

Interest and Penalties under Nigeria's New Tax Regime: *Understanding the New Rules and Opportunities for Remission.*

November 2026

Introduction

Following the introduction of notable provisions under the new tax regime, the treatment of interests and penalties arising from tax defaults has become a key issue requiring renewed focus. Interest and penalties serve different purposes as interest compensates the Government for the delay in receiving tax revenue, while penalties sanction a taxpayer's failure to comply with statutory obligations. Under the new regime, both have significant financial consequences for taxpayers who fail to meet their tax obligations.

Hence, this article examines the legal framework governing interest and penalties, the recent changes to the applicable interest rates, the method of computation and the statutory relief available to taxpayers.

Legal Framework for Imposition of Interest and Penalties

Section 65 of the **Nigeria Tax Administration Act (the "NTAA"or the "Act") 2025** establishes the principal framework for imposing interest and penalties where a taxpayer fails to pay tax within the prescribed period. Notwithstanding that the Act imposes a penalty equal to 10% of the unpaid tax, which is then added to the outstanding liability,[1] **section 65(1)(b) and (c)** of the Act also imposes interest on unpaid tax denominated in naira and foreign currency. The applicable interest runs from the date the tax becomes payable until the date of payment.

It is worth noting that the 10% penalty is a statutory consequence of late payment, intended to sanction defaulters and deter future defaults. Interest, on the other hand, serves a compensatory purpose by accounting for the financial cost to the government of delayed tax receipts, including the potential cost of borrowing to bridge the resulting funding gap. This explains why the applicable interest rate is linked to prevailing market benchmarks. A taxpayer who settles an outstanding liability after the due date must therefore account for the principal tax, the applicable penalty and the accrued interest.

In the event of such default, **Section 65(2) of the Act** requires the relevant tax authority, whether at the state or national level, to serve a demand notice on the taxpayer. Where the taxpayer fails to pay within 30 days after service of the notice, the authority may proceed with enforcement under the Act. To this end, the relevant tax authority is empowered to recover tax, penalty and interest, all as debts due to it.[2]

The New Interest Regime

Effective 1 October 2026, the Minister of Finance issued the Nigeria Tax Administration (Interest on Late Payment of Tax) Order 2026 **(the "2026 Order")** pursuant to section 65 of the NTAA. Prior to the Order, the law provided for interest at the prevailing Central Bank of Nigeria Monetary Policy Rate (MPR) plus a spread to be determined by the Minister with regards to naira remittances. In the case of foreign currency remittances, interest was calculated at the prevailing Secured Overnight Financing Rate (SOFR), or any successor rate, plus the prescribed spread.

However, the 2026 Order introduces a more specific formula for calculating interest on tax liabilities arising from or remaining unpaid as at the effective date. For tax liabilities payable in naira, interest is calculated at the prevailing MPR plus one percentage (1%) point, subject to a minimum rate based on the yield on 364-day Nigerian Treasury Bills. In other words, where the Treasury Bill yield exceeds the

[1] Section 65(1)(a) of the Nigeria Tax Administration Act (NTAA) 2025
[2] Section 67 NTAA

MPR plus 1% point, the higher Treasury Bill yield will apply. The floor is intended to ensure that the interest charged on delayed tax payments reflects, at a minimum, the government's prevailing short-term borrowing costs. This replaces the previous five-percentage-point spread above the MPR.

For foreign currency tax liabilities, the applicable rate is SOFR plus six percentage points. The SOFR is a United States dollar (USD) interest rate benchmark that measures the cost of borrowing USD overnight where the borrowing is secured by US Treasury securities. Where SOFR is discontinued, its officially recognised successor rate applies.

The Order also introduces a monthly rate-setting mechanism. The applicable rate for each calendar month is determined by reference to the position on the last business day of the preceding month. The Nigeria Revenue Service (NRS) must publish the applicable rates on its website by the third business day of each month.

With respect to the method of computation, the Order provides for simple interest calculated daily, running from the date the tax becomes due until payment. Importantly, the revised interest formula does not remove the separate 10% late-payment penalty under **section 65(1)(a).** A taxpayer who defaults must therefore consider both charges.

Revised Computation of Interest and Penalties

A proper understanding of the new regime requires taxpayers to distinguish between the computation of the penalty and the calculation of interest.

Computation of the 10% Penalty

Under **section 65(1)(a) NTAA**, the penalty is 10% of the tax payable. It is a one-off charge arising from the failure to pay within the prescribed period. For example, where a company has an outstanding tax liability of **₦10,000,000,** the penalty is calculated as follows:

› 10% × ₦10,000,000 = **₦1,000,000.**

Therefore, the outstanding amount before interest becomes **₦11,000,000.**

Computation of Interest

Interest is calculated separately on the outstanding tax principal, using the applicable rate and period of default. For the period covered by the 2026 Order, the general formula is:

› **Interest = Principal Tax × Annual Interest Rate × (Number of Days ÷ 365).**

To illustrate, let's assume a company owes **₦10,000,000** in tax, which became due on 1 October 2026 and remains unpaid for 60 days. Assume that the applicable annual interest rate throughout the period is 20%. A 20% fee for a whole year on **₦10,000,000** would be **₦2,000,000**, but since the company was only late for 60 days out of a 365-day year, they only pay for those 60 days.

The interest calculation therefore is: ₦10,000,000 × 20% × (60 ÷ 365) = **₦328,767.12.**

The company's total liability would therefore be:

- Principal tax: ₦10,000,000
- 10% penalty: ₦1,000,000
- Interest: ₦328,767.12

Total liability: **₦11,328,767.12**

NB: This illustration assumes a constant interest rate for the 60-day period. Where the applicable rate changes between calendar months, the calculation must be divided into the relevant monthly periods, using the rate applicable to each period.

Remission of Interest and Penalties

Section 66 of the NTAA allows the relevant tax authority, where good cause is shown, to reduce or waive the whole or any part of the penalty or interest arising from tax defaults. Importantly, the remission of liabilities is not limited to those arising under the NTAA. The provision expressly extends to penalties and interest due under any other tax laws.

The expression "**good cause"** is not exhaustively defined under the law; hence this power is discretionary and the circumstances of each application will therefore matter. However, relevant considerations might include genuine administrative errors, circumstances beyond the taxpayer's control, documented difficulties affecting timely compliance and other facts that reasonably explain the default. Notably, remission of interest and penalty does not extend to cancellation of the principal tax liability.

The law further requires the relevant tax authority to submit monthly reports to the Minister or Commissioner responsible for finance. The reports must contain details of the taxpayers concerned, the circumstances giving rise to the remission and the amounts waived. This reporting requirement provides an element of oversight over the exercise of the remission power.

Conclusion

The new framework makes it important for taxpayers to monitor both their tax obligations and the financial consequences of default. The revised interest formula provides a market-linked basis for calculating the cost of late payment, but the 10% statutory penalty continues to apply.

Businesses with outstanding tax liabilities should reconcile their assessments, establish the dates on which their taxes became due and verify the interest rates applicable to each period. They should also review historical liabilities to determine whether any accumulated interest or penalties qualify for remission under the law. Taxpayers should not, however, treat remission as an automatic amnesty or a substitute for timely compliance. Conclusively, the new regime places greater importance on timely payment, accurate computation and active management of tax liabilities.

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

Authors



Oluwatobiloba Adekoya
Tobi@wtsblackwoodstone.com



Ibrahim Abdulateef
Ibrahim@wtsblackwoodstone.com

About WTS Blackwoodstone

WTS Blackwoodstone is an international business law firm that provides innovative business solutions for clients with diverse needs. The Firm's core practice areas include Corporate and Commercial law, Tax Advisory & Compliance and Transactional Services to resident and non-resident companies doing business in Nigeria. Our practice is based in Lagos and Abuja and is strategically placed to offer hands on legal services to our clients in the major economic hubs of Nigeria and the rest of Africa.

Our clients include locally headquartered multinationals, medium and small local and international clients, family-owned businesses, government agencies and high net worth individuals.

WTS Blackwoodstone is the Nigerian network partner of WTS Global. With representation in over 100 countries, WTS Global has grown to a leadership position as a global tax practice offering the full range of tax services and aspires to become the preeminent non-audit tax practice worldwide. WTS Global embodies the core values which we as a firm base our daily actions upon – innovation, excellence, reliability, and a global mindset – thereby further strengthening our firm's offering to multi-national clients.

About WTS Global

With representation in over 100 countries, WTS Global has already grown to a leadership position as a global tax practice offering the full range of tax services and aspires to become the preeminent non-audit tax practice worldwide. WTS Global deliberately refrains from conducting annual audits in order to avoid any conflicts of interest and to be the long-term trusted advisor for its international clients. Clients of WTS Global include multinational companies, international m.id-size companies as well as private clients and family offices.

The member firms of WTS Global are carefully selected through stringent quality reviews. They are strong local players in their home market who are united by the ambition of building a truly global practice that develops the tax leaders of the future and anticipates the new digital tax world.

WTS Global effectively combines senior tax expertise from different cultures and backgrounds and offers world-class skills in advisory, in-house, regulatory and digital, coupled with the ability to think like experienced businesspeople in a constantly changing world.

For more information please see: wts.com

Imprint
WTS Blackwoodstone
Unit 12, No 8 Office Apartments, Plot 8, Rasheed Alaba Williams, Lekki, Lagos
Nigeria
T: +234 9033 501 613 www.wtsblackwoodstone.com | info@wtsblackwoodstone.com

*[**Disclaimer**: The above information is intended to provide general guidance with respect to the subject matter. This general guidance should not be relied on as a basis for undertaking any transaction or business decision, but rather the advice of a qualified consultant should be obtained based on a taxpayer's individual circumstances. Although our articles are carefully reviewed, we accept no responsibility in the event of any inaccuracy or omission. For further information please refer to the author.*