

THE IMPACT OF THE TAX REFORM LAWS



**ON DIGITAL ASSETS,
VIRTUAL ASSETS SERVICE PROVIDERS,
AND CRYPTOCURRENCY TRADERS**



Regulation Assets
VASPS & for Oversight
Crypto Traders

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DIGITAL ASSET AND VIRTUAL ASSET SERVICE PROVIDER

Digital assets are defined under the Nigeria Tax Act to include cryptocurrencies, utility tokens, and NFTs, and other similar digital representations or derivatives of any of the listed or similar assets and any other asset as may be defined by the relevant regulatory authority. Virtual Asset Service Provider means any person (individual or corporate) who is registered and licensed by the Securities and Exchange Commission to perform any function relating to virtual assets services that deliver services connected to virtual assets on behalf of their clients; e.g Quidax, Busha, etc.

VASPs offer a more comprehensive range of services which include facilitating the exchange of digital assets, providing custody solutions to safeguard them, and managing their use in financial transactions; while on the other hand, cryptocurrency traders primarily engage in the buying and selling of cryptocurrencies.

DETERMINING THE JURISDICTION OF DIGITAL ASSETS

Under the Nigeria Tax Act, digital assets are legally "situated in Nigeria" if the person who holds beneficial ownership, control, or interest in them is a resident of Nigeria.

This means that if you are a Nigerian resident, your Bitcoin, Ethereum, or Solana is considered a Nigerian asset for tax purposes, regardless of whether it is held in a hardware wallet in Lagos or on a foreign exchange based in Tokyo.

WHAT IS TAXABLE FOR VASPs?

Taxable transactions involving virtual assets encompass a range of activities that are essential for VASPs and Cryptocurrency traders to understand and ensure compliance with tax regulations. Some of which include:

a. The sale, exchange, or transfer of virtual assets;

- b. Mining or staking activities that generate income;
- c. Airdrops, bounties, or any form of virtual asset received as compensation or reward; and
- d. Any other transaction or activity relating to virtual assets.

Additionally, a transaction where payment for goods and services is made with Virtual Assets are also subject to the same tax treatment conducted in fiat currency.

WHAT THIS MEANS TO CRYPTO-CURRENCY TRADERS

As digital assets evolve in Nigeria, it is essential for VASPs and Cryptocurrency traders to understand the nature of taxable transactions and their implications for tax compliance.

Cryptocurrency traders are required to pay tax on earnings. The relief attached to this is that taxable profits are profits after losses are deducted. Additionally, if the profit falls below the exemption threshold, there will be no requirement to pay tax for such amount. If the profit goes above the threshold, tax liability will range from 15% -25% depending on the income bracket.

VALUATION FRAMEWORK

For tax purposes, the value of virtual assets is determined by the prevailing market price at the time of the transaction, sourced from recognized virtual asset exchange platforms approved by the Nigeria Revenue Service. This ensures a transparent and standardized approach to valuation.

Individuals and entities engaged in virtual asset activities must maintain accurate records and books, as mandated by the Nigeria Tax Administration Act. This includes thorough documentation of all transactions, which must be reported to Nigeria Revenue Service.

LIABILITY FOR NON-COMPLIANCE

Under the Nigeria Tax Administration Act, Virtual Asset Service Providers (VASPs) face a stringent penalty for non-compliance. A default in compliance with the Act triggers a penalty of N10,000,000 for the first month, with an additional N1,000,000 charged for every month the violation continues.

Furthermore, the Securities and Exchange Commission (SEC) is empowered by the Act to move beyond financial sanctions; by either suspending or revoking the operating license of such non-compliant provider.

VASPs OBLIGATIONS UNDER THE NTAA

Under the Nigeria Tax Administration Act, Virtual Asset Service Providers (VASPs) are held to high standards of transparency and oversight. To operate legally, every VASPs must obtain a SCUML Certificate and strictly adhere to Anti-Money Laundering (AML) laws. This includes a mandatory 48-hour window to report any suspicious activities such as fraud or terrorist financing directly to the Nigerian Financial Intelligence Unit (NFIU).

Additionally, providers must submit periodic reports of all customer exchanges and transfers to the tax authorities to ensure full financial visibility. The Act also places a heavy emphasis on Customer Due Diligence. VASPs are required to implement robust "Know Your Customer" (KYC) protocols, which involve verifying personal identities and conducting ongoing risk assessment.

CONCLUSION

Nigeria's new tax laws provide clarity to the digital asset space, but also bring serious responsibilities. Cryptocurrency traders are now required to carefully keep records to take advantage of tax relief, while Virtual Asset Service Providers (VASPs) are required to comply with the law *stricto sensu*.