



NEW TAX REGIME: TAX RELIEFS AND EXEMPTIONS FOR SMES IN NIGERIA



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As part of the reforms to tax laws and administration in Nigeria, the Nigerian tax framework was overhauled in 2025. As part of the overhauling, about 17 tax laws were repealed and several other laws amended by the Nigeria Tax Act 2025 (the “NTA”). The NTA introduced measures specifically aimed at, among other things, reducing the tax burden on small businesses in Nigeria. These reforms recognise that businesses in their early stages should not be weighed down by heavy tax compliance obligations. Instead, they should be supported to stabilise, grow, and become sustainable contributors to the Nigerian economy.

For founders and business owners, therefore, understanding the reliefs and exemptions under the new tax framework is the first step to taking advantage of them.

WHO QUALIFIES AS A SMALL BUSINESS?

Under the NTA, a company is generally regarded as a small company where:

- its gross annual turnover is ₦100 million or less; and
- its fixed assets do not exceed ₦250 million.

The Nigeria Tax Administration Act 2025, defines a “small business” in a similar manner to the NTA, it, however, includes a proviso to the effect that any business providing professional services, such as legal, accounting, and consulting, do not qualify to be classified as a small business, even if they meet the above financial thresholds, and are excluded from the benefits that small businesses are entitled to. The above criteria is narrower than the general rule for categorising SMEs such as regarding companies with turnover below NGN1 billion as SMEs. This means that the SMEs entitled to the tax benefits are narrower.

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KEY TAX RELIEFS AVAILABLE TO SMES

Some of the key tax reliefs available to SMEs under the NTA include:

1 Companies Income Tax
Small companies are subject to income tax at the rate of 0%. This allows profits to be retained and reinvested into the business by the owners. Despite this exemption, small companies are still obligated to file annual tax returns with the Nigeria Revenue Service (“NRS”) and maintain proper financial records.

2 Value Added Tax
Value Added Tax (“VAT”) compliance obligations of SMEs have also been reduced. Small businesses are not (i) required to charge VAT on their supply of taxable goods or services, (ii) required to file monthly VAT returns to the NRS, and (iii) liable to pay penalties for non-compliance. Non-small companies supplying taxable goods and services to eligible small companies will charge VAT on such supplies. SMEs are also entitled to the benefits of items exempted from VAT or zero-rated for VAT.

3 Withholding Tax
SMEs are not required to deduct^[1] or remit withholding tax on their transactions. Large companies making payments to SMEs are, however, required to withhold tax from such payments where applicable. Such SMEs will be entitled to claim a tax credit for such tax withheld from the payments due to them and remitted to the tax authority.

4 Development Levy
The development levy is a new introduction under the NTA, which replaced the levies and contributions payable by companies to the Tertiary Education Trust Fund.

[1] This applies where: (a) the supplier has a valid tax Identification number; and (b) the value of the transaction is ₦2 million or less in a month.



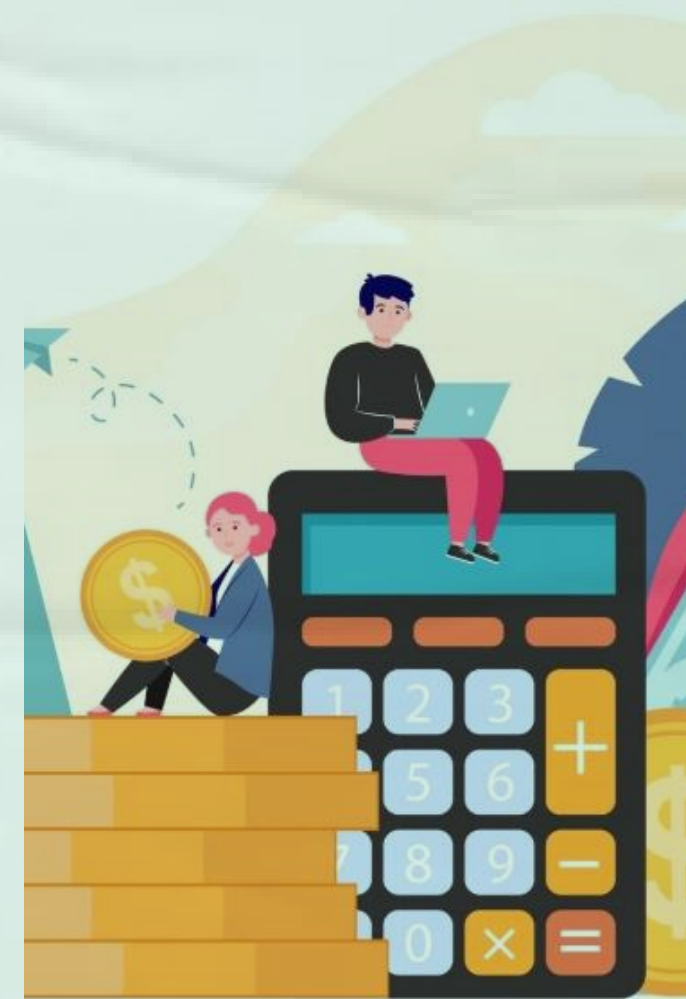
the National Information Technology Development Agency, the National Agency for Science and Engineering Infrastructure and the Police Trust Fund, and consolidates them into a single levy at the rate of 4% of assessable profits. Small companies are, however, exempt from the payment of the 4% development levy on assessable profits that applies to other companies. This also helps to reduce the overall tax burden and support healthier cash flow for small companies.

5 **Exemption for Agricultural Businesses**

Income generated by companies engaged in agricultural related activities such as crop production, raising livestock, aquaculture, and forestry, is exempt from tax for the first five years upon commencement of business. This exemption applies to companies generally and small businesses that do not meet the criteria to be small companies under the NTA but are engaged in eligible agricultural activities will be entitled to this exemption. SMEs in the agricultural sector will also benefit from VAT exempted goods and services and zero-rated VAT on fertilisers, locally produced agricultural chemicals, veterinary medicine and animal feeds, agricultural seeds and seedlings.

6 **Additional Incentives for Labelled Startups**

Businesses that hold labelled startup status under the Nigeria Start-Up Act 2022 benefit from further incentives under the NTA. Gains from the disposal of assets by angel investors, venture capital funds, private equity firms, accelerators, and incubators from labelled startups are exempt from capital gains tax, provided the investment is in a labelled startup and the investment has been held in Nigeria for at least 24 months. This makes Nigerian startups more attractive to both local and foreign investors. Non-resident companies providing technical, consulting, management, or professional services to a labelled startup will be taxed at 5% final withholding tax as against the current 10% paid for such services.



7 Some Other Incentives

Lease agreements with less than NGN10 million in annual rent are exempted from stamp duties. SMEs leasing their premises may benefit from this exemption. Documents relating to the transfer of stocks and shares are exempted from stamp duties. This is a benefit for SMEs and their equity investors. The profits of a SME engaged in sporting activities is exempt from income tax. Lastly, the profits of a SME from goods or services exported from Nigeria are exempted from tax if the proceeds of such exports are repatriated through official channels.

PRACTICAL CONSIDERATIONS FOR SMES

While the tax reliefs are substantial, they require active management. Small businesses must be deliberate in first confirming that they are eligible for any of the exemptions or reliefs. In particular, SMEs should actively monitor the value of their turnover and fixed assets, since exceeding any of the qualifying thresholds can trigger full tax obligations. To do this, proper financial records must be maintained regardless of whether the company qualifies for the exemptions or reliefs stated above.



CONCLUSION

Ultimately, the new tax regime signals a more supportive approach to SMEs regarding compliance with tax obligations, allowing businesses to retain capital and focus on growth. These reliefs, if properly utilised by eligible SMEs, can strengthen cash flow, improve resilience, and enhance investment attractiveness. For founders, the real advantage lies in deliberately leveraging these provisions to build sustainable and scalable enterprises.



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