

INSIGHTS

PAYROLL COMPLIANCE: WHAT YOU NEED TO KNOW

Payroll compliance in Nigeria involves adhering to all legal and regulatory requirements related to employees' compensation, taxation, and statutory contributions. Here's what you need to know about the relevant laws governing Payroll Compliance in Nigeria.

01

Labour Act

Governs employment contracts, working conditions, termination, and employees' rights.

02

Personal Income Tax Act (PITA)

Regulates the taxation of employees' income. It is a tax levied on individuals such as employees, directors, partners in a partnership, unincorporated trust, joint ventures, families and communities. It is imposed based on the source of income and residency rules.

03

Pension Reform Act (PRA) 2014

Mandates employers and employees to contribute to the employee's retirement savings account. Employers contribute minimum of 10% and employees contribute 8% of the employee's monthly salary (basic, housing, and transport allowances). Payments are remitted to Pension Fund Administrators (PFAs).

04

Employee Compensation Act (ECA)

Provides compensation to employees for any death, injury, disease or disability arising out of or in the course of employment. Employers contribute 1% of the total monthly payroll to the Nigeria Social Insurance Trust Fund (NSITF) for workplace injury insurance.

05

Industrial Training Fund (ITF) Act

Mandates training contributions by companies having 25 or more employees (previously, five or more employees). Employers contribute 1% of their annual payroll if they have five or more employees.

06

National Housing Fund (NHF) Act

Governs contributions for housing finance for employees. The funds are managed by the Federal Mortgage Bank of Nigeria (FMBN).

Employees contribute 2.5% of their monthly salary. Compliance is optional for employees in the private sector.



A Focus on Personal Income Tax Act

Every taxable person (excluding persons who earn the minimum wage or below) is liable to a minimum income tax of 1% of their gross income. Minimum tax will not apply to a person in any year of assessment where such person earns the National Minimum Wage or less from an employment.

Pay-As-You-Earn (PAYE) Tax is a progressive income tax deducted from employees' salaries. The tax rates range from 7% to 24% depending on income levels.

Annual PIT Returns Filing is submitted every January of each year with the State Internal Revenue Service (SIRS).

Proposed Tax Reform

Nigeria's proposed tax reforms aim to amend the Personal Income Tax Act (PITA) to create a more equitable tax system and increase government revenue. Key proposed changes to the PITA include:

- **Introduction of a 25% Personal Income Tax Rate for High Earners:** Individuals earning ₦100 million or more per month are exposed to an effective tax rate of about 22.93%. This measure targets wealthier Nigerians to ensure they contribute a fair share to government revenues.
- **Reduction of Tax Burden for Lower and Middle-Income Earners:** The reforms propose reducing personal income tax obligations for individuals earning ₦1.5 million or less per month, with lower-income earners potentially being fully exempt. This aims to alleviate the tax burden on those with limited incomes.

Pay-As-You-Earn (PAYE) Tax

Personal Income Tax (PIT) rate is applied on a graduated scale and taxable income bands as set out below:

Current Graduated Scale		Proposed Graduated Scale	
Tax Band (₦)	Rate (%)	Tax Band (₦)	Rate (%)
First 300,000	7	First 800,000	0
Next 300,000	11	Next 2,200,000	15
Next 500,000	15	Next 9,000,000	18
Next 500,000	19	Next 13,000,000	21
Next 1,600,000	21	Next 25,000,000	23
Above 3,200,000	24	Above 50,000,000	25

Filing and Due Dates

Employers are required to file a declaration form (not later than 31 January every year) showing the income of the employees, taxes deducted and remitted in the preceding year.

Individuals are to file returns not later than 31 March annually in respect of the preceding year. individuals under direct assessment, must make payment along with returns within 90 days of the fiscal year (i.e. not later than 31 March).

PAYE tax must be remitted on or before the 10th day of the month following the payment of salary.