NIGERIA REVENUE SERVICE
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INFORMATION CIRCULAR

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Subject: INFORMATION CIRCULAR ON ASCERTAINMENT OF INCOME TAX OF COMPANIES AND DEVELOPMENT LEVY

This circular is issued for the information and guidance of taxpayers, tax practitioners, and the public, in line with the relevant tax laws.

1.0 Introduction

This circular provides clarification on the determination of income tax of companies and development levy for resident companies, non-resident companies, and limited liability partnerships, in line with sections 27, 56, 59 and other relevant provisions of the Nigeria Tax Act (NTA), No 7, 2025. All companies, including small companies and those exempt from tax, are required to compute their tax and apply the applicable tax rate.

2.0 Assessable profits of trade and business

The assessable profit or loss of any trade, business, profession or vocation for each year of assessment is the profit of the accounting period immediately preceding a year of assessment from all sources. The assessable profit is determined according to the basis period in which the profit is generated.

The basis periods include:

2.1 Basis period for commencement

The assessable profit of the first year of assessment for a new trade or business, is the profits from the date on which such trade, business, profession or vocation commences in Nigeria to the end of its first accounting period of the trade or business.

Illustration 1:

J&S Ltd commence business on 1st August 2025 and chooses 31st December every year as its accounting date.

Determine the basis period for the first year of assessment.

Treatment:

First Year of Assessment	Basis Period
2026	01/08/2025-31/12/2025

2.2 Basis period for change of accounting date

Where a company changes the date to which it usually computes its assessable profit, the basis period shall be the period commencing from the first day after the basis period of the immediately preceding year of assessment up to the new chosen date on which the account was made, and the assessable profits of subsequent years of assessment shall be computed based on the new accounting period.

NOTE: The taxable person must notify the Service of the change in accounting date not later than 30 days before its usual due date of filing income tax returns.

Illustration 2:

J&S Limited usually makes up its accounts on December 31st every year. In June 2025, the Management decided to change the company's accounting date to September 30th and filed its return in March 2027 for the period ending September 30th, 2026.

Determine the basis period for the relevant years of assessment.

Treatment: The relevant years of assessment and the basis periods are as follows:

Years of Assessment	Basis Period
2025	01/01/2024-31/12/2024
2026	01/01/2025-30/09/2025
2027	01/10/2025-30/09/2026

2.3 Basis period for cessation of trade or business

Where a company ceases to carry on operations in Nigeria in an accounting period, the assessable profit for the relevant year of assessment is the amount of profits from the beginning of the accounting period to the date of cessation, and the tax shall be payable within six months from the date of cessation.

If a trade or business receives or pays any sum which ought to have been included or deducted from the profits of that trade or business if it had been received or paid before the cessation date, the sum is deemed to have been received or paid on the last day before cessation. Such sums must be disclosed to the relevant tax authority within one month of the receipt or payment.

Illustration 3:
XYZ Nigeria Limited makes up its account to 31st December every year, the company permanently ceased operations on 30th April, 2027.

Find the basis period for determination of assessable profit, due date of payment and filing tax returns for the relevant years of assessment

Treatment:
The relevant years of assessment and the due date for payment of tax due are as follows:

Year of Assessment	Basis Period	Due Date of Payment
2027	1/1/2026-31/12/2026	30/06/2027
2027	1/1/2027-30/04/2027	31/10/2027

3.0 Total Profits
The total profits of a company for any year of assessment is the total assessable profits from all sources, including chargeable gains[1] from the disposal of chargeable assets, less chargeable loss for the year, losses brought forward and less capital allowances incurred by the company.

4.0 Development Levy
A development levy of 4% is imposed on the assessable profits of all companies chargeable to tax under chapters two and three of the Nigeria Tax Act, except small companies and non-resident companies. The Service shall collect the levy and pay it into a special account created for that purpose. The levy shall not apply to assessable profits computed for hydrocarbon tax.

Computation of Income Tax and Development Levy

	₦	₦
Net Profit as per account		xxxx
Add back:		
Disallowable expenses		xxxx
Other taxable income		xxxx
Deduct:		
Other allowable expenses (if any)		(xxxx)
Non-taxable income		(xxxx)
Assessable profit from trade or business		**xxxx**
Add:		

Chargeable gains (virtual assets)[2]		xxxx
Chargeable gains (other assets)		xxxx
Assessable profit[3]		**xxxx**
Less:		
Losses		
Chargeable loss for the year		(xxxx)
Unrecouped loss brought forward	xxxx	
Trade/ business loss for the year	xxxx	
Total loss claimable	xxxx	
Loss recouped	(xxxx)	(xxxx)
Unrecouped loss carried forward	xxxx	
Remainder of assessable profits		**xxxx**

Capital allowance		
Capital allowance brought forward	xxxx	
Capital allowance for the year	xxxx	
Capital allowance available for claim	**xxxx**	
Capital allowance claimed	(xxxx)	(xxxx)
Capital allowance carried forward	**xxxx**	

Total profit	**xxxx**
Dividend paid	xxxx
Higher of total profits or dividend paid	**xxxx**
Income tax @ 0% or 30%	xxxx
Development levy @ 4% of assessable profit[3]	xxxx

Note:

[1]Chargeable gains or losses should be computed in accordance with the provisions of Part VIII of Chapter Two of the NTA, and the information circular on *Clarification on Ascertainment of Chargeable Gains*. Gains will constitute

part of assessable profits while losses will be deducted from the assessable profits.

[2]Chargeable loss from the disposal of virtual assets may only be deducted from chargeable gain of virtual assets, and any excess chargeable loss may be recouped from such chargeable gains in subsequent years. For further guidance on taxation of virtual assets, see *Guidelines on the Taxation of Virtual Assets.*

Illustration 4:

Ascertainment of the Total profits of Companies

ABC Ltd records the following transactions for the accounting year end 2026:

	₦
Annual turnover	110,000,000
Net Profit	14,000,000
Chargeable gains	1,200,000
Depreciation	900,000
Losses brought forward	2,000,000
Capital allowance	3,500,000
Fines	500,000

Determination of total profits, tax payable and the development levy of the company for the 2027 year of assessment (YOA).

Treatment:
ABC LTD - COMPUTATION OF TOTAL PROFITS, TAX LIABILITY, AND DEVELOPMENT LEVY FOR 2027 YEAR OF ASSESSMENT

	₦	₦
Net profit as per the account		14,000,000
Add back:		
Depreciation	900,000	
Fines	500,000	1,400,000
		15,400,000
Add:		
Chargeable gain		1,200,000
Assessable profit		**16,600,000**
Less:		
Losses brought forward	2,000,000	
Capital allowance	3,500,000	(5,500,000)

Total profit		**11,100,000**
Income tax @30%		3,330,000
Development Levy @4% of assessable profit 16,600,000 = ₦664,000		

NOTE:

• Chargeable gains from the disposal of a chargeable asset are added to the profit adjustment to arrive at assessable profit

• Capital allowance can be claimed completely if there is sufficient assessable profit to absorb it.

4.1 Claim of capital allowance

(a) Capital allowance is only claimable on the qualifying capital expenditure (QCE) used in generating the assessable profits of the relevant year of assessment.

(b) Where value added tax (VAT), import duty or levy is due on a QCE, capital allowance will only be granted to the extent to which VAT has been charged and duty or levy paid.

(c) Where a QCE is used partly for taxable income and partly for non-taxable income, the capital allowance is prorated, such that only the portion relating to the taxable income is allowed as a deduction, but proration will not apply where the non-taxable income is less than 10% of the total income.

(d) For companies enjoying Economic Development Tax Incentive (EDTI), the portion of capital allowance attributable to priority activities is only deductible from assessable profits of priority business.

4.1.1 Treatment of capital allowance where VAT, import duty or levy is due but not paid.

Illustration 5:

On 1st January 2026, MNO Ltd purchased a motor vehicle from Zulu Motors for ₦20 million. The asset was used exclusively in taxable trade during the 2026 financial year, but the VAT due on the purchase was not paid.

What is the treatment of capital allowance?

Treatment:

MNO Ltd cannot claim capital allowance on the Motor vehicle because it failed to pay VAT on the asset.

4.1.2 Treatment of capital allowance where VAT, import duty or levy is not due

Illustration 6:

On 1st January 2026, MNO Agro Allied Ltd purchased a tractor from Dili Motors for ₦120 million, the asset was put to use in 2026 financial year. Relevant duties were paid, but VAT was not.
What is the treatment of capital allowance?

Treatment:
A tractor used exclusively for agricultural purposes is an exempt item; therefore, VAT is not due on the supply, and full capital allowance is claimable.

4.1.3 Treatment of capital allowance for assets used in both taxable and non-taxable income

Illustration 7:
In 2026, ABC Ltd records a Total Income of ₦80,000,000, of which ₦60,000,000 constitutes taxable income while ₦20,000,000 constitutes non-taxable income. The company has a total capital allowance of ₦1,700,000 in respect of QCEs used for generating both classes of income.

Compute the capital allowance to be deducted for tax purposes

Treatment:
Percentage for non-taxable income

₦20,000,000/ ₦80,000,000 X 100% = 25%

Since 25% of the income is non-taxable, it exceeds 10% of the total income of the company; capital allowance must be prorated accordingly.

25% x ₦1,700,000 = ₦425,000.

₦1,700,000 - ₦425,000 = ₦1,275,000

Hence, only ₦1,275,000 can be claimed as capital allowance from the assessable profit.

Where non-taxable income is less than 10% of total income:
As in illustration 5 above, all variables remain the same, except that the non-taxable income is ₦6,000,000.

Compute the capital allowance to be deducted for tax purposes?

Treatment:
Percentage for non-taxable income

₦6,000,000/ ₦80,000,000 X 100% = 7.5%.

Since 7.5% is below the 10% threshold, proration will not apply. The company will claim the full ₦1,7000,000 capital allowance.

4.1.4 Treatment of capital allowance for priority and non-priority businesses

For companies enjoying EDTI, the capital allowance attributable to the company's priority activities is deductible only from the assessable profits of the priority business. Likewise, the capital allowance attributable to the non-priority business is deductible from the assessable profits of the non-priority business. Where a QCE is used for both priority and non-priority business, the capital allowance should be pro-rated between the two classes of business.

4.1.5 Transition rules for the claim of Capital allowance

Where capital allowance has not been fully claimed on a QCE in use prior to the commencement of the NTA, the following transitional arrangements is applicable in respect of the capital allowance claimable on the residue (tax written down value) of the QCE:

i. **Where the useful life of asset under the repealed law is less than that of NTA**:

Where capital allowance has been granted in respect of an asset before the commencement of the NTA, the remaining basis periods in which the allowance may be claimed are the number of years of assessment under NTA, less the number of years of assessment for which allowance has previously been enjoyed under CITA.

Illustration 8:

ABC Nig. Ltd acquired a Plastic Plant for N10,000,000 on 1st January 2023. Calculate the capital allowance for the relevant years of assessment.

Treatment:

Rates under the repealed law:

Initial Allowance (IA) 50%,

Annual Allowance (AA) 25% (i.e. 4 years)

Rate under NTA: capital allowance 20% (i.e. 5 years)

Type of Capital Allowance	2024 YOA (First Year)	2025 YOA (Second Year)
	₦	₦
Initial allowance	5,000,000	-
Annual allowance	1,250,000	1,250,000
Total C.A claimed	6,250,000	1,250,000
Residue (TWDV)	3,750,000	2,500,000

Type of CA	2026 YOA	2027 YOA	2028 YOA
	Third Year	Fourth Year	Fifth Year
	₦	₦	₦
Residue B/F	2,500,000/3yrs		

Capital allowance	833,333.33	833,333.33	833,333.33
Residue (TWDV)	1,666,666.67	833,333.33	100,000

Where ₦100,000 is 1% National cost of the asset.

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ii. **Where the useful life of asset under the repealed law is greater than or equal to that of NTA**:

Where capital allowances were granted in respect of an asset before the commencement of the NTA for years of assessment equal to or greater than the number of years allowable under the NTA, a one-off single allowance will be granted for the residue upon the commencement of the NTA, provided that 1% notional amount of the QCE is recorded until the asset is disposed of.

iii. **Where capital allowance is fully utilised under the repealed law:**

Where capital allowance has been fully granted before the coming into effect of the NTA, capital allowance shall not be granted on the amount required to be retained in the books under the repealed law.

4.2 Claim of Losses

There will be deducted the amount of loss incurred by a company in the trade or business, including losses from the disposal of chargeable assets employed in that trade or business. However, the following conditions apply:

(a) the aggregate loss deductions from the assessable profits should not exceed the amount of that loss;
(b) the loss can only be deducted from the trade or business in which the loss was incurred;
(c) the loss is deductible to the extent possible from the amount of assessable profits of the first year of assessment after that in which the loss was incurred, and in subsequent years until the loss is fully recouped; and
(d) the loss incurred during any year of assessment should be computed in accordance with the basis period provided in sections 22 to 24 of NTA.

4.2.1 Losses on Digital/Virtual Assets

Losses from one line of business can only be used against assessable profits from the same line of business. The same applies to the digital/virtual asset business. No cross-offsetting with assessable profits from other business streams.

Illustration 9:

Digital or Virtual Asset Losses

KYC Ltd is a company engaged in the business of mast installation services and has assessable profit of ₦10,000,000 in the 2027 year of assessment. The company invested in virtual assets and incurred a capital loss of ₦3,000,000 in 2027 year of assessment. The company further invested in virtual asset trading and made a chargeable gain of ₦1,000,000 for the 2028 year of assessment.

Explain how KYC Ltd will relieve the capital loss of ₦3,000,000 for the 2027 year of assessment.

Treatment:
The ₦3,000,000 virtual asset loss for the 2027 year of assessment cannot be relieved against the assessable profit from the business of mast installation for that year. The loss can be carried forward to subsequent years and may first be relieved from the ₦1,000,000 chargeable gain in 2028 year of assessment.

The unrelieved ₦2,000,000 loss will be carried forward to be relieved against any chargeable gain from virtual asset in subsequent years of assessment.

5.0 Income or profits of Companies in Partnership (Section 11)
Where two or more companies come together to carry on a trade or business in partnership, joint venture or similar arrangement in Nigeria, the income or profit realised from that trade or business is considered as a source of income or profit for each company, and each company's share shall be taxed separately in its own books.

5.1 Partnership with a Non-Resident Company: Where a non-resident company is involved in partnership in Nigeria, its share of income or profits is taxable in Nigeria.

5.2 Foreign Partnership
Where a partnership is carried on in a country other than Nigeria, the partner that is taxable in Nigeria is required to:

(a) include its share of revenue and cost, or profits in its assessable profits for the relevant year of assessment.
(b) supply particulars of the determination of the revenue and cost or profit to the Service with necessary adjustments made in accordance with the relevant provisions of Chapter Two of the NTA.

5.3 Exemption
The above rules do not apply to partnerships engaged in petroleum operations in Nigeria, as their operations are covered under Chapter Three of the NTA.

6.0 Amendment or Revision of the Circular

The Service may, at any time, withdraw or replace this Circular or publish an amended or updated version.

7.0 Enquiries

Any further information on this Circular should be addressed to the:

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