Tax Alert
Nigeria Tax Reform Bills Passed by the Parliament

Introduction

Nigeria's National Assembly has passed the Tax Reform Bills (hereinafter "the Bills"). The Bills were earlier passed by the House of Representatives (HOR) and subsequently by the Senate.

The Bills passed by the National Assembly are the Nigeria Tax Bill 2024, which aims to provide unified fiscal legislation governing taxation in Nigeria; the Nigeria Tax Administration Bill 2024, which aims to provide a clear and concise legal framework for the fair, consistent and efficient administration of all tax laws in Nigeria; the Nigeria Revenue Service (Establishment) Bill 2024, which seeks to repeal the Federal Inland Revenue Service Establishment Act, No. 13, 2007 and establish the Nigeria Revenue Service to assess, collect, and account for revenue accruable to the Federal Government of Nigeria (FGN); and the Joint Revenue Board of Nigeria (Establishment) Bill, 2024, which seeks to establish the Joint Revenue Board, the Tax Appeal Tribunal, and the Office of the Tax Ombud, for the harmonization, coordination and settlement of disputes arising from revenue administration in Nigeria.

The next step in the legislative process is the harmonization of the Bills by both houses of the National Assembly before transmission of the Bills to the President for Assent.

If and/or when passed into law, the Bills, would repeal twelve (12) principal and/or subsidiary legislations, and amend fifteen (15) other principal/subsidiary legislations, most of which are tax legislations.

Key changes introduced by the Bills

Early indications of the Bills passed by the National Assembly reveal that there have been several amendments made to the version sent by the President for consideration. The most significant amendments are the decisions to retain the VAT rate at 7.5% and corporate income tax rate at 30%. The position on excise duty on services and/or introduction of other taxes, levies or surcharges on services and other items remains uncertain with both houses of the National Assembly taking different views.

Notwithstanding the amendments made by the National Assembly, the Bills as currently passed, would introduce several changes to the current tax landscape when signed into law. Key transformative changes expected to shape the future tax landscape are:

1. **Increase in the revenue threshold for determining small companies** and introduction of a fixed asset threshold as an additional criterion. Medium sized companies are no longer recognized.

2. **VAT paid on all purchases, including services, will now be recovered** by businesses through VAT filings, resulting in lower VAT payable. Since VAT incurred on services would no longer be expensed through the income statement, corporate tax payable to the tax authorities is expected to be higher.

3. **Introduction of 4% development levy** to replace Tertiary Education Tax and various levies, which would remove the administrative burden computing the various levies and interfacing with multiple government agencies.

4. **Revised rates and bands for personal income tax** with individuals earning less than the minimum wage expected to be exempt from tax. Individuals who earn c. NGN50million and above are likely to experience progressive increases in their personal income tax.

5. **Minimum tax of 0.5% of turnover would no longer apply** to a company with no taxable profits. However, a company that earns more than a set revenue threshold (The President proposed a threshold of NGN20billion) would pay an additional tax if effective tax rate (ETR) is less than 15%.

6. **Constituent entities of multinational enterprises** with a set aggregate group turnover (amount remains uncertain until the harmonization by both chambers of the National Assembly) to pay additional top up tax if ETR is less than 15%, notwithstanding Nigeria's position on the OECD/G20 inclusive framework on BEPS. An additional top up tax would result in the constituent entity paying no more than the 15% calculated ETR. Modalities for implementation, are expected to be set out in regulations.

7. **Capital gains to be taxed at same rate as total profits** of a taxable person. Presently capital gain is taxed at 10% whilst corporate income tax is set to remain at 30%.

8. **Increased deployment of technology** to compliance and administration with VAT Fiscalisation, E-invoicing, National Single Window set to feature prominently in the tax landscape. Digitization of tax processes is expected to improve visibility of taxpayer transactions to the tax authorities.

9. **Introduction of stricter conditions for the grant of tax incentives** to businesses who operate in the export processing zone (EPZ) and sell goods and/or services to the customs territory.

10. **Overhaul of stamp duties legislation** to provide clear guidance on instruments liable to stamp duty and parties obligated to stamp registrable instruments.

11. **Expenses and assets for which VAT and import duty have not been charged and/or paid** would no longer qualify as allowable expenses or qualifying capital expenditure. This would force businesses to comply with VAT and import duty requirements.

12. **Introduction of new penalties and stricter penalty provisions** for various infractions, to discourage non-compliance by taxpayers and improve tax collection.

13. **Removal of requirement to retain 1% of qualifying capital expenditure by upstream companies** when computing annual allowances.

14. **Pioneer status incentive to be replaced by economic development tax incentive**, with more robust administrative and control framework.

15. **Introduction of Tax Ombud** to mediate between taxpayers and tax authorities and the reestablishment of the Tax Appeal Tribunal with jurisdiction over all taxes.

There are several other changes that would have varying impacts on individuals and businesses. These changes would impact compliance obligations, technology requirements and ultimately the amount of taxes paid including cash tax and penalties. It is therefore important that taxpayers evaluate the impact of the passed Bills with a view to preparing for the imminent change in the tax landscape.

We would provide a detailed review of the passed Bills as soon as the versions passed by the Senate and HOR have been harmonized.

If you require further clarification or seek to understand how this would impact you or your business, please reach out to ngtaxpartners@deloitte.com.

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