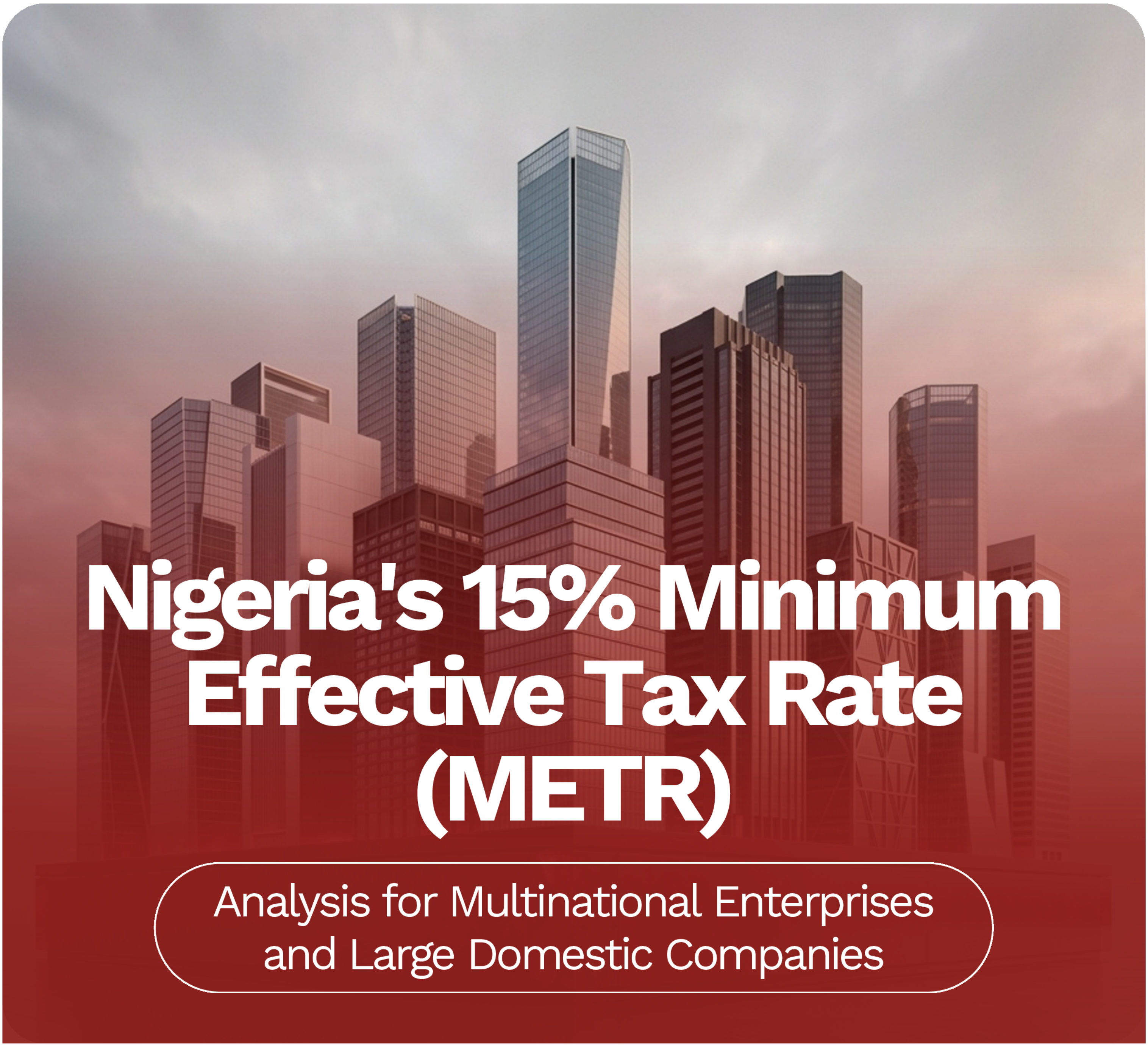

Nigeria's 15% Minimum Effective Tax Rate (METR)

Analysis for Multinational Enterprises and Large Domestic Companies

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Introduction

A major innovation introduced by the Nigeria Tax Act (the "NTA") is the 15% Minimum Effective Tax Rate (the "METR"), which represents a fundamental shift in Nigeria's corporate tax framework. The METR is intended to guarantee that companies of significant economic scale bear a minimum tax burden, notwithstanding the availability of incentives, exemptions, or reliefs.

The METR is principally implemented through Sections 6(3) and 57 of the NTA. While both provisions pursue the same policy objective of minimum taxation, they apply to different classes of taxpayers and operate through distinct mechanisms.
This article examines the scope and operation of these provisions, with particular focus on their implications for multinational enterprises (MNEs), large domestic companies, and Nigerian parent companies with foreign subsidiaries.

Scope of the METR Application under Section 6(3): Nigerian Parent Companies and Low-Taxed Foreign Subsidiaries

Section 6(3) addresses profits earned outside Nigeria that remain economically connected to Nigeria through ownership and control. It applies where a non-resident company is either a subsidiary of a Nigerian company or a member of a multinational group headed by a Nigerian company, and the income tax paid by that non-resident company in a year of assessment produces an Effective Tax Rate ("ETR") below the METR.

Once a Nigerian company qualifies as a parent in relation to a low-taxed foreign subsidiary, it falls within the scope of Section 6(3), regardless of its turnover or size.

Where the foreign subsidiary is taxed below 15%, the Nigerian parent becomes liable to a top-up tax in Nigeria sufficient to raise the subsidiary's ETR to the METR. This liability rests on the Nigerian parent, not the foreign entity. The provision therefore prevents Nigerian-headed groups from retaining profits in low-tax jurisdictions without a corresponding Nigerian tax charge.

In effect, Section 6(3) operates as a controlled foreign company–style minimum tax rule aligned with global anti-base erosion principles. It ensures that offshore profit shifting does not undermine Nigeria's minimum tax policy.

Scope of Application of the METR under Section 57(2)

Unlike Section 6(3), which applies indirectly through Nigerian parent companies, Section 57 imposes the METR directly on companies operating in Nigeria. Section 57(2) identifies two categories of companies subject to the regime: multinational enterprises and large domestic companies.

Multinational Enterprises under Section 57(2)(a)

Section 57(2)(a) applies to any company that is a constituent entity of a multinational enterprise group with aggregate group turnover of at least €750 million (or its equivalent).

The threshold is assessed at the group level rather than by reference to the Nigerian entity alone. As a result, a Nigerian subsidiary, branch, or permanent establishment may fall within the METR regime even where its Nigerian operations are relatively modest, provided the group meets the €750 million turnover requirement.

For companies within this category, the METR applies to Nigerian-sourced profits. Where the ETR falls below 15% in a year of assessment, the company must pay an additional amount to bring its effective rate up to the METR.

Large Domestic Companies under Section 57(2)(b)

Section 57(2)(b) extends the METR to large domestic companies by applying to "any other company with an aggregate turnover of N50,000,000,000 and above in the financial year."

This provision significantly expands the reach of Nigeria's minimum tax regime by capturing large Nigerian companies with no cross-border operations. The determining factor is economic scale, measured by turnover, rather than profitability.

Section 57(4) further authorises the Nigeria Revenue Service to prescribe a higher turnover threshold for large domestic companies. Until such regulations are issued, the N50 billion statutory threshold remains applicable.

Computation of the ETR

Under Section 57(1)(a), the ETR is defined as covered taxes expressed as a percentage of net income. Accordingly, the computation is confined strictly to these two variables.

Covered taxes include Companies Income Tax, Petroleum Profits Tax, Hydrocarbon Tax, Development Levy, and priority-sector tax credits.

Net income refers to profit before tax as shown in audited financial statements, excluding franked investment income and unrealised gains or losses. For life insurance companies, net income further excludes policyholders' gross income and investment income.
Where the resulting ETR is below 15%, the company must pay a top-up tax sufficient to raise its ETR to the METR.

METR Exception for Approved Free Zone Enterprises

The NTA introduces a narrowly defined exception for approved free zone enterprises.
Under Section 57(3), the METR rule does not apply to an approved enterprise operating in a free zone in respect of its approved activities. This exception is, however, limited. It does not apply:

1. To sales made within Nigeria's customs territory; or
2. Where the free zone enterprise is itself a constituent entity of a multinational group that meets the €750 million turnover threshold.

Implications for Companies with Unexhausted Pioneer Status Incentives

Section 195 of the NTA repeals the Industrial Development (Income Tax Relief) Act, which previously governed the Pioneer Status Incentive (PSI). However, Section 198 preserves rights and obligations under repealed enactments to the extent that they continue to have effect.

Accordingly, companies with unexhausted PSI approvals granted before the commencement of the NTA may continue to enjoy those incentives for the remainder of the approval period, notwithstanding the METR.

Implications under the Economic Development Tax Incentive (EDTI)

Part II of Chapter Eight of the NTA introduces the Economic Development Tax Incentive (EDTI) as the successor to the PSI regime. Section 176(2) expressly subjects the EDTI to the METR and provides that EDTI credits cannot be applied to offset any additional tax payable under Section 57.

Conclusion

The introduction of the 15% METR under the NTA signals a decisive move towards a minimum-tax-based corporate tax system. Through Sections 6(3) and 57, the Act ensures that multinational groups, large domestic enterprises, and Nigerian-headed corporate groups with low-taxed foreign subsidiaries contribute a minimum level of tax regardless of incentives or exemptions.

For affected companies, the METR necessitates a reassessment of tax structures, incentive planning, and cash-flow projections as Nigeria's minimum tax framework continues to develop.

Author

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