

MARKET INSIGHTS NIGERIA

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Overview of Nigeria's new tax framework for non-resident companies: nexus, attribution, and enforcement

Taxation of non-resident companies (NRCs) in Nigeria has historically been marked by practical challenges, including unclear profit attribution, difficult cost allocation, and enforcement constraints. To tackle these challenges, the tax authority has used deemed profit methodologies, which simplify administration but add uncertainty for both taxpayers and authorities.

On 1 January 2026, a suite of tax reform laws came into force in Nigeria, signalling a fundamental shift in Nigeria's international tax framework. In particular, the Nigeria Tax Act, 2025 (NTA) and the Nigeria Tax Administration Act, 2025 (NTAA) introduce more structured rules on nexus and profit attribution, strengthen enforcement mechanisms, and align aspects of Nigeria's tax system with emerging global standards. These reforms reflect a broader international trend towards expanding taxing rights over cross-border and digital economic activities, while creating greater legal certainty.

This chapter highlights the key features of the new regime and considers the impact for multinational businesses engaging with the Nigerian market.

Nexus rules: when does an NRC become taxable?

The NTA establishes four primary bases on which an NRC may be subject to tax in Nigeria.

Permanent establishment (PE). An NRC is taxable where profits are attributable to a PE in Nigeria. The definition is broad and includes a fixed place of business, dependent agent, stock maintained for delivery, construction or installation projects, and the provision of services through employees or subcontractors. Where there is a double taxation treaty with Nigeria, the treaty definition of PE prevails.

Significant economic presence (SEP). An NRC may be taxable in Nigeria, even without a physical nexus, where it derives annual gross turnover exceeding NGN 25 million (approximately USD 18,484.29) from digital or remote activities in Nigeria. Qualifying activities include e-commerce, online advertising, cloud services, digital content, online gaming, data storage, and similar services.

SEP may also arise from sustained interaction with Nigerian users, such as the use of a Nigerian domain name, pricing in NGN, or enabling billing in local currency.

Remote service provision. Income from offshore services to a Nigerian resident or a Nigerian PE is treated as Nigerian-sourced and taxable in Nigeria, except employment income, educational service payments, and expenses borne by a foreign PE of a Nigerian resident.

Insurance premiums. Premiums received from Nigerian residents or Nigerian PEs in respect of risks situated in Nigeria are taxable in Nigeria, regardless of whether the insurer maintains a physical presence in the country.

Profit attribution: how are profits taxed once nexus is established?

Once nexus is established, the NTA introduces an expanded framework for determining taxable profits.

Profit margin rule. Where the profits attributable to Nigerian activities cannot be determined, or where the profits fall below the amount derived from applying the NRC's profit margin (i.e. the proportion of the earnings before interest and tax)

on the Nigerian-sourced revenue, the NRS will adopt the profit amount derived from applying the NRC's profit margin to its total Nigerian-sourced revenue as its taxable profit.

In effect, the higher of actual profits and deemed profits (Nigerian revenue multiplied by the global margin) constitutes the taxable base. This rule may significantly increase tax exposure for high-margin businesses with relatively limited Nigerian operations.

Minimum tax safeguard. The NTA also introduces a minimum tax mechanism which creates a baseline tax liability, notwithstanding the profit amount derived from the statutory profit attribution mechanisms. Where withholding tax (WHT) applies to the NRC's operations, it operates as the minimum tax on the income on which WHT was deducted. Where WHT is inapplicable, the tax payable by the NRC will not be lower than 4% of the Nigerian-sourced income. Effectively, this ensures a tax yield regardless of whether an NRC reports low or no Nigerian profits.

Force of attraction rule. Where a PE exists, the NTA applies a force of attraction principle, attributing to the PE not only profits arising directly through it, but also income from the same or similar goods or services supplied into Nigeria by the NRC or its connected persons. This approach limits the ability to isolate Nigerian activities from broader group operations.

Accordingly, PE is treated as a separate and standalone entity, with deductions limited to costs incurred in generating the attributable income.

Additional tax exposure areas

Capital gains on indirect share disposals. The NTA introduces rules taxing capital gains arising from offshore disposals that results in a change in the ownership or group membership of a Nigerian company or Nigerian-situated assets. This has important implications for private equity exits, intra-group restructurings and cross-border holding structures.

Controlled foreign company rules. Where a Nigerian company controls a foreign subsidiary that retains profits without commercial justification, the undistributed portion may be deemed distributed and taxed in Nigeria. This aligns Nigeria with jurisdictions seeking to curb base erosion through offshore profit retention.

Alignment with global minimum tax principles. Nigeria has introduced a 15% minimum effective tax rate broadly aligned with the Organisation for Economic Co-operations and Development Pillar Two principles, applicable to large multinational groups. Where the effective tax rate on Nigerian-attributable profits falls below this threshold, a top-up tax may arise. This rule applies to constituent entities of multinational groups with aggregate turnover of at least GBP 750 million, and companies with Nigerian turnover of NGN 50 billion (approximately USD 36,968,576.71) and above.

Value added tax implications. The VAT regime continues to apply broadly to cross-border transactions. A supply is deemed to occur in Nigeria where goods are located in Nigeria, services are consumed in Nigeria, or where intangible rights are exploited by a Nigerian resident.

NRCs making taxable supplies are required to register and account for VAT. Although the reverse charge mechanism may shift the remittance obligation to the Nigerian recipient of the taxable supply in certain circumstances, the existence of a reverse charge framework does not eliminate an NRC's exposure to penalties for non-compliance.

Administration, enforcement, and dispute resolution

The NTAA significantly strengthens the administrative and enforcement framework for NRC taxation in Nigeria.

NRCs deriving Nigerian-sourced income are generally required to register and obtain a Tax Identification Number, subject to limited exemptions. Taxable NRCs must file annual income tax returns and, where applicable, VAT returns. Where returns are not filed or where the NRS disputes the declared position, it may issue additional assessments to the NRC on a best of judgment basis.

The penalty regime for non-compliance with tax obligations is robust, including financial penalties, interest (at the prevailing commercial rate), and in certain cases, personal liability for directors and officers of defaulting companies, unless it is demonstrated that the tax breach occurred without their knowledge, consent, or involvement.

From a dispute resolution perspective, where an NRC disagrees with an assessment, notice, or ruling issued by the NRS, an objection must be filed within 30 days of receipt of the assessment, failing which the assessment becomes final and conclusive. The NRS is required to respond within 90 days, after which the taxpayer's objection may be deemed upheld. Tax appeals to assessments proceed through the Tax Appeal Tribunal, the Federal High Court, the Court of Appeal, and ultimately the Supreme Court.

The NTAA also introduces an advance tax ruling mechanism, enabling taxpayers to seek clarifications from the NRS on statutory provisions or transactions. The NRS is required to issue its ruling within 21 days of filing the request, and once issued, the ruling could be binding on the tax authority, making it a valuable tool for NRCs seeking upfront certainty on their Nigerian tax position.

Practical mitigation strategies. In light of these developments, NRCs engaging with Nigeria should adopt a proactive and structured approach to compliance. Key steps include:

- conducting a detailed nexus assessment across physical and digital activities to identify whether a taxable presence has been or is likely to be triggered;
- modelling the tax exposure under the revised profit attribution rules;
- maintaining robust documentation of business structure, revenue flows, transfer pricing, and cost allocation methodologies; and
- engaging proactively with Nigerian tax advisors, and where appropriate, the tax authority.

Conclusion

Nigeria's tax reforms represent a significant recalibration of its approach to taxing non-resident companies. The combination of expanded nexus rules, more assertive profit attribution mechanisms, and strengthened enforcement architecture materially increased both compliance obligations and potential tax exposure for NRCs operating in Nigeria.

For multinational enterprises, the Nigerian market remains commercially significant. However, the evolving tax landscape requires careful navigation. A proactive strategy that is grounded in technical analysis, robust documentation, and early engagement will be essential to managing risk and ensuring compliance in this new environment.

AUTHORS' BIOGRAPHIES



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Igonikon is a partner in the Templars' Dispute Resolution and Tax Practices. She advises multinational and domestic clients on complex tax matters, including contentious tax assessments, regulatory compliance, and strategic tax structuring. Igonikon is a consummate tax controversy expert who has significant experience representing clients in numerous bet-the-company tax disputes across diverse sectors and has successfully challenged substantial tax liabilities before tax authorities, courts and tribunals. She is recognised as a notable practitioner in tax controversy by ITR World Tax Firm Rankings.



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