

# Nigeria's Tax Reset and the Free Zone Regime: Implications for Free Zone Operators

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*The enactment of the Nigeria Tax Act, 2025 (“NTA”) and the Nigeria Tax Administration Act, 2025 (“NTAA”) marks a decisive departure from that framework. The broad, location-based fiscal immunity that defined the legacy regime has given way to a model predicated on conditional incentives, minimum performance thresholds, and unified tax administration. The Free Zones themselves are not abolished, and their incentives are not entirely removed. What has changed is the legal basis on which those incentives are accessed and the administrative architecture through which they are verified.*

## The Pre-Reform Legal Position: Statutory Tax Insulation

The Nigeria Export Processing Zones Act, Cap N107, Laws of the Federation of Nigeria, 2004 (“NEPZ Act”) established export processing zones as legally distinct economic enclaves where activities approved by the NEPZA are carried out by enterprises similarly approved by NEPZA and licensed to operate as Free Zone Enterprises (“FZEs”) within the Zone. The NEPZ Act conferred substantial fiscal privileges on approved enterprises including exemption from federal, state, and local government taxes, rates, and levies;<sup>2</sup> duty-free importation of any capital goods, raw materials, machinery, and equipment intended for use in carrying out the approved activity;<sup>3</sup> and unrestricted expatriation of capital and profits, total foreign ownership of businesses, and freedom from foreign exchange controls.<sup>4</sup>

These incentives were not administrative privileges subject to executive discretion but arose by operation of law once an enterprise was licensed by NEPZA. This created a high degree of legal certainty for investors and lenders with long-term exposure to

## Abstract

This article examines the implications of this transition for enterprises regulated by the Nigeria Export Processing Zones Authority (“NEPZA”) and the Oil and Gas Free Zones Authority (“OGFZA”). It considers the pre-reform legal position, the structural changes introduced by the NTA and NTAA, and how those changes affect NEPZA and OGFZA regulated enterprises, and what the shift means for existing and potential investors, regulators and legal advisers navigating this new landscape.

## Introduction

*For over three decades, Nigeria's Free Trade Zones (“FTZs”) have operated on a simple promise: bring capital, create jobs, export value, and enjoy fiscal insulation.<sup>1</sup> This insulation was statutory, relied upon by investors in structuring long-term capital decisions. FTZs were deliberately shielded from Nigeria's tax and regulatory regime to attract investment and export-oriented businesses.*

<sup>1</sup>Nigeria Export Processing Zones Authority, ‘About Us: Historical Milestones of the Scheme’ <<https://nepza.gov.ng/about-us/>> accessed 19 June 2026.

<sup>2</sup> Section 8 of the NEPZ Act

<sup>3</sup> Section 12 of the NEPZ Act

<sup>4</sup> Section 18 of the NEPZ Act

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Zone-based projects.

The Oil and Gas Export Free Zones Act, Cap O5 LFN 2004 (“OGFZ Act”), adopted a similar model for Free Zones dedicated to oil and gas-related activity, recognising the capital-intensive nature of energy infrastructure and replicating the core incentive structure of the NEPZ Act.<sup>5</sup> Over time, this framework generated significant capital inflows and contributed materially to foreign participation in Nigeria's oil and gas sector.

### Structural Challenges Within the Legacy Framework

From a policy standpoint, Nigeria's Free Zone framework delivered measurable results over three decades. It attracted over \$200 billion in cumulative investment inflows across its 42 Free Zones and created more than 100,000 direct jobs and generated over ₦620 billion in government revenue in the five years following the introduction of the regime.<sup>6</sup>

From a legal and structural standpoint, however, the regime had several gaps that were difficult to sustain over time. The most consequential was the absence of any statutory mechanism tying export performance to continued eligibility for tax exemptions. Neither the NEPZ Act nor the OGFZ Act imposed quantitative

export thresholds or minimum activity requirements as a condition precedent to the enjoyment of fiscal incentives. Export orientation was presumed and left unverified.

Gradually, the distinction between Free Zones and the Nigerian customs territory became increasingly porous in practice. Many FZEs engaged extensively with the domestic economy, either through sales, service provision, or subcontracting arrangements, while continuing to rely on statutory tax immunity. This gave rise to legitimate concerns about fiscal equity and regulatory consistency, given that comparable entities operating within the customs territory remained fully taxable.<sup>7</sup>

Nigeria's exemption-heavy Free Zone regime also sat uncomfortable alongside evolving international tax standards, particularly the Organisation for Economic Co-operation and Development Base Erosion and Profit Shifting (OECD BEPS)<sup>8</sup> Action 5, which discourages preferential tax regimes that grant benefits without substantive economic activity requirements.<sup>9</sup> In addition, the BEPS 2.0 framework introduced a 15% global minimum effective tax rate<sup>10</sup> applicable to large multinational enterprises with revenues above EUR 750 million operating across jurisdictions.<sup>11</sup> A similar provision now exists under Section 57 of the

<sup>5</sup> Section 7-13 of the OGFZ Act

<sup>6</sup> Lagos Free Zone, ‘Nigeria's Free Zones: Powering Inward Investment and Industrial Growth’ (*Lagos Free Zone* 2025) <<https://www.lagosfreezone.com/media/news-events/news-article/nigerias-free-zones-powering-inward-investment-and-industrial-growth/>> accessed 23 May 2026.

<sup>7</sup> Rapheal, “Manufacturers to FG: Curb Free Trade Zone Abuses before Local Production Collapses” (*The Sun Nigeria*, December 11, 2025) <<https://thesun.ng/manufacturers-to-fg-curb-free-trade-zone-abuses-before-local-production-collapses/>> accessed 19 June 2026.

<sup>8</sup> OECD, *Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance, Action 5 – 2015 Final Report* (OECD Publishing 2015) <<https://doi.org/10.1787/9789264241190-en>> accessed 23 May 2026.

<sup>9</sup> OECD, *Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance, Action 5 – 2015 Final Report* (OECD Publishing 2015) <<https://doi.org/10.1787/9789264241190-en>> accessed 23 May 2026.

<sup>10</sup> OECD, *Tax Challenges Arising from Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS* (OECD Publishing 2021) <<https://doi.org/10.1787/782bac33-en>> accessed 23 May 2026.

<sup>11</sup> Organisation for Economic Co-operation and Development (OECD), *Summary Economic Impact Assessment: Global Minimum Tax* (OECD 2024) <<https://www.oecd.org/content/dam/oecd/en/topics/policy-issues/cross-border-and-international-tax/summary-economic-impact-assessment-global-minimum-tax-january-2024.pdf>> accessed 23 May 2026.

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NTA.

As Nigeria's integration into global tax governance frameworks deepened through its membership of the Inclusive Framework, the legal justification for a blanket, unverified exemption regime became increasingly difficult to defend. These pressures, combined with domestic fiscal concerns outlined above, provided the context in which the NTA 2025 reforms were enacted.<sup>12</sup>

### The Nigeria Tax Act, 2025: Redefining the Scope of Incentives

The NTA represents a comprehensive consolidation and reform of Nigeria's tax statutes into single legislative framework. For FZEs, it expressly amends the NEPZ Act and the OGFZ Act,<sup>13</sup> reflecting legislative intent to align Free Zone taxation with the broader national fiscal architecture.

### Repeal of the Blanket Exemption

Sections 197(2) and (3) of the NTA repealed Sections 8 and 18(1)(a) of the NEPZ Act and the OGFZ Act which had previously granted approved FZEs exemption from all federal, state, and local government taxes, levies, rates, and associated foreign exchange obligations.

It is important to note that Sections 18(1)(b) through (h) of the Acts remain operative. Accordingly, FZEs continue to enjoy 100% foreign ownership of businesses within the Zone, the right to remit profits and dividends earned by foreign investors, exemption from import and export licence requirements, the right

to repatriation of foreign capital investment with capital appreciation, and access to rent-free land during the construction stage, among other non-fiscal privileges.

### Conditional Exemption

In place of the blanket exemption, the NTA introduces a performance-based incentive regime governed by Section 60 and the Second Schedule of the NTA. The profits of an export processing zone entity (an approved and licensed enterprise under NEPZ Act<sup>14</sup>) whose entire sales are derived from the export of goods or services or serve as inputs into goods or services exclusively for export retains 100% exemption from tax,<sup>15</sup> this is also the case where not more than 25% of its sales arise from the sale of goods or services to the customs territory.<sup>16</sup> Where more than 25% of total sales arises from the sale of goods or services to the Nigerian customs territory, tax shall accrue in Nigeria on the profits of the entity in respect of its total sales to the custom territory.<sup>17</sup>

### 2028 Sunset

From 1 January 2028, any profits of an export processing zone entity shall be fully subject to tax in respect of its sales to the customs territory in Nigeria, regardless of the percentage of the sales.<sup>18</sup> The President retains the authority to defer this date by up to 10 years from the commencement of the NTA.<sup>19</sup>

NEPZA has publicly advocated for a longer transition period.<sup>20</sup> That position, however, does not alter the legal position under the NTA, as presently enacted. Any extension of the 2028 deadline can only take

<sup>12</sup> Chijioko Uwaegbute and others, *Nigerian Tax Reforms*, (PwC 2025) <<https://www.pwc.com/ng/en/assets/pdf/nigeria-tax-reform-insight-series-sectoral-analysis.pdf>> accessed 17 June 2026.

<sup>13</sup> Section 17(2)-(3) of the NTA

<sup>14</sup> Schedule 2 Paragraph 2(a) of the NTA

<sup>15</sup> Schedule 2 Paragraph 3(a) of the NTA

<sup>16</sup> Schedule 2 Paragraph 3(b) of the NTA

<sup>17</sup> Schedule 2 Paragraph 4 of the NTA

<sup>18</sup> Schedule 2 Paragraph 5 of the NTA

<sup>19</sup> *ibid*

<sup>20</sup> Nigeria Export Processing Zones Authority, 'NEPZA Seeks 10-Year Tax Relief for SEZ Investors' (NEPZA, 8 December 2025)

<<https://nepza.gov.ng/the-nigeria-export-processing-zones-authority-nepza-seeks-10-year-tax-relief-for-sezs-investors/>> accessed 4 June 2026.

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effect through a formal Presidential order issued pursuant to the NTA.<sup>21</sup>

FZEs that have structured their operations around a mixed export-domestic model must now assess whether that model remains viable beyond 2028, and whether existing contracts or restructuring of commercial arrangements become necessary.

### 15% Minimum Tax

The NTA introduces a 15% minimum effective tax rate (ETR) applicable to constituent entities of a multinational enterprise (MNE) group with an aggregate global turnover of at least €750 million, and to companies with an annual domestic turnover of ₦50 billion or more.<sup>22</sup> Framed as an alignment with the OECD BEPS Pillar Two global minimum tax initiative,<sup>23</sup> the domestic turnover threshold extends the scope of application beyond the international standard,<sup>24</sup> raising questions as to proportionality and Nigeria's competitive positioning relative to peer Free Zone jurisdictions.

Although FZEs generally benefit from preferential tax treatment, the NTA limits this advantage in defined circumstances. The exemption does not apply in respect of income derived from sales in the customs territory, that is, areas not within the Free Zone, nor to constituent entities of qualifying MNE groups regardless of their export orientation. Consequently, where a Free Zone enterprise falls within the statutory scope, whether by virtue of MNE group membership or by meeting the ₦50 billion domestic turnover threshold, and its ETR on net income is below 15%, the legislation imposes a domestic top-up tax to bring

the effective rate up to the prescribed minimum, notwithstanding the availability of export-based incentives or other fiscal reliefs, including instances where the reduced tax burden arises from legitimately granted incentives or unutilised tax attributes.

### Outsourcing and Attribution

The NTA also introduces targeted provisions to address related-party arrangements involving FZEs. Where a Free Zone enterprise outsources manufacturing or related activities to a Nigerian resident company, the income generated from those activities will be attributed to the resident company for tax purposes unless the arrangement can be demonstrated to be at arm's length.<sup>25</sup>

### A Unified Administrative Framework

The NTAA establishes a single, unified tax administration framework applicable to all taxable persons in Nigeria, including those operating within Free Zones, subject only to exemptions expressly preserved by law. Under the NTAA, FZEs are required to register with the Nigeria Revenue Service (NRS) and obtain a Tax Identification Number,<sup>26</sup> file annual tax returns,<sup>27</sup> including where they claim full exemption on qualifying income, maintain proper books of account and supporting documentation capable of substantiating any exemption claimed, and comply fully with audit and enforcement processes.<sup>28</sup> These obligations arise independently of whether any tax is ultimately payable.

### Withholding Tax

Under the pre-reform regime, the application of withholding tax (WHT) within Free Zones was a

<sup>21</sup> Schedule 2, Paragraph 5 of the NTA

<sup>22</sup> Section 57 of the NTA

<sup>23</sup> OECD, *The Global Minimum Tax Implementation Toolkit* (OECD 2026) <[https://www.oecd.org/content/dam/oecd/en/publications/report\\_s/2026/04/the-global-minimum-tax-implementation-toolkit\\_7ffacbc0ee66d84-en.pdf](https://www.oecd.org/content/dam/oecd/en/publications/report_s/2026/04/the-global-minimum-tax-implementation-toolkit_7ffacbc0ee66d84-en.pdf)> accessed 4 June 2026.

<sup>24</sup> OECD, *Minimum Tax Implementation Handbook (Pillar Two)*:

*Inclusive Framework on BEPS* <<https://www.oecd.org/content/dam/oecd/en/topics/policy-sub-issues/global-minimum-tax/minimum-tax-implementation-handbook-pillar-two.pdf>> accessed 4 June 2026.

<sup>25</sup> Schedule 2, Paragraph 7 of the NTA

<sup>26</sup> Section 4 of the NTAA

<sup>27</sup> Section 11 of the NTAA

<sup>28</sup> Section 31 of the NTAA

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matter of interpretive uncertainty. The FIRS guidelines issued following the Finance Act 2020 clarified that FZEs were required to deduct WHT on payments to companies operating within the custom territory,<sup>29</sup> but the position on purely intra-Zone transactions and on payments between tax-exempt entities to other exempt entities remained contested.

Under the new framework, there is no general WHT exemption for FZEs. Under Section 51 of the NTAA where a Free Zone enterprise makes payments including dividends, interest, rent, royalties, and fees for professional, technical, or management services, the obligation to deduct and remit WHT would be applicable. This has significant implications for intercompany financing arrangements, service agreements, and long-term contracts structured under the legacy regime.

### Value Added Tax (VAT)

For VAT purposes, the NTA preserves a targeted exemption: supplies consumed by approved entities within Free Zones and Export Processing Zones are exempt from VAT, provided the consumption occurs in accordance with the conditions stipulated by law.<sup>30</sup> Services provided from the customs territory to FZEs, and goods sold by FZEs into the customs territory, remain subject to VAT in the ordinary course. Enterprises with supply chains spanning both the customs territory and the Zone must carefully map each transaction to determine where VAT obligations arise.

### Advisory Considerations for Investors and Operators

The implications of the tax reforms extend beyond immediate tax exposure into the financing and bankability of Free Zone projects. Many Zone-based

investments were structured on the assumption of long-term fiscal insulation, with debt tenors, pricing models, and covenants calibrated to legacy tax exemptions. The compression of transition timelines and the introduction of conditional incentives therefore introduce refinancing, repricing, and covenant-compliance risks that extend beyond tax.

Investor confidence will depend not only on the formal availability of incentives, but also on the predictability of their administration. Clear transition arrangements, consistent regulatory interpretation, and disciplined implementation during the period leading to the 2028 domestic-sales sunset are preconditions for that confidence.

In light of the reforms, enterprises operating within Free Zones should treat the compliance as an immediate operational priority. A comprehensive review of existing contractual arrangements and financing structures is also warranted, with particular attention to tax change clauses, gross-up provisions, transfer pricing documentation and force majeure language capable of absorbing the new tax exposure.

Free Zone business models will also need to demonstrate genuine export orientation and economic substance to fully benefit from available incentives. Compliance should be viewed as a strategic imperative rather than a residual obligation. Enterprises deriving material revenue from domestic sales must assess the 2028 sunset provision realistically and plan accordingly. Absent a formal Presidential order extending the transition period, that deadline should be treated as firm.

Above all, enterprises that have historically operated

<sup>29</sup> Federal Inland Revenue Service, "Guidelines for Filing of Income Tax Returns by Approved Enterprises Within the Export Processing and Free Trade Zones" (2021) <<https://assets.kpmg.com/content/dam/kpmg/ng/pdf/tax/guidelin>

[es-for-filing-of-income-tax-returns-by-approved-enterprises.pdf](#)> accessed 19 June 2026.

<sup>30</sup> Section 186(1)(i)

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outside the mainstream tax administration system must now build the compliance infrastructure the NTAA requires: registration, return filing, record-keeping, and concurrent substantiation of exemption claims.

### Conclusion

The enactment of the NTA and NTAA do not intend the end of Nigeria's Free Zone policy. Rather, it represents an intentional recalibration toward a more transparent, performance-based incentive framework aligned with domestic revenue objectives and evolving international tax standards.

While the era of automatic, location-based tax immunity has passed, Nigeria's 42 Free Zones and over 500 licensed enterprises remain a viable component of Nigeria's investment landscape for enterprises willing to adapt to the new legal and regulatory environment, though on materially different legal terms from those that prevailed for the preceding three decades.

The operative question for existing and prospective investors is no longer simply whether an enterprise is located within a Free Zone. It is whether that enterprise can demonstrate, on an ongoing basis, that its operations satisfy the performance thresholds on which continued exemption now depends. What has changed is the legal basis of participation and the conditions of its maintenance. That shift will determine whether Nigeria's Free Zones retain their competitive position in an evolving regional investment landscape.

### Disclaimer

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