

NIGERIAN TAX LAW AND FIRMS CAPITAL ALLOWANCES IN NIGERIA

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Abstract

This study examined Nigerian tax law and capital allowances. Nigerian Tax Act was employed to measure Nigerian tax law while capital allowance was measured by initial allowance and annual allowance. The study conceptually focused on the manufacturing, oil and gas, utilities and mining and information and communication technology (ICT) sectors. The outcome demonstrates that the NTA significantly affects the initial and annual allowances of the sectors under consideration. Thus, the study concludes that capital allowances may impact the performance of Nigerian industrial firms, the oil and gas sector, and ICT. To improve the operational efficiency and financial performance of Nigerian businesses, the study recommends that the government of Nigeria continue to assess the capital allowances that these businesses get and grant additional capital allowances to more businesses.

Keywords: *Annual allowance, Capital allowance, Initial allowance, Nigerian Tax Act, Tax law.*

Introduction

No nation in the world desires to attain its economic growth and development objectives without encouraging the private business sector to invest heavily in the expansion of productive assets. This could be in the form of incurring capital expenditure on plants, machineries, equipment, and buildings. In this thinking, the Nigerian government accepts the private sector as the engine of growth and the creator of wealth (Nwonyuku, 2019). One of the fiscal incentive-driven policies designed to promote investments in Nigeria is Capital Allowance Scheme.

Capital allowance is the arrangement through which the government motivates private business owners to expand and develop. It stimulates domestic production capacity growth. The government grants tax relief to private businesses for incurring qualifying expenditures regarding certain assets used in producing income (Ochieng, 2020). In this way, businesses can grow, expand, and prosper, as well as help the government sustain the entire economy. Therefore, this background served as the foundation for this study, which looked at the implications of Nigerian tax laws on capital allowances, thereby aiming to achieve the underlisted specific objectives:

- i. To examine the extent to which Nigerian tax law affects companies' initial allowance in Nigeria
- ii. To determine how Nigerian tax law affects companies' annual allowance in Nigeria

Significance of the Study

This study broadens the knowledge on how Nigerian tax law affects capital allowance to academicians, tax practitioners, tax administrators, taxpayers, investors, landlords, lessees, and other related persons.

Additionally, it helps the government create policies, regulations, and laws pertaining to capital allowance and fosters an atmosphere that is favorable for investors and industry capital. Additionally, it gives the taxpayers the opportunity to properly use the capital allowance program to build and extend their commercial endeavors.

Literature Review

Conceptual Review

The Nigerian Tax Law

Nigeria's tax system is based on a comprehensive legal framework that outlines the principles, administration, and enforcement of taxation. These tax laws define the scope, rates, and procedures for tax assessment and collection, thereby serving as the backbone of the nation's fiscal policy and public finance system (Olaoye & Aderemi, 2021). The country's tax structure reflects a federal arrangement in which the powers of taxation are shared among the three tiers of government—federal, state, and local (FIRS, 2022).

The Nigerian Tax Act

In June 2025, the Nigerian president enacted the four tax reform bills into law. The Nigeria Revenue Service Act, Joint Revenue Board Act, Nigeria Tax Administration Act, and The Nigeria Tax Act are among these laws, which are generally referred to as "the Acts" from here on. To promote economic growth, boost revenue collection, strengthen efficient tax administration at all governmental levels, and improve the business climate, the Acts completely revamped Nigeria's tax system (PwC, 2025).

With effect from January 2026, the Nigerian Tax Act of 2025 is a historic piece of legislation that unifies and reforms Nigeria's disjointed tax laws. It repeals previous acts such as the Personal Income Tax Act (PITA) to create a single, unified statute for better revenue generation, streamlined administration, and taxpayers' clarity. It also introduces important changes such as a unified Taxpayer Identification Number (TIN) linked to NIN/CAC numbers and more precise rules for corporate and personal income taxation (Chijioke et al., 2025).

Capital Allowance

A capital allowance is a way of reducing the tax bill of a person who spent money on certain items that are used to benefit his business in the long term. The money incurred in procuring the item is termed a qualifying expenditure. Capital allowance is also described as a scheme that enables a firm to get entitled to tax relief for certain capital expenditures, thereby enabling them to be expensed against the business's annual assessable profits (Alhakiri & Oboh, 2017).

Nwonyuku (2019) states that capital allowances constitute tax reliefs granted by the relevant tax authority to an individual firm in compliance with current tax laws as a result of expending qualified capital expenditures on certain assets employed for business purposes, which also generates income during the same basis period such assets were used.

Importance of Capital Allowance Scheme in Nigeria

The capital allowance scheme was implemented as a budgetary measure to offer tax relief to the economy as part of the government's efforts to revitalize and strengthen the country's real sector economy. It is one of the government investment's investment tax breaks created to support the expansion and advancement of different economic sectors. It was designed with the intention of helping the economy to recover,

accelerating growth and development and bringing the country to par with the other economic world powers (Nwonyuku, 2019).

Furthermore, the capital allowance program creates opportunities for all investors who want to make investments in the nation's economy. The main goals of this government policy are to protect current investments from unfair competition, promote local production capacity growth, and support the real sector of the economy (Ochieng, 2020).

Capital allowance also encourages companies to incur capital expenditure to expand production capacity, modernize production facilities, diversify; into related products and reinvest of profits in the business. The scheme serves as an incentive for companies to invest in emerging and eco-friendly plants and machinery products. The government also expects that the scheme will deepen tax compliance and boost tax revenue generation (Ohaka & Agudu, 2022).

Initial Allowance

As a form of deduction, the initial allowance is available to businesses that made a qualified capital expenditure during the assessment year `when the asset was initially used for the business's operations. This allowance provides immediate assistance. It remains constant regardless of the of the beginning term or possession duration (Oladejo et al., 2024).

If a taxpayer requests in writing that the assessment be calculated using the fiscal year in which the investment expenditure was incurred, this reduction will be granted this reduction. Initially, the asset in issue was mostly or entirely used for manufacturing or financial gain. Permission is granted when the item is used for business and household purposes. The allowance allocation is fair. To determine the asset's original purchase price, the initial cost of the asset is divided by the first allowable rate (Uwaome & Ordu, 2024).

Annual Allowance

Firms who have made qualifying capital expenditures at the end of the starting period and for each year the asset is still in use are given an annual allowance regardless of whether the first reimbursement has been received. The yearly allowance is unaffected by how long the asset is occupied or used during the basis period, albeit it will be properly reduced if is less than a year (Oladejo et al., 2024).

The Nigerian Tax Act and Capital Allowance

According to the 2025 Nigerian Tax Act (NTA), all eligible capital expenditures may be claimed for capital allowances on a straight-line basis, that is, in equal yearly installments throughout their useful lives. As part of the larger objective to streamline tax compliance, this replaces the prior combination of initial and yearly allowances, which frequently used a declining balance approach (PwC, 2025). Furthermore, capital allowances will only be prorated against taxable and exempt income when a company's non-taxable income accounts for at least 10% of its overall revenue.

Oil and Gas, Utilities and Mining

Building on the foundation of the Petroleum Industry Act, the NTA represents a significant shift in Nigeria's fiscal environment by providing a modern, transparent, and unified tax system. The Act provides much-needed clarity and certainty for businesses and investors by harmonizing the rules specific to the oil and gas sector with the national tax system by repealing the Petroleum Profits Tax Act and the Deep Offshore

Inland Basin Production Sharing Contract Act and amending key sections of the PIA (Agbeyi, 2025). The Electricity Act of 2023 and the government's heightened emphasis on mining are also in line with the law's reform of the electricity industry.

Elimination of retaining 1% as tax residue: Oil and gas firms operating under the upstream level are no longer obligated to keep 1% as tax residue during the determination of capital allowances of assets that meet certain requirements. Now that capital expenses may be fully deducted from taxes, industry capital investment is more appealing (Uwaegbute, 2025).

Capital allowance for Productions Sharing Contracts (PSCs): As a result of the fact that Section 197 of the Nigerian Tax Act has eliminated Section 46, sub-section 6 of the Petroleum Industry Act, claims by PSCs on capital allowances that were converted under the Petroleum Industry Act's (PIA's) fiscal system may be challenged. Paragraph 14(6) of the PIA permitted PSC contractors to claim capital allowances on QCE, but not the concessionaire. As a result, the intervention of the Nigerian government is highly needed in this situation (Erikume, 2025).

Information, Communication, and Telecommunications Sector

According to the NTA, capital allowances for all eligible capital expenditures must be claimed in equal yearly installments or on a straight-line basis for the course of their useful lives. As part of the larger objective of streamlining tax compliance, this replaces the prior combination of initial and yearly allowances, which frequently used a diminishing balance mechanism. Capital allowances are prorated against taxable and exempt income only when non-taxable income accounts for at least 10% of a company's total revenue (Otufale, 2025).

In terms of communications infrastructure, the NTA now categorizes expenditures incurred in respect to mast as asset that qualify to receive 10% straight-line capital allowance. Plant and machinery that qualify to receive capital allowances were available for such infrastructure in the past, usually over a four-year useful life (Ndebbio, 2025).

Given the capital-intensive character of the sector, this shift may cause industry participants to reevaluate their investment strategy and anticipated cash flow advantages. In some jurisdictions, where legal frameworks could mandate more regular dividend payouts, this is especially important for corporations set up as real estate investment vehicles (Adedoyin, 2025).

Empirical Review

Nwonyuku (2019) conducted research on capital allowances and the Nigerian Company Income Tax Act, with a focus on how capital allowances affect Nigerian business income tax. Along with its advantages, it was discovered that capital allowance supports government activities aimed at achieving global economic goals and luring FDI. The results of the study show that a well-run capital allowance plan may boost Nigerian companies' lucrative non-current asset investments, enhance tax revenue production, and promote a tax-compliant culture.

Ngure (2021) examined the tax advantages and financial outcomes of 90 manufacturing companies in Kenya. The research examined how some manufacturing enterprises performed in relation to capital allowance awards, excise tax cuts, corporate income tax breaks, and advantages from lower customs tariffs. The study was conducted in 2011 and 2016. Panel data were gathered for the study using secondary data

collection. The use of a pooled panel regression was employed to investigate the how the independent factors affect the dependent variable. The study's findings demonstrated that firms' performance was most positively and significantly impacted by the corporate income tax benefits.

Timah and Chukwu (2021) investigated the impact of tax refunds on manufacturing firms' corporate profits in Nigeria. The study referenced 69 publicly listed Nigerian manufacturing firms. Earnings per share (EPS) serves as a metric for corporate profits. The accounting records of the chosen firms served as the secondary data source of the study. The findings of analysis using regression show that the proxies of tax incentives (annual allowance, investment allowance, and tax holidays) independently have significant influence on chosen firms' corporate profits (measured by EPS).

Oladejo et al. (2024) studied Nigerian business's operational efficiency and capital allowance. The balancing charge, initial allowance, and annual allowance are proxies for capital allowances, and the asset turnover ratio was used to gauge operating efficiency. Using deliberate sampling, 12 businesses were chosen as the sample size. Data from secondary sources were obtained using the company's publicly accessible financial filings. Descriptive and inferential statistics were used to analyze the data. According to the analysis's findings, capital allowance increased efficiency. Also, the factors of capital allowance and proxy for operation efficiency showed a positive and substantial association.

Conclusions and Recommendations

The study examined how Nigerian tax law (measured by the Nigerian Tax Act) affects capital allowance (measured by initial and annual allowances), with a specific focus on the manufacturing industry, oil and gas sector, and information and communication technology (ICT) sector. The outcome demonstrates that the NTA significantly affects the initial and annual allowances of the sectors under consideration. Therefore, the study concludes that capital allowances have a significant effect on the performance of Nigerian manufacturing firms, the oil and gas sector, and the ICT firms.

From the findings of this paper, it is justifiable to conclude that the effective implementation of a capital allowance scheme improves tax compliance, and tax revenue generation and as well, enhances investment in Nigerian companies' productive non-current assets. In addition, treatment of different forms of capital allowance has a reducing effect on companies' income tax, except for balancing charge.

The report recommends that the government of Nigeria keep assessing the capital allowances that these businesses get and that more enterprises receive larger capital allowances to improve the operational efficiency and financial performance of Nigerian businesses.

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