



ONLYDUST Nigerian Specific Tax considerations for Contributors

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Introduction

OnlyDust draws the attention of Contributors resident in Nigeria to the fact that the Rewards received for your Contributions will constitute taxable income in Nigeria. It is your sole responsibility to declare income from the Platform to the relevant tax and social security authorities, as will be espoused below.

The aim of this report is to apprise Contributors of potential tax obligations arising from engaging in this economic activity. These particulars are not intended as tax advice and do not envisage all the particularities specific to each Contributor.

1. Are the Rewards I receive taxable?

Whether your Contributions are provided in a professional capacity or not, the receipt of Rewards in return for services constitutes taxable income to the extent that this income is subject to renewal.

Where the Rewards are cryptos or stablecoins, taxable income is determined by reference to the currency value (its equivalent in Naira) on the date the Reward was made available (i.e. the date from which you became free to claim it).

When a payment in cryptos or stablecoins is subject to a vesting period, it is generally appropriate to consider that the income is only taxable on the date it becomes available. It is on this date that the value of the assets in currency should be calculated in order to determine the taxable income.

The specific tax liabilities depend on whether the activities are conducted by an individual or a corporate entity. The following are the various forms of taxation as applicable to contributors resident in Nigeria:

- a) Personal Income Tax (PIT)¹: Contributors resident in any state in Nigeria are required to pay their taxes and file their returns in that state. Individuals who contribute to a Project must report all crypto/stablecoin rewards or income as part of their personal income. The tax rates range from 7% to 24% based on income levels as illustrated in the table below:

First ₦300,000	7%
Next ₦300,000	11%
Next ₦500,000	15%
Next ₦500,000	19%

¹ Section 3 of the Personal Income Tax Act (PITA) (as amended), provides that tax shall be payable for each year of assessment on the aggregate amounts, each of which is the income of every taxable person, for the year, from a source inside or outside Nigeria. Further, Subsection 1b of the aforementioned section, provides that "any salary, wage, fee, allowance or other gain or profit from employment including compensations, bonuses, premiums, benefits or other perquisites allowed, given or granted by any person to any temporary or permanent employee other than so much of any sums as or expenses incurred by him in the performance of his duties, and from which it is not intended that the employee should make any profit or gain". <https://www.firs.gov.ng/wp-content/uploads/2021/07/Personal-Income-Tax-Act.pdf>



Next ₦1,600,000	21%
Above ₦3,200,000	24%

There are valid deductions that can be made from your income before arriving at the taxable pay. These will include but are not limited to expenses incurred wholly, reasonably, exclusively and necessarily in generating the income. The law also provides some reliefs; these include the Consolidated Relief Allowance (CRA), which is about 21% of the total gross income, contributions made to the National Pension Fund and the National Housing Fund. The effective tax rate after taking out deductions usually ranges between 5.5% and 19.2%. Kindly refer to a lawyer and a tax practitioner to determine the tax payable on the Rewards for your Contribution.

- b) Companies Income Tax: The Companies Income Tax Act² subjects any source of annual profits or gains earned by a company to Companies Income Tax Act. For companies, crypto rewards are subject to tax at a rate of 30% for large companies with a turnover of N100 Million or more and 20% for medium-sized companies with a turnover between N25 million and N100 million. For small companies with a gross turnover of N25 Million or less, they are exempt from payment of taxes.

Every company assessable to tax under the CITA must prepare and file on a self- assessment basis, audited accounts and income tax computations within 6 months after the end of the accounting period, with the FIRS. In the case of new companies, the returns are to be filed within 18 months from the date of incorporation, or 6 months after its first accounting period, whichever occurs first. All Contributors assessable to tax under the Companies Income Tax Act must register with the Federal Inland Revenue Service (“FIRS”) and obtain a Tax Identification Number (“TIN”). The TIN must be shown on all returns filed or correspondence exchanged with the FIRS. This registration is usually done immediately after the incorporation process.

- c) Capital Gains Tax (CGT): The Capital Gains Tax Act³ provides that incorporeal property (where digital assets may fall) is an asset class liable to Capital Gains Tax. Gains from selling or exchanging cryptocurrencies are subject to a 10% capital gains tax⁴. In other words, if you sell your cryptos or stablecoin Reward(s) for a greater value than it had when you received it, you will pay a capital gains tax equivalent to 10% of the gains made on the sale of the crypto asset. Contributors who dispose crypto and stablecoin rewards received from a project are to compute the applicable CGT, file self-assessment CGT returns, and pay the computed CGT to the relevant tax authority in Nigeria on or before 30 June and 31 December of the relevant year.

² <https://lawsofnigeria.placng.org/laws/C21.pdf>

³ <http://admin.theiguides.org/Media/Documents/Capital%20Gains%20Tax%20Act.pdf>

⁴ Pursuant to Section 6(1)(c) and (d) of the CGTA, disposal of digital assets for CGT purposes occurs where any capital sum is derived from a sale, lease, transfer, assignment, compulsory acquisition, or other disposition of such digital assets, notwithstanding that no digital asset is acquired by the person paying the capital sum, particularly where: (i) any capital sum is received in return for forfeiture or surrender of rights, or for refraining from exercising rights, relating to the relevant digital asset; or (ii) any capital sum is received as consideration for the use or exploitation of any digital asset.



2. Do I necessarily need to set up a company to provide Contributions?

Setting up a company is not mandatory in Nigeria to provide Contributions. Under Section 814 of the Companies and Allied Matters Act, 2020 (CAMA), the obligation to register a business name depends on whether you are operating under a name that implies the existence of a business. If you are conducting activities under your own name (e.g., Satoshi Nakamoto), registration of the business name is not strictly necessary. However, if you use an unregistered business name (e.g., Bitcoin Core Development), registration with the Corporate Affairs Commission (CAC) is required.

However, if the activities are substantial and ongoing, conducting them through a business name or company registered with the Corporate Affairs Commission in Nigeria can offer advantages such as clearer tax treatment, potential liability insulation, and formal recognition.

When the activity is carried out on a non-professional basis, no declaration of activity is generally required, but the Rewards are still taxable.

However, our Reward allocation policy caps the amount of Rewards that may be allocated to Contributors who have not declared a business activity with the appropriate regulatory agencies in Nigeria. This ceiling is set at \$5,000. Beyond that amount, to continue to receive Rewards, you will need to switch to an "Self-employed" or "Organisation" business profile and complete a KYB via our partner Sumsb.

3. What happens if my activity is considered to be carried out on a professional basis and I have not registered a business?

If your cryptocurrency activities are considered to be carried out on a professional basis (for example, if you operate under a business name and not in your own name) without a registered business, you may face several issues.

Operating professionally as a business on the project without proper registration in Nigeria will mean that you are operating illegally, with an unregistered company/business name, and this can expose you to legal risks and penalties for non-compliance with the Companies and Allied Matters Act 2020. Also, since the business is not registered, you will not be able to get a Tax Identification Number for it, and you cannot pay any taxes as a business. This will amount to tax evasion, and you will be at risk of both civil and criminal penalties.

Whether or not you register with the Corporate Affairs Commission, you will still be liable for taxes on your crypto gains, and failure to report these accurately can lead to penalties.

4. When do I have to register a business to continue providing Contributions?

Under Nigerian law, it is never mandatory to register a business if the activity is carried out in personal name. However, it may be more interesting in certain cases and is in any case required by our Rewards policy for amounts over a certain threshold.



Therefore, persons who intend to receive rewards beyond the \$5,000 limit are to register a business with the Corporate Affairs Commission or should ensure the Company the said Contributor works for is registered with the Corporate Affairs Commission.

The business/company (whether newly registered or not) now has a statutory obligation to declare its activities to the Federal Inland Revenue Services as required by Law.

In addition, a Contributor, acting through a business, whose turnover is above ₦25,000,000 is expected to register with the FIRS for the purpose of tax. Failure to do so constitutes an offence and attracts a fine.⁵ Effectively, this means that a Company duly registered with the Corporate Affairs Commission is required to also register with the FIRS when its turnover exceeds ₦25,000,000; and also start filing returns.

All contributors are liable to pay the tax(es) applicable to them, regardless of whether they are contributing on a professional or a non-professional basis.

5. How do I register a business and what type of business should I choose?

The choice of legal form for your business obviously depends on a number of considerations such as how much revenue you expect to generate, how cryptos are treated for tax purposes, what tax and social security regimes apply, etc.

- a. Business Names: In addition to registering your company, you can also choose to register your business as a business name with the Corporate Affairs Commission in Nigeria (CAC). In Nigeria, sole proprietorships and partnerships may be registered as business names.
- b. Partnership: A partnership is a business formed by two or more persons who share the ownership, profits and losses accruing to the business. However, in some forms of partnerships, some partners have restricted liability. In a partnership, all partners share liabilities and earnings equally.
- c. Company: In Nigeria, companies are divided into 4 different types. Private Limited Company by Share is the most common structure and it is mainly adopted by small companies that have a view to expand in the future.

The most suitable and recommended business structure for a tech company is a limited liability company because of its benefits. Registration with the CAC is the first legal requirement when registering any business including a tech company. The certificate of incorporation obtained will be necessary for registration with other regulatory bodies. The procedure for registering online with the CAC include:

- Availability check and reservation of company name;
- Payment of prescribed filing fee;
- Duly completed information and document upload;
- Payment of stamp duty;

⁵ See the Finance Act, 2019.



- After approval, download of company incorporation certificate.

It is important to contact experienced legal professionals or tax specialists in order to make the best choice.

The registration process of a company will generally cost a flat fee of \$200 (subject to change where there are additional costs involved, especially where the share capital exceeds 1,000,000).

6. What additional obligations do I have to meet if I operate as a professional?

Declaration of activity: You are required to declare your activity to the relevant authorities and register it under one of the legal business structures available in Nigeria.

Taxation system. The income and gains realized will be subject to a slightly higher tax assessment if your turnover exceeds ₦25m and a heavier tax assessment if it exceeds ₦100m. However, where your annual turnover is ₦25m and below, you will pay zero Companies Income Tax on your income. This means that your exemption from tax is capped at a turnover of ₦25m annually, beyond which Corporate tax will apply

Also note that if you set up a company with legal personality, the part of the income that you pay yourself as salary will be subject to personal income tax. Kindly ensure timely filing of tax returns and payment of taxes (PIT, corporate tax, CGT and VAT).

Statutory Contributions and Levies. Income from your business will certainly be subject to statutory contributions. Depending on the legal structure you choose, your income will be subject to contributions. Companies, whether small, medium or large companies are to pay the Nigeria Police Trust Fund Levy and the NSITF Contribution.

Accounting obligations. You will almost certainly be required to keep accounts, which may involve consulting a chartered accountant. All cash flows will have to be accounted for, including if the Rewards are received in cryptos. Crypto movements (trades, cash outs) will also have to be tracked.

Compliance with Regulations. You will have to adhere to any regulations issued by the Federal Inland Revenue Service (FIRS), Central Bank of Nigeria (CBN), and Securities and Exchange Commission (SEC). It is also important for the company to be alert to changes in the law and comply with the same. Compliance is key, and this can only be guaranteed when the contributor adheres to all statutory and regulatory requirements. Contributors duly incorporated in Nigeria must be proactive and stay updated on the latest laws and regulations pertaining to their industry. Some of the most important ones include: Filing of CAC annual returns; Filing of Annual Data Protection/Privacy Audits with the Nigerian Data Protection Commission, where applicable; Financial Crime Prevention Returns: the EFCC, CBN, and SSS typically request for a schedule of forex transactions and movement of cash exceeding a prescribed limit, etc.

Record keeping. Maintain detailed records of all transactions, including crypto trades and related expenses.