

FEDERAL INLAND REVENUE SERVICE'S NOTICE ON WITHHOLDING OF TAX FROM INTEREST ON INVESTMENT IN SHORT-TERM SECURITIES INTEREST

1. INTRODUCTION

The Federal Inland Revenue Service (FIRS), on September 17, 2025, issued a Public Notice on “Withholding of Tax from Interest on Investment in Short-term Securities” (the Notice), which mandates the deduction of tax at source (withholding) from interest on investment in short-term securities.

This Notice is pursuant to sections 78(1) and 81(1) of the Companies Income Tax Act (CITA), as amended, and the Deduction of Tax at Source (Withholding) Regulations, 2024 (Withholding Regulations). This underscores the federal government's drive to widen its tax base, enhance compliance with existing tax laws, and increase non-oil revenue.

According to the FIRS, withholding tax shall be deducted from interest payable to any person, including non-corporate entities, on the date of payment at the applicable rate. The Notice does not, however, stipulate a commencement date; for this reason, it is presumed that the Notice is intended to take effect from the date of its publication.¹

The subsequent paragraphs of this piece provide an overview of the Notice and a commentary to ensure a nuanced understanding.

¹ This presumption is anchored on the established legal principle that a law (including a notice) takes effect on the day it is published, except otherwise provided. See *Nwokobia & Ors v Okonta* [2019] LPELR-47797 (CA) 17-18.

2. ENTITIES TO BE GUIDED BY THIS NOTICE

The Notice is issued as both a guide and a compliance directive for entities, such as banks, discount houses, stockbrokers, corporate bond issuers, primary dealers/market makers, financial institutions, government agencies, tax practitioners, and the public. All those required to deduct the tax, as mentioned above, are to remit it no later than the 21st day of the month in which the interest was paid.

3. SECURITIES COVERED

The Notice specifies that the deductions are to be applied to 'short-term securities', which include bonds issued by state and local governments and their agencies,² treasury bills, promissory notes, corporate bonds, financial papers, bills of exchange, and any other security as may be stipulated.³ Notably, interest income from federal government bonds remains exempt from withholding tax in line with existing tax incentives.

4. COMMENTARY

The Notice explains that income earned from interests on short-term securities, other than bonds issued by the federal government,⁴ is subject to withholding tax. Consequently, investors in such instruments should expect a reduction in net yields due to the application of withholding tax (WHT). This development may affect portfolio strategies, with a possible shift in investor appetite towards tax-exempt securities such as the federal government bonds.

Though not expressly noted in the Notice, withholding agents may be required to issue WHT credit receipts to investors from whom deductions are made.⁵ These credits could be set off against future tax liabilities,⁶ except in circumstances where the tax withheld constitutes a final tax.

2 The term 'government bonds' is used in the Notice. It is the case that this is in the context of state and local government bonds per the FIRS Public Notice on Payment of Income Tax on Profit from Bonds and Short-Term Government Securities 2022.

3 Paragraph 6 of Public Notice on Withholding of Tax from Interest on Investment in Short-term Securities.

4 Companies Income Tax (Exemption of Bonds and Short-Term Government Securities) Order 2011 made pursuant to Section 23 (2) of the Companies Income Tax Act, Cap C21, LFN 2004 excludes federal government bonds from tax. State and local government bonds, however, are not exempt and are still subject to tax.

5 Section 6 Deduction of Tax at Source (Withholding) Regulations 2024.

6 Section 6(2) Deduction of Tax at Source (Withholding) Regulations 2024.

This may provide some respite for investors, provided proper compliance is maintained.

Considering that the definition of “short-term securities” is open-ended, it may deprive investors and taxpayers of certainty, which is an important element of the tax framework. It gives tax authorities a wide margin of interpretation, which may not often be properly applied. This may put an investor at a disadvantage, leading to tax disputes, creating an antithesis of investment in the economy. A closed-ended definition would have been a better approach.

5. CONCLUSION

The Notice underscores the intent to strengthen compliance and revenue collection, aligning with the federal government's broader revenue mobilisation objectives and its focus on revenue generation through tax base expansion. While this is laudable, one may only remain optimistic about the potential impact of the Notice on investor confidence and the economy in general. To boost investor confidence, transparency and fairness should be key anchors in implementing the Notice.

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