

Taxation of Personal Income

Ascertainments, Deductions, and Calculation

Key **Personal Income Tax** principles under the new law, with practical examples for **employed** and **self-assessed** individuals.

Introduction

The **Nigeria Tax Act 2025 (NTA)** has significantly changed the legal framework governing personal income taxation. This legislative update introduces pivotal changes to tax rates, allowable deductions, remittance obligations, and the broader scope of tax administration.

🎯 Why it Matters

Under the new law, personal income taxation has become a topical issue. It is one of the most visible and directly felt aspects of Nigeria's fiscal system, impacting the livelihoods of all individuals—whether they are **professionals, artisans, or entrepreneurs**.¹

Given these changes, there is a critical need for clarity. Taxpayers must be able to accurately ascertain their chargeable income, identify allowable deductions, and correctly compute their annual taxes.



Accurate Computation

Enabling individuals to correctly calculate chargeable income and annual tax liabilities under the new NTA framework.



Practical Application

Providing practical illustrations for both employees (PAYE) and self-assessed individuals to ensure compliance.

Determining a Person's Income

Aside from persons exempted by law,² in Nigeria, tax is generally paid on income earned by a person who is resident or non-resident.³ Under the NTA, the total income of a person for a year of assessment consists of all income, profits, or gains accruing to or derived by that individual from taxable sources.⁴ These include, but are not limited to, gains from pensions, vocations, trades, salaries, and wages.⁵ The tax rate to be paid depends on a person's total income.



Pay-As-You-Earn (PAYE)

Applies to individuals in formal **employment**. The employer is mandated to deduct the requisite taxes at source and remit them to the tax authority after making relevant deductions.

Key: Employer Remittance



Self-Assessment

For income **not from employment**. Individuals must assess⁶ all economic activities, including dividends, investments, disposals, prizes, and winnings, and file returns personally.⁷

Key: Personal Declaration



Presumptive Basis

Used where exact income is **impracticable to ascertain**. The tax authority assesses income based on a reasonable estimate tailored to the specific case circumstances.⁸

Key: Authority Estimate



Critical Requirement: Accuracy

Care must be taken when determining total income, as it serves as the foundation for tax liability. Understating total income may distort the tax payable and lead to penalties. The law allows specific deductions, so accurate reporting is essential.

Allowable Deductions

The NTA has narrowed the scope of reliefs by abolishing the Consolidated Relief Allowance (CRA).⁹ Tax is now levied on the balance remaining after the specific deductions allowed by law are subtracted from total income.



Employment Income

Statutory Deductions

- ✓ **National Housing Fund (NHF)** contributions
- ✓ **National Health Insurance Scheme (NHIS)** contributions
- ✓ **Pension contributions** under the Pension Reform Act
- ✓ Interest on loans for developing an **owner-occupied residential house**
- ✓ **Insurance** and life assurance premiums
- ✓ **Rent Allowance:** 20% of annual rent paid (Max ₦500,000)



Non-Employment Income

Business Expenses

- ✓ Expenses **wholly and exclusively** incurred in producing income¹⁰
- ✓ **Interest paid** on debts used for income production
- ✓ **Repairs** of assets used to generate income
- ✓ **Rent paid** for premises used to generate income
- ✓ **Payments to employees** (salaries, wages)
- ✓ Specific **losses** contemplated by Section 28 (2)(b)

! Important: Verification Required

Deductions are not granted automatically.¹¹ Taxpayers must submit written details, and the tax authority retains discretion to request proof (receipts, documents) before approval.¹²

The Core Calculation:

$$\text{Chargeable Income} = \text{Total Income} - \text{Allowable Deductions}$$

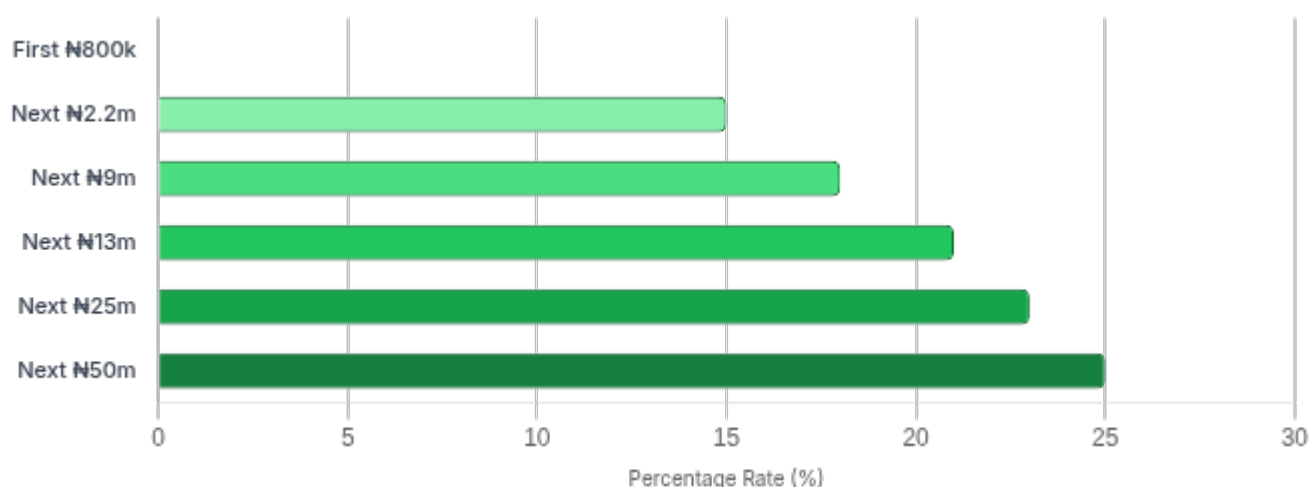
Calculation and Rates

Sections 4 and 58 of the NTA have adjusted the tax rates to a progressive system. The applicable rates are levied on the chargeable income after all relevant deductions have been made.

Tax Rate Schedule

Annual Taxable Income (Band)	Tax Rate
First ~~N~~ 800,000	0%
Next ~~N~~ 2,200,000	15%
Next ~~N~~ 9,000,000	18%
Next ~~N~~ 13,000,000	21%
Next ~~N~~ 25,000,000	23%
Next ~~N~~ 50,000,000	25%

Rate Progression Visualization



Tax-Free Threshold

The first **N800,000** is taxed at 0%. Individuals with an annual taxable income of **N800,000** or less are effectively **exempt** from personal income tax.¹³ Tax rates apply progressively only to income exceeding this threshold.

Calculation Illustration



Scenario Assumption

Let us assume an individual has a calculated **Chargeable Income** of **₦15,000,000** for the year 2026.

1 Determine Chargeable Income

First, subtract all statutory deductions from Gross Income.

**Total
Income**

–

Deductions
(Pension, NHF, NHIS, Rent, etc.)

=

**Chargeable
Income**

2 Apply Progressive Tax Rates

INCOME BAND DESCRIPTION	RATE	TAX PAYABLE (₦)
First ~~₦~~ 800,000 Tax Exempt Threshold	0%	0.00
Next ~~₦~~ 2,200,000 Band 2	15%	330,000.00
Next ~~₦~~ 9,000,000 Band 3	18%	1,620,000.00
Balance ~~₦~~ 3,000,000 Remaining from ~~₦~~ 15m Total	21%	630,000.00
Total Annual Tax		₦ 2,580,000.00



Professional Advice

To ascertain your exact personal income tax, you are encouraged to use the tax calculator on the **Presidential Fiscal Policy and Tax Reforms Committee's website**¹⁴ or consult tax experts for liabilities planning.

Duty to Remit Taxes

The NTA and the Nigeria Tax Administration Act 2025 (NTAA) impose an obligation on individuals to remit taxes and file their returns. It is important to note that individuals contemplated by law include employees, who must file an annual income tax return for all sources of income, including employment income.¹⁵ Consequently, taxable individuals are expected to register with the relevant tax authorities and obtain their individual tax ID.¹⁶ Failure to comply could result in fines covering the period of non-compliance.¹⁷

As noted earlier, under the PAYE system, employers must deduct taxes at source and remit them to the tax authority before making net payments to employees. Both employers and employees must file a return with the relevant tax authority for all emoluments paid to employees not later than 31st January of each year in respect of all employees in their employment in the preceding year.¹⁸ Failure in this regard may attract a penalty or may render the employer liable to pay interest on the sum not remitted in a particular year of assessment.

Those not under formal employment, including those in the gig economy, must self-assess and remit the taxes to the tax authority. Detailed disclosure of annual income, along with the filing of returns and documentary evidence to support and justify deductions, is required. The NTAA provides timelines to comply. Failure to comply may give the tax authority the discretion to issue a best-of-judgment (BOJ) assessment when returns are neither filed nor understated. To ensure compliance, especially for those earning substantial income from gig work, it may be necessary to engage tax experts.

Following an assessment of the chargeable tax by the authority, the taxable individual is expected to pay within 30 days of the assessment. Failure to file returns or the filing of inaccurate returns will attract an administrative fine of N100,000 for the first month and N50,000 for subsequent months.¹⁹ Also, failure to pay the tax as and when due attracts a fine equal to 10% of the amount due. This means the tax and the 10% fine will be charged for the period of default. Furthermore, the NTAA authorises the tax authorities to collect interest on taxes that a payer failed to pay.

Key Compliance Timeline



Registration

Obtain Individual Tax ID¹⁶ immediately upon becoming taxable.



Monthly (PAYE)

Employers deduct and remit taxes monthly.



31st January

Annual Filing Deadline

Deadline to file returns for the **preceding year** (e.g., Jan 2027 for 2026 income).



Assessment Review

Tax Authority reviews returns and issues assessment.



Payment Due Date

Within 30 Days of receiving the assessment notice.

Conclusion & Key Takeaways

The Nigeria Tax Act (NTA) and Nigeria Tax Administration Act (NTAA) have fundamentally reshaped the landscape of personal income taxation. The laws have broadened the category of liable individuals, introduced a progressive rate structure, and clearly outlined deduction policies.

All taxable persons are advised to familiarize themselves with these changes to ensure full compliance and optimize their tax positions.

Effective
Date



Jan 1
2026

Now in Effect



Broadened Liability

The tax net now explicitly covers a wider range of individuals, including gig workers and entrepreneurs, ensuring a more inclusive fiscal system.



Progressive Rates

New rates introduce a **₦800,000 tax-free allowance** for low-income earners, with progressive bands rising to 25% for higher incomes.



Clarified Deductions

The CRA is abolished. Deductions are now specific (Pension, NHF, NHIS, Rent) and require documentary proof for validation by authorities.



Stricter Enforcement

Mandatory filing of returns and remittance. Non-compliance attracts significant administrative fines (**₦100k** initial) and interest penalties.



Action Items for Taxpayers



Review Income

Assess all sources of income for the year.



Document Deductions

Gather receipts for rent, insurance, & pension.



Calculate Liability

Use official calculators or consult experts.



File & Remit

Submit returns and pay by due dates.

Endnote

1. The Punch Editorial, "New Tax Regime: What's True, What's Not," *The Punch*, January 5, 2026.
2. This includes income from minimum-wage earners, wages and salaries of members of the armed forces, pensions and retirement benefits.
3. Though a person may not be resident in Nigeria, under the NTA, residency in any year of assessment is determined where the individual: is domiciled in Nigeria; has a permanent place available for his domestic use in Nigeria; has a place of habitual abode in Nigeria; has substantial economic and immediate family ties in Nigeria; sojourns in Nigeria for a period or periods amounting to an aggregate of not less than 183 days in a 12-month period, inclusive of annual leave or temporary period of absence; or, serves as a diplomat or diplomatic agent of Nigeria in another country.
4. The Nigeria Tax Act 2025, sections 4 and 28.
5. The Nigeria Tax Act 2025, sections 4(2) and 28.
6. The Nigeria Tax Administration Act (NTAA) 2025, section 34.
7. The Nigeria Tax Act, sections 4 and 28.
8. The Nigeria Tax Act 2025, section 29.
9. The CRA is 20% of your gross income plus either N200,000 or 1% of your gross.
10. The Nigeria Tax Act 2025, section 20. This is different from the qualification under the old law, which stated that "wholly, reasonably, exclusively and necessarily incurred", implying that the discretionary property of these expenses has been removed. Giving no room for assumptions.
11. The Nigeria Tax Act 2025, section 31.
12. The Nigeria Tax Act 2025, section 32.
13. This means income after allowable deductions.
14. <https://fiscalreforms.ng/index.php/pit-calculator/> accessed on January 30, 2026.
15. The Nigeria Tax Administration Act, section 13(3).
16. The Nigeria Tax Administration, section 7.
17. The Nigeria Tax Administration, section 100(1).
18. The Nigeria Tax Administration Act, section 14.
19. The Nigeria Tax Administration Act, section 101.

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