or reduce the amount of capital allowance claimable under this Act.
- (c) In respect of qualifying capital expenditure on which capital allowance has been fully granted before the coming into effect of this Act, capital allowance shall not be granted under this Act on the amount required to be retained in the books under the repealed enactment.

22.10 Chapter review

This chapter addresses the incidence of capital allowances - what they represent and the categories of assets that could be classified as qualifying capital expenditure. It also discusses the conditions for granting capital allowances and the computation of capital allowances.

22.11 Worked examples

22.11.1 Questions

- (1) Dr. Mark John is the Managing Director of Ark Limited and he has been in the business of Car Hire Service for many years. He has the desire to change some of the vehicles in the fleet without negative effect on the cashflow of the business in the new budget year.

As the Lead Consultant of RFE Consulting, he sought your professional advice on the claims for capital allowances if the vehicles are acquired through hire purchase or finance lease arrangement.

Required:

- (a) Differentiate between hire purchase and finance lease arrangement in accordance with the provisions of NTA, 2025.
 - (b) Discuss the rules to be applied under a hire purchase or finance lease agreement in respect of a qualifying capital expenditure.
- (2) XYZ Limited commenced business on February 1, 2026, and makes up its accounts to March 31, each year. The turnover for each assessment year was over ₦250million.

The VAT and custom duty will be paid, where necessary, on the projected costs of the following property, plant and equipment (PPE):

Date	PPE purchased	Cost ₦

1/2/26	Building	56,000,000
1/2/26	Furniture	1,500,000
1/4/26	Machinery	8,000,000
31/5/26	Motor vehicle	23,000,000

Required:

Determine the basis period and compute the capital allowances for all the relevant years of assessment, taking into consideration the provisions of the NTA, 2025.

- (3) Apex Limited, a company that has been in business for so many years, is proposing to incur qualifying capital expenditure (QCE) of ₦2,000,000 on furniture and fittings in 2027 assessment year when the projected revenue of the company is put at ₦74,000,000. The company hopes to achieve a revenue of ₦770,000,000 and an asset base of ₦300 million in 2030 assessment year.

The records evidencing payments of VAT and custom duty on the qualifying capital expenditure are readily available.

Required:

Compute the capital allowances claimable for all the relevant years of assessment.

22.11.2 Suggested solutions to questions

(1)(a) (i) Definition of hire purchase -section 201 of NTA

“Hire purchase” is a financial arrangement in which a person acquires immediate use of an asset by making regular instalment payments over a specified period and may gain ownership of the asset on the completion of the payments.

(ii) Definition of finance lease - section 201 of NTA

“Finance lease” is a lease arrangement where the lessee effectively assumes most of the risks and rewards associated with asset ownership.

(b) The rules to be applied - Paragraph 2 of the First Schedule to the NTA

In relation to any asset acquired by any hirer or lessee under a hire-purchase or finance lease agreement, the following shall apply:

- i. the qualifying capital expenditure in any basis period shall, in relation to any asset so acquired under that agreement, be limited to the amount of the instalments paid by the hirer or lessee up to that basis period, excluding any interest paid under the agreement;
- ii. the “owner” of the asset shall be construed to be the hirer or lessee under the hire-purchase or finance lease agreement; and
- iii. the person letting the asset to the hirer or lessee under the agreement shall not be entitled to an allowance.

(2) **XYZ Limited**
Computation of capital allowances
For assessment years 2027 and 2028

(a) **Determination of basis period**

YOA	Basis period for assessment	Basis period for capital allowance
2027	1/2/26 – 31/3/26	1/2/26 – 31/3/26
2028	1/4/26 – 31/3/27	1/4/26 – 31/3/27

(b) **Determination of basis period**

Allowances	Building	Furn.	Mach.	Motor vehicle	Total
Annual allowance (%)	10	20	20	25	
	₦ '000	₦ '000	₦ '000	₦ '000	₦ '000

Assessment Year – 2027

Cost:

1/2/26 – Building 56,000

1/2/26 – Furniture 1,500

Allowances:

Annual allowance (933) (50) 983

Written Down Value – c/f 55,067 1,450

Assessment Year – 2028

Cost:

1/4/26 – Machinery 8,000

3/5/26 – Jeep - - 23,000

Allowances:

Annual allowance (5,600) (300) (1,600) (5,750) 13,250

Written down value – c/f 49,467 1,150 6,400 17,250

(3) **Apex Limited**
Computation of capital allowances for 2027 to 2031 assessment years.

	Furniture and Fittings			
Annual allowance – 20%				
	Total capital allowances	Cost	Remarks	
	₦	₦	₦	
<u>Assessment year 2027</u>				
Cost			2,000,000	
Annual allowance	400,000	400,000		
<u>Assessment year 2028</u>				
Annual allowance	400,000	800,000		
<u>Assessment year 2029</u>				
Annual allowance	400,000	1,200,000	(1,200,000)	Not utilised

W.D.V. c/f to A.Y. 2030	800,000
<u>Assessment year 2030</u>	
Annual allowance	(400,000)
W.D.V c/f to A.Y. 2031	<u>400,000</u>
<u>Assessment year 2031</u>	
Annual allowance	(380,000)
Amount retained in the books	<u>20,000</u>

Note:

Given the fact that the company did not achieve the ~~N~~100,000,000 revenue until 2030 assessment year, it will be regarded as a small company and the total annual allowance of ~~N~~1,200,000 will be deemed utilised in assessment years 2027, 2028 and 2029.

The capital allowances claimable in A.Y. 2030 is ~~N~~400,000, whilst that of A.Y. 2031 is ~~N~~ 380,000, that is ~~N~~400,000 less retention of ~~N~~20,000.

COMPUTATION OF COMPANIES INCOME TAX

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23 Computation of Companies Income Tax (CIT)

23.0 Learning objective

The objective of this chapter is to enhance the readers' knowledge of the computation of companies income tax (CIT).

23.1 Learning outcomes

On completion of this chapter, readers should be able to:

- (a) identify the rates of tax;
- (b) understand the various bases of computing companies income tax;
- (c) compute companies income tax;
- (d) explain effective tax rate;
- (e) identify income, dividend or payment that cannot be treated as substitution for total profit;
- (f) explain justifications for tax exemptions of the profits of a small company; and
- (g) explain the anti-tax abuse provisions put in place by the NTA and NTAA.

23.2 Computation of CIT based on total profit

To assist readers, the format of the computation of companies income tax payable is stated below:

Template for the computation of companies income tax

	N	N
Net profit/(loss) before tax		XX/(XX)
Add non-deductible expenses:		
Depreciation	XX	
Unrealised foreign exchange loss	XX	
Provision for lease liability	XX	
Donations	XX	
Excess interest on related party loan	XX	
Penalties and fines	<u>XX</u>	<u>XX</u>
		XX
Less non-taxable income:		
Unrealised foreign exchange gain	XX	
Payment for lease liability	<u>XX</u>	(XX)
Assessable profit/(loss)		<u>XXX</u>
Assessable profit/loss)		XX / (XX)
Chargeable gains		<u>XX</u>
		XX
Less reliefs:		
Research and development relief (if any)	XX	
Employee compensation relief (if any)	XX	

	N	N
New employment relief (if any)	<u>XX</u>	<u>XX</u>
Revised assessable profit		XX / (XX)
Loss: Loss relief:		
Unabsorbed loss relief b/f	XX	
Loss made during the year	<u>XX</u>	
	XX	
Loss relief absorbed	<u>(XX)</u>	(XX)
Unabsorbed loss relief (c/f)	<u>XX</u>	
Less: capital allowance:		
Unutilised capital allowance b/f	XX	
Capital allowance for the year	<u>XX</u>	
	XX	
Capital allowance utilised	<u>(XX)</u>	(XX)
Unutilised capital allowance c/f	<u>XX</u>	
Total taxable profit		<u>XXX</u>
Companies income tax @ 30% of total taxable profit (A)		
		XX
Development levy @ 4% of assessable profit (B)		<u>XX</u>
Total covered taxes payable (C) = (A + B)		<u>XXX</u>
Net before tax		XXX
Less 5% of depreciation		(XX)
Less 5% of personnel cost		<u>(XX)</u>
Total profit for minimum effective tax rate (D)		<u>XXX</u>
Total covered tax payable (C)		XX
Effective tax rate (ETC) (C/D) *100		X%
Minimum ETR		15%
Top-up rate (E)		(15% - X%)
Top-up tax payable (D X E)		<u>XXX</u>
Covered tax payable (C)		XX
Top-up Tax payable		<u>XX</u>
Total tax liability		XXX
Economic development incentive tax credit		<u>(XX)</u>
Tax liability payable		<u>XXX</u>

23.3 Computation of CIT based on substitution of dividend for total profit – section 9(1) of NTA

Where a Nigerian company declares dividend out of profits on which no tax is payable due to:

- (a) there being no total profits, or
- (b) total profits which are less than the amount of dividend which it declared, whether or not the recipient of the dividend is a Nigerian company, the company paying the dividend shall be charged to tax at the rate prescribed in section 56 of this Act, that is, 30% for now, as if the dividend is the total profits of the company for the year of assessment to which the accounts, out of which the dividend is declared, relates.

Illustration 23.1

The extracts from the projected financial statements of Ally Nigeria Limited for the year ending December 31, 2026, revealed the following:

	₦
Assessable profit for the year	18,000,000
Net profit for the year	32,000,000
Capital allowances as agreed with NRS	10,000,000
Dividend declared and paid to the shareholders	24,000,000

Required:

Compute the total taxable profit and companies income tax (CIT) payable for the relevant assessment year, taking into consideration the relevant provisions of the NTA 2025.

Suggested solution to illustration 23.1

Normal basis

	₦
Adjusted profit as per accounts	18,000,000
Less: Capital Allowances	(10,000,000)
Total taxable profit	<u>8,000,000</u>

Companies income tax (30 % of total taxable profit) = ₦ 2,400,000

Federal development levy (4% x ₦ 18,000,000) = ₦ 720,000

Dividend basis

Applying the Dividend rule:

Where a Nigerian company declares dividend out of profits on which no tax is payable due to:

- (a) there being no total profits, or
- (b) total profits which are less than the amount of dividend which it declared, whether or not the recipient of the dividend is a Nigerian company, the company paying the dividend shall be charged to tax at the rate prescribed in section 56 of this Act, that is, 30% for now, as if the dividend is the total profits of the company for the year of assessment to which the accounts, out of which the dividend is declared, relates.

Computation of final tax liability:

Since the dividend paid is higher than the computed total taxable profit, the dividend will be the basis of tax computation.

		N
Dividend paid		<u>24,000,000</u>
Companies income tax (30% of dividend paid)	=	<u>7,200,000</u>
Development levy (4% of assessable profit)	=	<u>720,000</u>

23.4 Computation of CIT based on deemed profit assessment or income assessment - section 38 of NTAA

- (a) Where a business produces either no assessable profit or an assessable profit which is less than expected from that business or the true amount of the assessable profit cannot be readily ascertained, the relevant tax authority may, in the case of:
- (i) a resident, assess and charge that taxable person on such fair and reasonable percentage of the gross income from the trade or business as the relevant tax authority may determine; or
 - (ii) a non-resident, the profits shall be any amount resulting from applying the profit margin of the person to the turnover generated from Nigeria.
- (b) For the purpose of (a) above, "profit margin" shall be the proportion of the Earnings Before Interest and Tax ("EBIT") to income or revenue in the published audited financial statement of the business, and in the case of persons that are not required to publish financial statements, the profit margin as may be ascertained by the relevant tax authority from financial statements of comparative companies.

Illustration 23.2

Ojokoro (Nigeria) Limited is engaged in general merchandising. The following details were extracted from the proposed tax returns to be submitted to the Federal Inland Revenue Service for assessment year 2027.

	N'000
Revenue	<u>100,000</u>
Assessable profit	5,850
Less:	5,850
Unrelieved loss brought forward	<u>(1,200)</u>
	4,650
Capital allowance	<u>(2,500)</u>
Total profit	<u>2,150</u>
Companies income tax payable	
N2,150,000 at 30%	<u>N645,000</u>

The total value of the fixed assts during the year ending December 31, 2026, is N 265 million.

A desk examination by the Inland Revenue officials revealed the following:

- (a) Revenue was understated by N5million

(b) Expenses were overstated by ₦1.5million

The tax official observed that the accounts submitted by the company were not reliable and that based on industry average, the gross profit percentage of about 10% revealed by the company's accounts was not reasonable.

Accordingly, the Revenue decided to revise the companies income tax computation by applying a fair and reasonable percentage of 25% on the revenue.

Required:

Re-compute the companies income tax liability for 2027 assessment year.

Suggested solution to illustration 23.2

Ojokoro (Nigeria) Limited
Computation of companies income tax liability
For assessment year 2027

	₦'000
Revised assessable profit, that is, (105m (100m+5m) x 25%)	26,250
Deduct:	
Unrelieved losses brought forward	<u>(1,200)</u>
	25,050
Capital allowances	<u>(2,500)</u>
Total profit	<u>22,550</u>
Companies income tax payable	
₦22,550,000 at 30%	= ₦6,765,000

23.5 Computation of CIT based on effective tax rate (ETR) - section 57 of NTA

(a) The effective tax rate shall be determined thus:

- (i) where, in any year of assessment, the effective tax rate, that is, covered taxes as a percentage of net income, of a company is less than 15%, such company shall recompute and pay an additional tax that makes its effective tax rate equal to 15%;
- (ii) cover taxes for the purpose of this section means companies income tax, petroleum profit tax, and hydrocarbon tax paid or payable, development levy, and priority sector tax credit; and
- (iii) net income refers to the profit before tax as reported in the audited financial statements excluding franked investment income and unrealised gains or losses:

Provided that the net income for a life insurance company shall not include gross income and investment income for policyholders.

Arising from the above, it is obvious that the provisions of this section are silent on the deduction of five percent of depreciation and personnel cost from net profits before tax as reported in a company's audited financial statements, in the ascertainment of effective tax rate. The international best practices require the deduction of these costs from the net profits of a company in the computation of effective tax rate.

Apart from the fact that the exclusion of these costs from net profits aligns with OECD international tax rules, it reduces the amounts of profits subject to the minimum tax rates,

thereby reducing the tax impact on business operations which include hiring of staff and construction of building infrastructure.

- (b) The provisions of this section shall apply to:
 - (i) a company that is a constituent entity of a Multinational Entity group, with aggregate group turnover of at least £750 million or its equivalent; and
 - (ii) any other company with an aggregate turnover of ₦50,000,000,000 and above in the financial year.
- (c) The provisions of a(i) above, shall not apply to an approved enterprise operating in a free zone with respect to its approved activities except:
 - (i) with respect to sale within the customs territory;
 - (ii) an entity as prescribed under b(i) above.
- (d) The service may issue regulations to give effect to the provisions under this section and may prescribe a higher threshold under b(i) above.

In order to compute CIT using the ETR, the following steps are recommended:

- (a) ascertain the net income (profit before tax, adjust for franked investment income and unrealised gains or losses);
- (b) further adjust for 5% of depreciation and personnel cost (salaries) - the adjustment for substance-based income exclusion (SBIE);
- (c) ascertain the covered taxes, that is, CIT, hydrocarbon tax paid or payable, petroleum profit tax, development levy, priority sector tax credit;
- (d) divide the covered taxes by the qualifying profit arising from (a) and (b) above.

Illustration 23.3

Apple Crest Limited has been in business for many years. After the enactment of the Nigeria Tax Act, 2025, the Managing Director was worried that the provisions of section 57 of the Act relating to effective tax rate could have a negative impact on the company's cash flow.

At the last board meeting, you were invited as the consultant to the company to explain the effect of the provisions, using the extracts from the projected financial statements for the year ending December 31, 2026. The details are as follows:

	N'000
Turnover	120,000,000
Profit before tax	750,000
Salaries	900,000
Depreciation	87,000
Assessable profit	320,000
Capital allowances	65,000
Total taxable profit	255,000
CIT paid	76,500
Federal development levy paid	12,800

Required:

Compute the top-up tax payable by the company.

Suggested solution to illustration 23.3 (Based on the provisions of section 57 of NTA)

	N'000
(a) Qualifying net profit for ETR	750,000
(b) Covered taxes (N 76,500,000 + N 12,800,000)	89,300

ETR is computed thus:

$$\frac{\text{N } 89,300,000}{\text{N } 750,000,000} \times 100\% = 11.91\%$$

The top-up tax payable is 15 % of qualifying net profit less the covered taxes paid, that is,
(15% of N 750,000,000) less N 89,300,000
= N 112,500,000 less N 89,300,000
= N 23,200,000

Suggested solution to illustration 23.3 (Based on global best practices)

	N'000
(a) Qualifying net profit for ETR (N 750,000,000) less 5% of (N 900,000,000 and N 87,000,000) = N 750,000,000 less N 49,350,000	700,650
(b) Covered taxes (N 76,500 + N 12,800)	89,300

ETR is computed thus:

$$\frac{\text{N } 89,300,000}{\text{N } 700,650,000} \times 100\% = 12.7453\%$$

The top-up tax payable is 15 % of qualifying net profit less the covered taxes paid,
that is, (15% of N 700,650,000) less N 89,300,000
= N 105,097,500 less N 89,300,000
= N 15,797,500

23.6 Income, dividend or payment that cannot be treated as substitution for total profit - section 9(2) of NTA

The substitution of dividend for total profit as stated in section 9(1) of NTA, shall not apply to:

- (a) dividends declared out of the retained earnings of a company, to the extent that the profits or gains included in the retained earnings have been taxed under the provisions of this Act;
- (b) dividends declared out of profits or gains that are exempt from income tax by this Act;
- (c) franked investment income as provided in this Act; or
- (d) distributions made by a real estate investment company to its shareholders from rental income and dividend income received on behalf of those shareholders, whether such dividends are paid out of profits of the year in which the dividend is declared or out of profits of previous reporting periods.

Illustration 23.4

An extract from the projected financial statements of ABC Limited and XYZ Limited for the year ending December 31, 2026, revealed the following:

	ABC Limited	XYZ Limited
	N	N
Total profit/(loss) for the year	3,600,000	(1,200,000)
Retained earnings brought forward	4,800,000	2,000,000
Dividend declared in 2026 paid in 2027	4,200,000	750,000

Based on the financial information disclosed for the companies, the following are to be noted:

- (a) Out of the dividend of ~~N~~4,200,000 to be paid by ABC Limited, only N600,000 will be regarded as having been paid out of retained earnings, hence only ~~N~~3,600,000 shall be subject to the application of section 9(2) of NTA.
- (b) ~~N~~750,000 to be paid by XYZ Limited will not be paid from the current year's loss, hence this amount will not be subject to the application of section 9(2) of NTA.

23.7 Tax exemption of the profits of a small company

23.7.1 Definition of a small company - section 201 of NTA

A small company is a business that earns gross turnover of ~~N~~ 100 million or less per annum with total fixed assets not exceeding ~~N~~ 250 million.

23.7.2 Criteria that must be met by small companies in order to be granted tax exemption

Section 56 of NTA exempts the profits of a small company from taxation.

For the profits of a small company to be tax exempt, it must:

- (a) register with the relevant tax authority and obtain a Taxpayer Identification ("Tax ID") for the purposes of compliance with tax obligations - section 4 of NTAA; and
- (b) maintain accurate financial records and fixed assets register as evidence of the "small company" status - section 102 of NTAA.

23.7.3 Exemption from payment of federal development levy

Given the fact that a small company whose profit is exempt from tax under section 56 of NTA will not have its assessable profit subject to tax, hence it will not pay federal development levy in respect to those exempt profits.

23.7.4 Computation of capital allowances

Despite the fact that capital allowances are claimable on capital expenditure used to generate taxable income, these allowances are not allowable or carried forward in the case of small companies. Such a company can only claim the capital allowances on capital expenditure when its gross turnover crosses the threshold of ~~N~~100 million and the value of the fixed assets exceeds ~~N~~250 million, as it will now qualify as a large company.

Illustration 23.5

Apev Limited incurred qualifying capital expenditure (QCE) of ~~N~~2,000,000 on furniture and fittings in 2024 assessment year when the revenue of the company was ~~N~~24,000,000.

The company hopes to achieve a revenue of ~~N~~127,000,000 and the cost of the

fixed assets to be N280 million in 2027 assessment year

The rate of depreciation is given as 20%.

Required:

Compute the capital allowances claimable for all the relevant years of assessment.

Suggested solution to illustration 23.5

Apev Limited

Computation of capital allowances for 2024 to 2028 assessment years.

	Furniture and Fittings			
	Total capital allowances	Cost		Remarks
	₦	₦	₦	
<u>Assessment year 2024</u>				
Cost			2,000,000	
Initial allowance	500,000			
Annual allowance	300,000	800,000		
<u>Assessment year 2025</u>				
Annual allowance	300,000	1,100,000		
<u>Assessment year 2026</u>				
Annual allowance	300,000	1,400,000	(1,400,000)	Not utilised
W.D.V. c/f to A.Y. 2027			600,000	
<u>Assessment year 2027</u>				
Annual allowance			(300,000)	
W.D.V c/f to A.Y. 2028			300,000	
<u>Assessment year 2028</u>				
Annual allowance			(280,000)	
Amount retained in the books			<u>20,000</u>	

Note:

Given the fact that the company did not achieve the ₦100,000,000 revenue until 2027 assessment year, it will be regarded as a small company and the initial allowance of ₦500,000 (25%) and the annual allowance of ₦300,000 (₦1,500,000 x 20%) will be deemed utilised in assessment years 2024, 2025 and 2026.

The written down value of the QCE brought forward to A.Y. 2027 will be ₦2,000,000 less ₦500,000 (I.A), less ₦900,000 (A. As for 3years), which equals ₦600,000.

The capital allowances claimable in A.Y. 2027 is ₦300,000, whilst that of A.Y. 2028 is ₦280,000, that is, ₦300,000 less retention of ₦20,000 (10% of the cost of the asset).

23.8 Anti- tax abuse provisions

Some of the provisions in NTA and NTAA include:

- (a) Effective tax rate - section 57 of NTA
 - (i) Where, in any year of assessment, the effective tax rate, that is, covered taxes as a percentage of net income, of a company is less than 15%, such company shall recompute and pay an additional tax that makes its effective tax rate equal to 15%;
 - (ii) The provisions of this section shall apply to:
 - ✓ a company that is a constituent entity of a Multinational Entity group, with aggregate group turnover of at least £750 million or its equivalent; and
 - ✓ any other company with an aggregate turnover of ₦50,000,000,000 and above in the financial year.
- (b) Disclosure of tax planning - section 30 of NTAA

Taxpayers shall, without notice or request, provide the relevant tax authority, information relating to that disclosable transaction or agreement.
- (c) Non-registration and anti-contract splitting - section 100(2) of NTAA

A statutory body or company who awards a contract to an unregistered person, shall be liable to pay an administrative penalty of ₦ 5,000,000.
- (d) Power of substitution - section 60 of NTAA

The relevant tax authority is empowered to appoint any person as agent of a taxpayer where the tax has become due and the taxable person refused or failed to pay. The relevant tax authority has the right to request the agent to pay any adjudged debt of the taxpayer.
- (e) Returns for virtual assets service providers - section 25 of NTAA

Virtual assets service providers shall, with or without notice, submit monthly reports to the relevant tax authority
- (f) Information to be delivered by bankers and others - section 29 of NTAA

Financial institutions shall prepare, with or without demand by the Service, annual returns specifying the names, customer location and transactions of new and existing customers in the case of:

 - i. An individual, where the cumulative transactions in a month amount to ~~₦~~ 50 million or more; or
 - ii. A body corporate, where the cumulative transactions in a month amount to ₦ 250 million or more.
- (g) Deductible interest - section 20(1)(a) of NTA and the Third Schedule to the NTA

Any excess interest arising from an amount of total interest paid or payable to a connected person in excess of 30% of earnings before interest, taxes, depreciation, and amortisation of the Nigerian company in that accounting period, shall be a disallowable deduction for the ascertainment of assessable profit.
- (h) Value added tax fiscalisation system - section 23 of NTAA

Any person making a taxable supply shall use the electronic fiscal system (EFS) for recording and reporting all supplies, where the Service deploys an EFS.

23.9 Chapter review

This chapter addresses the issue of applicable tax rates and the bases for computing companies income tax under the NTA, 2025.

23.10 Worked examples

23.10.1 Questions

1. (a) Agbatogun Nigeria Limited is owned by Nigerians and has been in business since year 2022. The projected financial results of the company for the year ending December 31, 2026 are as follows:

	₦	₦
Assets employed		
Non-current assets		180,000,000
Current assets	550,000,000	
Less: Current liabilities	<u>360,000,000</u>	
Net Current assets		<u>190,000,000</u>
Net assets		<u>370,000,000</u>
Financed by:		
Share capital		140,000,000
Statutory reserves		60,000,000
General reserves		100,000,000
Long term loans		<u>70,000,000</u>
		<u>370,000,000</u>

You are provided with the following additional information:

(i)	The projected revenue of the company for the year ending December 31, 2026 is	₦240,000,000
(ii)	Gross profit	₦35,000,000
(iii)	Assessable profit	₦2,100,000
(iv)	Unrelieved capital allowances brought forward from 2026 year of assessment was	₦300,000
(v)	Capital allowances for 2027 year of assessment amount to	₦800,000

Required:

Compute the company's income tax liability for 2027 year assessment.

- (b) In 2025, four tax laws were enacted in Nigeria to unify fragmented tax laws, enhance compliance by taxpayers, and increase government revenue. Additionally, the laws are to ensure simplification of tax administration and widen the tax base to capture transactions relating to digital services.

Required:

Explain some of the anti-tax abuse provisions put in place by the government.

- (2) The Managing Director of Okoko Nigeria Limited attended a workshop during which he came across the following tax matters under the NTA and NTAA:

- (i) Computation of CIT based on substitution of dividend for total profit;
- (ii) Treatment of losses in the ascertainment of total profits; and
- (iii) Deduction of cost of research and development in the ascertainment of profit or loss of a company

On his return to the office, he requested the Finance Director to explain these matters to him.

Information already agreed with the Nigeria Revenue Service in respect to 2027 assessment year is as follows:

	N'000
Assessable profit	26,000
Losses b/f	9,000
Capital allowances	4,200

The proposed gross turnover for the year ending December 31, 2026, is N120,000,000.

As the tax consultant, **you are required to:**

- (a) Explain the provisions of the NTA, 2025, dealing with the three areas of interest identified by the Managing Director.
 - (b) Using the information provided above, determine the tax payable by the company in 2027 assessment year.
- (3) Ada, Torera and Peace based at Okokomaiko in Lagos State, have run the firm of Ada, Torera , Peace and Company as builders for several years. The partnership agreement provided for the following:

- (i) Salaries paid to partners:

Ada	7,120,000
Torera	7,240,000
Peace	7,480,000

- (ii) Profit sharing ratio:

Ada	$\frac{1}{5}$
Torera	$\frac{3}{10}$
Peace	$\frac{1}{2}$

In January 2024, there was a decision to review the partnership agreement. Messrs Ada, Torera and Peace have been unable to find worthy successors to take over as partners. Rather than review the partnership agreement, they agreed to convert the partnership into a limited liability company. In view of this, a firm of chartered accountants was contacted to incorporate the name ATP Consultants Limited.

The authorised share capital of the proposed company was agreed at N10,000,000, made up of 10,000,000 ordinary shares of N1.00 each. The details of the shareholding structure were agreed as follows:

Ada	20%
Torera	30%
Peace	50%

The certificate of incorporation was approved by the Registrar-General of the Corporate Affairs Commission (CAC), Abuja on August 1, 2024. The certificate of incorporation was dated August 10, 2024. The company commenced business on October 1, 2024.

The cost of incorporation includes:

	₦
Payment for stamp duty	80,000
Professional fee for incorporation	50,000
CAC registration fees	100,000
Additional costs of incorporation	<u>40,000</u>
	<u>270,000</u>

The financial results for the year ended December 31, 2024 are as follows:

	₦	₦
Income		25,500,000
Less:		
Cost of incorporation	270,000	
Transport and travelling	135,000	
Medical	120,000	
Hotel and accommodation	125,000	
Audit and accountancy	110,000	
Postages and telephone	150,000	
Depreciation	500,000	
Salaries:		
Ada	7,120,000	
Torera	7,240,000	
Peace	<u>7,480,000</u>	<u>21,840,000</u>
Net profit		<u>2,250,000</u>

Assume: Fees and expenses were earned/incurred evenly throughout the year.

Required:

Write a report to Messrs Ada, Torera and Peace, highlighting:

- Tax implication of the decision to convert to a limited liability company, limiting yourself to the facts/details provided in the case study.
- Your comment on the breakdown of the cost of incorporation of ₦270,000, and the tax implication of **each** item.

Workings:

23.10.2

Suggested solutions to questions

(1) (a) Agbatogun Nigeria Limited

Computation of companies income tax liability For 2027 assessment year

	₦	₦
Assessable profit		2,100,000
<u>Deduct</u>		
Unrelieved capital allowances b/f	300,000	
Current year capital allowance	<u>800,000</u>	<u>(1,110,000)</u>
Total profit		<u>990,000</u>

Companies income tax (~~N~~ 990,000 at 30%)	297,000
Federal development levy (4% of ~~N~~ 2,100,000)	<u>84,000</u>
Total tax liability	<u>381,000</u>

(b) Anti-tax abuse provisions

Some of the provisions in NTA and NTAA include:

(i) Effective tax rate - section 57 of NTA

- Where, in any year of assessment, the effective tax rate, that is, covered taxes as a percentage of net income, of a company is less than 15%, such company shall recompute and pay an additional tax that makes its effective tax rate equal to 15%;
- The provisions of this section shall apply to:
 - ✓ a company that is a constituent entity of a Multinational Entity group, with aggregate group turnover of at least £750 million or its equivalent; and
 - ✓ any other company with an aggregate turnover of ~~N~~50,000,000,000 and above in the financial year.

(ii) Disclosure of tax planning - section 30 of NTAA

Taxpayers shall, without notice or request, provide the relevant tax authority, information relating to that disclosable transaction or agreement.

(iii) Non-registration and anti-contract splitting - section 100(2) of NTAA

A statutory body or company who awards a contract to an unregistered person, shall be liable to pay an administrative penalty of ~~N~~5,000,000.

(iv) Power of substitution - section 60 of NTAA

The relevant tax authority is empowered to appoint any person as agent of a taxpayer where the tax has become due and the taxable person refused or failed to pay. The relevant tax authority has the right to request the agent to pay any adjudged debt of the taxpayer.

(v) Returns for virtual assets service providers - section 25 of NTAA

Virtual assets service providers shall, with or without notice, submit monthly reports to the relevant tax authority

(vi) Information to be delivered by bankers and others - section 29 of NTAA

Financial institutions shall prepare, with or without demand by the Service, annual returns specifying the names, customer location and transactions of new and existing customers in the case of:

- an individual, where the cumulative transactions in a month amount to ~~N~~50 million or more; or
- a body corporate, where the cumulative transactions in a month amount to ~~N~~250 million or more.

(vii) Deductible interest - section 20(1)(a) of NTA and the Third Schedule to the NTA

Any excess interest arising from an amount of total interest paid or

payable to a connected person in excess of 30% of earnings before interest, taxes, depreciation, and amortisation of the Nigerian company in that accounting period, shall be a disallowable deduction for the ascertainment of assessable profit.

(viii) Value added tax fiscalisation system - section 23 of NTAA

Any person making a taxable supply shall use the electronic fiscal system (EFS) for recording and reporting all supplies, where the Service deploys an EFS.

(2) (a) XYZ & CO. Chartered Accountants

May 18, 2026

The Managing Director
Okoko Nigeria Limited
Airport Road
Ikeja Lagos.

Dear Sir,

Re: Tax Matters

Further to our discussions at the last workshop, please find below our explanations on the three areas of interest as identified:

a(i) Computation of CIT based on substitution of dividend for total profit - section 9(1) of NTA

Where a Nigerian company declares dividend out of profits on which no tax is payable due to:

- there being no total profits, or
- total profits which are less than the amount of dividend which it declared, whether or not the recipient of the dividend is a Nigerian company, the company paying the dividend shall be charged to tax at the rate prescribed in section 56 of this Act, that is, 30% for now, as if the dividend is the total profits of the company for the year of assessment to which the accounts, out of which the dividend is declared, relates.

(ii) Treatment of losses in the ascertainment of total profits- section 27(6) of NTA

- The amount of loss deductible in the ascertainment of total profits of companies shall be subject to the following conditions:
 - in no circumstances shall the aggregate loss deductions from the assessable profits or income exceed the amount of that loss;
 - loss can only be deducted from the trade or business in which the loss was incurred;
 - the loss shall be deducted to the extent possible from the amount of the assessable profits of the first year of assessment after that in which the loss was incurred, and in subsequent years until the loss is fully recouped; and

- the loss incurred during any year of assessment shall be computed, in accordance with the basis period provided in sections 22 to 25 of this Act, that is, the ascertainment of assessable profits and income.
 - Notwithstanding the provisions stated above, any loss incurred in any period from sales, disposal or any other transaction in digital assets shall only be deductible in determining the profits from the business relating to digital or virtual assets.
- (iii) Deduction of cost of research and development in the ascertainment of profit or loss of a company - section 164 of NTA
- For the purpose of ascertaining the profit or loss of any company for any period from any source chargeable with tax, there shall be deducted the amount incurred in that period by that company for research and development.
 - The deduction to be allowed to a company under a (1) above, for any year of assessment shall not exceed an amount which is equal to 5% of the turnover for that year.
 - Where a company to which this section applies subsequently sells or transfers the outcome of the research and development to another person for exploitation or commercialisation, the proceeds of such sale or transfer shall be taxed accordingly.

(b) Tax payable in 2027 assessment year

	₦'000
Assessable profit	26,000
Loss relief	<u>(9,000)</u>
	17,000
Capital allowance	<u>(4,200)</u>
Total profit	<u>12,800</u>
Companies income tax payable (total profit x 30%)	3,840
Federal development levy (4% of assessable profit)	<u>1,040</u>
Total liability	<u>4,880</u>

We hope the information provided above will meet your requirements. Please feel free to revert to us if you require any further clarification.

Yours faithfully,
For: XYZ & Co.

R. O. Enigma
Managing Partner

(3) The Directors,
ATP Consultants
Limited

Dear Sirs,

Re: Conversion of Ada, Torera, Peace & (Partnership) to ATP Consultants Limited

We write in response to your recent decision to convert your partnership business into a limited liability company.

Please find below our submissions:-

(a) Tax implications of conversion

- (i) The partnership ceased on September 30, 2024 and so all partnership income shall be based on personal income tax.
- (ii) Commencement rules will apply from October 1, 2024 when ATP Consultants Limited commenced operation.
- (iii) The incorporation expenses shall be applicable only to ATP Consultants Limited though not an allowable expense for tax purposes.
- (iv) ATP Consultants Limited will be required to register with the Nigeria Revenue Service for VAT and CIT, etc.
- (v) ATP Consultants Limited in accepting the incorporation expense shall deduct and remit with-holding tax from the professional fees at the rate of 5% if the beneficiary is a company and also 5% if the recipient is an individual partnership or incorporated entity.

(b) Tax implications of cost of incorporation

- (i) The total cost of ₦270,000, though paid during the partnership period, shall be considered as pre-operational expenses of ATP Consultants Limited.
- (ii) The pre-operational expenses when added back, will increase taxable income, thereby increasing tax payable by ATP Consulting Limited.
- (iii) ₦270,000, charged into ATP Consultants Limited's account is not an allowable expense for tax purposes, even if spread over a number of years.

Yours faithfully,

For: ABC Consultants Limited

A. B. James
Managing Partner

ACCOUNTING FOR TAXES

Contents

- 24.0 Learning objective
- 24.1 Learning outcomes
- 24.2 Nature of tax account
- 24.3 Postings into the tax account
- 24.4 Explanations of the bases for computing deferred tax
- 24.5 Computation of deferred tax
- 24.6 Disclosure of taxes in financial statements
- 23.5 Presentation of tax account in financial statements
- 24.8 Chapter review
- 24.9 Worked examples

24 Accounting for Taxes

24.0 Learning objective

The objective of this chapter is to enhance the readers' knowledge of the computation of deferred tax.

24.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) appreciate the nature of accounting for taxes;
- (b) understand accounting entries with respect to tax;
- (c) explain the bases of computation of deferred tax;
- (d) compute deferred tax;
- (e) know the disclosure requirements; and
- (f) know how to present tax account in financial statements.

24.2 Nature of tax accounts

The tax accounts of a company are used to record movements in the company's tax transactions for each year. For clarity, a separate account is maintained for deferred tax.

A typical tax account of a company contains the following:

- (a) Unpaid taxes at the beginning of the year - opening balance - CR
- (b) Provision for companies income tax - current year - CR
- (c) Provision for federal development levy - current year - CR
- (d) Prior year under-provision for tax - previous year(s) - CR
- (e) Prior year over-provision for tax - previous year - DR
- (g) Payments during the year - DR
- (h) Withholding tax credit notes set-off - DR
- (i) Unpaid/recoverable taxes at the end of the year - closing balance c/f

24.3 Postings into the tax account

Entries into the tax account are posted by raising the following journals:

- (a) Income tax provision account:
Profit and loss account DR
Tax account CR
Being provision for income tax for the year based on the total profit at 30%.
- (b) Federal development levy provision account
Profit and loss account DR
Tax account CR
Being provision for federal development levy at 4% of assessable profit
- (c) Under/(Over) provision for tax
Profit and loss account DR/CR
Tax account CR/DR
Being prior year under- or (over)- provision for year 20x1 Income tax.
- (d) Payment of outstanding tax
Tax account DR

Bank	CR
Being payment on account of outstanding income tax and federal development levy liabilities for year 20x1.	
- (e) Set-off of withholding tax
- | | |
|---|----|
| Income tax account | DR |
| To withholding tax account (receivable) | CR |
- Being set-off of withholding tax suffered at source against income tax liabilities for the year.
- (f) Provision for deferred tax on timing differences
- | | |
|-------------------------|----|
| Profit and loss account | DR |
| Deferred tax account | CR |
- Being provision charged for deferred tax on timing differences.

24.4 Explanations of the bases for the computation of deferred tax

24.4.1 Bases of computation

Deferred tax in Nigeria is computed based on the temporary differences between the financial reporting and tax bases of assets and liabilities. The following are the key bases for computation:

- (a) **Temporary differences:** Deferred tax is calculated on temporary differences between the carrying amount of assets and liabilities in the financial statements and their tax bases;
- (b) **Tax rates:** The applicable tax rates are used to calculate the deferred tax asset or liability;
Future tax consequences: Deferred tax is recognised for the future tax consequences of temporary differences, which will result in taxable or deductible amounts in future periods; and
- (c) **Recognition of deferred tax assets and liabilities:** Deferred tax assets and liabilities are recognised for all temporary differences, except for those that arise from the initial recognition of goodwill or certain other specific exceptions.

24.4.2 Key considerations

These include the following:

- (a) **Accounting standards:** The computation of deferred tax in Nigeria is guided by accounting standards such as IFRS (International Financial Reporting Standards) or NGAAP (Nigerian Generally Accepted Accounting Principles); and
- (b) **Tax laws and regulations:** The computation of deferred tax must also comply with relevant tax laws and regulations in Nigeria, including the Nigeria Tax Act, 2025 and other applicable tax legislations.

24.4.3 Computational steps

The steps to be taken include:

- (a) **Identification of temporary differences:** Determine the temporary differences between the financial reporting and tax bases of assets and liabilities;
- (b) **Computation of deferred tax:** Calculate the deferred tax asset or liability using the applicable tax rates.
- (c) **Recognition of deferred tax:** Recognise the deferred tax asset or liability in the financial statements

24.5 Computation of deferred tax

Timing difference is derived after adjusting for net book value, revaluation surplus and depreciation from the tax written down value. Deferred tax is at the rate of 30% of the timing difference.

24.6 Disclosure of taxes in financial statements

Companies are required to disclose the components of tax expenses, tax assets and liabilities in their financial statements. Such disclosures are usually made in the financial statements by way of notes.

24.7 Presentation of taxes in financial statements

The note on taxation is usually presented in the financial statements in a vertical form, as follows:

	₦ '000
Income tax on profit before tax	x
Federal development levy @ 4% of assessable profit)	x
Prior year's under-provision for income tax	x
Deferred tax charge	<u>x</u>
As per profit or loss account	xx
Outstanding at the beginning of the year	x
Adjustment for deferred tax charge	(x)
Payments during the year	<u>(x)</u>
As per statement of financial position	<u>xx</u>

24.8 Chapter review

This chapter covers sequence of accounting entries required and necessary to record the tax transactions of a company, the explanations of the bases for computing deferred tax, and computation of deferred tax. It provides the disclosure requirements with regards to components of tax expenses to be detailed in notes to financial statements.

24.9 Worked examples

24.9.1 Questions

- (1) Isiaka Jimoh Limited is a company engaged in the manufacture of imirat oil. Its projected financial statements for the year ending September 30, 2026, revealed the following results:

	₦'000
Net profit for the year	<u>300,000</u>
after charging:	
Depreciation of PPE	22,500
Loss on sale of PPE	500
Penalty and fine	200
Loan interest	8,500
Salaries and wages	30,000
and crediting:	
Franked Investment Income	20,000
Interest on foreign deposit a/c repatriated	5,600

Additional Information:

- (i) The company has unrelieved losses of ₦15million
- (ii) Capital allowance claim amounted to ₦55 million
- (iii) The projected tax written down value of PPE as at 30 September 2026, after the above capital allowances have been taken into account was ₦620 million, while the net book value on the same date was ₦550 million. The opening tax written down values and net book values were ₦665million and ₦630 million, respectively.
- (iv) Unpaid tax at the beginning of the year was ₦52 million while payment in the year was ₦60 million.
- (v) Assume a deferred tax charge of ₦9 million for the year and a depreciation rate of 5% per annum on property, plant and equipment.
- (vi) The company revalued its property, plant and equipment during the year ended September 30, 2021. The revaluation surplus arising from the revaluation which amounted to ₦100 million was reflected in the company's financial statements for that year.

Given the information above, **you are required to:**

- (a) Compute the company's tax liabilities for the relevant year of assessment.
 - (b) Compute the Deferred tax payable.
- (2)** The computation of deferred tax must comply with relevant tax laws and regulations in Nigeria, including the Companies Income Tax Act (CITA) (as amended) and other applicable tax legislations.

Required:

- (a) Explain deferred tax.
 - (b) Explain how entries are made into the tax account
- (3)** Ojeaga Limited is a financial institution based in Europe. The projected financial statements of the company for the year ending December 31, 2026, revealed the following:

	2025	2026
	₦ million	₦ million
Net book value of equipment	625	720
Tax written down value of equipment	651	808
Outstanding tax	78	63

The company recorded a net profit of ₦660 million after charging:

	₦ million
Depreciation of equipment	17
Stamp duties	2
Interest and bank charges	15
Staff costs	42
The profit for the year also included:	
Profit on sale of equipment	4
Franked investment income	25

The company has unrelieved losses brought forward of ₦10 million and capital allowances of ₦60 million for the year. The company also revalued its property

(land and building) on July 31, 2023 with a revaluation surplus of ₦120 million which has been incorporated into its accounts as at that point in time. The company's depreciation rate on the property is 10% per annum.

You are required to:

Compute the company's tax liabilities for the relevant tax year, with note to the financial statements in line with the provisions of relevant accounting standards.

24.9.2 Suggested solutions to questions

**1 (a) Isiaka Jimoh Limited
Computation of tax liabilities
Assessment year 2027**

	₦'000	₦'000
Net profit per accounts		300,000
Add:		
Depreciation		22,500
Loss on sale of plant and equipment		500
Penalties and fines		<u>200</u>
		323,200
Deduct:		
Franked investment	20,000	
Repatriated interest	<u>5,600</u>	(25,600)
Adjusted/assessable profit		297,600
Deduct:		
Unrelieved losses brought forward		(15,000)
		282,600
Capital allowances		(55,000)
Total profit		<u>227,600</u>
Taxes payable		
Companies income tax – (₦227,600) at 30%		= ₦68,280
Federal development levy (₦297,600) at 4%		= ₦ 11,904

**(b) Computation of deferred tax
Assessment year 2027**

	2026		2025	
₦'000	₦'000	₦'000	₦'000	₦'000
Tax written down value		620		665
Less:				
Net book values	550		630	
Deduct:				
Revaluation surplus	100		100	
₦100m at 5% p.a. x 6yrs	<u>(30)</u>	<u>(70)</u>	(480)	
Depreciation 2024			<u>(25)</u>	<u>(555)</u>

₦100m at 5% p.a. x 5 years

Timing difference	<u>140</u>	<u>110</u>
Deferred tax provision		
thereon at 30%	<u>42</u>	<u>33</u>

Notes to the accounts

1. Taxation

₦'000

Companies income tax based on profit for the year	68,280
Federal development levy based on 4% of assessable profits	11,904
Deferred tax charge	<u>9,000</u>
Per statement of profit or loss	89,184

Unpaid taxes at the beginning of the year	52,000
Adjustment for deferred tax provision	(9,000)
Payments in the year	<u>(60,000)</u>
Per statement of financial position	<u>72,184</u>

2. (a) Deferred taxation which is provided for by the liability method represents taxation at the current rate of companies income tax and the difference between the net book value of the assets qualifying for capital allowances and their corresponding tax written down values.

Deferred tax liability should be recognised for all taxable temporary difference and charged to the income statement. A deferred tax asset should be recognised to the extent that is probable that total profit will be available in the future against which to recover tax or reduce liability.

2. (b) Entries into the tax account are posted by raising the following journals:

- (i) Income tax provision account

Profit or loss account DR

Tax account CR

Being provision for income tax for the year based on the total profit at 30%.

- (ii) Federal development levy provision account

Profit or loss account DR

Tax account CR

Being provision for Federal development levy at 4% of assessable profit

- (iii) Under/(over) provision for tax

Profit or loss account DR/CR

Tax account CR/DR
Being prior year under-or/over-provision for year 20x1 Income tax.

(iv) Tax account

Tax account DR

Bank CR

Being payment on account of outstanding income tax and federal development levy for year 20x1.

(v) Set-off of withholding tax

Income tax account DR

Withholding tax account (receivable) CR

Being set-off of withholding tax suffered at source against income tax liabilities for the year.

(v) Provision for deferred tax on timing differences

Profit or loss account DR

Deferred tax account CR

Being provision charged for deferred tax on timing differences.

(3) Ojeaga Limited

Computation of tax liabilities for 2027 tax year

	₦' million	₦' million
Net profit for the year		660
Add: Disallowable expenses		
Depreciation	17	
Stamp duties	<u>2</u>	<u>19</u>
		679
Less: Profit on sale of property	4	
Franked investment income	<u>25</u>	<u>29</u>
Assessable profit		650
Less: Unrelieved losses b/f		<u>10</u>
		640
Less: Capital allowances		<u>(60)</u>
Total profit		<u>580</u>
Companies income tax (30% of ₦580 million)		<u>174</u>
Federal development levy (4% of ₦650 million)		<u>26</u>

Computation of deferred tax for 2027 tax year ₦' million ₦' million

Tax written down value

	808	651
Less: Net book value	<u>(648)</u>	<u>(541)</u>
Timing difference	<u>160</u>	<u>110</u>
Deferred tax provision @ 30%	48	33

Additional provision for the year
(~~₦~~48 million – 33 million) = ~~₦~~15 million.

Notes to the accounts

Taxation account

	₦' million
Companies income tax provision	174
Federal development levy provision	26
Deferred tax provision	<u>15</u>
Charged to profit and loss accounts	215
Outstanding tax as at 1/1/2026	78
Adjustment for deferred tax	<u>(15)</u>
	278
Outstanding tax as at 31/12/2026	<u>(63)</u>
Tax paid during the year	<u>215</u>

Deferred tax account

	₦' million
Balance as at 1/1/2026	33
Additional charge during the year	15
Balance as at 31/12/2026	48

Workings

1. Calculation of net book value

	2027		2026	
	₦' million	₦' million	₦' million	₦' million
Net book value as per accounts		720		625
Less: Revaluation surplus	120		120	
Depreciation	<u>(48)</u>		<u>(36)</u>	
		<u>72</u>		<u>84</u>
		648		<u>541</u>

2. Depreciation on revaluation surplus

2027 tax year: 10% of ~~₦~~120 million x 4 = ~~₦~~48 million

2026 tax year: 10% of ~~₦~~120 million x 3 = ~~₦~~36 million

CHAPTER
25

TAXATION OF SPECIALISED BUSINESSES

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- 25.1 Learning outcomes
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- 25.4 Tax provisions relating to agricultural business and primary agricultural Production
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25 Taxation of Specialised Businesses

25.0 Learning objective

The objective of this chapter is to ensure that the readers understand the peculiar tax laws relating to specialised businesses, including the computation of the taxes payable.

25.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) understand the peculiar tax laws relating to specialised businesses; and
- (b) compute the taxes payable.

25.2 Definitions

Section 201 of NTA defines the following terminologies as follows:

25.2.1 "**Agricultural trade or business**" means:

- (a) primary crop production comprising the production of raw and semi-processed crops of all kinds, but excluding any intermediate or final processing of crops or any other associated manufactured or derivative crop product;
- (b) primary livestock production comprising the production of live animals and their direct produce such as live or raw meat, live or raw poultry, fresh eggs and milk of all kinds, but excluding any other associated manufactured or derivative livestock product;
- (c) primary forestry production comprising the production of timbers of various kinds such as firewood, charcoal, uncultivated materials gathered and other forestry products of all kinds, including seeds and saplings, but excluding the intermediate and final processing of timber and any other manufactured or derivative timber product; and
- (d) primary fishing production comprising the production of fish of all kinds, including ornamental fish, but excluding any intermediate or final processing of any other manufactured or derivative fish product.

25.2.2 "**Real estate investment**" means a company duly approved by the Securities and Exchange Commission to operate as a real estate investment scheme in Nigeria.

25.2.3 "**Gross turnover**" means the gross inflow of economic benefits during the period arising in the course of the operating activities of an entity when those inflows result in increases in equity, including sales of goods, supply of services, receipt of interest, rents, royalties or dividends other than increases relating to contributions from equity participants.

25.2.4 "**Regulated securities lending transaction**" means any securities lending transaction conducted under rules made by the Securities and Exchange Commission.

25.2.5 "**Lender**" in a regulated securities lending transaction means an approved lender.

25.2.6 "**Borrower**" in a regulated securities lending transaction means an approved borrower.

25.2.7 **"Approved Agent"** means any person approved by the Securities and Exchange Commission to function as an intermediary for the conduct of a regulated securities lending transaction.

25.2.7 **"Compensating payments"** means any payments made in *lieu* of interest or dividend under a regulated securities lending transaction.

25.2.8 **"Digital assets"** means digital representation of value that can be digitally exchanged, including, but not limited to, crypto assets, utility tokens, security tokens, non-fungible tokens (NFT), such other similar digital representation or derivatives of any of the listed or similar assets and any other asset as may be defined by the relevant regulatory authority.

25.3 Tax provision for real estate companies, and real estate investment companies that are approved by the Security Exchange Commission (SEC) under the relevant provisions of real estate investment schemes (REIS)

25.3.1 Real estate companies

The taxes that relate to real property transactions in Nigeria are as follows:

- (a) Companies income tax and personal income tax
Tax is imposed on the profits of a taxable person. Rent or any premium arising from a right granted to any other persons for the use or occupation of any property is subject to tax.

Individuals pay based on graduated tax rate which varies from 15% to 25% of the chargeable income whilst corporate bodies pay companies income tax at 0% or 30% of total profit, where the gross turnover is ₦100 million or less per annum with total fixed assets not exceeding ₦250 million.

- (b) Withholding tax
Where the recipients of incomes are companies and individuals, the payer of any income is expected to deduct withholding tax as follows:

(i) Commission, consultancy, technical management, and professional fees	- 5%
(ii) Supply of goods or materials other than by the manufacturer or producer	- 2%
(iii) Construction of roads, bridges, building and power plants	- 2%

The amount deducted by the payer should be remitted to the relevant tax authority within the period specified by law.

- (c) Federal development levy
Like other taxpayers, companies which are into real estate business are expected to pay federal development levy in addition to companies income tax.

The federal development levy is 4% of the assessable profit of a company, a small company with a gross turnover of ₦100 million and below is exempted from paying this tax.

- (d) Value added tax
Real estate companies are required to register for VAT on commencement of business with the relevant tax authority.

Section 185(l) specifically exempts VAT on land and building, including

interest in land or building. Additionally, the VAT exemption on land and building also includes rent which is exempt from VAT.

Section 155(4) of NTA allows input tax incurred by a registered person on any taxable supply, including services and fixed assets, to be deducted from the tax payable by the person on its taxable supplies at the end of the tax period in which the supply occurred, but only to the extent that the input tax was incurred for the purpose of consumption, use or supply in the course of making taxable supplies.

(f) Stamp duties

Section 134 of NTA exempts lease agreement with annual value which is less than ₦10 million or 10 times the annual minimum wage, whichever is higher, from VAT.

(g) Rental expenses as deductions allowed - section 20 of NTA

This section allows the deduction of related costs, such as agency fees, repairs, insurance, etc to be deducted from rental income.

25.3.2 Real estate investment companies that are approved by SEC under REIS

(a) Definition – section 191 of Investments and Securities Act, 2025

“Real estate investment company (REIC)” means a body corporate incorporated to acquire intermediate or long -term interests in real estate or property development. They are allowed to raise funds through the capital markets, offering income certificates and ordinary shares to investors.

(b) Statutory provisions

The regulations of real estate investment companies (REIS) in the Nigeria capital market include the provisions of the Investment and Securities Act 2025, the Securities and Exchange Commission Rules 2026 - mandating recapitalisation for capital market operators, regulating digital assets offering platforms, and allowing private companies to issue debt securities, and other extant laws and regulations.

(c) Nature of business

REIS are investment vehicles which pool funds from investors comprising individuals, companies, pension funds, associations, etc. for investments in real estate as an asset class.

REIS are usually established to acquire, develop and hold portfolios of real estate assets, and do not generally hold single assets. They primarily engage in and invest in income generating real estate asset or real estate related asset.

Some real estate investment companies and trusts are structured to:

- (i) purchase, hold, and manage properties with a view to generating rental income;
- (ii) finance real estate arranging for mortgages; and
- (iii) combine both strategies.

(d) Income of REIC

There are four broad classifications for the income of REIC, namely:

- (i) Rental income;
- (ii) Dividend from another REIC;
- (iii) Gains from disposal of assets; and

- (iv) Others, for example, interest, fees and other income not related to REIS.

(e) Taxation of the income of REIC

(i) Dividend and rental income of REIC earned under a REIS

- **Section 9(2)(d) of NTA**

This section relates to dividend as a basis for computing companies income tax due to no total profits or total profits are less than the amount of dividend paid. Rental and dividend income made by a REIC distributed to its shareholders under a REIS are exempt from section 9(1) of NTA. Put differently, the substitution of dividend for total profit shall not apply to distributions made by a real estate investment company to its shareholders from rental income and dividend income received on behalf of those shareholders, whether such dividends are paid out of profits of the year in which the dividend is declared or out of profits or previous reporting periods.

- **Section 162(1)(c) of NTA**

Dividend and rental income received by a REIC under REIS are exempted from further tax in the hand of the company. Simply put, the gross amount of each of these incomes is treated as non-taxable income because the income is regarded as received on behalf of its shareholders.

In computing the assessable profits of a company, rental and dividend income will be deducted from the profits, if already included in same.

To qualify for this exemption, the REIC must ensure that:

- a minimum of 75% of dividend and rental income received is redistributed as dividend to the shareholders; and
- such distribution is made not later than 12 months after the end of the financial year in which the dividend or rental income was earned, provided that nothing shall be construed to exempt a:
 - a shareholder from tax on the dividend or rental income received from a real estate investment company;
 - real estate investment company from tax on management fee, profits or any other income earned for and on its own account; and
 - real estate investment company from tax on dividend or rental income if it does not meet the stipulated conditions.

- **Section 20(1)(k) of NTA**

Dividends or mandatory distributions made by a REIC to its shareholders under REIS are allowable deduction for tax purposes.

Given the fact that dividend or mandatory distribution made by a REIC to its shareholders is an expense relating to an exempt income, it shall not be allowed as a deduction in computing the company's assessable profits.

It is pertinent to state that rental or dividend income received by a REIC will be treated as a taxable income, if the conditions stated in section 162(1)(c) of NTA are not met.

(ii) Gains from disposal of assets, fees, and other income not related to REIS - section 33 of NTA

These incomes are not tax exempt as they are taxable in accordance with the

provisions of the relevant tax laws.

- (iii) Withholding tax deduction - regulation 10 of Deduction at Source (Withholding) Regulations, 2024

Any distribution or dividend payment to a real estate investment trust or real estate investment company shall be exempt from withholding tax

25.4 Tax provisions relating to agricultural business and primary agricultural production

25.4.1 Agricultural trade or business - section 201 of NTA

"Agricultural trade or business" means:

- (a) primary crop production comprising the production of raw and semi-processed crops of all kinds, but excluding any intermediate or final processing of crops or any other associated manufactured or derivative crop product;
- (b) primary livestock production comprising the production of live animals and their direct produce such as live or raw meat, live or raw poultry, fresh eggs and milk of all kinds, but excluding any other associated manufactured or derivative livestock product;
- (c) primary forestry production comprising the production of timbers of various kinds such as firewood, charcoal, uncultivated materials gathered and other forestry products of all kinds, including seeds and saplings, but excluding the intermediate and final processing of timber and any other manufactured or derivative timber product; and
- (d) primary fishing production comprising the production of fish of all kinds, including ornamental fish, but excluding any intermediate or final processing of any other manufactured or derivative fish product.

25.4.2 Qualifying capital expenditure for capital allowance purposes - paragraph 1(e) of the First Schedule of NTA

Capital expenditure (qualifying agriculture expenditure) incurred:

- (a) in connection with a plantation, on the clearing of land for planting, planting other than replanting, maintenance of the plantation and other pre-production expenses in connection with that plantation shall be qualifying agriculture expenditure, incurred on the first day on which the trade or business commences;
- (b) in respect of ranching on:
 - (i) structures used primarily for ranching;
 - (ii) raising herds of animals for the purpose of breeding, and does not include raising of animals for the purpose of sale;
 - (iii) animals that function as apparatus with which a trade is carried on and the life expectancy is more than 5 years;

25.4.3 Tax incentives - section 162(1)(p) of NTA and the Thirteenth Schedule to the Act

The income generated by companies engaged in agricultural businesses, including crop production, livestock, aquaculture, forestry, dairy and such other businesses as stated in the above-mentioned Schedule shall be tax exempt for the first five years upon commencement of business.

The conditions provided based on the Compendium of Investment Incentives (Sector Specific Incentives) issued by Nigerian Investment Promotion Commission in 2026, are that the:

- (a) incentives apply only to businesses exclusively carrying on agricultural activities

- as stated in section 162(1)(p) of NTA and as stated in the opening paragraph;
- (b) exemption relates from the initial year of commercial operation, not date of incorporation;
 - (c) business must comply with the registration and reporting obligations to the Federal Ministry of Agriculture and the NRS;
 - (d) non-agricultural income derived by the business is not tax exempt; and
 - (e) renewal or extension beyond the five -year period requires a separate application/approval (if applicable under ministerial discretion).

Section 164(1) (p) and 187

EXEMPTION FOR AGRICULTURAL BUSINESS

SUB-SECTOR	ACTIVITY	EXEMPTED PRODUCTS
Crop Production	Growing of perennial and non-perennial crops	All crops
Livestock	Raising and breeding of animals in ranches and framers	Cattle, swine/pigs, sheep, goat, and poultry, including processed eggs.
	Livestock Processing	Meat and poultry processing
Forestry	Plantation of rubber and acacia trees	Latex and gum Arabic
Dairy	Manufacture of dairy products	Fresh liquid milk. Pasteurized sterilized, homogenized and or ultra-heat treated; Dried or concentrated milk; cream from fresh liquid milk, pasteurized, sterilized, homogenized; Milk or cream in solid form; Cheese, curd and lactose
Cocoa processing	Processing of cocoa	Cocoa, cocoa butter, cocoa fat, cocoa oil; Chocolate.
Animal Feeds	Manufacturer of animal foods	Animal feed, edible oils and by-products, concentrates; grain mill products, and feed supplements.

25.5 Taxation of foreign air and sea transport companies

25.5.1 Introduction

The provisions of sections 60 - 64 of NTA, cover the taxation of the profits of specialised businesses.

The specialised businesses covered by these provisions are:

- (a) export processing and free trade zones entities - section 60 of NTA;
- (b) insurance trade or business- section 61 of NTA;
- (c) lottery and gaming trade or business - section 62 of NTA
- (d) collective investment scheme - section 63 of NTA; and
- (e) mining operations - section 64 of NTA.

Foreign companies engaged in air or sea transport businesses are assessable to tax in Nigeria, in respect of their income, derived from the loading of passengers, mails, livestock or goods into an aircraft or a ship in Nigeria. Income from leasing, containers, non-freight operations or any other incidental income liable to tax under section 18(1) of NTA.

Incomes exempted under section 18(2) of NTA are those in respect of passengers, mails, livestock or goods which are:

- (a) loaded on routes outside Nigeria, but terminating in Nigeria; and
- (b) in transit in Nigeria, that is, brought to Nigeria for trans-shipment or connecting flight.

25.5.2 Filing of monthly returns by non-residents shipping and airline companies - section 21 of NTAA

- (a) A non-resident person engaged in the operation of transport by sea or air, into Nigeria, shall file monthly returns with evidence of payment of the tax as specified under section 18 of the Nigeria Tax Act to the Service in respect of the carriage of passengers, mail, livestock or goods shipped or loaded into an aircraft in Nigeria.
- (b) The monthly return shall be filed not later than the 21st day of the following month.
- (c) The returns shall contain a detailed gross revenue statement of the Nigerian operations for that month, showing the amount of total sums receivable during the period, and supported with all invoices issued to the relevant customers.
- (d) Nothing in this section shall be construed to exempt the company from filing its annual returns or filing returns in respect of its non-freight operations or any other incidental income and payment of tax in respect of its non-freight or incidental income.

25.5.3 Assessment of profit liable to tax and evidence of payment of tax

The determination of profit or loss derived by a foreign company in respect of loading of passengers, mails, livestock or goods into an aircraft or a ship in Nigeria is based on the rules explained below otherwise, the FIRS shall compute on a fair percentage on the full sum receivable in respect of the carriage of passengers, mails, livestock and goods shipped or loaded in Nigeria.

It should be noted that section 18(7) of NTA, provides that where any company

files tax returns and does not provide a separate financial statement of the Nigerian operations, for the purpose of filing its tax returns, such company shall submit detailed gross revenue statements of its Nigerian operations, showing the amount of full sums earned during the period, certified by one of the company's directors as well as their company's external auditor and supported with the contract agreements.

Section 18(9) of NTA, states that regulatory agencies in the shipping and air transport and other sectors shall require these companies to present the following as a condition to carry on business in Nigeria:

- a) evidence of income tax filing for the preceding tax year; and
- b) evidence of tax declaration and payment in respect of the intended carriage or shipment.

25.5.4 Global adjusted profit/depreciation ratio basis - section 18(3) of NTA

This basis (**herewith considered as method 1**) is adopted where the Nigeria Revenue Service is satisfied that the tax authority of the foreign company's country of origin:

- (a) computes and assesses a company which operates ship or aircraft on a basis not materially different from that prescribed by NTA, and
- (b) certifies as being applicable to a company in the air or sea transport business,
 - (i) Global adjusted profit ratio (%) = $\frac{\text{Adjusted profit}}{\text{Gross revenue}} \times 100\%$
 - (ii) Global depreciation ratio (%) = $\frac{\text{Depreciation allowance}}{\text{Gross revenue}} \times 100\%$

In order to determine the assessable profit, capital allowances and consequently the total profits chargeable to tax in Nigeria, the Nigeria Revenue Service applies the above ratios against the income derived by the foreign company from the loading of passengers, mails, livestock and goods into an aircraft or a ship in Nigeria. - section 18(4) of NTA

The above can be explained by way of a pro-forma thus:

Assessable profit = gross revenue receivable in Nigeria x global profit ratio (%)	Xxx
Less:	
Capital allowance = gross revenue receivable in Nigeria x global depreciation ratio (%)	<u> X </u>
Total profit	<u> Xx </u>
Income tax payable (xx at the appropriate tax rate)	<u> X </u>

Illustration 25.1

The statement of profit or loss of a foreign Airline, Ethiopian Airways Limited, for year ended March 31, 2026, is as follows:

₦'000 ₦'000

Income from passengers' freight into Nigeria	1,300,000	
Income from goods loaded into aircraft in Nigeria	1,220,000	
Income from passengers loaded and flown out of Nigeria	680,000	
Income from goods loaded into aircraft on other routes	<u>500,000</u>	3,700,000
Less: Salaries and other expenses	2,000,000	
Depreciation	320,000	
Other disallowable expenses	<u>240,000</u>	<u>(2,560,000)</u>
Net profit for the year		<u>1,140,000</u>

You are given the following additional information:

- (i) The Nigeria Revenue Service is satisfied that the tax authority in Ethiopia computes and assesses tax on similar basis with Nigeria and has received certification of the appropriate ratios.
- (ii) The tax authority has agreed that depreciation charged in the accounts can be granted in lieu of capital allowances.
- (iii) Salaries and other expenses include:
 - Deposit for a new V.C 10 aircraft ₦180,000,000;
 - Payment of ₦54,000,000 to Nigeria Airport Authority for the use of the V.I.P. lounge at the new Murtala Mohammed Airport by the Airline's first-class passengers; and
 - Payment of ₦72,000,000 as rent for accommodation used as transit flat by the airline's crew.

Required: Compute the:

- (a) Total profit for Nigerian tax purposes, and
- (b) Income tax payable by the airline for assessment year 2027.

Suggested solution to illustration 25.1

Ethiopian Airways Limited

- (a) **Computation of total profit for Nigerian tax purposes**
Assessment year 2027

	₦'000
Assessable profit – ₦1,880,000 x 50.81% (w2)	955,228
Capital allowances	<u>(320,000)</u>
Total profit liable to tax in Nigeria	<u>635,228</u>

- (b) **Computation of income tax payable**
For 2027 assessment year

Total profit (₦635,228,000 at 30%) = ₦ 190,568,400

Computation of adjusted profit **Year ended March 31,2026**

	₦'000
Net profit per accounts	1,140,000
Add:	
Depreciation	320,000

Other disallowable expenses	240,000
Deposit for V.C. 10 aircraft – capital	<u>180,000</u>
Adjusted profit	<u>1,880,000</u>

(ii) **Computation of global adjusted profit ratio**

$$\frac{\text{Global adjusted profit}}{\text{Gross revenue}} \times 100\% = \frac{\text{N}1,880,000,000}{\text{N}3,700,000,000} \times 100 = 50.81\%$$

(ii) **Computation of depreciation allowance ratio**

Since FIRS agreed with the company that the depreciation charged should be adopted as capital allowance, there will be no need to compute depreciation ratio, rather, capital allowance shall be the amount of depreciation in the question, that is, N320,000.

Method 2 - section 18(5) of NTA

This method is only used where the Nigeria Revenue Service is not satisfied as to the conditions listed under Method 1.

Under this method, the NRS is given the discretionary power, to determine the profits derived from Nigeria, by applying a fair percentage on the full sum receivable in respect of carriage of passengers, mails, livestock and goods shipped or loaded in Nigeria.

Put in a proforma, the assessable profits of a foreign company in respect of income derived from Nigeria is as shown below:

	₦
Income receivable in Nigeria	<u> Xxx </u>
Assessable profits:	
Income receivable in Nigeria x fair %	
(as determined by NRS)	<u> Xx </u>

Other points to note

- (a) Where method 2 above is used, the foreign company shall be entitled to require that its assessment revised and re-computed on the basis of method1.
- (b) The request in (a) above will be valid only if made by the company within six (6) years after the end of the relevant assessment year to which it relates and on production from its home country's tax authority, of appropriate certificate to the satisfaction of the revenue.
- (c) In any case, the minimum tax payable by a company engaged in air or sea transport business shall not be less than two percent (2%) of the gross amount in respect of carriage of passengers, mails, livestock or goods shipped or loaded into an aircraft in Nigeria. The gross amount should however exclude taxes such as VAT and other levies such as airport or passenger tax, which are collected by the airline on behalf of others. - section 18(6) of NTA.

25.5.5 Minimum tax -section 18(6) of NTA

As stated above, minimum tax should not be less than 2% of the gross revenue

in respect of the carriage of passengers, mails, livestock or goods shipped or loaded into an aircraft in Nigeria.

25.5.6 Other provision - section 18(8) of NTA

The provisions of section 18 of the Act shall not be applicable to income or profits arising from leasing of vessels or containers, non-freight operations or any other incidental income, which are chargeable to tax under the relevant provisions of NTA.

25.5.7 Taxation of foreign company engaged in cable undertakings (telecommunication)

Where a foreign company is engaged in the business of transmission of messages by cable or any other form of wireless apparatus, it is assessable to tax in the same way as a foreign company engaged in air or sea transport business.

Its profits, which are deemed to be derived from Nigeria, are from the transmission of messages through its network in Nigeria to places outside the country (Nigeria). Such cable messages originating from Nigeria are deemed equivalent to the shipping or loading of passengers, mails, livestock or goods in Nigeria.

Apart from the above, all the other provisions relating to the taxation of companies engaged in air or sea transport companies apply exactly in the same way as to companies engaged in cable undertakings.

Illustration 25.2

Ultimate Limited is a Canadian foreign company engaged in cable undertakings in Nigeria.

Its worldwide management accounts for the year ended September 30, 2026, revealed the following:

	₦'000	₦'000
Income from cable messages terminating in Nigeria	1,200,000	
Income from cable messages routed through Nigeria	1,150,000	
Income from cable messages originating in Nigeria	<u>1,100,000</u>	<u>3,450,000</u>
Less:		
Salaries and wages	1,880,000	
Depreciation	290,000	
Overhead expenses	185,000	
Purchase of equipment	<u>439,000</u>	<u>(2,794,000)</u>
Net profit		<u>656,000</u>

Notes:

- (i) Federal Inland Revenue Service is satisfied that tax is computed and assessed in Canada, the country of the foreign company, on the same basis as Nigeria;
- (ii) Canadian tax authority has certified the adjusted profit and Depreciation allowance ratios.
- (iii) Included in overhead expenses are disallowable items totalling N 123million.

Required:

For the relevant assessment year:

- (a) Compute the company's adjusted profit
- (b) Determine the adjusted profit ratio and depreciation ratio
- (c) Compute the total profits and Income tax payable in Nigeria

Suggested solution to illustration 25.2

- (a) **Ultimate Limited**
Computation of global adjusted profit
For assessment year 2027

	N'000	N'000
Net profit per accounts		656,000
Add:		
Depreciation	290,000	
Purchase of capital equipment	439,000	
Other disallowable expenses	<u>123,000</u>	<u>852,000</u>
Adjusted profit		<u>1,508,000</u>

- (b) **Computation of global adjusted profit and depreciation ratios**

- (i) Computation of global adjusted profit ratio:

$$\frac{\text{N}1,508,000,000}{\text{N}3,450,000,000} \times 100\% = 43.71\%$$

- (ii) Computation of depreciation ratio:

$$\frac{\text{N}290,000,000}{\text{N}3,450,000,000} \times 100\% = 8.41\%$$

- (c) **Computation of income tax payable in Nigeria**

Assessable profit (~~N~~ 1,100m x 43.71%)	480,810
Deduct:	
Capital allowances (~~N~~ 1,100m x 8.41%)	<u>(92,510)</u>
Total profit	<u>388,300</u>
Income tax payable N388,300,000 at 30%	<u>116,490</u>

25.6 Taxation of banks**25.6.1 Introduction**

Banks like other financial institutions are not exempted from the payment of tax under the Nigeria Tax Act, 2025. Based on the foregoing, banks are subject to tax in the same way and manner with which other incorporated companies are subject to tax. It is pertinent to state that banks are liable to both companies income tax and value added tax, including other applicable taxes.

Additionally, banks are required to file both monthly and annual tax returns, failing which, such returns will constitute a violation of the applicable law and would attract the prescribed penalties/sanctions.

25.6.2 Determination of assessable profit and tax liability

As explained above, banks are liable to tax under the provisions of the Nigeria Tax Act, 2025. Therefore, banks are subject to tax like any other company on their total profit. However, there are some specific provisions that are somewhat peculiar to banks that are important to be discussed.

Based on the Compendium of Investment Incentives (Sector Specific Incentives) issued by Nigerian Investment Promotion Commission) in 2026, banks are to be granted 100% tax exemption on interest income derived on loans granted for:

- (a) export- oriented manufacturing;
- (b) agricultural production;
- (c) fabrication of local plant and machinery; and
- (d) working capital for cottage industries.

The conditions to be met include, the:

- (a) loan must be granted by a bank;
- (b) funds must be applied strictly to the stipulated purpose;
- (c) loan agreement allows for at least twelve months moratorium; and
- (d) interest rate must not exceed the prevailing base lending rate set by the CBN.

In addition to the above:

- (a) Interest received by banks on bonds issued by a State of the Federal Government of Nigeria;
- (b) Interest earned on foreign placement or dividend, rent and royalty derived by any company from outside Nigeria and brought into Nigeria through approved channels; and
- (c) Dividend treated as franked investment income.

Also, in taxation of banks, the following expenses / provisions are not allowed:

- (a) Increase in provisions on performing loans account;
- (b) Increase in provisions on other assets or account receivable;
- (c) Increase in provisions on advances under finance lease;
- (d) Increase in provision for diminution in the value of investment;
- (e) Increase in provision for off balance sheet engagement;
- (f) Increase in provision for gratuity; and
- (g) Unrealised exchange loss.

25.7 Taxation of insurance companies

25.7.1 Introduction

The taxation of insurance business is covered by section 61 of NTA and Nigeria

Insurance Industry Reform Act (NIIRA), 2025. The section of NTA and NIIRA deal with both Nigerian and Non-Nigerian insurance businesses. It further distinguishes between life assurance business and non-life insurance business.

For tax purposes, the main difference between the taxation of life assurance business and non-life business is that for life assurance business, the premium received from the assured does not form part of income for tax purposes since the assured will definitely be paid or indemnified either at his death or the attainment of a specified age under endowment policy. Since the premium is not taken as income, claims paid is also not allowable as a deduction for life assurance business, the reverse is applicable for non-life insurance business.

With effect from 1995, where a company engages in composite insurance business, that is, a company carrying on life and non-life insurance business, the income from each source would be taxed separately. This means that where a loss is incurred from life business, it cannot be relieved against income from non-life - section 61(8) of NTA

Like any other company, dividend received by insurance companies is treated as franked investment income and they are exempted from tax.

25.7.2 Taxation of insurance companies

(a) Preamble

(i) Section 61(1) of NTA

“An insurance business shall be taxed as a:

- general insurance company, whether proprietary or mutual other than a life insurance company, or
- life insurance company:

Provided that the profits on which tax may be imposed for an insurance business shall be in accordance with section 6 or 17 of NTA, that is, taxation of resident and non-resident persons, respectively.

(ii) General insurance business - section 61(2)(a), (3) and (9) of NTA

Subsection 2 states that “the profits on which tax may be imposed shall be ascertained as if the whole premium and investment incomes of the company were derived in Nigeria”. Subsection 3 further states that “the profit on which tax may be imposed, shall be ascertained by taking the gross premium and other income receivable, less reinsurance, and deducting from the balance so arrived at, a reserve for unexpired risks, determined in accordance with subsection (9)(a) and other deductions allowed under subsection (9)(b) of section 61 of NTA, as stated below:

Any insurance company other than a life insurance company shall be allowed for deductions from its premium, the following reserves for tax purposes:

- reserve for unexpired risks calculated on a time apportionment basis of the risks accepted in the year instead of the old basis determined on a percentage consistently adopted by the company; and
- outstanding claims and outgoings, an amount equal to the total estimated amount of all outstanding claims and outgoings, provided that any amount not utilised towards settlement of claims and outgoings shall be added to the total profits of the following year, instead of the old provision which was based on a percentage (25%) of total premium.

In addition to the above, the company is entitled to other deductions allowed under Chapter 2 of NTA, that is, taxation of income of persons.

(ii) Life insurance company - section 61(2)(b), (4), (5) and (6) of NTA

In accordance with section 61(2)(b) of NTA, the profits on which tax may be imposed shall be ascertained as if the whole investment and other incomes were received in Nigeria and all the expenses and other outgoings of the company were incurred in Nigeria.

Section 61(4) of NTA, states that “the profits on which tax may be imposed shall be the investment income, and other income, less the management expenses, including commission”.

Section 61(5) of NTA, states that “any amount distributed in any form as dividend from an actuarial revaluation of unexpired risks or from any other revaluation shall be deemed to be part of the total profits of a company engaged in life insurance business”.

Based on the provision of section 61(6) of NTA, the company shall not later than three months after an actuarial revaluation of unexpired risks or any other revaluation has taken place, provide the Service with full particulars of the revaluation carried out, including a copy of the actuary’s revaluation certificate.

Based on the provision of section 61(10) of NTA, a life insurance business shall be allowed the following deductions from its investment income and other incomes:

- an amount which makes a general reserve and fund equal to the net liabilities on policies in force at the time of actuarial valuation;
- an amount which is equal to 1% of gross premium earned or 10% of profits, whichever is greater, to a special reserve fund and accumulated until it becomes the amount of the statutory minimum paid-up capital; and
- all normal allowable business outgoings.

(iv) Reinsurance company - section 61(11) of NTA

A reinsurance company shall be allowed the following deductions from its gross profit, to be credited to a general reserve fund:

- an amount not more than 50% of the gross profits of the reinsurer for the year, where the general reserve fund is less than the initial statutory minimum paid-up capital; or
- an amount not more than 25% of the gross profits of the reinsurer for that year, where the fund is equal to, or exceeds the statutory minimum paid-up capital.

(iii) Keeping of books of accounts and filing of annual tax returns - section 61(7) of NTA

This subsection states that “where an insurance company carries on a life class and a general or non-life class insurance business, the funds and books of accounts of one class shall be kept separate from the other as though one class does not relate to the other class, and the annual tax returns of the two classes of insurance businesses shall be made separately’.

(iv) Assessments – section 61 (8) of NTA

Each class of insurance shall be assessed separately as “life insurance assessment” and “non-life (other) insurance assessment” and in respect of each class of insurance business, where there are more than one type of insurance and in the same class, they form one type of business and shall not be allowed against the income from another type of insurance business but the loss shall be available to be carried forward against profits from the same class of insurance business.

(iv) Capital requirement – section 15 of Nigerian Insurance Industry Reform Act, 2025

A person shall not be entitled to carry on insurance business in Nigeria unless the insurer has and maintains, a minimum capital, whilst carrying on that business, in the case of:

- non-life insurance business, the higher of:
 - ₦ 15,000,000,000; or
 - risk-based capital determined by the Commission;
- life insurance business, the higher of:
 - ₦ 10,000,000,000; or
 - risk-based capital deemed by the Commission; and
- reinsurance business, the higher of:
 - ₦ 35,000,000,000; or
 - risk-based capital determined by the Commission.

In determining the risk-based capital required, the Commission shall take into consideration the capital for insurance risk, market risk, credit risk and operational risk, and apply such capital charges on assets and liabilities as shall be determined.

In the case of a new company, the minimum capital requirement specified above, consist of:

- Government bonds and treasury bills; or
- Cash and cash equivalent.

(b) Definitions - section 61 (13) of NTA

(i) Investment income - section

“Investment income” for the purpose of taxation of a life insurance company means “income derived from investment of shareholders’ funds”.

(ii) Gross premium and gross income

For the purpose of minimum tax computation:

- “Gross premium” means “the total premiums written, received and receivable excluding unearned premium and premiums returned to the insured”; and
- “Gross income” means “total income earned by a life insurance business, including all investment income, fees, commission

and income from other assets but excluding franked investment income, premium received and claims paid by reinsurers”.

- (iii) “Other income”, for the purposes of non-life insurance businesses means all the income of the non-life insurance business other than gross premium and excluding franked investment income.

(c) Effective tax rate - section 57 of NTA

- (i) In the determination of the effective tax rate:

- in any year of assessment, the effective tax rate, that is, covered taxes as a percentage of net income, of a company is less than 15%, such company shall recompute and pay an additional tax that makes its effective tax rate equal to 15%;
- covered taxes for the purpose of this section means companies income tax, petroleum profit tax, and hydrocarbon tax paid or payable, development levy, and priority sector tax credit; and
- net income refers to the profit before tax as reported in the audited financial statements excluding franked investment income and unrealistic gains or losses:

Provided that the net income for a life insurance company shall not include gross income and investment income for policyholders.

- (ii) The provisions apply to:

- a company that is a constituent entity of a Multinational Entity group, with aggregate group turnover of at least £750 million or its equivalent; and
- any other company with an aggregate turnover of ~~N~~50,000,000,000 and above in the financial year.

- (iii) The Service may issue regulations to give effect to the provisions and may prescribe a higher threshold under (ii) above.

(d) Losses can be carried forward indefinitely - section 27(6) of NTA

Insurance companies can carry forward losses indefinitely.

25.7.3 Additional information to be filed by insurance business

Based on section 61(12) of NTA, an insurance company that engages the services of an insurance agent, a loss adjuster or an insurance broker shall include in its annual tax returns, a schedule showing the names and address of that agent, a loss adjuster or insurance broker, the date their services were employed and terminated, as applicable, and payments made to each such agent, loss adjuster or insurance broker for the period covered by the tax returns.

25.7.4 Declaration of dividend -section 35 of NIIRA, 2025

An insurer cannot declare or pay any dividend on its shares until:

- (a) all its preliminary expenses, organisational expenses, commission, brokerage, amount of losses incurred and other capitalized expenses not represented by tangible assets have been completely written off;
- (b) adequate provisions have been made to the satisfaction of the Commission for actual and contingent losses on risk assets and liabilities; and
- (c) it has complied with any capital or solvency requirement as specified by the Commission under the NIIRA, 2025.

Illustration 25.3

An extract of the projected returns to be filed by Apple Insurance Plc, a company engaged in non-life business for 2027 and 2026 assessment years, revealed the following:

	Assessment year	
	2027	2026
	N'000	N'000
Reserve for un-expired risk brought forward	50,000	43,000
Reserve for un-expired risk carried forward	65,000	50,000
Estimated claims and outgoings	4,200	3,000
Actual claims and outgoings for the year	2,500	2,800
Net profit before claims	12,000	11,000
Total premium written	125,150	122,000
Premium paid on reinsurance	11,400	11,200
Premium returned to insured	8,200	7,100
Premium received and receivable	12,500	11,200
Unearned premium received in advance	5,200	4,300
Rent (gross)	7,800	6,500
Franked investment income	8,700	7,850

Required:

Compute the following for 2027 and 2026 assessment years:

- The un-expired risk that is attributable to the risk accepted in each year
- Assessable profits

Suggested solution to illustration 25.3**Apple Insurance Plc****(a) Computation of un-expired risk that is attributable to the risk accepted in the year**

	2027	2026
	N'000	N'000
Reserve for un-expired risk c/f	65,000	50,000
Reserve for un-expired risk b/f	<u>50,000</u>	<u>43,000</u>
Un-expired risk that is attributable to the risk accepted in the year	<u>15,000</u>	<u>7,000</u>

(b) Computation of assessable profit

	N'000	N'000
<u>2026 assessment year</u>		
Net profit before claims		11,000
Less:		
Actual claims and outgoings	2,800	
Estimated claims and outgoings	<u>3,000</u>	<u>5,800</u>
Assessable profit		<u>5,200</u>

2027 assessment year

Net profit before claims		12,000
Add estimated claims and outgoings (2026)		<u>3,000</u>
		15,000
Deduct actual claims and outgoings	2,500	
Estimated claims and outgoings (2027)	<u>4,200</u>	<u>6,700</u>
Assessable profit		<u>8,300</u>

25.7.4 Determination of assessable profit and tax liability

(a) Life insurance business

- (i) **Nigerian company:** The assessable profit and tax liability of a Nigerian company carrying on life insurance business is determined as follows:

	₦	₦	₦
Investment income		X	
Add:			
Other income, that is, fees and commission income		x	
Dividend from actuarial revaluation of unexpired risk or other distributions			
Gross income		<u>X</u>	
		x	
Deduct:			
i. General reserves	x		
Add life fund a/c	<u>X</u>		
Restricted to amount equal to net liabilities on policies in force at time of actuarial valuation	<u>X</u>	X	
ii. Special reserves			
The higher of:			
1% of gross premium; or	x		
10% of net profit	<u>X</u>	X	
iii. All allowable business expenses		<u>X</u>	(x)
Assessable profit			xx
Capital allowance			<u>(x)</u>
Total profit			<u>X</u>

Note:

- Annual transfer to special reserve would be accumulated until it becomes the amount of the minimum statutory paid-up capital.

- (ii) **Non-Nigerian company:** The assessable profit of a non-Nigerian company carrying on life assurance business is determined as follows:

	₦	₦
Investment Income (see working1)		x
Less: Agency commission in Nigeria	X	
Allowable expenses in Nigeria	X	
Fair proportion of head office expenses	<u>X</u>	(x)
Assessable profit		<u>X</u>
Investment Income:		
Premium receivable in Nigeria	x	<u>Global investment income</u>
Global premium of the company		1

(b) Non-life insurance business

- (i) Nigerian company: The assessable profit and tax liability of a Nigerian company carrying on non-life insurance business is determined as follows:

	₦	₦	₦
Gross premium			X
Less premium returned on cancelled policies			<u>(X)</u>
Net premium			XX
Add:			
Investment income		X	
Fees and commission income		X	
Rent received		X	
Estimated insurance claims for previous year, for example, re-insurance claims		<u>X</u>	<u>X</u>
Gross income			XX
Less non-taxable income (if any)			<u>(X)</u>
Net income			XX
Less:			
Reserve for unexpired risk calculated on time apportionment basis		X	
Re-insurance premium paid		X	
Commission		X	
Other allowable management expenses		X	
Insurance claims and outgoings:			
Actual total claims expenses (a)	X		
Add estimated total claims expenses (b)	<u>X</u>		
Total claims and outgoings claimable (a + b)	<u>X</u>	<u>X</u>	<u>(X)</u>
Assessable profit			XX
Less loss b/f (if any)			<u>X</u>
			XX
Add balancing charge (if any)			<u>X</u>
			XX
Less capital allowance			<u>(X)</u>
Total profit			<u>XX</u>

Note:

Under non-life business, any unutilised part of both the actual and the estimated claims and outgoing expenses in any year, shall be added back to the profits of the following year.

- (ii) Non-Nigerian company

Where a non-Nigerian company is engaged in non-life insurance business in Nigeria, the assessable profit would be determined just like that of the Nigerian company. However, only premium received in Nigeria will be taken into consideration and only expenses incurred in Nigeria will be allowed as deduction including a fair proportion of head office expenses.

For a non-Nigerian insurance company to be liable to tax in Nigeria, it

must have a permanent establishment in Nigeria. "Permanent establishment" in relation to an insurance company means a branch, management or a fixed place of business in Nigeria, but does not include an agency in Nigeria unless the agent has, and habitually exercises a general authority to negotiate and conclude contracts on behalf of such company.

Where an insurance company carries on a life class and a general class insurance business, the funds and books of account of one class shall be kept separate from the other as though one class does not relate to

the other class and the annual tax returns of the two classes of insurance business be made separately.

For each class of insurance business, where there are more than one type of insurance (products) in the same class, they form one type of business and the loss of one shall be allowed against the income from another type of insurance business but the loss shall be available to be carried forward against profit from the same class of insurance business, and such loss can be carried forward indefinitely, effective February 1, 2020.

(c) Reinsurance business

The assessable profit and tax liability of a company carrying on reinsurance business is determined as follows:

	₦	₦	₦
Gross premium			x
Less premium returned on cancelled policies			<u>(x)</u>
Net premium			xx
Add:			
Investment income		X	
Fees and commission income		X	
Rent received		X	
Estimated insurance claims for previous year, for example, re-insurance claims		<u>X</u>	<u>xx</u>
Gross income			xx
Less non-taxable income (if any)			<u>(x)</u>
Net income			xx
Less:			
Reserve for unexpired risk calculated on time apportionment basis		X	
Re-insurance premium paid		X	
Commission		X	
Other allowable management expenses		X	
Actual total claims expenses (a)	x		
Add estimated total claims expenses (b)	<u>x</u>		
Total claims and outgoings claimable (a + b)	<u>x</u>	<u>X</u>	<u>(x)</u> xx

Add: Transfer to general reserve

(i) General reserve < minimum paid-up capital

50% of gross profit

X

Or

(ii) General reserve $\geq$ minimum paid-up capital

Restricted to 25% of gross profit

X

(xx)

Assessable profit

xx

Less loss b/f (if any)

X

Relief

X

X

X

xx

Less capital allowance

X

Total profit

xx

Note:

Under re-insurance business, any unutilised part of both the actual and the estimated claims and outgoing expenses in any year, shall be added back to the total profits of the following year.

25.8 Taxation of authorised collective scheme (unit trust schemes)

25.8.1 Definitions/introduction - section 63(5) of NTA

- (a) "authorised collective investment" means a scheme that is authorised by the Securities and Exchange Commission under the Investment and Securities Act to carry on the business of dealing in a mutual fund scheme or collective investment scheme.
- (b) "collective investment scheme" means 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.

A unit trust scheme is an arrangement whereby facilities are provided 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 whatsoever.

- (c) "scheme" means authorised collective investment.
- (d) "trustee" under a collective investment scheme means the person in whom the property for the time being subject to any trust created in pursuant of the scheme is or may be invested in accordance with the terms of the trust.

A trustee is a person or firm that usually holds and administers assets or property for the benefit of a third party. Trustees are expected to make reasonable judgements in the management of assets held on behalf of the trust beneficiaries with a view to protecting their interests.

- (e) "unit holder" means any investor, beneficiary or person who acquired units in a scheme and who is entitled to a share of the investments subject to the trusts of a scheme.

25.8.2 Taxation of unit trust income - section 63(1) - (4) of NTA

- (a) Where a mutual fund is established for the purpose of providing facilities for the participation of the public, as beneficiaries under a trust, in profits or income arising from acquisition, holding, management or disposal of securities or any other property under the provisions of the Investments and Securities Act, Chapter Two of this Act - taxation of income of persons - shall, in respect of the income arising to the trustees of a collective investment, have effect as if the:
- (i) trustees were a company whose business consists mainly in the making of investments and the principal part of whose income is derived therefrom;
 - (ii) rights of the unit holders were shares in the company; and
 - (iii) income accruing to the trustees as is available for payment to the unit holders were dividends on such shares, and reference to a company in this Act shall include a collective investment scheme -section 63(1) of NTA
- (b) the profits of an authorised collective investment scheme on which tax may be imposed, shall be ascertained by taking the income accruing to the trustees from all the investments of the scheme and deducting therefrom sums disbursed as management expenses, including remuneration for the managers - section 63(2) of NTA.
- (c) Where the trustees of a scheme receive a payment on which the scheme suffers tax by deduction, not being franked investment income, the tax deducted shall constitute an advance payment of income tax and shall be set off against income tax assessment for that year of assessment in ascertaining the tax payable by the mutual fund or scheme -section 63(3) of NTA
- (d) The profit accruing to the trustees of a collective investment that is available for payment to unit holders or for investment shall be deemed to be dividends paid or payable by the trustees to the unit holders in proportion to their rights, and shall be taxed in the hands of the unit holders - section 63(4) of NTA.

The assessable profit of the scheme is determined in accordance with the provision of section 63 of NTA as follows:

	₦
Investment Income, that is, from unit trust	
Investments	x
Less:	
Management expenses (inclusive of manager's remuneration)	<u>(x)</u>
Assessable profit	<u>xx</u>

Notes:

- (i) Where the trustees of a scheme receive a payment on which the scheme suffers tax by deduction, not being franked investment income, the tax deducted shall constitute an advance payment of income tax and shall be set off against income tax assessment for that year of assessment in ascertaining the tax payable by the mutual fund or scheme -section 63(3) of NTA
- (ii) The profit accruing to the trustees of a collective investment that is available for payment to unit holders or for investment shall be deemed to be dividends paid or payable by the trustees to the unit holders in proportion to their rights, and shall be taxed in the hands of the unit holders - section 63(4) of NTA.

25.9 Criteria that must be met for exemption of profits of a small company from companies income tax (CIT)

Section 56 of NTA exempts the profits of a small company from taxation.

For the profits of a small company to be tax exempt, it must:

- (a) register with the relevant tax authority and obtain a Taxpayer Identification ("Tax ID") for the purposes of compliance with tax obligations - section 4 of NTAA;
- (b) maintain accurate financial records and fixed assets register as evidence of the "small company" status - sections 31 and 102 of NTAA; and
- (c) file its simplified annual income tax return as required under section 15 of NTAA, 2025 and comply with the provision of section 11(1) of NTAA.

25.10 Taxation of export processing and free trade entities - section 60 of NTA and Second Schedule to the Act

25.10.1 Definitions / Introduction - paragraph 2 of the Second Schedule to the Act

- (a) "*export processing zone entity*" means an approved and licensed enterprise under the Nigeria Export Processing Zones Act Cap. N107, Laws of the Federation of Nigeria, 2004; and
- (b) "*export free zone entity*" means an approved and licensed enterprise under Oil and Gas Free Zones Authority Act Cap. O5, Laws of the Federation of Nigeria, 2004.

25.10.2 Special tax incentives for enterprises in an export processing zone section 18(1) of Nigeria Export Processing Zones Act Cap. N107 LFN 2004 (as amended)

The Nigeria Tax Act, 2025, consequentially amended section 8 of the Act (approved entities operating within zone shall be exempted from all Federal, State and Government taxes, levies and rates) by deleting this subsection. Additionally, subsection 18(1)(a) relating to the exemption of approved entities within the zone from legislative provisions pertaining to taxes, levies, duties and foreign exchange regulations was also deleted by NTA.

Approved enterprises within the zones shall be entitled to the following incentives:

- (a) repatriation of foreign capital investment in the zones at any time with capital appreciation of the investment;
- (b) remittance of profits and dividends earned by foreign investors in the zones;
- (c) no import or export licenses shall be required;
- (d) up to 25% of production may be sold in the customs territory against a valid permit and on payment of appropriate duties;
- (e) rent-free land at construction stage; thereafter rent shall be as determined by the authority;
- (f) up to 100% foreign ownership of business in the zones allowable; and
- (g) foreign managers and qualified personnel may be employed by companies operating in the zones.

25.10.3 Special tax incentives for enterprises in an oil and gas export processing zone - section 18(1) of Nigeria Oil and Gas Export Free Trade Zone Act, Cap O5, LFN, 2004

The Nigeria Tax Act, 2025, consequentially amended section 8 of the Act (approved entities operating within zone shall be exempted from all Federal, State and Government taxes, levies and rates) by deleting this subsection. Additionally, subsection 18(1)(a) relating to the exemption of approved entities within the zone from legislative provisions pertaining to taxes, levies, duties and foreign exchange regulations was also deleted by NTA.

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- (e) rent-free land at construction stage; thereafter rent shall be as determined by the authority;
- (f) up to 100% foreign ownership of business in the zones allowable; and
- (g) foreign managers and qualified personnel may be employed by companies operating in the zones.

25.10.4 Other provisions

- (a) Conditions for full exemption from tax - paragraph 3 of the Second Schedule to the Act

Subject to the restriction of sales in the customs territory and the application of effective tax rate, the profits of an export processing zone entity are fully exempt from tax where:

- (i) its total sales arise from the export of goods or services, or serve as inputs into goods or services exclusively for export;
- (ii) not more than 25% of its sales arise from the sale of goods or services to the customs territory in Nigeria; and
- (iii) the goods and services are sold to persons engaged in upstream, midstream or downstream petroleum or gas operations.

- (b) More than 25% of sales in a customs territory - paragraph 4 of the Second Schedule to the Act

Where, in a year of assessment, more than 25% of the sales of an export processing zone entity arise from the sale of goods or services in the customs territory, tax shall accrue in Nigeria on the profits of the entity in respect of its total sales to the custom territory.

- (c) Tax effective from January 1, 2028 - paragraph 5 of the Second Schedule to the Act

The profits of an export processing zone entity shall be fully subject to tax, effective from January 1, 2028, in respect of its sales to the customs territory in Nigeria, regardless of the percentage of the sales.

- (d). Compliance with tax laws - paragraph 6 of the Second Schedule to the Act

An export processing or export free zone entity shall comply with all relevant provisions of the Nigeria Tax Administration, including those requiring:

- (i) registration;
- (ii) filing of tax returns; and
- (iii) deduction of tax at source.

- (e) . Connected resident company - paragraph 7 of the Second Schedule to the Act

Where an entity in a zone contracts out manufacturing services or any of its approved activity within the zone to a related or connected resident company that is not an entity in the zones, all incomes derived from the sale by the entity in the zone, of the goods produced shall be treated as the incomes of the related or connected resident company, except the Service is satisfied that the transaction provided was conducted as arm's length.

- (f). Provision of non- manufacturing services - paragraph 8 of the Second Schedule to the Act

Where a resident company, which is not an entity in the zones, provides services other than manufacturing services to a related or connected entity in the zones, the provisions of the Transfer Pricing Regulations shall apply to the transaction.

- (g) Services rendered by a person in the custom territory- paragraph 9 of the Second Schedule to the Act

Services rendered to an export processing or export free zone entity by a person in the custom territory or services consumed by a free zone entity.

- (h) Evidence of export proceeds - paragraph 10 of the Second Schedule to the Act

Licensed entities shall be required to provide evidence of export proceeds, either in cash inflow or imported raw materials or equipment, as a condition to claim the tax incentives.

25.11 Tax implications of the operation of the regulated securities lending transactions ('SEC Lending') in Nigeria

25.11.1 Definitions and nature of transaction

- (a) Definition of regulated security lending transaction - section 201 of NTA

"Regulated securities lending transaction" means any securities lending transaction conducted in accordance with rules made by Securities and Exchange Commission.

- (b) Other definitions

(i) "Lender" means an approved lender in a regulated securities lending transaction.

(ii) "Borrower" means an approved borrower in a regulated securities lending transaction.

(iii) "Approved agent" means any person approved by the Securities and Exchange Commission to function as an intermediary for the conduct of a regulated securities lending transaction.

(iv) "Compensating payments" means any payments made in lieu of interest or dividend under a regulated securities lending transaction.

(v) "Dividend" includes, in relation to regulated securities lending transaction, compensating payments received by a lender from its approved agent - section 4(6)(b)(iii) of NTA.

25.11.2 Relevant regulatory provisions

The provisions of the Investment and Securities Act, 2025, Securities and Exchange Commission Rules 2026 - mandating recapitalisation for capital market operators, regulating digital assets offering platforms, and allowing private companies to issue debt securities, and other extant laws and regulations which control the operation of SEC lending in the Nigerian capital market.

The taxation of SEC lending transactions is influenced by NTA, 2025, and other relevant tax laws

25.11.3 Income

Income under a SEC lending covers the following:

- (a) dividends;
- (b) interests;
- (c) securities lending fees or any other right or reward arising from the securities loaned;
- (d) rights;
- (e) bonus; and
- (f) redemption benefits.

25.11.4 Taxation of a SEC lending transactions based on the provisions of NTA, 2025

(a) Dividend and interest received

The relevant provisions of the Act as they apply to dividend and interest received are as follows:

(i) Section 162(1)(d)(e) of NTA

The following compensating payments are tax exempt:

- compensating payments, which qualify as dividend, received by a lender from its approved agent or a borrower in a regulated securities lending transaction; and
- compensating payments, which qualify as dividends or interest received by an approved agent from a borrower or lender on behalf of a lender or borrower in a regulated securities lending transaction.

(ii) Section 20(1)(l) of NTA

Compensating payments which qualify as interest paid by a lender to an agent or a borrower under a SEC Lending is an allowable deduction.

(iii) Section 21(n) of NTA

Dividend generated by a borrower, and paid to an agent or lender under SEC Lending will not be an allowable deduction to the borrower.

(iv) Exemptions from withholding tax - regulation 10 of the Deduction at Source (Withholding) Regulations, 2024.

Under a registered securities lending transaction, compensating payments shall be exempt from withholding tax.

(v) Fees, rights, bonuses and other benefits

Rights, bonuses, profits, fees and other benefits received by a borrower or lender under a SEC Lending are taxable income.

(vi) Section 21(o) of NTA

Any compensating payment made by an approved agent, which qualifies as interest or dividends, to a borrower or lender in a regulated securities lending transaction is a deduction not allowed.

25.11.6 Relevance of Stamp Duties Act to SEC Lending - section 184 of NTA

The following documents and transactions are exempt from stamp duties:

- (a) all documents relating to the transfer of stocks and shares
- (b) shares, stocks or securities returned to a lender or its approved agent by a borrower under a regulated securities lending transaction; and
- (c) shares, stocks or securities transferred by a lender to its approved agent or borrower in furtherance of a regulated securities lending transaction.

25.12 Tax provisions of non-governmental organisations (NGOs) in Nigeria and other obligations and exemptions as specified under the relevant tax legislations

25.12.1 Introduction

In 2021, the FIRS, now NRS, issued an information circular on “guidelines on the tax treatment of non-governmental organisations (NGOs), to provide clarifications on the application of the provisions of CITA, PITA, CGT and VAT Acts on the income, operations and activities of NGOs. It is pertinent to state that the NRS is yet to issue another set of guidelines on the tax treatment of non-governmental organisations based on the NTA, 2025.

25.12.2 Definition of an NGO

An NGO as defined by NRS “is a not-for-profit association of persons incorporated as a company limited by guarantee under PART A of the Companies and Allied Matters Act (CAMA) 2020 (as amended) or registered under PART C of the Act, or under any other law in force in Nigeria, or registered under the laws of a foreign jurisdiction and approved as such in Nigeria”.

The object of such entities is to provide a given public good, not to carry on business for the purpose of making profits for the distribution to their members.

For the avoidance of doubt, NGOs include organisations, institutions and companies engaged in ecclesiastical, charitable, benevolent, literary, scientific, social, cultural and sporting activities of a public character. Additionally, any co-operative society registered under any law within the federation is expected to receive similar treatment as on NGO.

25.12.3 Definition of public character

Based on the provisions of section 201 of NTA, “public character” with respect to any organisation or institution means organisation or institution that:

- a) is registered in accordance with the relevant law in Nigeria; and
- b) does not distribute or share its profit in any manner to its members or promoters.

It is pertinent to state that the income of the organisation should be wholly utilised for the objects of same in the interest of the public.

Where an organisation distributes its assets whether in cash or in kind, such as the gift of any asset to a promoter or members, such a transaction is regarded as distribution of profit.

25.12.4 Registration with NRS for tax purposes

NGOs are expected to register for tax purposes, obtain tax identification number (TIN) and file the following documents with the FIRS:

- (a) a copy of registration certificate issued by Corporate Affairs Commission (CAC) in Nigeria or other instruments of incorporation issued to the foreign NGO or any other document evidencing exemption from incorporation in Nigeria;
- (b) certified true copy (CTC) of memorandum and articles of association, constitution or rules and regulations governing the NGO;
- (c) list and profiles of the trustees/board members nominated; and
- (d) other relevant documents that may be required at the time of registration.

25.12.5 Designated medium tax offices (MTOs) of NRS

The NRS has designated the following medium tax offices in geo-political regions for the registration of NGOs for tax purposes:

- (a) MTO Lagos island, in Lagos state;

- (b) MTO Abuja for North-Central geopolitical region and FCT;
- (c) MTO Kano for North-East and North-West geo-political regions;
- (d) MTO Enugu for South-East geo-political region;
- (e) MTO Port Harcourt for South-South geo-political region; and
- (f) MTO Ibadan for South-West geo-political region

25.12.6 Filing of tax returns

Section 11 of NTAA, provides that “every company, including a company granted exemption from incorporation, whether or not is liable to pay tax under NTA or any other tax law, for a year of assessment, with or without notice from the Service, shall file a self-assessment return with the Service in the prescribed form at least once a year”. Based on the foregoing, an NGO shall file tax returns annually and such a return shall contain.

- (a) the audited accounts, together with the tax computations and a written true and correct statement specifying the amounts of its computed surplus from each and every source in accordance with the relevant provisions of CITA;
- (a) such particulars in the required form for the purpose of the Act relating to such profits, allowances, reliefs and deductions;
- (b) a signed declaration by a trustee, director, secretary or any authorised person of the organisation stating that the information as contained in the return is true and correct; and
- (c) the period for filing returns shall be as stipulated in the relevant tax laws.

25.12.7 Obligation to pay companies income tax (CIT)

Based on the provision of section 162(1)(a)(iii) of NTA, the profits of any company engaged in educational, religious or charitable activities of a public character shall be tax-exempt provided that such profits are not derived from any trade or business carried on by such organisation or association.

For the avoidance of doubt, the income exempted from tax include subscription fees by members, donations, grants, zakat, offerings, tithes, funds realised from launchings, etc. However, it should be noted that income or profits of such organisations liable to tax include:

- (a) Profits arising from trade or business carried on, such as proceeds from sale of goods or merchandise, provision of consultancy, professional or other services for a fee; and
- (b) Investment income, such as interest, rent, royalty, dividend or similar income.

The above notwithstanding, an NGO has the responsibility to deduct WHT on contracts awarded to suppliers and contractors, including other qualifying payments and remit amounts deducted to the relevant tax authorities in the currency of transaction.

25.12.8 Tax relief to any company making donations to any fund, body or institution in Nigeria

Section 163 of NTA, provides that such a company will be given a tax relief provided that the:

- (a) donation is made out of its profits for that year of assessment;
- (b) donation is made to:
 - (i) public funds;
 - (ii) statutory bodies or institutions;
 - (iii) religious, charitable, educational and scientific institutions established in

- Nigeria;
- (iv) bodies recognised under the Diplomatic Immunities and Privileges Act, or
- (v) any pandemic, natural disaster or other public emergency interventions;
- (c) company shall submit to the relevant authority the documentary evidence relating to the donation;
- (c) total donation shall not exceed an amount equal to 10% of the profit before tax of that assessment year; and
- (d) donation made other than in cash, the value shall be the lower of the market value at the time of the donation or the consideration paid for the item when it was acquired.

25.12.9 Liability to personal income tax (PIT)

Despite the tax exemption of profits of NGOs not arising from trade or business carried on by the organisation, the following income of individual promoters and employees of NGOs are not tax exempt:

- (a) emoluments of promoters;
- (b) fees, other remuneration or benefits-in-kind paid to trustees and guarantors; and
- (c) salaries or other remuneration of employees.

It is the responsibility of an NGO under the PAYE obligation to deduct tax at source from salaries and other emoluments of employees, directors, officers, etc. and remit same to the relevant tax authorities in the currency of payment of the emoluments.

25.12.10 Liability for capital gains

Based on the provision of sections 34 (1) and 162(1)(iii) of NTA, where the following two conditions are jointly fulfilled, the gains from the disposal of chargeable assets of NGOs are tax exempt.

- (a) the gains are not derived from the disposal of asset acquired in relation to any trade or business carried on by the organisation; and
- (b) the gains are used purely for the purpose of the activities of the organisation.

25.12.11 Liability to value added tax (VAT)

Section 185(1)(c) of NTA, provides that VAT on goods purchased by NGOs for use in humanitarian donor-funded projects is VAT exempt provided the humanitarian donor shall first pay the VAT and request for the refund from the Service. Similarly, any service procured or consumed by NGO is liable to VAT at the prevailing rate, save where such service is exempt under the VAT Act.

The above notwithstanding, VAT shall be applied at the prevailing rate where an NGO procures contracts or purchases goods not directly used in humanitarian donor-funded projects.

NGOs shall self-account for VAT and remit same to the NRS where goods or services are procured from persons not liable to VAT or from non-resident suppliers.

NGOs shall charge VAT on all taxable goods and services supplied and remit same to the NRS as and when due. The returns shall be filed with NRS on or before the 21st day of the month following that in which the purchase or supply was made.

25.12.12 Other statutory responsibilities of NGOs - section 31 of NTA

NGOs are required to:

- (a) maintain accurate record of employees; and
- (b) maintain proper books of accounts

Non-compliance with the requirements stated above, attracts penalties under the extant tax laws.

25.13 Incentives that are granted to companies engaged in gas utilisation (downstream operations)

25.13.1 Definitions

“Gas utilisation” means the marketing and distribution of natural gas for commercial purposes and includes power plant, liquefied natural gas, gas to liquid plant, fertilizer plant, gas transmission and distribution pipelines.

“Sunset” under the Tenth Schedule to the Act means a period counting from the date of commencement of the Act after which a sector, industry or activity shall cease to be eligible for the economic development incentive. A company engaged in gas utilisation (Downstream operations) has a period of 20 years.

25.13.2 Introduction

The Tenth Schedule to the NTA, having identified companies engaged in gas utilisation (downstream operations) under the list of priority sectors, such a company shall, in respect of that trade or business, be granted the following incentives in line with the provision of section 176 of NTA:

- (a) an economic development tax credit at the rate of 5% per annum for a period of 5 years shall apply to each eligible Qualifying Capital Expenditure acquired within 5 years effective from the production date;
- (b) subject to section 57 of this Act - effective tax rate, the economic development tax credit may be utilised to offset the tax payable of any year of assessment during the priority period, except the additional tax payable under that section; and
- (c) a company having unutilised tax credit or eligible QCE on which 5% per annum tax credit is yet to be claimed for 5 years, after the end of the priority period, may within 5 years thereafter carry forward such utilised tax credit and any amount remaining unutilised shall lapse.

The above notwithstanding, the company shall file returns during the priority period and provide evidence of compliance with the minimum qualifying criteria, which include approval of its application for the incentive and meet the terms of the economic development certificate - section 179 of NTA.

Section 170(3) of NTA provides that an economic development incentive certificate may be extended for an additional period of five years and no more, on the condition that the priority company invests 100% of its profits during the incentive period for expansion of the same product or services.

25.14 Taxation of institutions offering non-interest financial products and services in Nigeria in line with the provisions of the Non-Interest Finance (Taxation) Regulations, 2022

25.14.1 Introduction

The NRS issued the Non-Interest Finance (Taxation) Regulations, 2022, effective April 1, 2022. These regulations provide a comprehensive tax framework for financial institutions offering non-interest financial products and services, ensuring parity with conventional finance while adhering to Islamic commercial jurisprudence.

25.14.2 Objectives of the Regulations

The Non-Interest Finance (Taxation) Regulations, 2022 were issued by the NRS to create a structured and fair tax framework for non-interest financial products and

services, especially those guided by Islamic finance principles. The key objectives of the Regulations include:

(a) Ensure tax parity with conventional finance

- (i) The Regulations aim to level the playing field between non-interest and conventional financial systems by ensuring both are taxed equitably, despite differences in structure and terminology.
- (ii) Non-interest transactions, though different in form, often serve similar economic purposes as conventional financial arrangements. This regulation ensures equal tax treatment for similar economic outc

(b) Provide legal and regulatory certainty

- (i) The Regulations clarify the tax treatment of non-interest financial instruments such as Murabaha, Ijarah, Musharakah, Mudarabah, Sukuk, and others.
- (ii) They remove ambiguity around how such instruments are to be treated for purposes of VAT, withholding tax (WHT), and stamp duties.

(c) Promote the growth of the non-interest financial sector

- (i) By formalising the tax rules for Islamic finance, the Regulations support the development of Nigeria's non-interest banking and finance industry.
- (ii) This encourages innovation and entry of new players into the market, including Islamic banks, takaful operators, and fund managers.

(d) Align taxation with Islamic commercial jurisprudence

Islamic finance prohibits interest (riba) and emphasises asset-backed and ethical investments. The Regulations are designed to respect these principles by ensuring that taxes are not imposed in ways that contradict the Sharia-compliant structure of the transactions.

(e) Enhance tax compliance and revenue mobilisation

By providing clarity on the tax implications of non-interest transactions, the Regulations make it easier for financial institutions and investors to comply with tax laws, thereby enhancing overall revenue collection.

(f) Facilitate investment and financial inclusion

- i. The Regulations are also meant to attract both local and international investors who prefer or are required to engage in non-interest financial transactions.
- ii. They help increase financial inclusion among communities that avoid conventional banking for religious or ethical reasons.

25.14.3 Scope of the Regulations

The Regulations apply to **authorised financial institutions** in Nigeria that offer **non interest financial instruments (NFIs)**. These institutions operate under principles of Islamic finance, which prohibit interest (riba) and emphasize risk-sharing and asset-backed financing. The scope encompasses the taxation of various non-interest financial products, ensuring clarity and consistency in their tax treatment.

The Regulations are structured into **seven parts**, addressing the tax implications of **twelve distinct non-interest financial instruments**, categorised as follows:

(a) Sale-based products

The three types of sale-based products are as follows:

- (i) **Murabaha (Cost Plus Mark-up):** a transaction where a financial institution purchases an asset and sells it to a customer at a markup;
- (ii) **Istisna or Parallel Istisna:** contracts for manufacturing or construction projects financed by the institution; and
- (iii) **Salam or Parallel Salam:** advance payment contracts for future delivery of commodities.

(b) Equity-based products

These include:

- (i) **Musharakah**: joint ventures with shared profits and losses;
- (ii) **Diminishing Musharakah**: partnerships where the customer's ownership increases over time; and
- (iii) **Mudarabah**: investment partnerships with profit-sharing arrangements.

(c) Lease-based products

These include:

- (i) **Ijarah wa Iqtina (finance Lease)**: Leases with an option to purchase the asset at the end.
- (ii) **Ijarah (operating Lease)**: Standard leasing arrangements without transfer of ownership.

(d) Fee or agency-based product

Takaful (Islamic insurance): insurance based on mutual cooperation and shared responsibility.

(e) Sukuk (Islamic Bonds): Investment instruments representing ownership in underlying assets, compliant with Islamic finance principles.

(f) Islamic fund management

This is a business arrangement involving the pooling of resources together for investment, taking into consideration the Sharia principles between a fund manager and investors.

(g) Islamic real estate investment trusts

This is an arrangement between a fund manager and investors to pool resources together with a view to investing in real estate assets approved by the SEC in compliance with Sharia laws and other relevant laws.

However, by delineating the tax treatments for these instruments, the Regulations provide a clear framework for financial institutions, ensuring compliance and fostering the growth of non-interest financial services in Nigeria.

25.14.4 Tax provisions

The **Non-Interest Finance (Taxation) Regulations, 2022** outline specific **tax provisions** for the treatment of non-interest financial products and services in Nigeria. These provisions are designed to ensure **consistency, neutrality, and fairness** when compared with conventional financial instruments, while also being aligned with **Islamic commercial jurisprudence**.

Below is a breakdown of the major **tax provisions** under the Regulations, categorised by **type of product**:

(a) Sale-based products

(i) Murabaha (Cost Plus Mark-up)

Tax treatment:

- The **initial asset purchase** is not taxable (treated as loan).
- The **markup (profit)** is treated as **interest**, subject to **withholding tax (WHT)**.
- **No VAT or stamp duty** is charged on the markup.

(ii) Istisna/Parallel Istisna (manufacturing financing)

Tax treatment:

- The **financing** provided is treated as a **loan**—not subject to WHT or VAT.
- The **supply of goods/services** to the institution by third parties is **taxable** (subject to VAT and WHT).

(iii) Salam/Parallel Salam (advance payment for goods)

Tax treatment:

- The initial advance is treated as a **loan** and is **tax-exempt**.
- The subsequent sale of goods to third parties is **taxable** (VAT and WHT apply)

(b) Equity-based products

(i) Musharakah (joint venture)

Tax Treatment:

- The capital provided by the institution is treated as a **loan**.
- **Profit share** received by the institution is treated as **interest**, subject to **WHT**.
- **Stamp duty** applies on transfer of ownership interests.

(ii) Diminishing Musharakah

Tax treatment:

- The gradual transfer of ownership is treated as a **repayment of loan, not taxable**.
- **Rental payments** (Ijara component) are **subject to WHT** (as interest).
- Final **ownership transfer** is **subject to stamp duty**.

(iii) Mudarabah

Tax treatment:

- The capital provider (rab al mal) earns a **return on investment**.
- Profit share received is **taxable** under normal income tax and subject to **WHT**.
- Capital losses are treated in accordance with general tax rules.

(c) Lease-based products

(i) Ijarah wa Iqtina (finance lease)

Tax treatment:

- Lease rentals are **subject to VAT and WHT**.
- Customer may treat lease payments as **capital expenditure (QCE)**.
- Final asset transfer is **subject to stamp duty**.

(ii) Ijarah (operating lease)

Tax treatment:

- Lessor (financial institution) claims **capital allowance** on leased asset.
- Lease rentals are **taxable** (subject to VAT and WHT).
- Renter can **deduct lease payments** as business expenses

(d) Fee or agency-based products

(i) Takaful (Islamic insurance)

Tax Treatment:

- **Management fees and investment income** earned by the operator are **taxable** (subject to VAT and WHT).
- **Surplus** returned to participants is **subject to WHT**.
- Agreements between participants and operator attract **stamp duty**.

(ii) Sukuk (Islamic bonds)

Tax treatment:

- Taxed **similarly to conventional bonds**.

- **Returns** paid to Sukuk holders are **subject to WHT**.
- **Transfers of Sukuk certificates** are **subject to stamp duty**, unless exempt under capital market rules.

(e) Islamic fund management

Tax treatment:

Such fund is usually treated in the same manner as conventional fund management.

(f) Islamic real estate investment trust(I-REIT)

Tax treatment:

This is usually treated as a conventional real estate investment for tax purposes.

Other general provisions:

- Double taxation relief** and **transfer pricing rules** apply where relevant.
- Instruments must be **genuinely structured** in line with Islamic principles to benefit from the Regulations.
- Non-compliance or misrepresentation may lead to **disqualification from these tax benefits**.

25.14.5 Home finance

Home Finance within the context of the **Non-Interest Finance (Taxation) Regulations, 2022** in Nigeria, the relevant structure typically falls under **Diminishing Musharakah** or **Ijārah wa Iqtinā'** (**lease-to-own/finance lease**). These are the most commonly used **Shariah-compliant instruments** for **non-interest home financing**.

24.14.6 Project financing

Project financing using **Shariah-compliant structures** typically involves contracts like **Istisna**, **Musharakah**, or **Sukuk**, depending on the nature of the project (for example, infrastructure, construction, manufacturing, etc.).

Project Financing under Non-Interest Finance

(a) Istisna / Parallel Istisna

Use Case: Ideal for **construction and manufacturing projects**—like roads, buildings, or factories.

Structure:

- A customer approaches a non-interest financial institution to finance the construction of an asset.
- The bank enters into an **Istisna contract** with the customer to deliver the completed project.
- Simultaneously, the bank enters into a **Parallel Istisna** with a contractor to execute the project.

Tax provisions:

- **Financing to customer** (Istisna): Treated as a **loan**, not subject to:
 - VAT
 - WHT
 - Stamp Duties
- **Payments to third-party contractor** (Parallel Istisna): Subject to:
 - **VAT** (on the supply of goods/services)
 - **WHT** (as applicable under regular tax laws)

(b) Musharakah / Diminishing Musharakah

Use Case: Joint project ventures where the bank and client **share ownership** of the project.

Structure:

- (i) The bank and customer contribute capital jointly to undertake a project.
- (ii) Profits are shared in a pre-agreed ratio; losses follow capital contributions.
- (iii) In a **diminishing musharakah**, the customer gradually buys out the bank's share.

Tax provisions:

- Bank's capital contribution: Treated as a **loan**, not taxable.
- Bank's **profit share**: Treated as **interest**, subject to **WHT**.
- Transfer of ownership shares over time: **Subject to stamp duty**.

(c) Sukuk (Project-based Islamic bonds)

Use case: Financing large-scale public or private infrastructure (for example, roads, energy plants, airports).

Structure:

- (i) A **Special purpose vehicle (SPV)** issues **Sukuk**, backed by assets (for example, the project).
- (ii) Investors earn **returns based on asset performance**, not interest.

Tax provisions:

- **Sukuk returns**: Treatment similar to interest; subject to **WHT**.
- **Asset transfers** to or from the SPV: May attract **stamp duty**, unless exempt under capital market regulations. **SPV's activities**: Typically enjoy **tax neutrality** if structured properly.

25.14.7 Commodity finance and vehicle asset finance

The Non-Interest Finance (Taxation) Regulations, 2022 in Nigeria, treated both Commodity Finance and Vehicle Asset Finance within the framework of Islamic (non-interest) financing models such as Murabaha, Ijārah, and Salam. These financing models ensure Shariah compliance while facilitating asset acquisition and trade financing without involving interest (riba).

(a) Commodity finance

Common Shariah Structures:

- (i) Murabaha (Cost-plus mark-up)
- (ii) Salam / Parallel Salam (advance payment contracts)

(b) Murabaha commodity finance

Structure:

- (i) The bank purchases the commodity and sells it to the customer at a mark-up price, payable on deferred terms.
- (ii) The markup is agreed in advance and disclosed.

Tax provisions:

- Initial purchase by the bank: Not subject to WHT/VAT (seen as part of financing)
- Markup (profit) is treated as interest equivalent and:
 - Subject to Withholding Tax (WHT).
 - Not subject to VAT, as it's not considered a service or separate sale.
- Stamp Duty may apply on the Murabaha contract document.

(c) Salam / Parallel Salam commodity finance

Structure:

- (i) The bank pays in advance for future delivery of a commodity (Salam contract).
- (ii) A parallel contract is made with a third party for delivery or resale.

Tax provisions:

- Advance payment (loan equivalent): Not taxable.
- Final delivery/sale of the commodity is subject to VAT and WHT.
- Any profit margin realized by the bank from parallel salam is subject to income tax.

(d) Vehicle asset finance

Common Shariah Structures:

- (i) Murabaha (cost-plus mark-up)
- (ii) Ijārah wa Iqtinā' (lease-to-own)

(e) Murabaha vehicle financing

Structure:

The bank buys a car and sells it to the customer at a profit (markup) with deferred payment.

Tax provisions:

- (i) Markup = interest equivalent, hence:
 - Subject to WHT.
 - Not subject to VAT.
- (ii) Stamp duty may apply to the Murabaha agreement.
- (iii) Capital gains tax (CGT) generally does not apply, as the bank is not trading vehicles for gain but for financing purposes.

(f) Ijārah wa Iqtinā' (lease-to-own vehicle financing)

Structure:

- (i) The bank leases the vehicle to the customer.
- (ii) Ownership is transferred at the end of the lease period.

Tax provisions:

- Lease rentals are:
 - Subject to VAT.
 - Subject to WHT (as finance lease returns).
- The bank claims capital allowance on the asset.
- Final ownership transfer to the customer attracts stamp duty.

24.14.8 Direct investment

This typically refers to **equity-based Islamic finance instruments** like **Musharakah** (partnership) and **Mudarabah** (trust-based investment). These contracts are used for **equity participation** in businesses or projects without the use of interest, and their taxation is specially treated under the Regulations to ensure parity with conventional investment structures

(a) Musharakah (Equity Partnership)

Structure:

- (i) Two or more parties contribute capital to a joint business venture.
- (ii) All parties share profits according to a pre-agreed ratio.
- (iii) Losses are shared **strictly in proportion to capital contribution**.
- (iv) Can be used for **business expansion, real estate, project development**, etc.

Tax provisions:

- **Capital contributions:** treated as **loans** from the tax perspective — not subject to VAT, WHT, or stamp duty.

- **Profit share** received by a financial institution:
 - **Treated as interest equivalent**, hence **subject to Withholding Tax (WHT)**.
- **Losses**: handled per general tax rules — allowable to the extent of investment.
- **Stamp duty**: applicable on the partnership agreement if it involves asset transfer.
- **Capital allowance**: depends on who owns and uses the asset (can be claimed by user).

(b) Diminishing Musharakah (Gradual Exit Model)

Structure:

- Used especially in real estate or asset acquisition (e.g., joint ownership of a property).
- The investor's share is **gradually purchased** by the other party over time.

Tax provisions:

- The **buy-back payments** are treated as **repayments of principal** (non-taxable).
- **Rental payments** made on the investor's portion:
 - **Subject to WHT**.
- **Final asset transfer**: **Stamp Duty applies**.

(c) Mudarabah (trust-based investment partnership)

Structure:

- One party (Rab al Mal) provides the capital, and the other (Mudarib) provides expertise/management.
- Profits are shared as agreed; losses are borne by the capital provider only (unless due to negligence)

Tax provisions:

- **Return on capital** to the investor (Rab al Mal): **subject to WHT**, as it's treated similar to interest.
- **Profit share** earned by the Mudarib (manager): **taxable as business income**.
- **Capital losses**: deductible where they meet conditions under Nigerian tax law.
- **Stamp duty**: applies to the investment agreement if documented formally.

25.14.9 An investment bond

This refers to a **Sukuk**, which is the **Shariah-compliant alternative to conventional bonds**.

Sukuk (Islamic investment bonds)

What is Sukuk?

- Sukuk represents **ownership in a tangible asset, project, or business venture**.
- Investors earn **returns from the performance of the underlying asset, not interest (riba)**.
- Common **infrastructure, real estate, and government financing**.

Illustration 25.4

Al-Juda Finance Limited is a licensed non-interest financial institution in Nigeria. In 2025 financial year, it was engaged in the following transactions

with its clients:

- (i) Murabaha transaction: Al-Juda purchased machinery worth ₦100 million from a supplier and sold it to a client at a mark-up of 20%, payable in 5 equal annual instalments. VAT of 7.5% was charged on the initial purchase.
- (ii) Ijarah lease: Al-Juda acquired vehicles worth ₦35 million and leased them to another client for annual rentals of ₦15 million over 4 years. The lease agreement provides that the vehicles will remain the property of Al-Juda.
- (iii) Sukuk issuance: Al-Juda issued Sukuk bonds worth ₦200 million, backed by a pool of real estate assets. Investors are entitled to annual returns equivalent to 15% of the investment, derived from lease rentals on the properties.
- (iv) Takaful arrangement: Al-Juda operates a takaful scheme where members contribute monthly amounts into a common fund. At the end of the year, a surplus of ₦15 million was distributed back to the contributors based on their participation ratio. Agreements were signed by Al-Juda and the participants.

The company sought advice on the correct Nigerian tax treatment of each of these transactions to ensure compliance and avoid double taxation.

Required:

- a. Explain the tax implications of each of the four transactions, taking into consideration the provisions of the Non-Interest Finance (Taxation) Regulations, 2022.
- b. Explain the challenges Al-Juda Finance Limited may face in applying relevant Nigerian tax legislation to these products.

Suggested solution to illustration 25.4

(a) Tax implications of the transactions

i. Murabaha (machinery financing)

- ▮ The purchase of the asset by the financial institution is subject to both VAT and withholding tax.
- ▮ The initial purchase price is treated as a loan provided by the financial institution to the customer.
- ▮ The markup (profit) of ₦20,000,000 (20% x ₦100,000,000) is treated as interest and it is subject to withholding tax (WHT).
- ▮ The loan repayments (the price paid by the customer, excluding the markup) are exempt from VAT and stamp duties.
- ▮ The markup earned by the non-interest financial institution is subject to the companies income tax (CIT).
- ▮ The WHT deducted on the markup is remitted to the relevant tax authorities in line with WHT regulations.
- ▮ Agreements executed in the course of the transaction are

generally subject to stamp duties.

ii. Ijarah (Lease of vehicles)

- ▢ For the lessor, the interest element of the lease rentals is subject to CIT, WHT, and VAT.
- ▢ For the lessee, lease payments are allowable income tax expenses if the asset is used for income generation.
- ▢ Only the lessor can claim capital allowances on the leased asset.

iii. Sukuk issuance (~~₦~~200m bonds)

- ▢ Returns to investors of 15% of ~~₦~~200,000,000 = ~~₦~~30,000,000 is treated as interest-equivalent and subject to withholding tax like conventional bonds interest.
- ▢ Returns on investment (profit share) distributed to Sukuk holders are subject to a 10% WHT which is typically a final tax to the recipient.
- ▢ Transfer of Sukuk certificates is subject to stamp duty unless exempt under capital market rules.
- ▢ Income from corporate Sukuk issuances is subject to CIT.

iv. Takaful (insurance scheme)

- ▢ Contributions treated as premiums not taxable to Al-Juda.
- ▢ Surplus distribution (~~₦~~15,000,000) returned to participants by Al-Juda is subject to withholding tax (WHT).
- ▢ Commissions and management fees earned by the Al-Juda are taxable under VAT as the prevailing rate of 7.5%.
- ▢ Agreements between participants and Al-Juda attract stamp duty.

(b) Challenges under Nigerian tax legislations

These include:

- i. lack of adequate legal framework for islamic finance and reliance on circulars;
- ii. risk of double/multiple taxation on Murabaha and Sukuk (VAT, stamp duty);
- iv. capacity gaps amongst tax officials in understanding Shari'ah-compliant structures;
- iv. lack of secondary markets;
- v. competition from conventional banks;
- vi. low public awareness; and
- vii. shortage of trained personnel with the necessary knowledge, etc

25.15 Tax and other incentives available to a labelled startup under the Nigeria Startup Act, 2022

25.15.1 Objectives of Nigeria Startup Act, 2022.

The objectives of this Act are to:

- (a) provide a legal and institutional framework for the development of startups in Nigeria;
- (b) provide an enabling environment for the establishment, development and operation of startups in Nigeria;
- (c) provide for the development and growth of technology-related talents; and
- (d) position Nigeria's startup ecosystem, as the leading digital technology centre in Africa, having excellent innovators with cutting edge skills and exportable capacity.

25.15.2 Companies covered by the provisions of the Act

- a) A startup is eligible for labelling under this Act, where:
 - (i) it is registered as a limited liability company under the Companies and Allied Matters Act, and has been in existence for a period not more than 10 years from the date of incorporation;
 - (ii) its objects are innovation, development, production, improvement, and commercialisation of a digital technology innovative product or process;
 - (iii) it is a holder or repository of a product or process of digital technology, or the owner or author of a registered software;
 - (iv) it has at least one-third local shareholding held by one or more Nigerians as founder or co-founder of the startup; and
 - (v) in the case of a sole proprietorship or partnership, it satisfies the conditions set out in paragraphs (ii), (iii) and (iv).
- b) This Act shall not apply to an organisation which is a holding company or subsidiary of an existing company which is not registered as a startup.
- c) A sole proprietorship or partnership referred to in a(v) above shall be granted a pre-label status for a period of six months to enable the sole proprietorship or partnership comply with the requirements set out in a (i), (ii), (iii) and (iv).
- d) A sole proprietorship or partnership which fails to comply with (c) above, shall lose the pre-label status granted to it.
- e) A labelled startup shall be granted access to the incentives provided under this Act

25.15.3 Composition, functions, and powers of the National Council for Digital Innovation and Entrepreneurship

(a) Composition

The Council shall consist of:

- (i) the President of the Federal Republic of Nigeria, who shall serve as the Chairman;
- (ii) the Vice-President of the Federal Republic of Nigeria, who shall serve as the Vice Chairman;
- (iii) the Minister responsible for Communications and Digital Economy, who shall preside over the Council in the absence of the President and the Vice-President;
- (iv) the Minister responsible for Finance, Budget and National Planning;
- (v) the Minister responsible for Industry, Trade and Investment;
- (vi) the Minister responsible for Science, Technology and Innovation;
- (vii) the Governor of the Central Bank of Nigeria (CBN);
- (viii) four representatives of the Startup Consultative Forum established under

- section 12 of this Act;
- (ix) one member to represent the Nigeria Computer Society;
 - (x) one member to represent the Computer Professionals (Registration Council of Nigeria); and
 - (xi) the Director-General of the National Information Technology Development Agency, who shall serve, as the Secretary of the Council.

(b) Functions and powers of the Council

(i) Functions

The Council shall:

- formulate and provide general policy guidelines for the realisation of the objectives of this Act;
- give overall directions for the harmonisation of laws and regulations that affect a startup;
- approve the programmes of the Secretariat established under this Act;
- ensure the monitoring and evaluation of the regulatory framework to encourage the development of startups in Nigeria;
- monitor and ensure the implementation of the policies and programmes of the Secretariat;
- support digital technological development through grants to persons, research institutions, and universities pursuing postgraduate programmes in the areas of science, technology and innovation;
- make, alter or revoke rules and regulations for carrying out the functions of the Secretariat, subject to the provisions of this Act;
- appoint a Council agent to carry out such functions as the Council may require; and
- perform other functions as are necessary or expedient to ensure the efficient performance of the functions of the Secretariat and other bodies established under the Act.

(ii) Powers

The Council shall have power to:

- review policies and directives of Ministries, Departments and Agencies (MDAs) which may affect the operation, establishment and investments in a startup; and
- regulate its proceedings and make standing orders with respect to the holding of its meetings, notices to be given, the keeping of minutes of its proceedings and such other matters as the Council may determine.

25.15.4 Startup labelling process, obligations, withdrawal and reissuance of startup label

(a) Issuance of a certificate

- (i) A startup desirous of being granted a label under the provisions of the Act shall submit an application on the Startup Portal in the prescribed form.
- (ii) An application shall be supported by documents prescribed by the Secretariat
- (iii) Where the Coordinator is satisfied that an applicant has complied with the requirements for labelling under this Act, the Coordinator shall —
 - with the approval of the Secretariat enter the name and particulars of the applicant in the register of startups kept for that purpose; and
 - issue to the startup, a startup label.
- (iv) The certificate issued, unless the contrary is proven, be conclusive evidence that the startup has —

- complied with all the requirements for labelling specified under this Act; and
 - have been duly labelled, in accordance with this Act.
- (v) A startup label shall be valid for a period of 10 years from the date of issuance.

(b) Obligations of a labelled startup

A labelled startup under this Act shall:

- (i) comply with all the extant laws governing businesses in Nigeria;
- (ii) provide information annually on the number of human resources, total assets and the annual turnover achieved from the period the startup label was granted;
- (iii) maintain proper book of accounts in accordance with reporting obligations provided under extant laws and regulations;
- (iv) provide an annual report on incentives received and advancement made by virtue of the incentives;
- (v) notify the Coordinator of any change in structure, composition or objects within a period of one month from the date of such change; and
- (vi) comply with the obligations set out by the Coordinator after issuance of the startup label.

Where a labelled startup defaults in any of the obligations, or fails to meet the eligibility criteria under this Act, the Coordinator shall notify the labelled startup of the default, and within 30 days of the notification, the startup shall take steps to rectify the default.

(c) Withdrawal of startup label

Where a labelled startup fails to regularise the default after being notified, the Secretariat shall withdraw the startup label and notify the relevant MDAs or investors that may have granted incentives to such labelled startup.

(d) Reissuance of startup label

Where a startup, whose startup label is withdrawn under section 17 of this Act, rectifies the default, it may apply to the Secretariat for a re-issuance of the startup label.

25.15.5 Management of the Startup Investment Seed Fund

- (a) There is established the Startup Investment Fund to be managed by the Nigeria Sovereign Investment Authority (the Fund Manager).
- (b) There shall be paid into the Fund on an annual basis, a sum not less than N10,000,000,000 from sources to be approved by the Council.
- (c) The Fund shall be applied to:
 - i. provide a labelled startup with finance;
 - ii. provide early-stage finance for labelled startups on the recommendation of the Fund Manager subject to the approval of the Council; and
 - iii. provide relief to technology laboratories, accelerators, incubators and hubs.
- (d) The Fund Manager shall:
 - i. create an innovation grant budget and management framework to support research and development projects, and
 - ii. issue a framework which shall set out modalities to fund, manage, and access the Fund.

25.15.6 Tax and fiscal benefits available to labelled startups

- (a) A labelled startup which falls within industries captured under the extant Pioneer Status Incentives (PSI) Scheme may upon application through the Secretariat receive expeditious approval from the Nigerian Investment Promotion Commission (NIPC) for the grant of the tax reliefs and incentives under the PSI Scheme.

- (b) Notwithstanding the provisions of any other law, the Federal Government may, through the Federal Ministry responsible for Finance or any other relevant MDA, simplify the requirements for a startup to benefit from existing fiscal incentives.
- (c) In accordance with the provisions of the Industrial Development (Income Tax Relief), a labelled startup may be entitled to exemption from the payment of income tax or any other tax chargeable on its income or revenue for a period of three years and an additional two years if still within the period of a labelled startup, provided that the commencement date of the tax relief shall be the date of the issuance of the startup label.
- (d) A labelled startup shall enjoy full deduction of any expenses on research and development which are wholly incurred in Nigeria and the restrictions placed by the Companies Income Tax Act shall not apply to a labelled startup.
- (e) Non-resident companies that provide technical, consulting, professional or management services to a labelled startup shall be subjected to a five percent withholding tax on income derived from the provision of such services, provided that the payment of the withholding tax, shall be the final tax to be paid by such non-resident companies.
- (f) A labelled startup shall be exempted from contributions to the Industrial Training Fund where it provides in-house training to its employees for the period where it is designated as a labelled startup.
- (g) The Secretariat shall ensure that a labelled startup involved in the exportation of products and services, which are deemed eligible under the Export (Incentives and Miscellaneous Provisions) Act, is entitled to export incentives and financial assistance from the Export Development Fund, Export Expansion Grant and the Export Adjustment Scheme Fund.
- (h) The Secretariat shall ensure that a labelled startup has access to grants and loan facilities administered by the CBN, the Bank of Industry or other bodies statutorily empowered to assist small and medium scale enterprises and entrepreneurs.
- (i) Credit guarantee scheme
- The Secretariat shall establish a Credit Guarantee Scheme (in the Act referred to as “the Scheme”) for the development and growth of a labelled startup under this Act.
 - The scheme established shall have the following objectives:
 - the provision of accessible financial support to a labelled startup;
 - creation of a framework for credit guarantee for a labelled startup;
 - provision of financial and credit information to startups; and
 - provision of financial management capacity building programmes to startups.
- (j) Where a Scheme is established, the Secretariat shall ensure that there is:
- a strategy and operational goals which align with the objectives;
 - criteria for eligibility and qualification for recipients of funding under the Scheme;
 - criteria for the monitoring and evaluation of projects undertaken under the Scheme and the efficiency of the operations of the Scheme;
 - mechanism for transparency, accountability and reporting on the activities of the Scheme; and
 - chattels, registered intellectual property, assignment of shares or any other instrument identified in the collateral registry as sufficient collateral.

25.15.7 Incentives and reliefs for investors investing in a labelled startup

- (a) The Federal Government, through the Federal Ministry responsible for Finance

and other MDAs, shall develop and implement a national policy for incentives for individuals, impact investors, angel investors, companies, venture capitalists, private equity funds, accelerators or incubators which invest in a labelled startup or in the startup ecosystem to enjoy tax credits on their investment.

- (b) Notwithstanding the provisions of the NTA, an angel investor, venture capitalist, private equity fund, accelerators or incubators which invests in a labelled startup shall be entitled to an investment tax credit equivalent to 30% of the investment in the labelled startup provided that such credit shall be applied on any gains on investment which are subject to tax.
- (c) Tax shall not be charged on gains that accrue from the disposal of assets by an angel investor, venture capitalist, private equity fund, accelerators or incubators with respect to a labelled startup provided the assets have been held in Nigeria for a minimum of 24 months.

25.15.8 Criticism of tax incentives

The Nigeria Startup Act 2022 has received both praise and criticism. While it aims to create a supportive environment for startups, some experts have raised concerns about its potential effectiveness which include the following:

- (a) **overemphasis on legislation:** some argue that the Act alone may not be enough to fuel the growth of Nigeria's startup economy, suggesting that other factors like infrastructure, talent, and market access also play crucial roles;
- (b) **implementation challenges:** the Act's success depends on effective implementation, which can be hindered by bureaucratic processes, inadequate funding, or lack of clarity on specific provisions.
- (c) **limited impact on growth of SMEs:** research suggests that the Act's objectives may not necessarily redefine SME growth in Nigeria, implying that more targeted support might be needed for small and medium-sized enterprises; and
- (d) **uncertainty around benefits:** some studies indicate that the perceived benefits of the Act may not materialise without proper execution and infrastructure.

Despite these criticisms, the Act has introduced promising initiatives, such as:

- (a) **Startup Investment Fund:** a fund to provide relief to startups, technology laboratories, accelerators, incubators, and hubs;
- (b) **tax incentives:** tax breaks and exemptions for labelled startups, including exemption from income tax for three years, extendable by two more years;
- (c) **simplified regulations:** streamlined registration and licensing processes for startups through the Startup Support and Engagement Portal; and
- (d) **intellectual property protection:** collaboration with relevant agencies to support labelled startups in commercialising and internationalising their intellectual property rights.

Overall, while the Nigeria Startup Act 2022, has potential, addressing the identified challenges and uncertainties will be crucial to its success.

25.15.9 Non-resident companies that provide services to a labelled company - section 51(8) of NTAA

A non-resident company that provides technical, consulting, professional or management services to a labelled startup shall be subjected to a 5% deduction on income derived from the provision of such services, which shall be the final tax to be paid by such non-resident company.

25.16 Tax implication of the establishment of the defence and security infrastructure Fund - section 59(6) of NTA and the Fourteenth Schedule to the Act

25.16.1 Establishment of fund

- (a) The Fund known as the Defence and Security Infrastructure Fund (the Fund) has been established for the implementation of a national security scheme and the development of defence industry and infrastructure in Nigeria.
- (b) 10% of the development levy imposed shall be paid and credited to the Fund
- (c) The Fund created shall be used exclusively for operational purposes to enhance security in Nigeria.

25.16.2 Management of Fund

- (a) The following security agencies and bodies will jointly manage the Fund:
 - i. Nigerian Army, Nigerian Navy and Nigerian Airforce, established under the Armed Forces Act, Cap. A20, Laws of the Federation of Nigeria, 2004;
 - ii. Nigeria Police Force established by Police Act, Cap. P19, Laws of the Federation of Nigeria 2004;
 - iii. Department of State Security (DSS) established under the National Security Agencies Act, Cap. N74, Laws of the Federation of Nigeria, 2004;
 - iv. Nigerian Security and Civil Defence Corps (NSCDC) established under the Nigerian Security and Civil Defence Commission Act, No. 6, 2007;
 - v. Nigerian Forest Security Service (NFSS) established under the Nigerian Forest Security Service Act 2025;
 - vi. Defence Intelligence Agency (DIA) established under Decree 19 of 1986; and
 - vii. Office of the National Security Adviser established under the National Security Agencies Act of 1986.
- (b) The monies due to each agency shall be paid directly to the agency's account with the Central Bank of Nigeria.
- (c) Monies from the Fund shall be used by the agencies to fulfil the performance of functions and obligations as provided under the establishment laws of the agencies, including obligations on maintenance, reporting and accountability of funding.

25.16.3. Fund allocation details

The 10% allocation from the development levy shall be divided and managed as follows:

S/N	Agency	Percentage of the fund
1	Defence Headquarters	8%
2	Nigerian Army	20%
3	Nigerian Navy	12.5%
4	Nigerian Airforce	12.5%
5	ONSA / Counter-Terrorism Center	6%
6	Nigeria Police Force	10%
7	Police Trust Fund	8%
8	Department of State Security	9%
9	Nigerian Security and Civil Defence Corps	5%
10	Nigerian Forest Security Service	5%
11	Defence Intelligence Agency	4%

25.16.4 Modification

The allocation, distribution, and management of the Fund established under the Schedule shown above may be reviewed by the National Assembly from time to time to

ensure the effective distribution and maintenance of the Fund based on needs and emerging challenges in Nigeria.

25.17 Taxation of lottery and gaming trade or business - section 62 of NTA

25.17.1 Definition

- (a) "gaming" includes gambling, wagering, video poker, roulette, craps, bingo, slot or gaming machine, drawings or other games of chance conducted by any person;
- (b) "lottery" or "lotteries" includes any betting, game, scheme, arrangement, system, plan, promotional competition or device for the distribution of prizes by lot or chance, or as a result of the exercise of skill and chance or based on the outcome of real or virtual sporting events, or any other game, scheme, arrangement, system, plan, competition or device.

25.17.2 Taxation of income

- (a) The income of lottery and gaming trade or business shall be charged to tax in accordance with the provisions of this Act.
- (b) In the determination of assessable profits of lottery and gaming trade or business, the following deductions shall be allowed, in addition to other deductions allowed under Chapter Two of this Act:
 - (i) any amount paid as winnings, prizes or similar payments from the relevant Prize Fund;
 - (ii) agency commission expenses incurred; and
 - (iii) levies paid to relevant regulatory and government authorities as contained in relevant federal or state laws.

25.17.3 Treatment of VAT, WHT, and Excise Duties

(a) VAT

- (i) Money, stakes, or securities wagered by players

Based on the provisions of section 185(1)(m) of NTA, money, stakes or securities wagered by players are VAT exempt.

- (ii) Other income

VAT applies to services other than stake, such as commission fees, subscriptions, platform fees, etc.

(b) WHT

- (i) Gross gaming winnings

The gross amount is subject to a deduction of 5% withholding tax, at the point of payout and remitted to the relevant tax authority by the licensed gaming operator.

- (ii) Advance payment of tax

The player can claim the WHT deducted from his gross gaming winnings as a credit when filing annual tax returns.

(c) Small companies

A company that is engaged in lottery and gaming trade or business, earning ₦ 100 million or less annually, is exempt from withholding tax on transactions below ₦ 2million per month, as long as it possesses a valid Tax ID.

25.18 Taxation of digital assets and virtual assets related activities

25.18.1 Definitions

(a) Digital assets - section 201 of NTA

"Digital assets" means digital representation of value that can be digitally exchanged, including, but not limited to, crypto assets, utility tokens, security tokens, non-fungible tokens (NFT), such other similar digital representation or derivatives of any of the listed or similar assets and any other asset as may be defined by the relevant regulatory authority."

(b) Electronic or digital services - section 147 of NTAA

"Electronic or digital activities" means the receipt, emission or transmission of signals, sounds, messages, images or data of any kind by cable, radio, electromagnetic systems or any other electronic or wireless apparatus in respect of any commerce, trade or activity, including electronic commerce, application store, high frequency trading, electronic data storage, online adverts, participative network platform, online gaming, cloud computing, online teaching services, digital content services, supply of user data, search engines or online payments.

25.18.2 Interpretations based on the Seventh Paragraph to the Fifth Schedule to the NTAA

(b) "Virtual asset" means a digital representation of value that can be digitally traded or transferred and used for payment, investment, or other financial purposes which include cryptocurrencies, tokens, and digital collectibles, but virtual assets shall not include certain types of digital currencies and assets, which are -

- (i) national currencies and foreign national currencies;
- (ii) electronic money licensed by the Central Bank of Nigeria;
- (iii) instruments that provide the holder with access to products, services or benefits, such as loyalty programs and other reward systems; and
- (iv) digital representations of other assets whose issuance, bookkeeping, trading or settlement is provided for under the Investments and Securities Act, 2007.

(b) "Virtual Asset Service Provider (VASP)" means a person who offers services related to the exchange, custody, or management of virtual assets on behalf of clients;

(c) "Anti-Money Laundering (AML)" means measures designed to prevent criminals from disguising illegally obtained funds as legitimate.

(d) "Counter-Terrorism Financing (CTF)" means efforts to prevent the financing of terrorism, including through virtual assets.

(e) "Know Your Customer (KYC)" means the process of identifying and verifying the identity of clients.

25.18.3 Registration as a Virtual Assets Service Provider - paragraph 1 of the Fifth Schedule to the NTAA

Any taxable person who is engaged in virtual assets related activities, including the exchange, trading, custody, or issuance of virtual assets, shall for tax purposes, register with the relevant tax authority as a Virtual Assets Service Provider (VASP).

25.18.4 Filing of returns - section 25 of NTAA

- (a) A Virtual Asset Service Provider (VASP) shall, with or without a notice, in addition to the returns provided in sections 11 and 13 of this Act - income tax returns for companies and income tax returns for individual, respectively, submit to the relevant tax authority, the information prescribed in (b) below.

- (b) The returns shall contain:
- (i) a description of the virtual asset service (exchange, sale, or transfer of virtual assets) provided during the month;
 - (ii) the date of the transaction;
 - (iii) the type and value of the virtual assets involved;
 - (iv) the sales value of the virtual assets
 - (v) the name, address, telephone number, email address and Tax ID of the customer, including the national identification number of the customer if he is an individual;
 - (vi) the name, address, telephone number and email address of any counterparty involved to the transaction; and
 - (vii) such other particulars as may be prescribed by the relevant tax authority.
- (c) Notwithstanding (a) and (b) above, the relevant tax authority may at any time, with or without a notice, request a VASP to submit further information in a prescribed form, by a specified date.

25.18.5 Taxable transactions - paragraph 2 of the Fifth Schedule to the NTAA

- (a) Taxable virtual assets transactions include:
- (i) the sale, exchange, or transfer of virtual assets;
 - (ii) mining or staking activities that generate income;
 - (iii) airdrops, bounties, or any form of virtual asset received as compensation or reward; and
 - (iv) any other transaction or activity relating to virtual assets.
- (b) Transaction where payment for goods and services is made with virtual assets, shall:
- (i) be subject to the same tax treatment as transactions conducted in fiat currency;
 - (ii) have the same value as the goods and services, determined at the market price at the time of the transaction; and
 - (iii) be reported as income by the person receiving such payments in virtual assets and pay taxes in accordance with the provisions of this Act.

25.18.6 Valuation of virtual assets -paragraph 3 of the Fifth Schedule to the NTAA
The value of virtual assets shall be ascertained for tax purposes by using the prevailing market price at the time of the transaction, as determined by a recognised virtual asset exchange platform approved by the Service.

25.18.6 Taxpayer obligations - paragraph 4 of the Fifth Schedule to the NTAA

A VASP shall keep records and books and report virtual assets activities to the relevant tax authorities.

25.18.7 VASP reporting obligations - paragraph 5 of the Fifth Schedule to the NTAA

A VASP operating in Nigeria shall:

- (a) report any large or suspicious transactions involving virtual assets to the Service and the Nigerian Financial Intelligence Unit (NFIU) in accordance with existing anti-money laundering (AML) laws;
- (b) obtain a Special Control Unit Against Money Laundering Certificate (SCUML Certificate) issued by the relevant authority;

- (c) report any suspicious activity or transactions related to virtual assets that may involve money laundering, terrorist financing, or fraud to the Nigerian Financial Intelligence Unit (NFIU) within 48 hours;
- (d) provide periodic reports of customer transactions to the Service, including but not limited to, exchange, sale, or transfer of virtual assets;
- (e) maintain accurate customer information to comply with Know Your Customer (KYC) requirements; and
- (f) maintain records of all customer transactions and identification data for at least seven years after the date of the last transaction.

25.18.8 Customer due diligence and Know Your Customer (KYC) obligations - paragraph 6 of the Fifth Schedule to the NTAA

VASPs shall for the purpose of ensuring that digital or virtual transactions or assets are captured for taxation, conduct thorough customer verification, in accordance with the KYC and Anti-Money Laundering (AML) guidelines, as follows:

- (a) collect personal identification details (name, address, national ID, etc.);
- (b) conduct risk assessments and ongoing monitoring of transactions;
- (c) implement effective internal controls to prevent money laundering and terrorist financing;
- (d) report regularly, suspicious activities to the relevant law enforcement agencies;
- (e) implement industry-standard cybersecurity protocols to protect customer data, transactions and assets from breaches or unauthorised access; and
- (f) conduct internal audits to ensure compliance with AML/KYC, tax obligations and reporting standards.

25.18.9 Treatment of loss - section 28(3)(b)(iv) of NTA

Any loss arising in any period from sales, disposal or any other transaction in digital or virtual assets shall only be deductible against the profit or gain from digital or virtual assets.

25.18.10 Penalty for non-compliance with the provisions of NTAA by VASP -section 109 of NTAA

Any VASP who fails to comply with the provisions of this Act shall be liable to an administrative penalty of ₦10,000,000.00 in the first month of default, plus:

- (a) ₦1,000,000.00 for every subsequent month that the default continues; or
- (b) suspension or revocation of operating license by the Securities and Exchange Commission.

25.19 Digital economy (including taxation of income from e-commerce and e-business)

25.19.1 Introduction

Generally, business transactions are undertaken with the traditional view of a market in mind and taxation of these market activities has been a source of government revenue.

Global industrialisation and efficiency in the dynamics of production and distribution of goods and services has significantly changed the pre-historic perception of a market from being a designated location for exchange of goods and services to boundless geography bolstered by daily human interactions in search for ways to meet their basic needs. This trend is the same with both developed and developing economies like Nigeria.

Obviously, technology has led the way in providing a platform for these voluminous and boundless transactions to happen leading to the creation of a system of trade known as

e-commerce which has made international trade easier, faster and less burdensome while at the same time advancing the per capita income of participants therein.

Essentially, e-commerce presents a major challenge for tax administrations, given the often-multi-jurisdictional nature of the transactions and the potential anonymity of the parties.

It is, therefore, crucial to give the subject a critical examination through the lenses of relevant statutes

25.19.2 Definition of e-commerce

The term “Electronic Commerce” sounds so familiar. Everybody seems to have an understanding of what it means. The term is used on a daily basis in newspapers or on television. However, looking at the term “Electronic Commerce” from a more academic point of view, one realises that there is no standard definition of “Electronic Commerce”.

The definitions differ significantly depending on the various authors and sources. Some definitions include all financial and commercial transactions that take place electronically, including electronic data interchange, electronic funds transfers, and all credit/debit card activity. Others limit electronic commerce to retail sales to consumers.

The following are some of the definitions offered on e-commerce:

“The use of electronic networks to exchange information, products, services and payments for commercial and communication purposes between individuals (consumers) and businesses, between businesses themselves, between individuals themselves, within government or between the public and government and between business and government.” (Source - “Green Paper on Electronic Commerce for South Africa, 2000”)

The 2025 OECD technical paper on definition of e-commerce and guidelines for interpretation defines ‘e-commerce transaction’ as “the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders. The goods or services are ordered by those methods, but the payment and the ultimate delivery of the goods or services do not have to be concluded online. An e-commerce transaction can be between enterprises, households, individuals, governments, and other public or private organisations”.

The guidelines for interpretation as provided by OECD are as follows:

- (a) Include: Orders made via webpages, apps, extranets, and Electronic Data Interchange (EDI). The type is defined by the method of making the order;
- (b) Exclude: Orders made by telephone calls, facsimiles, on-premise mechanisms (including but not limited to kiosks or QR codes), manually typed messages (including but not limited to e-mails).

“E-commerce” is the sale of goods and services through the internet. The e-commerce is an important part of the e-business - a larger notion regarding digital technologies used to provide information and communication for the help/optimisation of business. In other words, commercial transactions are carried out on the internet, from purchasing products in online stores to making payments and delivering products or services to buyers (Adapted from: Dalina- Maria Andrei, 2024)

Judging by the various definitions offered on e-commerce, one thing is common and that is the use of electronics in the conduct of business transactions. Therefore, e-

commerce can be defined literally to mean all transactions whether visible or invisible which are conducted electronically.

25.19.3 Differences between e-commerce and e-business

Most often, the terms "e-business" and "e-commerce" are used interchangeably; however, they are not synonymous. E-commerce refers to buying and selling online, while e-business encompasses all business conducted online. Therefore, e-commerce can be viewed as a subset of e-business.

Below are the differences between e-commerce and e-business.

	E-commerce	E-business
1	E-commerce involves commercial transactions done over the internet.	E-business is conduct of business process on the internet.
2	E-commerce is use of electronic transmission medium that caters for buying and selling of products and services	In addition, e-business also includes the exchange of information directly related to buying and selling of products.
3	Thus, those activities when essentially involve monetary transactions are termed "e-commerce"	In addition, it includes activities like procurement of raw materials or goods, customer education, looking for suppliers etc.
4	E-commerce usually requires the use of just a website.	E-business involves the use of CRM's, ERP's that connect different business processes.
5	E-commerce involves the mandatory use of internet	E-business can involve the use of internet, intranet or extranet.
6	E-commerce is narrower concept and restricted to buying and selling.	E-business is a broader concept that involves market surveying, supply chain and logistics management and using data mining.

25.19.4 Efforts made by the government to track income arising from e-commerce and e-business

These include:

(a) National digital trustmark initiative

On October 10, 2025, the Federal government unveiled the initiative to facilitate the verification of authentic e-commerce websites and platforms in Nigeria. Based on the new framework, e-commerce platforms are required to display the trustmark seal on their websites and platforms. The seal allows third parties to easily identify verified platforms and transact safely.

(b) Companies and Allied Matters Act, 2020

This Act requires the incorporation, registration and management of corporate businesses, including online organisations.

(c) Significant economic presence (SEP) rules - Section 17 of NTA

The Companies Income Tax (Significant Economic Presence) Order, 2020, was issued by government to enable the taxation of non-resident companies that

generate revenue from Nigeria, shifting “physical presence” to “economic presence”. In addition to the foregoing, NTA and NTAA were promulgated to strengthen the provisions of the Order to capture the following:

- (i) the income, profits or gains of a non-resident person accruing in, or derived from Nigeria are chargeable to tax in accordance with the provisions of this Act;
 - (ii) gains derived by a non-resident person from disposal of chargeable assets are taxable in Nigeria where the gains relate to:
 - a trade, business, profession or vocation carried on by the non-resident person in Nigeria;
 - any asset located in Nigeria; or
 - any asset deemed to be located in Nigeria under this Act;
 - (iii) profits derived from any trade, business, profession or vocation carried on by a non-resident person are taxable in Nigeria where the person has a permanent establishment or significant economic presence in Nigeria to the extent that the profit is attributable to the permanent establishment or significant economic presence; and
 - (iv) a non-resident person shall, subject to any regulations that may be issued by the Minister to that effect, have a significant economic presence in Nigeria where the person transmits, emits or sends by itself or through other person, signals, sounds, messages, images or data of any kind by cable, radio, electromagnetic systems or any other electronic or wireless apparatus to Nigeria in respect of any activity, including electronic commerce, application store, high frequency trading, electronic data storage, online adverts, participative network platform, online payments, supply of user-data, search engines, digital content services, online gaming, cloud computing, online teaching services, and so on, and profit can be attributable to such activity .
- (d) Profits or gains from transaction in digital assets - section 4 of NTA
- The profits or gains made from the transaction in digital assets, which include cryptocurrencies, tokens, etc. shall be subject to CIT at 30% or PIT, ranging from 0% to 25%.
- (e) Filing of returns by Virtual Assets Service Providers (VASPs) - section 25 of NTAA
- VASPs are required to register with NRS and with or without notice, submit returns in line with the provision of section 25 of the Act, in addition to the returns provided under sections 11 and 13 of the Act - income tax returns for companies and individuals, respectively.
- (f) Fiscalisation of supplies for VAT - section 157 of VAT
- (i) A taxable person making a taxable supply shall implement the fiscalisation system deployed by the Service in accordance with section 23 of Nigeria Tax Administration Act, that is, Value Added Tax Fiscalisation System
 - (ii) The fiscalisation system may include fiscal equipment consisting of electronic devices, software solutions or a communication system involving a secured network, or any such combination of the components for electronic invoicing and data transfer as the Service may prescribe or deploy

(g) Taxable supply of non- residents - section 150 of NTA

- (i) A non-resident person who makes taxable supplies to Nigeria shall register for tax and include VAT on its invoice for all taxable supplies. For the avoidance of doubt, this obligation also applies to digital or supplied services done electronically, including cloud hosting, e-commerce platforms, streaming, etc
- (ii) Where a non-resident person is making taxable supplies from outside Nigeria to persons in Nigeria, the taxable person to whom the supply is made in Nigeria shall withhold the VAT due on the supply and remit it to the Service.
- (iii) A non-resident person that makes a taxable supply to a person in Nigeria may appoint a representative for the purpose of compliance with its VAT obligations.
- (iv) The Service may issue guidelines for the purpose of giving effect to the provisions of this section, including the form, time and procedure for filing returns and payment by non-resident suppliers appointed by the Service.
- (v) Where taxable goods are imported into Nigeria through an online electronic or digital platform operated by a non-resident supplier and VAT has been collected by the Service or any person appointed by the Service, the goods shall not be further subjected to VAT before clearing upon provision of proof of payment of the VAT.

This section accommodates the destination principle of VAT by ensuring that VAT on imported goods and services are charged where they are consumed rather than where they are produced.

(h) Controlled foreign company and the minimum effective tax rate - section 6 of NTA

- (i) The profits of a Nigerian company are deemed to accrue in Nigeria wherever the profits arise and whether or not such profits have been brought into or received in Nigeria.
- (ii) Where a foreign company which is controlled by a Nigerian company has not, in a year, distributed profits to its shareholders, the proportion of the profits of the controlled foreign company attributable to the Nigerian company, which could have been distributed without detriment to the company's business shall be construed as distributed and included in the profits of the Nigerian company for the purposes of (i) above.
- (iii) Where the income tax paid by a non-resident company which is a subsidiary of a Nigerian company or a member of a multinational group of a Nigerian company in any year yields less than the minimum effective tax rate prescribed by this Act, the Nigerian parent company shall pay an amount to make that non-resident subsidiary's income tax equal to the minimum effective tax rate.
- (iv) The Nigeria Revenue Service (the Service) shall provide detailed rules for the implementation of (ii) and (iii) above.

(i) Stamp duty on electronic money transfer - Nineth Schedule to the NTA

This captures any financial transaction above ₦ 10,000 made through digital channels except those relating to money paid into one's own account or transferred electronically between accounts of the same owner within the same bank.

(j) Non-resident persons tax office (NRPTO)

The NRS has a specialised office which focuses specifically on the taxation of non-resident persons and cross-border transactions with a view to ensuring compliance and facilitating monitoring.

(k) Mandatory registration of Global Tech Giants

It is now mandatory for several multinational digital platforms, including Netflix, LinkedIn, Google, Facebook, Meta, etc. to register with NRS with a view to paying the relevant taxes. They are also required to collect VAT on transactions done through their systems.

(l) Automation of tax administration

With the introduction of the TaxPro Max platform in 2021 and Rev360 in 2026, the system merges with a transaction monitoring system that provides NRS with real-time visibility into electronic transactions executed by banks, fintechs, and payment service providers with a view to capturing such transactions for tax purposes.

(m) Capacity development of staff

Staff of NRS are continually trained and retrained to improve their knowledge on tax matters and to be abreast of developments on emerging tax issues.

(n) Tax inspectors without borders

This initiative put together by OECD and UNDP allows experts to work with local tax officials on real-time audits, thereby strengthening local tax administration capacity, and ultimately boosting tax revenue.

25.19.5 Current treaty rules for taxing business profit: implications for e-commerce

Whilst there are significant differences between bilateral tax treaties, the principles underlying the treaty provisions governing the taxation of business profits are relatively uniform and may be summarised as follows:

(a) Liability to a country's tax: residents and non-residents

Under the rules of tax treaties, liability to a country's tax first depends on whether or not the taxpayer that derives the relevant income is a resident of that country. Any resident taxpayer may be taxed on its business profits wherever arising (subject to the requirement that the residence country eliminate residence-source double taxation) whilst, as a general rule, non-resident taxpayers may only be taxed on their business profits to the extent that these are attributable to a permanent establishment situated in the country (see below for the exceptions to that general rule).

Residence, for treaty purposes, depends on liability to tax under the domestic law of the taxpayer. A company is considered to be a resident of a State if it is liable to tax, in that State, by reason of factors (that is, domicile, residence, incorporation or place of management) that trigger the widest domestic tax liability. Since the reference to domestic factors could result in the same company being a resident of the two countries that have entered into a treaty, treaties also include so-called "tie-breaker" rules that ensure that a taxpayer will have a single country's residence for purposes of applying the treaty. The tie-breaker rule of the OECD Model Tax Convention provides that a company that is considered to be a resident of two countries is a resident only of the country in which its place of effective management is situated.

(b) Permanent establishment (PE): the treaty nexus/threshold for taxing business profits of non-residents

Treaty rules for taxing business profits use the concept of permanent establishment as a basic nexus/threshold rule for determining whether or not a

country has taxing rights with respect to the business profits of a non-resident taxpayer. That threshold rule, however, is subject to a few exceptions for certain categories of business profits. The permanent establishment concept also acts as a source rule to the extent that, as a general rule, the only business profits of a non-resident that may be taxed by a country are those that are attributable to a permanent establishment.

The basic treaty definition of “permanent establishment” is “a fixed place of business through which the business of an enterprise is wholly or partly carried on”. That definition incorporates both a geographical requirement (that is, that a fixed physical location be identified as a permanent establishment) as well as a time requirement (that is, the presence of the enterprise at that location must be more than merely temporary having regard to the type of business carried on).

In order to be able to conclude that part or the whole of the business of an enterprise is carried on through a particular place, that place must be at the disposal of that enterprise for purposes of these business activities. The treaty definition of permanent establishment provides, however, that if the place is only used to carry on certain activities of a preparatory or auxiliary character, that place will be deemed not to constitute a permanent establishment notwithstanding the basic definition.

The basic definition of permanent establishment is supplemented by a rule that deems a non-resident to have a permanent establishment in a country if another person acts in that country as an agent of the non-resident and habitually exercises an authority to conclude contracts in the name of the non-resident.

That rule, however, does not apply to independent agents acting in the ordinary course of their business..

As already mentioned, there are a number of exceptions to the permanent establishment nexus/threshold general rule as regards some categories of business profits.

On the one hand, some categories of profits may be taxed in a country even though there is no permanent establishment therein. This is the case of:

- (i) profits derived from immovable property (for example, hotels, mines etc.), which, in all or almost all treaties, may be taxed by the country of source where the immovable property is located;
- (ii) profits relating to the performance of entertainers and athletes, which, in all or almost all treaties, may be taxed by the country of source where the performance takes place;
- (iii) profits that include certain types of payments which, depending on the treaty, may include dividends, interest, royalties or technical fees, on which the treaty allows the country of source to levy a limited tax based on the gross amount of the payment (as opposed to the profit element related to the payment);
- (iv) under some treaties, profits derived from collecting insurance premiums or insuring risks in the source country; and
- (v) under some treaties, profits derived from the provision of services if the presence of the provider in the country of source exceeds 183 days in a 12-month period.

(c) Computation of profits: the separate entity accounting and arm’s length principles

The treaty principles for computing the business profits that may be taxed by a country are similar whether a country has taxing rights over business profits because these profits are those of a resident taxpayer or because these business profits are attributable to the permanent establishment of a non-resident taxpayer.

In both cases, the rules for computing the business profits that may be taxed by the source country are based on the separate entity accounting and arm's length principles. Thus, each legal person or permanent establishment is generally treated as a separate taxpayer regardless of its relationship with other entities or parts of an entity. Each branch or subsidiary that is part of a multinational enterprise is therefore treated separately for purposes of the computation of profits under tax treaties, with the important proviso that, for purposes of determining the profits of each such branch or subsidiary, the conditions (that is, primarily the price) of intra-group transactions may be readjusted to reflect those that would prevail between independent enterprises (the arm's length principle).

The OECD, in its Transfer Pricing Guidelines (1995, in paragraphs 5 and 6 of the preface), identifies the "separate entity approach as the most reasonable means for achieving equitable results and minimising the risk of unrelieved double taxation," notes that, "to apply the separate entity approach to intra-group transactions, individual group members must be taxed on the basis that they act at arm's length in dealing with each other," and concludes, "To ensure the correct application of the separate entity approach, OECD Member Countries have adopted the arm's-length principle.

The "traditional" methods of determining arm's length prices (contained in Chapter II of the OECD Transfer Pricing Guidelines) are: (a) comparable uncontrolled prices (CUP); (b) resale price (minus a margin); and (c) cost plus (a mark-up). In recent years, reflecting problems in applying the traditional methods, two additional "transactional profits methods" have been added to the OECD Transfer Pricing Guidelines: the "profit split method" and the "transactional net margin method."

Profit split method. The profit split methodology first identifies the combined profit to be split between the affiliated enterprises from controlled transactions and then seeks to divide that profit based on the functions performed, assets used and the risks assumed by each. The profits to be split may be either the total combined profits from the controlled transactions or the residual profits that cannot be easily assigned to any of the enterprises on some appropriate basis, after providing a basic return to each entity for the activities performed.

Transactional net margin method - The transactional net margin method examines profit margins, relative to an appropriate base such as costs, sales, or assets. Thus it operates in a manner similar to the cost plus and resale price methods.

The OECD notes at paragraph 3.49 of the transfer pricing guidelines that traditional transaction methods are to be preferred over transactional profit methods. It is, however, recognised at paragraph 3.50 that there are cases of last resort where traditional transaction methods cannot be applied reliably or exceptionally at all and so where transactional profit methods have to be applied. The paragraph concludes that as a general matter, the use of transactional profit methods is discouraged. Since 1995, however, there has

been a much wider use of profit methods by both taxpayers and tax administrations, especially to deal with the integration of functions within a multinational group (see the 1998 OECD Global Trading Report) and with unique and highly valuable intangibles.

(Source: OECD Centre for Tax Policy and Administration (2004))

In 2025, the OECD issued an update to the OECD Model Tax Convention and the changes include:

- (a) Cross-border working from a home or other relevant place (when a home office creates a taxable presence for employers)

Where a home or another relevant place, is used on a continuous basis during an extended period of time for carrying on activities related to the business of an enterprise, this and other facts may indicate that such a place should be considered a place of business of the enterprise.

- (b) Natural resources

The new options treaty provision allows source countries extensive rights to tax income from offshore and onshore resource extraction. Countries with abundant extractable natural resources (oil, gas and minerals) face policy choices concerning their exploitation. Implications for jobs and the effect on the environment, for example, are among the issues to be considered. Countries will certainly look to secure for themselves an adequate share of the value that is bound up in the resources that they own and what is due, in part at least, to their finite nature.

How countries secure that share of the value is a complex matter, and will depend on factors unique to each country, the non-resident enterprises, and the resource in question. Usually, countries will use several instruments to optimise their return on the exploitation of those resources, for example, production - sharing contracts, up-front bonus payments, ongoing royalties, as well as companies income tax, amongst others.

States have agreed bilaterally to enlarge the taxing right of the Source State over profits from the exploitation of its extractive natural resources by non-resident enterprises beyond what a treaty following the Convention would otherwise deliver.

- (c) Transfer pricing

The primary target of the updates is the transfer pricing aspects of financial transactions and the interaction with domestic laws.

The update only governs the allocation of profits and once the profits of the associated enterprises have been allocated in accordance with the arm's length principle, it is for the domestic laws of each Contracting State to determine whether and how such profits should be taxed.

The update does not deal with the issue of whether expenses are deductible when computing the taxable income of either enterprise. The conditions for the deductibility of expenses are a matter to be determined by domestic law.

- (d) Exchange of information

Tax authorities are now empowered to use information received via exchange for tax purposes involving unnamed persons or taxpayers other than those originally identified in the request.

Receiving jurisdictions are not required to inform a Sending State or seek prior authorisation to use this data for these additional purposes.

(e) Dispute resolution

Taxpayers and competent authorities must now rely on the guidance in the OECD Report on Amount B when assessing mutual agreement procedure (MAP) requests or determining resolutions for cross-border transfer pricing disputes. Amount B is part of the OECD's "Pillar One" global tax reform designed to simplify the complex rules used to determine taxes for multinational companies. It specifically targets "baseline marketing and distribution activities" - the routine work of local branches that buy products from their parent company and sell them in local market. In the past, it was difficult to figure out a "fair" profit for these local branches using the arm's length principle. Amount B provides a pre-set range of expected returns based on the industry, the branch's expenses and the assets.

The goal of Amount B is to reduce tax disputes and lower compliance costs. Countries can choose whether or not to adopt these rules into their domestic legislation for fiscal years starting from January 1, 2025. By using a set formula, there is less room for disagreement between tax collectors and companies over what a "fair" profit is.

For jurisdictions that are yet to adopt Amount B, the update has ensured that optionality is preserved in dispute resolution mechanisms, that is, they are not forced to apply the rules in MAP proceedings. MAP is a dispute resolution mechanism put in place for double taxation agreements (DTAs) to resolve cases of taxation not in accordance with the treaty.

(Source: The 2025 Update to the OECD Model Tax Convention)

25.19.6 Complexities of e-commerce taxation

E-commerce has become an integral part of everyday life and accessibility to e-commerce platforms is not a privilege but rather a necessity for most people in the urban areas.

As of December 2017, 4.1 billion of the world's population had internet access, out of which, Nigeria had a total of 98.3 million internet and broadband subscribers. This penetration of internet coupled with the increasing confidence of the internet users to purchase online, has led to an increasing confidence of the internet users to purchase online, and has led to an enormous growth in the e-commerce space.

Taxation of e-commerce

Many companies today run profitable enterprises outside their home countries through websites hosted on servers they neither own nor operate. Physical presence to perform the traditional commercial activities is no longer required; technology invention has replaced the physical transactions with bytes and data.

The internet has made international borders inconsequential for e-commerce and business transactions, leaving countries with the challenge of developing a workable tax policy for those online dealings. Due to non-existence of geographical boundaries in the e-commerce world, the question, where profits should be taxed becomes crucial. This also challenges the fundamental principles and assumptions of international taxation, such as physical presence, place of residence of a person etc. that are the very basis of ascertaining tax liability.

Tax rules in Nigeria

The provisions of the NTA, 2025, govern the taxation of income in Nigeria. As per the provisions of the Act, international taxation in Nigeria is as per the following

principles:

(a) Jurisdictional nexus

The prime principle that determines whether tax can be levied on commerce or not within territorial jurisdiction of Nigeria is defined.

(b) Source of income

The source based taxation rule provides authority to tax the income in the source country, that is, the profit from e-commerce transactions shall be taxed in the country of its origin.

(c) Status principle

Resident and non-resident principle determines whether the person is eligible for taxation in Nigeria on its global income or Nigerian income only.

Please note that the above principles are governed by the provisions of sections 17 to 19 of NTA, 2025.

Tax complexities in e-commerce

With the accessibility to internet across borders, e-commerce transactions can involve people who are residents of more than one country. Therefore, income arising out of such transactions may be taxed in more than one country. E-commerce raises twin problems:

- (a) the determination of the **character of income that is generated** by the e-commerce transaction: is it royalty, business profit, or fees for technical service?
- (b) the determination of income liable for tax, which necessitates the establishment of **the existence of a permanent establishment (PE)** and determination of attributes of income, if any, to the PE.

Income characterisation

The Act as well as the tax treaties impose different tax treatments on different types of cross-border income, for example, business profits are generally sourced to the country where the income-producing business is based and taxed on a net basis. Royalty income, on the other hand, is generally sourced to the country where intellectual property was used (for example, the country where the consumer of the intellectual property is resident) and may be subject to gross withholding taxes.

The digital world raises a number of problems with respect to income characterisation issues. Cross-border transactions involving the transmission of digital goods and services often makes it difficult to determine whether a transfer of product has occurred, whether services have been performed, or whether an intangible product has been licensed. The problem is that transactions involving e-commerce are very difficult to track thereby making it difficult for the tax authority to impose tax.

The existence of permanent establishment

Under the Nigerian tax system, companies resident in Nigeria are liable to pay tax on their global income whilst non-resident companies are subject to tax in Nigeria only on the activities carried out within Nigeria through a permanent establishment.

For a non-resident company, therefore, where a tax liability arises in more than one jurisdiction, the company can seek relief from double taxation under existing double taxation treaties, which are by and large, adaptations of the OECD model tax convention.

The main challenge posed by e-commerce to the Nigerian tax system is that the law that governs direct taxes, that is, income taxes, is presently premised on the concept of permanent establishment (PE) as presently defined in the double taxation treaties. With the advent of e-commerce, the need for physical presence in

the country receiving the goods or services is removed or at best diminished. This creates the problem of how to determine the right to tax profits that are derived from e-transactions.

On indirect taxes (VAT), the major challenge is how to track e-commerce transactions for purpose of VAT collection.

Source: Rakesh Nangia & Neha Malhotra (2015)

25.19.7 CIT, VAT and WHT implications on e-commerce

As earlier explained, the taxation of profits derived from e-commerce activities would be almost impossible due to the problems posed by the nature of the transactions such as the difficulty in tracking the transactions, the ability to determine physical presence, etc.

However, in order to counter most of the problems posed by the emergence of e-commerce activities so as to enable tax authorities (particularly in developing countries) to be able to properly track and levy tax on e-commerce activities, there is the need to continually institute a legal framework for the taxation of electronic transactions.

Essentially, the legal framework for the taxation of e-transactions must adopt the OECD model for the taxation of e-commerce.

Challenges of taxation of e-commerce transactions in Nigeria, CIT implication on e-commerce

Income taxes are premised on structure, as imposition of income tax is limited to a particular geographical location of a taxable entity, that is, company, with the basic consideration of source of income and fixed base. Section 6 of NTA, expounds on this by subjecting to income tax all profits of any company from any trade accruing in, derived from, brought into or received in Nigeria.

Section 17 of NTA, provides for the tax assessment of a non- Nigerian company where the taxable entity has a fixed base for business purposes, does business through an authorised agent and operates a business (contract for surveys, deliveries, installation or construction) in Nigeria.

The above is a clear limitation on the assessment and imposition of tax on a non-resident company in Nigeria. The express restriction imposed by “fixed base in Nigeria” has strong tax implications on e-commerce. How then does the Nigerian government impose income tax on a foreign business transacting business via the internet with a Nigerian wherein:

- (a) the non-resident has no fixed place of business;
- (b) has no agency relationship with any person; and
- (c) the objects of the business do not conform to the relevant income tax legislations?

These queries posit obvious answers that where the above conditions do not exist; the only logical conclusion is that gains/profits from such transaction are a loss to the government tax-wise.

While local transactions are wholly chargeable to tax except where allowances and priority sector status apply, the ability of the relevant tax authority to access and assess chargeable income is put to test. This is the stiffest of all tests as the relevant tax authority is saddled with the responsibility of tracking e-transactions, which is a herculean task.

The principles of source and residence have formed the basis for taxation internationally.

The nature of e-trade, whether it is for tangible or intangible goods and services is a key consideration in administering tax on e-commerce related transactions. Therefore, it is important to institute policies that encourage and monitor e-payments as well as ensure a liaison between the e-payment systems, banks, the authority themselves and the annual returns filed by companies.

The implication of the above is that it will aid the tax authority in tracking and identifying profits attributable to e-transactions that are liable to Nigerian tax. This would reduce or eliminate the current tax revenue leakages that exist in e-commerce activities.

VAT implication on e-commerce

The general principle for imposing VAT is the destination principle. Under this principle, VAT is imposed at the point of consumption/rendition of goods and services. Section 150 of NTA, 2025, is also premised on this principle.

Section 185 of NTA provides that tax shall be charged and payable on the supply of all goods and services save goods and services specifically exempted. Therefore, in interpreting the above, section 201 of the Act defines taxable supplies to mean “any transaction for sale of goods or the performance of a service, for a consideration”.

The implication of the above interpretation is that for VAT to apply, it must have been included in the prices of goods and services. Also, where the transaction is for the supply of taxable goods for consideration other than cash, the value shall be deemed to be its market value.

In the above instance and bearing in mind the fundamentals of VAT, it can be safely assumed that VAT is payable at the location of supply. It is also logical to conclude that the fact that an order is made via the internet does not obliterate the incidence of VAT where there is a delivery of the goods.

Furthermore, section 149 of NTA also provides that the value of imported taxable goods shall be equal to its price that is inclusive of all taxes as well as other charges levied outside Nigeria apart from the VAT and all costs by way of commission and other related costs up to the place of importation are equal to the price.

Section 4 of NTAA also provides for the registration of a taxable person with the relevant tax authority and obtain a Taxpayer Identification (“Tax ID”) for the purposes of compliance with tax obligations. A non-resident company is expected to register for tax using the address of the person with whom it has a subsisting contract.

From the foregoing, it is evident that where there is a supply of goods, irrespective of whether the order was made via the internet or through physical contact that the transaction should be liable to VAT.

WHT implication on e-commerce

As earlier explained, once the principle of source and destination is clearly defined and policies that encourage/monitor e-payments as well as ensure liaison between the e-payment systems, banks and the authorities themselves (including the annual returns filed by companies) are put in place, then the tracking and identification of incomes from e-transactions by the relevant tax authorities will be possible. Therefore, the imposition of WHT on e-commerce will be very evident, that is, WHT will be applicable on the supply of goods and services consumed in Nigeria, thereby

increasing the revenue generation by the tax authority.

In spite of the above, it is important that the current income tax law is amended to properly cater for the taxation of e-commerce transactions. Also, there is the need for the tax authority to continually come up with a clarification note, that is, official circular, on tax implication of e-commerce transactions and or e-business generally.

25.19.8 Taxation issues in e-commerce

The rise of Internet commerce will present a range of challenges for the NRS and states IRS, as it will transcend state and national borders and commerce will become truly global in every sense. Small and medium enterprises (SMEs), and more consumers than ever before, will have the opportunity from the comfort of their personal computers or Web TVs, to buy and sell goods internationally.

Already in Australia, large telecommunications companies such as Telstra are running advertisements encouraging people to conduct their businesses through their "Big Pond" Internet service, touting as one of its advantages that consumers can be multinationals too and have access to an international market.

Next, ponder the prospect of these goods and services being downloaded electronically and the entire transaction being protected by sophisticated encryption technologies.

A simple example will serve to illustrate the nature of the challenge involved here: A consumer in Australia could download software made in England, marketed via a web site in Los Angeles and delivered by a server located in the Cayman Islands. In this scenario, two issues that immediately arise are to:

- (a) identify whether a transaction has occurred and, if so, in what jurisdiction; and
- (b) assess whether tax should be applied and how it should be paid.

It is quite evident that electronic commerce will have a considerable impact on the way in which transactions are conducted and considered for taxation by the Area Tax Offices (ATO). Once the full impact of electronic commerce is experienced, the present tax system that was designed for an industrial world will face many challenges. The new economy, facilitated by the growth of electronic commerce, will require an equally fundamental change to cope with the issues that will arise.

The issues of taxation that arise in Cyberspace include challenges to tax administration, consumption tax and finally, questions will need to be raised in relation to concepts that have become entrenched in our income tax law, such as the concept of what constitutes a "permanent establishment".

Some of the major challenges are summarised below:

- (a) Establishing identity

In order to properly carry out taxation laws, the NRS needs not only to identify whether a transaction has occurred, but also needs to ascertain where it has taken place and by whom. Verifying the identities of parties to a business transaction may be difficult in the world of "e-commerce". For example, it may be pretty difficult to identify the true owner of a web site conducting Internet business. The problem here is that the mechanisms for tracing the identity are weak, in that it is a relatively simple matter to arrange for the untraceable use of an Internet web site. The correspondence, furthermore, between the Internet address (the computer "domain name") and the location where the activity is supplied, carried out or consumed is tenuous: although the address will tell you who is responsible for maintaining that site, it may not tell you anything about the computer that corresponds to the actual Internet address, or even where that machine is located.

Revenue authorities will need to think carefully before responding to this problem by instituting identification and registration requirements as it is likely such requirements will have limited success due to the growing ease with which web sites can be located offshore.

The Committee for Fiscal Affairs of the OECD has responded to this issue by recommending that:

- (a) revenue authorities may consider requiring that any business engaged in electronic commerce should identify themselves to Revenue authorities in a manner that is comparable to the prevailing requirements for businesses engaged in conventional commerce in a country.
 - (b) this recommendation, while adhering to the desirable quality of trying to achieve neutrality between physical business enterprises and virtual business enterprises operating via the Internet, is essentially advocating voluntary compliance. Indeed, the OECD believes that many businesses will provide information on their web sites that can be used to accurately identify the business and its physical location, but also believes that it would be helpful if the information is provided as a matter of "common business practice." Nonetheless, as is the case in the physical world, any voluntary compliance regime that may be contemplated for the electronic world, will need to be reinforced with other methods to enable the NRS to trace businesses that do not provide this information as a "matter of course." An example of a supplementary measure could be the authorising of access for the NRS to Internet Protocol number allocation records to validate identity.
- (b) Establishing location

Assuming a transaction can be identified and the identity of the parties ascertained, the next problem is to determine whether a taxable transaction arises, and if so, in which jurisdiction that transaction should be taxed. Individuals and entities engaging in electronic commerce will be able to easily create an Internet address in almost any taxing jurisdiction irrespective of the location of their residence or the source of their activities.

An example of where this could be exploited is the manipulation of location to obtain a reduced or zero rate of withholding tax on royalties. While the problem of establishing physical presence and withholding tax entitlements is not necessarily a new one, it does take on a different dimension in an electronic commerce world. At present, a payer might be able to rely on the postal address of the payee to verify the right to any treaty benefit. However, in a world of electronic commerce, there is no necessary relationship between an internet address and a physical location.

As an example, a taxpayer may download a digitised photograph from an electronic stock agency and obtain the right to reproduce that image in a magazine or book. The payment for this right would presumably be characterised as a royalty. The seller of this electronic information may claim to be a resident of a treaty country by establishing an internet address in that jurisdiction without any other connection to that jurisdiction in order to claim an entitlement to a reduced or zero rate of withholding tax on royalties.

Therefore, if withholding taxes are to be imposed on electronic commerce, it will be necessary to establish procedures and standards for verifying the identity of electronic counter parties to confirm claimed entitlements to a zero or reduced rate of withholding tax on royalties. Consideration would also need

to be given to determining that if withholding taxes were necessary, how would it be administered?

The challenge presented here is that traditional taxation concepts rely on physical presence or economic connection to a physical location; e-commerce, however, has little dependence on physical location. Thus, as physical location becomes less important in an electronic commerce world, it will become more difficult to determine where an activity has been carried out.

Also, it will become easier to exploit rules based on location by establishing an internet presence in jurisdictions to claim treaty or other benefits. Conversely, as an internet presence can easily be relocated, one can expect that manipulation could occur to avoid undesirable tax consequences that may result from having an internet presence in a particular jurisdiction.

(c) Obtaining acceptable documentation of proof will become more difficult

It is generally accepted that the NRS has extensive powers to obtain information from taxpayers and these powers are relatively easy to enforce within Nigeria.

Obtaining information on activities carried out in other tax jurisdictions, however, requires the use of exchange of information provisions found in tax treaties.

Moreover, where books and records are maintained in a tax haven, the NRS will encounter particular difficulties in trying to obtain access to them. Thus, domestic disclosure requirements become difficult to enforce. In any event, it is also questionable whether the evidence that tax administrators would be able to produce on transactions that take place in Cyberspace would satisfy the documentation and evidence standards set by tax laws. These "problems" should in theory be easily overcome by appropriate amendments to existing laws governing record-keeping as required by section 31 of the NTAA.

However, corresponding legislative changes will need to be considered to cover encrypted data to ensure that it will be no excuse for businesses to claim that they have lost encryption keys and accordingly cannot produce requested information - that is, the onus of production of information must remain with taxpayers.

(d) Impact on value added tax

Nigeria currently operates the value added tax system, which essentially applies to the supply of goods and services save for those listed under the first schedule to the Act. Goods are currently defined as being tangible items. As already observed, electronic commerce makes it possible for goods that were previously only available in a tangible form, and therefore subject to the VAT regime, to be delivered in an intangible form which will not be subject to VAT. Returning to the example of music that can now be downloaded directly from the internet, practically, this will have the same function as music sold as a CD in a shop but it will not be subject to VAT as no "good" arises on which VAT could be levied.

As more goods and services become capable of being converted into electronic form, the application of value added tax becomes more complicated and the potential for revenue leakage increases considerably. Already, intangibles such as travel and ticketing services, software, entertainment (on-line gambling, games, and music), insurance and brokerage services, real estate services, banking, information services, legal services, and increasingly health-care, education and government services are appearing on the internet. This trend will no doubt continue to increase, both in number

and diversity, of services that become available.

However, there are two points worth mentioning in relation to the application of a VAT in an electronic commerce world:

- (i) Tax administrators will experience three main problems in relation to the application of VAT rules, particularly as they may apply to international services:
 - ascertaining when a transaction occurs;
 - determining where the place of supply is; and
 - attaching a value to the transaction: that is, what would be the consideration applicable to the transaction.
- (ii) For most businesses, VAT is not a real cost but normally flows through to the final customer who ultimately bears the economic burden of VAT. However, for some businesses that are exempt from VAT, consumption taxes can be a real cost as they may not be able to claim a credit for VAT charged on their business inputs. A good example of this is businesses that operate in the pharmaceutical sector, such as drug manufacturers. As drug manufacturers cannot recover fully the VAT normally charged on their business expenditure, for example, raw materials, they may look to the internet to try to achieve real cost savings. As an example, drug manufacturers may try to avoid VAT by seeking out non-resident suppliers that have no business or other fixed establishment within Nigeria. Such businesses could then establish by contractual arrangements an "artificial" source of supply outside Nigeria, thereby avoiding VAT. This type of arrangement would undermine the "place of supply" rules that are a feature of traditional VAT systems.
Hence, the advent of electronic commerce would not only have implications for the VAT system but would also have implications for the WHT system.

(e) Impact of electronic commerce on customs procedures

To assess the impact of electronic commerce on customs procedures, it is necessary to differentiate between "on-line" supplies and "off-line" supplies of goods and services.

Goods or services ordered via the internet and physically delivered may be described as "off-line" supplies. Activities involving international mail-order transactions of goods will, in principle, continue to be dealt with by the customs authorities at the point of importation with regard to the collection of both customs duties and VAT as appropriate.

In other words, for the off-line supply of goods and services via the internet, no new problems are presented to tax authorities, other than the significant increase in the number of transactions that can be expected. This in turn raises a question mark over the ability of customs authorities to be able to cope with the resulting demand.

In this regard, the following issues need to be considered:

- more resources will need to be directed to customs authorities to ensure they can cope with the expected increase in the volume of transactions consequent upon electronic commerce; and
- at the June 1999 Kyoto convention organised by the World Customs Organisation ("WCO"), some options to deal with the streamlining and simplifying of Customs clearance procedures were suggested in a common effort toward achieving the full potential of a global market place for consumers.

A review of the customs duty and sales tax-free limit (currently \$50) needs serious consideration. Certainly, the OECD has indicated that such a review is appropriate in the context of the global marketplace. The joint committee of public accounts and audit has recommended that the current \$50 limit should remain, pending a survey being conducted by the government, which may validate a change of this value to \$150.

By contrast, the supply of "on-line" activities in the form of digitised information poses a serious challenge to the current "place of supply" rules contained in most VAT systems. This in turn creates a real possibility of either no taxation or double taxation being levied in an environment where supplies can be made without the supplier having any form of physical presence.

Source: Dale Pinto (1999). Journal of Australian Taxation 22

25.19.9 Issues, approaches and solutions in taxation of e-commerce

(a) Introduction

The nations of the world are entering a promising yet volatile e-commerce realm. Traditional concepts and principles of taxation are proving to be inadequate. Principles of residence and source for taxation cannot be applied with certainty in the seamless, borderless and timeless market place of e-commerce.

For taxation purposes, the character of income is also important, but e-commerce has the potential of blurring the character of income. Whether the income in these cases, be characterised as business income or royalty or service income is not very clear. In the absence of geographical nexus of a transaction, determination of a tax jurisdiction becomes difficult. Then there are enforcement-related problems revolving around identity and location of taxpayers, exchange of record-related information, recovery of tax, transfer-pricing issues etc.

(c) Working of e-commerce through internet

Electronic commerce is conducted mainly through global computer networks. Generally, electronic commerce conducted through the Internet consists of three parties, namely the internet service provider (ISP), the trader and the customer. E-commerce activities are classified in various categories, which become major sources of online revenues.

However, the issue still remains whether such revenue generated through e-commerce be taxed.

(c) Should e-commerce be taxed?

The information technology (IT) sector has the distinctive characteristics of growth without state support. So, there is often a view that e-commerce should in some sense be allowed to take place in a tax-free environment either by specific legislation or by continued government inaction. However, in view of the author, profit arising out of e-commerce should be taxed. The arguments as advanced below, would attempt to build a case for taxation of this new and potential area of revenue generation.

(i) Benefit theory justification for taxation of e-commerce

An important theory regarding a country's right of taxation is the benefit theory. According to it, a state's right to tax rests on the totality of benefits and state services provided to taxpayers that interact with a country. While in traditional commerce, services provided by the state like infrastructure, police and

defense protection etc. are more visible, but benefits arising from conducive legal infrastructure, consumer base, stable exchange rates and economic stability are equally applicable to e-commerce. So, the state needs to be compensated for the cost of providing public services, by income generating e-commerce activities, too.

(ii) Principle of neutrality is a fundamental tax policy principle

Essentially, it requires that economic processes should not be affected by external influences, such as taxation. In fact, whether a business is carried out through electronic medium or otherwise, should not affect the tax liability. It cannot be a case that traditional bookshop owner pays taxes on his profits while the retailer of books is exempted from paying tax on its profits.

(iii) Vertical inequity in exempting e-commerce from tax

There is also vertical inequity in exempting e-commerce from tax. It cuts cost of procurement, cost of processing transactions as also delivery costs for products and services delivered electronically, for example, software financial services and music. Tax exemption for e-commerce would, therefore, result in those conducting business in traditional manner and earning less profit being taxed whereas those switching over to e-commerce and earning higher profit being exempt from tax.

(iv) Taxation of e-commerce not a constraint

Tax exemption could perhaps have been justified if taxation of e-commerce would have proved a constraint in its healthy growth. But e-commerce has achieved un-paralleled growth not only in the developed countries but also in a large number of developing countries including India. Taxation of e-commerce transactions by no means act as a hurdle to its development and growth.

(v) Tax exemption for e-commerce

Against the spirit of current reform process. Also, 'infant industries' granted preferential tax treatment typically never grows up. Besides, tax exemption for e-commerce would be totally against the spirit of current reform process. Business will modify themselves on the patterns of e-commerce and thus will avoid tax, which will ultimately erode the revenue base.

On the basis of above discussion, it can be concluded that there is no case for exempting e-commerce from direct taxation. Once it is established that transactions on the electronic medium are as much taxable as those in the physical medium, the focus should thus be to analyse the methods of taxation of income arising from e-commerce and the problems arising with the application of traditional principles of taxation in this regard.

(d) Taxation problems posed by electronic transactions

Taxation of income is the conclusive part of the tax-procedure. Initial steps include identification of taxpayer to whom the income belong, determination of tax-jurisdiction (residence vs. source), characterisation of income, etc. After all these requirements are fulfilled, comes the question of assessment of income and collection of tax.

(i) Identification of taxpayer

Income tax, to put it simply, is a tax on income. However, for income to be taxed, it should belong to an identifiable person. Its 'domain name' generally identifies a business engaged in e-commerce on the internet. After identification of the taxpayer, we proceed to determination of jurisdiction of taxation, which is based on source or residence.

(ii) Determination of jurisdiction

A country may tax an income on the ground that the person has been given

protection of life and liberty and also that he is intimately connected to his social and economic life, that is, residence basis of taxation. It may also tax an income on the ground that the economic activity giving rise to the income was performed therein – the source basis of taxation. Thus, taxation depends upon the determination with some certainty, of the residence of a person or the place of a source of income.

Most countries tax income on both of the bases. Broadly, a resident is taxed on his global income with credit for taxes paid in source countries and the non-resident is taxed on the income arising in the country. Double taxation of same income may arise due to residence and source conflict and sometimes even due to conflict about the country of residence. Double Tax Avoidance Agreements between countries are aimed at avoiding such double taxation. OECD Model Tax Convention (Model Convention) lays down the principles involved in taxation of cross-border commerce. Most of the countries follow this model convention.

(iii) Determination of residence in the context of the internet

Most of the countries, including Nigeria, determine residence of individuals on the basis of period of stay in the country. Section 201 of NTA provides 183-day test for determination of residence for individuals.

(iv) Determination of the place of effective management

The problem gets all the more complicated in case of non-individual assesses. The NTA, relies on place of control and management to determine the residence of such assessee.

However, in case of electronic space, it is difficult to determine the exact geographical location where the decision was taken. This makes the determination of the 'place of effective management' extremely complicated.

(e) Digitisation and problem of characterisation of income

Digitisation is significant in terms of the way in which source is defined because the intangible nature of goods and services that may be bought and sold in electronic commerce will arguably exacerbate existing difficulties in characterising income. As electronic commerce allows for an increasing number of goods and services to be delivered in an intangible way due to digitisation, it is likely to make it more difficult to determine, whether income represents sales income, or services income, or whether an intangible product has been licensed, thereby giving rise to royalty income. Apart from taxing rights, it is also important to note that double taxation (or unintentional non-taxation) could result if classifications are not consistent between countries. Given that tax laws of different countries have developed different rules for the determination of both the character and source of income, there are numerous mismatches in the laws, which can result in either avoidance of tax in any country on a particular item of income or multiple taxation of the same income. Indeed, there may be inherent conflicts between source and residence countries where, for example, source countries may want to widen their domestic withholding tax regimes to preserve their tax base, while residence countries may wish to adopt a different classification of an item of income to preserve their taxing rights.

To resolve the above-discussed issues the Model Convention has suggested some relevant principles and classifications of income in e-commerce environment. Also based on relevant considerations, the Model Convention has classified passive e-commerce income in some categories.

The principles and classification articulated in the OECD commentary are however, not universally accepted. Some countries articulate a broad

standard of what constitutes a royalty so that negotiated withholding taxes may be applied to payments received by a non-resident that would not otherwise be taxable in the source country under Article 7 or Article 14.

Thus, with the above detailed discussion, e-commerce environment, though it is still in its embryonic stage, has posed significant challenges to the traditional bases of taxation. So, the next part of our report analyses some of the policy approaches, which will help us in meeting the needs of e-commerce taxation.

(f) Alternative approaches for taxation of e-commerce

(i) Base-erosion approach

This approach advocated by Professor Richard Durenberger seeks to redress some concerns created by e-commerce. It seeks to maintain the PE principle, which modifying its application to allow for a sharing of the tax base generated by electronic commerce transactions between source and residence countries.

It suggests that withholding at a single rate would be permitted in a source country on any payment that has the effect of “eroding” the tax base of that country. This involves making payments that are tax-deductible in the host country (reducing the profit subject to tax) but are received as income in a tax haven where little or no tax is paid

The main difficulty is that it does not redefine the concepts of PE, and with existing principles of PE, allocation of profits to PE in active business income cases will be negligible. Also, the simultaneous existence of PE concept implies that the traditional commerce will get taxed differently as compared to e-commerce.

(ii) Virtual permanent establishment approach

Core or mainstream business activities will be subject to source country taxation under the approach, while ancillary activities will not be subject to source country taxation.

This approach helps in achieving a neutral international tax system, whereby the competitors within the same market face the same tax burden and thus derive the same relative net advantage from the infrastructure of the country. This approach helps in preservation of fiscal sovereignty and sharing of the tax-base in the source country. Also, this basis of tax- nexus provides a more reliable jurisdictional criterion than the place of incorporation or establishment of an e-commerce business as it seeks to apply taxing nexus based on economic activity. Thus, it provides a more stable and less manipulability basis for establishing taxing authority in source countries.

However, the biggest disadvantage of this approach is the problems associated with establishing an internationally acceptable standard for determining nexus under this approach, which detracts it from successful implementation. Also, there are difficulties in attributing profits to a virtual PE.

(iii) Refundable withholding approach

It is a hybrid approach, which draws upon elements of other two approaches, to re-conceptualise the way source are currently defined for both active and passive income.

Under this approach, all income from international transactions involving goods or services that are either provided electronically (for example, computer software) or purchased via electronic means (for example, flowers purchased over the Internet) would be treated as “withholding income”, which would then be subject to a uniform rate of withholding by source countries irrespective of the category of income involved. In most of the cases, they are taxed in residence countries, though consistent with current practices, they may continue to be taxed on a withholding basis by source countries that withhold tax on such income.

Conversely, if a seller’s total gross sales into a jurisdiction for the period exceeded the threshold, then the vendor would be subject to source country taxation and amounts withheld would not be refunded. At the same time, the later ones will have a choice to file a return in the source country and be taxed on net basis.

This approach redefines the source for active business income by putting forward an alternative to the PE threshold for determining source country tax nexus. Also, it simplifies the way source is defined for passive income by seeking to apply withholding tax at a standard rate to all income covered by the proposal irrespective of the character of income.

In summary, it is submitted that the proposed refundable withholding approach could provide a more stable and appropriate basis for source-based taxation of international e-commerce transaction than the current international tax system. Indian e-commerce committee report also, favours the adoption of this approach.

Now after defining the jurisdiction and characterising the income, the next step in tax procedure is ‘enforcement’, that is, fixing tax-liability and its collection and recovery.

(g) Enforcement issues

The effect of internet on enforcement of tax laws has raised fears of governments being unable to meet legitimate demands of their citizens for public service. Some of those challenges along with possible solutions have been discussed below:

(i) Identity and location of parties

One of the significant perceived threats associated with the advent of internet are anonymity offered by it to the customer; he does not know where the server is located and the server cannot identify where the customer is stationed. In fact, with e-commerce and use of private intranets, it may be difficult to know who is doing what. However, the experience in Australia, as presented in IFA Asia Regional Conference on e-commerce and International Taxation, reflected the possibility of tracing the correct identity and location.

(ii) Anonymity of transactions and accounts

In the conventional commercial environment, the tax authorities are able to collect information by means of books and records in order to support the assessment of tax. However, in the electronic environment, electronic books and records could easily be concealed, or stored in foreign jurisdiction, thus denying the tax authorities access to records. Even the traditional third-party information may be curtailed as the internet encourages the process of dis-intermediation, that is, the process of removing intermediaries from a supply chain.

(iii) Transfer pricing

Transfer pricing issues though not created by e-commerce will become more complex with the internet. The use of the new information and communication technologies in business increases the speed and borderless mobility of the transactions, making it difficult for tax administrators to identify and measure contributions and functions of the single participating undertaking to the unitary business or contract performance. In such situations, how one state would determine the arm's length price is not very clear. In this regard, discussions need to be initiated at international level, such as OECD, etc. to formulate specific guidelines in this direction.

(iv) On-line delivery and e-cash

The real problem for enforcement in an e-commerce situation arises in transactions involving online delivery and payment, which is growing at a fast pace. In these transactions where the supplier is from a foreign tax jurisdiction it becomes difficult to charge or collect direct as well as indirect taxes. Withholding of tax through a large number of small consumers for direct tax purposes or realising indirect taxes from them is administratively difficult. The development of e-cash is an even more serious challenge for tax administrators.

(v) Identification of taxing jurisdiction

The place of execution of contract and the place where title to the goods or services pass are important in determining where the income accrues or can be deemed to accrue and therefore taxed. In e-commerce, with offer and acceptance on the networks, the place where the contract is executed will not be known under laws and rules applicable to traditional commerce.

Source: Namita Chandra (2005).

25.20 Chapter review

This chapter deals comprehensively with the computation of tax for a selected number of specialised companies, such as those engaged in air and sea transport, cable (communications) undertakings, life and non-life insurance companies, property companies and authorised unit trust outfits. It also discusses issues and challenges with taxation of e-business and e-commerce.

In order to assist readers, worked examples are provided to clearly illustrate the differences inherent in the computation of tax liability for each of the specialised businesses.

25.21 Worked examples

25.21.1 Questions

1. Zen Insurance Co. Plc is a company engaged in both life and other insurance businesses. The company was incorporated in 2024 but commenced business on January 2, 2026. The draft of the projected financial statements of the company for the year ending December 31, 2026, disclosed the following information:

(a)

Projected Statement of profit or loss For the year ending December 31, 2026

Life business	Non-life Business	Reinsurance business	Total

	₦'000	₦'000	₦'000	₦'000
Gross premium written	<u>22,000</u>	<u>150,000</u>	<u>78,000</u>	<u>250,000</u>
Gross premium income	22,000	150,000	78,000	250,000
Re-insurance premium	<u>0</u>	<u>(58,000)</u>	<u>0</u>	<u>(58,000)</u>
Net premium income	22,000	92,000	78,000	172,000
Fees and commission income	<u>2,500</u>	<u>6,300</u>	<u>4,200</u>	<u>13,000</u>
Net underwriting income	24,500	98,300	82,200	135,000
Claims expenses	(12,500)	(24,000)	(21,000)	(57,500)
Re-insurance claims	6,000	15,000	0	21,000
Change in contract liabilities	<u>700</u>	<u>(2,300)</u>	<u>0</u>	<u>(1,600)</u>
Net claims expenses	(5,800)	(11,300)	(21,000)	(38,100)
Underwriting expenses:				
Acquisition expenses	(300)	(1,400)	(990)	(2,690)
Maintenance expenses	<u>(1,550)</u>	<u>(4,330)</u>	<u>(1,800)</u>	<u>(7,680)</u>
Total underwriting expenses	(1,850)	(5,730)	(2,790)	(10,370)
Underwriting profit/(loss)	<u>16,850</u>	<u>81,270</u>	<u>58,410</u>	<u>156,530</u>
Investment income	5,800	12,600	13,700	32,100
Other operating income	<u>1,800</u>	<u>3,800</u>	<u>2,400</u>	<u>8,000</u>
Total investment income	7,600	16,400	16,100	40,100
Impairment charges	(450)	(1,330)	(1,080)	(2,860)
Net fair value gain / loss on investment properties	<u>220</u>	<u>680</u>	<u>340</u>	<u>1,240</u>
Net operating income	7,370	15,750	15,360	38,480
Expenses:				
Administrative expenses	(3,900)	(18,000)	(9,500)	(31,400)
Other operating expenses	<u>(880)</u>	<u>(1,100)</u>	<u>(1,420)</u>	<u>(3,400)</u>
Total expenses	(4,780)	(19,100)	(10,920)	(35,800)
Result of operating activities	19,440	77,920	62,850	160,210
Interest expenses	<u>(3,600)</u>	<u>(7,500)</u>	<u>(4,800)</u>	<u>(15,900)</u>
Profit or (loss) before taxation	<u>15,840</u>	<u>70,420</u>	<u>58,050</u>	<u>73,310</u>

Statement of financial position
For the year ending December 31, 2026

	Life Business	Non-life business	Reinsurance Business	Total
	₦'000	₦'000	₦'000	₦'000
Assets:				
Cash and cash equivalent	900,000	1,660,000	1,220,000	3,780,000
Financial assets	1,600,000	2,800,000	2,300,000	6,700,000

Trade receivable	28,000	52,000	44,000	124,000
Other receivables	1,400	4,600	750	6,750
Investment in subsidiary	0	3,500	0	3,500
Intangible assets	22,000	14,900	26,000	62,900
Property, plant and Equipment	1,200,000	3,550,000	2,400,000	7,150,000
Statutory deposits	<u>5,300,000</u>	<u>9,500,000</u>	<u>20,400,000</u>	<u>35,200,000</u>
Total assets	<u>9,051,400</u>	<u>17,585,000</u>	<u>26,390,750</u>	<u>53,027,150</u>

Liabilities:

Insurance contracts

Liabilities	1,300,000	5,280,000	1,520,000	8,100,000

Investment contract

Liabilities	800,000	1,180,000	1,020,000	3,000,000

Trade payable	11,200	18,800	16,000	46,000

Other payables	600	1,200	130	1,930

Employee benefit

Liabilities	<u>520</u>	<u>680</u>	<u>550</u>	<u>1,750</u>

Total liabilities	<u>2,112,320</u>	<u>3,480,680</u>	<u>2,556,680</u>	<u>11,149,680</u>

Equity

Issued and paid-up

share capital				35,200,000

Share premium				1,800,000

General reserve				2,600,000

Contingency reserve				400,000

Retained earnings				<u>1,877,470</u>

Shareholders' funds				<u>41,877,470</u>

Total liabilities and reserves

53,027,150

Additional information:

(i) The company distributed ₦ 3,500,000 surplus arising from actuarial revaluation of life fund.

(ii) Administrative expenses include depreciation:

Life business	Non-life business	Reinsurance business
₦'000	₦'000	₦'000
960	1,200	1,050

(iii) Premium written from non- life business and reinsurance business include ₦ 15,000,000 and ₦ 13,600,000 from general insurance.

(iv) Projected net liability on life policies as at December 31, 2026, is put at ₦1,298,000.

(v) Capital allowances agreed with the relevant tax authority are as follows:

Life business N'000	Non-life business N'000	Reinsurance business N'000
250	800	650

(vi) Investment income includes:

	Life business N'000	Non-life business N'000	Reinsurance business N'000
Dividend (gross)	1,200	3,000	5,500
Interest on fixed Deposit	3,300	7,600	6,900
Debenture interest	<u>1,300</u>	<u>2,000</u>	<u>1,300</u>
	<u>5,800</u>	<u>12,600</u>	<u>13,700</u>

(vii) The provision for unexpired risk includes:

	Life business N'000	Non-life business N'000	Reinsurance business N'000
Balance b/f	900	3,000	1,220
Balance c/f	1,300	5,280	1,520

(viii) The projected balance of the life fund account as at December 31, 2025, is N1,100,000.

(ix) The minimum authorised capital of the company is the same as the paid-up capital.

(x) The estimated claims and outgoings omitted in arriving at the profit before tax for the year is as detailed below:

	Life business N'000	Non-life business N'000	Reinsurance business N'000
Estimated claims	<u>14,500</u>	<u>35,000</u>	<u>30,500</u>
	<u>14,500</u>	<u>35,000</u>	<u>30,500</u>

Required:

Compute the companies income tax liability for the relevant assessment year.

2. Habib Limited is a foreign company involved in air transport business. Its aircrafts are used for cargo and passenger flights between Nigeria and Spain.

The projected financial statements for year ending December 31, 2026, revealed the following:

	N	N
Income for passengers flown from Madrid to Nigeria		1,104,425,600
Income for passengers flown from Nigeria to Madrid		1,113,397,250
Income from cargo loaded into aircraft other routes		1,122,260,000
Income from cargo freight from Nigeria to Madrid		<u>1,103,375,000</u>
		4,443,457,850

Deduct: Operating expenses:

Depreciation	5,460,000	
Staff salaries	1,840,725,000	
Use of airport facilities	12,987,000	
Accommodation for airtime crew	75,228,500	
Hotel bills for passengers	53,120,000	
General provisions	<u>735,000</u>	<u>(1,988,255,500)</u>
Operating profits		<u>2,455,202,350</u>

In addition to the above, capital allowances were agreed with the relevant tax authority as 175% of depreciation.

Required:

Compute the companies income tax (CIT) liability for the relevant assessment year.

3. **DANDAUDU LIMITED** is an agricultural company which commenced business on July 1, 2026. It is engaged in plantations, cattle ranching and poultry business and prepares its financial statements to December 31, of every year. Its projected financial statements showed the following results:

	Year ended Dec. 31		
	2026	2027	2028
	₦	₦	₦
Revenue:			
Plantation crops	-	-	4,012,000
Cattle ranching proceeds	2,475,000	5,329,000	15,868,000
Poultry proceeds	<u>1,120,000</u>	<u>2,590,000</u>	<u>7,500,000</u>
Total revenue	<u>3,595,000</u>	<u>7,919,000</u>	<u>27,380,000</u>
Expenses:			
Preliminary expenses	125,000	125,000	125,000
Purchase: cockerels	764,000	1,708,005	6,000,000
Cattles purchased	1,000,000	1,600,000	4,050,000
Poultry feeds	739,065	1,764,920	6,574,550
Wages and salaries	1,050,000	2,565,500	5,067,500
Drugs and medicines for animals	109,685	110,625	111,025
Interest on bank loan	-	17,100	18,000
General expenses	41,500	41,720	51,500
Depreciation	450,600	733,420	733,420
Increase in closing inventory:	-	(4,200)	(5,100)
Net (loss)/profit	<u>(684,850)</u>	<u>(743,090)</u>	<u>4,654,105</u>
	<u>3,595,000</u>	<u>7,919,000</u>	<u>27,380,000</u>

Other additional information

Preliminary expenses amounted to ₦ 1,000,000, and it is to be written off in equal annual amounts over a period of eight (8) years, commencing from the period ending December 31, 2026.

Break down of the preliminary expenses is as follows:

	₦
(i) Stamp duties and registration expenses	115,000
(ii) Cost of initial clearing and cultivation of land for plantation	35,000
(ii) Cost of nursery plants purchased from Ministry of Agriculture	65,000
(iv) Another nursery plants purchased from an Institute of Agriculture	45,720
(v) Cost of labour and technical expertise on the first planting operation on plantations	28,030
(vi) Gratifications to local chiefs and heads of families, so as to attract labourers to the farm	<u>711,250</u>
	<u>1,000,000</u>

The following details were extracted from the company's register of property, plant and equipment:

	Cost ₦	Date of purchase
Assets:		
Motor vehicles	12,030,500	January 2026
Office furniture	2,445,000	January 2026
Agric tractor	51,127,000	February 2028
Equipment used in spraying plantations	960,000	February 2028
Building (Administrative block)	22,571,000	March 2028

There was no disposal of any asset within the period.

Required:

Compute the company's total taxable profits, if any, for the relevant years of assessment.

- (4) Abiola Bashir ACA Unit Trust Scheme is authorised by the Investment and Securities Commission to deal in the business of a Unit trust scheme.

Its projected financial statements for the year ending September 30, 2026, revealed the following:

	₦'000	₦'000
Investment income:		
Dividend (gross)		120,000
Bank deposit interest (gross)		115,000
Rental income		<u>225,000</u>
		460,000
Deduct:		
Staff salaries and wages	5,000	
Managers' remuneration (20% of gross income)	98,000	
Other expenses	33,000	
Depreciation	<u>18,000</u>	<u>(154,000)</u>
Net profit		<u>306,000</u>

Notes:

- (i) Both dividend and rental income have been subjected to deduction of withholding tax at 10%.
- (ii) Other expenses include an amount of ₦550,000, being loss on disposal of property, plant and equipment.

Required:

Compute the assessable profit for the relevant year of assessment.

25.21.2 Suggested solutions to examination type questions

(1) Zen Insurance Plc
Computation of income tax liabilities
For 2027 assessment year

(a) Life business

	₦'000	₦'000	₦'000
Investment income:			
Interest on fixed deposit		3,300	
Debenture interest		<u>1,300</u>	4,600
Other income:			
Fees and commission income			2,500
Other operating income			1,800
Actuarial revaluation surplus distributed			<u>3,500</u>
Gross income			12,400
Deduct:			
(i) General reserves	2,600		
Add life fund a/c	<u>1,100</u>		
Total of general reserve and life fund.	<u>3,700</u>		
Net liability on policies	<u>1,298</u>		
∴ Amount claimable restricted to maximum of net liabilities on policies.	<u>1,298</u>	1,298	
(ii) Special reserve			
The higher of:			
1% of gross premium – ₦ 22,000,000 x 1% or	<u>220</u>		
10% of net profit – ₦ 15,840,000 x 10%	<u>1,584</u>	1,584	
(iii) Other allowable management expenses:			
Administrative expenses: (₦3,900,000 – ₦960,000)	2,940		
Interest expense	3,600		
Other operating expenses	<u>880</u>	<u>7,420</u>	<u>(10,302)</u>
Assessable profit			2,098
Less: Capital allowance			<u>250</u>
Total profit			<u>1,848</u>
Companies income tax payable is 0% on total profit (not applicable)			<u>00.00</u>
Federal development levy @ 4% of assessable profit (Not applicable)			<u>00.00</u>

(b) Non-life business

	₦'000	₦'000	₦'000
Premium written		150,000	
Less:			
Premium returned on cancelled policies		(0)	
Re-insurance premium		<u>(58,000)</u>	
Gross premium			92,000
Add:			
Interest income:		7,600	
Fees and commission income		6,300	
Other investment income – Debenture interest		2,000	
Other income		3,800	
Re-insurance claim		<u>15,000</u>	<u>34,700</u>
Gross income			126,700
Less: Reserve for unexpired risk calculated on time apportionment basis (N5,280,000-N3,000,000)			<u>(2,280)</u>
			124,420
Less Allowable expenses:			
Administrative expenses			
- (₦ 18,000,000 – ₦ 1,200,000)	16,800		
Other operating expenses	1,100		
Actual total claims expenses	24,000		
Add: Estimated total claims	<u>35,000</u>		
Total claims and outgoings claimable	<u>59,000.</u>	59,000	
Interest expense	<u>7,500</u>		<u>(84,400)</u>
Assessable profit			40,020
Less: Capital allowance			<u>(800)</u>
Total profit			<u>39,220</u>
Computation of companies income tax liability			
₦ 39,220,000 x 30%			<u>11,766,000</u>
Federal development levy @ 4% of AP			
(N40,020,000 x 4%)			= ₦ 1,600,800

(c) Reinsurance business:

₦'000	₦'000	₦'000
Gross premium	78,000	
Less : Premium returned on cancelled policies	<u>(0)</u>	
Net premium		78,000
Add:		
Interest income:	6,900	
Fees and commission income	4,200	
Debenture interest	1,300	
Other operating income	<u>2,400</u>	<u>14,800</u>
Gross income		92,800
Less: reserve for unexpired risk calculated on time apportionment basis (N1,520,000 - N1,220,000)	-	<u>(300)</u>
		92,500
Less: Allowable expenses:		
Administrative expenses		
– (₦ 9,500,000 – ₦ 1,050,000)	8,450	
Other operating expenses	1,420	
Actual total claims expenses	21,000	
Add: Estimated total claims	<u>30,500</u>	
Total claims and outgoing claimable.	<u>51,500</u>	51,500
Interest expense		<u>4,800</u>
		(66,170)
Less: Transfer to general reserve		
(i) General reserve < minimum paid-up capital (50% of gross profit), that is, N 58,410 x 50%		(29,205)
Or		
(ii) General reserve ≥ minimum authorised capital (25% of gross profit)		(2,875)
)) Assessable loss		
Capital allowance		<u>(650)</u>
Total Loss and capital allowance c/f		<u><u>(3,525)</u></u>
Tax payable		<u>NIL</u>
Federal development levy @ 4% of assessable profit		<u><u>N NIL</u></u>

(d) **Zen Insurance Plc**
Summary of tax liabilities
For 2027 assessment year

	Life business ₦'000	Non-life Business ₦'000	Reinsurance Business ₦'000	Total ₦'000
CIT payable	0.00	11,766	0.00	11,766
Fed. dev. levy	0.00	1,600.80	0.00	1,600.80
Total tax payable	0.00	13,366.80	0.00	13,366.80

Notes:

- (i) Under life insurance, section 61(10)(a) of NTA, provides for the deduction from the investment income of a life insurance company, an amount which makes a general reserve and fund equal to the net liabilities on policies in force at the time of an actuarial valuation. The implication of this is that the amount deductible as general reserve and fund shall for no reason be more than the amount of net liabilities on policies, that is, restricted to the maximum of net liabilities in force yearly.

In the light of the above, ₦1,298,000 was deducted from the investment income of the life business of Zen Insurance Co. Plc, being the net liabilities on policies December 31, 2025.

- (ii) Under non-life insurance business and re-insurance business (being a non-life business), section 61(9)(a) of NTA, provides for the deduction of a reserve for unexpired risks, calculated on a time apportionment basis of the risks accepted in the year. The implication of this provision is that a reserve for unexpired risk can only be claimed on actual risks accepted in a year, that is, on actual year basis.

In the light of the above, the reserve for unexpired risk deducted from the gross income of Zen Insurance was ₦2,280,000 that is, (₦5,280,000 less ₦3,000,000) for non-life business and ₦300,000 that is, (₦1,520,000 less ₦1,220,000) for reinsurance business, each amount being the actual reserve for unexpired risk for the year.

- (iii) Also, under non-life insurance business and re-insurance business, section 61(9)(b) of NTA, provides for the deduction of outstanding claims and outgoings. Essentially, the Act provides that an amount equal to the total estimated amount of all outstanding claims and outgoing shall be deducted but provided that any amount not utilized towards settlement of claims and outgoings shall be added to the total profits of the following year.

The implication of this is that what is allowed as deductible for outstanding claims and outgoings in any year shall be the total of both the actual and estimated claims and outgoings and that any amount unutilised (being either the total or a part of the estimated claims and outgoings) should be added back to the profits of the following year. This trend is expected to continue on a yearly basis.

- (iv) The applicable companies income tax rates used are in line with the provision of section 56 of NTA.

Essentially, 0% was the companies income tax rate applied on the total profit of life business, whilst 30% and 0% rates of tax were applied to the total profits/ (loss) of non-life business and reinsurance business, respectively.

(2) Habib Limited
Income tax computation
For 2027 assessment year

	₦	₦	₦
Income from passengers' freight from Nigeria to Madrid		1,113,397,250	
Income from cargo freight from Nigeria to Madrid		<u>1,103,375,000</u>	
		2,216,772,250	
Allowable deductions:			
Staff salaries	1,840,725,000		
Use of airport facilities	12,987,000		
Accommodation for airline crew	75,228,500		
Hotel bills for passengers	<u>53,120,000</u>		
	<u>1,982,060,500</u>		
Proportion applicable to operations in Nigeria			
= $\frac{\text{₦ } 2,216,772,250}{\text{₦ } 4,443,457,850} \times \text{₦ } 1,982,060,500$	988,819,263		
Depreciation allowance as agreed	<u>9,555,000</u>		<u>(998,374,263)</u>
Total profit			<u>1,218,397,987</u>

Companies income tax payable at
 (30% of ₦ 1,218,397,987) = ₦ 365,519,396.10

Minimum tax computation (2% of gross revenue relating to the carriage of passenger and cargo freight from Nigeria)

$$= 2\% \times \text{N } 2,216,772,250 = \text{₦ } 44,335,445$$

The CIT payable is N 365,519,396.10.

3. Daudaudu Limited

Computation of total profits For assessment years 2027, 2028 and 2029

	N	N
Assessment year 2027 (Based on 1/7/26 – 31/12/26)		
Loss for the year		(109,250)
Capital allowance for the year - deemed utilised	<u>1,757,001</u>	
Loss carried forward		<u>(109,250)</u>
Companies income tax		<u>~~N~~ NIL</u>
Federal development levy		<u>~~N~~ NIL</u>
Assessment year 2028 (Based on 1/1/27 – 31/12/27)		
Assessable profit		115,330
Unrelieved loss b/f	(109,250)	
Relieved in the year	<u>109,250</u>	<u>(109,250)</u>
Profit not subject to tax		<u>6,080</u>
Deduct:		
Capital allow. -	3,514,000	
- Brought forward	<u>1,757,001</u>	
Capital allowances deemed utilised	<u>1,941,366</u>	
Total profit		<u>0</u>
Companies income tax		<u>~~N~~ NIL</u>
Federal development levy (Not applicable)		<u>~~N~~ NIL</u>
Assessment year 2029 (Based on 1/1/28 – 31/12/28)		
Assessable profit (not subject to tax)		5,512,525
Deduct:		
Capital allow. - For the year (w. iv)	16,188,500	
- Brought forward	<u>1,941,366</u>	
Capital allowances deemed utilised	<u>18,129,866</u>	
Total profit - not subject to tax		<u>15,512,525</u>
Companies income tax (0% of total profit)		<u>~~N~~ NIL</u>
Federal development levy (4% of assessable profit) - N/A		~~N~~ NIL

Workings:

(i) Computation of adjusted profits/(loss)

For assessment year

	2027	2028	2029
	₦	₦	₦
Net (loss)/profit per accounts	(684,850)	(743,090)	4,654,105
Add:			
Disallowable expenses:			
- Preliminary expenses	125,000	125,000	125,000
- Depreciation	<u>450,600</u>	<u>733,420</u>	<u>733,420</u>
Adjusted (loss)/profit	<u>(109,250)</u>	<u>115,330</u>	<u>5,512,525</u>

(ii) Determination of basis period

YOA	Basis period for assessment	Basis period for Capital allowances
2027	1/7/26 – 31/12/26	1/7/26 – 31/12/26
2028	1/1/27 – 31/12/27	1/1/27 – 31/12/27
2029	1/1/28 – 31/12/28	1/1/28 - 31/12/28

(iii) Computation of assessable profit/(loss)

YOA	Basis period for assessment	Working	Assessable profit/(loss)
2027	1/7/26 – 31/12/26		<u>(109,250)</u>
2028	1/1/27 – 31/12/27		<u>115,330</u>
2029	1/1/28 – 31/12/28		<u>5,512,525</u>

(iv) Computation of annual allowances

	Building expenditure	Motor vehicle	Plantation	Plantation equipment	Office furniture	Total allowance
Annual allowance (%)	<u>10</u>	<u>25</u>	<u>10</u>	<u>20</u>	<u>20</u>	
	₦	₦	₦	₦	₦	₦

Assessment year 2027

Acquisitions

- Jan. 2026

- Motor vehicles 12,030,500

- Jan. 2026

- Plantation 173,750

- Jan. 2026

- Office furniture	<u>0</u>			<u>0</u>	<u>2,445,000</u>	
	0	1112,030,500	173,750	0	2,445,000	<u>14,649,250</u>

Allowances

Annual allowance	<u>0</u>	<u>(1,503,813)</u>	<u>(8,688)</u>	<u>0</u>	<u>(244,500)</u>	<u>1,757,001</u>
W.D.V c/f	0	10,526,687	165,062	0	2,200,500	

Assessment year 2028

Annual Allowance	<u>0</u>	<u>(3,007,625)</u>	<u>(17,375)</u>	<u>0</u>	<u>(489,000)</u>	<u>3,514,000</u>
W.D.V. c/f	0	7,519,062	147,687	0	1,711,500	

Assessment year 2029

Additions:
March 2028

Building Additions	22,571,000					
- Feb. 2028 - Spraying equip.	0	0	0	960,000	0	0
- Feb. 2028 - Agric tractor	<u>0</u>	<u>0</u>	<u>0</u>	<u>51,127,000</u>	<u>0</u>	<u>0</u>
	22,571,000	7,519,062	147,687	52,087,000	1,711,500	0
Annual Allowance	<u>(2,257,100)</u>	<u>(3,007,625)</u>	<u>(17,375)</u>	<u>(10,417,400)</u>	<u>(489,000)</u>	<u>16,188,500</u>
WDV c/f	20,313,900	4,511,437	130,312	41,669,600	1,222,500	

Notes:

- (a) Certain expenses included in preliminary expenses have been capitalised as qualifying plantation expenditure in accordance with the provision of Para 1 (1) of the First Schedule to the NTA.

The capitalised costs consist of:

(i)	Cost of initial clearing and cultivation	<u>₦ 35,000</u>
(ii)	Cost of nursery plants (~~₦ 65,000~~ + ~~₦ 45,720~~) for first planting	<u>110,720</u>
(iii)	Cost of labour and technical expertise on first planting	<u>28,030</u>
		<u>173,750</u>

- (b) Stamp duties and registration expenses have been disallowed, as they are incurred in bringing the company into existence and not for the purpose of producing the profits assessable to tax.

- (c) Gratifications to local chiefs and heads of families, have been disallowed

because the expenditure was not incurred wholly and exclusively, for the purpose of producing the company's profit or loss.

- (d) Section 162 (1)(p) of NTA, 2025 and the Thirteenth Schedule to the Act, exempt the income generated by companies engaged in agricultural businesses, including crop production, livestock, aquaculture, forestry, dairy and such other businesses as described in the Thirteenth Schedule to this Act, for the first five years upon commencement of business.
- (e) Small companies are legally exempt from paying companies income tax.

4. **Abiola Bashir Aca Unit Trust Scheme**

Computation of assessable profits For assessment year 2027

	₦ '000
Net profit per accounts	306,000
Add:	
Depreciation	18,000
Loss on disposal of property, plant and equipment	<u>550</u>
	324,550
Deduct:	
Franked investment income	<u>120,000</u>
Assessable profit	<u><u>204,550</u></u>

Other points to note

- (f) Withholding tax deducted from any income (other than franked investment income) is set-off against any tax assessable on the Unit Trust Scheme for any year of assessment.
- (g) Dividend received after deduction of tax is regarded as franked investment income and not subject to any further tax in the hand of the recipient.

FEDERAL DEVELOPMENT LEVY

Contents

- 26.0 Learning objective
- 26.1 Learning outcomes
- 26.2 Purpose and effective date of the levy
- 26.3 Administration of the levy
- 26.4 Rate and computation of the levy
- 26.5 Taxpayers that are exempt from the payment of the levy
- 26.6 Distribution of the levy paid into a special account created for that purpose
- 26.7 Requirement that every beneficiary agency and Fund to prepare and submit their income and expenditure to the National Assembly for appropriation
- 26.8 Offences and penalties
- 26.9 Chapter review
- 26.10 Worked examples

26 Federal Development Levy

26.0 Learning objective

The objective of this chapter is to enhance readers' knowledge of the administration, and computation of the levy, filings, offences and penalties.

26.1 Learning outcomes

On successful completion of this chapter, readers should be able to:

- (a) explain the purpose and effective date of the levy;
- (b) discuss the administration of the levy;
- (c) identify the rate and compute the levy payable;
- (d) identify taxpayers that are exempt from the payment of the levy;
- (e) identify every beneficiary agency and fund;
- (f) explain the requirement that every beneficiary agency or fund should submit their income and expenditure to the National Assembly for appropriation; and discuss the offences and penalties.

26.2 Purpose and effective date of the levy

The funds to be generated are to be used for specific priorities of the government, for example, funding of critical infrastructure and social services. The levies having replaced levies relating to NASENI, Police Trust Fund, NITDA and TETFund, it is hoped that it will simplify tax compliance and ensure ease of doing business.

The effective commencement date is January 1, 2026.

26.3 Administration of the levy – section 59 (2) of NTA

The Service is empowered to collect the levy and pay it into a special account created for that purpose.

The tax imposed under shall not be levied on assessable profits computed for the purposes of hydrocarbon tax.

26.4 Rate and computation of the levy – Section 59 (1) of NTA

The development levy of 4% shall be imposed on the assessable profits of all companies or enterprises chargeable to tax, other than small companies and non-resident companies.

26.5 Taxpayers that are exempt from the payment of the levy – section 59(1) of NTA

The taxpayers that are exempt from the payment of the levy are:

- (a) small companies, that is, companies with an annual gross turnover of ₦100 million or less and total fixed assets not exceeding ₦250 million; and
- (b) non-resident companies that do not have permanent establishment in Nigeria.

26.6 Distribution of the levy paid into a special account created for that purpose – section 59(3) of NTA

The revenue accruing from the levy shall be spread amongst:

- (a) Tertiary Education Trust Fund - 50%;
- (b) Nigerian Education Loan - 15%;
- (c) National Information Technology Development Fund - 8%;
- (d) National Agency for Science and Engineering Infrastructure - 8%;
- (e) National Board for Technological Incubation - 4%;

- (f) Defence and Security Infrastructure Fund -10%; and
- (g) National Cybersecurity Fund - 5%.

26.7 Requirement that every beneficiary agency and Fund to prepare and submit their income and expenditure to the National Assembly for appropriation – section 59 (5) of NTA

Every beneficiary agency and Fund as stated in section 28.6 above shall be required to prepare and submit their income and expenditure to the National Assembly for appropriation.

26.8 Offence and penalties

26.8.1 Failure to register for tax – section 100 of NTAA

A taxpayer who fails or refuses to register for tax, shall be liable to pay an administrative penalty of:

- (a) ~~₦~~50,000 in the first month in which the failure occurs; and
- (b) ~~₦~~25,000 for each subsequent month in which the failure continues.

A statutory body or company who awards a contract to an unregistered person, shall be liable to pay an administrative penalty of ~~₦~~5,000,000.

26.8.2 Failure to file returns – Section 101 of NTAA

A taxpayer who fails or refuses to file returns or knowingly files incomplete or inaccurate returns to the relevant tax authority in accordance with the provisions of this Act, shall be liable to pay an administrative penalty of:

- (a) ~~₦~~100,000.00 in the first month in which the failure occurs; and
- (b) ~~₦~~50,000.00 for each subsequent month in which the failure continues.

26.8.3 Failure to keep books – Section 102 of NTAA

A taxpayer who:

- (a) fails to keep accounts, books and records of business transactions and income, to allow for the correct ascertainment of tax and filing of returns to the relevant tax authority; or
- (b) upon request by the relevant tax authority, fails to provide any record or book prescribed in this Act shall be liable to pay an administrative penalty, in the case of:
 - (i) a person other than a company, ~~₦~~10,000.00, and
 - (ii) in the case of a company, ~~₦~~50,000.00.

26.8.4 Failure to deduct tax – section 105 of NTAA

A person who has an obligation to collect, deduct or withhold tax under the relevant tax laws, and fails to collect, deduct or withhold the tax due is liable to an administrative penalty of 40% of the amount not deducted.

26.8.5 Failure to remit tax – section 107 of NTAA

A person, that deducts, collects or withholds any tax under this Act, and fails to

remit the amount deducted, collected or withheld by the 21st day of the month immediately succeeding the month in which the amount was deducted, collected or withheld, is liable to pay:

- (a) the amount deducted, collected or withheld but not remitted;
- (b) an administrative penalty of 10% per annum of the tax deducted, collected or withheld but not remitted; and
- (c) interest at the prevailing Central Bank of Nigeria monetary policy rate.

A person required to self-account under this Act and fails to self-account within the time prescribed by this Act, is liable to pay:

- (a) the tax not self-accounted for;
- (b) an administrative penalty of 10% per annum of the amount not self-accounted for; and
- (c) interest at the prevailing Central Bank of Nigeria monetary policy rate.

26.8.6 General penalty – section 127 of NTAA

Any person who contravenes the provisions of this Act for which no specific penalty was provided, commits an offence and is liable as follows:

- (a) to an administrative penalty of ₦1,000,000; or
- (b) on conviction, to imprisonment for a term not exceeding three years or to a fine or both.

26.8.7 Incorrect account – section 131 of NTAA

A person who without reasonable excuse:

- (a) makes up or causes to be made up any incorrect accounts by omitting or understating any profits or overstating any losses which is required under this Act to make up accounts;
- (b) prepares or causes to be prepared any incorrect schedule or statement required to be prepared under section 17 of this Act by overstating any expenditure or overstating any royalties or other sums or by omitting or understating any amounts repaid, refunded, waived or released; or
- (c) gives or causes to be given any false or misleading information in relation to any matter or thing affecting his liability to tax, is liable to an administrative penalty of ₦15,000,000 and 1% of the amount of tax which has been undercharged in consequence of such incorrect account, schedule, statement or information or would have been so undercharged if the account, schedule, statement or information had been accepted as correct, whichever is higher, and is also liable for the appropriate tax which would have been charged.

Notwithstanding the provisions of subsection (1) of this section, a person who gives or causes to be given any false or misleading information in relation to any matter or thing affecting his liability to tax, commits an offence and on conviction is liable to a fine of ₦15,000,000 and 1% of the amount of tax which has been undercharged in consequence of such incorrect account, schedule, statement or information, or would have been so undercharged if the account, schedule, statement or information had been accepted as correct, whichever is higher, and is also liable for the appropriate tax which would

have been charged.

26.9 Chapter review

This chapter discusses the Federal Development Levy, taking into consideration the purpose, effective commencement date, beneficiary agency and Fund, taxpayers that are tax exempt and the offences and penalties.

26.10 Worked examples

26.10.1

- (1) XYZ Limited has been in business for 4 years. An extract from the company's projected financial records for the year ending December 31, 2026, is as follows:

	₦
Capital allowances for the year	2,400,000
Total profit	800,000
Depreciation	960,000
Revenue	110,000,000

Required:

Compute the federal development levy for the relevant assessment year.

- (2) James Limited commenced business in 2009. You are provided with the following projected information for the year ending December 31, 2026:

	₦
Net profit per accounts	1,407,600
Depreciation	100,200
Allowance for doubtful debts	250,000
Donations to ABC political party	420,000

Required:

Compute the federal development levy for the relevant assessment year.

- (3) Zenith Allied Industries Plc operates several manufacturing businesses in Nigeria. The company projected the following results for the year ending December 31, 2026:

Item	Amount (₦)
Turnover	5,800,000,000
Profit before tax	1,650,000,000
Capital allowances	450,000,000
Disallowed expenses	150,000,000

Additional information:

The company has property, plant and equipment valued at ₦1.8 billion.

The company is resident in Nigeria and fully taxable.

The company does not engage in hydrocarbon operations.

The company has already paid companies income tax but has not computed

the federal development levy.

Required:

- (a) Determine the assessable profit of Zenith Allied Industries Plc.
- (b) Compute the federal development levy payable by the company.
- (c) Explain whether the company qualifies for exemption from the levy.
- (d) Explain the policy objective of introducing the federal development levy in Nigeria.

26.10.2 Suggested solutions to questions

(1) XYZ Limited

**Computation of federal development levy
For year ended December 31, 2026 (Assessment year 2027)**

	₦
Total profit	800,000
Add: Capital allowances	<u>2,400,000</u>
Assessable profit	<u>3,200,000</u>
Federal development levy is 4% of assessable profit (₦ 3,200,000)	= ₦ 128,000

(2) James Limited

**Computation of federal development levy
For the year ended December 31, 2026 (Assessment year 2027)**

	₦
Net profit per accounts	1,407,600
Add:	
Depreciation	100,200
Allowance for doubtful debts	250,000
Donations to ABC political party	<u>420,000</u>
Assessable profit	<u>2,177,800</u>

Federal development levy is 4% of assessable profit (₦ 2,177,800), that is, ₦ 87,112.

(a) Computation of assessable profit

Description	Amount (₦)
Profit before tax	1,650,000,000
Add: Disallowed expenses	<u>150,000,000</u>
Adjusted profit	1,800,000,000
Less: Capital allowances	<u>(450,000,000)</u>
	<u>1,350,000,000</u>

Assessable profit = ₦1,350,000,000

(b) Computation of Federal Development Levy (FDL)

FDL = 4% × assessable profit

FDL = 4% × ₦ 1,350,000,000

FDL = ₦ 54,000,000

(c) Exemption test

The company does not qualify for exemption because:

- i. turnover exceeds ₦100 million;
- ii. fixed assets exceed ₦250 million; and
- iii. it is not a small company.

Therefore, FDL is payable.

(d) Policy objectives

The federal development levy was introduced to, amongst other reasons, to:

- i. consolidate multiple statutory levies into a single levy;
- ii. reduce tax multiplicity in Nigeria;
- iii. improve tax administration efficiency.
- iv. provide funding for:
 - education;
 - technology;
 - security infrastructure; and
 - scientific development.

APPLICATION OF INFORMATION TECHNOLOGY IN TAXATION

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27 Application of Information Technology in Taxation

27.0 Learning objective

The objective of this chapter is to enhance readers' knowledge of the application of information technology in taxation.

27.1 Learning outcomes

On successful completion of this chapter, readers should be able to discuss the following:

- (a) overview of computer applications amenable to tax planning and administration (for example, excel and web portals);
- (b) navigational skills in NRS and other tax portals;
- (c) electronic filing of income tax returns;
- (d) automated VAT management and returns;
- (e) excel payroll software template for computations of employees' tax;
- (f) key features of integrated tax administration system (ITAS) of Nigeria sssRevenue Service (NRS) which include:
 - (i) electronic registration of a taxpayer with the FIRS and validation of tax identification number TIN);
 - (ii) online submission of tax returns;
 - (iii) electronic tax payment to FIRS;
 - (iv) processing of electronic tax clearance certificate (TCC); and
 - (v) automated filing and collection system of value added tax (VAT) as it relates to branded shops, super shops; supermarkets and standard restaurants; and
- (g) challenges of technology on tax practice and administration.

27.2 Introduction

The roles of tax practitioners and administrators are unique and essential in every society. There is hardly any business outfit that does not deal with series of tax issues yearly, arising from their transactions or locations. In most cases, entities find it challenging in handling their tax matters.

Following recent advances in technology all over the world, many organisations are moving fast to key into the opportunities therein to facilitate and resolve their regular business challenges.

This section discusses how tax practitioners and administrators can make use of available technology to enhance their work and make them more relevant in today's dynamic environment.

27.3 Overview of the technological impact on tax practice and administration

Tax practitioners are independent firms licensed to provide tax-related services to their clients, while tax administration refers to revenue agencies or authorities with the mandate to assess, collect and account for taxes on behalf of the government.

27.3.1 Current roles of tax practicing firms

These include:

- (a) providing independent services to their clients which include;
- (b) preparing tax records;
- (c) computing of end-of-year tax liabilities;
- (d) filing of tax returns;
- (e) advising clients on tax matters;
- (f) complying with tax legislations;
- (g) resolving tax disputes; and

(h) engaging in tax audit and investigation.

Evidence from technological advancements reveal that most of these tasks can be made more efficient and effective through automation.

27.3.2 Elements of tax practice

These elements of tax practice as highlighted above could be enhanced by leveraging on new technologies described in the next section.

27.3.3 Tax Compliance

This involves:

- (a) gathering of relevant tax information;
- (b) evaluating and classifying the information;
- (c) filing of necessary tax returns; and
- (d) representing clients during tax audits, investigation, etc.

27.3.4 Tax planning and advisory

This involves:

- (a) arranging client's transactions to optimise (usually minimise) tax liability, that is, tax avoidance or evasion schemes; and
- (b) planning for:
 - (i) Open transactions
 - These involve planning the timing and amount for pending future transactions to reduce any associated tax implications; and
 - (ii) Closed transactions
 - These relate to how to present and classify past transactions in the accounts to reduce their tax exposure.

27.3.5 Tax litigation

This involves:

- (a) settling disputes with tax authorities in a law court or tribunal. It also involves reading, understanding and citing a lot of the provisions of extant tax laws and regulations;
- (b) appearing as an expert or technical witness in court of law on behalf of clients; and
- (c) appealing on behalf of clients when necessary.

27.3.6 Tax research and intelligence

This involves:

- (a) identifying a tax problem;
- (b) gathering the relevant evidence or information for tax purposes;
- (c) evaluating several scenarios relating to the challenge; and
- (d) determining and outlining the solutions to the problems.

27.4 Current roles of tax administrators

Tax administrators are public authorities empowered to assess, collect and account for taxes for a recognised jurisdiction. Their roles include, but not limited to:

- (a) registering and educating taxpayers;
- (b) receiving tax returns filed by taxpayers;
- (c) assessing taxpayers (individual and entities);

- (d) collecting, maintaining records and accounting for taxes paid;
- (e) managing and processing tax refunds applications;
- (f) conducting routine tax audits, investigations, etc;
- (g) managing and enforcing tax debt recovery; and
- (h) advising on the review of tax legislations and regulations.

27.5 The effects of technology on modern tax administration in Nigeria

27.5.1 Introduction

In 2006, the Nigeria Revenue Service deployed the first tax portal (Webportal) which was implemented to automate and streamline taxpayers' registration and other tax administration processes. In 2014, an Integrated Tax Administration System (ITAS) known as SIGTAS was implemented though it appears its deployment was stalled.

On June 7, 2021, the NRS announced the adoption and deployment of a locally developed tax management solution known as **TAXPRO MAX**. This system has the capacity to handle different aspects of tax administration, including:

(a) E-registration

Deployment and use of a robust and integrated tax management software makes it possible for accurate taxpayers' data to be captured by the tax authority. Each taxpayer enrolled is assigned a unique tax identification number (TIN) and it is now possible for taxpayers to do self-enrolment through a web application service.

(b) E-assessment

When taxpayers file returns electronically, it is possible for their tax liabilities to be computed and assessment notice generated automatically and sent to their email accounts.

(c) E- payments

Technology has made it possible for taxpayers to make payments through several electronic channels, such as point of sale (POS); internet banking; bank transfers; unstructured supplementary service data (USSD) or even using their credit/debit cards from the comfort of their homes.

(d) E- filing

Most integrated tax management solutions come along with a module that facilitates electronic filing. This enables taxpayers to file their returns from their offices without the stress of going to the tax office which might be several kilometers away. For instance, the NRS has been encouraging taxpayers to make use of the recently deployed TaxPro Max solution to file their periodic tax returns, including VAT and CIT returns.

(e) E-tax calculator

Modern tax authorities develop and deploy this tool on their websites to enable taxpayers and their consultants to compute the accurate amount of taxes to be paid. This function has been part of the NRS website (www.firs.gov.ng) in the last few years.

(f) E-TCC

Many individual and corporate taxpayers require their tax authorities to issue tax clearance certificates (TCCs) to them on yearly basis. Through the use of

appropriate technology, taxpayers can apply for their TCCs electronically and get them sent to their email accounts, if the conditions are met.

(g) E-reporting

Each tax authority requires various performance reports to be generated on a periodic basis. These reports can be generated within seconds at the click of a button.

(h) E-tax audit

Technology has made it possible for the entire process of tax audit to be carried out without the tax auditors visiting the premises of the taxpayer and vice versa. For instance, all the pre and post –audit meetings can be held using video conferencing tools and documents exchanged electronically through emails.

27.5.2 E- invoicing

Section 157 of NTA, 2025, makes it mandatory for a taxable person making a taxable supply to make use of the fiscalisation system deployed by the Service in accordance with the provisions of NTAA.

The fiscalisation system includes fiscal equipment consisting of electronic devices, software solutions or a communication system involving a secured network, or any such combination of the components for electronic invoicing and data transfer as the Service may prescribe or deploy.

27.5.3 Rev360

On April 30, 2026, the NRS launched Rev360 to replace the legacy TaxPro Max portal. Rev360 has been designed to update tax administration by providing a frictionless electronic portal to simplify how taxpayers engage with the NRS. When compared with the TaxPro Max, it has additional features, such as, simplified registration, filings and payments, objections and appeals, etc that make compliance easier, faster and more transparent.

Whilst it is hoped that Rev360 will eventually replace TaxPro Max, the initial phase of the former, focuses on small businesses and individuals in the informal sector, and medium taxpayers, before extending to other categories.

The system has the capacity to handle different aspects of tax administration, including:

(a) E-registration

To access the portal, a taxpayer needs to visit selfservice.nrs.gov.ng. This process has been designed to be an electronic self-service, facilitating cross-agency data matching.

(b) E-assessment

The platform facilitates automated and real-time assessment of taxes, thereby reducing manual intervention.

(c) E-payment

The portal makes provision for real time updates on tax liabilities and payments.

(d) E-filing

Rev360 makes use of technology for the automation of filing of returns, reconciliation and payments.

(e) E-TCC

The platform has been designed to generate electronic tax clearance certificates for tax compliant taxpayers.

(f) E-reporting

The platform facilitates the generation of reports within seconds at the click of a button.

(g) E-audit

The portal can generate digital audit trail which allows for accountability. The tax officials do not have to wait for periodic reports as business transactions are readily visible, thereby allowing for real-time monitoring.

27.6 Operations of the FIRS TAXPROMAX solution relating to filing requirements and procedures

27.6.1 Preamble

The NRS is empowered to automate filing of tax returns and payment processes. In furtherance to the foregoing, the NRS introduced the TaxPro Max application. The application is a one-stop, online tax administration platform for the management of tax processes. Consequently, taxpayers have the opportunity to:

- (a) register, file returns, remit taxes;
- (b) carry out assessments and keep track of tax obligations;
- (c) manage withholding tax deductions;
- (d) manage capital allowance and loss;
- (e) download tax clearance certificate; and
- (f) communicate with the NRS on tax issues, etc.

On June 7, 2021, the application portal was opened for filing of all naira denominated taxes. Based on a circular dated June 4, 2021, the NRS called on taxpayers to fulfil their tax obligations using the portal.

Due to the hitches experienced by taxpayers in the registration and use of the portal, companies that have December 31, accounting year end whose returns fell due on June 30, 2021, had the deadline for filing of returns extended to July 31, 2021, instead of the statutory June 30, 2021, without any obligation to pay penalty and interest for late filing.

Taxpayers are expected to register in order to access the portal, after which, they must input their log-in details in order to file returns. Upon filing the returns, a document identity number (DIN) will be generated. The DIN is mandatory in order to remit taxes via the portal. The portal can be used to file returns by taxpayers or their approved agents.

Taxpayers who are interest to file returns in hard copy may visit the local tax offices where staff of the NRS will be on hand to upload the documents to the portal. However, this should be done at least 2 weeks before the deadline.

27.6.2 Filing Requirements for value added tax (VAT)

Taxpayers are expected to file their returns on TaxPro Max, using the following procedure:

- (a) fill the tax update form by visiting any local tax office of the NRS;
- (b) access the TaxPro Max portal via <https://taxpromax.nrs.gov.ng> and login with their user details, after which, a dashboard will be displayed;
- (c) click on “taxes due” and select the “tax type”;
- (d) click on “process” to begin;
- (e) fill in the schedules as required including sales adjustment, exempt and zero-rated goods and service;
- (f) click on “add record” and “proceed”;
- (g) ensure that the VAT form is loaded after completing all schedules;
- (h) select the “currency type” under “Returning Currency”;
- (i) insert the total sales/income, exclusive of VAT;
- (j) tick the box for the declaration form; and
- (k) confirm all entries before submission.

27.6.3 Filing requirements for companies income tax (CIT)

These requirements are:

- (a) log in to <https://taxpromax.nrs.gov.ng> on your browser;
- (b) click “taxes due”;
- (c) under the action column, click on “process” and it will take you to schedules;
- (d) the companies income tax (CIT) form will be generated and displayed after the completion of all the schedules;
- (e) select the currency type, for example. NGN, GBP, USD, CFA, EUR, under “returning currency”;
- (f) insert the total revenue amount in the first box of the generated form. This will automatically fill the remaining pre-fill boxes;
- (g) click on “declaration” beneath the generated CIT form, to declare that the information is correct and in accordance with the relevant Tax Act;
- (h) select payment options; full-payment, 2 instalments, 3 instalments, or 4 instalments, accordingly;
- (i) click on “submit”;
- (j) on the Companies income tax assessment page, click on “review the CIT assessment”;
- (k) click “proceed to payment”;
- (l) on the CIT assessment page, upload audited accounts, tax computations, notes to accounts, memorandum and articles of association;
- (m) click on “submit”;
- (n) all documents to be uploaded in PDF format except notes to the accounts which is in excel format. The size of the files should not be more than 200kb;
- (o) payment session: On the CIT payment page, go through the description items and their corresponding amounts for payment;
- (p) click “process to payment”;
- (q) click on “pay now” on the payment page;
- (r) click “pay” button;
- (s) the system will automatically generate a payment reference code;
- (t) two payment options will be available, that is, ‘pay online’ or ‘pay at bank’;
- (u) pay online will automatically connect to Remita platform by generating the payer’s name, phone number, email, amount, reference code. You can pay the amount online or at any NRS designated bank and click submit; and
- (v) confirm payment and print payment acknowledgment slip.

27.7 Operations of the NRS Rev360 solution relating to filing requirements and procedures

27.7.1 Company registration process

Step 1: Access registration

- a. Go to <https://selfservice.nrs.gov.ng>
- b. Click on the "Create New Account" button on the homepage.

Step 2: Select entity type

Select corporate as category

Step 3: Select corporate category

- a. Choose your corporate category:
- b. Select the category that applies to the business you want to register.

Step 4: Verify CAC Details

- a. Enter your RC Number in the field provided.
 - b. Click Verify CAC Details.
- The system connects to CAC and automatically retrieves your company registration details.

Step 5: OTP Verification

- a. Click Proceed to OTP Verification.
An OTP will be sent to the CAC-registered email.
- b. Enter the OTP received via email or SMS to confirm ownership.

Step 6: Enter business information

Complete the additional business details, including:

- a. Business contact details (all fields are editable at this point)
- b. Commencement date
- c. Accounting year-end
- d. Business sector

Step 7: Select Tax Office

Select your preferred Tax Office.

It is recommended to choose the office closest to your business location.

Step 8: Add Tax Representative (Optional)

Enter your Tax Representative's Tax ID, if applicable, choose no if you will not be using one at this point.

Step 9: Save and Resume (Optional)

- a. Click Save Progress and Close to pause the process and continue later.
The system generates a Resume ID.
- b. Use the Resume ID to continue your registration at any time. Enter the resume ID in the box provided and click continue registration.

Step 10: Additional declarations

- a. Indicate whether your company is a constituent of a multinational enterprise.
Group (Yes/No). If you choose Yes, select Add Entity for every entity and fill in the required details:

- i. entity name;
- ii. Tax ID;
- iii. country of residence; and
- iv. percentage holding.

b. Indicate whether your company has any foreign controlled company (Yes/No). If you select Yes, click on Add Company for every CFC and fill in the required details:

- i. entity name;
- ii. Tax ID;
- iii. country of residence; and
- iv. percentage holding.

Step 11: Upload required documents
Upload the required documents

- a. Valid Director's ID.
- b. The following IDs are accepted:
 - i. National Identity
 - ii. International Passport
 - iii. Driver's Licence
 - iv. Utility Bill for address verification

Step 12: Review CAC details
Click View CAC Registration Details to review your company information. This information will be automatically submitted to NRS as part of your registration.

Step 13: Submit registration

- a. Complete the Declarant Information section.
- b. Click Submit Form to complete the process.

Your company registration is now submitted and pending verification by NRS.

27.7.2 Logging into Rev360

Step 1: Access the portal
Open your web browser and go to: selfservice.nrs.gov.ng

Step 2: Initiate login
Click continue with NRS SSO to proceed.

Step 3: Enter Credentials
Enter your login credentials:

- a. username; and
- b. password

These credentials are sent to your registered email address during onboarding or migration.

Step 4: Sign In
Click Sign In to access your account.
Note on First-Time Access

- a. First-time users may be required to change their password upon initial login.

- b. Ensure your credentials are kept secure and not shared with unauthorised persons.

27.8 New technologies for tax practice and administration

Two different future trends in tax that both rest on information technology are:

- a) **increasing use of digital technology:** Tax professionals will use increasingly sophisticated technologies to enhance their traditional ways of serving clients. This is already happening today across the globe; and
- b) **a radical shift (total takeover):** Here, technology does not simply streamline and optimise that traditional approach, it actively displaces the work of traditional tax professionals.

Digital transformation inspired by unprecedented pace of technological advancement is disrupting nearly every industry, and taxation is no exception. Some of the new technologies disrupting the taxation industry include:

27.8.1 Cloud computing technology

Many accounting software are hosted in the cloud. Some of them come along with modules for tax management used for:

- (a) automated tax computation;
- (b) tax returns preparation and filing;
- (c) tax planning and forecasting; and
- (d) tax payment; etc.

In most advanced tax environments, there are cloud-based independent automated solutions for tax management. When a tax practice or administration subscribes to a cloud-based tax management solution, it is relieved of the need to invest in physical onsite servers with the attendant costs of maintenance and support.

Cloud-based tax management solutions afford tax practitioners the opportunity to work remotely from practically any device with internet connection and serve their clients from any location at any time. It further helps tax practitioners to facilitate collaborations among themselves and clients.

27.8.2 Artificial intelligence and robotics

Traditionally, tax practitioners put a lot of efforts in collating and analysing financial data in order to serve their clients and taxpayers. Artificial Intelligence (AI) and Robotics make it easier for tax practitioners to simplify and accelerate various data-related tasks. Robotic Process Automation (RPA) software has been demonstrated to be effective in handling routine and monotonous aspects of the tax man's job.

AI is capable of making tax practitioners and administrators more productive as its algorithms allow machines to take over time-consuming, repetitive, and redundant tasks. Rather than just crunch numbers, tax professionals will be able to spend more time delivering actionable insight on tax implications of past and future transactions of the company.

Machines can help reduce costs and errors by streamlining operations. For instance, the optical character recognition (OCR) technology enables practicing firms to automate and accelerate manual entries by converting textual data to digital files using scanners and mobile device cameras.

Apart from automating the repetitive and mundane tasks of tax practitioners, AI would enable tax practitioners focus on high value functions such as tax advisory services based on deeper insights of client's data.

27.8.3 Blockchain technology

Blockchain technology became popular globally through the advancements in digital currency transactions such as Bitcoin. Many businesses now leverage on the blockchain technology to record their financial and non-financial transactions in an open, secured and decentralised ledger.

Where the tax consultant or the tax authorities are made part of the transaction flow and given access to the data chain, it makes it possible for all parties to see each transaction and determine the tax implication. The blockchain can equally be used to facilitate tax payments to the government at highly reduced processing cost.

Blockchain enables smart contracts, protecting and transferring ownership of assets, verifying people's identities and credentials, etc. Once blockchain is widely adopted, and challenges around industry regulation are overcome, it will benefit businesses by reducing costs, increasing traceability and enhancing security.

27.8.4 Data analytics technology

Data has become the new cash as it is extremely crucial to make useful business financial decisions. Today, data is not just numbers and spreadsheets that accountants and tax practitioners have been familiar with for years. It also includes unstructured data that can be analysed through automated solutions.

Data analytic software can allow for real-time status monitoring of financial matters including their tax implications. Data is the fuel that powers other technology trends that are transforming finance and accounting. In the financial realm, data produces valuable insights, drives results and creates a better experience for clients. Since everything leaves a digital footprint, the unprecedented digitalisation of our world is creating opportunities to glean new insights from data that was not possible before.

These insights help tax administrators to improve internal operations and build revenue for the government. Through data analytics software, tax practicing firms could offer more valuable advisory services to their clients.

27.8.5 Social media technology

Social media platforms have been with us for a while and they have become useful tools in the hands of tax practitioners and administrators. Primarily, the social media platforms are used for dissemination of tax information due to its wide reach and appeal to the younger generation. Beside information sharing, platforms such as Facebook; Instagram; Twitter; LinkedIn; etc; are useful for collaboration among tax professionals and institutions.

A lot of tax practitioners have made themselves more visible and attractive to clients through the use of social media platforms.

27.8.6 Mobile app technology

Tax practitioners can use their mobile devices to access the financial data of their clients anytime and anywhere especially where the client has adopted cloud accounting technology. Also, tax administrators and practitioners could develop and deploy mobile apps which taxpayers and clients respectively could download and install for tax updates and news.

27.9 Impact of new technologies for tax practice and administration

The use of some of these technologies in tax practice and administration brings the following benefits:

- (a) **customer satisfaction:** there would be enhanced perception of overall tax practice and administration performance;
- (b) **lower cost of compliance:** Members of staff of the tax authority would be able to focus on more valuable activities;
- (c) **data error is minimised:** Improvement in the quality of taxpayers' information; and
- (d) **Improved voluntary compliance:** The compliance level of most taxpayers is bound to improve which would in turn impact positively on revenue generation.

For tax practising firms, the following benefits could be derived:

- (a) time savings – speed and accuracy of data entries and processing;
- (b) cost savings in the long run;
- (c) focus on higher level jobs that machines cannot handle;
- (d) mobility of service; and
- (e) increased capacity to serve multiple clients.

27.10 Taxes applicable to technology-based transactions

E-business and e-commerce have become the order of the day across the globe as most economic transactions are today executed online real-time. Some good examples of e-commerce transaction are:

- (a) online shopping;
- (b) online movies;
- (c) internet banking;
- (d) online ticketing and reservation;
- (e) auction sites;
- (f) journal subscription; and
- (g) online betting and gaming.

One wonders if the players in the digital space such as Google; Apple; Microsoft; Facebook; Jumia; Konga; etc pay the right amount of taxes to the various jurisdictions where their services are consumed. Do they have physical presence in all the countries where their services are taken?

Generally, income generated from technology-based transactions are not exempted from income taxes. Most of the traditional tax types such as VAT, WHT, CIT and PIT are equally applicable to technology-based transactions, such as e-commerce transactions.

Some multinational companies now prepare their financial statements that clearly show transactions from digital business as a separate line.

However, due to the problem of no physical presence of most of the digital companies, many countries appear to introduce special taxes based on the concept of significant economic presence (SEP) in line with Organization for Economic Cooperation and Development (OECD) framework. As at October 14, 2020, Austria, France, Hungary, Italy, Poland, Spain, Turkey, and the United Kingdom (UK) had implemented a digital service tax (DST). Belgium, the Czech Republic, and Slovakia have published proposals to enact a DST, and Latvia, Norway, and Slovenia have shown intentions to implement same.

The UK's DST is charged at 2% on gross UK-generated revenues of large businesses providing a social media service, search engine, or online marketplace to UK-based users. The tax was applied to revenues generated from April 1, 2020. France has

since imposed its own 3% tax on digital revenue for large tech companies — in effect singling out the U.S. tech giants — but has said it would withdraw the tax in favor of an international solution being negotiated under the auspices of the OECD.

In late February 2021, the US removed the stumbling block to global deal on digital tax as the Joe Biden's administration dropped the insistence on 'safe harbour' for companies adopted during the Donald Trump's administration, opening door to agreement with other countries. The OECD has predicted that an acceptable international agreement on digital service tax is likely to be reached by mid-2021.

Nigeria established a new legal framework that would allow her to levy tax on the income of non-resident technology companies (NRTC) whose business activities constitute Significant Economic Presence (SEP) in Nigeria, to the extent that these companies do not already have a separate local entity incorporated. Electronic transactions were made subject to stamp duties.

The Federal Government of Nigeria (FGN) on Friday, May 29, 2020 published the Companies Income Tax (Significant Economic Presence) Order, 2020 ("the Order") in its Official Gazette No. 21, Vol 107 of February 10, 2020.

The Order provides that a non-resident company shall have a SEP in Nigeria in any accounting year, where it derives N25 million or more as annual gross turnover or its equivalent in other currencies from any or combination of some specific activities. The second sub-category includes DCs that:

- (a) use a Nigerian domain name;
- (b) register a website in Nigeria; or
- (c) have a purposeful and sustained interaction with persons in Nigeria by customising their digital platforms to target persons in Nigeria (localization test).

An example of the latter is where the company reflects the prices of its products in naira or provides options for billing and payment in naira.

Some countries have equally put in place policies for the regulation of cryptocurrencies and make such transactions taxable.

The recent ban placed on Twitter in Nigeria has again raised the question on whether or not these technology giants operating in the digital space are paying any tax to Nigeria.

27.11 Technology as an effective tool for tax practitioners and administrators

According to McKinsey, by 2030, intelligent agents and robots could replace as much as 30% of the world's current human labour causing 375 million people to switch job categories.

The question therefore is -should robots be required to pay tax, considering the fact that many robots are being deployed to take over the repetitive tasks of accountants?

Technologies and their impact on tax include:

27.11.1 Cloud technology

Cloud technology impacts tax practice in the following ways:

- (a) tax management software hosted in the cloud (check out cloud service providers);
- (b) storage and retrieval of tax transaction data in the cloud;
- (c) access and analyse tax data anytime, anywhere and on any device;
- (d) present results in robust dashboards; and

- (e) collaboration and exchange of information between tax authorities and/or taxpayers.

27.11.2 Data analytics technology

Data analytics technology impacts tax in the following ways:

- (a) the use of statistical power of modern machines to analyse volumes of data and gain better business insight;
- (b) identification and prediction of tax risk factors and anomalies; and
- (c) improvement of business and tax advisory services due to deeper insight.

This equally offers accountants and tax auditors some advantages:

- (i) check transactions at source;
- (ii) review complete set of data (100 per cent check);
- (iii) predictive analytics (assist in risk assessment); and
- (iv) evaluation of programmed tax controls.

27.11.3 Artificial intelligence and robotics

Artificial intelligence (AI) is already in use for optical character recognition (OCR), and voice recognition and can easily be adapted in other areas of tax compliance. AI-enabled applications (Chatbot) can deal with more complex tasks, such as answering subtle taxation queries.

This technology offers the following, among others:

- (a) zero data entry;
- (b) responding to queries;
- (c) the machine can be made to learn from tax auditor's conclusion and uses it on future scenarios; and
- (d) identify patterns in both structured and unstructured transactions data – which ones are "normal and abnormal".

27.11.4 Social media technology

Social media is a medium to build relationships which can easily be used by tax practitioners to:

- (a) gain visibility and exposure;
- (b) be recognised as experts;
- (c) build their online network; and
- (d) keep the clients informed and provide better and prompt customer service.

27.11.5 Mobile app technology

Mobile apps are useful to tax practitioners in the following ways:

- (a) mobile accounting provides tax practitioners many benefits, such as on-demand data and information, even if they are on the go; and
- (b) starting a laptop or computer every time, you want to work, and then go online is a waste of time when you can get all the information with just a single tap.

27.11.6 Blockchain technology

Distributed ledgers provided by blockchain technology, serves tax practitioners as follows:

- (a) decentralisation and distribution of shared database;
- (b) all parties to a business transaction are involved in recording and validation from inception. This includes involving the tax authorities;
- (c) no reconciliation needed; and
- (d) no tax audit required.

By storing blocks of information that are identical across its network, the blockchain:

- (a) cannot be controlled by any single entity – decentralised to all nodes;
- (b) offers no single point of failure;
- (c) provides enhanced security through its immutable ledger;
- (d) provides enhanced transparency of transactions; and
- (e) is faster and cost effective.

27.12 Key reasons why practice firms leverage technology

Some benefits derivable by practice firms leveraging technology include:

- (a) **Winning more clients:** It is obvious that majority of clients would prefer to hire tax practice firms that are adaptive to technology changes;
- (b) **Retaining more clients:** Adoption and adaptation of modern technologies would make practising firms to render the much needed valuable and improved services which make clients retain them;
- (c) **Cross-selling services:** Technology provides platforms to enable practising firms make their services more visible to many clients; and
- (d) **Adding greater value:** Firms that adopt new technologies are able to automate most of the routine and labour-intensive tasks. This makes it possible for such firms to focus their attention on tasks that generate greater values for their clients.

27.13 Challenges of technology to tax practice and administration

27.13.1 Challenges

The challenges of technology adoption in tax practice and administration include:

- (a) low computer literacy level;
- (b) poor internet facility;
- (c) possible cyber threat;
- (d) high implementation cost;
- (e) lack of technical know-how; and
- (f) challenge of data validation - garbage-in; garbage-out-

27.13.2 Opportunities

Opportunities for tax practitioners from technology adoption include:

- (a) allowing tax professionals to focus on higher level jobs while offering their services to more clients;
- (b) enhancing visibility to clients;
- (c) providing ability to offer personalised services to clients;
- (d) enhancing adaptability to change and offering new services;
- (e) saving time – become more efficient and focused on relevant data;
- (f) saving cost (long term);
- (g) enabling mobility of service – geography is now unimportant;
- (h) providing new skills to tax professionals;
- (i) enabling opportunity to work collaboratively with anyone from any part of the world; and
- (j) increasing tax audit quality, as it begins to allow auditors to ask a lot more questions.

27.14 Chapter review

The chapter discusses the following:

- (a) overview of computer applications amenable to tax planning and administration (for example, excel and web portals);
- (b) navigational skills in NRS and other tax portals;
- (c) electronic filings of income tax returns;
- (d) automated VAT management and returns;
- (e) excel payroll software template for computations of employees' tax; and
- (f) key features of integrated tax administration system (ITAS) of Nigeria Revenue Service.

27.15 Worked examples

27.15.1 Questions

- 1) In 2006, the NRS deployed the first tax portal (Webportal) which was implemented to automate and streamline taxpayers' registration and other tax administration processes. In 2014, an integrated tax administration system (ITAS) known as SIGTAS was implemented. The recent adoption and deployment of a locally developed tax management solution known as TAXPRO MAX has the capacity to handle different aspects of tax administration. On April 30, 2026, the NRS introduced Rev360 platform with features designed to make tax compliance easier, faster and more transparent.

Required:

Identify the different aspects of tax administration that can be handled by the TAXPRO MAX and Rev360.

- 2) There are many reasons why a tax practitioner should leverage new technology such as cloud computing in his firm.

Required:

Explain two (2) reasons why it is beneficial for a firm of accountants to leverage technology.

- 3) A tax system comprises tax policy, tax legislation, and tax administration. Tax administrators are public authorities empowered to assess, collect and account for taxes for a recognised jurisdiction.

Required:

Explain the current roles of tax administrators in Nigeria.

27.15.2 Suggested solutions to questions

- (1) The different aspects of tax administration that can be handled by TaxPro Max and Rev360 include:
- (a) e-registration of taxpayers;
 - (b) e-assessment;
 - (c) e- payments of assessments;
 - (d) e- filing of returns;

- (e) e-tax calculator;
- (f) e-TCC;
- (g) e-reporting; and
- (h) e-tax audit.

(2) Key reasons why practice firms leverage technology include:

- (a) **winning more clients:** It is obvious that majority of clients would prefer to hire tax practice firms that are adaptive to technology changes;
- (b) **retaining more clients:** Adoption and adaptation of modern technologies would make practising firms to render the much needed valuable and improved services which make clients retain them;
- (c) **cross-selling services:** Technology provides platforms to enable practising firms make their services more visible to many clients; and
- (d) **Adding greater value:** Firms that adopt new technologies are able to automate most of the routine and labour-intensive tasks. This makes it possible for such firms to focus their attention on tasks that generate greater values for their clients.

(3) The roles of the tax administrators include:

- (a) registering and educating taxpayers;
- (b) receiving tax returns filed by taxpayers;
- (c) assessing taxpayers (individual and entities);
- (d) collecting, maintaining records and accounting for taxes paid;
- (e) managing and processing tax refunds applications;
- (f) conducting routine tax audits, investigations, etc;
- (g) managing and enforcing tax debt recovery; and
- (h) advising on the review of tax legislations and regulations.

APPENDIX I

Glossary of terms

Instrument

This is a written document, that could be tendered in evidence, in a court of law, appeal tribunal, etc.

Itinerant worker

This is an individual who, during an assessment year, customarily works in multiple places in order to earn daily wages.

Nigeria

Includes the submarine areas beneath the territorial waters of the Nigerian nation and the submarine areas beneath any other waters which are or at any time shall in respect of mines and minerals become subject to the legislative competence of the national assembly of the Nigerian nation.

Nigerian company

A Nigerian company is defined as one incorporated under the Companies and Allied Matters Act or any enactment replaced by that Act.

Pension fund

Means a society, fund, contract or scheme, the assets of which are held under irrevocable trusts and any scheme established by a law in Nigeria or elsewhere, the main objects of which are, in the opinion of the board, the provision of non-assignable and non-commutable retirement pensions or annuities for an individual or benefits for his dependants, after his death, or for any group or class of individuals and their dependants. Pension Reform Act, 2014

Progressive tax

This is a graduated form of tax, which applies higher rates of tax, as income increases. The objective of the tax is the redistribution of income from the well to do, to the less privileged.

Proportional tax

This form of tax assesses a taxpayer to tax, at a flat rate on his total assessable income. Therefore, the tax payable is proportional to the taxpayer's income.

Provident fund

Means a society, fund or scheme, (not a pension fund), established under irrevocable trusts or a law in Nigeria or elsewhere, the objects of which are the provision of retirement benefits for an individual or benefits for his dependants, after his death, or for any group or class of individual and their dependants.

Qualifying expenditure

Capital expenditure incurred in a basis period that is qualified for the grant of capital allowances.

Resident in Nigeria

In relation to a company, means a company the control and management of the business of which, are exercised in Nigeria.

Regressive tax

This is a tax that decreases as the taxpayer's income increases. This type of tax is rarely applied.

Self-assessment

Under the NTA, 2025, every company/taxpayer is required to assess itself based on forecast taxable income for the year of assessment, and pay the tax thereon to the Federal Inland Revenue Service.

Settlement

A settlement, includes a person who makes or establishes a settlement either directly or indirectly. It includes a person who has provided or undertaken to provide funds directly or indirectly, for the purpose of the settlement.

Tax

In simple terms, tax is a compulsory contribution imposed by a government, on the incomes, profits, goods, services, spending or properties of corporate entities, trusts, settlements and individuals. Such taxes when collected are used for carrying out governmental functions, such as maintenance of law and order, provision of infrastructure, health, utilities and education. It is also a fiscal tool for controlling the economy.

Trust

The term trust relates to equitable obligation, binding a person, called the trustee, to deal with a property, over which he/she has custody (which is called the trust property), for the benefit of persons (beneficiaries) of which he/she may be one.

Tax avoidance

Tax avoidance arises in a situation where the taxpayer arranges his financial affairs in a form that would make him pay the least possible amount of tax without breaking any of the tax laws.

Tax evasion

Tax evasion is an act, whereby a taxpayer either refuses to pay tax, or acts in such a way as to minimise tax liability, through illegal means. Tax evasion involves outright fraud and deceit, for example, a deliberate omission of a source of the taxpayer's income from returns filed or deliberate understatement of any income.

APPENDIX II

Study and examination techniques

This appendix contains notes on:

- (a) Using the questions and answers provided in the manual;
- (b) Effective study; and
- (c) Examination technique.

2.1 Questions and answers

1. These questions are either
 - (a) Questions intended to test the understanding of the points arising out of the particular chapter; or
 - (b) Examination questions inserted at a stage where it is considered that the student will be best able to give a reasonable answer.
2. Most answers are given in outline, but some examination answers go a little further, in order to provide greater guidance and provide students with the basis for study.
3. When answers are comprehensive, you would not be expected to write them in the time allowed. But you must grasp the main points or principles involved, which will form the basis for obtaining good marks in an examination.
4. Do not worry, if your answer differs from the suggested solution. There are usually more than one approach. You must satisfy yourself however, that it is only the approach that differs, and that you have not missed the fundamental principles.
5. Authors' comments. These have been included, to give additional points or elaborate on matters arising out of the subject covered by the question, to which it is felt, you should give some thought.

Using the answers

6. Have a shot at each question yourself, before consulting the answer, you will achieve nothing if you do not do this. Write your answer out in full or jot down the main points. Do not hurry to the answer.
7. Look at the answer. (See paragraph 5 in the case of examination answers). Study the particular area thoroughly now, making sure of your understanding. Repeat the process outlined in paragraph 7 and this paragraph, after a suitable interval. You must do this, to get any benefit at all. Make sure the main points stick.
8. Just browsing through the answers will really get you nowhere. You must test yourself, by writing down your version of the answer.

2.2 Effective study

Introduction

9. These notes are intended for those who are new to studying for examination subjects, although those who are not, may also benefit. They have been written in relation to study, involving the reading of textbooks, and they apply to all subjects. It is often very difficult to pick out the important principles from such books. Careful reading of these notes, will be of benefit even in studying the manual.

General

10. Study, means more than just reading a piece of literature. It means, close concentrated reading, with a notebook at your side. Unless you are one of a few people who can absorb materials by just one general reading through it..
11. Read a small area, making notes as you go along. Then ask yourself – “what have I just learnt?” Write down what you think it was all about. Then look again and you may be surprised to find you have missed a key point or points – they must be down in your notebook and eventually in your memory.

Compilation of notebook

12. A well-compiled notebook is a must. Use block capitals or different colour inks, to headline the main areas and subdivisions of those areas. Notes made during lectures or private study should not go straight into your notebook. Take them down on a “rough” paper and write them in your notebook, as soon as possible after the lecture or study period, thinking about what you are writing.

Memory aids

13. Mnemonics are very useful – if the sequence of points in the textbook is not significant, change it if it makes for a better mnemonic.
14. Association of the points with familiar objects, which will serve to recall them, is also useful.
15. Some people memorise things by saying them over and over out loud, others have to write them down time after time.
16. Many students have small blank cards and using one side of each card for each study area, put down the main points.

They carry the cards everywhere with them and use every opportunity to study them. As they are small they are easily carried. It is surprising how much of your day can be utilised this way.

Programme

17. Map out a programme for yourself; set targets and achieve them. One thing is certain, studying is not easy, but it is not too difficult, if you go about it in an orderly purposeful way. Many students fail their examinations through bad preparation. Tackle your studies as you would a project at work, systematically. Allocate a number of hours each week to each subject. Try fixing specific times for each subject, then keep to them, by refusing to let anything keep you from your planned task.

Revision

18. Revise periodically. The nearer the examination gets, the more you should concentrate on the major headlines in your notebook and less with the supporting details.

2.3 Examination technique

First impressions

19. However well prepared you may be, you are still likely to look at the paper on the day and say to yourself, after a quick look at the questions, “There’s not much here I can do”.
20. The atmosphere of the exam room has something to do with this. Try to blot

everything from your mind, other than the job in hand. Concentrate hard. If you feel a bit panicky (most people do – despite the apparent looks of serenity around you) grip the table, take a deep breath, and get on with it. Remember things are never as bad as they seem!

Time allocation

21. Allocate each question time appropriate to the number of marks after first setting aside 15 - 20 minutes (of a 3 hour paper say), for initial reading of the questions, and final review of your answers. At the end of the allotted time for a question, go on to the next – remember, the first 5 or 10 marks on the new question are more readily picked up than the last 1 or 2 on the previous question.
22. The temptation will be to say “I’ll write just one more sentence”, but before you know where you are, you would have written several more and probably just managed to scrape another mark, whereas the same time on the next question, could have earned 5 or 6 marks. Time allocation is important.
23. Always leave some writing space, between your answers to each question, as you move on, because you may recall part of the answers to earlier questions, as you answer latter questions. Then you can quietly go back to update in the space reserved.
24. If you are running out of time write down the main headings first, leaving a few lines between each – at least the examiner will see that you had the overall picture. Then go back putting in as much supporting details as you can.

General approach

25. Read the instructions at the top of the paper
26. Read the question paper once through. Make your choice of questions quickly. Pick the easiest (if one appears so) and get on with it.

Individual question

27. Read the question again carefully. The question will involve a key principle or set of principles. What are they? It is so easy to make the wrong decision at this stage, so read the question, underlining what appear to be the key words. This should help you.
28. Do not rush into action with your pen yet. Jot down on the inside back of your answer script the main headings you will use in your answer. All these will take time – about 5 minutes or more, but the careful thought and outline answer will help you earn marks.
29. Use the particular terminology used in the question, the examiner can then link the points in your answer, to the relevant parts of the question.
30. Assumptions are sometimes required (for example because of the lack of standardisation of terminology in this subject). Having stated your assumptions, make sure that what you write is consistent with them. Do ensure, however, that your assumptions are valid and are not just a device for changing the meaning of the question to suit your knowledge!
31. Tabulate where appropriate, using block capitals, for your main headings and underline subheadings. Underline words or phrases which require emphasis. Use a ruler.
32. Leave a line between your paragraphs and subparagraphs. This makes for a good layout. However, do not skip lines within paragraphs, or on one side of the paper only – examiners are waste conscious!
33. Write out each word clearly, don’t forget you are not the examiner reading your answers. In your hurry, be legible.

Charts and diagrams

34. A descriptive heading or title must be given to each diagram (using the one in the question if indicated).
35. Do not squeeze a diagram into a corner – spread it out.
36. Do not clutter your diagram up with too much detail – this defeats the objective, which should be clarity.
37. Give a key to the symbols and the different lines you have used, and again – use a ruler.

End of examination procedure

38. Have a quick look at each answer, checking for grammatical errors and badly formed letters.
39. Ensure each answer sheet has your number on it and do not leave any sheet lying on the table.

Conclusion

40. Good technique plays a large part in examination success; this is a fact. Refuse to panick, keep your head, and with reasonable preparation you should make it.
41. Remember – you do not have to score 100% to pass.
42. A final point; once you are in the examination room, stay there and make use of every minute at your disposal.
43. Practise your technique, when answering the questions set in the manual.

APPENDIX III

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STUDY TEXT

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