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THE NEW TAX REFORMS:

TAX IMPLICATIONS AND INCENTIVES FOR SMES

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01. Introduction

Small and Medium-Sized Enterprises (SMEs) remain a vital part of Nigeria's economy. They employ millions of people, support local communities, and contribute meaningfully to national economic growth. SMEs are often the most affected when tax laws are complex, unclear, or costly to comply with.

Recently, Nigeria introduced a major reform of its tax system through a new and consolidated tax law framework that took effect in January 01, 2026. This reform marks a significant shift in how taxes are administered in the country. Government authorities, business owners, professional advisers, and investors are all closely watching how these changes will influence the business environment, particularly for SMEs, which make up the largest number of businesses in Nigeria.

The new tax framework is designed to simplify tax rules, reduce the burden of multiple taxes, improve compliance, and create a fairer system for businesses of all sizes. For SMEs, the reforms bring both relief and responsibility. While there are opportunities in the form of reduced taxes and targeted incentives, there are also clearer obligations. This article therefore discusses, in clear and simple terms, the key tax implications, available incentives, and practical issues SMEs should understand as the new tax regime is being implemented.

02. Classification of SMEs under the Nigeria Tax Act

The starting point for determining tax liability under the new regime is business classification. Section 201 (interpretation section) of the Nigeria Tax Act, 2025 defines a small company as a business with:

- Annual gross turnover not exceeding ₦100 million, and
- Total fixed assets not exceeding ₦250 million.

03. Tax Impact

3.1 Companies Income Tax

Under Section 56 of the Nigeria Tax Act, 2025, qualifying small companies are exempt from Companies Income Tax (CIT); while medium and large companies are subject to the standard rate of 30%.

For SMEs, this exemption significantly reduces tax pressure. However, once the turnover threshold is exceeded, CIT becomes payable, often without adequate preparation, leading to cash-flow challenges. Hence, SMEs needs continuous tracking of its Turnover so as to avoid imposition of penalties when it exceeds the exempt threshold.

3.2 Development Levy and Replacement of Multiple Taxes

One of the major structural changes introduced by the Act is the consolidation of several existing levies replacing charges and other sector-specific levies such as Tertiary Education tax, Police Trust Fund (PTF) Levy, National Agency for Science and Engineering Infrastructure Levy (NASENI) Levy, National Information Technology Development (NITD) Levy into a single 4% Development Levy which is imposed on assessable profits of all companies as provided for under Section 59**.**

While small companies are exempt, medium-sized SMEs become liable once they cross the threshold. The issue for SMEs is not the rate itself, but the need for proper planning as they transition out of exempt status.

3.3. VAT Obligations

A small business may choose not to register, charge tax on its taxable supplies or file monthly VAT returns, in line with Section 22 (4) of the Nigeria Tax Administration Act (NTAA) 2025; provided a formal notice is submitted to the Nigeria Revenue Service (NRS). However, small businesses would be required to fulfil all these obligations once turnover exceeds the prescribed threshold. SMEs below this threshold are not required to charge VAT but may voluntarily register.

In determining whether a business meets the threshold of being a small company, the value of the following taxable supplies shall be excluded:

- supply of a capital asset of the person; and
- supply made solely as a consequence of the person selling the whole or a part of its business or permanently ceasing to carry on business.

As businesses grow, VAT compliance becomes unavoidable. Many SMEs underestimate the importance of VAT planning, leading to penalties, interest, and disputes with tax authorities.

3.4. Personal Income Tax Obligations

It is important to note that small company status does not excuse an SME from Pay-As-You-Earn (PAYE) obligations. If an SME employs staff and pays salaries or other taxable benefits, it must deduct and send PAYE to the relevant State Internal Revenue Service according to the Personal Income Tax Act (PITA). This duty applies even if the company is exempt from Companies Income Tax under the Nigeria Tax Act, 2025. SMEs also need to file monthly PAYE remittances and annual employer returns.

Furthermore, individuals who generate income beyond traditional employment—such as sole proprietors, partners, freelancers, and self-employed individuals—are personally accountable for filing and remitting their income tax in accordance with PITA. In instances where these individuals offer services to SMEs, the SMEs may also be subject to withholding tax responsibilities, which act as prepayments of tax for the individuals involved.
Failure to comply may result in penalties and interest.

3.5 Withholding Tax Obligations

Under the current withholding tax framework, a small company or an unincorporated body with similar characteristics may be exempt from the obligation to deduct tax at source on certain transactions. This exemption applies where the:

- supplier possesses a valid Tax Identification Number (TIN); and
- total value of the transaction does not exceed ₦2,000,000 within the relevant calendar month.

This is line with Section 4 (2) of the Deduction of Tax at source (Withholding) Regulations, 2024. This provision is intended to reduce the compliance burden on small businesses and low-value transactions, while still promoting formalization through the requirement for a valid TIN.

3.6 Compliance and Filing Requirements

Despite exemptions from tax payments, Section 11 of the NTAA, 2025 mandates that all companies must:

- Register with the relevant tax authority,
- Maintain proper books of account, and
- File annual tax returns.

Failure to file returns may result in penalties and loss of exemption status. Compliance, therefore, remains a critical obligation even for exempt SMEs. In addition, the tax exemption status of an SME does not preclude it from being tax audited. The NTAA gives the relevant tax authority to call for further books and returns where it deems necessary.

04. The Incentives

4.1 Zero Companies' Income Tax

One of the most straightforward incentives for SMEs under the new regime is the 0% Companies Income Tax rate applicable to qualifying small companies. This policy is in line with global best practices that emphasize the importance of business survival and reinvestment during the initial phases of growth.

4.2 Low/No Personal Income Tax

The majority of small and medium-sized enterprise (SME) owners are classified as low-income earners, often being artisans who employ individuals receiving low wages. The personal income tax (PIT) has been revised under the new tax reforms to alleviate the tax burden on SMEs, establishing a 0% tax rate for those with a taxable income of ₦800,000 annually, which indicates that income within this range is entirely exempt from taxation. Earnings exceeding this limit are subject to graduated tax rates, with the maximum rate set at 25%.

The practical implications of this reform include an increase in take-home pay, enhanced disposable income, and greater financial capacity for SME owners and their employees, thus promoting personal welfare and the sustainability of small businesses.

Most SME owners fall under the category of low-income scale, artisans, and do employ employees who earn low wages. The PIT under the new tax reforms has been restructured to ease tax burden on SMEs in that 0% tax rate applies to those earning a taxable income of ₦800,000 per annum, meaning income within this band is completely tax-free. Income above this threshold is taxed at graduated rates, with the highest rate capped at 25%.

The practical effect is higher take-home pay, improved disposable income, and increased financial capacity for SME operators and their employees, thereby supporting personal welfare and small business sustainability.

4.3 Loss Relief

Tax losses of an SME can be carried forward and offset against future taxable profits.

4.4 Alignment with International Context

Comparable SME-focused incentives exist in other jurisdictions, including:

- Small-profits relief under the UK Corporation Tax system, and
- Simplified SME tax frameworks recommended by the OECD.

Nigeria's reforms are therefore consistent with international trends that prioritize SME development through targeted tax reliefs.

05. Recommendations

To maximize the benefits of the new tax reforms, SMEs should:

- Invest in proper accounting and record-keeping systems to support compliance and incentive claims
- Closely monitor turnover and asset thresholds to maintain eligibility for exemptions.
- File tax returns promptly, even where no tax is payable.
- Seek professional tax advice as the business expands or approaches the SME threshold limits.

06. Conclusion

The Nigeria Tax Act, 2025 represents a policy shift towards supporting SMEs through reduced tax burdens, and targeted incentives. These reliefs and incentives provide meaningful financial relief for small businesses.

However, these benefits come with increased expectations around compliance, transparency, and record-keeping. SMEs that proactively understand and plan around the new tax framework will be better positioned to sustain growth, attract investment, and transition smoothly into larger corporate structures.

In summary, the new tax reforms offer SMEs not just tax relief, but an opportunity to build stronger, more compliant, and more resilient businesses.

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For more informations:

info@tacgroupng.com

+234 906 284 0810
+234 802 887 0342

The TAC Place., Block 113, Plot 22, Adebisi Ogunniyi Crescent, Off Oladimeji Alo Street, Lekki Phase 1, Lagos.

Tunde Adaramaja
Managing Consultant/CEO
E: tunde@tacgroupng.com

James Oni
Director,
Taxation & Regulatory Advisory
E: james@tacgroupng.com

Muheez Popoola
Senior Manager.
Taxation & Regulatory Advisory
E: muheez@tacgroupng.com

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