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Nigerian Tax Reforms and the Future of Free Trade Zones in Nigeria: A Significant Policy Shift

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01 Introduction

Nigeria's ongoing tax reform efforts reflect a broader ambition to modernize its fiscal framework, enhance revenue generation, and establish a more structured as well as a transparent tax environment. The Nigerian tax reform Acts (the Acts), comprising the Nigeria Tax Act, 2025; Nigeria Tax Administration Act, 2025; Joint Revenue Board of Nigeria Act, 2025; and Nigeria Revenue Service (Establishment) Act, 2025, mark a significant milestone in this journey. These reforms aim to consolidate existing tax laws, streamline incentives, and close longstanding loopholes. However, while the reforms promise a more efficient tax regime, they have sparked considerable debate, particularly concerning their impact on Nigeria's Free Trade Zones (FTZs).

Since the enactment of the Nigeria Export Processing Zone Authority (NEPZA) in 1991 and the subsequent establishment of the Calabar Free Trade Zone, FTZs have played a pivotal role in Nigeria's strategy to attract Foreign Direct Investment (FDI) and drive industrialization. Designed as economic enclaves, these zones offer businesses relief from taxes, levies, duties, and foreign exchange restrictions, making Nigeria an attractive destination for global investors. As noted by Torres A. Raul[1], free zones globally pursue consistent economic goals such as regional development, job creation, FDI attraction, and technology transfer, all of which Nigeria has actively pursued for over three decades.

As of September 2025, the NEPZA[2] reports that the country is home to 42 free zones and over 500 licensed free zone enterprises, operating across all six geopolitical zones. These zones promote seamless trade and have collectively attracted more than $200 billion in investment inflows to date[3]. Importantly, these businesses also contribute to the local economy through supply chain integration and workforce development.

In the past five years alone, FTZs have contributed more than ₦620 billion to government revenue through agencies such as the Nigeria Customs Service, Nigeria Ports Authority, and Free Zone Regulatory Authorities[4]. Specifically, NEPZA reported that the FTZ Scheme generated a total of ₦35.1 billion in Customs Duty in 2021. The authority also noted that ₦408 million[5] and ₦998 million[6] were remitted as Personal Income Tax in 2021 and 2023, respectively. Additionally, they have created over 100,000 direct jobs, with many more indirect employment opportunities across various sectors.

The newly passed Nigeria Tax Act (NTA), 2025, eliminates long-standing tax exemptions and introduces levies on FTZ businesses. This has raised concerns about the potential erosion of investor confidence, the risk of capital flight, and the possibility of stalling industrial growth.

This article explores the potential implications of the Nigerian Tax Reform Acts, 2025 on Free Trade Zones. It examines whether the proposed changes will strengthen or weaken Nigeria's investment climate and considers the broader impact on businesses, employment, and economic development. Is this a necessary step toward tax harmonization, or does it risk undermining a successful economic strategy?

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[1] Torres, Raúl A., Free Zones and the WTO Agreement on Subsidies and Countervailing Measures (March 13, 2012). Global Trade and Customs Journal, Vol. 2, No. 5, 2007, Available at SSRN: https://ssrn.com/abstract=2021087
[2] NEPZA https://nepza.gov.ng/free-zones/
[3] NEPZA Milestone https://nepza.gov.ng/about-us/milestones/
[4] NEPZA – Free Zones Performance. https://nepza.gov.ng/free-zones/free-zones-performance/
[5] https:/dailynigerian.com/free-trade-zones-scheme/
[6] https://punchng.com/free-trade-zones-can-generate-over-n11tn-say-experts/?utm_#google_vignette

02 Fiscal Framework for FTZs in Nigeria

As stated above, the NEPZA granted FTZ enterprises broad exemptions from federal, state, and local government taxes, levies, and rates. Incentives also included duty-free importation of raw materials, capital goods, and equipment; no requirements for import or export licences; unrestricted repatriation of profits and capital; near-total foreign ownership rights; and relaxed immigration rules for skilled expatriates. These measures, collectively, created tax-friendly and regulation-light enclaves that positioned Nigeria as a competitive destination for export-oriented manufacturing and services.

This fiscal framework has been highly successful since 1991. Over the past three decades, FTZs have attracted billions of Dollars in FDI and created hundreds of thousands of direct and indirect jobs within the zones, as well as significant revenue contributions through customs duties, PAYE, and other levies despite their tax-exempt status. The zones have also diversified Nigeria's economic base beyond oil, promoted technology transfer, enhanced infrastructure, and increased non-oil exports.[7]

[7] https://nairametrics.com/2023/04/02/nigeria-has-attracted-n14-1-trillion-worth-of-investments-through-free-trade-zones-nepza/

Collectively, the FTZ has created an environment of policy predictability and cost competitiveness that drew both multinational and indigenous firms into sectors ranging from manufacturing and oil & gas to ICT and logistics. The success of Nigeria's FTZs reflects the global experience that tax incentives, duty exemptions, and streamlined regulation are essential in the early stages of building export-driven industrial hubs. Without this framework, Nigeria would have struggled to attract large-scale foreign direct investment into non-oil sectors, and its current role as a West African trade and logistics hub would likely have been diminished.

03 Key Changes to FTZ Taxation and Implications for Businesses

The NTA, 2025, introduces significant changes that affect the structure and operations of FTZs in Nigeria. The changes include the following:

- **Removal of Tax Exemptions for FTZ**

  The NTA, 2025, repealed Sections 8 and 18(1)(a) of both the Nigeria Export Processing Zones Act (NEPZA) and the Oil and Gas Free Trade Zone Act (OGFTZA) through Sections 198(2) and 198(3) . These provisions previously exempted Free Trade Zones (FTZs) and Oil & Gas Export Free Zones (OGEFZs) from all Federal, State, and Government taxes, levies, and rates.

  Eliminating these tax exemptions fundamentally alters the investment framework that has driven over $200 billion in FDI and created thousands of jobs in Nigeria's FTZs. Investors who entered the FTZs based on guaranteed tax-free incentives may now face higher operational costs and outflows of economic benefits not previously anticipated in their business case analysis for investment decisioning. This abrupt policy shift also raises concerns about regulatory unpredictability, weakening Nigeria's reputation as a stable investment destination. While the government aims to increase tax revenues, this move could undermine industrialization efforts, slow economic growth, and drive businesses to more favorable jurisdictions.

- **15% Effective Tax Rate**

  The NTA introduces a mandatory 15% minimum tax rate for companies operating in FTZs, including those that are constituent entities of a Multinational Enterprise (MNE) group with an aggregate turnover of at least €750 million or its equivalent, as well as other companies with annual turnover of ₦50 billion (~€28 million). While this aligns in principle with the OECD's global minimum tax initiative under BEPS Pillar Two, Nigeria's much lower threshold compared to the OECD standard of €750 million (~₦1.2 trillion) captures a far broader range of companies, including mid-sized businesses and emerging sectors.

This change undermines the core tax exemptions that have historically made FTZs attractive, reducing Nigeria's competitiveness relative to neighboring countries with more favorable policies. It risks capital flight, lower FDI, hindered industrialization, and heightened investor uncertainty over potential reversals of incentives. More critically, loss-making companies or those with low effective tax rates due to legitimate incentives or unutilized tax assets will still be required to pay the 15% minimum tax, regardless of their actual financial performance, raising concerns about whether Nigeria is genuinely aligning with international tax norms or instead adopting a more aggressive stance that could deter domestic expansion and foreign direct investment.

- **Conditional Exemptions on Exports**

The NTA introduces stricter tax conditions for FTZs under Section 60 and the Second Schedule, significantly altering their tax-exempt status. FTZ entities will now enjoy 100% tax exemption only if all sales are for export. A 75% export rule allows partial exemptions, but if more than 25% of total sales go to the domestic market, the entire profit becomes taxable. Additionally, outsourced production to related companies outside the FTZ will be taxed unless transactions meet arm's length principles, and services linked to the customs territory will now attract transaction taxes. Additionally, effective 1 January 2028, the profit of a FZE will be fully subject to tax if there is any sale (regardless of percentage) to the Customs Territory.

While the NTA rightly seeks to enhance Nigeria's export performance (a key objective of the FTZ framework), it may unintentionally disrupt the operational flexibility of FTZ-based businesses. By imposing a rigid export-to-domestic sales ratio, the NTA could restrict market access within Nigeria for FTZ companies, potentially discouraging investment and complicating business models that rely on a blend of export and domestic sales.

More critically, the provision effective from 1 January 2028 which mandates full taxation of FZEs on any sale to the Customs Territory, regardless of volume marks a significant departure from the current incentive structure. This provision eliminates the newly introduced partial exemption under the 75% export rule and could further discourage businesses from engaging with the domestic market. However, the President retains the authority to defer the date at which a FTZ becomes fully subject to tax on sales to the Customs Territory, for up to 10 years from the commencement of the NTA.

Taken together, these changes risk undermining the core incentives that make Nigeria's FTZs attractive, especially when compared to competing zones across Africa.

04 The Bigger Question: Is This a Step Forward for Nigeria's Economic Growth?

- **Consistency with Global Experience**

At the heart of Nigeria's FTZ model lies a simple but powerful promise: to create tax-friendly, regulation-light enclaves that attract investment, transfer of technology and skills, boost exports, and generate employment. For over three decades, this model has delivered measurable results: billions of dollars in FDI, enhanced industrial activity, and thousands of jobs.

This Nigerian success story is comparable with global experience of FTZs' potential for rapid economic growth, industrialisation and diversification. For example, following China's accession to the World Trade Organization (WTO) in 2001, the country has accelerated its economic opening to the world. As of 2024, China's 22 FTZs have attracted a total of US$282 billion in FDI, representing 24.3% of the nation's overall FDI and nearly 20% of its national imports and exports[8]. Similarly, the UAE's Free Zones, especially the Jebel Ali Free Zone (Jafza), have become global benchmarks. Jafza alone hosts over 10,500 companies, accounts for 21% of Dubai's GDP, and supports more than 144,000 jobs[9].

It seems to us that successive Nigerian governments' professed commitment to attracting FDI would be quicker realized by expanding the use and leverage of FTZs and such economic zones as an instrument for quicker industrialization of Nigeria for the mobilization of resources and talent, as other countries have done. What Nigeria needs is

[8] Introduction and Benefit of Free Trade Zone in China
[9] https://en.wikipedia.org/wiki/Jebel_Ali_Free_Zone?utm_

increased harmony between fiscal policy and trade policy objectives rather than evisceration of a policy that is easily one of the few successful economic models available to the country.

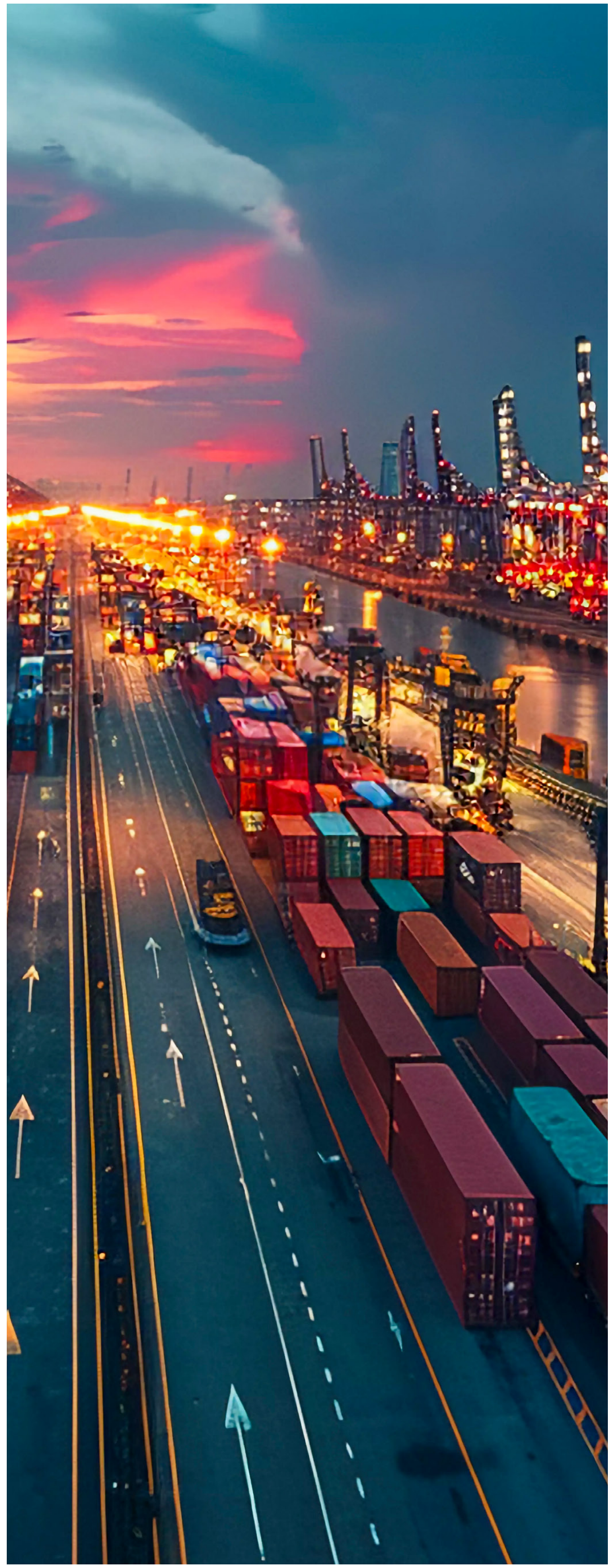
Indeed, Nigeria's new policy trajectory seems likely to risk reversal of initial successes. Nigerian FTZs are now key economic corridors, serving West African transshipment and boosting downstream production and distribution capacity in the petroleum industry[10]. Some of these investments have been largely completed while others are in final stages of decision making. Will these investments still be made or will they be deferred?

By repealing long-standing tax exemption regulations and introducing rigid thresholds for taxation, the NTA risks eroding investor confidence, particularly among businesses that invested capital based on Nigeria's earlier policy assurances. What was once seen as a haven for growth and trade may increasingly appear to be a zone of uncertainty, vulnerable to abrupt policy reversals.

- **Would Nigeria's loss be the Continent's Gain?**

Nigeria must also consider its position considering the African Continental Free Trade Area Agreement (AfCFTA). AfCFTA seeks to establish a single continental market for goods and services with free movement of persons, capital, and investment. Its specific objectives include progressively eliminating tariff and non-tariff barriers, expanding market access, enhancing resource allocation, and fostering cooperation on intellectual property rights, among others[11]. Under this framework, Africa's combined GDP is projected to grow to US $7 trillion by 2035 and reach US $29 trillion by 2050. Crucially, the agreement recognizes goods produced within Special Economic Zones (SEZs), positioning them as key drivers of intra-African trade[12].

Against this backdrop, the competitiveness of Nigeria's FTZs becomes even more critical. If stringent regulations and partial imposition of taxes and levies diminish their attractiveness, investors may simply divert resources to more favorable SEZs in other African countries, while still using AfCFTA provisions to access Nigerian markets and consumers. Thus, unless Nigeria recalibrates its FTZ policies to remain competitive, it risks losing both investment inflows and industrial opportunities to its continental peers.



[10] [Nigeria to Become Transshipment Hub for West Africa on Massive Blue Economy Investments]
[11] https://www.pwc.com/ng/en/assets/pdf/afcfta-potential-solutions.pdf
[12] https://www.reuters.com/legal/legalindustry/investment-africa-free-trade-area-agreement-powers-continents-energy-future-2025-01-17/?utm

05 Conclusion & Call to Action

As Nigeria modernizes its tax system, reforms must not come at the expense of growth, competitiveness, and industrial progress. For over three decades, Free Trade Zones have attracted billions in FDI, created thousands of jobs, and supported strategic industries, from petroleum downstream investments to West African transshipment hubs. These gains are too significant to be jeopardized by abrupt and rigid fiscal measures.

The NTA 2025, in its current form, risks eroding investor confidence and reversing the momentum achieved under the FTZ framework. While increasing government revenue is important, it should not be pursued in ways that deter capital inflows or drive businesses to more favorable jurisdictions within Africa, especially under the AfCFTA framework, which offers investors seamless access to Nigeria's market from neighboring countries.

Nigeria must therefore recalibrate its fiscal strategy to strike a balance between revenue generation and economic competitiveness. A phased or conditional approach, coupled with stronger enforcement of existing tax laws, would preserve investor trust while improving compliance. Moreover, aligning fiscal policy with trade policy is essential: countries like China and the UAE have demonstrated how leveraging FTZs as engines of growth can deliver exponential economic benefits while maintaining sustainable tax regimes.

Policymakers should urgently:

i. Revisit and refine FTZ-related tax provisions in consultation with investors, regulators, and international partners.

ii. Introduce transitional or performance-based incentives, rather than blanket repeals of exemptions.

iii. Strengthen compliance enforcement across the wider economy, rather than disproportionately burdening FTZs.

iv. Align fiscal reforms with Nigeria's AfCFTA commitments to ensure that FTZs remain competitive at a continental level.

Ultimately, Nigeria needs a tax framework that encourages investment, builds confidence, and supports long-term industrialization and not one that undermines its competitive advantage. A balanced, transparent, and collaborative approach to reform will ensure Nigeria does not lose ground to regional peers but instead consolidates its position as a leading investment destination in Africa.

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