Tax Updates

Financial Services Spotlight

Key Tax Compliance Risks and Priorities in 2026

Olubunmi Kuteyi
bkuteyi@krestonpedabo.com
Partner, Tax Services

Killian Khanoba
kkhanoba@krestonpedabo.com
Senior Partner, Tax Compliance & Advisory

Albert Folorunsho
afolorunsho@krestonpedabo.com
Managing Consultant
Kreston Pedabo

For enquiries: taxservices@krestonpedabo.com

PKC/TECH/26/08/06/004

Introduction

Amidst the recent transition to Nigeria's reformed tax framework, many taxpayers particularly Financial Services Institutions, have had to reassess how the newly enacted laws affect their financial reporting, tax costs and obligations. This has not only necessitated timely compliance but has also prompted a renewed focus on understanding the practical implications of the reforms and how they affect compliance and exposures.

At the centre of this transformation are four key statutes collectively redefining Nigeria's tax landscape: the Nigeria Tax Act (NTA), the Nigeria Tax Administration Act (NTAA), the Nigeria Revenue Service Act (NRSA), and the Joint Revenue Board Act (JRBA). Together, these laws introduce a more structured and coordinated framework for tax administration and compliance.

For Financial Service Institutions, the implication extends beyond routine tax accounting, but with significant consequences on profitability, capital planning, and regulatory disclosures. As the industry adapts, clarity, consistency, and a forward-looking approach will be essential to achieving the intended outcomes of the reforms without unnecessary friction.

This article highlights the main changes to the compliance obligations of Financial Services Institutions (FSI) under the new legal framework, with particular emphasis on areas that could result in future tax exposures, where compliance requirements are overlooked.

Key changes under the NTA

A Expanded scope of Interest income

The NTA provides a broader and clearer definition of "interest income," a key revenue stream for FSI. Beyond traditional lending income, it captures items such as penal interest, finance lease charges, discounts or premiums on financial instruments, profit elements in non interest finance, and certain foreign exchange differences related to securities[1].

While these items may already be familiar from an accounting perspective, their explicit recognition under the NTA raises important tax considerations, particularly around Withholding tax (WHT) and the timing of recognition.

Furthermore, the expanded definition is expected to provide greater certainty regarding the tax treatment of penal charges. Historically, there have been disputes over whether such charges constitute consideration for a taxable supply and are therefore subject to Value Added Tax (VAT). By expressly classifying penal interest as interest income, the NTA strengthens the position that such income should be treated as interest and, consequently, remain outside the scope of VAT.

[1] Section 4(6)(a) of NTA

B Deemed distribution of undistributed profits of a controlled foreign subsidiary - Controlled Foreign Company (CFC) Rules

In light of the exposure draft issued by the Central Bank of Nigeria (CBN) on June 10, 2026, regarding the guidelines for the licensing and regulation of Financial Holding Companies (FHCs) in Nigeria[2], it is important to consider the potential tax implications for Nigerian Holding Companies with foreign subsidiaries.

In particular, based on the CFC rules introduced in the NTA, the undistributed profits of a controlled foreign subsidiary may be deemed to have been distributed to the Nigerian parent company, where the relevant tax authority (RTA) determines that the retention of such profits is not necessary for the subsidiary's business operations and does not result in any material detriment to its commercial activities.[3]

C Minimum Effective Tax Rate (METR) Framework

One of the most significant changes under the NTA is the introduction of a 15% minimum Effective Tax Rate (ETR), which some taxpayers may have already reflected in their recent filings. This applies to entities within multinational enterprise (MNE) groups with turnover of at least £750 million, as well as large domestic companies with annual turnover of ₦50 billion and above. Where the ETR falls below this threshold, a top up tax is required to be calculated by comparing the covered taxes to profit before tax, excluding franked investment income and unrealised gains or losses.[4]

$$\text{METR} = \frac{\text{Covered Taxes}}{\text{Net Income}}$$

Covered Taxes = CIT + Petroleum Profit Tax + Hydrocarbon Tax + Dev. Levy + Priority Sector Tax Credit Paid or Payable.

Net Income = Profit Before Tax - Franked Investment Income – Unrealised gains + Unrealised losses

It is important to note that for Nigerian parent companies with foreign subsidiaries, where such subsidiaries have an effective tax rate below 15%, the Nigerian parent company will be required to pay a top-up tax to bring the subsidiaries' METR up to the minimum threshold of 15%[5].

This provision is particularly relevant for financial services groups, especially those small companies operating within MNE structures or benefiting from incentives that previously reduced their effective tax burden. It limits the ability to sustain low tax outcomes and necessitates a reassessment of tax planning, group structuring, and ETR management.

[2] CBN Circular, "Exposure Draft of the Revised Guidelines for Licensing and Regulating Financial Holding Companies in Nigeria" dated June 10, 2026
[3] Section 6(2) of NTA
[4] Section 57 of NTA
[5] Section 6(3) of NTA

D Development Levy not tax deductible

Under the NTA, a Development Levy of 4% on assessable profits applies to companies, except for small companies defined as those with turnover below ₦100 million and fixed assets not exceeding ₦250 million,[6] as well as non-resident companies. This levy consolidates previously separate charges, including the National Agency for Science and Engineering Infrastructure (NASENI) levy, the National Information Technology Development Agency (NITDA) levy, the Tertiary Education Tax, and the Police Trust Fund levy, into a single framework.[7]

Unlike some of the previous levies , the Development Levy is not tax-deductible under the new tax regime. This change requires companies to reconsider how these levies are reflected in their overall tax position and financial reporting.

E Capital gain tax (CGT) rate

The rate applicable to gains on the disposal of chargeable assets has increased from 10% to 30% for large companies under the NTA[9], aligning it with the corporate income tax rate. This represents a significant shift from the previous regime and increases the tax cost on disposals, particularly for FSI with active investment portfolios.

F Shares disposal exemption threshold not applicable to stockbrokers and securities trading companies

The NTA largely preserves the exemption criteria with respect to the disposal of shares under the Capital Gains Tax Act (CGTA)[10], with key adjustment to the monetary thresholds. Specifically, the exemption now applies where total disposal proceeds do not exceed ₦150 million (increased from ₦100 million), provided that the chargeable gains do not exceed ₦10 million in any twelve months[11].

For FSIs, the practical impact of this amendment will depend on the scale and frequency of share disposals, particularly in relation to investment portfolio management, restructuring exercises, and exit strategies. The increased threshold provides greater flexibility for institutions undertaking moderate-sized disposals without triggering a CGT liability.

However, the exemption is generally not applicable to securities dealers, stockbrokers, and other entities that acquire and dispose of shares in the ordinary course of business. In such cases, gains arising from the sale of shares are treated as trading income and taxed under the applicable income tax provisions rather than as chargeable gains subject to the CGT regime. Consequently, these entities cannot rely on the share disposal exemption in determining their tax liabilities.

[6] Section 201 of NTA, definition of "small companies"
[7] Section 59 of NTA
[8] Section 22 of NASENI Act
[9] Section 56 of NTA
[10] Section 30(2) of CGTA
[11] Section 34(1)(a)(i) of NTA

G Indirect share transfer resulting in change in ownership of a Nigerian Company now taxable

Under the old regime (i.e. CGTA), gains from indirect share disposals by foreign entities generally fell outside the Nigerian tax net. The NTA changes this position by bringing such transactions into scope where they result in a change in ownership of a Nigerian company, or involve the transfer of ownership, title, or interest in assets located in Nigeria. This effectively extends Nigeria's taxing rights to offshore transactions that derive value from Nigerian assets.[12]

H Clarity on dutiable instruments and liable parties for Stamp duty

The Ninth Schedule to the NTA provides clearer guidance for the stamp duties payable on dutiable instruments as well as the person liable. In general, the obligation falls on the transferee in transactions involving an interest in real property, except in cases of voluntary disposition during the lifetime of the transferor. It also extends to the beneficiary of a service or any party taking security in a transaction.[13]

This clarification reduces ambiguity around responsibility for stamp duty; however, it also places an increased onus on companies to review transactions carefully and ensure the correct party accounts for the duty payable.

Some of the key changes include the following:

» **Exemption of on-lending loans from stamp duty,**

» **Increase in stamp duty on Agreements (all types) to N1,000**

» **Exemption of agreements with a value below N1,000,000 from Stamp duty**

[12] Section 47 of NTA
[13] Section 125 of NTA

I Input VAT recoverability for Financial Services Institutions

Under the previous VAT regime, the recovery of input VAT was generally restricted to VAT incurred on goods purchased or imported for resale, or goods used as stock-in-trade for the direct production of taxable goods. Consequently, service-based businesses, including FSI, had limited opportunities to recover input VAT, resulting in a significant portion of VAT incurred being treated as an additional operating cost.

The NTA significantly expands the scope of input VAT recovery by allowing taxable persons to claim input VAT incurred on taxable supplies, including services and capital assets, provided such expenses are incurred wholly, exclusively, and necessarily in the generation of taxable supplies. The Act further provides that input VAT claims must be made within five years after the end of the tax period in which the VAT was incurred.

For FSI, the practical application of this provision may be more complex because their revenue streams typically comprise both taxable and exempt supplies. While fees, commissions, and certain service charges may be subject to VAT, other income streams, such as interest income and gains from qualifying financial transactions, remain exempt from VAT.

Consequently, input VAT attributable to the generation of VAT exempt incomes, will not be recoverable and must be capitalised or expensed as part of the related cost.

Where expenses are incurred in generating both taxable and exempt income, financial institutions will be required to adopt an appropriate input VAT apportionment methodology to determine the portion of VAT that is recoverable. This will necessitate enhanced cost allocation processes, robust record-keeping, and periodic reviews to ensure that input VAT claims are accurately computed and supported in the event of a tax audit.

Accordingly, while the NTA creates an opportunity for FSI to recover a greater proportion of their input VAT, it also introduces additional compliance obligations relating to the identification, allocation, and documentation of expenses attributable to taxable and exempt supplies.

J No Withholding Tax exemption on interest on Interbank Placements

Under the previous tax regime, interest earned on interbank placements was specifically exempt from WHT. This exemption facilitated efficient liquidity management within the banking sector by eliminating the need for WHT deductions on short-term placements between financial institutions.[14]

[14] Section 78(1) of CITA

The NTA does not expressly retain this exemption. Consequently, there is uncertainty regarding the WHT treatment of interest arising from interbank placements under the new tax framework. Based on a literal reading of the Act, and in the absence of a specific exemption, such interest may be regarded as falling within the general scope of interest income subject to WHT.

Where WHT is deducted on interbank placement income, the tax may be available as a credit against the recipient institution's Companies Income Tax (CIT) liability. Nevertheless, the deduction could create cash flow constraints by accelerating tax collections and reducing the immediate availability of funds generated from treasury activities.

K Microfinance Banks now fully liable to VAT

Microfinance Banks (MFBs) are generally liable to charge and remit VAT on their taxable supplies, unless the transactions fall within the list of exempt supplies. The exemption that previously applied to the services of microfinance and mortgage banks under the old VAT regime has been removed under the NTA. This implies that MFBs are now liable to VAT on taxable fees, commissions, and service charges.[16]

L Research and Development Cost

Research and development expenses relating to development of digital banking platforms, financial technology solutions, risk modelling systems, payment infrastructure, and similar innovations may qualify for research and development expenses. However, the maximum amount of research and development expenses that can be claimed in a year is limited to 5% of turnover. The excess amount above the 5% of turnover is not tax deductible and cannot be carried forward. [17]

[15] VAT Modification Order 2021

[16] Section 185 of NTA

[17] Section 164 of NTA

Operational and Compliance Shifts Under the New Tax Laws

a Commercial dealings with unregistered taxpayers now attract a penalty of N5million

Mandatory Tax Identification (Tax ID) and KYC registration has become a precondition for companies engaged in banking, insurance, stockbroking, or other financial services, in opening and operating accounts for customers. Accordingly, engaging with unregistered taxpayers for commercial purpose is prohibited.[18]

The NTAA's introduced administrative penalty of ₦5 million to deter financial institutions from entering into a contract with an unregistered taxpayer. It is therefore important to embed this requirement into onboarding and KYC processes to mitigate the risk of penalties.[19]

b Attribution based on Consumption is now required for VAT filing purposes – N1million Penalty for default

Another significant change introduced by the NTAA relates to the VAT filing process. Taxable persons are now required to provide detailed information on the location where taxable supplies are consumed in their VAT returns, irrespective of the location from which the returns are filed. [20]

This requirement is particularly important because 30% of VAT revenue is distributed among the various tiers of government based on consumption.[21] Consequently, accurate reporting is essential to ensure proper revenue allocation as failure to provide the required consumption details in a VAT return attracts an administrative penalty of ₦1 million.[22]

[18] Section 8(2) of NTAA

[19] Section 100(2) of NTAA

[20] Section 22(11) of NTAA

[21] Section 81 (2) of NTAA

[22] Section 106 of NTAA

c Tax incentive returns

The NTAA has introduced an additional compliance requirement for taxable persons through the filing of Tax Incentive Returns alongside their annual income tax returns, in respect of tax incentives other than those generally available to all taxpayers.[23]

From a tax administration perspective, this requirement is designed to provide tax authorities with greater visibility into the fiscal cost of tax incentives granted to taxpayers. It enables the government to monitor the value of revenue forgone through such incentives, assess their effectiveness, and evaluate their broader economic and social impact.

While this development is beneficial to tax authorities, taxpayers must exercise caution in identifying and reporting incentives claimed in their tax returns to avoid any exposure to additional tax assessments, penalties, and interest during a tax audit or investigation.

d Tax planning disclosure

The NTAA introduces a mandatory disclosure regime requiring any person who enters into, or intends to enter into, a disclosable transaction or arrangement primarily designed to obtain a tax advantage to proactively disclose relevant information to the appropriate tax authority[24]. For this purpose, a tax advantage includes any relief, repayment, reduction, avoidance, or deferral of tax, as well as the avoidance of an obligation to deduct or account for tax.

The tax authority is empowered to prescribe the information required, the format and timing for disclosure, and penalties for non-disclosure, incomplete disclosure, late disclosure, or false disclosure. This provision is intended to enhance transparency and enable tax authorities to identify and monitor aggressive tax planning arrangements.

e E Invoicing and Electronic Fiscal System (EFS)

Following the Nigeria Revenue Service (NRS) public notice on the phased implementation of the e Invoicing and Electronic Fiscal System (EFS), taxpayers with gross turnover above ₦5 billion are already required to comply with the regime. Non-compliance attracts a penalty of ₦1 million on the first day of default and ₦10,000 for each subsequent day[25].

[23] Section 27 of NTAA

[24] Section 30 of NTAA

[25] Section 103 of NTAA

Taxpayers with turnover between ₦1 billion and ₦5 billion are expected to go live from 1 July 2026, while those below ₦1 billion will follow from 1 July 2027. In light of this, companies should begin aligning their reporting systems with the requirements, as early adoption will help ensure a smoother transition irrespective of turnover size.[26] The NRS has announced an enforcement action against all defaulting Large Taxpayers, from July 31st 2026.

f Transactions returns-filing requirement for Financial Institutions

Financial institutions are required to file annual returns with the relevant tax authority for individuals with cumulative monthly transactions of at least ₦50 million, and for corporate entities with transactions of at least ₦250 million.[27] These thresholds represent an increase from those applicable under the previous regime.[28]

g Reporting Obligations for Virtual Assets Service Providers (VASPs)

Given the classification of virtual or digital assets as chargeable assets, companies operating as VASPs, including those involved in the exchange, custody, or management of such assets, are now required to file returns on transactions involving the sale, exchange, or transfer of virtual assets. These filings must include key details such as the customer's identity, date of transaction, transaction value, and the type of virtual asset involved.[29]

[26] NRS Public Notice, "Implementation Timeline on the Phased Rollout of the E-invoicing & Electronic Fiscal System (EFS) Regime"

[27] Section 29 of NTAA

[28] Section 28 of Federal Inland Revenue Service (Establishment) Act

[29] Section 25 of NTAA

Conclusion

Nigeria's Tax Reform Acts represent more than a legislative update, they mark a fundamental shift in how FSI are taxed, monitored, and expected to operate. By broadening the tax base, introducing global-aligned measures such as minimum ETR and CFC rules, and strengthening compliance through digitalisation and reporting requirements, the reforms elevate tax from a compliance function to a strategic business consideration.

For the financial services industry, the priority is no longer just meeting filing obligations, but understanding how these changes affect profitability and long-term growth. It is therefore crucial for FSI to respond proactively, by aligning their tax positions, strengthening internal processes, and embedding tax considerations into business decisions, in order to be better positioned to navigate the evolving tax landscape and prevent potential future tax exposures in that regard.

Authors

Olubunmi Kuteyi
Partner,
Tax Services

Dayo Olusanya
Senior Manager,
Tax Services

Similoluwa Awodeyi
Assistant Manager,
Tax Services

Lagos Offices:

67, Norman Williams Street
SouthWest, Ikoyi
Lagos - Nigeria
Tel: 01-2919041; 0808 820 8747

27, Alhaji Bashorun Street
SouthWest, Ikoyi
Lagos - Nigeria

info@krestonpedabo.com
www.krestonpedabo.com

Abuja Office:

Ground Floor, Amb. Albert
Osakwe House
1473, Inner Block Street
Central Business District
Abuja FCT - Nigeria

Tel: 0706 546 89824

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