

Minimum tax for companies in Nigeria - FAQs

May 2020 | Nigeria

Income tax is payable on taxable income or profits. However, a person with no taxable income may have a tax liability. In such a situation, the estimated charge is a minimum tax. As minimum tax affects individuals and corporations, this article will address six frequently asked questions (FAQs) on minimum tax for companies in Nigeria.

1. What is minimum tax?

Minimum tax (MinTax) is when a company has no tax payable, or an assessable loss, or the tax computed is lesser than the MinTax in a year. It represents the guaranteed sum that a taxable person pays to the revenue authority in a year. A taxable person can be an individual or a company.

2. What is(are) the principal act(s)?

There are two principal acts for individuals and companies. First, the enabling law for individuals is Section 37 of the Personal Income Tax Amendment Act 2011 as amended. Second, Section 33 of the Companies Income Tax Act 2004 as amended (CITA) applies to corporations.

3. What is the rate for minimum tax?

MinTax rate is 0.5% of the total turnover less franked investment income. Insurance companies also use the same rate but with another tax base. MinTax for non-life insurance businesses is 0.5% of the gross

premium, while life assurance companies use 0.5% of gross income. Reference: Section 6(d) and 14(a) of Finance Act 2019.

4. Any exemption?

Yes. Companies exempt are;

- agricultural businesses,
- small companies with an annual turnover of below NGN25 million (twenty five million naira), and
- companies within the first four calendar years of operations. Section 14(b) of Finance Act 2019.

5. These provisions look different. Was the principal Act amended in Finance Act 2019?

Yes. Before 13 January 2020, the rate was;

- a. For turnover of NGN500,000 or below and the company has been operating for four calendar years or more, the MinTax amount is the higher of:
 - 0.5% of gross profit; or
 - 0.5% of net assets; or
 - 0.25% of paid-up capital; or
 - 0.25% of the turnover of the company
- b. For turnover above NGN500,000, the amount payable in (a) plus an additional tax of 0.125% on the revenue less NGN500,000.

However, agricultural businesses, companies with at least 25% foreign equity capital, and companies within the first four calendar years of operations were exempt from MinTax in the old provision.

6. When will the new provision take effect?

The Act came into force on 13 January 2020. Therefore, the tax authority will assess non-exempt companies to the new MinTax for returns that are due after 13 January 2020.

For instance, taxpayers with financial year ending

- 31 October 2019 - Due on 31 May 2020 (6 months after plus 1-month concession)
- 30 November 2019 - Due on 30 June 2020
- 31 December 2019 - Due on 31 July 2020

Other points to note

- Foreign equity is no more a basis for exemption.
- Businesses with at least 25% foreign equity and indigenous companies have the same exposure to MinTax.
- MinTax rate is a flat charge of 0.5% on turnover only. The lower the turnover, the lesser the amount payable. A company with an annual turnover of NGN100 million will have a MinTax of NGN500,000. In contrast, a revenue of NGN500 million per annum will attract a charge of NGN2.5 million.