NESG Occasional Paper Series

The 2025 Nigerian Tax Reform Acts: Taxing the Fruits, Not the Seed

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1.Setting the Scene

Nigeria has long grappled with persistent fiscal challenges: low tax revenues, a large informal sector, inefficient tax collection systems, and an overdependence on volatile oil income. The country's complex tax system and low tax-to-GDP ratio keep it behind many of its African peers, restricting critical investments in infrastructure, health, and education.

To address these enduring issues, President Bola Ahmed Tinubu inaugurated the Presidential Committee on Fiscal Policy and Tax Reforms in July 2023. Chaired by Mr. Taiwo Oyedele, the committee was tasked with achieving the primary objective of **enhancing revenue collection efficiency, ensuring transparent reporting, and promoting the effective utilisation of tax and other revenues to boost citizens' tax morale, foster a healthy tax culture, and drive voluntary compliance.**

The committee's work followed a phased strategy:

01 Quick Wins within 30 days to fix immediate inefficiencies,

02 Critical Reforms within six months to overhaul key systems, and

03 A One-Year Implementation Phase to roll out structural revenue measures aimed at raising the tax-to-GDP ratio to 18percent without hampering growth.

Despite these well-intentioned goals, the reform bills ignited widespread debate. Southern states like Lagos and Rivers opposed proposals to centralise VAT collection and revise revenue-sharing formulas, citing fears of losing control over locally generated funds. Conversely, several northern states expressed concern that derivation-based sharing could reduce their allocations and deepen regional inequality.

The controversy centred on the new VAT revenue-sharing formula. Under the revised model, allocations are based on where goods and services are consumed. Northern states, through the Governors Forum, argued this could disadvantage them, as it ties revenues more closely to consumption levels, potentially widening existing disparities.

Development Levy - Nigerian companies except small companies will pay a "Development Levy" at 4percent of their assessable profits (i,e. tax profits before deducting tax depreciation and losses)

Beyond state-level concerns, private sector players also raised concerns about the proposed Development Levy and new excise taxes on services, warning of rising costs for consumers and economic stagnation. Informal sector groups and SMEs feared stricter compliance mandates—such as e-invoicing and digital audits—would impose heavy burdens. Civil society organisations cautioned against introducing these reforms amid high inflation and poverty levels, warning that without transparency, these reforms could worsen hardship.

The broader controversy stemmed from fears of state-level revenue loss, higher costs for citizens and businesses, enforcement hurdles, and low public trust in government spending. While many agreed that reform is urgently needed, there were still concerns about how fairly and effectively it would be implemented.

After nearly two years of drafting, consultations, and legislative engagement, President Tinubu signed into law four landmark tax reform bills on June 26, 2025—laying the groundwork for a more transparent, efficient, and pro-growth tax system.

The four Acts are: Nigeria Tax Act 2025 | Nigeria Tax Administration Act 2025 | Nigeria Revenue Service (Establishment) Act 2025 | Joint Revenue Board (Establishment) Act 2025

2. Objectives of the New Tax Laws

Together, these laws aim to simplify the tax system, broaden the base, protect vulnerable groups, and improve tax collection and accountability.

In specific terms, the newly enacted tax reform laws pursue several policy, institutional and economic goals:

01 **Increase Domestic Revenue Mobilisation:** Raise Nigeria's tax-to-GDP ratio to 18 percent within five years, reducing reliance on oil revenue and debt financing.

02 **Simplify and Harmonise the Tax System:** Merge fragmented tax laws into a coherent framework and make compliance easy for individuals and businesses.

03 **Modernise Tax Administration:** Establish the Nigeria Revenue Service (NRS) with the mandate to collect and account for all revenues accruing to the federation. In addition, the digitalisation of all aspects of tax administration aims to improve efficiency and curb leakages.

04 **Enhance Transparency and Taxpayer Confidence:** Introduce a Tax Tribunal and Tax Ombudsman to resolve disputes and protect taxpayer rights.

05 **Promote Fairness and Equity:** Exempt essentials like food and medicine from VAT. Also, simplify compliance for micro and small businesses earning under ₦50 million annually.

06 **Strengthening Intergovernmental Coordination:** Set up a Joint Revenue Board to align federal, state, and local tax policies. Also, revise revenue-sharing mechanisms to reward productivity while preserving equity.

07 **Support Economic Competitiveness and Growth:** Lower compliance costs to attract investment.

3. Overview of the Tax Reform Acts

Nigeria's tax system has long been plagued by complexity, weak enforcement, and low public trust. The new reforms aim to reverse this situation by making taxation simpler, fairer, and more focused on value and productivity.

Thus, the core principle is to "tax the fruit, not the seed"—targeting profits and consumption, not early-stage income or small businesses.

Nigeria Tax Act 2025

Repeals outdated laws and consolidates all major taxes under one legal statute. It governs income tax, petroleum profits, capital gains, VAT, excise, and stamp duties.

Key Provisions:

- Consolidate all federal tax laws into one.
- Increase the Capital Gains Tax (CGT) from 10 to 25 percent.
- Introduce a minimum effective tax rate of 15 percent for large multinationals.
- Exempt minimum wage earners from personal income tax.
- Apply zero percent VAT on essentials; increase VAT on luxury items.
- Apply input VAT credits to production costs.
- Introduction of excise duties on services (e.g., telecom, gaming, FX market).
- Replace "pioneer status" with a more accountable priority-sector incentive scheme.
- Tighten tax exemption rules for the Free Trade Zones.
- Raise the SME tax exemption threshold to ₦50 million turnover.
- Update capital gains tax rules to align with income tax.

Nigeria Tax Administration Act 2025

Establishes how taxes are assessed, collected, and distributed across all government levels.

Key Provisions:

- Mandate e-filing, e-invoicing, and real-time reporting.
- Simplify tax returns for low-income earners.
- Require disclosure of tax avoidance schemes.
- Legalise joint audits and data sharing across levels of government.
- Excess tax refunds are to be processed within 90 days of the audit conclusion.
- Accredit professional tax agents.
- Disputed tax amounts must be partially paid pending resolution.
- Establish supremacy over all tax administration laws.
- Revise VAT revenue sharing: FG (10percent), States (55percent), LGAs (35percent).
- Introduce consumption-based allocation: 30percent of the states' share is based on actual consumption.

Nigeria Revenue Service (Establishment) Act 2025

Establishes the Nigeria Revenue Service (NRS) as the lead tax agency.

Key Provisions:

- Grant the Nigeria Revenue Service (NRS) the authority to oversee and coordinate tax collection.
- Allow revenue collection delegation between federal and subnational governments.
- Mandate the publication of audited financials online.
- Allow tax notices via email and digital platforms.
- Permit the deduction of unremitted revenues from defaulting entities.
- Require the cost of collection to meet international benchmarks.

Joint Revenue Board (Establishment) Act 2025

Creates a nationwide coordinating body for tax policy and establishes two major institutions (JTax Appeal Tribunal and Office of the Tax Ombudsman).

Key Provisions:

- Set up a Joint Revenue Board with broad coordination powers.
- Create a unified taxpayer ID database across all government levels.
- Establish an independent Tax Appeal Tribunal for dispute resolution.
- Create the Tax Ombudsman Office to:
  - Investigate taxpayer complaints.
  - Monitor the tax authority's conduct.
  - Recommend actions to lawmakers.
  - Supervise the accreditation of tax professionals.

4. Implications for Citizens and Businesses

	Citizens	Businesses
Income Tax	Workers earning ≤ ₦800,000/year are tax-exempt.	SMEs earning ≤ ₦50 million/year are exempt from income tax.
Withholding Tax (WHT)	Not applicable.	SMEs are exempt from both WHT deductions and obligations to deduct WHT.
Corporate Income Tax (CIT)	Not applicable.	Reduction in tax levies on the net income of companies.
VAT on Essentials	0percent VAT on food, healthcare, education. Rent, transport, and renewable energy are exempt.	VAT exemptions on production inputs reduce effective cost.
Development Incentives	Non-commercial income of nonprofits is tax-exempt.	Tax relief extended to cooperatives, trade unions, and friendly societies.
Compensation for Job Loss	Tax-free compensation up to ₦50 million.	Not applicable.
Compliance & Reporting	Simplified rules for low earners.	Mandatory e-filing, incentive disclosures, and stricter audits.
Overall Impact	Lower tax burden on basic needs and low-income groups.	Lower tax levies and input credits, but more rigorous compliance obligations.

Conclusion

The 2025 tax reforms mark a major step forward in Nigeria's fiscal evolution. For individuals, especially low-income earners, the reforms offer relief through exemptions on wages, essential goods, and job-loss compensation. For small businesses, reduced tax levies, including income and withholding taxes, are expected to ease compliance burdens and stimulate growth.

Larger businesses will benefit from input tax credits, though they must meet stricter compliance requirements. Meanwhile, the restructured VAT regime, digitalisation of tax processes, and stronger oversight mechanisms aim to boost efficiency and public trust.

Ultimately, these reforms promise a more equitable, efficient, and transparent tax system—provided implementation is timely, inclusive, and firmly rooted in transparency and accountability.

About the NESG

The NESG is an independent, non-partisan, non-sectarian organisation committed to fostering open and continuous dialogue on Nigeria's economic development. The NESG strives to forge a mutual understanding between leaders of thought to explore, discover and support initiatives to improve Nigeria's economic policies, institutions and management.

Our views and positions on issues are disseminated through electronic and print media, seminars, public lectures, policy dialogues, workshops, specific high-level interactive public-private sessions and special presentations to the executive and legislative arms of government.

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