

TAXATION OF EMPLOYMENT INCOME UNDER THE NIGERIAN TAX REFORM ACTS: AN OVERVIEW OF KEY PROVISIONS



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Introduction

The enactment of the four tax reforms bills in 2025, which became effective on 1st January 2026, heralded a new dispensation in Nigerian tax administration. These laws, which include the Nigeria Tax Act, 2025 (NTA) and the Nigeria Tax Administration Act, 2025 (NTAA), have brought significant changes to the Nigerian tax landscape in a bid to promote efficiency in taxation and to align Nigerian tax system with global practices.

Amongst other innovations, the NTA introduces a modern and structured framework for the taxation of employment income in Nigeria. Employment income remains the most visible and administratively efficient segment of the tax system, largely collected through the Pay-As-You-Earn (PAYE) mechanism.¹ The NTA clarifies what constitutes employment income, how it is computed, and the rates at which it is taxed. This article examines the key provisions of the NTA and the NTAA as they relate to taxation of employment income and compliance obligations.

Taxability of Employee's Income

The NTA imposes tax on income, profits, or gains of an individual which includes all forms of remuneration arising from employment.² This covers salaries, wages, fees, allowances, compensations, bonuses, premiums, benefits, and any other perquisites granted by an employer or any other person to an employee. However, payments made solely to reimburse expenses incurred in the proper performance of the employee's duties are excluded, provided such payments are not intended to confer any profit or gain on the employee.³

The NTA further sets out how benefits-in-kind provided by an employer are treated for tax purposes.⁴ It provides that when an employer incurs expenses in giving an employee benefits or perquisites, other than living accommodation, the employee is deemed to have received taxable income equal to the value of those benefits. If the benefit involves the use of an employer's asset, the annual value is calculated as 5% of the cost of acquiring the asset, or if that cost cannot be determined, 5% of its market value at acquisition.⁵

Where the employer pays rent or hire-charges for the asset, the benefit is valued at the annual rent or hire paid. In other cases, the benefit is valued at the annual amount spent by the employer in providing it. The NTA allows deductions where the employee contributes to the expense, and it excludes certain items from taxation, such as meals provided in staff canteens, uniforms or protective clothing, work tools or equipment, and relocation expenses arising from a change of employment or workplace.⁶ It also clarifies that benefits provided to an employee's spouse, family, dependants, servants, or guests are treated as if provided to the employee.⁷

¹ This is the mandatory system where employers deduct income tax from employees' salaries before payment and remit it to the government.

² Section 3 NTA

³ Section 4(2)(a) NTA

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⁴ Section 14 NTA

⁵ Section 14(a) NTA

⁶ Section 14(3) NTA

⁷ Section 14(5) NTA

For accommodation, if an employer provides premises in Nigeria to an employee or their family either rent-free or at a rent below the annual rental value, the employee is treated as receiving additional taxable emoluments equal to the rental value, though capped at 20% of the employee's annual gross income (excluding the rental value itself).⁸ The "annual value" of premises is defined either by local rate assessments where applicable, or by determination of the relevant tax authority (RTA), and may be apportioned according to the period of occupation or the part of the premises used.⁹

Determination of Income Derived from Nigeria

Under the NTA, income, gains, or profits from employment are deemed to arise in Nigeria if:

- (i) the employee is resident in Nigeria, or
- (ii) the duties of the employment are wholly or partly carried out in Nigeria and the remuneration received in Nigeria is not subject to tax in the employee's country of residence.¹⁰

In addition, where an individual is employed by the Government of Nigeria and performs their duties in another country, the income is still considered to be derived from Nigeria if, under an agreement or diplomatic privilege, the employee is exempt from tax in that foreign country.¹¹

The NTA further establishes a clear framework for determining tax residency and introduces the principle of worldwide income taxation for Nigerian residents. Under this regime, a resident individual is liable to tax on income earned both within and outside Nigeria, while non-residents are taxed solely on income derived from Nigerian sources. Residency is assessed by reference to any of the following factors (i) domicile, (ii) the availability of a permanent home for domestic use, (iii) habitual abode, (iv) substantial economic or family ties, and (v) the duration of physical presence in Nigeria,

which must amount to at least 183 days within a 12-month period or (vi) a diplomat or diplomatic agent of Nigeria in another country.¹²

An individual who does not fall under any of these thresholds is regarded as a non-resident. Non-residents are only subject to Nigerian tax on employment income if they perform duties in Nigeria and such income is not taxed in their country of residence. Where double taxation arises because the same income is taxed in another jurisdiction, relief is available either through unilateral credits or under applicable double tax treaties.

Where a Nigerian national performs employment duties within Nigeria on behalf of a foreign government, foreign entity, or international organisation, and the remuneration received is not subject to tax in any other jurisdiction under an agreement or diplomatic arrangement to which Nigeria is a party, such remuneration shall be deemed taxable in Nigeria.

Determination of Residence within Nigeria and Relevant Tax Authority

The 12th Schedule of the NTA further provides a framework for determination of residence of an individual who is taxable in Nigeria, for the purpose of determining the State Internal Revenue Service (SIRS) to administer the tax. A person who is employed in Nigeria on the 1st of January of a tax year, or who becomes liable to income tax during that year by entering such employment, will be regarded as resident in the territory where they have their place or principal place of residence on that date, or on the date they assume full duties of the employment. If the individual is on leave from Nigerian employment on 1st January, their residence for that year will be determined by reference to the place or principal place of residence they had immediately before the leave began.

Also, if an employee's remuneration is taxable in Nigeria during a year of assessment, but the employee has no place or principal place of residence in any State in Nigeria, such an employee will be

⁸ Section 14(6) NTA

⁹ Section 14(7) NTA

¹⁰ 12th Schedule NTA

¹¹ *ibid.*

¹² Section 201 NTA

deemed to hold a foreign employment.¹³ Furthermore, if the employee has no territory of residence in a State, their taxes will be administered by the Nigeria Revenue Service (NRS). The rule also extends to employees whose residence is in Nigeria's Exclusive Economic Zone or territorial waters beyond the littoral States, and who have no principal place of residence in any of those States.¹⁴

Ascertainment of Chargeable Employment Income

Since the taxable income of an individual is the total income less deduction, it is important to distinguish the chargeable income from the deductibles. The chargeable income will be the amount that remains after the eligible deductions have been made. The eligible deductions are:

- (i) the individual's contributions under the National Housing Fund;
- (ii) the individual's contributions under the National Health Insurance Scheme;
- (iii) the individual's contributions under the Pension Reform Act;
- (iv) interest on loans for developing an owner-occupied residential house;
- (v) annual amount of any annuity or premium paid by the individual during the year preceding the year of assessment in respect of insurance on his life or the life of his spouse, or contract for a deferred annuity on his own life or the life of his spouse;
- (vi) rent relief of 20% of annual rent paid, subject to a maximum of ₦500,000, whichever is lower, provided that the individual accurately declares the actual amount of rent paid and other relevant information as may be prescribed by the relevant tax authority.¹⁵

Any of the above deductions can only be claimed in writing in such a format as may be prescribed by the RTA.¹⁶

Rates of Tax Applicable to Employees

The Fourth Schedule of the NTA introduced a progressive personal income tax regime across different income levels. The table below shows a summary of the taxable income bands and applicable personal income tax (PIT) rates on an annual basis.

| Annual Income (NGN) | PIT rate (%) |
|---------------------|--------------|
| First 800,000 | Tax Exempted |
| Next 2,200,000 | 15% |
| Next 9,000,000 | 18% |
| Next 13,000,000 | 21% |
| Next 25,000,000 | 23% |
| Above 50,000,000 | 25% |

These rates are applied only after all allowable deductions have been made. Individuals whose employment income is at or below the national minimum wage are not subject to taxation.¹⁷

To begin the computation of PAYE tax, one must first determine the annual gross income. Gross income represents the total earnings before any deductions are made, and it typically includes basic salary, housing allowance, transport allowance, and other benefits.

Example

Step 1: Annual Gross Income

Gross income = total earnings before deductions (salary + allowances + benefits). Example: ₦600,000 per month × 12 = ₦7,200,000 per year.

Step 2: Pension Contribution

Mandatory deduction = 8% of annual gross income. Example: 8% of ₦7,200,000 = ₦576,000.

Remaining income after pension = ₦7,200,000 – ₦576,000 = ₦6,624,000.

Step 3: Rent Relief

The new tax regime replaces Consolidated Relief

¹³ Paragraph 3, 12th Schedule NTA

¹⁴ibid.

¹⁵ ibid, Section 30. It is important to note that the Consolidated Relief Allowance has been abolished under the NTA and has been replaced by the Rent Relief Allowance.

¹⁶ ibid, Section 31 NTA.

¹⁷ Section 58 NTA

Allowance with Rent Relief. Taxpayers can deduct 20% of annual rent, capped at ₦500,000, from taxable income.

Example 1: Rent ₦2,000,000 → Relief = ₦400,000.

Example 2: Rent ₦3,500,000 → Relief capped at ₦500,000 (even though 20% = ₦700,000).

If an individual earns ₦600,000 per month (₦7,200,000 per year) and pays ₦2,000,000 in annual rent; Pension contribution (8%): ₦48,000 per month × 12 = ₦576,000; Rent relief: 20% of ₦2,000,000 = ₦400,000 (below ₦500,000 cap).

Total taxable amount = ₦7,200,000 – (₦576,000 + ₦400,000) = ₦6,224,000. That means ₦6,224,000 of the annual income will be taxed.

The individual's annual tax is calculated by applying the progressive rates to the different income bands.

First ₦800,000: 0% = ₦0

Next ₦2,200,000 at 15% = ₦330,000

Next ₦9,000,000 at 18% = ₦580,320

Total Annual Tax: ₦0 + ₦330,000 + ₦580,320 = ₦910,320

Monthly PAYE: ₦910,320 ÷ 12 = ₦75,860

Compliance Requirements

Every employer is required to register with the RTA and obtain a Taxpayer Identification Number (Tax-ID) upon registration.¹⁸ Once registered, employers must deduct the correct amount of income tax from any emoluments payable to their employees at the time such payments are made or otherwise settled, in line with prescribed tax rates.¹⁹

Time for Compliance

The NTAA requires every person with an obligation

to deduct and remit tax to render monthly returns to the RTA as specified in regulations issued for that purpose.²⁰ At present, no new regulations have been issued under the NTAA in this regard. However, Section 146 of the NTAA provides that existing regulations made under repealed Acts remain applicable, except where they conflict with the provisions of the NTAA.

Section 107 of the NTAA provides that any person who deducts, collects, or withholds tax under the Act and fails to remit the amount to the RTA by the 21st day of the month immediately succeeding the month of deduction, collection, or withholding is in default.

The NTAA maintains the obligation for employers to file annual returns of all emoluments paid to employees for the preceding year. These returns, which must be submitted by the 31st of January each year,²¹ are required to disclose for each employee the gross emoluments, including allowances and benefits-in-kind, the total deductions, the net emoluments, and the tax deducted. Employers are further obligated to ensure that the total deductions made throughout the tax year correspond to the actual income tax chargeable on each employee's emoluments.²²

In addition to the obligation imposed on employers to file annual returns, employees themselves are required to submit annual returns of income from all sources, including income derived from employment.²³ This duty applies to all taxable persons, regardless of whether they ultimately have a tax liability, and extends to non-resident individuals who are liable to pay tax in Nigeria. It is important to note that the 31st March timeline under the previous regime was not retained under the new tax regime.

Whilst Section 14(3) of the NTAA stipulates that every employee must file an annual return of income from all sources, including employment income, the practical reality is that employees whose sole earnings are from salaries are already fully taxed under the PAYE system. In such cases, employers are

¹⁸ Section 4 NTAA

¹⁹ Section 51 NTAA

²⁰ Section 28 NTAA

²¹ Section 14(1) NTAA

²² Section 51(7) NTAA

²³ Section 14(3) NTAA

responsible for deducting and remitting the appropriate taxes to the relevant SIRS. Requiring these employees to file self-assessment returns creates unnecessary duplication, raises compliance costs, and contributes little to the efficiency of tax administration or revenue assurance.

It is arguable that it is more appropriate to interpret subsection 14(3) as applying only to employees who earn income beyond their salaries. This narrower construction would cover individuals with side businesses, freelance engagements, investment income, asset disposals, or other non-employment earnings that fall outside the PAYE framework. In addition, the tax system should be designed to give employees access to their taxpayer profiles, enabling them to view their employment income and the taxes remitted on their behalf by their employers. Such transparency would encourage voluntary compliance and strengthen trust in the system, without imposing unnecessary filing obligations on employees whose tax obligations are already settled through PAYE.

Penalties for Non-Compliance

- i. An employer who fails to register with the RTA is liable to a fine of ₦50,000 in the first month and ₦25,000 for each subsequent month of default.²⁴
- ii. Failure to deduct PAYE or WHT attracts an administrative penalty equal to 40% of the amount not deducted.²⁵
- iii. Where PAYE or WHT is deducted but not remitted, the employer must pay the unremitted sum, a penalty of 10% per annum, and interest at the prevailing Central Bank of Nigeria Monetary Policy Rate.²⁶ Conviction for this offence may also result in imprisonment of up to 3 years or a fine of not less than the principal amount due plus a penalty of up to fifty percent of the sum, or both.²⁷
- iv. Failure to provide information requested by the RTA carries a penalty of ₦200,000 in the first

month and ₦10,000 for each day the default continues.²⁸

- v. Failure to file returns, or knowingly filing incomplete returns, attracts a penalty of ₦100,000 in the first month and ₦50,000 for each subsequent month.²⁹
- vi. Employers who fail to notify the tax authority of a change of address within 30 days are liable to a penalty of ₦100,000 in the first month and ₦5,000 for each subsequent month.³⁰
- vii. A general penalty provision applies to other breaches, under which offenders may be fined ₦1,000,000 or imprisoned for up to 3 years, or both.³¹

Conclusion

Both the NTA and NTAA have introduced significant changes to the taxation of employment income. By clearly defining what constitutes taxable income, establishing rules for benefits-in-kind and accommodation, and setting out residency criteria, the legislation ensures that both residents and non-residents are appropriately taxed in line with global best practices. The adoption of progressive tax rates, the replacement of the Consolidated Relief Allowance with Rent Relief, and the emphasis on activity-based residence determination mark a significant departure from the former regime under the Personal Income Tax Act.

Employers and businesses should review their internal processes, update payroll systems, and where necessary, seek professional guidance to ensure full compliance with the provisions of the tax legislation. Timely preparation will help avoid exposure to penalties under the new regime. More importantly, embracing these reforms early will not only secure compliance but also strengthen transparency, build trust, and enhance efficiency within Nigeria's evolving tax administration framework.

²⁴ Section 100 NTAA

²⁵ Section 105 NTAA

²⁶ Section 107(1) NTAA

²⁷ Section 107(3) NTAA

²⁸ Section 108(2) NTAA

²⁹ Section 101 NTAA

³⁰ Section 112 NTAA

³¹ Section 127 NTAA

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