

## **Personal Income Tax**

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### **Introduction to Personal Income Tax**

A number of employees, upon receiving increases in their wages, have complained about high deductions from their monthly income as tax, which is called in Nigeria PAYE (pay as you earn tax). My advice to them to inquire from their employers the method used to arrive at the sum deducted, which usually varies, have being met with a concern of not 'rocking the boat' in some cases and in others, by an uncooperative attitude of the employers to provide the tax information.

The Newsletter attempts to provide general information on what PAYE is about in the expectation that this will create greater understanding between employers and employees.

## **General Principles Of Taxation & PAYE**

- A cardinal principle of taxation is that all income derived from, accruing in, brought into or received in Nigeria are liable to tax.
- Profits or gains in the form of salaries, wages, fees, allowances, gratuities, compensation, bonuses, premiums, benefits or other likes are liable to tax in Nigeria .
- Employers in Nigeria are required to deduct PAYE tax at source and remit the amounts deducted to the tax authorities within 14 days.
- Increases in salaries under various names, which are also called in some cases, perks of an employment, and are subject to tax. These are usually called in taxation Law benefits-in-kind.
- Examples of benefits-in-kind, which are liable to tax payment, include: -
  - Motor vehicle or transport allowance where the amount is above N 20,000. The excess amount is subject to personal income tax payment.
  - Residential accommodation with a limit of N 150,000 for residents in Lagos and the Federal Capital Territory Abuja (FCT) and N 100,000 for residents outside

Lagos and FCT. Benefits above these are liable to tax.

- Allowances for domestic help, wash-man, education, furniture, tea, bonus, and the like are liable to personal income tax.
- Not all benefits-in-kind are taxed by the government for after all, employees must be encouraged. Thus, the following items are like tax exempt up to the limits set:
  - The provision of canteen food in the employer's premises;
  - Uniforms, medical & dental expenses;
  - Cost of passage from one station to another;
  - Compensation for loss of employment;
  - Rents not exceeding N 150,000 per annum (P/A);
  - Maximum annual expense of N 20,000 for motor vehicle maintenance on vehicle used in the course of an employment;
  - Meal subsidy or allowance not exceeding N 5,000 (P/A);
  - Utility allowance not exceeding N 10,000 P/A;
  - Entertainment allowance not exceeding N 6,000 P/A;
  - Leave allowance not exceeding 10% of annual basic salary P/A;
  - Personal allowance in the sum of N 5,000 plus 20% earned basic income;
  - Dependent relative allowance (maximum of 2 persons) = N 2,000 P/A, child allowance with a maximum of 4 children at N 2,500 per child P/A;
  - Life insurance and pension scheme which earns the employee the full benefit of actual premium paid and contributed to pension scheme;
  - Annual membership dues paid to recognised professional institutes are tax exempt;
  - Interest on actual mortgage payments;
  - Disable person allowance is allowed for a disable employee in the sum of N 3,000 P/A or 20% of earned income, whichever is higher;
  - A special incentive for donations to research centres, dividends from companies engaged in agricultural production in Nigeria , petrochemicals and liquefied natural gas companies, etc.
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## **Tax Rates Under PAYE**

The portions of the income of an employee liable to tax, after all the benefits stated above are removed, is graduated from 5% to 25% as follows: -

- The 1<sup>st</sup> N 20,000 of income is liable to 5% tax payment;
- The next N 20,000 of income is liable to 10% tax;
- The next N 40,000 of income is liable to 15%;
- The next N 40,000 of income is liable to 20%.
- Income above N 120,000 is liable to tax at the rate of 25%.

## **Other Taxes in Nigeria**

The rate of other taxes in Nigeria are for Companies Income Tax 30%, Capital Gains tax is 10%, Petroleum Profit Tax is 85% (but 65.75% for the first five years of operations), Value Added Tax rate is 5%, Education Tax of 2% on all assessable profits of a registered company.

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**EHIJEAGBON O. OSEROGHO**

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