

The Nigerian Tax Reforms: What It Means for MSMEs and Individuals



INTRODUCTION

As implementation of Nigeria's Tax Reform Acts 2025 (namely The Nigeria Tax Administration Act 2025, The Nigeria Revenue Service Act 2025 and the Joint Revenue Board of Nigeria Act 2025) took effect from 1st January 2026, these legislative documents stand out as a landmark reform in Nigeria's tax framework. Notably, these Acts seek to simplify the tax system and make compliance easier, particularly for small businesses and ordinary Nigerians. It does so by reducing the compliance burden on small enterprises, protecting low-income earners, and encouraging broader participation in the formal economy. As micro, small and medium-sized enterprises (MSMEs), mostly registered as business names or unincorporated entities, form the backbone of the Nigerian economy, as traders, business owners, farmers, creatives, tech founders, and manufacturers, it is important to simplify these reforms and provide clarifications to aid compliance.

In recognition of the role of MSMEs, the new tax regime seeks to provide small businesses and individuals with much-needed breathing space to grow and operate sustainably. Hence, this article aims to highlight in simple terms, some of the core compliance points worth noting for small businesses and individuals in Nigeria.

No Company Income Tax for Small Businesses

One of the biggest reliefs in the new law is that small companies will no longer pay Company Income Tax. If your business earns less than ₦100 million in a year and the total value of your business assets is below ₦250 million, you are considered a small company under the law. If you fall into this category, you are exempt from Company Income Tax and the Development Levy under the law. In simple terms, the government allows you to keep your profits instead of paying corporate tax. This is a major win for startups and growing businesses.

No more minimum tax obligation

One of the biggest changes is the removal of minimum tax obligations. Previously, businesses could be taxed even when they made little or no profit, constituting a significant burden for startups and low margin businesses. However, the NTA has now made provisions deleting the obligation to remit tax where little profit or a loss is declared. Hence, only actual profit is subject to tax thereby giving business much needed savings where they declare a loss. For MSMEs, this means better cash flow and more room to grow without fear of being taxed into loss.

VAT for Small Businesses

Value Added Tax (VAT) obligations have historically posed significant compliance challenges for small businesses. Under the law, small businesses are now exempt from the obligation to register for, charge, and remit VAT on the supply of goods and services. Notwithstanding this exemption, eligible small businesses may voluntarily elect to register for VAT and bring themselves within the VAT net. Where such election is made, the business becomes fully subject to VAT compliance obligations. It is important to highlight that businesses can now claim input VAT on goods, services & fixed assets used to generate their taxable supplies, thereby freeing up cashflow for small businesses.

Support for Businesses That Want to Grow

The new tax system also encourages businesses to invest in growth by reducing unnecessary taxes and simplifying compliance. MSMEs can now reinvest profits instead of paying minimum tax or complicated VAT, while growing businesses enjoy clear and predictable tax rules. While this is more relevant to growing and medium-sized businesses, it shows that the law is designed to reward businesses that expand, create jobs, and contribute more to the economy.

Many Low-Income Earners Will Pay No Tax

One of the most significant reforms introduced by the Act is the new tax-free income threshold. Individuals earning ₦800,000 or less per year are now exempt from personal income tax entirely. This ensures that many Nigerians on the minimum wage, or slightly above it, take home their full earnings without tax deductions. For households already under pressure from rising living costs, this provides meaningful and immediate relief.

This is significant because it implies that a large portion of Nigerians will pay markedly lower or no personal income tax because tax is now tied to actual earnings and taxable income. This is in light of the Nigerian Financial Services Market Report which discloses that only about 10% of Nigerians earn above ₦100,000 per month and just 2.4% earn above ₦200,000 per month. Most low-income workers fall below

the taxable threshold and will not be required to pay personal income tax. This change gives immediate relief to everyday Nigerians who are earning modest incomes, helping them to keep more of what they earn while still being complaint with the tax system.

One Tax ID for Everything

To reduce confusion and improve coordination, the government has introduced a Unified Taxpayer Identification Number (Tax ID). Rather than maintaining multiple tax numbers across different tax authorities, individuals and business owners will now use a single identifier for all tax matters. This simplifies record-keeping, reduces errors, and improves overall tax administration.

Maintaining of Books of Accounts

The new tax reforms make it clear that keeping proper books of accounts is essential for businesses whether big or small. Accurate records help businesses calculate tax correctly, claim allowable deductions and avoid penalties. For MSMEs, maintaining books also makes it easier to access loans, attract investors and plan for growth.

Key Recommendations

Flowing from the above, it is worth noting that while the benefits of the new tax regime are real, they are not automatic, businesses and individuals must take necessary steps or establish relevant internal frameworks to take advantage. Hence, it is worth recommending the following:

- » Obtain practical, tailored and professional guidance & advise for your business
- » Introduce stringent internal documentation processes. As a starting point, adopt the use of simple accounting & invoicing tools which would ensure that your business records are organized and accurate.
- » Confirm your tax registration status
- » Depending on the nature and status of your business, it may be worth considering the possibility of formalizing your business in order to enjoy some of the benefits available in the laws.

CONCLUSION

At its core, the Nigeria Tax Act represents a major step forward for MSMEs and individual taxpayers alike. it reduces pressure on small businesses, safeguards low-income earners, streamlines compliance, and rewards growth. However, these benefits are only realized if taxpayers take equal responsibility i.e., registering properly, maintaining basic records, and staying informed are essential to fully enjoying what the Act offers.

You may reach out to our team at: info@wtsblackwoodstone.com for further guidance and support.

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