TAX INCENTIVES FOR RENEWABLE ENERGY INVESTMENTS UNDER THE NIGERIAN TAX ACT 2025: A DOCTRINAL AND POLICY ANALYSIS*

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Abstract

This article conducts a doctrinal and policy analysis of tax incentives for renewable energy investments under the Nigerian Tax Act, 2025[1]. Against the background of Nigeria's ongoing energy deficit and rising climate commitments, it explores how recent tax reforms reposition fiscal policy as a tool for advancing sustainable energy development. The article focuses on the Economic Development Tax Credit,[2] which replaces the former Pioneer Status Incentive, and assesses its design, scope, and implications for renewable energy investors. It also examines related fiscal measures, including capital allowances, value-added tax reliefs, and customs duty exemptions applicable to renewable energy assets. Beyond statutory analysis, the article discusses the interaction between the Nigerian Tax Act 2025 and complementary legislation, notably the Electricity Act 2023, the Climate Change Act 2021, and the Nigeria Revenue Service Act 2025, highlighting areas of coherence and institutional and administrative gaps. Employing a doctrinal legal research methodology and drawing limited comparative insights from Kenya and South Africa, the article contends that while Nigeria's incentive framework reflects international best practice in shifting towards performance-based and fiscally sustainable incentives, its effectiveness depends on administrative capacity, inter-agency coordination, and transparency in implementation. The article concluded by proposing targeted reforms to enhance the coherence, accessibility, and enforceability of Nigeria's renewable energy tax incentive regime.

Keywords: **Economic Development Tax Credit, Renewable energy, sustainable development**, **Tax incentives.**

1. Introduction:

The global shift from fossil fuels to renewable energy sources has become a key feature of modern fiscal and environmental management. For resource-dependent economies like Nigeria, this shift is especially urgent, considering the volatility of crude oil revenues and the ecological damage

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Nigeria Tax Act 2025.Act No.7, Federal Republic of Nigeria, 2025. (NTA 2025)

[2] S 176 Tax Act 2025

caused by long-term hydrocarbon extraction. Renewable energy has therefore gained increasing significance within Nigeria's development strategy, both as a means to diversify the energy mix and to enhance climate resilience and sustainable growth. Fiscal policy has become a vital tool in this transition. Besides its traditional role in raising revenue, taxation is increasingly used to influence investment choices and support key sectors. Tax incentives, in particular, act as indirect policy instruments through which governments aim to lower investment risks and enhance the commercial feasibility of capital-intensive renewable energy projects. In Nigeria, this policy focus is reflected anew in the Nigerian Tax Act 2025, a comprehensive legislative reform that consolidates provisions once spread across various Finance Acts and introduces new fiscal mechanisms to promote economic diversification and sustainable investment.

A key innovation of the Nigerian Tax Act 2025 is the introduction of the Economic Development Tax Credit (EDTC), a structured, credit-based incentive regime designed to replace the tax holiday framework under the Industrial Development (Income Tax Relief) Act. Unlike the former Pioneer Status Incentive, which granted qualifying companies a complete exemption from corporate income tax for a fixed period, the EDTC aims to balance investment promotion with revenue mobilisation by allowing eligible taxpayers to earn tax credits linked to qualifying capital expenditure. This reform indicates a shift in Nigeria's incentive policy from broad, discretionary reliefs to a more rule-based, fiscally sustainable model.

Despite these developments, questions remain regarding the clarity, accessibility, and effectiveness of Nigeria's renewable energy tax incentives. Concerns have been expressed about how well the incentive framework under the Nigerian Tax Act 2025 aligns with Nigeria's environmental and energy commitments, especially those outlined in the Climate Change Act 2021 and the Electricity Act 2023. Further uncertainty exists around the institutional capacity of the Nigeria Revenue Service, established under the Nigeria Revenue Service Act 2025, to administer these incentives effectively and coherently. The interaction of these legislative instruments raises complex issues of coordination, legal certainty, and enforceability within Nigeria's growing green taxation regime.

This article adopts a doctrinal legal research methodology, focusing on analysing and interpreting primary legal sources, including statutes, regulations, and official policy documents, as well as relevant secondary materials such as academic literature, government reports, and professional commentary. A limited comparative perspective based on Kenya and South Africa is used to provide contextual insight and highlight best practices across Africa. The article contributes to scholarship in three main ways: first, by clarifying the legal foundations of Nigeria's renewable energy tax incentive framework; second, by identifying institutional and administrative challenges that may weaken policy effectiveness; and third, by placing Nigeria's reforms within broader regional and global trends in sustainable fiscal governance.

The article is organised as follows. Part Two establishes the conceptual and theoretical framework, defining key concepts and outlining the analytical perspectives used. Part Three examines the legal and institutional framework for renewable energy taxation under the Nigerian Tax Act 2025. Part Four assesses the policy effectiveness of the incentive scheme and provides comparative insights from Kenya and South Africa. Part Five concludes with findings and recommendations.

2. Conceptual and Theoretical Framework

2.1 Conceptual Clarifications

2.1.1 Tax Incentives: Tax incentives are fiscal measures aimed at decreasing the tax burden on particular sectors or activities to encourage specific economic behaviours. In energy policy, such incentives function as indirect subsidies by enhancing post-tax returns on investments and reducing the cost of capital for renewable energy projects.[3] Tax incentives can take various forms, including tax exemptions, deductions, credits, accelerated depreciation, or preferential rates, depending on legislative design and policy goals.[4]

Under the Nigerian Tax Act 2025, tax incentives for renewable energy investments primarily rely on the Economic Development Tax Credit, capital allowances for qualifying assets, and indirect tax reliefs, such as value-added tax exemptions or suspensions on renewable energy equipment. These incentives are statutory exceptions to the general tax regime and are justified on the grounds of fiscal selectivity and public interest. [5]Their legitimacy, however, depends entirely on legislative approval, marking a shift from the broad discretionary reliefs previously granted under the Industrial Development (Income Tax Relief) Act.[6]

2.1.2 Renewable Energy: Renewable energy pertains to energy generated from sources that are naturally replenished and environmentally sustainable, such as solar, wind, hydro, biomass, and geothermal resources. This concept has gained statutory recognition in Nigeria through the Electricity Act 2023, which designates renewable energy generation as a separate licensed activity within the electricity supply industry.[7] Additionally, the National Renewable Energy and Energy Efficiency Policy recognises renewable energy as a key driver of sustainable economic growth, energy security, and emissions reduction.[8] The integration of renewable energy goals into fiscal legislation demonstrates precise alignment between tax policy and environmental and developmental aims.

2.1.3 The Economic Development Tax Credit (EDTC): The Economic Development Tax Credit introduced under the Nigerian Tax Act 2025 signifies a fundamental change in Nigeria's incentive framework. Instead of granting full tax holidays, the EDTC enables qualifying companies to earn tax credits for verified capital expenditures in priority sectors, including renewable energy.[9] This credit system maintains the taxpayer's obligation to file returns and stay within the tax net, while still rewarding productive investment. By linking tax relief directly to capital deployment, the

[3] OECD, Tax Incentives for Investment: A Global Perspective (OECD 2015).

[4] Victor Thuronyi, Comparative Tax Law (2nd edn, Kluwer Law International 2016).

[5] John Tiley and Glen Loutzenhiser, Revenue Law (8th edn, Hart Publishing 2018).

[6] Industrial Development (Income Tax Relief) Act, Cap I7 LFN 2004 (repealed).

[7] Electricity Act 2023 (Nigeria).

[8] Federal Ministry of Power, National Renewable Energy and Energy Efficiency Policy (2015).

[9] Nigerian Tax Act 2025.

EDTC demonstrates a growing preference for performance-based incentives and improved fiscal accountability.[10]

2.2 Theoretical Framework

This study is based on the theory of fiscal environmentalism, which suggests that taxation can act as a regulatory tool to achieve environmental objectives by internalising environmental externalities and encouraging sustainable economic behaviour.[11] Under this approach, tax incentives are used to promote environmentally beneficial activities, such as investing in renewable energy, while discouraging carbon-intensive practices. Fiscal environmentalism thus integrates environmental protection into mainstream tax policy, aligning fiscal measures with sustainable development goals.[12]

In the context of the Nigerian Tax Act 2025, fiscal environmentalism offers the normative justification for including renewable energy incentives within the national tax system. By providing preferential tax treatment to clean energy investments, the state aims to shift capital flows towards environmentally sustainable sectors, in line with Nigeria's commitments under international climate agreements and its domestic obligations under the Climate Change Act 2021.[13]

A secondary analytical approach used in this study is tax expenditure theory, which views tax incentives as indirect government spending delivered through the tax system rather than via direct budget allocations.[14] This approach emphasises the importance of transparency, oversight, and regular evaluation of tax incentives to ensure that their economic and environmental benefits outweigh the revenue lost. In the context of renewable energy taxation in Nigeria, tax expenditure theory highlights the necessity of institutional oversight mechanisms, including reporting and compliance structures under the Nigeria Revenue Service Act 2025, to ensure the effectiveness of incentive programmes.[15]

3. Legal and Institutional Framework for Renewable Energy Taxation in Nigeria

3.1 Overview of Nigeria's renewable energy governance structure

Renewable energy taxation in Nigeria operates within a multi-layered legal and institutional framework that integrates fiscal legislation, energy sector regulation, and environmental governance. The Nigerian Tax Act 2025 (NTA 2025) serves as the central fiscal instrument in this framework, while sector-specific legislation, such as the Electricity Act 2023 and the Climate

[10] OECD, Designing Effective Investment Tax Incentives (OECD 2018).

[11] David Milne, Environmental Taxation and the Law (Ashgate 2010).

[12] Janet E Milne and Mikael Skou Andersen (eds), Handbook of Research on Environmental Taxation (Edward Elgar 2012).

[13] Climate Change Act 2021 (Nigeria).

[14] Stanley Surrey, Pathways to Tax Reform: The Concept of Tax Expenditures (Harvard University Press 1973).

[15] Nigeria Revenue Service Act 2025 (Nigeria).

Change Act 2021, provides the substantive policy and regulatory context within which tax incentives are deployed.

The Electricity Act 2023 establishes the legal framework for electricity generation, transmission, and distribution in Nigeria and explicitly recognises renewable energy as a separate element of the electricity supply sector. Section 3 of the Act broadly defines electricity generation. At the same time, Part IV establishes a licensing regime administered by the Nigerian Electricity Regulatory Commission (NERC) that permits the development and operation of renewable energy projects.[16] The formal recognition of renewable energy generation is essential for fiscal reasons, as it provides the legal basis for classifying renewable energy activities as qualifying economic activities eligible for tax incentives under the NTA 2025.

Complementing this sectoral framework is the Climate Change Act 2021, which incorporates climate mitigation and adaptation objectives into Nigeria's legal system. Section 1 of the Act sets up a national framework for achieving low greenhouse gas emissions and climate-resilient development. In contrast, Section 2 requires all public institutions to incorporate climate change considerations into policy formulation and implementation.[17] These provisions provide the normative basis for including renewable energy incentives in Nigeria's tax legislation, positioning fiscal measures as tools for achieving environmental objectives.

3.2 The Nigerian Tax Act 2025 as the Core Fiscal Instrument

The Nigerian Tax Act 2025 consolidates and reorganises Nigeria's tax incentive system by uniting provisions previously spread across various Finance Acts and incentive laws. Of particular significance to renewable energy investment is the Act's replacement of the Pioneer Status Incentive regime under the Industrial Development (Income Tax Relief) Act with the Economic Development Tax Credit (EDTC).

Under the NTA 2025, the EDTC is structured as a credit-based incentive linked to qualifying capital expenditure rather than as a blanket exemption from company income tax. The Act recognises priority sectors eligible for the credit, among which renewable energy is expressly or implicitly included by reference to energy infrastructure and sustainable development objectives. The credit is claimable over a specified period and is subject to verification and compliance requirements managed by the tax authority. Although the Act does not operate in isolation, it functions as the primary legal source for determining:

- The eligibility of renewable energy investments for fiscal relief;
- the form and quantum of such relief;
- The administrative conditions attached to incentive claims.

The Economic Development Tax Credit is addressed in Section 176 of the Nigeria Tax Act, 2025, and is designed to incentivise economic development within priority sectors. This credit offers a

[16] Electricity Act 2023 (Nigeria) ss 3, 63–64.

[17] Climate Change Act 2021 (Nigeria) ss 1–2.

significant financial benefit to eligible companies, aiming to foster growth and investment in specific areas of the Nigerian economy.

3.2.1 Application and Rate

- Eligibility: The economic development tax credit applies to eligible Qualifying Capital Expenditure (QCE) incurred by companies in priority sectors. It is granted at a rate of 5% per annum for a period of five years. This credit applies to QCE acquired within five years, effective from the production date of the company.[18]
- Utilisation: The tax credit can be used to offset the tax payable by a company in any year of assessment during the priority period. However, it cannot be used to offset any additional tax payable under Section 57 of the Act relating to effective tax rates[19].
- Carry Forward: If a company has unutilized tax credit or eligible QCE for which the 5% per annum tax credit has not been claimed for five years after the priority period ends, the unutilized amount can be carried forward for another five years. After this extended period, any remaining unutilized tax credit will lapse.[20]

3.2.2 Incentive Period

- Commencement: The incentive period for a priority company begins on its production day.[21]
- Duration: The economic development incentive period lasts for five years[22].

3.2.3 Priority Sectors and Qualifying Capital Expenditure

- Designation: The sectors classified as priority sectors for economic development tax incentives are listed in the Tenth Schedule of the Act[23].
- Certification: For companies in priority sectors, a certificate of acceptance issued by the Industrial Inspectorate Department[24] must be obtained for qualifying capital expenditure[25].
- Exclusion: Value Added Tax (VAT) due but not charged on an asset, or import duty/levy not paid on an imported item, renders the relevant expenditure ineligible as qualifying capital expenditure[26] **[**8**]**.

[18] S 176 (1) NTA 2025

[19] S.176(2) *ibid*

[20] S.176(3) *ibid*

[21] S.177 *ibid*

[22] ibid

[23] S.165 (1) ibid

[24] The Industrial Inspectorate Department (IID), established under the Industrial Inspectorate Act (CAP I8 LFN 2004), is empowered to certify capital investments.

[25] S.172 ibid

[26] Nigeria Tax Act 2025. Act No. 7, Federal Republic of Nigeria, 2025. Ch. 2, Pt. VI, Sec. 27(2) (b).

3.2.4 Administration and Oversight

- Application Process: Applications for an economic development incentive certificate are submitted to the Executive Secretary of the Nigerian Investment Promotion Commission (NIPC). The application must include details such as commitment to minimum capital, residency status, particulars of assets, location, production day, products, and capital structure[27].
- Approval: The NIPC recommends the application to the Minister, who may then recommend it to the President for approval[28].
- Cancellation: The NIPC can cancel an economic development incentive certificate under certain conditions, such as the company's application, cessation of priority business, liquidation, or failure to commence production within 12 months of the proposed production day[29]. The Minister may also suspend or recommend cancellation if conditions are not met or provisions are contravened[30].

In summary, the Economic Development Tax Credit outlined in Section 176 of the Nigeria Tax Act, 2025, offers a 5% annual tax credit for five years on qualifying capital expenditure in designated priority sectors, with provisions for carry-forward of unused credits and a structured application and supervision process. In doctrinal terms, the NTA 2025 represents a shift from discretionary, executive-led incentives to a more rule-based statutory framework, thereby enhancing legal certainty while preserving fiscal control.

3.3 Institutional Role of the Nigeria Revenue Service

The administration of renewable energy tax incentives under the NTA 2025 primarily falls to the Nigeria Revenue Service (NRS), established under the Nigeria Revenue Service Act 2025[31]. The Act assigns the NRS responsibility for assessing, collecting, and accounting for federally levied taxes, as well as managing tax incentives and credits.[32]

Under the NRS Act, the Service is authorised to issue guidelines, conduct audits, and verify compliance with statutory conditions tied to tax incentives. This organisational role is vital within the EDTC, which requires ongoing oversight of capital expenditure claims, project progress, and sectoral eligibility. The success of renewable energy tax incentives, therefore, relies not only on legislative design but also on the NRS's administrative capacity and technical expertise. From a doctrinal perspective, the concentration of incentive management within the NRS reflects an effort to centralise fiscal governance and reduce the fragmentation seen in the previous incentive regime. However, it also raises concerns about inter-agency coordination, particularly where incentive

[27] S.167 (2) ibid

[28] S.167 (5) ibid

[29] S.173(1) ibid

[30] S. 173(2) ibid

[31] Nigeria Revenue Service Act, 2025 (Act No. 6 of 2025), Laws of the Federation of Nigeria.

[32] Nigeria Revenue Service Act 2025 (Nigeria).

eligibility depends on technical assessments better handled by sector regulators, such as NERC, or environmental agencies.

3.4 Interaction with the Electricity Act 2023

The Electricity Act 2023[33] plays a vital supporting role in the renewable energy tax framework by establishing the legal status of renewable energy projects. Section 63 of the Act authorises the Nigerian Electricity Regulatory Commission (NERC) to issue licences for electricity generation, including from renewable sources. In contrast, section 64 allows for embedded generation and off-grid renewable energy systems.[34] These provisions are especially relevant for tax purposes, as they specify the types of renewable energy activities that may qualify as formal, licensable investments. The interaction between the Electricity Act and the NTA 2025 is therefore functional rather than duplicative. While the former defines what constitutes a lawful renewable energy activity, the latter determines the fiscal consequences of engaging in such activity. Any ambiguity in licensing or classification under the Electricity Act may, however, have downstream implications for tax incentive eligibility, highlighting the need for regulatory coherence.

3.5 Climate Change Act 2021 and Fiscal Environmental Alignment

The Climate Change Act 2021[35] sets the broader environmental policy framework within which renewable energy tax incentives operate. Section 20 of the Act requires the development of climate-aligned financing mechanisms, including fiscal measures, to support Nigeria's emission reduction targets.[36] This legal requirement enhances the legitimacy of renewable energy tax incentives under the NTA 2025 by grounding them in binding environmental obligations rather than discretionary policy choices.

Furthermore, the Act establishes institutional mechanisms, such as the National Council on Climate Change, to coordinate climate-related policies across sectors.[37] The success of renewable energy tax incentives, therefore, partly depends on whether fiscal authorities align their incentive administration with national climate strategies formed under the Act.

3.6 Doctrinal Implications

The legal and institutional framework for renewable energy taxation in Nigeria exhibits a converging yet imperfect alignment among fiscal law, energy regulation, and environmental governance. While the Nigerian Tax Act 2025 provides a clearer statutory basis for renewable energy incentives than earlier regimes, its effectiveness depends on strong institutional coordination and consistent statutory interpretation across various legislative instruments.

From a doctrinal perspective, the framework shows Nigeria's gradual move towards fiscal environmentalism, but also highlights structural vulnerabilities arising from administrative

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[33] Electricity Act, 2023 (Act No. 17 of 2023), Laws of the Federation of Nigeria,

[34] Electricity Act 2023 ss 63–64.

[35] Climate Change Act, 2021 (Act No. 32 of 2021), Laws of the Federation of Nigeria.

[36] S.20. *ibid*

[37] S.3 *ibid*

fragmentation and the lack of detailed cross-referencing between fiscal and sectoral statutes. These issues form the foundation for the policy evaluation discussed in the next part of this article.

4. Policy Effectiveness and Comparative Perspectives

4.1 Assessing the Policy Effectiveness of Renewable Energy Tax Incentives in Nigeria

The effectiveness of tax incentives for renewable energy investment depends not only on their legal existence but also on their ability to influence investor behaviour, reduce project costs, and align fiscal outcomes with environmental objectives. In this context, the Nigerian Tax Act 2025 marks a significant policy shift from previous incentive schemes by emphasising structured, performance-based reliefs rather than discretionary tax holidays. The introduction of the Economic Development Tax Credit (EDTC) reflects an effort to balance investment promotion with fiscal responsibility, ensuring that beneficiaries remain within the tax net while receiving targeted relief related to capital deployment.

From a policy perspective, this design offers several advantages. First, credit-based incentives reduce the risk of revenue leakage associated with blanket exemptions, a problem that troubled the former Pioneer Status Incentive regime. Second, by linking tax relief to verified capital expenditure, the EDTC encourages genuine investment in productive assets rather than merely restructuring companies to avoid tax. This approach aligns with current best practices in investment incentive design, which favour transparency, accountability, and measurable economic outcomes.[38]

However, the effectiveness of the EDTC and related incentives relies on administrative capacity. Renewable energy projects often involve complex technologies, long gestation periods, and cross-border supply chains. Without sufficient technical expertise within the tax administration, verifying qualifying expenditure and monitoring compliance can be challenging. Weak administrative capacity may therefore diminish the impact of incentives or create uncertainty that deters potential investors.

4.2 **Administrative and Institutional Challenges**

Administrative efficiency is a decisive factor in the success of investment tax incentives. Empirical studies on tax incentives in developing economies show that regulatory complexity and weak institutional coordination often dilute the intended impact of otherwise well-designed fiscal measures.[39] In Nigeria, the administration of renewable energy tax incentives implicates multiple institutions, including the Nigeria Revenue Service, the Nigerian Electricity Regulatory Commission, and environmental authorities responsible for climate governance.

The absence of formal coordination mechanisms among these bodies may generate implementation gaps. For instance, delays in project licensing or classification under the electricity regulatory framework may affect access to tax incentives. At the same time, inconsistencies between fiscal policy objectives and environmental targets may weaken the coherence of Nigeria's green transition strategy. Effective implementation of renewable energy tax incentives, therefore,

[38] OECD, Designing Effective Investment Tax Incentives (OECD Publishing 2018).

[39] OECD, Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment (OECD Publishing 2015).

requires not only statutory clarity but also coordinated institutional practice and information sharing across regulatory agencies.[40]

4.3 **Fiscal Sustainability and the Tax Expenditure Question**

Another crucial policy consideration is fiscal sustainability. From the perspective of tax expenditure theory, renewable energy incentives are implicit government spending through the tax system rather than direct budgetary allocations.[41] While such incentives may be politically attractive, they entail opportunity costs by reducing revenue. The long-term viability of Nigeria's renewable energy tax incentives, therefore, depends on whether the economic and environmental benefits generated outweigh the fiscal costs.

In this context, the credit-based structure of the EDTC provides an advantage over open-ended exemptions by restricting the amount and duration of tax relief. However, the lack of mandatory public reporting on the fiscal costs of renewable energy tax incentives may impair transparency and accountability. International best practice indicates that regular tax expenditure reviews are essential for evaluating the effectiveness of incentive schemes and adjusting policies where needed.[42] Incorporating such review mechanisms into Nigeria's renewable energy tax framework would strengthen fiscal discipline and boost policy credibility.

5. Comparative Perspectives: Kenya and South Africa

A brief comparative analysis of Kenya and South Africa provides valuable insights into different approaches to renewable energy taxation within the African context. In Kenya, renewable energy development has been supported through targeted investment deductions under the Income Tax Act and favourable indirect tax treatment under the Value Added Tax Act. Capital expenditure on energy generation, including renewable sources, qualifies for investment allowances, while selected renewable energy equipment benefits from VAT exemptions or zero-rating.[43] These fiscal measures, alongside sector-specific regulatory incentives such as feed-in tariffs, contribute to Kenya's relative success in attracting renewable energy investment.

In South Africa, fiscal support for renewable energy is provided through accelerated depreciation allowances under section 12B of the Income Tax Act 1962. This provision permits investors in renewable energy assets to write off capital expenditure over a shorter period, thereby significantly improving project cash flow in the early years of operation. The allowance is backed by the Renewable Energy Independent Power Producer Procurement Programme, which offers long-term power purchase agreements and regulatory certainty. The South African experience highlights the importance of aligning tax incentives with broader energy procurement and regulatory frameworks. Compared to these jurisdictions, Nigeria's approach under the Nigerian Tax Act 2025 demonstrates

[40] OECD, Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment (OECD Publishing 2015).

[41] Stanley S Surrey, Pathways to Tax Reform: The Concept of Tax Expenditures (Harvard University Press 1973).

[42] OECD, Tax Expenditures in OECD Countries (OECD Publishing 2010).

[43] Income Tax Act (Kenya), Cap 470; Value Added Tax Act 2013 (Kenya

increasing sophistication in incentive design but remains relatively underdeveloped in terms of institutional integration and transparency. While the EDTC aligns with global trends favouring

performance-based incentives, its success will depend on supportive regulatory measures and clear administrative guidance.

6. Lessons for Nigeria

The comparative analysis emphasises several lessons relevant to Nigeria's renewable energy tax policy. Firstly, fiscal incentives are most effective when integrated into a coherent regulatory framework that offers certainty throughout the project lifecycle. Secondly, transparency and regular assessment are crucial for maintaining fiscal sustainability and public trust. Thirdly, administrative simplicity and inter-agency coordination greatly enhance investor responsiveness. Applying these lessons to the Nigerian context shows that renewable energy tax incentives under the Nigerian Tax Act 2025 need to be supported by clear administrative guidelines, formal coordination mechanisms between fiscal and sectoral regulators, and consistent policy review processes. Without such measures, the potential of tax incentives to support Nigeria's renewable energy transition may remain underutilised.

6. Challenges and Recommendations

This study presents three main findings. Firstly, the Nigerian Tax Act 2025 marks a significant shift in Nigeria's approach to renewable energy investment incentives. By replacing the tax-holiday model with a credit-based system via the Economic Development Tax Credit (EDTC), the Act aligns Nigeria's incentive framework more closely with current international best practices, which favour targeted, performance-linked fiscal measures over broad exemptions.[44] This change boosts budgetary sustainability while maintaining the ability to attract private capital into renewable energy infrastructure.

Second, the analysis shows that the success of renewable energy tax incentives under the Nigerian Tax Act 2025 depends not only on legislative design but also on administrative and institutional capacity. Although the statutory framework provides a clearer legal basis for incentives compared to the repealed Pioneer Status regime, gaps remain in implementation clarity, inter-agency coordination, and technical expertise within the revenue administration. These weaknesses risk eroding investor confidence and reducing the intended effect of the incentives.

Third, the interaction between the Nigerian Tax Act 2025 and related legislation, particularly the Electricity Act 2023 and the Climate Change Act 2021, illustrates an emerging but incomplete integration of fiscal, energy, and environmental policies. Although these statutes collectively support Nigeria's move towards sustainable energy, the lack of precise cross-referencing and coordinated implementation mechanisms restricts the coherence of the renewable energy tax framework.

[44] N.9. OECD, Designing Effective Investment Tax Incentives (OECD Publishing 2018).

Several challenges hinder the effectiveness of renewable energy tax incentives under the Nigerian Tax Act 2025.

A significant challenge is administrative complexity. Renewable energy projects often involve sophisticated technologies, imported equipment, and lengthy development timelines. Without detailed administrative guidelines on qualifying expenditure, verification procedures, and credit utilisation, the EDTC may become difficult to access in practice. International experience shows that even well-designed incentives can fail when administrative processes are opaque or unpredictable.[45] A second challenge concerns institutional fragmentation. The administration of renewable energy incentives involves multiple entities, including the Nigeria Revenue Service, the Nigerian Electricity Regulatory Commission, and climate-related institutions created under the Climate Change Act 2021. Without formal coordination mechanisms, discrepancies in regulatory classification, licensing, or compliance requirements may hinder the uptake of incentives. Third, there is a transparency and accountability deficit. Tax incentives constitute tax expenditures and therefore represent a form of indirect public spending. However, the Nigerian framework does not yet mandate systematic reporting or periodic evaluation of the fiscal cost and environmental impact of renewable energy incentives. This gap weakens legislative oversight and limits the capacity for evidence-based policy reform.[46]

6. Conclusions/Recommendations

This article has examined the legal and policy framework governing tax incentives for renewable energy investments under the Nigerian Tax Act 2025 through a doctrinal and policy-oriented lens. It has shown that the Act represents a significant recalibration of Nigeria's incentive architecture, particularly through the replacement of discretionary tax holidays with the Economic Development Tax Credit, a performance-linked and fiscally conscious mechanism designed to promote sustainable investment while preserving revenue integrity. The analysis further shows that, although the statutory design of renewable energy tax incentives under the Nigerian Tax Act 2025 aligns with international best practice, their effectiveness ultimately relies on institutional and administrative realities. Weak coordination among regulatory agencies, limited administrative guidance, and the lack of systematic evaluation mechanisms present tangible risks to achieving the Act's policy goals. While conceptually coherent, the interaction between fiscal legislation, energy regulation, and climate governance remains insufficiently integrated in practice. Comparative insights from Kenya and South Africa underscore the importance of embedding tax incentives within a broader regulatory ecosystem characterised by administrative clarity, institutional coordination, and transparency. These jurisdictions illustrate that fiscal incentives yield optimal results only when complemented by stable regulatory frameworks and continuous policy evaluation.

[45] OECD, Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment (OECD Publishing 2015).

[46] Stanley S Surrey, Pathways to Tax Reform: The Concept of Tax Expenditures (Harvard University Press 1973).

In conclusion, the Nigerian Tax Act 2025 provides a promising legal foundation for advancing renewable energy investment in Nigeria. However, realising its transformative potential requires more than statutory innovation. Sustained administrative capacity, inter-agency collaboration, and periodic policy review are essential to ensuring that renewable energy tax incentives function as effective instruments of sustainable development rather than as underutilised legislative aspirations.

To combat the foregoing challenges, this article makes the following recommendations.

Firstly, there is a need for clear, detailed administrative guidance on the operation of renewable energy tax incentives under the Nigerian Tax Act 2025. The Nigeria Revenue Service should issue sector-specific guidelines that clarify eligibility criteria, qualifying capital expenditure, documentation requirements, and timelines for accessing the EDTC. Such guidance would reduce uncertainty and boost investor confidence without requiring legislative amendments.

Second, institutional coordination mechanisms should be strengthened. Formal collaboration frameworks between the Nigeria Revenue Service, the Nigerian Electricity Regulatory Commission, and climate governance institutions would promote consistency in project classification and compliance assessment. This could take the form of inter-agency committees or shared certification processes for renewable energy projects.

Third, Nigeria should institutionalise tax expenditure reporting and evaluation for renewable energy incentives. Regular publication of data on the fiscal cost, investment impact, and environmental outcomes of these incentives would improve transparency and accountability. The Organisation for Economic Co-operation and Development has consistently emphasised that such evaluation mechanisms are vital to ensuring that tax incentives remain cost-effective and aligned with policy objectives.[47]

Finally, renewable energy tax incentives should be part of a broader, coherent energy and climate strategy. Fiscal incentives alone cannot drive the energy transition. Their effectiveness depends on complementary regulatory certainty, access to finance, and supportive infrastructure. Aligning tax policy more explicitly with Nigeria's climate commitments and energy planning frameworks would enhance the overall credibility and impact of the incentive regime.

The Nigerian Tax Act 2025 offers a solid legal basis for encouraging renewable energy investment through specific fiscal incentives. Nevertheless, turning this legislative promise into real-world results depends on effective administration, coherent institutions, and ongoing policy oversight. Tackling these issues is crucial if renewable energy tax incentives are to serve as more than just symbolic gestures, but as meaningful tools for Nigeria's sustainable development.

[47] OECD, Tax Expenditures in OECD Countries (OECD Publishing 2010)