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TAX TUESDAY: HOW DOES THE NEW TAX ACT AFFECT SMEs?



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According to the National Bureau of Statistics, Small and Medium-sized Enterprises (SME's) account for about 48% of Nigeria's Gross Domestic Product (GDP), making them a vital part of the economy.

Although the new tax legislation is intended to increase government revenue, strengthen tax compliance, and encourage investment, it also carries significant implications, particularly for SMEs, which generate more than 80% of jobs and contribute almost half of Nigeria's GDP

Today's edition of Tax Tuesday examines the key provisions of the Act and considers what they mean in practice for small and growing businesses. Here are some key highlights that SMEs need to know:





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1. Zero Tax for Small Companies (Section 56 of the NTA 2025):

Small companies are taxed at a rate of 0% on their total profits. Practically, this means that if your business earns ₱100 million or less in annual turnover and holds fixed assets not exceeding ₱250 million, you qualify as a small company and will not be subject to Companies Income Tax.

This relief is designed to give small businesses breathing space to reinvest their earnings and scale, rather than being burdened by income tax obligations. Note that this relief does not apply to businesses providing professional services.





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2. Development Fees:

Before now, SMEs had to juggle multiple levies like TET, NITDA, Police Trust Fund, and more. The New Tax Act has consolidated these responsibilities into a single 4% Development Levy on assessable profits.

But here is the good news: small companies do not pay this levy at all (Section 59, NTA 2025). It only applies to bigger companies. This reduces red tape and levels the playing field. This strategic shift provides critical breathing space for MSMEs to reinvest earnings, strengthen operations, and expand without the heavy tax burden that previously stifled growth and innovation. In an economy grappling with inflation and high operating costs, this relief could be a catalyst for accelerated sectoral growth and job creation.





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3. VAT Just Got Smarter:

Section 158 of the Nigeria Tax Act 2025 requires every taxable person making a taxable supply to implement the fiscalisation system deployed by the Service, in line with the Nigeria Tax Administration Act, 2025. Section 23 of the Nigeria Tax Administration Act, 2025, provides that once the Service deploys an Electronic Fiscal System (EFS), every person making taxable supplies must use the EFS to record and report all such transactions.

Taxable persons are also required to maintain accurate records of all transactions processed through the system. The Service will prescribe the fiscalisation model to be adopted, outline transition arrangements, and issue regulations for its implementation. A key example already introduced by the Nigeria Revenue Service is the VAT automation and e-invoicing system.





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4. Capital Gains Tax Relief for investors: Small Deals Exempt, Big Deals Taxed:

Under Section 34 of the Nigeria Tax Act 2025, all forms of property – including shares, options, rights, debts, and even digital or virtual assets – are treated as chargeable assets.

However, there is relief for smaller transactions: where the total disposal of shares in any Nigerian Company is less than ₦150 million within 12 consecutive months and the chargeable gain does not exceed ₦10 million, such disposals are exempt from Capital Gains Tax.

In other words, modest investors enjoy CGT exemption, while larger, high-value transactions are brought squarely into the tax net.





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5. Taxation of Digital and Virtual Assets:

From crypto to NFTs to online royalties, the digital economy is no longer invisible to tax law. Gains from digital or virtual assets are now taxable in Nigeria.

But note: losses from digital assets shall only be deductible in determining the profits from the business relating to digital or virtual assets. (Section 27(6) of the NTA 2025).

This means that if you incur a loss from trading Bitcoin (or other digital/virtual assets), you can only use that loss to offset taxable profits from your digital asset business, not profits from unrelated business activities (e.g., retail, manufacturing, or real estate)





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6. One Unified Tax Code:

Previously, Nigeria's tax system was scattered across multiple laws (CIT, VAT, CGT, Stamp Duties, etc.). Now, everything has been consolidated into ONE Act. Think of it as your "all-in-one subscription" for tax rules, making it simpler, shorter, and easier to follow.

7. Penalties for non-compliance:

Part I of Chapter 4 of the Nigerian Tax Administration Act 2025 provides for penalties for non-compliance with the tax laws. The penalties applicable to defaulters have now been increased. Some notable changes include: an increase in the penalty for failure to file returns to ₦100,000 in the first month, and ₦50,000 for every subsequent month of default.





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7. Penalties for non-compliance (cont):

...the introduction of new penalties such as a ~~£~~5 million fine for awarding contracts to individuals or entities not registered for tax; penalties for failure to grant access for the deployment of technology; and penalties for inducing a tax officer, among others.

The above is not exhaustive. As a Small or Medium Enterprise, be tax responsible – know the law and stay compliant.

To understand how these reforms may affect your business, contact the Punuka Tax Team today.

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