Nigerian Tax Bill 2024 at a Glance: Highlights and Key Provisions

The tax regime in Nigeria is made up of a complex web of disjointed tax laws which leave much to be desired in terms of efficiency and effectiveness both in administration and in achieving the nation's fiscal policy goals. Sequel to this, President Bola Ahmed Tinubu GCFR established the Fiscal Policy and Tax Reforms Committee in August 2023 to address the pressing need for comprehensive tax reform in Nigeria. Recently, the President transmitted four tax reform bills to the National Assembly proposing significant changes to the face and character of the tax landscape. The Tax Bills are: The Nigeria Tax Bill (NTB) 2024, the Nigeria Tax Administration Bill (NTAB), the Nigeria Revenue Service (Establishment) Bill (NRSEB); and the Joint Revenue Board (Establishment) Bill (JRBEB). The enactment of the NTB will lead to the repeal of 11 laws, while 13 other laws will experience consequential amendments. The NTB will also revoke one subsidiary legislation and consequential amendments on two other subsidiary legislations.

Crucially, the NTB included a supremacy clause in Section 202, which states that" this Act shall take precedence over any other law with regards to the imposition of tax," this clause effectively elevates the NTB to be Nigeria's supreme legislation on taxes. This Article appraises the four Tax Bills highlighted above with particular focus on the Nigeria Tax Bill, which seeks to harmonize all the major taxes such as corporate income tax, personal income tax, and value-added tax etc., discussing key provisions and significant changes. As a comprehensive tax legislation, the NTB harmonizes all tax laws in the country into a more simplified and manageable single piece of legislation. Section 1 of the NTB provides that the objective of the Act is to provide a unified fiscal legislation governing taxation in Nigeria.

Hence, various taxes which were previously administered under different tax legislations are by the provisions of the NTB unified and compressed into one simplified law and administered accordingly. This simplification is intended to ease compliance for businesses and individuals, making it easier for them to understand their tax obligations. Contrary to most speculations on social media, the NTB adopts a progressive personal income tax system and provides tax relief for low-income earners. Particularly, incomes below (800,000.00) eight hundred thousand naira are completely exempted, and higher earners are taxed progressively according to their earnings. It follows, therefore, that the tax burden on low-income earners is reduced, and that the tax burden is generally spread to reflect equity and fairness in wealth distribution. The annual tax rate, as outlined in the Fourth Schedule of the bill, is as follows: (a) First N800k – 0% (b) Next N2.2m – 15% (c) Next N9m – 18% (d) Next N13m – 21% (e) Next N25m – 23% and (f) Above N50m – 25%.

Currently, a low-income earner who earns N25,000 monthly, which translates to N300,000 annually, is required to pay 7% income tax, the new rates proposed in the Nigeria Tax Bill exempt individuals who earn N800,000 or less annually from paying any income tax. In effect, every minimum wage earner in Nigeria would be exempted from personal income tax. However, with the new provisions in Section 28 of NTAB, financial institutions are now mandated to furnish tax authorities with details of individuals whose monthly cumulative transactions amount to N25 million or more. This would bring more high-income earners into the tax net. Also, the Bill progressively redesigned the capital gains tax regime, for example, Section 51 of the bill exempts an individual from paying tax on the proceeds of the sale of his residential property or land adjoining his residential property up to a distance of one acre. In Section 50, the bill exempts compensation paid to individuals for personal injuries.

The current provision of the subsisting Capital Gains Tax Act is that compensation for loss of office, etc, is subject to capital gains tax on the portion of the income above N10 million at 10%..The Bill aims to ensure ease of doing business, which has long been a hurdle in Nigeria's economic growth. By streamlining tax rules, the NTB 2024 simplifies compliance, enabling businesses to focus more on innovation and expansion rather than wading through bureaucratic red tape. The Bill in Section 20(1)(a)-(l) also indirectly reduces the taxable income of companies by increasing the deductions allowed from the company's gross earnings before ascertaining the company's profit, which is eventually taxed. The bill also eliminates a minimum income tax of around 1% of gross earnings hitherto imposed on companies that did not declare profit. For corporate entities, the NTB pursuant to Section 56 provides for a reduction of the current 30% rate for corporate income tax, and proposes 27.5% in 2025 and 25% in 2026, while completely exempting small companies. This significantly reduces the tax obligation of corporate bodies and is rather conservative compared to 27% and 30% rates in sister African countries like South Africa and Kenya. Additionally, the NTB raises the threshold for corporate tax emption from 25 million naira to 50 million naira in annual turnover, thereby exempting many small businesses from corporate tax.

Furthermore, the NTB tackles the problem of multiplicity of taxes for corporate bodies by harmonizing multiple levels of taxes by introducing a 4% development levy which will regress to 2% by 2030. The bill went further in Section 59 to harmonize all the special deductions on companies' profit into a single development levy that is expected to progressively decline from a rate of 4% in 2025 and 2026 assessment years to just 2% in 2030. Also, the NTB effectively handed over the revenue collection duty of the Nigeria Upstream Petroleum Regulatory Commission (NUPRC) to the NRS (FIRS). The Seventh Schedule of the Bill prescribed the royalties all production of petroleum would be subjected to, which are to be collected on behalf of the Federation by the NRS (FIRS) with the royalties so collected by the NRS administered following provisions of the Nigeria Tax Administration Bill (Act). The notable implication of the tax bills to the States is the changes regarding revenue sharing generated from Value Added Tax (VAT). Pursuant to Section 77 of the NTAB, the new sharing formula has the States and Local Governments receiving the bulk of the VAT revenue. Precisely, 55% and 35% of the VAT revenue is accruable to the State and Local Governments respectively, while 10% goes to the federal government. It is noteworthy to state that the VAT derivation model pursuant to Section 77 which potentially redistributes revenues amongst state governments equitably, incurs significant losses to some state governments. Based on the 60% derivation model, states that contribute more in VAT revenue will earn more while states that contribute less might earn significantly less.

BENEFIT TO LAWYERS

Advise on Compliance And Regulatory Services: Lawyers will be essential in guiding businesses and individuals on what the new tax bill is all about and how to navigate the tax law and structure their businesses efficiently to ensure compliance and avoid penalties. Tax Dispute Resolution: A unified Tax law means that lawyers can quickly identify the applicable rules when briefed on tax-related matters, helping lawyers to conduct dispute resolution more efficiently and reducing the complexity involved in representing clients in tax-related matters.

Other Notable Highlights of the Tax Reform Bills. Establishment of the Nigeria Revenue Service (NRS) and Joint Revenue Board (JRB): Pursuant to the NRSEB the NRS replaces the FIRS and the JRBEB established the JRB to replace the current Joint Tax Board (JTB). Additionally, the bill also established the office of the tax ombudsman to protect taxpayers and ensure tax simplification. Promotion of Exports and International Trade: Exports of goods, services, and intellectual property will benefit from zero-rated VAT alongside additional incentives aimed at boosting Nigeria's competitiveness in international trade. Simplifying and Rationalizing Taxes: Over 50 nuisance taxes are to be repealed, with remaining levies harmonized into a few number of taxes. A Tax System Based on Equity and Fairness: the bills implement progressive rates for personal income tax, VAT, and capital gains tax, ensuring protection for low-income earners. Equity Among States: VAT revenue will be allocated to states using a fairer model that rewards their actual economic contributions. Tax Accountability and Transparency: With the establishment of the Tax Ombudsman vulnerable taxpayers are protected thereby ensuring equity and fairness in tax administration.

In conclusion, the tax reform bills seek to foster economic equity, encourage exportation, extend the tax net to reflect current global trends and create a business-friendly environment to attract local and foreign investments. The bills further strengthen fiscal federalism and facilitate cooperation between taxpayers, subnational governments and MDAs for a vibrant and prosperous economy.

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