

Nigeria's major tax overhaul explained

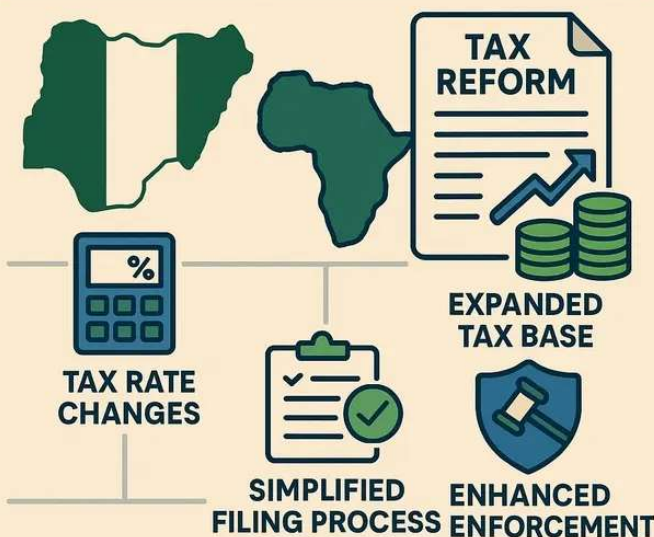
One of the major challenges that Nigerian President Bola Tinubu took upon himself on assuming office was to reform the country's tax system. With more than 60 applicable taxes in the country, navigating them is often the investor's nightmare. Tinubu's stated aim was to pare down their number to single digits. This would make the taxes simpler to understand and easier to pay. With improved ease of doing business, more companies would be expected to open up, growing tax revenue in the long run. It is a strategy that worked for Tinubu more than two decades ago while he was the governor of Lagos State, which includes Nigeria's sprawling metropolis of more than 15m people. Improved tax revenue became the foundation for bond issues that helped fund the city's metro project. For decades, oil has been Nigeria's leading export, accounting for most government revenue. But with declining oil revenues the government is increasingly looking to tax to fund its activities. Oil production totaled an average of 1.3m barrels per day between 2021 and 2024, compared with peak outputs of 2.5m barrels per day two decades ago.

Four bills sent by Tinubu to lawmakers last year capture the size and scope of the intended reforms. They include an umbrella Nigeria Tax Bill that consolidates the tax laws, a Nigerian Tax Administration Bill, a bill establishing the Nigerian Revenue Service to replace the existing Federal Inland Revenue Service (FIRS), and legislation to create a Joint Revenue Board to enable the federal and state governments to jointly oversee taxes. The Nigeria Tax Bill brings under one roof an assortment of 11 previous laws that will then be repealed. It raises the cut-off mark for low-income earners who should be exempt from tax to 800,000 naira (\$530) per year. The threshold below which low tax rates apply was extended to 50m naira (\$33,400) from the previous limit of 3.2m naira; a 25% rate will now apply to those with income above this new threshold. A similar relief is extended to small businesses, with only those earning more than 50m naira a year in revenue required to pay tax. Corporate tax is also reduced to 25% from 30% for medium-sized and large enterprises. The multiple levies that added another 4% to taxes are reduced to a 2.5% single levy, to be dedicated to funding student loans from 2030.

What Tinubu probably didn't reckon with was the politics of revenue sharing. Among the contentious aspects of reform is the proposal in the bill to change the way some taxes that go to a federal pool, such as value-added tax, are shared among the tiers of government. Under the current formula 20% of the pooled funds are given to states based on their contributions, 30% are shared according to the population of each state and 50% are shared equally to all the states. Tinubu proposes to give states 60% of the revenue they generate, and to share 20% based on their populations and another 20% equally between all states. The old formula meant that Lagos State, which hosts Nigeria's commercial capital and biggest city, contributed 2.27 trillion naira, more than half of the national pool for value-added tax in 2024, but received only 460bn naira. Rivers State, home to

major oil and gas operations, contributed 832.7bn naira and received 188.7bn naira. Conversely, Kano State contributed 77.8bn and received 117.2bn naira. Some states such as Cross River, Kebbi, Abia and Imo received between five and ten times their contributions. "These reforms reflect a commitment to equity, efficiency, and sustainable development," said Taiwo Oyedele, Tinubu's tax adviser and chairman of the presidential committee that proposed the changes. "VAT revenue will be distributed among states based on an equitable model to reward economic contributions."

KEY PROVISIONS OF NIGERIA'S 2025 TAX REFORM LAWS



However, more states from the country's mainly Muslim north appeared likely to lose out under the new dispensation, accounting for the regional pattern of opposition to the reform bills. The pushback in the region has been vehement, with political officeholders and community leaders leading the opposition. While the north has Nigeria's highest poverty rate – more than 80% of its population – taxes help to fund elite-led bureaucracies. "The north lacks the industrial base to withstand these reforms compared to other regions," Mohammed Zulum, governor of Borno State in the northeast, said in an interview, citing the region's over-reliance on subsistence agriculture. "These bills will drag the north backward." The 36 state governors consulted among themselves and have proffered an alternative sharing plan, seeking a common ground between supporters and opponents. They plan to have 50% of the funds shared equally, 30% shared according to contributions, and 20% shared based on population. This has failed to satisfy those states that make the lion's share of tax contributions. Tinubu's administration has extended its reforms to the structure and

application of the withholding tax law. Foreigners investing in Nigerian bonds and stocks are now required to pay a higher withholding tax rate of 15%. Domestic investors are to pay 5% for professional services and 2% for goods and construction services, as against the 10% previously paid by both foreign and domestic investors. Not requiring any legislation, these new rules will be put into effect on 1 January 2026 by the Federal Inland Revenue Service. Nigerian residents who receive lottery winnings will pay a 5% tax, while foreigners will pay 10%, replacing the old regulation made in 1997 that excluded them. The only transactions exempt from withholding tax are those done "across-the-counter" – where parties should not have any pre-existing or established contractual relationship, and payment should be made immediately, in cash or electronically – and insurance premiums. Also not required to pay are businesses that have annual gross sales of less than 25m naira and those making transactions under 2m naira. "The review was necessary to address the increasing complexities in the tax system and to update the rates to reflect modern economic activities, such as the growing influence of the entertainment and technology sectors," Olufemi Olarinde, who is in charge of fiscal and tax reforms at the FIRS, said in a statement. The reforms also align Nigeria's tax rules with international trends, he said. All of those reforms are less contentious than the new revenue-sharing mechanism. Now that all the hurdles have been cleared and the bill signed into law by the President, it is expected that all aspect of the reforms will be implemented to the letter so that dividends will be experienced by all Nigerians especially in the stimulation and growth of the economy. This is the only way that doubting Thomas's and critics of this administration will not insist that it is all about revenue generation instead of value addition. The citizen's taxes must translate into visible and concrete democratic dividends that will make life better for the people.

Nigeria's President Bola Tinubu has signed four finance bills into law in a set of major reforms aimed at restructuring the tax system in Africa's most populous nation. The government says the new laws will simplify revenue collection, reduce the tax burden on some individuals and businesses, while also helping to raise much-needed government income revenue by making collection more efficient. "The tax reforms will protect low-income households and support workers by expanding their disposable income," said President Tinubu in a statement to mark the second anniversary of his administration last month.

The reforms that were made include four new laws are: *The **Nigeria Tax Act**, which merges various rules into a single, easier-to-understand code and eliminates more than 50 small, overlapping taxes. The presidency has said that reducing the number of taxes and eliminating duplication, will making doing business easier *The **Tax Administration Act**, which sets common rules for how taxes are collected across federal, state, and local governments *The **Nigeria Revenue Service Act**, which replaces the Federal Inland Revenue Service (FIRS) with a new, independent agency - the Nigeria Revenue Service (NRS) *The **Joint Revenue Board Act**, which improves co-ordination between levels of government and creates a Tax Ombudsman and Tax Appeal Tribunal to resolve disputes.

Together, these laws aim to create a fairer and more efficient tax system across the country, the Nigerian government says. The question on the lips of every Nigerian is what difference and impact will this make. The impact is expected to be significant especially for low-income earners, small businesses and informal traders. For people earning up to 1m naira (\$650; ₦470) a year, a rent relief of 200,000 naira (\$130) will be

applied, effectively reducing their taxable income to 800,000 naira (\$520). This means they will no longer pay income tax, according to Andersen Nigeria, a tax and business advisory firm. Sellers of essential goods and services such as food, healthcare, education, rent, power, and baby products will no longer have to charge a Value Added Tax (VAT), helping families better afford their basic needs. Small businesses with annual turnover below 50m naira (\$32,400) will no longer pay company income tax. They will also be allowed to file simpler returns, without needing audited accounts. Large businesses will benefit from reduced corporate tax rates, dropping from 30% to 27.5% in 2025 and 25% in subsequent years. They will also now be able to claim tax credits for VAT paid on expenses and assets, meaning they can get back the 7.5% that would have been paid as VAT. There are also tax incentives for charitable groups, co-operatives, educational and religious organizations, provided their earnings do not come from commercial activities. The question to be asked again is who are those that will benefit from this new arrangement. Low-income households stand to benefit the most, as many will no longer have to pay income tax while also enjoying price relief on essentials. A typical family spending most of their income on rent, food and transport will see lower costs due to the VAT exemptions. Small businesses should also see positive changes through more streamlined bureaucracy, which could help boost compliance and encourage informal traders to enter the tax system. High-income individuals and luxury consumers may feel the pinch slightly, with higher VAT now expected on luxury goods and premium services, and capital gains tax imposed on large share sales.

The government argued that these reforms became necessary because the tax system was outdated, inefficient and unfairly harsh on the poor. Nigeria's tax-to-GDP ratio, a key measure of how much tax the country collects relative to its economy is just over 10%, far below the African average of 16–18%. Tinubu's administration wants to grow that ratio to 18% by 2026 without raising taxes on basic goods or overburdening struggling citizens. By simplifying tax rules and encouraging voluntary compliance, officials hope to raise more money for funding infrastructure and public services, such as healthcare and education, as well as reduce the reliance on borrowing money.

However, many small business owners welcome the exemption from company income tax but say they remain wary of how it will be enforced in practice. "I like that we won't have to pay company income tax any more. But honestly, I just hope they don't replace it with another levy we don't understand. Sometimes you pay tax but still get harassed by officials asking for different permits," says Chidinma, a small business owner in Lagos. For low-income earners, the promise of cheaper essential goods like food, rent and electricity is encouraging, but many are reserving judgment. While the new tax reforms promise relief for small businesses, economist Emmanuel Idenyi warns that the reality may be different unless enforcement practices change. He says overzealous implementation by tax authorities could undermine the government's good intentions.

"Even tax officials have revenue targets. So when you file, they reassess and add more. That's where businesses start struggling."

Meanwhile, Taiwo Oyedele, who chairs the Presidential Fiscal Policy and Tax Reform Committee, struck a hopeful tone during a recent town-hall meeting. "Ninety per cent of Nigerians support the tax reform bills," he said, but cautioned that "successful implementation will depend on awareness and trust". There has been a muted reaction from opposition parties and unions.