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# THE 2025 TAX REFORM ACTS AND THE NIGERIA STARTUP ACT: RECONCILING INCENTIVES, COMPLIANCE, AND GROWTH

## A. INTRODUCTION

In 2022, the Nigeria Startup Act ("NSA") was signed into law by former President Muhammadu Buhari to incentivise innovation by providing regulatory ease and tax reliefs for qualifying startups.

To achieve its objective, Part VII of the NSA offers tax and fiscal incentives that qualifying startups may enjoy, encouraging participation and investment in the country. However, on Thursday, June 26 2025, President Bola Tinubu signed into law four (4) key Tax Reform Bills: the Nigeria Tax Act ("NTA"), Nigeria Tax Administration Act ("NTAA"), Nigeria Revenue Service Act ("NRSA"), and the Joint Revenue Board Act ("JRBA"), collectively referred to as the "Tax Reform Acts." Taking effect from January 1, 2026, these reforms usher in a new tax regime that creates opportunities but also challenges for startups and investors.

This article briefly examines how the Tax Reform Acts relate to the NSA, emphasising tax incentives, investor treatment, compliance obligations, and funding issues.

## B. HARMONISING THE 2025 TAX FRAMEWORK WITH THE NIGERIA STARTUP ACT

### I. Repeal of the Pioneer Status Incentive and Its Replacement with the Economic Development Incentive Scheme.

One of the most notable reforms introduced by the Tax Reform Acts, especially the NTA, is the abolition of the Pioneer Status Incentive ("PSI"), which provided incentives for startups, and its replacement with the Economic Development Incentive ("EDI"); a change that fundamentally reorganises the basis for corporate tax relief.

Under Sections 24 and 25(2) of the NSA, "labelled startups" were eligible to apply through the National Information Technology Development Agency ("NITDA") for PSI under the Industrial Development (Income Tax Relief) Act, which the NTA has now repealed. This enabled qualifying startups to enjoy a three-year tax holiday, extendable by two years of full corporate income tax exemption. However, the PSI regime had long been criticised for encouraging value-neutral participation, being susceptible to abuse, and lacking a strong connection to measurable economic contribution.

The EDI, introduced as part of the broader tax reform framework, supplants the PSI with a more structured, investment-driven incentive. Rather than a blanket tax holiday, the EDI offers a five percent (5%) annual tax credit on qualifying capital expenditure for a period of five years, subject to Approval by the President upon the recommendation of the Nigerian Investment Promotion Commission ("NIPC") and the Minister of Finance. Importantly, any unused credits may under some circumstances be carried forward.

This amendment reflects a deliberate policy shift from declaratory incentives to performance-based reliefs. It encourages real, traceable capital deployment rather than passive qualification based on sectoral labelling. The EDI redefines eligibility, making tax relief conditional on verifiable economic activity, and as such, more defensible from a fiscal policy perspective. Thus, rather than conflicting with the NSA, the 2025 Tax Reform Act enhances and clarifies its incentive mechanisms.

## II. Wider Tax Relief for Small Companies

The Tax Reform Acts significantly expanded fiscal relief for small companies, greatly extending benefits beyond the limited scope of labelled startups under the NSA. In the old tax regime, corporate income tax exemptions were restricted to businesses with annual turnover up to ₦25 million. The NTA markedly raises this threshold per Section 202: small companies with annual gross turnover of ₦50 million or less per annum with total fixed assets not exceeding ₦250 million are now entirely exempt from Companies Income Tax (CIT), Capital Gains Tax (CGT), and the newly introduced 4% Development Levy.

Specifically, Section 56 of the NTA clarifies that these small companies pay zero percent CIT, while Development Levy provisions (Section 59) exempt them from the levy completely. For capital gains, small company status now grants a full CGT exemption, significantly broadening the scope of tax incentives.

This democratises tax reliefs; by providing automatic tax relief based on size rather than labelling, it extends benefits to many more SMEs and early-stage firms. Creative enterprises, and regional micro-firms previously outside the NSA's labelling regime, can now access equivalent tax relief, aligning with the NTA's broader policy aim of fostering enterprise-led growth even where a Startup Label is absent.

## III. Investor Exemptions and Funding Dynamics

Section 163(1)(m) of the NTA creates a tax exemption on gains accruing from the disposal of assets by an angel investor, venture capitalist, private equity fund, accelerators or incubators with respect to a labelled startup, provided the assets have been held in Nigeria for a minimum of 24 months (2 years). This will, by implication:

1. Encourage more funding for Startups. Investors will be more willing to inject funds into Nigerian Startups when they are aware that their eventual exit profits are tax-free after 2 years.

2. Promote patient capital as the 24-month minimum holding period discourages speculative or short-term investments in Startups and encourages sustainability.

3. Boost Startups' valuation. Since investors' net gains are higher, they may be ready to invest larger quantities and tolerate higher valuations. Early workers and founders gain indirectly from this.

4. Enhances Ecosystem Infrastructure. The law encourages the development of support systems for early-stage entrepreneurs by granting exemptions to accelerators and incubators.

## C. CONCLUSION

The 2025 Tax Reform Acts recalibrate Nigeria's fiscal framework, replacing blanket, sector-based incentives with a performance-driven model while extending reliefs to a wider pool of small businesses. Startups and investors must reassess their tax strategies to maximise opportunities under the new regime. The reforms present both a problem and an opportunity for investors and entrepreneurs; those who emphasise compliance, optimise investment cycles, and modify funding arrangements will be better positioned to prosper in Nigeria's reinvented startup ecosystem.

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