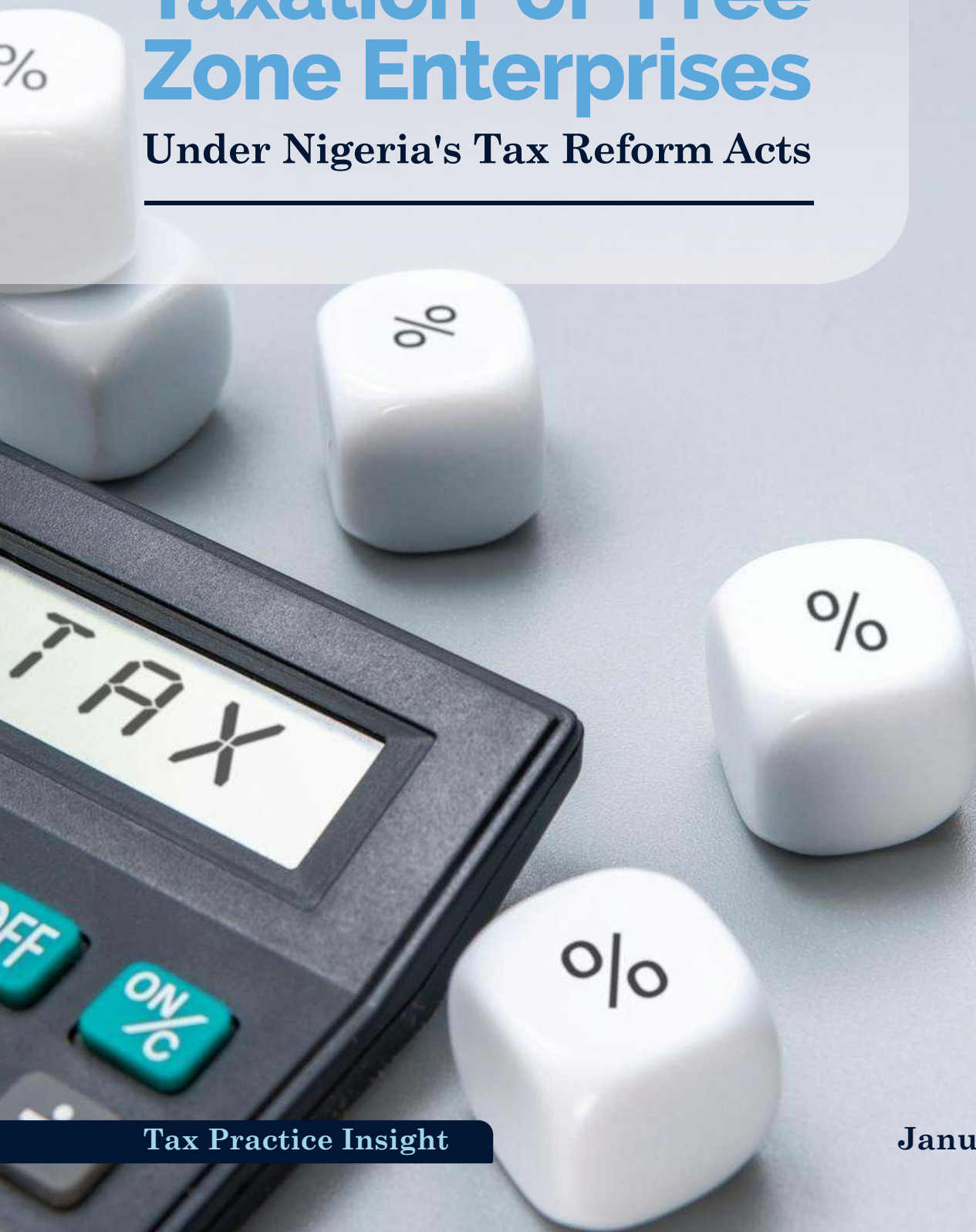


Taxation of Free Zone Enterprises

Under Nigeria's Tax Reform Acts





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1. Introduction

Free Trade Zones (FTZs) refer to geographic areas within a particular state that are exempt from the application of orthodox trade laws, particularly regarding the taxation of goods and services offered within such areas.¹ The nomenclature for FTZs varies by jurisdiction. In this regard, they are also termed Export Processing Zones, Special Economic Zones, and Foreign Trade Zones, among others.²

Depending on their use within a state, FTZs could be catalysts for national economic growth. This is so as the benefits that characterise such zones incentivise local businesses, facilitate international trade and attract foreign direct investment (FDI), among others.³ Within the Nigerian context, FTZs serve as a strategic tool for diversifying national income, offering a non-oil revenue stream for the government and consolidating the national economy.

In this regard, the Nigerian Export Processing Zones Authority (NEPZA) reported that between 2020 and 2023, FTZs in Nigeria generated N11.1 billion. This reflects the capacity for expansive revenue generation in the approximately 42 (forty-two) enterprises that make up the free zone economy.⁴ Inevitably, the enactment of the 2025 tax reform Acts,⁵ and how they apply to the FTZs in Nigeria may be crucial in realising the full economic gains of FTZs.

This article will examine the nature and extent to which the 2025 tax reform Acts apply to Nigeria's FTZ economy. It will begin by examining the application of taxes to FTZs under the previous tax regime, then assess the key provisions of the reform Acts that relate to FTZs. The article will also consider the rationale for the new provisions above, and then conclude with the implications of the new provisions for Free Zone Enterprises (FZEs).

N11.1bn
Revenue
Generated by
Nigeria's Free
Trade Zones
2020–2023

1 The Free Zones <https://nepza.gov.ng/free-zones/> Accessed on January 13, 2026.

2 Ibid.

3 Ikenna Betty Ukemenam, 'Free Trade Zones in Nigeria: A Strategic Evaluation of Success and Challenges' (2023) 3 International Journal of Management and Economics Fundamental 6, 6-7.

4 Some of the free zones include but are not limited to the Lekki Free Zone, Alaro City Lekki Free Zone, Enpower Free Trade Zone, Calabar Free Trade Zone, Dangote Industries Free Zone, and Ladol Free Zone.

5 The Nigerian Tax Act (2025), the Nigerian Tax Administration Act (2025), the Nigerian Revenue Services Act (2025), and the Joint Revenue Establishment Act (2025).

2. The Previous Tax Regime

Broad exemption from taxes

The primary legislation regulating the operation of Free Zone Enterprises (FZEs) in Nigeria includes the Nigerian Export Processing Zones Act 1992 (NEPZA) and the Oil and Gas Export Free Zone Decree 1996 (OGEFZA). These laws, collectively referred to as the 'free zone laws', were designed to improve the FDI climate and scale local business by exempting enterprises within the FTZs (FZEs) from the application of all federal, state, and local government taxes, in effect granting such enterprises blanket tax holidays. The OGEFZA applies to oil and gas enterprises within the FTZs, while the NEPZA applies to non-oil and gas enterprises. Apart from this point of distinction, the substantive provisions of both laws are largely analogous.

The Free Zone laws provide sweeping incentives, including tax incentives, to FZEs. Under the laws, approved enterprises,⁶ operating within an FTZ are exempt from all federal, state, and local government taxes, levies, and rates.⁷ Furthermore, provisions of any law pertaining to taxes, levies, duties, and foreign exchange regulations do not apply within the FTZ.⁸ Also, FZEs are granted duty-free import of capital goods, machinery, raw materials, and components intended to be used for an approved activity in the FZE,⁹ which could reduce operational costs.

It is, however, worth noting that, as was established in the case of *Nigerdock Nigeria Plc FZE v. FIRS*,¹⁰ these tax exemptions apply only to an approved enterprise whose operations remain within the FTZ. As such, if the approved enterprise operates outside the Free Zone (i.e. in the customs territory), it becomes liable to relevant taxes. In other words, once the approved enterprise commences the sale of goods or the offering of services in the areas outside the FTZ, such business activities become subject to the application of the ordinary trade laws in those areas, including the tax laws applicable therein.

Mandatory filing and compliance obligations

The 2020 Finance Act ushered in a new era of accountability for FZEs. While the previous era saw little to no fiscal responsibility for FZEs, the new

Nigeria's Free Trade Zones are governed by the **NEPZA** and **OGEFZA** laws, which provide a blanket tax holiday to attract foreign investment and support local business expansion.

6 This includes enterprises established within a Zone approved by the Authority. See The Nigerian Export Processing Zone Act, s. 28.

7 The Oil and Gas Export Free Zone Decree, s.8. See also the Nigerian Export Processing Zone Act (1992), s. 8

8 The Oil and Gas Export Free Zone Decree, s.18(1)(a). See also the Nigerian Export Processing Zone Act (1992), s. 18(1)(a)

9 The Oil and Gas Export Free Zone Decree, s.12(1). See also the Nigerian Export Processing Zone Act (1992), s. 12(1)

10 *Nigerdock Nigeria Plc FZE v. FIRS* (2016) 24 TLR 1.

provisions state otherwise. Specifically, Section 59 of the Finance Act (2020) requires FZEs to file their annual tax returns, thereby changing their status from tax-free to tax-exempt. Other compliance obligations include maintaining proper books of accounts, keeping an accurate record of employees, and deducting Withholding Tax (WHT) from transactions within the customs territory.¹¹ The obligation to file annual returns is not merely cosmetic, as it serves as a veritable tool to assess the accuracy of financial reporting by enterprises operating outside FTZs.

In this regard, the obligation to deduct WHT serves a similar purpose, enabling the government to capture tax revenue from transactions by non-exempt enterprises within FZEs, which had previously been lost in the web of transactions within the zone. The new provisions are thus a significant step toward an increased tax-to-GDP ratio. It is also reflective of a broader trend to eliminate regulatory loopholes in the tax ecosystem.¹² However, as the country strives for growth and development, there will always be a need to improve the tax system.¹³

3. Key Changes Introduced By The Tax Reform Laws

In 2025, in a bold attempt at improving the tax ecosystem, the National Assembly enacted the tax reform acts—the Nigerian Tax Act (NTA), the Nigerian Tax Administration Act, the Joint Revenue Board (Establishment) Act, and the Nigerian Revenue Service Administration Act—overhauling the tax ecosystem. Now in force—they were to take effect from January 1, 2026—these laws will significantly change the tax landscape in Nigeria,¹⁴ including as regards FZEs. This section will highlight key changes introduced by the tax reform acts regarding FZEs.

Conditional taxation based on the percentage of domestic sales

As previously highlighted, under the previous tax regime, blanket tax concessions are granted to FZEs operating within the FTZs. However, where sales are made to the customs territory, the profits therein will be taxed based on the percentage of the sales made to the customs territory. Meanwhile, the NTA introduces a more tiered approach to the taxation of goods sold to the

Section 59 of the Finance Act 2020 changes Free Zone Enterprises from a tax-free to a tax-exempt status by mandating annual tax return filings.

11 PWC Tax Alert, FIRS Issues Tax Return Guidelines for Free Zone Enterprises in Nigeria, <<https://www.pwc.com/ng/en/assets/pdf/firs-guidelines-on-free-zone.pdf>> (2021) Accessed on January 13, 2026.

12 The Company Income Tax Act (2004), as amended by the Finance Act (2020)

13 Jide Ajia, 'FG targets 18% tax-to-GDP ratio in three years – Oyedele,' The Punch Newspaper, June 27, 2025, accessed at <<https://punchng.com/fg-targets-18-tax-to-gdp-ratio-in-three-years-oyedele/>> accessed on January 13, 2026.

14 Khadijat Akewushola, 'N New Fiscal Framework: Key Provisions of Nigeria's 2025 Tax Reform Laws' (2025) Nigerian Economic Summit Group <https://www.nesgroup.org/blog/A-New-Fiscal-Framework-Key-Provisions-of-Nigeria%E2%80%99s-2025-Tax-Reform-Laws>. Accessed on January 13, 2026.

customs territory. Where not more than 25% of the sales of the FZE arise from the sale of its goods or services to the customs territory, the profits of an export processing zone entity are fully exempt from tax.¹⁵

However, where more than 25% of the sales of the FZE arise from the sale of its goods or services to the customs territory, the total profits therein will be subject to tax, not merely the proportion of the profits based on sales as was the case in the previous regime.¹⁶ This means that the profits of an FZE will only be exempt from taxes where 25% or less of its sales accrue to the customs territory. This policy change fundamentally redefines the purpose of the incentive, shifting it from a geographic benefit to a business-model reward.

Delayed application of the custom sales rule

Paragraph 5 of the Second Schedule to the NTA extends the period of exemption of FZEs' profits from tax (i.e. until January 2028), if not more than 25% of their sales arise from operations and sales to the customs territory. This means that by January 1, 2028, the profits of FZEs will be fully subject to tax in respect of sales to the customs territory in Nigeria, regardless of the percentage of the sales that accrue from that territory.

By this, even if, for instance, as little as 1% of the sales of the FZE arise from business operations in the customs territory, the entire profits (i.e., 100%) of the FZE will be liable to tax because of this rule. This represents a departure from the previous regime, in which tax liability was calculated based on the percentage of sales within the customs territory rather than on the FZE's entire profits.

Minimum effective tax rate

The NTA provides for the effective tax rate (ETR) of 15% for constituent entities of a Multinational Entity Group with an aggregate group turnover of at least €750,000,000 or its equivalent,¹⁷ as well as for companies with an aggregate turnover of N50,000,000,000 and above in the relevant year of assessment.¹⁸ This is the minimum tax rate an entity must pay. Notably, the ETR is Nigeria's version of the global minimum tax, intended to prevent profitable enterprises from evading high tax rates. This provision, by its

Under the new policy, FTZ enterprises receive full tax exemption only if 25% or less of their sales are domestic, marking a shift from a location-based to a business-model-based incentive.

15. The Nigerian Tax Act, paragraph 3(b) of the Second Schedule

16. The Nigerian Tax Act, paragraph 4 of the Second Schedule.

17. This means Subsidiaries

18. The Nigerian Tax Act, s. 57(2)(a)(b).

wording, appears to supersede relevant tax provisions relating to FZEs. This means that the ETR of 15% would apply to FZEs.

Economic development incentive credits:

The NTA introduced the Economic Development Tax Incentive (EDTI). This new system may be described as a stricter, credit-based framework that replaces the previous pioneer status incentive, tying benefits to the size of the investment and the business sector's priority.²⁰ Under the EDTI, instead of a tax holiday, tax credits are offered, and dual benefits for the same activity are restricted. In this regard, eligible businesses in priority sectors would receive an annual tax credit for qualifying capital investments for five years to offset their corporate taxes.

4. Rationale For The Changes

Performance-oriented reform

The reform Acts present a shift in focus from blanket tax concessions to more performance-based incentives. Other reforms, such as the cost-efficiency order for the upstream petroleum sector and the phasing out of pioneer status for economic development incentives, attest to a move towards more reliable business prospects for granting incentives, rather than incentivising business outfits with little or no potential for returns.

Fiscal transparency

Reforms like the mandatory filing of annual tax returns, regardless of the tax liability status of the relevant enterprise, institutionalise fiscal transparency, as it enables the government to better track and prevent tax evasion.

Alignment with global standards

The introduction of a minimum effective tax rate for large multinational groups constitutes part of a broader agenda to align Nigeria's tax policy with global best practices, such as is found in the OECD's Pillar Two global minimum tax agreement.²¹ This helps address the problem of base erosion and profit shifting. This, in turn, addresses the issue of capital flight, ensuring

¹⁹ The Nigeria Tax Act, s. 166.

²⁰ The priority sectors are outlined in the Tenth Schedule to the Act. They include agriculture and food, health, energy, etc.

²¹ Global Anti-Base Erosion Model Rules (Pillar Two), <<https://www.oecd.org/en/topics/sub-issues/global-minimum-tax/global-anti-base-erosion-model-rules-pillar-two.html>> accessed on January 13, 2026.

that highly profitable companies contribute their quota to the national treasury.

5. Implications For Foreign Zone Enterprises

Leveraging the transitional period for early adaptation

The three-year (2025-2028) period preceding the taxation of all sales from FZEs to the customs territory referenced above provides a critical window for FZEs to adapt their business models and compliance structures. This is crucial, as it allows the government to balance the need for compliance and revenue generation with the imperative of maintaining a stable, predictable investment climate to remain competitive globally.

Tax planning considerations

Instead of relying on blanket tax exemptions, companies should endeavour to explore ways to benefit from the Economic Development Incentive (EDI) credits. Concerted efforts should, therefore, be made to ensure the capital requirements are met in the relevant priority sectors, ensuring eligibility for the credits.

6. Conclusion

The Nigerian government is pursuing strategic reforms designed to stimulate economic advancement. The reform acts are a veritable tool in this regard as they have, amongst others, transformed Nigeria's FZTs from simple tax havens that welcomed all and sundry without any form of performance scrutiny to model trade zones that evaluate compliance and profitability as key indices for government support. Consequently, the reforms align Nigeria's legal tax framework with international best practices. Ultimately, the merits of the new tax regime, if pursued conscientiously, will require one key metric to materialise—time.

(2025-2028)
A three-year adaptation window allows FZEs to restructure before the full taxation of domestic sales begins.

AUTHORS



Dr. Jude Nnodum

Tax Practice Unit



Faithful Ayo-Salako

Tax Practice Unit



Contact

LAGOS

KENNA Place
8, Ogunyemi Road, Palace Way, Oniru
PO Box 73002, Victoria Island, Lagos

ABUJA

1st Floor, Novare Central
Plot 502 Dalaba Street,
Wuse Zone 5, FCT 900285, Abuja

ENUGU

3 Emmanuel Ngwu Street,
Thinkers' Corner,
Enugu, 400001

+234 811 395 1052, +234 811 395 1053
counsel@kennalp.com

