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TAX LAWS IN NIGERIA



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In this write-up, we shall be exploring and detailing the tax regime that applies to corporate entities in Nigeria.

Introduction

First of all, what is tax? According to the Legal Information Institute, tax is any charge of money or property that is imposed by a government upon individuals or entities that are within the government's authority to collect. This charge or levy is typically imposed on taxpayers in order to fund government spending and various public expenditures. A failure to pay, along with evasion of, or resistance to, taxation is punishable by law.



In Nigeria, the government collects tax to fund infrastructure and for social development of its citizens. There exist two main categories of tax collection agencies in Nigeria:

1. Federal – The federal Inland Revenue Service (FIRS) is in charge of collecting all federal taxes and taxes related to corporate bodies in Nigeria. The FIRS was established via an act of the National Assembly titled the Federal Inland Revenue Service (Establishment) Act.
2. State – Each state including the FCT has its own individual revenue collection agency. Examples of such agencies include the Federal Capital Territory Inland Revenue Service (FCT IRS) and the Lagos State Inland Revenue Service (LIRS).

Tax Regime for Companies in Nigeria

Below are some of the different types of taxes, and their governing legislation, applicable to corporate bodies in Nigeria:

1. **Finance Act 2020** – The major tax law in the country is the new Finance Act (Act) that came into law in 2020. The new Act made several changes to the 2019 Finance Act. The Act also amended some parts of the Capital Gains Tax Act, Companies Income Tax Act, Personal Income Tax Act, Customs And Excise Tariff, Etc. (Consolidated) Act, Value Added Tax Act, Nigeria Export Processing Zones Act, Oil And Gas Export Free Zone Act, Industrial Development (Income Tax Relief) Act, Stamp Duties Act, Tertiary Education Trust Fund (Establishment) Act, Federal Inland Revenue Service (Establishment) Act, Fiscal Responsibility Act, Public Procurement Act and Companies And Allied Matters Act.

2. **Value Added Tax Act** – The Finance Act 2019 amended the VAT rate in Nigeria from 5% to 7.5% on the value of goods and services in Nigeria. This increase took effect from the 1st of February, 2020. However, not all goods and services are subject to VAT. The below are a list of goods and services excluded from an imposition of Value Added Tax.
 - a. all medical and pharmaceutical products;
 - b. basic food items;
 - c. books and educational materials including educational performances and tuition from nursery to tertiary education;
 - d. baby products;

- e. all exported goods and services;
 - f. imported machines for use in the Export Processing Zone (EPZ) or free trade zone;
 - g. fertiliser and locally made agricultural medicines and agricultural equipment;
 - h. life insurance;
 - i. transportation services for public use;
 - j. lease on residential property;
 - k. equipment for utilisation of gas in down-stream petroleum operations;
 - l. microfinance banks people's bank and mortgage institutions services; and
 - m. locally manufactured sanitary towels.
3. **Stamp Duty** – Stamp duty is a type of tax imposed on documents and certain transactions. The stamp duty rate in Nigeria is dependent on the type of document and guidance on the prevailing rate is stated in the Act.
4. **Companies Income Tax Act** – The Finance Act 2020 also amended the tax rate applicable to corporate entities. Below is the current tax rate for companies in Nigeria:
- a. **Small Companies:** Companies with revenue below 25 million naira are expected to pay 0% in taxes.
 - b. **Medium Companies:** Companies under this category generate between 25 million and 100 million naira in revenue yearly. They are expected to pay 20% of their profit in taxes yearly.



- c. **Big Companies** – Companies that generate more than 100 million naira yearly in revenue fall under this category. They are expected to pay 30% of their profit in taxes yearly.

- 5. **Petroleum Profit Tax Act** – Section 8 of the Petroleum Profit Tax Act provides that there shall be levied upon the profits of each accounting period of any company engaged in petroleum operations during that period, a tax to be charged, assessed and payable in accordance with the provisions of the Act. In sum, the profits of a petroleum company shall be taxed in the relevant accounting period. There are prescribed allowable deductions and exclusion of certain profits. Applicable petroleum profit tax rates are as follows:
 - a. **Petroleum operations with production sharing contracts (PSC) the Nigerian National Petroleum Corporation (NNPC):** 50% of chargeable profits in the accounting period.
 - b. **Non-PSC operations including joint ventures (JVs) in the first five years when the company has not fully amortised all pre-production capitalised expenditure:** 65.75% of chargeable profits in the accounting period.
 - c. **Non-PSC operations after five years:** 85% of chargeable profits in the accounting period.
 - d. **Upstream gas operations:** 30% of chargeable profits in the accounting period.

- 6. **Capital Gains Act** – Capital gains are charged on qualifying transactions at a rate of 10%. Section 32 of the Act excludes corporate securities from capital gains tax.

7. **Personal Income Tax Act** – The Finance Act 2020 amended some sections of the Personal Income Tax Act. The Act provides for tax rates applicable to the income of individuals and unincorporated entities. The Act also provides for consolidation relief allowance of NGN200,000 subject to a minimum of 1 percent of gross income whichever is higher plus 20 percent of the gross income and the balance shall be taxable.



In conclusion, the omnibus extant law for taxation of companies and individuals in Nigeria is the Finance Act, 2020. The new Act as earlier mentioned amended virtually all existing laws related to the taxation of individuals and companies in Nigeria. As the country looks inward in generating more revenue for the government, it is important that companies stay tax compliant.

If you require further information on any of the tax types and how it affects your company, please **Contact us**.