

YEAR-END TAX AND TRANSFER PRICING COMPLIANCE IN NIGERIA: NAVIGATING RISKS, TRUE-UPS, AND REGULATORY SCRUTINY.

INTRODUCTION

Year-end tax compliance has assumed heightened significance for multinational enterprises (MNEs) operating in Nigeria, particularly in the context of increased enforcement activities by the Federal Inland Revenue Service (FIRS) and the transition into a new tax regime from January 2026. Year-end is no longer an accounting checkpoint but a critical compliance period for businesses in Nigeria.

Notably, Year-End adjustments (YEA) is simply a correction made by a company at the end of its financial year to align the actual profits earned from transactions with related parties to the arm's length range that independent companies would have achieved. The primary goal is to ensure that the terms and conditions of related transactions are consistent with those that would have been agreed upon by independent entities. These adjustments typically occur shortly before the books are closed, allowing taxpayers to reconcile actual financial performance with transfer pricing policies.

This article examines the key year-end tax and transfer pricing obligations in Nigeria, highlights compliance risks arising from misalignment with statutory requirements, and provides practical guidance on managing year-end adjustments, reporting obligations, and audit exposure.

I. Corporate Tax Rules

a. Capital Allowances

A key aspect of year-end corporate income tax compliance is the proper treatment of capital expenditure through the capital allowance regime, which provides relief by permitting qualifying capital expenditure to be offset against assessable profits.

Under the Nigeria Tax Act ("NTA") 2025, which takes full effect from 1 January 2025, qualifying capital expenditure like all deductible expenses must satisfy the "**wholly and exclusively incurred**" test. Where this requirement is not met, the Federal Inland Revenue Service/Nigeria Revenue Service may disallow the expenditure, particularly where it is excessive, unrelated to income-generating activities, or insufficiently substantiated. This represents a notable departure from the position under the Companies Income Tax Act ("CITA"), which applied the **WREN (Wholly, Reasonably, Exclusively and Necessarily)** test.

Where qualifying capital expenditure is incurred wholly and exclusively for the purposes of a trade or business, capital allowance is granted for each year of assessment in which the asset is in use, at the rates prescribed under the NTA. This is subject to the conditions that the taxpayer owns and uses the asset at the end of the relevant basis period. Where the basis period is shorter than one year, the allowance is granted on a pro-rata basis. In addition, a notional balance of 1% of the qualifying expenditure is retained in the capital allowance schedule for record-keeping purposes until disposal of the asset, without affecting the amount claimable. At any point in time, the residue of an asset is determined as the original qualifying expenditure less capital allowances previously claimed.

Capital allowances granted under the NTA are deductible from assessable profits for the relevant year of assessment after the full application of loss relief provisions. Where assessable profits are insufficient to absorb the allowance in a particular year, the unutilised portion is carried forward and treated as a deduction in subsequent years until fully utilised. This also contrasts with the position under the CITA, which generally restricts capital allowance claims to two-thirds of assessable profits in any year, a limitation that is waived only for companies in the manufacturing, agricultural, and upstream or midstream gas sectors.

b. Withholding Tax (WHT) Considerations

Withholding tax compliance remains a significant year-end exposure. The Withholding Tax Regulations 2024 have introduced exemptions for small companies on transactions not exceeding ₦2 million, provided the supplier has a valid Tax Identification Number. While this exemption is intended to ease compliance burdens, it places additional responsibility on taxpayers to verify supplier status, transaction values, and documentation.

Incorrect application of WHT exemptions or failure to deduct and remit WHT appropriately can result in penalties, interest, and denial of expense deductibility. Notably, in the case of the supply of goods, rendering of services, or any other eligible transaction involving non-passive income, the withholding tax to be deducted at source shall be **twice the applicable rate** where the recipient does not have a Tax Identification Number (TIN). Accordingly, year-end reviews should reconcile WHT

deducted with payments made, confirm remittances, and ensure consistency between WHT schedules and corporate tax filings.

II. Transfer Pricing Rules

Transfer pricing is one of the most scrutinised areas of Nigerian tax compliance, particularly for MNEs engaged in controlled transactions with related parties. Nigerian transfer pricing rules chiefly anchored by the Income Tax (Transfer Pricing) Regulations 2018 require that such transactions comply with the arm's length principle, both in outcome and in conduct. It is not sufficient for a taxpayer to merely report an arm's length result; the pricing methodology and decision-making process must also mirror how independent parties would behave under similar circumstances.

Implementing year-end adjustments effectively involves reviewing all intercompany transactions such as imports, service payments, royalties, and financing arrangements to determine whether reported revenues, costs, and profits reflect what an independent company would earn under similar conditions. The year-end period is especially important for assessing whether actual results align with transfer pricing policies designed at the group level. Economic volatility, foreign exchange fluctuations, inflation, regulatory changes, and operational disruptions often cause deviations from budgeted outcomes. Where these deviations result in margins falling outside arm's length ranges, year-end transfer pricing adjustments (often referred to as true-ups) may be necessary.

In the Nigerian context, it is generally advisable to effect transfer pricing or similar adjustments before the financial statements are formally closed. Adjustments made after book closure typically give rise to book-tax differences, requiring additional reconciliations in the tax computation and often increasing audit risk. In any event, the Federal Inland Revenue Service retains the discretion to accept or reject unilateral downward adjustments, particularly where such adjustments result in a reduction of taxable profits and are not supported by robust economic justification or corresponding adjustments in the counterparty jurisdiction.

Transfer pricing documentation must also be prepared contemporaneously within six months after the financial year-end and must be readily available upon request. Companies with controlled transactions of ₦300 million or more face an accelerated 21-day deadline to submit documentation when requested by the FIRS, making continuous documentation readiness essential.

III. Country-by-Country Reporting (CbCR)

Nigeria imposes Country-by-Country Reporting obligations on MNE groups with consolidated group revenue of ₦160 billion or more. These obligations include filing a notification by the last day of the group's accounting year-end and submitting the CbC report within 12 months thereafter.

While recent judicial decisions have invalidated the Income Tax (Country-by-Country Reporting) Regulations 2018 on procedural and statutory grounds, the underlying policy expectation aligned with global BEPS standards remains. As a result, many MNEs continue to comply voluntarily to maintain transparency and manage reputational risk,

while retaining the ability to challenge penalties imposed under invalidated regulations.



IV. Challenges facing Year-end Adjustments

- a. High Documentation and Compliance Burden:** YEAs require extensive contemporaneous documentation, benchmarking analyses, and supporting evidence for all adjustments made. Under Nigeria's transfer pricing regime, the burden of proof rests on the taxpayer to demonstrate that related-party pricing reflects what independent parties would have agreed. Inadequate documentation can lead to audits and adjustments, significantly increasing tax liabilities and penalties.
- b. Subjectivity in Arm's-Length Interpretation:** FIRS closely examines whether year-end adjustments reflect what independent parties would have done, rather than merely achieving a favorable tax result. Section 192 of the Nigeria Tax Act 2025 emphasizes that both the pricing outcome and the process used to achieve it must align with arm's-length principles. YEAs that appear retrospective, artificial, or commercially unjustified may be challenged, even if the numeric result seems correct, unless supported by credible economic reasoning and defensible methodology.
- c. Difficulty Finding Local Comparables:** Defending YEAs requires showing that adjusted margins or prices fall within ranges achievable by independent taxpayers. Limited public data and the unique nature of some Nigerian sectors make finding reliable local comparables challenging, complicating benchmarking and increasing the likelihood of disputes with the tax authority.
- d. Secondary Tax and Cross-Tax Implications:** YEAs can also trigger additional tax obligations beyond corporate income tax. For example, increasing intercompany fees

or interest at year-end may generate higher withholding tax liabilities, while adjustments to import values could create inconsistencies with customs declarations, potentially resulting in extra duties or penalties. These cross-tax effects add complexity and risk to the year-end adjustment process.

V. Year-End Checklists and Recommendations

Effective year-end tax management in Nigeria requires a proactive and structured approach. Key practical steps include:

- Treating the six-month post-year-end deadline as the single most critical compliance milestone for all tax and transfer pricing obligations.
- Conducting pre-closing reviews of profitability and executing transfer pricing adjustments before financial statements are finalised to minimise book-tax differences.
- Ensuring transfer pricing documentation is complete, updated, and audit-ready throughout the year, particularly for high-value transactions.
- Reconciling transfer pricing adjustments with withholding tax, customs, and other tax implications to avoid secondary exposures.
- Align TP policies with local market conditions and forecasts
- Considering Advance Pricing Agreements (APAs) for complex or high-risk transactions to provide certainty and reduce audit disputes.
- Leveraging judicial precedents where FIRS enforcement actions rely on invalid regulations or exceed statutory authority.

CONCLUSION

Year-end tax and transfer pricing compliance in Nigeria has evolved into a strategic exercise requiring precision, coordination, and forward planning. The convergence of corporate income tax rules, transfer pricing obligations, CbCR requirements, and punitive enforcement mechanisms creates a high-risk environment for MNEs that approach compliance reactively.

By undertaking timely year-end reviews, aligning transfer pricing outcomes with economic realities, maintaining robust documentation, and proactively managing regulatory risks, taxpayers can significantly reduce audit exposure and penalties. In an era of intensified scrutiny and ongoing tax reforms, a disciplined and well-documented year-end compliance strategy is no longer optional; it is an essential component of sustainable tax risk management in Nigeria.

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