Profile——The Federal Republic of Nigeria (Nigeria for short)

I. Jurisdiction Background

The Federal Republic of Nigeria (Nigeria for short) is a country located in West Africa with a total area of 923,768 square kilometers. It is situated between the Sahel to the north and the Gulf of Guinea to the south in the Atlantic Ocean. It is a federal constitutional republic comprised of 36 states and its Federal Capital Territory (Abuja), each with its own government and legislative assembly. As the sixth most populous country in the world, Nigeria's population stands at approximately 227 million people. Its currency is the Nigerian naira (NGN).

Nigeria is Africa's largest economy, with a Gross Domestic Product (GDP) of approximately $374.95 billion and GDP per capita of $1,690 in 2023. As Africa's largest oil producer and the sixth-largest exporter of oil in the world, Nigeria’s economy is driven primarily by the oil and gas sector. The proven oil reserves are 37.2 billion barrels, ranking second in Africa and eleventh in the world. The proven natural gas reserves are 5.3 trillion cubic meters, ranking first in Africa and eighth in the world. In addition to oil and gas, Nigeria has vast mineral resources, including coal, bauxite, gold, and iron ore.

In 2023, the Nigerian government achieved a tax revenue of 12.3 trillion naira. Among them, the Petroleum Profit Tax/Hydrocarbon Tax sector contributed 2.7 trillion naira, accounting for 22% of the total revenue; while the Non-Oil sector contributed 9.6 trillion naira, accounting for 78% of the total revenue. The tax revenue in 2022 was 10.2 trillion naira, showing a growth rate in tax revenue of 20.6% in 2023.

Nigeria operates a presidential republic system, where the president is both the head of state and the head of government. The political system in Nigeria is designed to ensure a balance of power among the legislative, executive, and judicial branches, with each branch having its own sphere of authority and responsibilities. The current ruling political party is the All Progressives Congress (APC), while the main opposition party is the Peoples Democratic Party (PDP).

English is the official language of Nigeria. However, Nigeria is a multinational state inhabited by more than 250 ethnic groups speaking over 500 distinct languages, all identifying with a wide variety of cultures. Its culture is deeply rooted in its ancient kingdoms, such as the Yoruba kingdoms of Ife, Oyo, and Benin, and the Hausa kingdoms. Nigeria is home to some of the world's largest Muslim and Christian populations. Approximately 50% of the population practices Islam, 40% Christianity, and the remaining 10% follow traditional religions or other faiths.

Foreign investment in Nigeria primarily focuses on the oil, banking, manufacturing, and construction sectors. The major sources of foreign investment are the United States, France, and the United Kingdom. In Africa, Nigeria is China's largest engineering contracting market, second largest export market, third largest trading partner, and a major investment destination. In 2023, the bilateral trade volume between China and Nigeria reached $22.56 billion.

II. Organizational Structure

In Nigeria, the federal government has mandated the Federal Inland Revenue Service (FIRS) to be responsible for administering taxes, which includes assessing, collecting, and accounting for all revenues accruing to the Nigerian Federation, as well as enforcing relevant tax laws. The FIRS is committed to fair tax administration through responsive and accessible service in order to optimise revenue for national development. Tax administration necessitates collaboration among various components of the government to achieve its objectives, and as such, the organizational structure of the FIRS consists of:

◆ Executive Chairman

◆ Nine members with relevant qualifications and expertise appointed by the President to represent each of the 9 geo-political zones

◆ A representative of the Attorney-General of the Federation

◆ The Governor of the Central Bank of Nigeria or his representative

◆ A representative of the Minister of Finance not below the rank of a Director

◆ The Chairman of the Revenue Mobilization, Allocation and Fiscal Commission

◆ The Group Managing Director of the Nigerian National Petroleum Corporation

◆ The Comptroller-General of the Nigeria Customs Service or his representative not below the rank of Deputy Comptroller-General;

◆ The Registrar-General of the Corporate Affairs Commission or his representative

◆ The Chief Executive Officer of the National Planning Commission or his representative

For the realization of its core functions, the FIRS provides the following services through its various units:

◆ Assesses taxes to be paid on or after due date of filling statutory returns

◆ Collection of taxes assessed, two months from the date of assessment

◆ Account for taxes collected monthly

◆ Reconcile tax proceeds to Government Accounts (Federation, Consolidated and VAT Accounts) as the case may be on monthly basis

◆ Educate and render improved services to taxpayers regularly

As an administrative entity, the FIRS has the capacity to engage in litigation activities in its own name, hold or dispose of any property (including real estate and movable property), and delegate other administrative entities to perform tax-related acts. Additionally, it is responsible for overseeing all tax-related matters within Nigeria.

Nigeria operates under a federal system with three levels of government: federal, state, and local. Correspondingly, the tax administration in Nigeria is also structured into three tiers: federal, state, and local, with each level responsible for collecting different types of taxes. The FIRS is responsible for collecting federal taxes, while the State Board of Inland Revenue in each state is responsible for collecting state taxes, and the local government Revenue Committee is responsible for collecting local taxes.

The tax authorities at each level of government make up the Joint Tax Board, which is responsible for harmonizing tax policies and promoting collaboration among tax authorities.

III. Current Tax System

There have been great changes in tax types in Nigeria and the main prevailing taxes in Nigeria can be divided into two categories according to their nature.

Direct taxes: including Companies Income Tax, Petroleum Profits Tax, Hydrocarbon Tax, Personal Income Tax, Capital Gains Tax, and relevant taxes such as Tertiary Tax and Withholding Tax.

Indirect taxes: including VAT, Excise and Stamp Duties.

IV.Overview of tax preference policies

Concurrently, to encourage investment and foster development, a series of tax incentives have been introduced.

General tax based incentives

1. Personal income tax

◆ Tax credit allowable against tax payable on income derived from outside Nigeria

◆ Consolidated relief allowance

◆ Returns not to be filed where income is N30,000 or less

◆ Income exempted

◆ Exemption of interest on loan granted by banks to a person engaged in:

(a) agricultural trade or business; and

(b) the fabrication of any local plant and machinery.

◆ Exemption of dividend from tax

2. Capital gains tax

◆ Exemption on retirement benefits schemes

◆ Exemption of gains accruing on securities, stocks, shares

◆ Tax exemption on gain arising from take-overs, absorption or merger

◆ Tax exemption on proceeds re-invested

◆ Double taxation relief

3. Companies income tax

◆ Pioneer status incentive

(a) Exemption from income tax for three years,

(b) Tax-free dividends during the holiday period,

(c) Expenditure during the tax relief period can be claimed as capital allowances, and losses in the relief period may be set off against profits.

◆ Interest on bonds and short-term securities, and proceeds of the disposal of Government and corporate securities

◆ Exemption of interest on loan

◆ Exemption of profits

◆ Deduction for research and development

◆ Reconstruction investment allowance

◆ Rural investment allowance

◆ Gas utilization: Investment allowance, accelerated capital allowance, tax-free dividend, interest deduction

◆ Investment tax relief for expenditure on electricity, water, tarred road or telephone for the purpose of a trade or business

◆ 20% income tax rate for companies with turnover less than ₦1 million

4. Value added tax

◆ Exemption from value added tax

◆ Exemption of commissions on stock exchange transactions

Sector specific incentives

1. Agriculture/ Argo-allied

◆ Enhanced capital allowance (tax depreciation) regime

◆ Agricultural credit guarantee scheme fund: loan guarantee of up to 75%

◆ Exemption from minimum Corporate Income Tax

◆ Indefinite carry forward of losses

2. Solid minerals

◆ Exemption from Companies Income Tax

◆ 95% accelerated capital allowance

3. MANUFACTURING

◆ Interest drawback program fund for cassava processing

4. Tourism/ Hospitality

◆ 25% of income in convertible currencies exempted from tax

5. Oil & gas

◆ Graduated royalty rates approved for oil companies

◆ Investment tax credit allowance

◆ Allowable deductions

Tariff based incentives

◆ Agriculture: Agriculture, agro-allied and agro-processing

◆ Agriculture: Agricultural commodities

◆ Transportation: Aviation

◆ Power: Electricity generation, distribution and transmission

◆ Solid Minerals: Mineral mining

◆ Manufacturing: Sugar processing

◆ Manufacturing: Iron & steel

◆ Manufacturing: Automotive design and development

Export incentives

◆ Export expansion grant scheme

◆ Export Credit Certificate

Special economic zones

1. Export processing zone incentives

◆ Export processing zone incentives

◆ 100% capital allowance

◆ Unlimited sale of product within the customs territory

2. Oil & gas free zone incentives

◆ Oil & gas export free zone incentives

◆ 100% capital allowance

◆ Unlimited export into the customs territory

◆ 75% duty rebate

V. Tax Collection and Administration

Taxation in Nigeria is administered by agencies of the three major tiers of government:

◆ The FIRS administers revenue laws that deal with taxes paid by corporate bodies (limited liability companies), both domestic and foreign entities, including Companies Income Tax, Petroleum Profits Tax, Value Added Tax, Withholding Tax, Tertiary Education Tax, Capital Gains Tax, Stamp Duties, as well as Personal Income Tax for non-residents, members of Armed Forces, police and officers of Nigerian Foreign Service.

◆ The Federal Capital Territory Internal Revenue Service and the revenue authorities of the 36 states in Nigeria primarily administer the Personal Income Tax Act and other levies collectable by each state.

◆ The Local Government Revenue Committee is responsible for the assessment and collection of various levies, fines, and rates under its jurisdiction and accounts for all revenue collected to the chairperson of the local government.

In recent years, the Nigerian tax system has undergone several reforms. The recent reforms include the introduction of TIN, (unique Taxpayer Identification Number which became effective since February 2008), automated tax system that facilities tracking of tax positions and issues by individual taxpayers, e-payment system which enhances smooth payment procedure and reduces the incidence of tax touts, enforcement scheme (Special Purpose Tax officers) to ensure strict compliance in payment of taxes. TaxPro Max, a digital platform deployed fully in 2021, is the latest automated tax administration solution from the FIRS. It gives taxpayers the ability to file tax returns (Value Added Tax, Tertiary Education Tax and Companies' Income Tax) electronically, pay the applicable taxes electronically/online, enjoy instant credit of Withholding Tax as well as other credits to the taxpayer's accounts, ascertain capital allowance carried forward and obtain tax clearance certificates, among other features.

In 2017, a revised National Tax Policy (NTP) was approved by the Federal Executive Council. Some of the pivotal provisions of the NTP include a gradual shift towards indirect taxation, a deliberate desire to move up in the ease of paying taxes rankings, widening of the tax base, and deployment of technology, intelligence and inter-agency collaboration.

Since 2019, the federal government of Nigeria has enacted four finance acts, which introduced a series of amendments to existing tax legislations. Some of the changes included a gradual shift from direct to indirect tax and a higher value-added tax rate, from 5% to 7.5%. The Finance Act 2020 granted the FIRS powers to deploy technology to automate the tax administration process, including assessment, collection and information gathering. The Finance Act 2021 further empowered FIRS to use third-party technology to automate tax administration.

In 2023, President Bola Ahmed Tinubu set up a Presidential Committee on Fiscal Policy and Tax Reforms to review and redesign Nigeria's fiscal system. The reforms are designed to transform the tax system to support sustainable development and achieve a minimum of 18% tax-to-GDP ratio by 2026. Approximately 96% of total revenue collected by the government comes from fewer than 10 taxes, and the committee is proposing the streamlining of over 60 officially collectable taxes and levies in Nigeria to a manageable single-digit number.

VI. Taxpayer Services

Taxpayer Registration: The new National TIN Registration System assigns unique and nationally universal taxpayer identification number (TIN) to all taxpayers on the books of identity management agencies, freeing the taxpayer of the need to visit tax authorities offices for registration and removing the need to be registered more than once. The National TIN Registration System obtains data from various sources and generates TIN for taxpayers automatically. Taxpayers who have been registered before will still retain their TIN and do not need to register again. Taxpayers can access the National TIN Registration System by using TIN Mobile application or the web via *https://tin.jtb.gov.ng*.

Electronic Tax Services: The FIRS has developed and deployed 6 e-solutions, ensuring that key tax processes are automated to improve transparency and the ease and speed of tax administration for both taxpayers and tax administrators. The e-services, which apply to both companies and individuals, include e-Registration, e-Stamp Duty, e-TaxPayment, e-Receipt, e-Filing and e-TCC (electronic tax clearance certificates). TaxPro Max System is the latest one-stop online platform that facilitates various tax-related activities, including registration, filing, assessment, payment, and the issuance of tax clearance certificates. Taxpayers are also allowed to file at the FIRS offices nearest to them. There are 190 nationwide offices, 15 state coordination offices, 10 VAT coordination offices, and 36 government business tax offices.

The State Internal Revenue Services (SIRS) are not left out as several SIRS are beginning to adopt the e-Tax platform to ease the process for filing annual employers tax returns (Form H1) and payment of state taxes and levies such as business development levy and business premises etc.

Merchant Buyer Solution (MBS/eInvoice): The FIRS Merchant Buyer Solution (eInvoice) is a government initiative that shall be used by all Value Added Tax (VAT) registered taxpayers' businesses to manage the issuance of e-invoices. This eInvoice includes all essential transaction details like supplier and buyer information, item descriptions, quantities, prices, tax, and total amounts. It offers numerous advantages, including streamlined processes, enhanced compliance, and improved efficiency. By automating invoicing tasks, businesses can reduce errors, save time and costs, and ensure accurate tax reporting. Additionally, the MBS system provides real-time invoice tracking and supports seamless interoperability among different business ERPs and accounting system.

Tax Services for Large Business: The FIRS restructured its operational units in 2016. The service was divided into four departments: the Large Taxpayers Office (LTO), the Medium Taxpayers Office (MTO), the Small Taxpayers Office (STO), and the Digital Support Services Department (DSSD). The objective of this restructuring was to improve tax compliance, increase revenue generation, and enhance the efficiency of the tax system. The FIRS plans to provide customized services that address the unique needs of large taxpayers and key sector contributors.

VII. Tax Legislation Process

The Nigerian tax system started early, with the introduction of tax laws in the 1990s for important taxes such as companies income tax, personal income tax, value-added tax and capital gains tax. Since the beginning of the 21st century, Nigeria has embarked on tax reforms that amended the companies income tax law and the value-added tax law in 2007 and amended the personal income tax law in 2011. Up to now, according to the

FIRS official website, there are 19 existing tax laws in Nigeria, including the Companies Income Tax Act, the Value Added Tax Act and the Personal Income Tax Act and so on.

In recent years, Nigeria has further accelerated the pace of tax reform, and in four of the five years from 2019 to 2023, Nigeria has enacted fiscal acts covering the introduction of amendments to tax laws and regulatory legislation. Through the introduction of a series of fiscal acts, Nigeria has vigorously pushed forward tax reforms, so that tax legislation has also been continuously improved.

In Nigeria's recently enacted Finance Act 2023, amendments that include increasing tax rates or removing exemptions have been proposed to a total of 11 tax laws, covering the Capital Gains Act, the Companies Income Tax Act, the Personal Income Tax Act, and the Value Added Tax Act. The 2023 Finance Act builds on the three-year Finance Acts of 2019, 2020 and 2021, making further adjustments and improvements, as well as complementing the tax legislation process.

Zacch Adedeji, the Executive Chairman of the FIRS, stated that many of the existing tax laws of Nigeria are outdated, and there is a lack of corresponding legislation for some emerging businesses such as digital tax. Currently, the FIRS is in the process of overhauling all the existing tax laws and has initiated a Tax Law Redrafting Project in this regard.

Nigerian Minister of Finance and Coordinating Minister of Economy signed into law the deduction of tax at source (withholding) regulations 2024 in June, with a commencement date of 1 July 2024, releasing a signal that Nigerian government is working on introducing legislation to promote reforms and improve tax system. It is foreseeable that Nigeria will continue to introduce relevant tax regulations or acts to drive tax reforms forward in the coming future.

VIII. Future Tax Reform Plan

Nigeria is currently in a critical period of accelerating tax reforms, which include the tax system, tax services and the business environment. In order to better promote the reforms, the Nigerian government has established the Presidential Committee on Fiscal Policy and Tax Reforms (the Committee), who will introduce finance acts and provide reform proposals. In 2024, the Committee will focus on the following aspects:

◆ **Streamlining tax types**: The Committee has recommended that the current over 60 officially imposed taxes and levies should be reduced to manageable single digits to reduce the tax burden on the taxpayers. It means that after the reforms, Nigeria will have a maximum of nine taxes. The streamlining of tax types will also greatly boost the business environment in Nigeria, where there are more than 200 separate unofficial taxes, which have long been a burden for many Nigerian corporations, according to Taiwo Oyedele, chairman of the Committee.

◆ **Enhancing tax services**: The Committee plans to work on two fronts to reach their objectives and improve taxpayers' satisfaction. On the one hand the FIRS will continually develop proactive engagements by establishing regular communications with the taxpaying public, which has worked well in the past. Public participation has increased through deeply engagement with taxpayers and timely delivery of customer service, which has also awakened patriotic fervor among Nigerian taxpayers. On the other hand the FIRS will provide customized services that address the unique needs of large taxpayers and key sector contributors. The FIRS will continue to simplify the system, by what is called the National Single Window. It will revolutionize the tax office operations into streamlined one stop-shops, which will reduce the cost of administration for the Service as well as the cost of compliance for its customers. Tax payers no longer need to visit different tax offices before they pay their taxes, adding that all that taxpayers needed to do was to walk into any of the FIRS offices and conduct all their tax affairs there.

◆ **Providing tax relief**: Oyedele has revealed that the federal government will provide tax relief to 95% for small businesses that form the informal sector. All businesses earning ₦25 million or less annually will be exempted from various taxes hindering their progress over time. It demonstrates the direction of Nigeria's tax reform, which is to protect the low-income groups, raise the threshold for poor people and small businesses, and reduce the burden on taxpayers.

According to Oyedele, some of proposals will come into effect by the end of the year. Meanwhile, the Committee is also drafting other key legislation to make the necessary changes to the country's fiscal policy and tax reform ecosystem, but it may not be until 2025, or perhaps 2026, that the proposals for the amendment of laws and Constitution changes will be enacted.

IX. International Tax Cooperation

Nigeria has been actively engaged in international tax cooperation and has driven the signing of relevant policies and agreements. The country's extensive tax treaty network, coupled with its active participation in international tax rule-making initiatives, underscores its commitment to promoting fair and efficient taxation in the global economy. By collaborating with other nations and adhering to international standards, Nigeria is strengthening its tax system and fostering a more conducive environment for cross-border trade and investment.

Expansion of the tax treaty network

Nigeria has currently signed 15 Avoidance of Double Taxation Agreements with China, the United Kingdom, Canada, Belgium, France, South Africa, Netherlands, Philippines, Pakistan, Romania, Singapore and other countries. The Governments of China and Nigeria signed the "Agreement between the Government of the People's Republic of China and the Government of the Federal Republic of Nigeria for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income" ("the Agreement" for short) on April 15, 2002. After completing the necessary legal procedures for its entry into force, the Agreement became effective on March 21, 2009, and its implementation commenced on January 1, 2010.

Nigeria has actively engaged in multilateral tax cooperation initiatives to strengthen its tax system and align with international best practices. Recently, Nigeria signed a new tax treaty with the Economic Community of West African States (ECOWAS) member countries to eliminate double taxation on income, capital, and inheritance. Effective from January 1, 2024, the treaty applies to various taxes like Personal Income Tax, Companies Income Tax, and Petroleum Profits Tax, Capital Gains Tax, Tertiary Education Tax, and National Information Technology Development Levy. The agreement consists of 7 chapters and 45 articles, mainly stipulating the criteria for determining permanent establishments, withholding tax rules, non-discrimination principles, and other contents.

Participation in international tax cooperation organizations and forums

Nigeria also actively participates in the formulation and discussion of international tax standards, contributing its own efforts to global tax governance. On 17 August 2017, the Chairman of Nigeria's Federal Inland Revenue Service (FIRS) signed the OECD multilateral instrument (MLI) and the Common Reporting Standard Multilateral Competent Authority Agreement (CRS MCAA). Nigeria is the 71st jurisdiction to sign the MLI and the 94th to join the CRS MCAA. Nigeria has participated in the Base Erosion and Profit Shifting (BEPS) Project launched by the OECD in 2013, but has not endorsed both Pillar One and Pillar Two and did not sign the the October 2021 Statement.

On behalf of the African Group, Nigeria submitted a draft resolution titled "Promotion of inclusive and effective international tax cooperation at the United Nations" (document A/C.2/78/L.18/Rev.1). The Economic and Financial Committee (Second Committee) of the General Assembly approved it by a recorded vote of 125 in favour to 48 against, with 9 abstentions. This resolution aims to bolster global tax cooperation, particularly focusing on curbing tax evasion, profit shifting, and illicit financial flows.