



TAXATION OF INCOME FROM SETTLEMENTS, TRUSTS, AND ESTATES UNDER THE NIGERIAN LEGAL REGIME AND THE NIGERIAN TAX REFORM LAWS

INTRODUCTION

The taxation of income from settlements, trusts, and estates is a critical aspect of Nigeria's fiscal policy and is governed by a combination of statutory provisions e.g., the Personal Income Tax Act (PITA) LFN 2004, the Companies Income Tax Act (CITA) LFN 2004, and the Capital Gains Tax Act (CGTA) LFN 2004, case law, and administrative guidelines now subsumed under the New Tax Laws that would become operative in January 2026. These laws ensure that income derived from such entities is subject to appropriate taxes. Settlements, trusts, and estates are legal arrangements that allow individuals to manage and distribute their assets, for the benefit of their family members or a group or members of a community or for charitable purposes. The Nigeria tax law is evolving; thus, it seeks to modernize and streamline the existing framework to wit being passed into law, namely, the Nigeria Tax Act 2025, the Nigeria Tax Administration Act 2025, the Nigeria Revenue Service (Establishment) Act 2025, and the Joint Revenue Board (Establishment) Act 2025. This article explores the taxation of income from settlements, trusts, and estates under the Nigerian legal regime and examines the implications of the Nigerian Tax Reform laws on these arrangements.

1. SETTLEMENTS AND TRUSTS

A settlement is the process of setting up the trust, while a trust is a legal arrangement where a settlor transfers his or her assets to a trustee (an individual or a company), who holds and manages the said assets for the benefit of the settlor's named beneficiaries. Generally, the income generated from a trust is subject to taxation under PITA, CGTA, VATA and CITA, these laws have been repealed under the enacted new tax laws depending on the nature of the trust and its activities. Public/charitable trusts are exempt from taxation as they are for charitable purposes for the benefit of the public. **Under the new tax regime, settlements and trusts will be taxed in line with the provisions of the Nigeria Tax Act (NTA) 2025 in sections 16, 26 and the fifth schedule to the act.**

Taxation of Trust Income

Trusts are separate taxable entities and the income generated by a trust is taxed via the trustee, who is responsible for filing tax returns and remitting taxes to the relevant tax authority. The tax rate applicable to trust income depends on whether the trust is classified as a corporate or non-corporate entity. Corporate trusts are taxed under CITA at a rate of 30%, while non-corporate trusts are taxed under PITA at an effective tax rate of 19.1%. In the event where the trustee sells an asset resulting in gains in capital, the difference will be taxed at 10% Capital Gains Tax net of all permissible deductions. **The NTA 2025, in section 56 similarly pegs the tax rate for corporate entities at 30% while the rates for individuals' income tax will be regulated by the combined reading of section 58 and the fourth schedule to the Act.**

Beneficiaries' Tax Liability

Beneficiaries of a trust may also be subject to tax on any income distributed to them. Such distributions are treated as personal income and taxed under PITA. **Under the incoming regime, such beneficiaries will be taxed in line with the provisions of chapter 2 as well as the fifth schedule to the act.**

2. ESTATES

An estate refers to the total assets and liabilities left by a deceased person. The administration of an estate involves the collection of assets, payment of liabilities, and distribution of the remaining assets to beneficiaries. Under Nigerian tax laws, the income generated by an estate during the administration period is subject to taxation – See section 1 of PITA, LFN 2004.

Taxation of Estate Income

The executor or administrator of an estate is responsible for filing tax returns and remitting taxes on behalf of the estate. Estate incomes are taxed under PITA, and the applicable rates depend on the amount of income generated. However, certain expenses

incurred in the administration of the estate, such as funeral expenses and debts, are deductible for tax purposes. **This position of the law is mirrored in the NTA 2025, as chapter 2 imposes tax derived from estate as personal income while paragraph 3(a) of the fifth schedule provides on allowed deductions.**

Beneficiaries' Tax Liability

Beneficiaries of an estate are taxed on any income distributed to them. Such distributions are treated as personal income and taxed under PITA. However, capital distributions (e.g., inheritance of property) are generally not subject to income tax but may attract capital gains taxes if the asset is subsequently sold - **See sections 4 (3) & (4) of the NTA 2025.**

CHALLENGES IN THE CURRENT TAX REGIME

The current tax regime for settlements, trusts, and estates in Nigeria faces several challenges, including:

- 1. Complexity and Ambiguity**

The tax laws governing settlements, trusts, and estates are often complex and ambiguous, leading to difficulties in compliance and enforcement. For example, the distinction between corporate and non-corporate trusts is not always clear, resulting in inconsistent tax treatment.

- 2. Double Taxation**

The potential for double taxation arises when income is taxed at both the trust or estate level and the beneficiary level. Although certain exemptions exist, they are not comprehensive, leading to inefficiencies in the tax system.

- 3. Evasion and Avoidance**

The lack of robust enforcement mechanisms and the complexity of trust and estate arrangements create opportunities for tax evasion and avoidance. This undermines the government's revenue generation efforts and erodes public trust in the tax system.

THE IMPLICATIONS OF THE TAX REFORM LAWS

The Tax Reform Acts/Laws has the potential to address the challenges and modernize the tax system, and have significant implications for the taxation of settlements, trusts, and estates in Nigeria:

- 1. Enhanced Clarity and Compliance**

The reforms provide greater clarity on the tax treatment of trusts and estates, reducing ambiguity and improving compliance. This is expected to increase revenue generation and reduce disputes between taxpayers and tax authorities.

2. Reduction in Double Taxation

The new tax laws consolidate existing tax laws into a unified framework, making the tax system more accessible and easier to navigate for taxpayers. The introduction of measures to eliminate double taxation will enhance the efficiency of the tax system and promote fairness. This is particularly important for beneficiaries of trusts and estates, who will no longer be burdened by excessive tax liabilities. Whether this law is beneficial or truly reduces double taxation would be dependent on its implementation and application.

3. Improved Enforcement

The strengthening of enforcement mechanisms will deter tax evasion and avoidance, ensuring that all taxable income is captured. The Tax reforms also include provisions for automating tax systems using electronic gadgets to improve collection from all including digital companies, including streaming and social media platforms. While this will enhance public trust in the tax system and promote voluntary compliance, the effective utilization of the proceeds of tax would lead citizens to request for accountability.

4. Tax Incentives for Charitable Trusts

To encourage philanthropy, the enacted Tax Laws includes provisions for the expanded tax exemptions for charitable trusts and public benefit organizations -
See section 55 of the NTA 2025.

CONCLUSION

The taxation of settlements, trusts, and estates under the Nigerian tax legal regime has undergone significant changes. While the current tax laws provide a clear framework, the enacted tax laws aim to modernize the system, enhance transparency, and address emerging challenges. While the current tax regime provides a framework for taxing these arrangements, it is not without challenges, including complexity, double taxation, and evasion. The Nigerian Tax Reform Laws, represent significant steps toward addressing these challenges and modernizing the tax system. By enhancing clarity, reducing double taxation, and improving enforcement, these reforms are expected to strengthen Nigeria's fiscal policy and promote sustainable economic growth. However, its success will depend on effective implementation and the continuous evaluation to address emerging issues in the dynamic financial landscape.

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