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NIGERIAN TAX ISSUES
HIGHLIGHTS OF CHANGES UNDER THE TAX REFORM ACTS: TAXATION OF PROFESSIONAL SERVICES

Background

A few weeks ago, we published an article demystifying the changes in the tax dispute resolution processes occasioned by the tax reform Acts which will come into effect from the first day of 2026.[2] This article is the second of the series and highlights changes to provisions bordering on taxation of professional services.

Introduction

Indirect taxes are by nature levied on such impersonal bases as goods, services, transactions, et cetera, rather than directly on persons (natural or artificial). Unsurprisingly then, taxation of professional services falls squarely under the subject of value added tax (VAT).

The mechanism for taxation of professional services is principally codified in **chapter six**, **sections 144 – 158**; **chapter eight (part IV)**; and **chapter nine** of the **Nigeria Tax Act 2025** ("**NTA**"); and a few sections of the **Nigeria Tax Administration Act 2025**.

Definition of Professional Services

Professional services are services provided by an individual or a firm having specialized knowledge, skills, and qualifications in specific fields, including consulting, planning, or support

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[2] S. P. A. Ajibade & Co, "Nigerian Tax Issues: Highlights of Changes for Tax Dispute Resolution Processes Under the Tax Reform Acts", August 2025, available at <https://spaajibade.com/wp-content/uploads/2025/08/NIGERIAN-TAX-ISSUES-HIGHLIGHTS-OF-CHANGES-FOR-TAX-DISPUTE-RESOLUTION.pdf>, last accessed 11:46 am on 3rd October 2025.

services.[3] These may include the professional services of accountants, lawyers, estate surveyors and valuers, architects, and real estate agents/managers, as some examples. The law specifically excludes the services of artisans and vocational services from its ambit.

Recognition of Input and Output VAT for Goods AND Services

The input-output VAT netting off arrangement is one of several fiscal mechanisms adopted by various tax jurisdictions to encourage commercial activities. To illustrate, input VAT simply refers to the VAT charged on goods and services which are "brought into" (or received into) a Business A, while output VAT refers to the VAT on goods and services "taken out" (or supplied by) this Business A to another organization, B.

Under the current tax laws, input VAT is generally not deductible from output VAT except where the service is directly used in the production of taxable goods. Input tax incurred on overheads, services, administration, and capital items are also not allowed as a deduction from output VAT as these must be expensed or capitalized. By implication, professional services currently do not qualify for recognition under the input-output VAT arrangement.

From 2026, VAT paid by a professional service organization ("**PSO**") to a supplier on the taxable supply (of goods and/or services) made to the PSO will be regarded as "**input VAT**".[4] Conversely, VAT paid to a PSO by a client for the supply of taxable professional services will be regarded "**output VAT**".[5] A PSO will now be required to discharge its VAT remittance obligations in the following ways:

1. Where its output VAT exceeds its input VAT, a PSO must remit the excess to the Nigeria Revenue Service (NRS).
2. Where its input VAT exceeds its output VAT, a PSO will be entitled to utilize the excess tax as a credit against subsequent months.[6]

A PSO will also be entitled to a refund from the NRS of excess VAT not utilized as a credit, especially where an application is made in the prescribed form within 12 months after the transaction giving rise to the refund.[7]

Furthermore, input VAT incurred by a PSO from 2026 on fixed assets acquired to ensure that taxable professional services are suppliable, may be netted off against the VAT payable to the NRS within five (5) years after the end of the tax period in which the input VAT was incurred.[8]

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3 Section 202 of the NTA.
4 Section 152 of the NTA.
5 Section 154 of the NTA.
6 Section 156(1)(a) and (b) of the NTA.
7 Section 156(2) of the NTA; and section 56(1) & (2) of the Nigeria Tax Administration Act (NTAA).
8 Section 156(5) and (6) of the NTA.

Strict Timeframe for VAT Refunds by the NRS

The NRS is mandated to refund VAT to a PSO within thirty (30) days of receipt of a valid request, failing which the refund amount will be eligible for set-off against any tax liability (outstanding or prospective) of the PSO.[9] This is despite the fact that an audit is yet to be conducted by the NRS.

Meanwhile, where a request for refund is found to be dishonest (such as by rendering a false return), the PSO will be liable on conviction to a fine of 200% of the sum in question or a term of imprisonment not exceeding three (3) years, or both.[10]

Exported Professional Service is Zero-Rated

Currently, exported professional services are VAT-exempt.[11] From 2026, exported professional services including cross-border advisory works will no longer be VAT-exempt but zero-rated.[12] Furthermore, exported incorporate assets are also zero-rated,[13] such that in a situation where a Nigerian law firm licenses a proprietary Legaltech software to a Swedish law firm (copyright licensing), a zero VAT rating will apply.

This gives professional service firms a unique commercial opportunity to improve liquidity, claim VAT refunds or set-off against outstanding or prospective VAT liabilities as explained in this article.

Exclusion of VAT from Professional Service Business Restructuring

Where the business of a professional service firm is restructured in the form of a merger or an acquisition, VAT will not apply especially where the parties comply with such provisions of the tax laws as formal notification to the NRS, registration for tax purposes and possession of a Tax identification.[14]

Mandatory Compliance with Fiscalisation System

In September 2024, the Federal Inland Revenue Service (FIRS) announced plans for a mandatory e-invoicing system to checkmate tax fraud, revenue leakages, and inaccurate

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9 Section 56(3) of the NTAA.
10 Section 114 of the NTAA.
11 S. P. A. Ajibade & Co., "Nigeria Tax Issues: Taxation of Exported Legal Services in Nigeria", 28th June 2023, available at <https://www.mondaq.com/nigeria/sales-taxes-vat-gst/1334996/nigeria-tax-issues-taxation-of-exported-legal-services-in-nigeria>, last accessed 3:22 pm on 6th October 2025.
12 Section 187(o) of the NTA.
13 Section 187(p) of the NTA.
14 Sections 190(4), (6), and (7) of the NTA.

accounting of transactions, as obtainable in Rwanda and Italy.[15] It was christened FIRSMBS (FIRS Merchant-Buyer Solution), aimed at replacing traditional paper invoices with structured digital invoices.

All professional service firms are mandated to implement the fiscalisation system deployed by the NRS.[16] The penalties for refusing to grant the NRS access to deploy relevant technology for tax compliance or to use the fiscalisation system are significant.[17]

Whilst the implementation of the FIRSMBS has commenced, it is being done in phases, with large taxpayers (companies with annual turnover of at least ₦5 billion) the focus of the pilot phase. This essentially means that professional service firms must be well prepared for implementation in the near future.

Conclusion

These few changes in the VAT regime for professional service firms are attractive but taking full advantage of these changes by engaging the services of qualified tax law consultants will make 2026 and beyond even more rewarding and commercially fulfilling. This point is reinforced by the inevitability of taxes and attendant disputes on how they apply to specific professional service transaction situations.

Stay tuned to our internet publishing space for the next article in this tax reform series.

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[15] The European Commission, "eInvoicing in Italy", available at <https://ec.europa.eu/digital-building-blocks/sites/spaces/DIGITAL/pages/467108890/eInvoicing+in+Italy> last accessed 12:46 pm on 6th October 2025.

[16] Section 158 of the NTA.

[17] Sections 103 and 105 of the NTAA stipulate administrative penalties of at least 100% of the tax due.