

Nigeria Payroll Summary 2019

INTERNAL DOCUMENT

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1. Introduction

The official currency of Nigeria is Naira (NGN).

1.1 Tax year end

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

1.2 Revenue service

Each state in Nigeria has its own tax authority.

Lagos Internal Revenue Service, for Lagos state. www.irs.lg.gov.ng

The Federal Inland Revenue Service, for Abuja. www.firs.gov.ng

2. Administration and Compliance

2.1 Tax filing and payment of tax

Employers are required to deduct and account for personal income tax on the employment income of their employees through the PAYE system. The PAYE tax must be remitted on or before the 10th day of the following month following the payment of salary. PAYE deducted from the January Salary should be remitted by 10th of February.

2.2 Form H1 – PAYE Employer Annual Declaration and Certificate

This contains the names, gross income and taxes paid by employees who were in the Company's employment for the immediate preceding tax year. The tax authority relies on the information on this Form to determine if accurate taxes have been paid. Where the Revenue determines that taxes have been underpaid, additional assessment including penalty and interest of the amount underpaid will be raised. Until the underpayment is settled / resolved, the Company's employees will not be issued Tax Clearance Certificate.

Employer Annual Declaration Form H1 should be returned to the relevant tax authorities not later than January 31st of the next year

2.3 Tax Clearance Certificate (TCC)

All workers in every state either in paid employment or otherwise must obtain or renew their TCC every year.

All employers are mandated to process TCC applications together at once on behalf of their employees.

Any employee who wants a Tax Clearance Certificate (TCC) should submit an application for a TCC accompanied with a certificate of payment and tax (Form H2).

The TCC application forms are obtainable from the Tax Authorities in the applicable states.

3. Expats in Nigeria

There are no special taxes on Expatriates. They are subjects to the same tax rules as any other resident individual. Expatriates may claim personal relief and are also entitled to all other reliefs and allowances granted to a national.

Leave Passage/Relocation allowance is not taxable for expatriates.

Contribution made to the National Pension Scheme is optional for expatriates only.

National Housing Fund is for local staff only – Expats are exempt.

4. Tax Tables

Annual Tax Tables for 2019 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.

5. Employment income and Gross income

5.1 Employment Income

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

1. 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.
2. If the employer is in Nigeria or has a fixed base in Nigeria.

5.2 Gross Income

Gross income is defined as “wages, salaries, allowances (including benefits in kind), gratuities, superannuation and any other incomes derived solely by reason of employment”.

Our interpretation is that it is the earnings, benefits and CC's including exempt income. Note that gross income excludes all the statutory contributions by the employer.

Gross income is used to calculate the 1% minimum tax, consolidated relief allowance and the disability relief.

6. Tax Reliefs and Deductions

These reduce the employee's taxable income.

6.1 Consolidated Relief Allowance

There is a Consolidated Relief Allowance (CRA) of N200 000 or 1% of gross income, whichever is higher, plus 20% of gross income.

6.2 Other Reliefs

Child - A relief of N2 500 is granted for each child up to a maximum of four children, provided that none is above 16 years or married. However, a relief can be granted for a child over 16 years if he/she is in a recognized school, under artisanship or learning a trade.

Dependent Relative - A relief of N2 000 is granted for each dependent relative up to a maximum of two relatives who are widowed or infirm.

Disability – A deduction of additional N3 000 or 20% of the gross income, whichever is higher, in the case of a disabled person who uses special equipment or the services of and attendant in the course of a paid employment.

The Child, Dependent Relative and Disability Reliefs are still available according to the Amended Income Tax Act.

6.3 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.

Note that only the employee's contribution towards the above mentioned is tax deductible.

7. 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.

Low interest loan

The Lagos State Internal Revenue Service (LIRS) has issued a public notice regarding the taxation of employee loans. See attached.

The notice seeks to reduce the uncertainty regarding taxation of interest on employee loans by providing a definition of "employee loan" and specifying the compliance requirements.

A taxable benefit arises when the employer provides a loan to an employee with an interest rate, which is lower than the adjusted Monetary Policy Rate (MPR). The adjusted MPR is MPR minus 3%.

Currently, the MPR is 14%. Therefore, any loan granted to an employee at an interest rate below 11% per annum will result in a taxable benefit, which is subject to PAYE.

Employee loans with an interest rate above the adjusted MPR rate do not attract tax.

The taxable benefit will be assessed depending on the payment terms of the loan. For example, if the loan repayment is on a monthly basis, then the employer should assess the tax on a monthly basis.

Employers are required to file, alongside their annual returns, a schedule showing the information on its employee loan and the payment terms.

This provision will apply to directors, significant shareholders and employees of a company and will continue to apply to even after the relationship with the company has been terminated as long as the loan remains unpaid.

8. 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.

The Enugu division of the Nigerian Tax Appeal Tribunal (TAT) delivered its judgment on 20 June 2019. Based on this judgment, employers should not be required to deduct and remit PIT on gratuity payments made to retired employees.

This ruling should put to rest the controversy on the public notices issued earlier by some state tax authorities (such as LIRS) regarding taxing gratuities for PIT purposes, as such regulations should no longer be valid considering that the TAT has affirmed that all gratuity payments to retired employees are tax exempt in line with the PITA. However, LIRS has not withdrawn their Public Notice regarding the taxation of gratuities.

8.1 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.

Section 20 of the Labour Act briefly covers redundancy. However, the Nigerian labour law does not provide for the calculation of the actual severance pay earning.

In practice, the employment contract generally provides that in the event of a cessation of employment, employees will be entitled to certain payments and benefits. The determination of these benefits is generally the responsibility of the employer.

8.2 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.

9. Lagos state only

9.1 1. Exemption of compensation for loss of employment

According to the Personal Income Tax Act, compensation for loss of employment is exempt from taxation.

Definition

Compensation for loss of employment could be either a termination benefit or terminal benefit. An employee will receive compensation for loss of employment when any of the following occurs:

- Where an employee is redundant and gets a settlement, which may include the statutory redundancy lump sum, and a further sum negotiated by the employee or the trade union with the employer. This is termination benefit.
- When an employee retires and is paid a lump sum by his employer. This is a terminal benefit.
- Where an employee had a fixed-term contract and it is ended early, and the employee gets paid a lump sum in compensation. This is a termination benefit.

Compliance Requirements

The following principle should guide employers in determining how to tax terminal benefits and termination benefits

1. Tax relief will only be granted for PAYE if the amount paid was never pre-agreed before the disengagement process began. However, in such cases capital gain tax will be applicable on such sums as they are capital in nature and payable to LIRS.
2. Pre-agreed amounts are generated from employment and subject to PAYE.
3. Gratuity payments are tax deductible for PAYE purposes if they are paid under an approved pension scheme in line with Section 5 of the Pension Reform Act (PRA) 2014. If paid outside the PRA, the gratuity payments would be taxable if the conditions under Paragraph 18 of the 3rd Schedule is triggered, i.e.
 - The service period is not up to 10 years;
 - Any amount in excess of N100,000; and
 - Where the service period is not up to five years (or an aggregate of 63 consecutive months in the case of a service that
 - is not continuous), the exemption allowed is N1,000 per annum for such period or aggregate period of employment.

Any excess calculated does not qualify for the exemption.

Reporting Obligations

It is no longer acceptable to lump terminal benefits under the heading of compensation for loss of employment. Employers are required to show each pay component and the corresponding payments in their tax returns to enable the LIRS determine the correct tax treatment. Every employer is required to notify the LIRS of payments for compensation for loss of employment and whom those amounts were paid to.

9.2 Capital Gains Tax

The Lagos State Internal Revenue Service (LIRS) has issued a Public Notice on 4 January 2019; see attached. According to this notice, employers have been appointed as collecting agents for Capital Gains Tax (CGT) due on the capital sum paid for loss of employment.

Compensation for loss of employment is currently exempt from PAYE. However, from January 2019, it will be subject to CGT at 10%.

Employers should deduct 10% CGT from the compensation for loss of employment due to every terminated employee.

Reporting

Employers are required to file, alongside their respective annual returns, a statement showing all recipient of capital sums as per prescribed schedule.

9.3 Taxation of employee loan

Section 3 (1)(b) of the PITA imposes tax on any salary, wage, fee, allowance or other gain or profit from employment including compensations, bonuses, premiums, benefits or other perquisites allowed, given or granted by any person to any temporary or permanent employee.

More often than not, an employer may offer loans to its employees at an interest rate lower than the market interest rate or zero percent interest rate. This arrangement gives rise to a benefit that is taxable in the hands of the employees.

Deduction of PAYE

The employer is required to compute tax on the difference between the rate on such employee loan and the adjusted Monetary Policy Rate (MPR) and remit to the relevant authority. The adjusted MPR is MPR minus 3%. The obligation to deduct tax on the difference depends on payment terms:

- Where the payment is on a monthly basis, the tax (the difference between the rate on the loan and the adjusted MPR) should be assessed by the employer on a monthly basis;
- Where the payment is on an annual basis, the benefit should be assessed by the employer on an annual basis.

Reporting obligation

Every employer is required to file, alongside their annual returns, a schedule showing the information on its employee loan and the payment terms.

Other Issues:

This provision will apply to directors and employees of a company and will continue to apply to even after the relationship with the company has been terminated as long as the loan remains unpaid. The principle will also be applied to significant shareholders.

Any employee loan with interest above the adjusted MPR or at commercial rates will not be assessed to any additional benefits for the employees receiving such a loan.

9.4 3. Taxation of employees share/stock options

Based on Section 3 (b) of the Personal Income Tax Act (PITA), any salary, wage, allowance, other gain or profit from employment granted to an employee is a taxable income. More often than not, the employees are issued the share/stock options at prices below the market value of the stock. This arrangement gives rise to a benefit in kind which is taxable in the hands of the employees.

Definition

Share/Stock options agreement gives employees the right to a company's shares based on prices agreed on the initiation date (grant date). However, the employees must wait for an agreed period (known as the vesting period) before they can exercise the right.

Compliance Requirements

1. Deduction of PAYE: The employer is required to compute tax on the difference between the actual share price and exercise price and remit to the relevant authority. The obligation to deduct tax arises on the exercise date or the effective date of payment for phantom shares. The share price for a public limited liability company is the value for which the shares are traded on the stock market at the date of exercise. For non-listed companies, the price per share is the net assets of the company issuing the shares (reported in its penultimate financial statement) divided by the number of shares. The taxable benefit for a phantom share is the cash payment made to the employee.
2. Employers are required to remit the tax deduct on 10th day following the month that the shares were exercised. The LIRS will enforce the provisions of PITA where an employer fails to deduct or remit the taxes due.

Reporting Obligation

Every employer is required to file, alongside their annual returns, a schedule showing the information on its employees share options.

Other Issues:

- Where the employee does not own legal title to the shares (e.g. in the case of phantom shares or unvested shares), whereby a dividend equivalent is payable, the payment will be liable to personal income tax in accordance to PITA because the payments are not actual dividends. The employer is required to deduct PAYE.
- Withholding Taxes: Upon exercise, any dividend paid to individuals that are shareholders is liable to WHT at 10%.
- Where shares are given free of charge, i.e. it is not assumed that the employees will acquire it through an exercise or a right to buy, the benefit shall be valued using the principles above and subject to PAYE.

9.5 4. Tax relief on voluntary pension contributions**Legal basis**

Section 10 gives the necessary guidelines for the application of tax exempt granted for pension contribution and withdrawals.

Section 10(1) of Pension Reform Act, 2014 (PRA) states that contributions to the pension scheme shall form part of tax deductible expenses in the computation of tax payable by an employer or employee under the relevant tax law.

Section 16 of the PRA gives certain conditions that must be adhered to before withdrawals from a Retirement Savings Account (RSA) can be tax deductible. These conditions includes:

1. An employee shall not be allowed to make withdrawal from his RSA before attaining the age of 50 years.
2. Where the employee retires, disengages on the required advice that the employee is no longer capable of carrying out the function of his office, due to total or permanent disability before the age of 50 years in accordance with the terms of his engagement.
3. An employee, who disengages or is disengaged from employment before the age of 50 years is unable to secure another employment within four (4) months, may make withdrawals from the RSA.

Definition

Voluntary Pension Contributions are extra fund contributions in addition to the mandatory pension contributions made by an employee through his/her statutory pension scheme which allows an employee to save additional amounts for retirement.

An employee can opt to make withdrawals, at any time, from such contributions which is a tax free benefit.

Compliance Requirements

1. ANY payments made by Pension Fund Administrators to individuals that do not meet the relevant conditions specified in Section 16 of the PRA 2014 will be considered to fall outside the tax exemption granted in Section 10(3) of the Act.

2. The LIRS will periodically audit withdrawals of voluntary pension contributions authorized by the respective PFAs and will be relying on the provisions of Section 17 of PITA.
3. The LIRS will enforce the law with respect to recovery of any tax due which will include: applying interest and penalties on any resulting tax due on the employer under the PAYE scheme in line with Paragraph 8 of the Fourth Schedule of PITA.
4. The LIRS is also willing to defend its position with each taxpayer or employer through the available judicial process.
5. Reporting Obligation: On an annual basis, individuals claiming tax relief on voluntary pension contributions must submit alongside their income tax return, a copy of their RSA statements for the relevant tax year and any other period requested by the LIRS.

9.6 5. Reasonable removal expenses for the purpose of tax exemption

Section 4 (3)c of the Personal Income Tax Act (PITA) exempts reasonable removal expenses from taxes.

Definition

“Reasonable removal expenses” constitutes any expense which an employee incurs to move to a new location and the payment made by the employer towards the expenses results in no net overall benefit to the employee.

It is also any payments made to or on behalf of an employee taking up employment with a new employer such as relocation allowance.

The reasonable amount must not be more than the actual expense incurred.

Conditions that must be met for removal expenses to be tax free.

Reasonable removal expenses is not taxable in the following instances, where:

- the expense must have been actually incurred;
- the expenses is of a reasonable amount;
- the payment of the expenses must be properly documented; and
- the movement from one place to another must be necessary.

Any amount paid to the employee as temporary subsistence allowance that covers expenses already incurred by the employer shall be taxed, as it would lead to duplication.

In order to obtain certainty for such removal expenses and temporary subsistence allowances, employers may submit their staff policy and guidelines as well as their per diem rates for pre-approval by the LIRS.

9.7 6. Valuation of accommodation provided by the employer

Section 5(1) of Personal Income Tax Act (PITA), accommodation benefit is taxable only based on annual values as determined for local rates purposes. However in practice the annual value is not available. Section 5(3) empowers the “relevant authority” to determine the annual value in other cases (where the rates are not available).

Definition

“An employer provided accommodation” will constitute a taxable benefit to the employee in any of the following situation:

- accommodation is available to the employee on a permanent basis (i.e. more than 90 days),
- employee does not have a personal (primary) accommodation running in parallel to the accommodation provided by the employer;
- employee is expected to pay the rent on a property but employer is instead paying on behalf of the employee; and
- accommodation is necessitated by any circumstance other than business related reasons.

Compliance Requirements

1. The taxable value of a “leased accommodation” (where an employer pays the rent on behalf of the employee) shall be the total rent paid.
2. The taxable value of an “accommodation owned by an employer” (where the employer owns the accommodation and provides the accommodation to an employee) shall be the commercial value of comparable properties in a similar location.
3. “Hotel accommodation” provided by an employer will not be taxable so long as the employee is staying in the hotel on a temporary basis (i.e. not more than 90 days). The taxable benefit of “hotel accommodation” occupied by an employee for more than 90 days shall be the amount paid by the employer for the hotel room or the room rate.

Reporting Obligation

Every employer is expected to disclose details of the accommodation provided to employees; which include; the name of the landlord; the location of the property, the value of the rent paid annually to the landlord; and any other details as may be required from time to time.

9.8 7. Allowable interest deductions on owner occupied residential houses

Section 20 (1)b of the Personal Income Tax, Act (PITA) as amended 2011, allows the deduction of interest on mortgage loans obtained for developing an owner occupied house.

Definition

An “owner-occupied residential house” is any residential property (i.e. not a commercial property) which an individual has incurred expenditure on the purchase, construction, or conversion for his/her occupation. It excludes all the temporary fixture components such as paintings, furniture,

electricals etc. It must be qualifying residential property that is used by the individual as his or her sole/main residence.

Compliance Requirements

1. Tax relief is only available for the first owner occupied property: A taxpayer can only get the tax relief for his first application. If the first application is for multiple properties, mortgage interest deduction will be restricted to the property which the taxpayer occupies. Where the taxpayer has used one mortgage loan to develop more than one house or flat, the interest deduction should be applied on a pro-rata basis based on the proportion of the property occupied by him/her.
2. Tax Relief available for interest on Mortgage where an individual lives in more than one property: The mortgage deduction will be granted for the first application and if there are multiple applications, only on the property which has the lowest mortgage value at the beginning of the tax period.
3. Stage of completion of the property to qualify for the relief: The relief will only be available upon actual occupation of the property. The LIRS is flexible to accommodate interest incurred at the development phase on a case by case basis.

Note: In all cases, the applicant must provide evidence that he/she occupied the property for at least a 1-year period at the end of the year that will be validated by the LIRS. The individual must have declared the property as owner occupied in the “Claims for allowances and Relief (FORM A)” filed in accordance with section 34 of PITA.

9.9 8. Treatment of the saving element of the insurance premium

Section 33(4)(d) of Personal Income Tax Act (PITA) allows a deduction of the annual amount of any premium paid by an individual in respect of insurance on his life or that of his spouse, premium paid for a contract for a deferred annuity on his own life or that of his spouse. The law only allows as tax relief the insurance premiums paid during the year preceding the year of assessment (YOA)

Definition

A life insurance is a contract where the insurer promises to pay a beneficiary a designated sum of money in exchange for a premium, upon the death of an insured person. An annuity life contract provides for the annuitant to be paid a fixed monthly amount until death or benefits are exhausted.

Compliance Requirements

1. Only the insurance premium relating to the life insurance or deferred annuity on life are deductible in computing personal income tax. Any savings scheme element that sometimes forms part of the life insurance premium or contract should not be included in the deduction. For any life insurance policy to qualify for tax relief, it must include the following:
 - A cover for the death of the insured or their spouse: or
 - It must not include or anticipate a payment to the insured before the age of 50 i.e. for deferred annuity contracts.

- Deferred annuity contracts in line with the provisions of the Pension Reform Act (PRA), 2014 are tax exempt where the holder has no control over the funds (i.e. it must be completely locked in until retirement age).

Reporting Obligation

Every employer/taxpayer is required to submit the Claims for Allowances and Relief (FORM A) for each relevant tax year detailing the life insurance and qualifying deferred annuity contributions. Also, the taxpayers will be required to submit a certificate from their Life Assurance companies specifying the portion of the premium relating to death policy and the portion relating to the savings element.

10. 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").

Employers are required by law to deduct the housing contribution from their employees' monthly wages and ensure that such deductions are remitted to the NHF via the FMBN within one month of making such deduction.

Contributions under the NHF and refunds of any such contributions under the NHF Act are exempted from the payment of any form of income tax, on such contribution or refund. On the attainment of the age of 60 years old or upon been retired from employment, any contributor to the NHF that becomes incapable of continuing to make contributions to the Fund, shall be eligible to a refund of his contributions to the fund within 3 months of his application to the Minister of Housing provided that such a contributor has not obtained a housing loan under the Fund which loan remains unliquidated.

Contributions to the National Housing Fund are statutorily required to be managed and administered by the Federal Mortgage Bank of Nigeria.

11. National Health Insurance Scheme (NHIS)

The NHIS Act is the statutory authority for the Scheme's benefits programmes as well sets the general rules and guidelines for the operation of the Scheme.

The National Health Insurance Scheme is used mainly by the employees in the public sector; participation or contribution to the NHIS is not mandatory for employees in the private sector.

Should an employee elect to contribute towards the NHIS, the employer pays 10% while the employee pays 5% representing 15% of the employee's basic salary. 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.

If an employee is already a beneficiary on another HMO, for example a spouse, then he/she is not expected to make a contribution on the payroll.

Only the employee's contribution towards health insurance is tax deductible.

For more information on the NHIS visit <http://www.nhis.gov.ng/>

12. Pension

On 01 July 2014, the 2014 Pension Reform Bill was signed into law replacing the old pension law which has been in operation since 2004. The effective date of the Pension Reform Act is 01 July 2014.

The Pension Reform Act requires every employer to take out life insurance cover for its employees.

The sum assured should be three times each employee's annual remuneration. The insurance cost is to be borne solely by the employer.

12.1 Application

The Scheme applies to two categories of employees: these include all employees in the public sector and employees of private organisations in which there are 3 or more employees. The Act also provides that in the case of private organisations with less than 3 employees participation in the Scheme would be governed by guidelines issued by the National Pension Commission (PenCom).

12.2 Rate of contribution

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.

12.3 Monthly Emoluments

"Monthly emoluments" means total emoluments as may be defined in the employee's contract of employment but shall not be less than a total sum of basic salary, housing allowance and transport allowance.

In other words, the basis for the contribution is the higher of sum of basic salary, housing allowance and transport allowance and income according to the employment contract.

12.4 Expatriate

Expatriate employees are not expressly exempted from pension contribution under the Act. However, the Guidelines on Cross Border Arrangements issued by the Pension Commission specifically states that it is not compulsory for expatriates to join the Nigerian pension scheme but such employees may join at their discretion and with the agreement of their employers.

12.5 Illustration

	<u>Income</u>	<u>Bas, Hous, Trans.</u>	<u>Contract</u>
Basic - employment contract	50 000	50 000	50 000
Housing	10 000	10 000	-
Transport	10 000	10 000	-
Meal - employment contract	15 000	-	15 000
Utility - employment contract	10 000	-	10 000
Total Monthly Income	95 000	70 000	75 000
Monthly Emoluments		75 000	
Pension contribution employee 8%		6 000	
Pension contribution employer 10%		7 500	
Total Pension Contribution		13 500	

12.6 Reporting

The employer is obliged to make monthly deductions at source from the employee's emoluments and remit to the Pension Fund Custodian (PFC) specified by the employee's Pension Fund Administrator (PFA) not later than 7 working days after the payment of the employee's salary.

Nigerian employers are required to submit payments and schedules to their respective registered Pension Funds through this new Electronic Pension Contribution Collection System (EPCCOS) on the Nigeria Inter-Bank Settlement System (NIBSS) platform.

For more information on the National Pension visit <http://www.pencom.gov.ng/>

13. Employee Compensation Scheme (NSITF)

All employers, including individuals, are required to register with the Nigeria Social Insurance Trust Fund (NSITF) and contribute to the scheme.

13.1 Rate of contribution

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.

"*Remuneration*" according to legislation, means basic wages, salaries or earnings designated or calculated, capable of being expressed in terms of money and fixed by mutual agreement or by law which are payable by an employer to an employee for work done or to be done or services rendered or to be rendered: and allowances which include rental, transport, meals and utility or other allowances as may be determined by the Board, from time to time.

Basically, the contribution is based on the total cash earnings of the employee.

Only the employer makes the contributions.

NECA and NSITF Agreement

The Nigerian Employers' Consultative Association (NECA) and the NSITF have signed a Memorandum of Understanding that gives, among other things, an acceptable definition of payroll. The definition of remuneration provided in the Act will be applied in the place of "payroll".

It was agreed upon that the definition of remuneration provided above excludes the following income:

- Pension contributions
- Bonuses – performance related payments
- Overtime payments
- Irregular once off payments

The Agreement is available on the Compliance SharePoint.

Payroll systems should provide employers who are covered by the NECA and NSITF Agreement with the option to change the basis of the NSITF contribution to the one stipulated above.

We have received feedback from a client that was inspected by the NSITF and they demanded that the NSITF contribution should be based on the "total gross emolument".

13.2 Employers' obligation

Employers are required to make monthly contributions to the NSITF not later than the last day of the month.

Employers are also required to file statements of actual earnings of their employees for the preceding year and budgeted earnings for the current year not later than 28 February of every year.

An employer who has just commenced a business, recommences or ceases to be an employer is required to provide the statements within 30 days of commencement, recommencement or cessation as the case may be.

Employee - means a person employed by an employer under oral or written contract of employment whether continuous, part-time, and temporary, apprenticeship or casual basis and includes a domestic servant who is not a member of the family of the employer.

For more information on the Employee Compensation Scheme visit www.nsitf.net

14. Industrial Training Fund (ITF)

14.1 Background

The Industrial Training Fund Act (ITFA) came into effect on 8 October 1971. The purpose of the Act was to establish a Fund – The Industrial Training Fund (ITF) - to be utilized to promote and encourage the acquisition of skills in industry or commerce in Nigeria with a view to generating a pool of indigenous trained manpower sufficient to meet the needs of the economy.

An employer could get up to 50% refund of contributions made if adequate (documented) training courses were provided to the employees

14.2 When to contribute

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

14.3 Contribution

1% of annual payroll cost.

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

14.4 Definitions

Employees mean all persons whether or not they are Nigerians employed in any establishment in return for salary, wages or other consideration, and whether employed full-time or part-time and includes temporary employees who work for periods of not less than 30 days in a year.

Payroll means the sum total of all basic pay, allowances and other entitlements (including fringe benefits and company contributions) payable within and outside Nigeria to any employee in an establishment, public or private.

It is our interpretation that the statutory contributions made by the employer are not entitlements which are payable to the employee. They are the employer's obligation.

14.5 Due date for payment

1st of April every year.

For more information on the ITF visit www.itf.gov.ng

15. Development Levy

Part II(8) of the Taxes and Levies Act includes the Development Levy in the approved list of taxes and levies to be collected by the State Government.

Every taxable individual should contribute a fixed amount of N100 annually.

All employers are required to make a payment to the relevant tax authority not later than 31st January of every year in respect of all employees who were employed in the preceding year.

There is no specific return for this levy. However, every employer should keep a schedule of all the employees who made a contribution towards this levy.

In practice, payment is made in January but the actual deduction of the N100 is done upon termination (if terminated during the tax year) or in December for the remaining active employees.

16. PAYE Calculation

A tax calculator is available on the [Compliance SharePoint](#).

17. Africa Support

Contact Africa Support for any queries on Nigeria legislation.

Telephone Number: 012 420 7102 or Ext: 17102

support.hrandpayroll@sage.com

18. Nigeria legislation

More information regarding Nigeria legislation is available on [Compliance SharePoint](#).

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