Opportunities for Small and Mid-Sized Companies

Exemptions, Reliefs, and Growth Incentives under Nigeria 2025 Tax Reforms

Tax Insight

July 2026

Overview of the 2026 Tax Reform Objectives & Policy Direction

On June 26 2025, President Bola Ahmed Tinubu signed four tax bills into law.[1] The reforms are designed to simplify compliance, reduce the tax burden on individuals and small businesses, harmonise revenue administration, and improve Nigeria's tax-to-GDP ratio.[2] This article highlights the opportunities created by the new tax laws for small and medium-sized enterprises (SMEs). It first explores the statutory classification of small and medium-sized companies and the incentives available to each category and subsequently provides practical guidance on how businesses can access these incentives while avoiding common compliance pitfalls.

At a Glance· Four Pillars of the 2026 Reform

01
Simplified Compliance
Streamlined filings and unified rules across taxes.

02
Lower Burden on SMEs
Direct relief for individuals and small businesses.

03
Harmonised Administration
Single, coherent revenue architecture nationwide.

04
Higher Tax-to-GDP
Broader base, better structure, sustainable revenue.

Small and Mid-Sized Companies

For tax purposes, the Nigeria Tax Act (NTA) 2025 classifies companies into two categories: "small companies" and "any other company." Under Section 202 of the NTA, a small company is defined as one which earns an annual gross turnover not exceeding ₦50 million and holds total fixed assets not exceeding ₦250 million. Professional service providers, including lawyers, accountants, and consultants, are excluded from the small company classification regardless of turnover. The NTA does not create a separate statutory classification for mid-sized companies. For the purposes of this article, a mid-sized company refers to a company that does not qualify as a small company under section 202 and is consequently treated as 'any other company' under section 56(b) of the NTA.

Section 202 Thresholds· Small-company qualification

ANNUAL GROSS TURNOVER
≤ ₦50m
Raised from ₦25 million under the 2026 reforms.

TOTAL FIXED ASSETS
≤ ₦250m
Professional service providers are excluded regardless of turnover.

Exemptions, Reliefs & Growth Incentives for Small Companies

The reforms provide small companies with a combination of direct tax exemptions, compliance reliefs, and threshold-based benefits that reduce tax exposure and ease administrative obligations.

Exemption from Companies Income Tax (CIT), Chargeable Gains and Development Levy Exemption: By section 27(1) and 56(a) of the NTA, the total profits of a small company, including any capital gains now referred to as chargeable gains, are taxable at 0%.[3] [4]

Expanded Small Company Threshold: The 2026 reforms have significantly expanded the number of businesses that qualify for these benefits by increasing the annual turnover threshold from ₦25 million[5] to ₦50 million[6].

Value Added Tax (VAT) Compliance Relief: Small businesses also benefit from VAT compliance relief. Under the NTAA, small businesses are exempt from VAT registration, charging VAT, and filing of VAT returns unless they elect otherwise.[7] This reduces the compliance burden associated with monthly VAT filings and may enable small businesses to offer more competitive pricing to consumers, who ultimately bear the cost of VAT. However, businesses that are not registered within the VAT system may be unable to recover the input VAT incurred on their purchases and operating expenses.

VAT Election Trade-Off· Understand what you gain and what you give up

NO VAT REGISTRATION

The Upside

No monthly VAT filings. Lower administrative overhead. Room to price more competitively for end-consumers who bear VAT.

NO INPUT VAT RECOVERY

The Trade-Off

Businesses outside the VAT system cannot recover input VAT on purchases and operating expenses. Elect to register when input VAT is material.

Reliefs & Incentives Available to Mid-Sized Companies

The NTA does not create a separate classification for mid-sized companies and so a company exceeding the small company threshold will pay CIT at 30%. The reforms do however provide new and retained reliefs in this residual category, several of which benefit mid-sized businesses disproportionately.

Simplified Deductibility Standard: The most significant structural change in the NTA is the standard that determines if an item can be deducted for tax purposes. Previously, an item must pass the "wholly, exclusively, necessarily and reasonably" (WREN) test to be considered deductible for tax purposes.[8] This is now replaced by "wholly and exclusively" test under the NTA to determine tax deductibility.[9]

Excluding the 'necessarily' and 'reasonably' limbs limit the scope of the tax authority's discretion, upon which genuine business expenses may have been disallowed. For mid-sized companies with complex cost structures and multiple revenue lines, this minimises audit risk and protects deductions previously vulnerable to challenge by tax authorities.

Expanded Input VAT Recovery: Section 156(5) of the NTA now permits registered businesses to deduct input VAT on taxable supplies, including services and fixed assets, where the input VAT is incurred for the purpose of making taxable supplies.[10] This is particularly useful for mid-sized companies, which typically scale through investments in machinery, buildings, equipment, and professional services such as audit, legal, and consulting.[11] The benefit is even stronger where the company produces or supplies zero-rated goods in sectors such as food, agriculture, education, and healthcare. In that case, the company charges 0% VAT on the qualifying supply but may still recover input VAT incurred on relevant production and operating costs.

Economic Development Tax Incentive: Under sections 166 to 184 of the NTA,[12] the Economic Development Tax Incentive (EDTI) replaces the old pioneer status regime under the now-repealed Industrial Development (Income Tax Relief) Act.[13] The EDTI works as a tax credit through which the tax that would ordinarily have been payable on profits from the approved priority product is converted into a credit.

To qualify, a company must operate in a priority sector listed in the Tenth Schedule of the NTA, which includes manufacturing, agriculture, solid minerals, and infrastructure, and must spend the minimum prescribed amount on qualifying capital assets such as machinery or production facilities and begin actual production.[14] The company can use the credit to reduce its companies income tax liability during the five-year incentive period. If the company does not use the full credit within that period, the unused balance may be carried forward for another five years, after which it expires.[15]

Mid-sized companies are well placed to benefit because they are often large enough to meet the required expenditure thresholds, while still small enough for the incentive to make a meaningful difference to their bottom line.

Restructured Capital Allowances: The investment case is reinforced by restructured capital allowances under the NTA.[16] Variable initial and annual rates have been replaced with uniform annual rates of 10%, 20%, or 25% depending on asset category. Previously, the cost of long-term assets was deducted through a larger initial allowance and smaller annual allowances at varying rates. The NTA now applies a single annual rate to each asset category until the cost is fully written down, providing greater predictability for mid-sized companies planning capital expenditure alongside the EDTI.

ANNUAL RATE · TIER I	ANNUAL RATE · TIER II	ANNUAL RATE · TIER III
10%	**20%**	**25%**

Sector-Specific Reliefs for Agriculture and Manufacturing: By section 163[17] of the NTA, income generated by companies engaged in agricultural businesses, including crop production, livestock, aquaculture, forestry and dairy, is exempt from income tax for the first five years from the commencement of business. This delivers a five-year tax-free window to build scale before CIT applies.

Workforce and Innovation Cost Reliefs: Section 50 of the NTA raises the tax-exempt threshold on loss of office compensation from ₦10 million to ₦50 million[18], reducing the cost of redundancy or restructuring at a scale where mid-sized companies often need flexibility. Section 165 of the NTA allows companies to deduct research and development expenses, subject to a cap of 5% of turnover for the year, replacing the prior cap of 10% of assessable profit.[19] This benefits companies with high sales but modest profits, as the deduction is measured against revenue rather than profit.

Collectively, these reliefs and incentives widen what mid-sized companies can deduct, recover, and offset, freeing up capital to reinvest in growth, build operational capacity, to enable them compete on stronger financial footing.

SECTION 50 · LOSS OF OFFICE

Exempt Threshold Raised

₦10m → ₦50m

Cheaper redundancy and restructuring at mid-market scale.

SECTION 165 · R&D DEDUCTION

Cap Reset to Revenue

BEFORE	NOW
10% of assessable profit	**5%** of **annual turnover**

Accessing the Incentives & Avoiding Common Pitfalls

The first step to accessing this is by registration. Per the NTAA, every taxable business must hold a valid TIN.[20] By section 8(2) of the NTAA, banks are now required to verify TIN status for business accounts. Consequently, without a valid TIN, a business cannot claim withholding tax exemptions, process VAT credits, or access refunds.

There is the need for VAT-registered businesses to constantly monitor refund timelines. Under the NTAA, VAT refunds are to be processed within the prescribed statutory period, and excess input VAT claims must be made within the applicable timeframe.[21] Businesses that fail to document and claim refunds promptly may lose the cash-flow advantage intended by the reform.

Beyond registration, there is the need to confirm the annual turnover and fixed asset levels against the threshold provided under section 202 of the NTA. Where the turnover sits close to the line, it is important to monitor it across the year. Crossing the threshold carries direct tax consequences.

The most common pitfall is poor documentation or inadequate record keeping. Every exemption, deduction, and relief claim must be supported by records. A second risk is misclassification. Applying the wrong tax category or claiming a relief intended for a different business size or sector exposes your company to reassessment and penalties.

Compliance Playbook· Four gates to unlock the reliefs

TIN

STEP 01

Register & Verify TIN

Banks now verify TIN status for business accounts.

STEP 02

Track Refund Windows

File input VAT claims within the statutory period.

STEP 03

Monitor Thresholds

Watch turnover & fixed-asset lines across the year.

STEP 04

Document Everything

Every claim must be supported by records.

Conclusion and Key Takeaways

The 2026 tax reforms create real opportunities for small and mid-sized companies, but those opportunities are not automatic. Businesses must first know where they fall under the new thresholds, after which they can match their activities, expenses, and transactions to the reliefs available under the new regime.

The key takeaway is simple: classification, documentation, and timely compliance will determine who benefits. Companies should verify their TIN status, keep proper records, review their VAT and withholding tax position, and obtain professional guidance before claiming any exemption, relief, or incentive.

> *The opportunities are real — but not automatic. Classification, documentation and timely compliance will determine who benefits.*

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Endnotes

1. The Nigeria Tax Act 2025 (NTA), the Nigeria Tax Administration Act 2025 (NTAA), the Nigeria Revenue Service (Establishment) Act 2025, and the Joint Revenue Board (Establishment) Act 2025 (collectively, "the new tax laws").
2. Presidential Committee on Fiscal Policy and Tax Reforms, "Tax Reform Bills – 10 Most Frequently Asked Questions" (Presidential Committee on Fiscal Policy and Tax Reforms, November 2024) https://fiscalreforms.ng accessed May 10, 2026
3. Nigeria Tax Act 2025, s 56(a), s. 27(1)
4. Nigeria Tax Act 2025, s 59(1); This is a new 4% consolidated charge that replaces four previously separate obligations: the Tertiary Education Tax, the National Information Technology Development (NITDA) Levy, the NASENI Levy, and the Nigeria Police Trust Fund Levy.
5. Finance Act 2019, s 22.
6. Nigeria Tax Act 2025, s 202
7. Nigeria Tax Administration Act 2025, s 22.
8. Company Income Tax Act (CITA) Cap. C21, LFN, 2004 as amended, s. 24
9. Nigeria Tax` Act 2025, s 20(1).
10. Nigeria Tax Act 2025, s. 156(5).
11. Nigeria Tax Act 2025, s. 156(4)– (5) and 187, Thirteenth Schedule.
12. Nigeria Tax Act 2025, s 166 to 184
13. Industrial Development (Income Tax Relief) Act, Cap I7, Laws of the Federation of Nigeria 2004 (repealed by the Nigeria Tax Act 2025, s 196(e).
14. Nigeria Tax Act 2025, s.166(2) read with the Tenth Schedule. The Schedule prescribes activity-specific capital expenditure thresholds rather than a single uniform amount; the minimum threshold identifiable for manufacturing entries is ₦500 million, while the listed agriculture/aquaculture-related entries also begin from ₦500 million.
15. Nigeria Tax Act 2025, s 177(3).
16. Nigeria Tax Act 2025, First Schedule.
17. Nigeria Tax Act 2025, s. 162(1)(p)
18. Nigeria Tax Act 2025, s 50(1)–(2).
19. Nigeria Tax Act 2025, s. 165(1,2)
20. Nigeria Tax Administration Act 2025, s 6(1).
21. Nigeria Tax Administration Act 2025, s 56.

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