



[THE NEW ECONOMIC DEVELOPMENT TAX INCENTIVE UNDER THE NIGERIA TAX ACT 2025](#)

Introduction

Tax incentives have long been a central feature of Nigeria's economic and fiscal policy. Like many developing economies, Nigeria has historically used fiscal incentives to stimulate investment, promote industrialisation, encourage business expansion, and attract foreign direct investment. Through measures such as tax holidays, exemptions, capital allowances, and reliefs, the government seeks to reduce the cost of doing business and support economic growth.

Nigeria's tax incentive landscape underwent a significant transformation with the enactment of the Nigeria Tax Act 2025 ("NTA"), which took effect on 1 January 2026. One of the most notable reforms introduced by the Act is the replacement of the long-standing Pioneer Status Incentive ("PSI") regime with the Economic Development Tax Incentive ("EDTI"). The EDTI reflects a fundamental shift in policy. Rather than granting broad tax holidays based primarily on sector eligibility, the new framework links incentives to actual capital investment, reinvestment, and measurable economic contribution. This article examines the transition from the PSI regime to the EDTI, the eligibility requirements for the new incentive, and its implications for businesses and investors.

The Former Pioneer Status Incentive Regime

For decades, the Pioneer Status Incentive served as Nigeria's principal investment promotion mechanism. Administered by the Nigerian Investment Promotion Commission ("NIPC") under the now-repealed Industrial Development (Income Tax Relief) Act, the PSI granted qualifying companies operating in designated pioneer industries an

exemption from Companies Income Tax for an initial period of three years, renewable for an additional two years.

The incentive was available to businesses operating in sectors considered strategic but underdeveloped, including manufacturing, agriculture, processing, and other priority industries.

While the PSI contributed to attracting investment into key sectors, concerns emerged regarding its effectiveness and sustainability. Critics pointed to substantial revenue losses, limited evidence of long-term economic benefits, inadequate monitoring mechanisms, and opportunities for abuse arising from weak compliance oversight.

As part of the transition to the new regime, applications for Pioneer Status ceased on 10 November 2025. Existing beneficiaries, however, were permitted to retain their unexpired incentive periods in order to preserve investor confidence and honour legitimate expectations.

Introduction of the Economic Development Tax Incentive

Sections 165 – 183 of the Nigeria Tax Act 2025 introduce the Economic Development Tax Incentive as part of a broader effort to modernise Nigeria's tax incentive framework and align fiscal benefits with measurable economic outcomes.

Unlike the former Pioneer Status regime, which exempted qualifying profits from Companies Income Tax, the EDTI does not eliminate tax liability. Rather, tax remains payable and the EDTC operates as a credit against the company's tax liability. Consequently, the economic value of the incentive depends on the level of investment, profitability, and the company's ability to utilise the available credits.

Unlike the PSI regime, the EDTI does not provide a blanket tax holiday. Instead, it adopts an investment-linked tax credit model that rewards actual capital deployment and continued business performance. The incentive is therefore designed to encourage productive investment while ensuring that fiscal benefits correspond with demonstrable economic activity.

Subject to the detailed computation and utilisation rules under the Act, the annual 5% credit accrues by reference to eligible QCE incurred in each year of the incentive period. While the aggregate value of credits available over the full five-year period will vary depending on the level and timing of capital expenditure deployed, profitability, and the company's capacity to absorb available credits, the framework is designed to reward

sustained capital investment over the incentive period. Unused credits may, subject to statutory limitations, be carried forward.

The new framework places greater emphasis on capital formation, reinvestment, business expansion, and long-term economic value creation.

Eligibility Requirements under the EDTI

Sections 167–180 of the Nigeria Tax Act 2025 establish the legal framework governing eligibility for the EDTI.

1. Eligible Applicants

Applications may be made by:

- A company incorporated in Nigeria;
- A company exempted from incorporation under section 80 of the Companies and Allied Matters Act 2020; or
- Promoters of a proposed company yet to be incorporated.

2. Operation within a Priority Sector

The applicant must operate, or intend to operate, within a priority sector listed in the Tenth Schedule to the Act. These sectors include:

- Agriculture;
- Solid minerals;
- Infrastructure;
- Fibre and textile manufacturing;
- Business Process Outsourcing (BPO);
- Machinery and packaging material production; and
- Other designated strategic industries.

3. Minimum Qualifying Capital Expenditure

A qualifying company must satisfy the minimum Qualifying Capital Expenditure threshold prescribed under the Tenth Schedule before its production date. Depending on the sector, the required investment threshold ranges from approximately ₦200 million to ₦200 billion.

4. Evidence of Financial Capacity

Applicants must demonstrate either:

- A firm commitment to undertake the proposed investment; or
- Sufficient financial capacity to execute and sustain the project.

Administration and Regulatory Oversight

The NIPC remains the principal agency responsible for administering the incentive regime.

However, the EDTI introduces a more robust compliance framework than its predecessor. The regime incorporates stricter reporting obligations, verification requirements, compliance conditions, and greater regulatory oversight. Applications must be submitted to the NIPC in the prescribed form together with all required disclosures and supporting documentation.

Cancellation of Incentive Status

The Act empowers the NIPC to withdraw or cancel incentive status in specified circumstances. Grounds for cancellation include:

- Submission of false or misleading information;
- Failure to maintain separate records for the incentivised business;
- Breach of conditions attached to the incentive certificate;
- Fraud, abuse, or material misrepresentation; and
- Certain mergers, acquisitions, or restructuring transactions that affect eligibility.

These provisions underscore the government's commitment to improving transparency, accountability, and compliance within the tax incentive framework.

Key Implications for Investors and Businesses

The introduction of the EDTI has significant implications for businesses, investors, and tax advisers.

1. Shift from Tax Holidays to Tax Credits

The EDTI replaces automatic tax relief with a tax credit mechanism that offsets future tax liabilities. As a result, effective tax planning and strategic capital deployment become increasingly important.

2. Capital Expenditure Threshold Requirements

Businesses must carefully evaluate whether proposed projects satisfy the applicable capital expenditure thresholds and sector-specific requirements before committing resources.

3. Greater Compliance Obligations

The enhanced monitoring and reporting requirements necessitate stronger internal controls, accurate record-keeping, and continuous regulatory compliance.

4. Emphasis on Measurable Economic Impact

The framework appears designed to encourage investments that support industrial expansion, local value creation, reinvestment, and employment generation.

5. Interaction with Other Incentive Regimes

Companies operating in Free Zones or benefiting from other fiscal incentives should assess potential restrictions, overlaps, or limitations before combining benefits.

6. Segregation of Priority and Non-Priority Activities

An eligible company may conduct both priority and non-priority business activities, provided separate books, records, and income streams are maintained for each business segment.

Conclusion

The Economic Development Tax Incentive represents one of the most significant tax policy reforms introduced by the Nigeria Tax Act 2025. By replacing broad-based tax holidays with an investment-driven tax credit framework, the government seeks to ensure that fiscal incentives are linked more closely to actual economic activity and productive capital investment.

Although the new regime introduces higher compliance standards and, in many cases, substantial investment thresholds, it offers a more targeted and sustainable approach to investment promotion. For businesses capable of meeting the eligibility requirements, the EDTI presents a meaningful opportunity to reduce tax liabilities while supporting long-term growth and expansion.

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