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BASIS OF COMPUTATION FOR COMPUTING ASSESSABLE INCOME

SECTION 22 & 23 – BASIS FOR COMPUTING ASSESSABLE PROFIT FOR TRADE OR BUSINESS

- Normal Basis (Preceding Year Basis)
  - For any year of assessment, the taxable (assessable) profits are taken as the profits of the accounting period immediately preceding that year.
- First Year of Assessment (Commencement Rule)
  - For a newly established business, the first year of assessment is based on the actual profits earned from the date the business commenced until the end of the first accounting period.

BASIS OF COMPUTATION FOR COMPUTING ASSESSABLE INCOME

SECTION 22 – BASIS FOR COMPUTING ASSESSABLE PROFIT FOR TRADE OR BUSINESS

Commencement Rule

- Company A starts business on August 1, 2024. The company chooses its first accounting period to end on September 30 every year.
- Then: For the 2025 year of assessment, the company will be assessed on profits from August 1, 2024, to September 30, 2024 — i.e., actual profits from commencement to first year-end.
- The old rule of commencement date has been removed

BASIS OF COMPUTATION FOR COMPUTING ASSESSABLE INCOME

SECTION 23 – CHANGE IN ACCOUNTING DATE

- The basis period for the YOA in which the change occurs is from the day after the end of the previous basis period up to the new accounting date. All subsequent YOAs will be assessed based on the new accounting year.
- The taxpayer must notify the relevant tax authority of the change at least 30 days before the usual filing due date of the year in which the change occurs.
- Only a notification of change of accounting date from the taxpayer is **now** required.

BASIS OF COMPUTATION FOR COMPUTING ASSESSABLE INCOME

SECTION 24 – CESSATION OF TRADE OR BUSINESS

- When a business permanently ceases operations, the assessable profits for that year of cessation shall be calculated as Profits from the beginning of the accounting period to the date of cessation.
- If after the cessation date, the business or its receivers/liquidators receives income (e.g., outstanding receivables) or makes payments (e.g., late salary, supplier debt), which should have been included in (or deducted from) profits had they occurred earlier, then such amounts are deemed to have been received or paid on the day before cessation.
- Death of a Taxpayer: when a sole trader or professional dies, and the estate receives or pays any sum that would have affected the deceased's business income, then the income/payment is deemed to have occurred on the day before the death.

BASIS OF COMPUTATION FOR COMPUTING ASSESSABLE INCOME

SECTION 25 – CONTINUITY OF TRADES

- An individual is not treated as having commenced or ceased a trade, business, profession, or vocation simply because:
  - Their country of residence changes, or
  - They become or cease to be a partner in a partnership if the nature of the business remains the same.

Illustration 1 – Change in Residency

- Mr. Ade, a Nigerian sole trader, moved to Ghana in 2025 but continues to manage his Nigerian consulting business remotely. No cessation or re-commencement of the business is recognised.
- The business is considered continuous, and profit is taxed in Nigeria if it is sourced from Nigeria.

Illustration 2 – Change in Partnership Role

- Ms. Bola has been practicing as a lawyer since 2020. In 2022, she joined a legal partnership but left in 2024 to establish her firm. As a result, for tax purposes, Ms. Bola is not considered to have started or ceased a business in 2022 or 2024. Therefore, her trade is regarded as a continuous operation.

BASIS OF COMPUTATION FOR COMPUTING ASSESSABLE INCOME

SECTION 26 – BASIS FOR COMPUTING ASSESSABLE INCOME FOR INDIVIDUALS

- Trade, Business, Vocation = PYB
- Employment Income = AYB
- Chargeable Gains = AYB/PYB
- Trustees = PYB

ALLOWABLE/NON-ALLOWABLE DEDUCTIONS (S.20, NTA 2025)

The WREN concept has been reduced to only "Wholly" and "Exclusively".

- This means that only expenses that are wholly (entirely) and exclusively (solely for the purpose) of generating income are deductible.
- Only expenses that are actual, necessary, and compliant with tax rules are allowed.

Examples:

- Interest on Debt employed in generating the income
- Rent and premiums incurred in respect of land or building occupied
- Salary, wages, etc.
- Repair of premises, plant, machinery or fixtures employed.
- Other allowable expenses as specified in S.20 of the NTA.

COMPUTATION OF CHARGEABLE INCOME (S.30, NTA 2025)

Total Income of an Individual (Sec.28, NTA 2025)

- The **total income** of an individual in any year of assessment is determined by **subtracting** the **total deductions** from the individual's **taxable income**.
- Taxable Income Includes (Aggregate of):
  - Assessable Profits from trade or business;
  - Employment Income: Salaries, wages, bonuses, etc.
  - Investment Income: dividends, interest, and rental income.
  - Other Income: Any other source not captured above.
  - Chargeable Gains: From the disposal of chargeable assets. The concept of Chargeable Gains used to be Capital Gains.

Total Income of an Individual

- Total Deductions Include:
  - Losses - Business or capital losses.
  - Capital Allowances on qualifying capital expenditure.
  - Exempt Income, e.g. certain pensions, interest from government bonds.
  - Final Withholding Tax Income - Income already taxed at source

Total Income of an Individual

Treatment of Losses

- Business Loss can offset future profits of the same business until fully recovered.
- What is new? Treatment of losses for chargeable gains and Digital assets.
  - Digital/Virtual Asset Loss deductible only from profits from virtual assets.

COMPUTATION OF CHARGEABLE INCOME

Total Income of an Individual

<u>Illustration</u>

Mr. Tunde's income for 2024:

Source Amount	(₦)	
Business Profits	4,000,000	
Employment Income	2,000,000	
Dividend Income	1,000,000	
Capital Gain on Property	500,000	
Total Taxable Income		7,500,000

Deductions:

Loss carried forward from 2023 business:	1,000,000	
Capital Allowance	500,000	
Exempt dividend	1,000,000	
Total Deductions	2,500,000	
Total Income (Taxable) = 7,500,000−2,500,000 =	5,000,000	

COMPUTATION OF CHARGEABLE INCOME – NEW CHANGES

PRESUMPTIVE TAXATION – Section 29, NTA, 2025.

- The provision provides for the use of a presumptive tax regime in situations where a taxpayer's income cannot be reliably ascertained due to a lack of adequate records or impracticality of determining actual income.
- The law requires that the Minister issue Regulations for its administration.

COMPUTATION OF CHARGEABLE INCOME

Ascertainment of chargeable income of individuals

- Chargeable income = Total Income – Eligible Deductions
- Eligible Deductions:
  - National Housing Fund (NHF):
  - National Health Insurance Scheme (NHIS):
  - Pension Reform Act Contributions
  - Interest on Home Development Loans:
  - Life Insurance/Annuity Premiums:
  - Rent Relief: 20% of the annual rent paid, capped at ₦500,000, provided rent is declared with evidence.
- NEW: rent relief allowance.
- DELETED: Consolidated relief allowance – Higher of N200,000 or 1% Gross Income plus 20% of gross income.

Deductions to be claimed:

To benefit from any eligible deduction:

- The taxpayer must formally claim it.
- The claim must be in writing.
- The claim must follow the prescribed form or format as issued by the relevant tax authority.

COMPUTATION OF CHARGEABLE INCOME

Ascertainment of chargeable income of individuals

Illustration

		(₦)
Business Profit		4,500,000
Salary Income		3,000,000
Investment Income		1,000,000
Total Income		**8,500,000**
Contributions to NHF		(100,000)
Pension Contribution		(300,000)
NHIS Contribution		(50,000)
Interest on Mortgage Loan		(200,000)
Life Insurance Premium		(150,000)
Rent Paid (Paid annually)	(2,000,000)	
Rent Relief	20% of ₦2,000,000 =	(400,000)
Total Eligible Deductions		**(1,200,000)**
Chargeable Income		**7,300,000**

COMPUTATION OF CHARGEABLE INCOME

Rate of tax for individuals

- The rate of tax for individuals has been reviewed and contained under the Fourth Schedule of the Nigeria Tax Act.
  - First N800,000 at 0%;
  - Next N2,200,000 at 15%;
  - Next N9,000,000 at 18%;
  - Next N13,000,000 at 21%;
  - Next N25,000,000 at 23%;
  - Above N50,000,000 at 25%.

ARTIFICIAL TRANSACTIONS (SECTION 191, NTA 2025)

Power to Disregard or Adjust Transactions

If a relevant tax authority believes that a disposition or transaction is:

- Not given full effect,
- Artificial or fictitious, or
- Designed primarily to reduce tax liability,

- it may:
  - Disregard the transaction or arrangement entirely, or
  - Adjust the transaction to reflect a more appropriate tax outcome,
  - Then issue an assessment or additional assessment to ensure proper tax is paid.
- The key objective of this section is to prevent tax avoidance.

ARTIFICIAL TRANSACTIONS (SECTION 191, NTA 2025)

Right to Object or Appeal

- Taxpayers affected by such a direction can raise an objection or appeal under Chapter Four of the Nigeria Tax Administration Act, 2025, ensuring due process is followed.

Definitions and Scope

- "Disposition" includes any trust, grant, covenant, agreement, or arrangement.
- A transaction between connected persons (e.g., related parties) is automatically deemed artificial or fictitious if, in the tax authority's opinion, it was not made at arm’s length (i.e., not on fair market terms).

ARTIFICIAL TRANSACTIONS (SECTION 191, NTA 2025)

EXAMPLE:

Company A, a resident of Nigeria, sets up a subsidiary (Company B) in Bermuda, a tax haven. Company A "sells" its intellectual property (IP) to Company B at an unreasonably low price.

Company B then licenses the IP back to Company A, the parent company, charging high royalties.

This artificially reduces Company A's taxable income in Nigeria. The Service can disregard this arrangement and reassess the company.

TRANSACTIONS AT ARM'S LENGTH (S.192, NTA 2025)

Obligations of Companies in Related-Party Arrangements

- A company that enters an arrangement with a related party must:
- Ensure the terms and conditions of the arrangement are at arm's length (i.e., as if between independent entities).
- Report the arrangement in the prescribed format and manner set by the tax authority.

Tax Authority's Power to Adjust

- If a tax authority finds that the transaction does not reflect arm's length terms, it can adjust to align the transaction with the standards provided under the Transfer Pricing Regulations.
- These adjustments ensure the correct taxable income is reported.

TRANSACTIONS AT ARM'S LENGTH (S.192, NTA 2025)

Rule-Making Authority

- The relevant tax authority has the power to issue rules or regulations for administering this section, providing operational clarity and enforcement mechanisms

Definitions

- Arrangement: Includes any form of commercial or financial relationship, whether formal or informal agreements, schemes, or series of transactions.
- Arm's Length Terms: Conditions that would apply between unrelated parties acting independently in comparable circumstances.

TRANSACTIONS AT ARM'S LENGTH (S.192, NTA 2025)

EXAMPLE:

Company A in Nigeria sells goods to its foreign affiliate, Company B, at a price much lower than the market rate, thereby reducing Company A's taxable income in Nigeria.

The Service can adjust the sale price to the market rate (arm's length price) based on transfer pricing regulations and assess the correct taxable income.

Any Question