

Sage in Nigeria

Payroll Taxes 2020

1. General Information

Official currency

The official currency of Nigeria is Naira (NGN).

Tax year end

Nigeria tax year is January to December, ending on 31 December.

Revenue service

Each state in Nigeria has its own tax authority.

2. Tax Tables

Annual Tax Tables for 2020 tax year

Bands of taxable income		Rate
From (N)	To (N)	
0.00	300 000	7%
300 000.01	600 000	11%
600 000.01	1 100 000	15%
1 100 000.01	1 600 000	19%
1 600 000.01	3 200 000	21%
3 200 000.01	and above	24%

Where the tax payable using the above table results in less than 1% of the gross income, 1% shall be the tax payable for that period.

3. Employment income and Gross income

Employment Income

In the case of employment income, a person is liable to tax on such income in Nigeria under two criteria:

- If the duties of his employment are wholly or partly performed in Nigeria, unless:
 - the duties are performed on behalf of an employer who is in a country other than Nigeria, and the remuneration of the employee is not borne by a fixed base of the employer in Nigeria; and
 - the employee is not in Nigeria for a period or periods amounting to an aggregate of 183 days or more inclusive of annual leave or temporary period of absence in any twelve month period; and
 - the remuneration of the employee is liable to tax in that other country under the provisions of the avoidance of double taxation treaty with that other country.
- If the employer is in Nigeria or has a fixed base in Nigeria.

4. Tax Reliefs and Deductions

Consolidated Relief Allowance (CRA)

CRA is N200 000 or 1% of gross income, whichever is higher, plus 20% of gross income.

Allowed tax deductions

The following items are deductible from the gross income before income that is subject to PAYE is established:

- Pension/Provident fund contribution
- National Housing fund contribution
- Life assurance premium. Limited to employee and spouse.
- Contributions to the National Health Insurance Scheme
- Interest on Loan for developing an owner-occupied residential house.

5. Benefits-in-Kind (BIK)

BIK provided to the employee by the employer are deemed to be part of such employee's gross emoluments and include:

Use of assets belonging to the employer

The taxable benefit is equal 5% of the amount expended in acquiring the asset, but if that amount cannot be ascertained, 5% per cent of the market value of the asset at the time of the acquisition.

Use of asset hired or rented by the employer

The taxable benefit is the amount paid to the property owner or the hirer.

Accommodation benefit

The annual value of the premises as determined for purposes of annual rates or the amount determined by the relevant tax authorities, less the actual rent paid.

6. Exempt income

The following income is not subject to tax:

- Gratuity income
- Any compensation for loss of income e.g. Severance pay
- Expenses incurred in the performance of employment duties from which it is not intended that the employee should make any gain or profit.

Interest and dividend

Interest income earned from debt instruments including treasury bills and corporate bonds now fully exempt while withholding tax is the final tax on dividends.

Exempt benefit in kind

- Provision of meals in any canteen in which meals are provided for the staff generally or non-transferable luncheon vouchers;
- Provision of uniform, overall or other protective clothing;
- Reasonable removal expenses which may or may not include a temporary subsistence allowance by reason of a change of the employee's employment which requires such employee to change his place of residence.

7. National Housing Fund (NHF)

The NHF Act requires that every Nigerian employee in the public and in the private sector, earning more than N3, 000 per annum in basic salary, must contribute **2.5% of his basic monthly salary** to the National Housing Fund ("NHF").

8. National Health Insurance Scheme (NHIS)

According to the NHIS Act, all employees must have health insurance. The Act does not dictate the contribution ratio for employees and employers in the private sector.

The NHIS Scheme is not the only available health insurance scheme as there are various approved Health Maintenance Organization (HMO). HMO'S are basically health insurance schemes. Employees are free to elect an HMO of their choice. Employers should make sure that they engage the services of a registered HMO, approved by NHIS.

9. Pension

Employers are required to contribute a minimum of 10% of their employees' monthly emoluments while the employees are to contribute not less than 8%.

The employer and/or the employee may make additional voluntary contribution.

Where an employer decides to solely contribute to the scheme, the contribution shall not be less than 20% of the employee's monthly emolument.

10. Employee Compensation Scheme (NSITF)

The employers' rate of contribution is 1% of total *monthly payroll as per the Employee's Compensation Act, 2010. Payroll is not defined in the Act. However, there is a definition of remuneration.

11. Industrial Training Fund (ITF)

Applicable to employers with 5 or more employees or less than 5 employees but a turnover of N50 million and above per annum/

1% of annual payroll cost.

The contribution is recoverable at any time within 6 years from the due date.

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