Nigeria’s Federal Inland Revenue Service (FIRS) has converted its transfer pricing (TP) department into an international tax unit. The objective of the new international tax unit is to perform the TP audits of local companies and to audit the activities of nonresident companies (NRCs) in Nigeria in order to assess any permanent establishment (PE) risks and related tax implications of those activities.

This recent development reflects the FIRS’ commitment to increase its tax base and revenue generation. Since the establishment of the FIRS International tax unit, there has been an increase in the tax audit of NRCs. To identify these companies, the current focus of the FIRS has been to review activities carried out between the NRCs and their subsidiaries or related entities in Nigeria.

An assessment resulting from these reviews could lead to significant liabilities for the affected NRCs, especially since such NRCs are now assessed to tax on actual profits at the income tax rate of 30% of taxable profits.

Furthermore, since the applicable rules on taxation of foreign companies are still unclear specifically with regard to the ascertainment of taxable income and the deductibility of expenses of a PE or taxable presence, taxpayers should consult with their local tax professionals to address compliance with this requirement as well as the appropriate structuring of local transactions.
Endnote

1. See EY Global Tax Alert, *Nigeria requires nonresident companies with a PE or fixed base in country to file income tax return on actual profits basis applicable for tax years commencing as of 1 January 2015*, dated 13 February 2015.
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