

# Newsletter

April 2026

Welcome to our latest Edition of the Kreston Pedabo Newsletter!

Happy Easter! May this season bring you clarity, resilience, and the kind of renewal that turns good plans into great outcomes.

This month we step beyond routine updates to explore three transformative themes that are reshaping Nigeria's business and financial landscape.

Inside this edition:

- » **Reimagining Performance Management: Driving Accountability, Outcomes, and Value Creation**
- » **Taxation and Capital Market Growth in Nigeria: Evaluating the Effects of Tax Reform Acts**
- » **Nigeria's 2025 Tax Act: A New VAT Era for Financial Institutions**

Read on and let this Easter season inspire not just renewal, but results.



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## Reimagining Performance Management: Driving Accountability, Outcomes, and Value Creation

In an increasingly complex and performance-driven global economy, organisations are under sustained pressure to not only deliver results, but to demonstrate how those results translate into measurable value. Investors demand transparency, regulators require accountability, and leadership teams must continuously justify strategic decisions through tangible outcomes. Yet, despite widespread adoption of performance management systems, a fundamental disconnect persists: activity is tracked extensively, but value

creation remains inconsistently realised.

Traditional performance management frameworks, largely built around annual appraisals and static key performance indicators, were designed for stability rather than agility. In today's environment, characterised by rapid market shifts, digital disruption, and evolving stakeholder expectations, these systems are increasingly inadequate. They tend to prioritise process compliance over strategic alignment,

individual output over enterprise impact, and retrospective evaluation over forward-looking performance improvement. As a result, organisations often find themselves in a paradox where high levels of reported activity coexist with underwhelming strategic outcomes. Reimagining performance management is therefore not an incremental improvement exercise; it is a structural transformation.

## The Structural Limitations of Legacy Performance Models

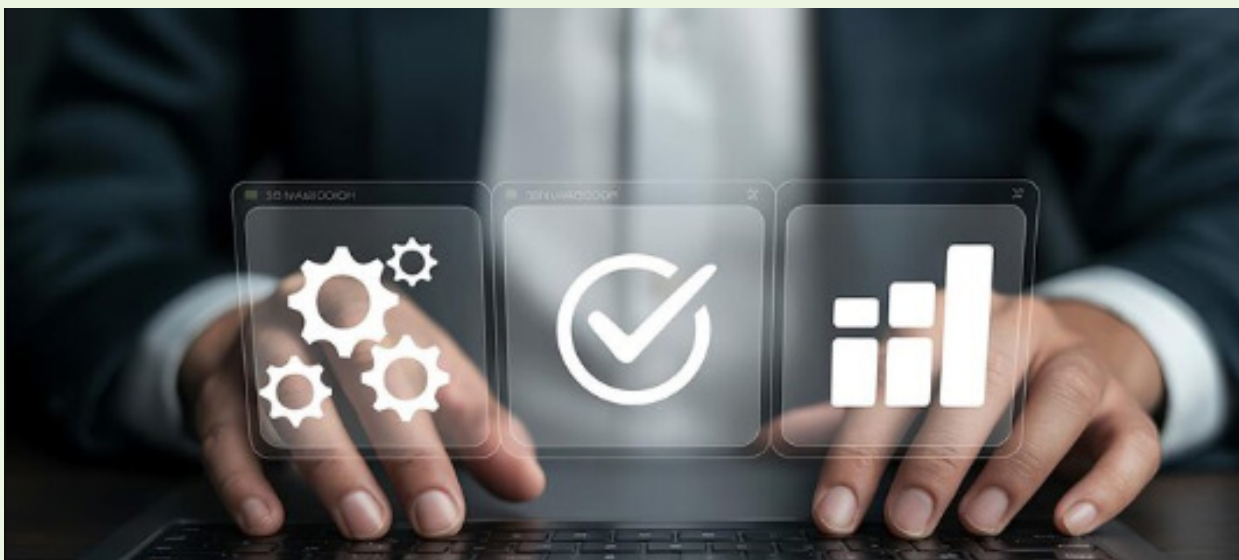
Legacy performance management systems suffer from several inherent design constraints. First, objective-setting processes are frequently disconnected from strategy, resulting in misaligned priorities across business units and functions. Employees may meet or exceed their targets without materially advancing the organisation's strategic agenda.

Second, performance reviews are typically periodic and retrospective. Annual or biannual appraisals provide limited opportunity for real-time course correction, particularly in dynamic operating environments. This lag effect reduces organisational responsiveness and weakens performance accountability.

Third, traditional metrics often emphasise inputs and activities rather than outcomes. Measures

such as hours worked, tasks completed, or process adherence, while useful for operational tracking, do not adequately capture value creation enterprise-wide. Organisations that shift towards outcome-based performance systems are significantly more likely to outperform peers in productivity and financial returns<sup>1</sup>.

Finally, accountability structures are often diffused. Without clear ownership of outcomes, performance management becomes a reporting exercise rather than a decision-making tool. This lack of accountability undermines execution discipline and weakens organisational effectiveness.



<sup>1</sup> McKinsey & Company. (2020). Performance management: Why keeping score is not enough.

## From Measurement to Value: Redefining Performance

Reimagining performance management requires a deliberate shift from measuring effort to measuring impact. This shift is anchored on three core principles: alignment, accountability, and adaptability.



**Alignment** ensures that strategic priorities are translated into actionable objectives at every level of the organisation. This requires a clear line of sight between enterprise goals and individual performance targets.



**Accountability** requires that ownership of outcomes is clearly defined and reinforced through governance structures. Performance must be attributable, measurable, and tied to consequences—both positive and corrective.



**Adaptability** reflects the need for performance systems to evolve in real time. Continuous feedback loops, dynamic goal-setting, and data-driven insights enable organisations to respond proactively to changing conditions.

The Organisation for Economic Co-operation and Development emphasises that effective governance frameworks must incorporate robust performance monitoring and accountability mechanisms to ensure organisational resilience and long-term value creation<sup>2</sup>.

## Governance, Oversight, and the Role of Leadership

Performance management is beyond an operational tool, it is a governance mechanism. Boards and executive leadership teams are responsible for ensuring that performance systems are aligned with strategic objectives and embedded within the broader governance framework.

The Financial Reporting Council of Nigeria (FRCN), through the Nigerian Code of Corporate Governance (NCCG 2018), explicitly requires organisations to establish performance evaluation

systems that promote accountability and transparency at both board and management levels.<sup>3</sup>

Leadership commitment is critical in shaping organisational behaviour. Tone at the top influences how performance is perceived, measured, and acted upon. Where leadership prioritises outcomes and accountability, performance systems tend to evolve into strategic enablers. Conversely, where leadership engagement is weak, such systems often degrade into compliance-driven processes.



2. Organisation for Economic Co-operation and Development. (2015). G20/OECD Principles of Corporate Governance

3. Financial Reporting Council of Nigeria. (2018). Nigerian Code of Corporate Governance 2018

## Kreston Pedabo's VALUE Framework for Performance Transformation

To effectively transition from traditional performance management systems to outcome-driven models, organisations require a structured, end-to-end transformation approach. At Kreston Pedabo, we adopt the VALUE Framework, a five-pillar model designed to embed accountability, align performance with strategy, and drive sustained value creation.



### **(V) isualise Strategy and Define Value Drivers**

This stage focuses on translating organisational strategy into clearly defined value drivers. These may include revenue growth, cost optimisation, customer experience, operational efficiency, and innovation. Strategic clarity is essential to ensure that performance is anchored on what truly matters.



### **(A) lign Objectives across the Enterprise**

Strategic priorities are cascaded into business unit, team, and individual objectives. This alignment ensures that every role contributes directly to enterprise outcomes, eliminating fragmentation and duplication of effort.



### **(L) ink Performance Metrics to Outcomes**

Performance indicators are redesigned to reflect measurable outcomes rather than activities. This includes the integration of financial and non-financial metrics, as well as leading and lagging indicators. Frameworks such as the Balanced Scorecard reinforce this multidimensional approach to performance measurement<sup>4</sup>.



### **(U) nderstand Performance through Continuous Feedback**

Static, periodic reviews are replaced with continuous performance conversations. Managers and employees engage in regular check-ins, supported by real-time data and analytics. This enables early identification of performance gaps and timely intervention.

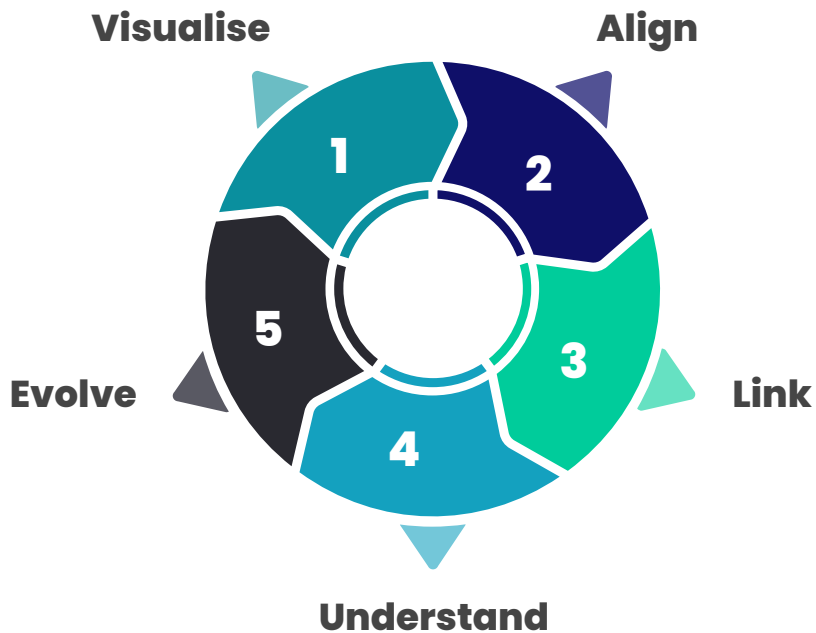


### **(E) volve through Insights and Continuous Improvement**

Performance data is analysed to generate actionable insights. Organisations use these insights to refine strategies, improve processes, and strengthen decision-making. This creates a feedback loop where performance management becomes a driver of organisational learning.

4. Kaplan, R. S., & Norton, D. P. (1996). The Balanced Scorecard. Harvard Business School Press.

In practice, the framework operates as a continuous cycle:



This cyclical approach ensures that performance management remains dynamic, responsive, and aligned with changing business realities.

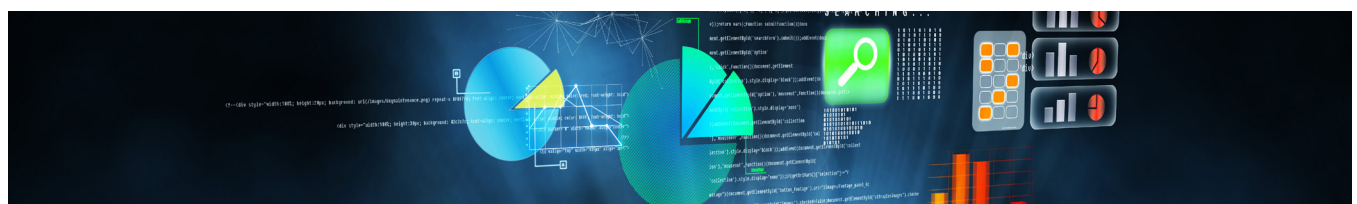
## Technology and Data as Performance Enablers

The evolution of performance management has been significantly accelerated by advances in technology. Digital platforms now enable real-time performance tracking, predictive analytics, and integrated reporting.

Organisations that leverage digital performance management tools are said to experience improved transparency, faster decision-making,

and stronger alignment between strategy and execution.<sup>5</sup>

However, technology is an enabler, not a substitute for effective design. Without clear governance structures, well-defined metrics, and a culture of accountability, digital tools alone cannot deliver meaningful performance outcomes.



5. Deloitte. (2019). Reinventing Performance Management.

## Embedding a Culture of Accountability

Sustainable performance transformation requires more than systems and processes; it demands a cultural shift. Accountability must be embedded within the organisational DNA.

This involves:

- ▶ Clearly defined roles and ownership of outcomes
- ▶ Transparent performance expectations
- ▶ Consistent performance evaluation and feedback
- ▶ Strong linkage between performance and rewards
- ▶ Leadership role modelling

Research in organisational psychology suggests that employees are more likely to take ownership of outcomes when expectations are clear, feedback is continuous, and performance is visibly linked to consequences.<sup>6</sup>



6. Aguinis, H. (2019). Performance Management (4th ed.). Chicago Business Press.

## Conclusion: Performance as a Strategic Lever

Performance management, when reimagined effectively, becomes a powerful strategic lever; one that ensures that organisational effort is directed towards value creation, that accountability is embedded at every level, and that strategy is translated into measurable results.

In a VUCA era defined by uncertainty, competition, and heightened stakeholder expectations, organisations can no longer rely on legacy performance systems. They must adopt dynamic, outcome-driven frameworks that enable agility, enhance transparency, and drive sustained value.

Ultimately, the shift from activity to accountability is not just a performance management evolution, it is a transformation in how organisations define, measure, and deliver success.



**For an independent review, (re)design, and or implementation of a robust performance management system with measurable enterprise-wide outcomes, send an email to**

**[mc@krestonpedabo.com](mailto:mc@krestonpedabo.com)**

## References

1. McKinsey & Company. (2020). Performance management: Why keeping score is not enough.
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4. Kaplan, R. S., & Norton, D. P. (1996). The Balanced Scorecard. Harvard Business School Press.
5. Deloitte. (2019). Reinventing Performance Management.
6. Aguinis, H. (2019). Performance Management (4th ed.). Chicago Business Press.

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## Taxation and Capital Market Growth in Nigeria: Evaluating the Effects of Tax Reform Acts

### Introduction

Tax policy is one of the most influential levers governments use to shape investment behaviour, capital allocation, and overall market performance. In Nigeria, the structure and administration of tax laws is key in determining investor sentiment, the cost of capital, and the depth of financial markets.

As a central platform for long term financing, the Nigerian capital market—regulated by the Securities and Exchange Commission (SEC) and operated through institutions such as the Nigerian Exchange Group (NGX), FMDQ Securities Exchange,

and NASD OTC—depends on a tax system that supports liquidity, encourages innovation, and fosters investor confidence.

The enactment of the Nigeria Tax Act (NTA) in January 2026 represents a significant reform in the country's fiscal environment. This article reviews the key provisions of the old and new tax frameworks and evaluates how these changes are shaping capital market activity, investor behaviour, and liquidity.

## Overview of the Nigerian Capital Market

The Nigerian capital market is one of Africa's most vibrant financial ecosystems, serving as a critical engine for wealth creation, capital formation, and economic development. Its evolution reflects decades of economic transitions, regulatory reforms, and market innovations.

The modern market traces its origins to the establishment of the Lagos Stock Exchange in 1960, later renamed the Nigerian Stock Exchange (NSE) in 1977. It expanded rapidly during the mid-2000s banking-consolidation era, when banks raised unprecedented capital and millions of Nigerians entered the equity market for the first time.

The 2008 global financial crisis exposed vulnerabilities in the system, triggering a period of regulatory strengthening, improved disclosures, and institutional reforms. Today, the market is deeper, more sophisticated, and more diversified than ever.

The market operates through two key segments:



**Primary market:** where governments and corporates raise fresh capital via Initial Public Offerings (IPOs), bond issuances, and rights issues



**Secondary market:** where existing securities are traded, enabling liquidity and price discovery. Secondary market trading is done on platforms such as the Nigerian Exchange (NGX), FMDQ Securities Exchange, and NASD OTC.

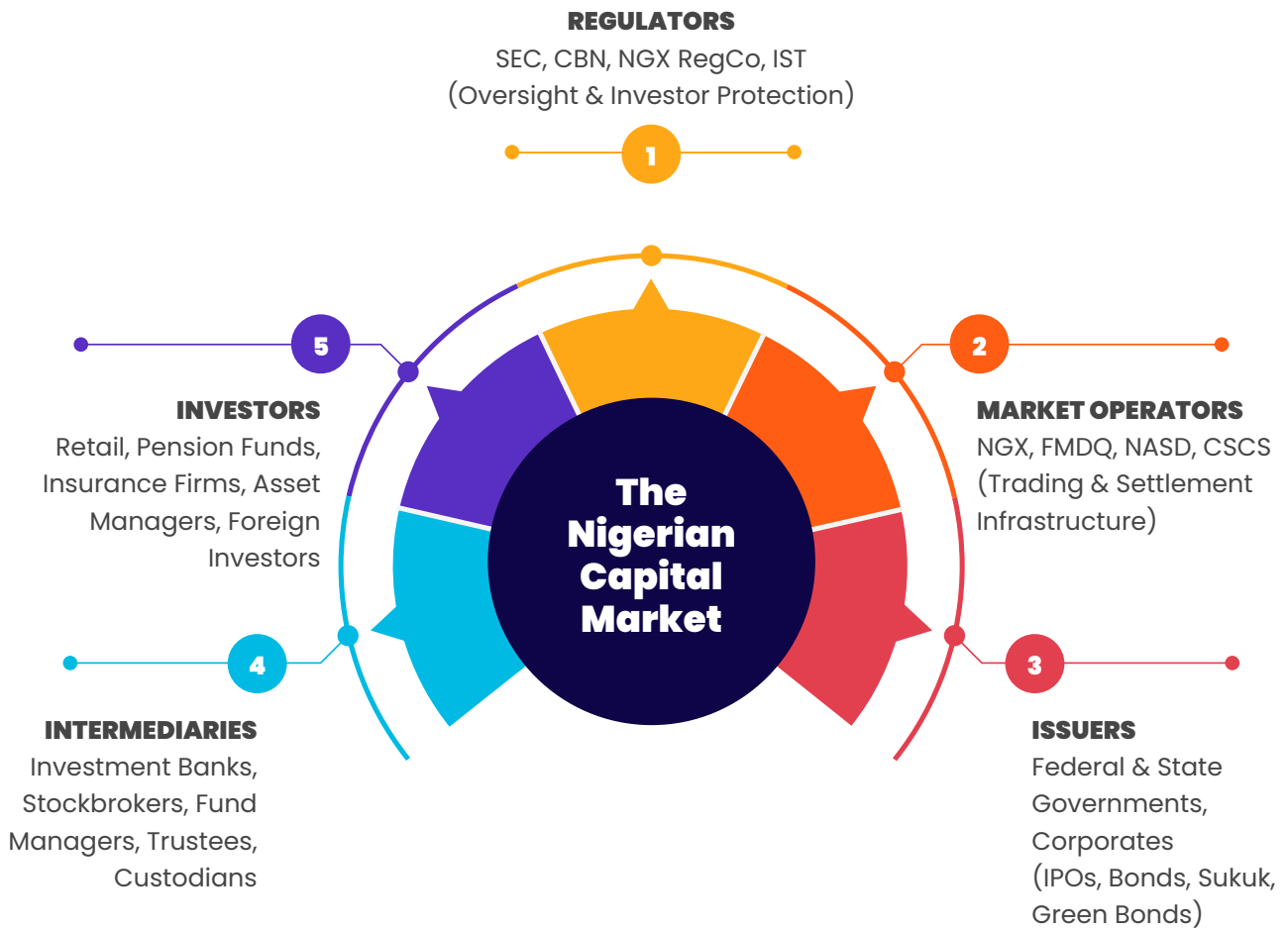
The federal government remains a key active player, particularly through regular bond issuances. Meanwhile, major corporates – especially in banking, telecommunications, industrial goods, and consumer sectors – continue to anchor equity trading activity and shape market performance.

While equities often attract the spotlight, Nigeria's capital market offers a much broader suite of instruments:

The market supports a broad array of products, including:

- ▶ Federal Government Bonds and Treasury Bills remain the backbone of fixed-income trading, offering stability and steady returns.
- ▶ Corporate bonds are gaining traction as companies seek structured, long-term financing solutions.
- ▶ Sukuk bonds have significantly financed road infrastructure, successfully blending finance with ethical investment principles.
- ▶ Green bonds, pioneered by Nigeria at the sovereign level in Africa, demonstrate a growing commitment to sustainable finance and climate-conscious investing.
- ▶ Exchange-Traded Funds (ETFs) and mutual funds are gradually making market participation easier and more accessible for retail investors.

This multi-layered structure is reinforced by regulators, market operators, issuers, intermediaries, and investors, who work collectively to ensure transparency and stability.



## Analysis of Key Tax Policies on Capital Market Instruments

In Nigeria, the taxation of incomes from capital market instruments has evolved over time, especially following the fiscal reforms, Finance Acts, and the Nigeria Tax Act. Before 2026, taxation of capital market transactions was mainly governed by the Companies Income Tax Act (CITA), Personal Income Tax Act (PITA), and Capital Gains Tax Act (CGTA). The Nigeria Tax Act (NTA) introduces significant reforms to modernise tax administration, broaden the tax base, and enhance fiscal clarity.

This overview highlights the taxation of key capital market products under the repealed tax framework and the current (reformed) tax regime. There are three main categories of income from the capital market: Dividends, Interest, and Gains from the Disposal of Investments.

### 1 Dividend Income (Equities)

#### Before

Under the repealed tax framework, dividend income is subject to tax in the hands of the recipients. Below is the taxing framework of dividends under the repealed tax laws:

- » Dividend is subject to 10% Withholding Tax (WHT)
- » WHT deducted from the dividend is considered a final tax for companies and individuals, hence dividend is considered a Franked Investment Income (FI)

#### Now

**There are no changes introduced for taxation of dividends under the current tax regime; the treatment of dividends remains largely stable, thus preserving investor confidence.**

### 2 Interest Income

#### Before

Under the repealed tax framework:

- » Interest income, including interest from corporate and state bonds was subject to 10% WHT
- » Interest income from Federal Government bonds was exempted from tax
- » Interest on domiciliary deposits was exempted from tax

#### Now

**However, some major changes were introduced to the taxation of interest income under the new tax framework (NTA & NTAA)**

**Interest on domiciliary deposits or investments is now liable to tax and subject to 10% WHT deduction at source.**

- » **Apart from FGN bonds, state bonds are now exempt from tax.**
- » **Interest income from Corporate bonds is subject to 10% WHT.**
- » **WHT deducted from interest on short-term securities and corporate bonds will be the final tax for individuals.**
- » **The definition of interest has been expanded to include any payment similar to interest, discounts, share of profit in non-interest finance arrangements,**

**Generally, government bonds remain highly attractive; however, taxing domiciliary deposits might redirect liquidity from foreign currency holdings toward domestic investments in view of the elimination of the erstwhile tax advantage in holding deposits in foreign currency.**

### 3 Gains from Disposal of Shares and Securities

#### Before

Under the repealed tax framework, gains from the disposal of shares and other capital market products are generally subject to tax under the Capital Gains Tax Act. Key highlights of the repealed regime are presented below:

- » Gains from disposal of capital market instruments were subject to Capital Gains Tax (CGT) at the rate of 10%.
- » Gains from disposal of shares were exempted from tax where:
  - i. The aggregate annual proceeds from disposal are less than ₦100 million.
  - ii. The proceeds are reinvested within the same year of assessment.
  - iii. Shares are transferred between an approved borrower and a lender in a regulated securities lending transaction.

The above applied to both individuals and corporate investors.

#### Now

**The Tax Reform Acts (NTA & NTAA) introduced some major changes to the taxation of gains from the sale or disposal of capital market instruments. These changes are highlighted below:**

- » **Gains from disposal of capital market investments now form part of the total earnings of the investor and are taxed at 30% for companies and between 15% to 25% for individuals.**

- » **Gains from disposal of shares are exempted from tax where:**
  - I. The aggregate disposal proceeds are less than ₦150,000,000, and the chargeable gain does not exceed ₦10,000,000 in any 12 consecutive months.
  - II. Shares are transferred between an approved borrower and a lender in a regulated securities lending transaction.
  - III. proceeds from disposal, notwithstanding the threshold in (i), are reinvested within the same year of assessment in the acquisition of shares in the same or other Nigerian companies. Provided that tax shall accrue proportionately on the portion of the proceeds that are not reinvested.
  
- » **Gains on indirect transfer or disposals are now taxable in Nigeria. Indirect transfer or disposal refers to the transfer or disposal of interest in a Nigerian company via the transfer of shares in an offshore entity. An indirect transfer or disposal in Nigeria is deemed under any of the following situations:**
  - I. The transfer of shares in a foreign company leads to the change in the ownership structure or group membership of any Nigerian company;
  - II. The shares of the foreign company transferred derive up to 50% of their value from the shares of a Nigerian company; and
  - III. The transfer of the shares of the foreign company leads to the change of ownership of, title in, or interest in any asset located in Nigeria.



# Impact

While the new regime increases tax liability, the expanded exemption threshold could stimulate higher turnover and improve liquidity.

## Effects of Tax Reforms on Foreign Portfolio Investment (FPI)

Foreign investors face both challenges and incentives under the new tax framework. A higher corporate tax rate of 30% on gains from the disposal of shares with aggregate proceeds of over ₦150 million and a gain not exceeding ₦10 million may deter some investors. The modernisation of the tax system, enhanced compliance, and specific incentives are however intended to boost long-term confidence. The NTA enhances Nigeria's competitiveness through:



Improved statutory clarity



More efficient compliance processes



Continued incentives on government securities



Alignment with international tax transparency practices

The market may face higher compliance costs and potential regulatory ambiguity in the short term, but it will create a more robust and sustainable investment environment in the long run.

## Effects of Tax Reforms on Market Liquidity and Investment Flows

While it is expected that higher tax burdens will reduce the market's attractiveness relative to other emerging markets, the new tax provision may also increase liquidity in the market as reinvestment of proceeds from share disposals are exempt from tax. More investors are likely to reinvest and take advantage of this provision. The tax reforms present a blend of liquidity constraining and liquidity enhancing features.

### Potential Constraints

- » Higher capital gains taxes may reduce Nigeria's competitiveness relative to peer emerging markets.
- » Foreign investors may demand higher returns to offset increased taxation.

### Liquidity Enhancing Features

- » Reinvestment exemptions encourage rapid recycling of capital within the market.
- » Investors now have a six month window following year end before capital gains taxes become payable – offering temporary liquidity relief.
- » Expanded exemptions for state bonds and securities lending may boost activity in fixed income and derivative markets.

Overall, while inflows may moderate initially, the long run impact is likely to support deeper and more sustainable market participation.

# Conclusion

The Nigeria Tax Act is a major leap towards a more modern, transparent and internationally best practices compliant tax regime. While the NTA imposes increased tax responsibilities and stricter compliance mandates, the reforms have broadened the tax base, closed long-standing loopholes and instilled more confidence in the capital market.

The reform is seen as striking a balance between taxation and economic activity by retaining incentives on government securities,

encouraging the reinvestment of proceeds from sale of securities and establishing clearer regulations for indirect asset transfers.

The success of the reform would largely depend on fair tax implementation, macroeconomic stability, regulatory synergy, and sustained investor confidence. The reform if implemented successfully has the potential to enhance capital formation, attract long-term foreign investment, and position the country as one of the largest investment destinations in Africa.



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## Nigeria's 2025 Tax Act: A New VAT Era for Financial Institutions

### Introduction

Few regulatory changes in recent history have reshaped Nigeria's financial services landscape as profoundly as the Nigeria Tax Act (NTA) 2025. After decades of operating under a VAT model designed around a manufacturing economy, Nigeria's financial institutions now face an entirely new fiscal architecture, one that finally recognises the realities of a services-driven, digital financial system.

For banks, insurers, asset managers, and FinTechs, this reform is far more than a routine compliance update, it represents a structural reset that

shifts liquidity behaviour, accounting logic, and enterprise tax planning. The opportunities it creates are significant, but the operational risks are equally substantial.

Under the previous VAT framework, financial institutions suffered a structural disadvantage: input VAT was recoverable only on "stockintrade", which is used directly in production. This rule, crafted for manufacturers, left financial institutions unable to claim VAT on most technology spending, advisory services, infrastructure, or operational costs.

Industry practitioners widely acknowledge that a substantial majority of the input VAT incurred by banks and insurers under the legacy framework was historically unrecoverable, largely because the sector's dominant income streams, such as interest and insurance premiums, were VAT exempt, forcing most VAT on overheads and capital investments to be either expensed or capitalised. The NTA 2025 decisively dismantles this outdated structure.

## The Purpose Test: A More Rational Standard for Input VAT

The centrepiece of the reform is the Purpose Test, which allows input VAT to be deducted where the cost is incurred directly in making taxable supplies. Under this new rule:



Input VAT tied to taxable supplies becomes deductible.



Input VAT related to exempt supplies remains nonrecoverable.



Where supplies are mixed, only the attributable portion is deductible.



Claims must be made within five years, or they lapse.

This is a more functional and economically coherent model, aligned with how financial institutions operate.



## The Refund Mechanism: A New Liquidity Lever

Section 56 introduces a structured mechanism for recovering excess input VAT. Taxpayers now have:

12 months from the qualifying transaction to request a refund, and;

The tax authority must refund or set off the amount within 30 days of a valid claim.

Given the scale and intensity of VAT-bearing costs across the financial services sector, spanning digital infrastructure investments, outsourced service arrangements, and increasingly complex compliance systems, the introduction of a formal refund mechanism fundamentally reshapes liquidity management for financial institutions. It creates a new and dynamic cashflow variable that Chief Financial Officers must not only anticipate but actively model within treasury forecasts, capital allocation decisions, and working capital strategies. In this new environment, VAT is no longer a predictable passthrough; it becomes a recurring credit position with timing, documentation, and recovery risks that can materially influence an institution's liquidity profile and short-term funding needs.

## A Silent Gap: The Treatment of NonRecoverable VAT

The repealed VAT Act expressly permitted nonrecoverable input VAT, typically VAT attributable to exempt supplies, to be either expensed through profit or loss or capitalised as part of the cost of an underlying asset. While NTA 2025 does not restate this provision, it equally does not prohibit or reverse the long-established treatment. Its silence therefore appears to be more of a drafting omission than a substantive policy shift.

Interpreting the statute in line with legislative intent and economic rationale strongly suggests continuity. Nonrecoverable VAT, by definition, represents a cost that cannot be offset against output VAT; disallowing its deduction for corporate income tax purposes would result in an economically irrational

outcome, namely, a form of double taxation where the taxpayer bears VAT as a cost and is further denied income tax deductibility. Such a position would be inconsistent with established principles of tax neutrality and the longstanding recognition of VAT-embedded costs within Nigerian tax jurisprudence.

Until the tax authority issues explicit guidance affirming or modifying the historical approach, financial institutions will necessarily lean on prevailing accounting standards, particularly IAS 2 (Inventories), IAS 16 (Property, Plant and Equipment), and IAS 38 (Intangible Assets), as well as prior industry practice to determine whether such VAT should be expensed or capitalised.

## Strategic and Operational Implications

1

**Liquidity Gains Paired with Higher CIT Exposure:** Recovering input VAT will significantly reduce monthly VAT outflows, strengthening short-term liquidity. However, because less VAT is expensed or capitalised, deductible expenses shrink, potentially increasing taxable profits and raising CIT liabilities.

2

**The End of Blanket VAT Accounting:** Businesses must now maintain granular cost-allocation systems. Precise attribution is essential to avoid chronic VAT credit positions that distort cash flow and increase compliance risk.

3

**A Near Permanent VAT Refund Posture:** Financial institutions inherently generate large volumes of VAT exempt income such as interest, premiums, and investment returns, while incurring substantial VAT on digital infrastructure, consulting, and operational systems. This mismatch means many institutions will consistently enter VAT credit positions, creating new dependencies on refund and setoff timelines.

4

**ERP Overhauls and Real Time Fiscalisation:** The tax authority's push toward real-time VAT fiscalization means legacy ERP systems must be upgraded. Critical requirements include:

- » Enhanced VAT engines
- » Improved allocation logic
- » Automated invoice validation
- » Seamless integration with invoicing systems

Any misconfigurations risk misstatements, penalties, or audit disputes.

### Increased Audit Scrutiny:

Tax authorities will intensify reviews of VAT returns, with a primary focus on preventing "double dipping", situations where input VAT is claimed while the same amount is also expensed. Monthly VAT filings will increasingly be crosschecked against financial statements.



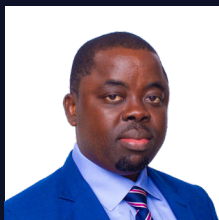
# Conclusion

The Nigeria Tax Act 2025 fundamentally repositions VAT from a backoffice compliance activity to a cornerstone of strategic financial management, reshaping how banks, insurers, and other financial institutions must think about liquidity, tax planning, systems architecture, and operational control. Institutions that modernise their ERP systems to meet realtime fiscalisation standards, refine their VAT allocation and attribution models with precision, embed VAT considerations into liquidity and capital planning decisions, and build strong internal expertise around the Purpose Test and its treatment of mixed supplies will not only unlock meaningful cashflow efficiencies but also strengthen their

compliance posture and operational resilience.

By contrast, organisations that continue to operate as though the old VAT regime still applies, relying on legacy accounting shortcuts or underestimating the scale of workflow and system changes required, risk chronic VAT credit accumulation, audit exposures, liquidity distortions, and direct profitability erosion. The VAT landscape has changed decisively, and the financial services industry must evolve just as decisively. Adaptation is no longer optional; it is the prerequisite for compliance, competitiveness, and financial stability under the new tax regime.

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