


ARTICLE SERIES

# FINANCE ACT- INTRODUCTION OF CGT ON THE DISPOSAL OF SHARES



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The recently signed Finance Act, 2021 (“Act”), which took effect on 1 January 2022, amended the Capital Gains Tax Act and potentially increases the cost of a merger/acquisition transaction. Before the amendment, Capital Gains Tax (“CGT”) was not payable upon the disposal of shares. The tax liability of persons holding shares in Nigerian companies was limited to the payment of withholding tax on dividend received.

Section 30 of the Capital Gains Tax Act has now been amended to provide that CGT at the rate of 10% will be payable in respect of gains made on the disposal of shares of a Nigerian company. The only exceptions to the requirement to pay CGT are:

- where in the year of disposal, the proceeds are reinvested to acquire the shares of a Nigerian company, provided that the portion that is not so utilized will remain subject to CGT;
- where the disposal proceeds, in aggregate, are less than N100 million in any 12 consecutive months; and
- share transfers between approved parties in a registered/regulated securities lending transaction.

The effect of this amendment is that a seller who does not reinvest the proceeds to acquire shares of a Nigerian company in the year of disposal will have to pay CGT at the rate of 10% on the gains. The tax might be particularly harsh in some cases, such as where shares are sold at a price that is more reflective of inflation and currency devaluation than real value accretion.





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