

WOLE OLANIPEKUN & CO



THE  
**Legal  
Lens**  
SERIES

**Topic:**  
**The Untaxed Side of the  
Nigeria's New  
Tax Law**



# THE UNTAXED SIDE OF THE NIGERIA'S NEW TAX LAW

[www.woleolanipekun.com](http://www.woleolanipekun.com)

## Overview



The Nigerian Tax Act, 2025 signals a massive shift in the Nigeria's fiscal and tax policy framework which is designed to ease the burden on low and middle income earners, support small business and encourage investment. The Act introduces wide reforms across Personal income Tax, Value Added Tax, Stamp Duties, Capital Gain Tax, Companies Income Tax and other pension related payments. It is apparent that this regime prioritizes progressive taxation, expanded exemptions and has also reduced compliance burdens. This article examines the key reliefs, incentives and exemptions under the Nigerian Tax Act, 2025 and their implications for individuals, businesses and the wider economy.

### 2.0 PERSONAL INCOME TAX OR PAYE RELIEF FOR SALARY EARNERS

The Nigerian Tax Act, 2025 introduces a more progressive Personal Income Tax (PIT) and Pay As You Earn (PAYE) system designed to protect low and middle income earners while ensuring higher earners contribute a fairer share. Under the new provisions, workers earning the minimum wage of N70,000 per month or less are fully exempt from PAYE, while individuals with annual gross income up to N1.2,000,000 benefit from an effective tax-free threshold.<sup>1</sup> Additionally, gifts received are not taxable<sup>2</sup> and PAYE for those earning up to N20,000,000 annually are reduced, providing targeted relief for the majority of salary earners. The Act also establishes new progressive tax bands with the first N800,000 of annual income taxed at 0%, the next N2.2,000,000 at 15%, the next N9,000,000 at 18%, the next N13,000,000 at 21%, the next N25,000,000 at 23%, and any income above N5,000,000 taxed at 25%.<sup>3</sup> A simpler way to put it is: regardless of how much a person earns, the first N800,000 is tax-free and will be deducted from the income. Only the remaining balance is then subject to tax.

<sup>1</sup> Section 58 of the Nigeria Tax Act, 2025.

<sup>2</sup> Section 54 of the Nigeria Tax Act, 2025.

## An example:

A salary earner who earns N1,500,000 annually, will not be taxed on the entire N1,500,000 even though the income exceeds the exempted threshold of N800,000. Here is the math

As provided in the fourth schedule, the first N800,000 of the total income of N1,500,000 is taxed at 0%. This leaves a balance of N700,000 as taxable income, to which the next applicable rate of 15% is applied. Mr. X is therefore liable to pay N105,000 as tax.

This structure ensures that higher income earners contribute proportionately more in taxes, while low- and middle-income earners retain a larger share of their income. This is testamentary to the fact that the new tax regime is progressive in nature, the more you earn, the more tax you pay. This represents a significant departure from the previous personal income tax system, which applied a flat rate of 15%, regardless of the income level and was therefore regressive in effect.



Furthermore, the Act allows taxpayers to claim specific deductions before computing taxable income.<sup>4</sup> These include contributions to pension funds, the National Health Insurance Scheme, and the National Housing Fund, as well as interest on owner-occupied mortgage loans, life insurance or annuity premiums, and 20% of annual rent payments (capped at N500,000). Accordingly, where Mr. X is entitled to any of these deductible expenses, his taxable income may be sufficiently reduced such that no tax liability arises.

Collectively, these tax reliefs reduce the overall tax burden on tax payers, encourage savings and support home ownership, making the personal income tax system both fairer and more conducive to financial planning for Nigerian salary earners.

<sup>3</sup> Section 58 and the Fourth Schedule of Nigeria Tax Act, 2025.

<sup>4</sup> Section 54 of the Nigeria Tax Act, 2025

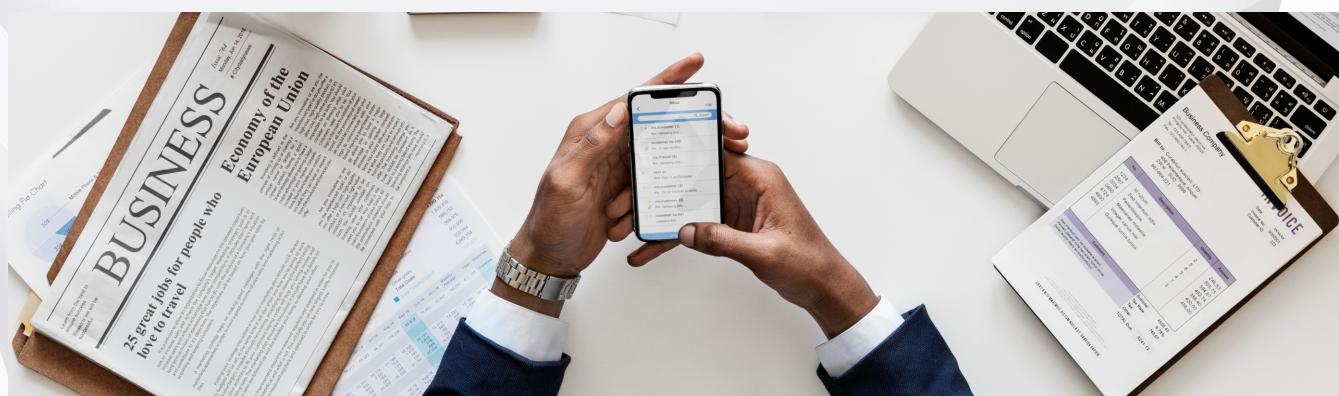
### 3.0 VALUE ADDED TAX EXEMPTIONS

Under the new tax law,<sup>5</sup> a wide range of supplies are fully exempted from Value Added Tax (VAT). These include baby products, locally manufactured sanitary pads and tampons, oil and gas exports, crude petroleum, and feed gas. Shared passenger road transport services, agricultural equipment such as tractors and ploughs, and goods supplied for donor-funded humanitarian projects are also exempted. Additionally, diplomatic supplies, educational performances conducted by institutions, land and building transactions, military hardware and uniforms supplied to security agencies fall under this exemption.

The Act<sup>6</sup> complements these exemptions by applying a 0% VAT rate on several essential goods and services. Basic food items, medical and pharmaceutical products including herbal remedies, educational books and materials are also zero-rated. Agricultural inputs such as fertilisers, veterinary medicines, seeds, seedlings, animal feed and live animals are also included in this exemption. The section further extends zero-rating to electricity generated by Generation Companies (GENCOs), transmitted by Transmission Company of Nigeria (TCN), and supplied through the national grid, as well as to medical services, tuition for nursery to tertiary education and exported goods, services, and incorporeal property.

Residential rent, disability aids such as hearing aids, braille materials, and wheelchairs, are now VAT-exempt. Diesel, petrol, and solar power equipment enjoy VAT suspension, electric vehicles and their parts together with humanitarian relief supplies are also exempted, lowering costs for both transport and emergency response systems.

In addition to the above exemptions, producers can claim VAT refunds paid on equipment and overheads used in producing VAT-exempt goods and services. Small companies with annual turnover of N100,000 or less are not required to charge VAT. This position is economically favourable, as it mitigates inflationary pressures and limits indirect price increases passed on to consumers.



<sup>5</sup> Section 186 of Nigeria Tax Act, 2025.

<sup>6</sup> Section 187 of Nigeria Tax Act, 2025.



## 4.0 STAMP DUTIES RELIEFS

As provided under the Act,<sup>7</sup> transfers of money below N10,000 will no longer be subject to stamp duty, as well as all salary payments, regardless of the amount. Intra-bank transfers between users of the same bank are also fully exempt, simplifying routine digital payments. In capital markets, transfers of government bonds and securities are now stamp-duty free, and documents used to transfer stocks and shares are fully exempt, including instruments executed by Federal and State Government ministries, departments, and agencies.<sup>8</sup> Transactions involving cooperative societies also benefit from this exemption, and securities lending and other regulated capital market activities.

## 5.0 CAPITAL GAINS TAX (CGT) RELIEFS

Under the new tax law, gains from the sale of the residential property you live in, including adjoining land up to one (1) acre, are fully exempted. This exemption aims at encouraging homeownership and reducing the financial burden on individuals. Personal belongings with a value of up to N5,000,000 are also tax-free when sold, while individuals can sell up to two personal cars per year without incurring Capital Gains Tax (CGT). For investors, gains on shares are exempt up to N150,000,000 per year or N10,000,000 for small investors and any profits above these thresholds are tax-free if reinvested into Nigerian companies. This will obviously improve domestic investment and capital market participation.

Furthermore, pension funds, charities and religious organizations are exempted from capital gains tax on their non-commercial assets, supporting social and philanthropic initiatives.<sup>10</sup> The Act further provides social protection by exempting compensation received for personal injury or loss of employment from CGT up to N50,000,000 with only amounts exceeding this threshold being taxable.<sup>11</sup>



<sup>7</sup> Section 185 of the Nigeria Tax Act, 2025.

<sup>8</sup> Section 185 of the Nigeria Tax Act, 2025.

<sup>9</sup> Section 51 of the Nigeria Tax Act, 2025.

<sup>10</sup> Section 51 of the Nigeria Tax Act, 2025.

<sup>11</sup> Section 50 of the Nigeria Tax Act, 2025.



## 6.0 COMPANIES INCOME TAX (CIT) RELIEF

The Nigerian Tax Act, 2025 introduces a robust framework of reliefs and incentives under Companies Income Tax (CIT) to support small businesses, startups, and agricultural enterprises. Small companies with a turnover of N100,000,000 or less per year and total fixed assets not exceeding N250,000,000 are exempted from CIT, paying 0%, while large companies are subject to a 30% tax rate, which may be reduced to 25% by presidential order.<sup>12</sup> Startups that have been officially recognised as eligible for tax relief are also fully exempted from CIT. This exemption promotes entrepreneurship and innovation by allowing startups to reinvest resources into growth, research, and development. In return, this supports the creation of a vibrant startup ecosystem, contributing to the economic growth and job creation.<sup>13</sup>

The Act also provides for additional incentives to reward businesses that create employment and support low-income workers.<sup>14</sup> For example, companies that increase salaries or provide wage support such as transport subsidies or wage awards, are entitled to a 50% tax deduction. Furthermore, the Act provides for a 50% deduction on salaries of new employees who have been retained for at least three (3) years, encouraging long-term employment. Businesses in the agriculture sector enjoy a five-year tax holiday, allowing operations to grow without immediate tax burdens, while investors, venture capitalists, private equity funds and accelerators who invest in labelled startups benefit from the tax-free gains, thereby fostering investment in emerging enterprises.

The Act provides that small companies are exempt from the 4% development levy which consolidates the Tertiary Education Tax (TET), Information Technology Levy (IT), NASENI levy and Police Trust Fund (PTF) levy.<sup>15</sup> They are not required to deduct withholding tax from their income or from payments to suppliers, this helps to reduce administrative burdens and improve cash flow.

## 7.0 PENSIONS AND JOB LOSS PAYMENTS TAX EXEMPTIONS

Under the Act, all pension funds and their assets including gratuities and any retirement benefits, governed by the Pension Reform Act (PRA) are fully exempted from taxation.<sup>16</sup> This ensures that retirees receive their benefits in full without any tax deductions, providing long-term financial security. The Act also reiterates under this part that, compensation received for job loss is tax-free up to N50,000,000, offering social protection to individuals affected by unemployment.<sup>17</sup>

<sup>12</sup> Section 56 of the Nigeria Tax Act, 2025.

<sup>13</sup> Section 163(1)(m) of the Nigeria Tax Act, 2025.

<sup>14</sup> Section 163(3)(a) of the Nigeria Tax Act, 2025.

<sup>15</sup> Section 59 of the Nigeria Tax Act, 2025.

<sup>16</sup> Section 163 (2)(a)(i) of the Nigeria Tax Act, 2025.

## 8.0 VENTURE CAPITAL AND STARTUP INVESTMENT EXEMPTION

One of the most economically consequential exemptions introduced by the Nigeria Tax Act 2025 is the capital gains tax relief granted to startup investors under the Act.<sup>18</sup> The provision exempts from tax any gains accruing from the disposal of assets by angel investors, venture capitalists, private equity funds, accelerators, or incubators, provided that such assets relate to a labelled startup and have been held in Nigeria for a minimum period of twenty-four months. By tying eligibility to both the nature of the investor and the duration of the investment, the legislature deliberately designed the exemption to favour long-term, growth-oriented capital rather than speculative or short-term financial activity.

The benefits of this exemption are far-reaching. It significantly improves post-exit returns for investors, thereby increasing the attractiveness of Nigeria's startup ecosystem to both local and foreign capital. By eliminating capital gains tax after the two-year holding period, the Act lowers investment risk and encourages deeper financial commitment to early-stage businesses. The holding requirement also promotes patient capital, ensuring that startups receive sustained support during critical growth phases. Over time, this exemption is likely to stimulate innovation, job creation, and enterprise development, positioning Nigeria more competitively within the global technology and entrepreneurship landscape.

## 8.1 TAX EXEMPTION FOR MEMBERS OF THE ARMED FORCES

In a commendable move, The Nigeria Tax Act 2025 introduces a full income tax exemption on the wages and salaries of members of the Nigerian armed forces, covering personnel of the Army, Navy and Air Force across all ranks. The exemption also extends to related military income, including wound or disability pensions and gains from the disposal of military decorations or medals awarded for service, provided such items were not sold.<sup>19</sup>

The practical and symbolic benefits of this exemption are significant. Financially, it increases the disposable income of military personnel, many of whom operate under hazardous conditions and receive relatively modest compensation compared to civilian professionals. The exemption serves as a form of indirect welfare support, easing the economic burden on military families and improving morale within the armed forces. From a policy perspective, it reflects a recognition of national service and sacrifice, reinforcing the state's commitment to those responsible for safeguarding national security. In doing so, the tax system is deployed not merely as a revenue tool but as an instrument of national appreciation and institutional support.

<sup>17</sup> Section 163(1)(I) of the Nigeria Tax Act, 2025.

<sup>18</sup> Section 163(1)(m) of the Nigeria Tax Act, 2025.

<sup>19</sup> Section 163(1)(H) of the Nigeria Tax Act, 2025.

## 9.0 CONCLUSION

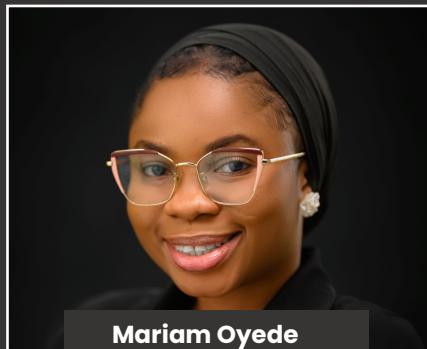
In summary, the Nigeria Tax Act, 2025 represents a deliberate and progressive restructuring of the country's tax system. By easing tax burden on the low-and middle-income earners, supporting small businesses, and providing targeted incentives for startups, investors and retirees, the act will positively slowly shape our social and economic policy.

Contrary to popular belief, the law is distinctly populist in outlook and does not seek to burden the poor, rather, it is aimed to shield vulnerable groups and ensure that those with greater financial capacity contribute a fairer share to the revenue of the country.

Ultimately, the Nigeria Tax Act, 2025 reflects a shift towards a more balanced social contract between the government and the citizens where taxation serves as a catalyst for development, economic stability and shared prosperity.



## CONTRIBUTORS



**Mariam Oyede**

Associate



**Mustapha Babalola**

Trainee Associate

## LAGOS

**God's Grace House**  
5, Maple Close, Osborne  
Foreshore 2, Ikoyi, Lagos.

## ABUJA

**God's Grace House**  
6, Oshakati Close, Off  
Constantine Street, Wuse Zone 4,  
Abuja.