

Employment Income Taxation under the Tax Reform Acts: A Compliance Guide For Employers And Employees

Deconstructing the Tax Reform Acts.

INTRODUCTION

In a landmark step toward overhauling Nigeria's tax legislative framework, the President recently signed into law four comprehensive tax reform Acts, which are: the Nigeria Tax Act, the Nigeria Tax Administration Act, the Nigeria Revenue Service (Establishment) Act, and the Joint Revenue Board (Establishment) Act. Together, these Acts, which are expected to take effect from 1 January 2026, aim to modernize tax administration in Nigeria.

In this publication, we narrow our focus to two of these statutes, the **Nigeria Tax Act** and the Nigeria Tax Administration Act, and address their impact on the tax obligations of **employers and employees**. In particular, we highlight the revised obligations imposed on employers with respect to the taxation of employment income, including personal income tax (PIT) compliance, Pay-As-You-Earn (PAYE) deductions, and statutory remittance obligations.

In the sections that follow, we provide a clear and practical guide to the employer-specific provisions of the Nigeria Tax Act, outlining what has changed, what remains the same, and what must be done to stay compliant under the new framework.

EMPLOYER OBLIGATIONS AND COMPLIANCE REQUIREMENTS

Registration and Tax Identification

Every employer is required to register with the relevant tax

authority and to obtain a Taxpayer Identification (Tax ID) upon such registration.¹

Returns Filing Obligation

01 **PAYE and WHT Remittances:** Employers are required to deduct the appropriate amount of income tax from any emolument payable to their employees, at the time such emolument is paid or otherwise settled, in accordance with prescribed rates.² These deductions must be remitted to the relevant tax authority no later than the **21st day** of the month following the month in which the deduction was made.³ Employers are also required to ensure that the **total amount deducted over the course of a tax year equals the income tax chargeable on the employees' emoluments for that year.**⁴ This effectively means that tax deductions must align with the employee's final annual tax liability under the Pay-As-You-Earn (PAYE) system.

In the same vein, where an employer engages a person under a contract for services, they are obligated to deduct applicable WHT and remit it to the relevant tax authority by the 21st day of the following month.⁵

02 **PAYE and WHT Remittances:** The NTAA retains the obligations for employers to file annual returns of all emoluments paid to its employees in relation to the preceding year, by the 31st of January of each year.⁶ These returns must disclose for each employee gross emoluments, including allowances and benefits in kind, total deductions, net emoluments, and tax deducted.⁷

1. Section 4 Nigeria Tax Administration Act
2. Section 51(1) Nigeria Tax Administration Act
3. Section 107 Nigeria Tax Administration Act
4. Section 51(7) Nigeria Tax Administration Act

5. *Supra*
6. Section 14(1) Nigeria Tax Administration Act
7. Section 14(2) Nigeria Tax Administration Act

03 Every PAYE tax or WHT deducted must be remitted to the relevant tax authorities within 21 days.

INCOME TAX IMPLICATIONS FOR EMPLOYEES

The NTA introduces key clarifications on the taxation of employment income, particularly in relation to employee residency status, diplomatic exemptions, and the treatment of benefits and allowable deductions. The following highlights the principal implications:

Taxability of Employment Income

Under the NTA, income from employment is deemed to be derived and taxable in Nigeria where:

- a** The employee is a Nigerian resident; or
- b** The duties of employment are wholly or partly performed in Nigeria, and the salary is either:
 - i. Paid by or on behalf of a Nigerian company; or
 - ii. Borne by a fixed base of a foreign company located in Nigeria, provided that the income is not liable to tax in the country of residence of the employee.

Non-Resident Employees

The income of non-resident employees is not taxable in Nigeria where the employer is a start-up, and engaged in technologically driven activities, and the income is already taxable in the country of residence of the employee.

Income Tax for Nigerian Government Employees and Nationals in Diplomatic Contexts

01 Nigerian Government Employees Abroad: The salary of an employee of the Government of Nigeria is considered derived from Nigeria if the employee performs duties in a country that, under an agreement or diplomatic privileges, exempts that remuneration from tax in that country. Accordingly, such income is chargeable in Nigeria.

02 Nigerian Nationals Working Abroad: Where a Nigerian national who works in a foreign country is exempted from tax in that country under an agreement or other diplomatic arrangement in which Nigeria is a party, the income of such an employee is liable to tax in Nigeria.

03 Nigerian Nationals working for Foreign Entities in Nigeria: If a Nigerian national performs employment duties in Nigeria for a foreign country or international organisation, and that remuneration is not subject to tax in any other country under an agreement or diplomatic arrangement to which

Nigeria is a party, then this remuneration is chargeable to tax in Nigeria.

ASCERTAINMENT OF CHARGEABLE INCOME OF INDIVIDUAL

- The income of an individual, chargeable to tax, is the total income (including benefits, allowances, and perquisites) less eligible deductions.⁸
- The chargeable income of an individual also includes profits or gains from transactions in digital or virtual assets, as well as prizes, winnings, honoraria, grants, awards, laurels, etc.⁹
- Eligible deductions are;
 - Individual contributions under the Nigeria Housing Fund (NHF);
 - Individual Contributions under the National Health Insurance Scheme (NHIS)
 - Individual contributions under the Pension Reform Act (PRA);
 - Interest on loan for developing an owner-occupied residential house;
 - Premium for life insurance for self and spouse;
 - Rent relief of 20% on annual rent paid, subject to a maximum of N500,000.¹⁰

It is critical to note that the Consolidated Relief Allowance has been done away with under the NTA and has been replaced by the Rent Relief Allowance.

- For these deductions to be claimable by the taxpayer, a written application must be made to the relevant tax authorities.¹¹

Benefits in Kind

- Where an asset belonging to the employer is used to provide a benefit to an employee, the employee is deemed to have earned an annual benefit of 5 percent of the amount expended (or market value) by the employer in acquiring the asset.
- Where the sum expended is by way of rent, the employee is deemed to have earned the amount paid or the amount equal to the annual rent.
- Expenses incurred by an employer in the provision of living accommodation for its employees shall not be regarded as a taxable benefit in kind.

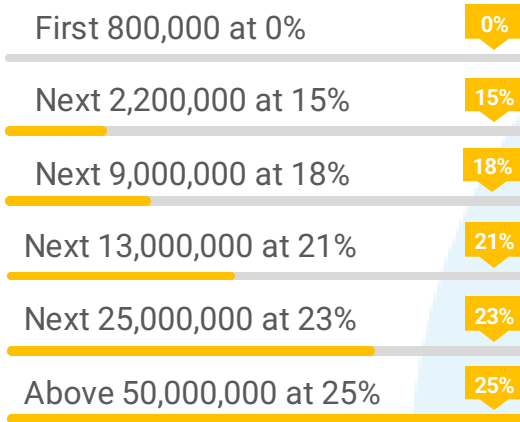
8. Section 30(1) Nigeria Tax Act
9. Section 4(1) Nigeria Tax Act

10. Section 30(2) Nigeria Tax Act
11. Section 31 Nigeria Tax Act



THE NEW INDIVIDUALS' INCOME TAX RATE ¹²

The taxable income of an individual is computed as follows after deduction of the reliefs and allowances under the Act:



RESIDENCE AND RELEVANT TAX AUTHORITY

- A** A Nigerian employee is deemed to be registered in his principal place of residence. ¹³
- B** A person who does not derive income from Nigeria i.e. holds foreign employment shall be deemed to be resident for tax purposes:
 - o in the territory where the foreign employer's head office is located, if the duties are wholly performed outside Nigeria; or
 - o in the place of residence of the employee, or the

place where he usually resides, if the duties are performed or exercised in Nigeria for a foreign employer.¹⁴

- C** As such, where the duties of a foreign employment are performed in Nigeria, the employee will be deemed to be resident in the state where his place of residence is.
- D** An employee whose income is liable to tax in Nigeria, but not resident anywhere in Nigeria shall pay its taxes to the Nigeria Revenue Service.¹⁵
- E** An employee whose income is liable to tax in Nigeria, but resident in the Exclusive Economic Zone shall pay its taxes to the Nigeria Revenue Service.¹⁶
- F** A person with no source of earned income in Nigeria but has source of unearned income in more than one territory shall be deemed to be resident in the state he has a place or principal place of residence; he shall be deemed to be resident in any territory where he derives such income.¹⁷
- G** Where the residency of an individual is in dispute, and a territory has raised an assessment, such assessment shall be discharged upon determination that another territory is the relevant tax authority.

EMPLOYEE FILING OBLIGATIONS.

Notwithstanding the obligation of employers to file annual returns, employees are also required to file their annual returns of income from all sources including employment income. This return is to be filed by all taxable persons whether or not liable to pay tax as well as non-resident persons liable to pay tax.¹⁸ Notably, the requirement for this filing to be done by the 31st of March annually, is no longer contained in the NTAA.



12. Fourth Schedule to the Nigeria Tax Act
 13. Paragraph 2, Twelfth Schedule to the Nigeria Tax Act
 14. Paragraph 1, Twelfth Schedule to the Nigeria Tax Act
 15. Paragraph 3(1) Twelfth Schedule to the Nigeria Tax Act and section 3(1)(a)(iv) of the Nigeria Tax Administration Act

16. Paragraph 3(2) Twelfth Schedule to the Nigeria Tax Act
 17. Paragraph 7 Twelfth Schedule to the Nigeria Tax Act
 18. Section 13 Nigeria Tax Administration Act

PENALTIES FOR NON-COMPLIANCE

NO.	OFFENCE	PENALTY
1	Failure to register	₦50,000 in the first month; ₦25,000 for each subsequent month. ¹⁹
2	Failure to deduct PAYE or WHT on the fees of employees or those employed under a contract for service.	Administrative penalty of 40% of the amount not deducted. ²⁰
3	Failure to remit PAYE/WHT	<p>a. The unremitted sum;</p> <p>b. 10% penalty per annum;</p> <p>c. Interest at prevailing CBN Monetary Policy Rate.²¹</p> <p>In addition to the above, a person convicted of this particular offence will be liable to a term of imprisonment not exceeding three years or a fine of not less than the principal amount due plus penalty of not more than 50% of the sum, or both.²²</p>
4	Failure to supply information to the relevant tax authority upon demand	Administrative penalty of 200,000 in the first month of default, and N10,000 for every subsequent day when the default continues. ²³
5	Failure to File Returns, or knowingly file incomplete returns	Administrative penalty of ₦100,000 in the first month and ₦50,000 for each subsequent month the failure continues ²⁴ .
6	Failure to notify change of address within 30 days	Administrative penalty of ₦100,000 for the first month and ₦5,000 for each subsequent month the failure continues. ²⁵
7	General Penalty	Administrative penalty of N1,000,000 or a term of imprisonment not exceeding 3 years, or a fine or both ²⁶ .



19. Section 100 Nigeria Tax Administration Act
 20. Section 105 Nigeria Tax Administration Act
 21. Section 107(1) Nigeria Tax Administration Act
 22. Section 107(3) Nigeria Tax Administration Act
 23. Section 108 (2) Nigeria Tax Administration Act

24. Section 101 Nigeria Tax Administration Act
 25. Section 112 Nigeria Tax Administration Act
 26. Section 127 Nigeria Tax Administration Act

Conclusion

The tax reform Acts are undeniably disruptive, fundamentally overhauling Nigeria's tax legislative framework as we know it. Nevertheless, while there are many new developments, such as the revision of income tax rates, abolition of consolidated revenue allowance, and introduction of rent relief allowance, several key obligations remain the same. As such, employers and employees alike must adopt a more structured and transparent operational framework.

As 1st January 2026 (the commencement date of the Acts) approaches, it is imperative for all stakeholders to review their internal processes, update payroll systems, and seek professional guidance where needed, to ensure full compliance and avoid potential penalties under the new regime. Staying ahead of these changes will not only promote compliance but also foster greater trust and efficiency within Nigeria's evolving tax system.

FOR MORE INFORMATION, PLEASE CONTACT :



Olamide Obajimi

Partner
oobajimi@olaniwunajayi.net



Celestina Nwabueze

Managing Associate
cnwabueze@olaniwunajayi.net



Mayowa Olusegun

Senior Associate
molusegun@olaniwunajayi.net



Obehi Irabor

Associate
oirabor@olaniwunajayi.net



Anastasia Nwoye

Associate
anwoye@olaniwunajayi.net



Ayotomiwa Ajiboye

Associate
aajiboye@olaniwunajayi.net