

Economic Competitiveness; What you need to know about Nigeria's new Tax Laws

By Tope Fasua

In recent weeks, a wave of commentary has suggested that Nigeria's new tax regime may scare away investors, trigger capital flight, or damage business competitiveness. These concerns, although understandable in an environment where fiscal reforms attract intense public scrutiny, are largely misplaced. The 2025 tax reforms, anchored by the new Nigeria Tax Act (NTA) and Nigeria Tax Administration Act (NTAA), represent one of Nigeria's most pro-investment, pro-market, and modernizing tax policy updates in decades. Far from undermining growth and competitiveness, the reforms simplify the tax landscape, align Nigeria with global best practices, reduce compliance burdens, and protect both businesses and individuals from outdated rules. More importantly, the reforms are fundamentally progressive, in line with Mr President's promise to improve the standard of living of all Nigerians. A careful review of the reforms shows that they make Nigeria more competitive, not less. They achieve this through significant improvements, including: consolidating multiple earmarked taxes into a streamlined Development Levy; maintaining strong incentives for Free Trade Zones; implementing the globally agreed 15% minimum tax on multinational enterprises; and modernizing capital gains taxation to reflect today's economic realities. Let us examine each in turn. One of the most misunderstood elements of the reform is the 4% Development Levy. Some have incorrectly

described it as "a new tax." It is not. It replaces a chaotic regime of fragmented earmarked taxes, including the Tertiary Education Tax (3%), NITDA Levy (1% of PBT), NASENI Levy (0.25%), and the Police Trust Fund Levy. When aggregated, these distinct levies imposed an effective tax burden that could exceed 4% particularly for companies in the technology, telecommunications and financial sectors. Furthermore, small businesses with a turnover of 100 million and below and non-resident companies are now exempt from the Development Levy.

The consolidation of the plethora of levies into one offers investors predictability, a reduction in the cost of compliance, and a reduction in the cost of doing business. In the previous regime, the proliferation of agency-specific levies created uncertainty; investors feared that new, distinct taxes would inevitably fund new agencies. The Development Levy establishes a unified framework for funding education, defence, security, technology, and cybersecurity from a single pool, signaling to investors that the era of ad hoc earmark taxes is finally over. Investors value certainty and simplicity, and the Development Levy delivers both. Another area that has generated anxiety is the treatment of Free Trade Zones. Critics suggest that the government watered down their incentives. Again, this is incorrect. A careful reading of Section 60 and the Second



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Schedule of the NTA reveals a policy designed to curb tax base erosion while sustaining incentives for genuine exporters. The NTA maintains the core tax-exempt status of Free Trade Zone entities but imposes critical conditions to ensure these zones serve their primary economic purpose: generating foreign-exchange earnings through exports. What changed? The Nigeria Tax Act now sets a 25% threshold for domestic sales by FTZ companies. If an FTZ enterprise sells up to 25% of its output into the Nigerian market, it continues to enjoy exemptions for a three-year transition period (2026 to 2028). Why is this necessary? FTZs are meant to attract exporters, manufacturers producing for global markets, logistics hubs, and high-value assembly plants. They are not meant to attract companies enjoying tax-free status while competing unfairly with Nigerian firms inside the domestic economy. After 2028, the law provides that FTZ companies will be taxed on any domestic sales. Countries like the UAE, Malaysia, and Mauritius have similar structures.

Nigeria is not doing anything unusual. The underlying message is clear: Nigeria's FTZs remain competitive for exporters, manufacturing hubs, and global supply chain investors. Another misconception in public commentary is around the new 15% minimum tax for large multinationals and large Nigerian businesses. The 15% minimum tax is the product of a landmark OECD/G20 agreement endorsed by over 140 countries, including the UK, France, Germany, the UAE, Canada, Japan, South Korea, South Africa, and Nigeria. It applies only to the world's largest multinational groups, that is, those with a global turnover of €750 million or more. Section 57 of the NTA, which domesticates the OECD/G20 agreement, is a defensive measure to protect Nigeria's sovereign tax base, not an attack on capital. If Nigeria continues to offer effective tax rates below 15% to multinationals, their home countries (e.g., the UK, France, Germany, or South Africa) will collect the difference as a Top-Up Tax. By collecting this tax domestically, Nigeria retains revenue that would otherwise be ceded to foreign treasuries without increasing the global tax burden on the investor. By extending the 15% Effective Tax Rate to large domestic companies (with a turnover of N50 billion or more), the NTA ensures horizontal equity. It prevents a scenario in which foreign multinationals are taxed at 15% (under global rules) while large domestic competitors utilize aggressive tax planning to pay significantly less. This creates a floor for tax competition, stabilizing government revenue, which is essential for the infrastructure development that investors require.

Furthermore, the definition of Covered Taxes for the 15% Effective Tax Rate includes companies' income tax, petroleum profits tax, hydrocarbon tax, development levy, and priority sector tax credits. This broad definition ensures that companies are given credit for the full range of their fiscal contributions, preventing double taxation. Consequently, the 15% Effective Tax Rate is not a deterrent to investment but a mechanism for fiscal sovereignty and fair competition. It actually increases Nigeria's attractiveness, signaling that Nigeria provides a transparent, rules-based system. Another misunderstood reform relates to capital gains taxation, now called "chargeable gains" in the NTA.

Under the old Capital Gains Tax Act (CGTA), almost all capital gains were taxed at 10%, with very few exemptions. The law had outlived its usefulness, as it dated from 1967, when basic commodities still dominated Nigeria's economy. The NTA modernizes this entirely. Market analysts fail to appreciate the shift from the current rigid, outdated CGTA to a flexible, integrated system that actively encourages reinvestment. The new regime integrates gains into the company's total profit (taxed at a CIT rate of 30%) or into the individual's income (taxed at Personal Income Tax rates ranging from 0 to 25%). While the rate appears higher, the exemptions, reliefs, and structural flexibilities introduced make the new system significantly more favourable for active investors. For example, the NTA introduces a comprehensive reinvestment relief for shares. Section 34 states: "Provided that gains accruing to a person on disposal of shares in any Nigerian company shall not be chargeable gains where the... (iii) proceeds from such disposal... are reinvested within the same year of assessment in the acquisition of shares in the same or other Nigerian companies...". Contrary to critical narratives, this provision allows investors to rotate capital without tax friction. Under the old law, selling a strategic stake to reinvest in a new venture triggered a tax event. Under the NTA, provided the capital remains within the Nigerian economy, the tax is effectively 0%. This directly encourages portfolio fluidity and capital formation, debunking the claim that the law derails investment.

Furthermore, the NTA significantly improves loss treatment, reducing the risk profile for investors. By allowing capital losses to reduce the total taxable income (subject to certain ring-fencing for digital assets), the NTA essentially subsidises risk-taking. If an investment fails, the tax system absorbs part of the shock by lowering taxes on other profits. This is a pro-innovation policy stance that is highly attractive to Venture Capital and Private Equity. In addition, the NTA introduces specific monetary thresholds that exempt lower-value transactions entirely, reducing the compliance burden for smaller investors and startups. Gains are exempt from tax where "disposal proceeds, in aggregate, are less than N150,000,000 and the chargeable gain does not exceed N10,000,000 in any 12 consecutive months." This threshold protects most retail investors and small companies from capital gains tax, fostering a vibrant secondary market for securities. Under the old regime, companies could structure transactions to classify business profits as "capital gains" and pay a lower 10% tax. Now, corporate gains are taxed at the 30% corporate income tax rate, just like other business income. This closes a significant loophole without affecting ordinary investors. In conclusion, Nigeria is not raising tax barriers; it is creating a stronger foundation for a modern, competitive economy. The reforms simplify taxes, safeguard vital incentives, align Nigeria with global standards, and protect ordinary Nigerians and investors alike. They close loopholes exploited by international corporations while maintaining incentives where they matter most. Investors, domestic and foreign, should see these reforms as a signal that Nigeria is serious about building a predictable, stable, investment-friendly environment and is open for business.

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