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Taxation of Small Companies Under Nigeria's 2025 Tax Reform: Key Changes and Compliance Implications

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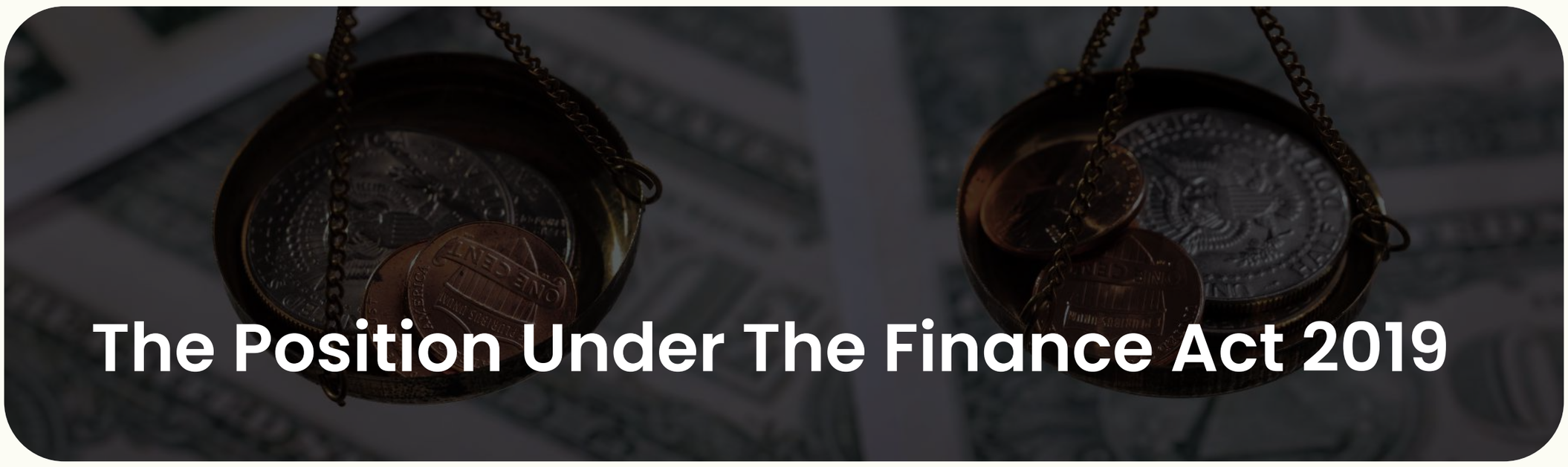


Introduction

Small companies have historically benefited from preferential tax treatment under Nigeria's Companies Income Tax framework. The Finance Act 2019 introduced an exemption from Companies Income Tax (CIT) for qualifying small companies, while retaining tax registration and filing obligations.[1] The Nigeria Tax Act 2025 (NTA) and the Nigeria Tax Administration Act 2025 (NTAA), which took effect on 1 January 2026, have since revised the framework for company taxation and tax administration.

The new regime does not create a single threshold for every tax purpose for small companies. The NTA's definition of a "small company" governs the CIT rate and related treatment under that Act, while the NTAA separately defines a "small business" for administrative purposes, including the VAT filing exemption. The thresholds differ, and professional-services businesses are expressly excluded from the relevant small-company/small-business definitions. These distinctions are material to determining which reliefs a business may claim.

This article outlines the former CIT position and the principal changes under the 2025 Tax Acts for Small Companies, focusing on CIT, the development levy, VAT and filing obligations.



The Position Under The Finance Act 2019

Before the Finance Act 2019, the general CIT rate for companies was 30%, subject to applicable statutory exceptions and incentives.

The Finance Act 2019[2] amended section 23(1) of the Companies Income Tax Act to exempt the profits of a qualifying small company from CIT, introducing a significant shift in the tax framework by establishing a tiered classification system for companies based on turnover, so that companies were categorized as either small, medium, or large, as

[1] Tax Exemption For Small Companies In Nigeria: A Myth Or Reality? - Sales Taxes: VAT, GST - Nigeria

[2] Section 9 of the Finance Act, 2019

provided under section 22 of the FA 2019. In this regard, all companies with a gross turnover of up to 25 million naira were granted an exemption from the payment of CIT, provided that they duly filed their tax returns.

Thus, the obligations relating to tax registration and the filing of returns were retained, alongside compliance requirements.



Section 56(a) of the NTA provides for a 0% CIT rate on the total profits of a small company. The relevant definition appears in section 202 of the NTA, which defines a small company by reference to gross turnover of 50 million naira or less per annum and total fixed assets not exceeding 250 million naira, and excludes a business providing professional services.

The NTA also imposes a 4% development levy on the assessable profits of companies within its scope, but section 59(1) excludes small companies and non-resident companies.

The distinction between an exemption and a 0% rate is relevant to the structure of the legislation, but must not be overstated. A 0% rate means no CIT is payable on profits to which that rate properly applies; it does not mean that the company is outside the tax system or automatically relieved of registration, record-keeping or return-filing obligations. Nor does the rate establish that all other taxes or statutory charges are inapplicable.

Further, the NTA adopts dual criteria approach to its definition of companies, so that small companies can no longer exploit the absence of asset-based thresholds as a tax planning strategy. Companies with moderate-to-high turnover can no longer exploit the profit-based criteria under the previous tax regime to create a domestic tax haven by structuring their operations to declare lower asset values in order to qualify as a “small company” and enjoying favourable tax treatment.



VAT Treatment And The Different Turnover Threshold

The VAT filing exemption is governed by the NTAA and should be analysed separately from the CIT rate under the NTA. Section 22(4) of the NTAA provides that the monthly VAT-return requirement in section 22(1) does not apply to a small business. Section 22(5) allows a small business, by written notice to the Service, to opt out of the exemption, including in relation to registration, charging VAT on taxable supplies and filing returns.

This implies that small businesses are exempted from charging VAT unless they choose to opt out of the exemption entirely. Consequently, small businesses are not liable to pay VAT unless they choose to.

For this purpose, section 147 of the NTAA defines a “small business” by reference to annual gross turnover of 100 million naira or less and total fixed assets below 250 million naira, and excludes a business providing professional services. This differs from the NTA’s 50 million naira turnover threshold for a “small company” for CIT purposes. Accordingly, a business may fall within the VAT definition but not qualify for the 0% CIT rate; eligibility must be assessed separately under each Act.



Tax Returns

The NTAA preserves annual tax-return obligations for companies, including companies that are not liable to pay tax for the relevant year. Section 11(1) requires a company to file a self-assessment return with the Service at least once a year, whether or not it is liable to tax, subject to the terms of the Act and any applicable provisions. The return requirements may include financial statements, tax and capital-allowance computations, evidence of payment where tax is due, effective-tax-rate computations where applicable, and an attestation by a principal officer.

The exact documents required should be checked against the relevant statutory provisions and any applicable administrative guidance for the particular company.

A company should not assume that a 0% CIT rate or an exemption from monthly VAT returns removes its other tax registration, accounting, record-keeping or filing duties. Additional rules may apply to companies operating in specially regulated sectors or carrying on specified activities.



Professional Services Businesses

The exclusion of businesses providing professional services is a significant qualification to the small-company and small-business reliefs discussed above. The NTA defines "professional services" and excludes a business providing those services from its definition of a small company; the NTAA similarly excludes such a business from the definition of a small business.[3]

However, it is notable that the Acts do not supply an exhaustive statutory definition of what constitutes a professional service, leaving some ambiguity, particularly for emerging or hybrid knowledge–based industries

Several policy justifications underpin this categorical exclusion. First, professional service industries are typically high margin and knowledge driven, meaning that profitability does not always correlate with capital investment in the same way as trading or manufacturing businesses. Second, lawmakers sought to prevent professionals from artificially structuring or fragmenting their practices into multiple small entities to stay below turnover thresholds and thereby unfairly access tax exemptions intended for genuinely small enterprises. Third, government policy assumes that knowledge-based professions possess a higher inherent income generating capacity and therefore have less need for small business tax relief measures.[4]

It is argued that excluding professional service providers from small-business tax incentives is overly restrictive, as it denies relief to legitimately low-earning or early-stage practitioners whose operational realities and growth constraints can mirror those of other small enterprises. However, this remains the law until challenged before a court of competent jurisdiction.

[3] Section 147 of the NTAA.

[4] The Categorical Exclusion of Professional Service Providers from "Small Company" Status Under Section 202 of the Nigeria Tax Act, 2025 - Law Articles



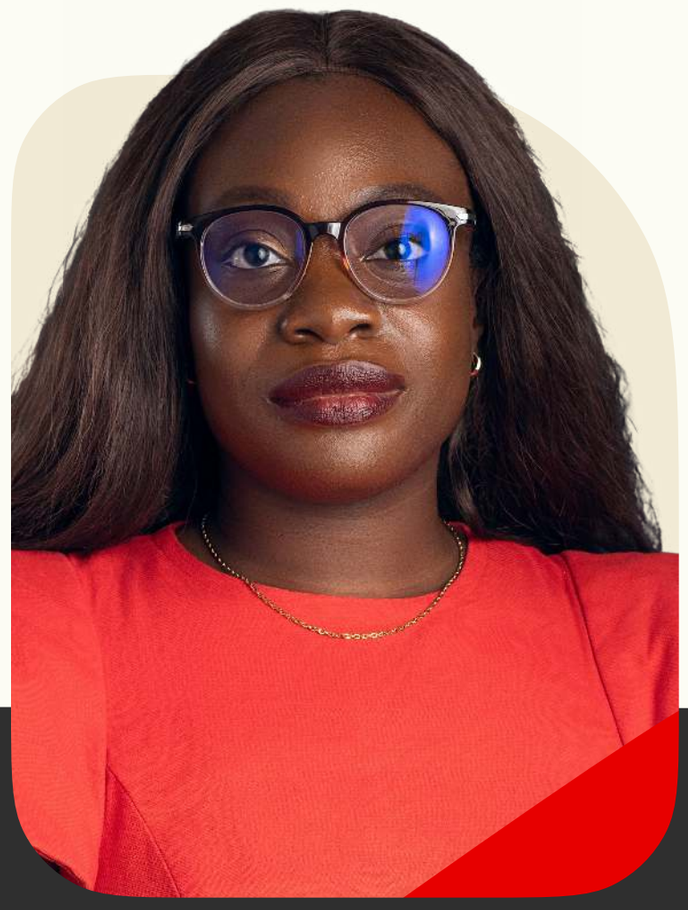
Conclusion

The 2025 Tax Acts changed the way small-company reliefs operate in Nigeria, although the effect is not uniform across all taxes.

For CIT, the NTA provides a 0% rate for a qualifying small company, subject to the ₦50 million turnover threshold, the fixed-asset criterion and the professional-services exclusion. For VAT administration, the NTAA applies a separate small-business definition with a ₦100 million turnover threshold and its own conditions. Companies must therefore continue to assess their annual filing and other compliance obligations under the Tax Acts.

The practical point for businesses is to assess eligibility separately under each relevant provision and maintain appropriate records to support the position taken. The new framework offers relief to qualifying businesses, but that relief should not be treated as a blanket exemption from Nigeria's tax laws.

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