

# Regulatory Framework for the Taxation of Companies in the Manufacturing Sector Under The Nigeria Tax Act 2025

## DECONSTRUCTING THE TAX REFORM ACTS SERIES

OALP Tax Newsletter

### INTRODUCTION

The Nigeria Tax Act, 2025 (NTA) introduces an expansive and comprehensive tax framework for the taxation of manufacturing companies in Nigeria. In recognizing the industry's pivotal role in economic development, job creation, and export expansion, the NTA contains provisions that stimulate growth in Nigeria's manufacturing sector. The NTA's manufacturing-targeted provisions blend general tax rules with sector-specific reliefs which are all aimed at supporting industrial growth in Nigeria.

In the 3rd edition of our "Deconstructing the Tax Reform Acts" series, we provide a structured summary of these key tax provisions, thereby highlighting how manufacturing companies can leverage them for growth and enhanced profitability.

### GENERAL TAX FRAMEWORK FOR MANUFACTURING COMPANIES

Manufacturing companies fall within the purview of general corporate taxation. Accordingly, like all other companies incorporated under the Companies and Allied Matters Act (CAMA) 2020, manufacturing companies that do business in Nigeria and earn profits will be liable to the tax on those profits accruing in or derived from Nigeria.<sup>1</sup>

Under the NTA, however, the definition of a Nigerian company has been expanded beyond mere incorporation. A company will also be deemed a Nigerian company, and thus subject to

tax, if its central place of management or control, or its effective place of management or control, is in Nigeria. As such, manufacturing companies that are either incorporated in Nigeria or effectively managed or controlled from within Nigeria are subject to the general corporate income tax rules.

In line with general principles of corporate taxation, manufacturing companies are also entitled to deduct expenses wholly and exclusively incurred in the production of income. Such deductible expenses typically include the cost of repairs, rent and maintenance of business premises, employee salaries and statutory contributions, and research and development expenses amounting to 5% turnover in the relevant year.<sup>2</sup>

Additionally, under the NTA, manufacturing companies that qualify as small companies are exempt from corporate income tax, being subject to a 0% tax rate.<sup>3</sup> A small company for the purpose of the NTA is defined as a company with:<sup>4</sup>

- a** Less than ₦50 million gross turnover; and
- b** Fixed assets of less than ₦250 million.

### CAPITAL ALLOWANCES

Given the capital-intensive nature of manufacturing operations, companies in this sector often incur substantial capital expenditure. While such expenditure is not deductible in computing taxable profits, it is recoverable through the mechanism of capital allowances under the Nigeria NTA.

1. Section 3 Nigeria Tax Act, 2025  
 2. Section 20 Nigeria Tax Act, 2025  
 3. Section 56 Nigeria Tax Act, 2025  
 4. Section 202 Nigeria Tax Act, 2025

The capital allowance regime under the NTA provides a framework for manufacturers to recoup qualifying capital expenditure (QCE) in the form of capital allowances, provided that the asset is owned and used for business purposes at the end of the relevant basis period.<sup>5</sup> Paragraph 1 of the First Schedule to the NTA defines qualifying capital expenditure in relation to categories such as agriculture, mining, software, motor vehicles, intangible assets, and more. Given the cross-cutting nature of manufacturing, which often involves machinery, industrial buildings, software systems, and logistics infrastructure, manufacturing companies can legitimately claim capital allowances under several of these defined categories, provided the assets are acquired and used wholly for the purpose of the trade or business.

Unlike the current regime which allows for the upfront initial allowance deduction followed by annual allowances on a declining value of the capital asset, in relation to QCE, the NTA provides a framework where capital allowances are claimed at fixed annual rates, based on the original cost of the QCE. These fixed rates apply consistently each year, until the full value is recovered. The rates are applied across three defined categories (classes) of rates as provided below.<sup>6</sup>

**01 Class 1 (10%):** Building Expenditure, Agricultural Expenditure, Mast Expenditure, Intangible Asset Expenditure, Heavy Transportation Expenditure

**02 Class 2 (20%):** Plant Expenditure, Furniture & Fittings Expenditure, Agricultural Equipment Expenditure, Mining Expenditure, Other Equipment Expenditure

**03 Class 3 (25%):** Motor Vehicle Expenditure, Software Expenditure, Other Capital Expenditure.

It is also important to note the following in relation to capital allowances under the NTA:

- Any asset upon which VAT applies and is not paid shall not qualify as a QCE for claim of capital allowance.
- Any imported asset whose import duties are not paid shall not qualify as eligible QCE for the claim of capital allowance.
- In relation to assets used partially in the generation of assessable profits, the relevant capital allowance shall be prorated, and only the portion relating to the assessable profits shall be deductible, except where the income not assessable is less than 10% of the total income of the company.
- The portion of capital allowance attributable to priority

activities of a company that enjoys economic development tax incentives under the NTA shall be deductible only from the assessable profit of the priority business.

- Expenditures allowed for deduction under Section 20 of the NTA (deductible expenses) shall not qualify as QCE.
- Any amount more than the official rate for forex incurred for the acquisition of capital expenses shall not be included in the value of QCE for capital allowance purpose.

### EFFECTIVE MINIMUM TAX RATE UNDER THE NTA

The NTA introduces an effective minimum tax rate of 15%.<sup>7</sup> This provision mandates that where a company's effective tax rate for any year of assessment falls below 15%, that company is required to recompute its tax and pay an additional amount to bring its effective tax rate (ETR) up to 15%.<sup>8</sup>

The ETR is defined as the rate obtained by dividing the aggregate covered taxes paid by the company in a given year by its profit for that year. For this purpose, "profit" is calculated as the net profit before tax, as reported in the company's audited financial statements, less 5% of the company's depreciation and personnel costs for the year.

This minimum tax rule applies to specific categories of companies, namely:

- a a constituent entity of a multinational enterprise (MNE) group<sup>9</sup>; or
- b any other company with an aggregate turnover of N20,000,000,000 and above in the relevant year of assessment.

Accordingly, a manufacturing company that meets either of these criteria must ensure that its ETR, as defined above, is not less than 15%, even where the 30% corporate tax rate applicable to it has been duly applied. If, after applying the tax rate, the company's ETR falls below 15%, the company will be required to pay the shortfall as additional tax.

### DEVELOPMENT LEVY

The NTA now requires all Nigerian companies including manufacturing companies to pay a development levy of 4% of assessable profits. The development levy replaces erstwhile tertiary education tax, NITDA levy, police trust fund levy, NASENI levy, amongst others. This levy does not apply to small companies as defined under the NTA.<sup>10</sup>

6. Paragraph 7, First Schedule Nigeria Tax Act, 2025

7. Paragraph 22, Table 1, First Schedule, Nigeria Tax Act

8. Section 57, Nigeria Tax Act

9. Effective Tax Rate has been defined as the rate produced by dividing the aggregate covered tax paid by a company for a year of assessment by the profits of the company.

10. An "MNE group" is defined as any group that includes two or more enterprises whose tax residence is in different jurisdictions, or an enterprise resident for tax purposes in one jurisdiction that is subject to tax through a permanent establishment in another



## INDUSTRY-SPECIFIC TAX INCENTIVES

Under the NTA, manufacturing companies are eligible to some specific incentives including:

### a) Tax Exemptions for Agricultural linked Manufacturing Companies:

Manufacturing companies engaged in the manufacture of dairy products,<sup>11</sup> cocoa processing<sup>12</sup> and manufacture of animal feeds<sup>13</sup> will enjoy tax exemptions for the first 5 years of business commencement.<sup>14</sup>

### b) Export-Oriented Manufacturing Companies:

Manufacturing companies engaged in export activities will qualify for income tax exemption on profits derived from goods exported from Nigeria if the proceeds of such exports are repatriated through government approved channels.<sup>15</sup>

c) **Gains** from the disposal of assets held by angel investors, venture capitalists, accelerators or incubators, in startup manufacturing companies or any other startups may be eligible for chargeable gains exemptions if that asset has been held in Nigeria for more than 24 months.<sup>16</sup>

## IMPLICATIONS FOR VAT



### Codification of VAT Fiscalisation:

The NTA now requires taxable persons making VATable supplies to implement the fiscalisation system deployed by the Federal Inland Revenue Service (**FIRS** or the **Service**).

In view of this, the FIRS, which is to transition into the Nigeria Revenue Service (**NRS**) upon commencement of the NRS Act, has introduced the implementation of the Merchant Buyer Solution, an electronic invoicing system aimed at ensuring transparency and efficiency in tax administration. By a recent public notice (the **e-Invoice Notice**), the Service announced

that with effect from 01 August 2025, all large taxpayers are required to onboard on the e-invoicing platform.<sup>17</sup>

Further to the e-Invoice Notice, the failure by an eligible taxpayer to process a taxable supply through the fiscalisation system attracts an administrative penalty of NGN200,000 in addition to 100% of the tax due, and interest at the prevailing Central Bank of Nigeria monetary policy rate per annum.<sup>18</sup>



### Refund of Excess input VAT

Where input VAT incurred by a manufacturing company exceeds its output VAT collected, such taxpayer shall be entitled to utilise the excess tax as a credit in subsequent months. In situations where the taxpayer is in a perpetual credit position,<sup>19</sup> such taxpayer may request for a refund from the Service.<sup>20</sup>



### Recovery of Input VAT on the Service Consumption & Purchase of Fixed Asset

The NTA now allows manufacturers to claim input VAT incurred on services and fixed assets, provided that such input VAT is directly attributable to taxable supplies made in the ordinary course of business. Importantly, the relevant input VAT must be claimed within five years after the tax period in which the input VAT was incurred.

Under the Companies Income Tax Act (CITA) regime, VAT on fixed asset was required to be capitalised whilst VAT incurred on services, were to be expensed. The ability of the manufacturers to claim immediate relief in relation to VAT incurred on fixed asset and services offers manufacturers a measure of relief.



### Exemption from VAT & Zero-rated Supplies

Manufacturers engaged in the production of baby products, sanitary towel, pads or tampons, military ammunition supplied to Nigerian forces, assistive devices (disability related products) should note that these goods are exempted from VAT. In essence, input VAT incurred on these goods are not

11. Manufacture of dairy products, fresh liquid milk, pasteurised, sterilised, homogenised and/or ultra heat treated; dried or concentrated milk; cream from fresh liquid milk, pasteurised, sterilised, homogenised; milk or cream in solid form; cheese, cord and lactose.  
 12. Processing of Cocoa: cocoa butter, cocoa fat, cocoa oil and chocolate  
 13. Manufacture of animal feeds: Animal feeds, edible oils and bye product; concentrates, grain mill products, and feed supplements  
 14. Section 163(1)(p) and Schedule Nigeria Tax Act  
 15. [Section 163(1)(v) Nigeria Tax Act  
 16. Section 163(1)(m) Nigeria Tax Act  
 17. Federal Inland Revenue Service Notice 'Merchant Buyer Solution (eInvoice)' < <https://www.firs.gov.ng/merchant-buyer-solution> > accessed 30 July 2025.  
 18. Section 104 Nigeria Tax Administration Act  
 19. Instances where the taxpayer's supply are chargeable to VAT at zero percent, and the taxpayer has incurred VAT in the production of its supplies  
 20. Section 156(2) & (4) of the Nigeria Tax Act

recoverable, and should be expensed. Supplies to approved entities in the free trade zones are also exempted from VAT.

Certain categories of goods<sup>21</sup> have now been reclassified as zero rated<sup>22</sup> under the NTA. The tax implication of zero-rated supplies is the ability of the manufacturer to claim a VAT refund in relation to input VAT incurred on supplies utilized for the purpose of production.



### Suspension on the charge of VAT

Manufacturers should note that VAT has been suspended on the following items which may form part of the inputs or overheads for production;

- petroleum products,
- renewable energy equipment;
- compressed natural gas;
- liquified natural gas;
- other gaseous hydrocarbons.<sup>23</sup>



### Timing requirement for VAT refund Application

Application for a VAT refund shall be made not later than 12 months after the transaction giving rise to the refund occurred. Where a taxpayer fails to make an application within the required time, such a refund shall lapse.<sup>24</sup>

## ECONOMIC DEVELOPMENT TAX INCENTIVES FOR MANUFACTURING PRIORITY SECTOR

The NTA introduces robust incentives for manufacturers designated under the Tenth Schedule as operating in priority sectors such as: aquaculture, refining of crude oil and gas, electricity and gas supply, pharmaceuticals and chemicals, electrical and electronic equipment, automobiles and components, metal processing and fabrication, renewable energy, medical equipment, paper, textiles, leather processing etc.

A company operating in a priority sector may upon application and approval by the President, be issued an economic development tax incentive certificate. To qualify, a company must incur a specified value of QCE prior to its production day.



The QCEs relevant to each industry and subsector is laid out under the Tenth Schedule of the Act and is referred to as a threshold.

The applicable incentive once granted takes the form of a tax credit, allowing the company to offset taxes payable on profits earned from priority products or services during a five-year incentive period.

The Key Criteria of the Incentive includes:

- **Eligibility:** Must be a Nigerian-incorporated company and meet minimum capital expenditure thresholds.<sup>25</sup>
- **Application:** Formal application for the grant of this incentive is made to the Nigerian Investment Promotion Commission (NIPC) and may be recommended to the Minister/President for approval.<sup>26</sup>
- **Incentive Period:** The incentive period spans for a period of 5 years from production day, which is extendable for another 5 years if 100% of profits are reinvested.<sup>27</sup>
- **Tax Credit:** Tax which is payable on profits from eligible products is converted into an economic development tax credit, offsetting future tax liabilities.<sup>28</sup>
- **Record-Keeping Requirements:** Priority companies under the NTA are required to maintain separate books for priority and non-priority income. Non-compliance with this obligation voids the incentive.<sup>29</sup>
- **Exclusivity:** Companies granted the certificate and are enjoying the incentive cannot simultaneously benefit from other tax reliefs under the NTA or any other law.<sup>30</sup>

21. Fertilizers, locally produced agricultural chemicals, locally produced veterinary medicine, locally produced animal feeds, electricity generated by GENCOs and supplied to TCN

22. Section 187 of the Nigeria Tax Act

23. Schedule 11 of the Nigeria Tax Act

24. Schedule 56(1) & (2) of the Nigeria Tax Administration Act

25. Section 167 Nigeria Tax Act

26. Section 168 Nigeria Tax Act

27. Section 171(3) Nigeria Tax Act

28. Section 177 Nigeria Tax Act

29. Section 179 Nigeria Tax Act

30. Section 183 Nigeria Tax Act



### COMPUTATION OF CHARGEABLE GAINS ON QCE

Chargeable gains arising from the disposal of capital assets now form part of the total profits of a company upon which tax is payable.<sup>31</sup> As such, the applicable rate for capital gains tax is the rate applicable to the taxpayer in a year of assessment i.e. 0% for small companies, and 30% for large companies.

Notably, the requirement to compute balancing adjustments upon the disposal of capital assets has been removed. In its stead, chargeable gains now require the deduction of the tax written down value of a disposed chargeable asset from the proceeds of disposal. With this computation model, the relevant capital gains and the applicable balancing charge (if any) have been harmonized and are now taxable as part of the total profits of the company.

### INCOME TAX EXEMPTION FOR FREE TRADE ZONE ENTITIES

The NTA provides that the profits of entities licensed to operate in a free trade or export processing zones are fully exempt from tax if 100% of their sales arise from:

- ❑ the export of goods or services produced by the entity, or the sale of inputs for goods or services exclusively meant for export; and
- ❑ if no more than 25% of its total sales are derived from the sale of goods and services to the customs territory in Nigeria

The effect of the above is that, where more than 25% of the sales of a licensed entity occur within the customs territory in a year of assessment, the profits of the entity will be taxed in Nigeria, and all free trade or export processing zone-related reliefs under the NTA and the law of the relevant zone will not apply.

However, it is to be noted that effective from 01 January 2028, the profits of an export processing zone entity will be fully subject to tax in respect of its sales to the customs territory in Nigeria, regardless of whether such sales fall within the 25% threshold. This means that entities that engage in any level of sales in the Nigerian customs territory will no longer benefit from the exemption beyond this date.

### CONCLUSION

The NTA introduces a more structured and comprehensive framework for the taxation of companies in the manufacturing sector. While it retains key principles from the previous regime, it also introduces significant changes, such as the redefinition of qualifying capital expenditure, harmonized capital gains treatment, refined input VAT recovery rules, and the introduction of a minimum effective tax rate. For manufacturing companies, the impact of these reforms will largely depend on their operational scale and business structure. It is therefore essential for players in the sector to reassess their tax strategies, ensure alignment with the new provisions, and take proactive steps to optimize their tax positions under the new fiscal regime.

31. Section 27 Nigeria Tax Act

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