

# Payroll, tax and social security contributions in Nigeria

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Hauwa Obi got a promotion! She also received a pay raise in September 2020. Based on her experience, she was able to estimate her net salary after deducting statutory contributions. The income and deductions in her monthly payslip were equal to the figures she expected. She was, however, surprised to receive a lower net salary in her bank account in June 2021. A deeper review showed that the statutory deductions were the same as the prior months while the PAYE tax was higher.

“Could there be a mix-up?” thought Hauwa. Even though she was very familiar with the different payroll contributions, Hauwa did not know the impact of the Finance Act 2020 on her employment income. An individual who makes social security contributions under the new law will receive lower net pay. Statutory payroll contributions of an employee reduce the gross income for computing Consolidated Relief Allowance. Like Hauwa, employees in Nigeria have to contribute a fixed percentage of their monthly salary as social security. The PAYE tax calculated must be in line with the Finance Act 2020. At the same time, employers must deduct and remit different amounts to the relevant agency. The effective date is 1 January 2021. This article, therefore, looks at the payroll, tax, and social security contributions in Nigeria.

## Statutory contributions

One of the responsibilities of the Federal Government is the welfare and security of its citizens. Social security contributions help to bridge the gap. As a mandatory payment, a person making social security contributions will be able to receive a future social benefit. While the first three items are deductions that can be used to reduce the taxable income, the last two are employer contributions.

1. Pension Fund
2. National Housing Fund
3. National Health Insurance Scheme
4. PAYE tax
5. Industrial Training Fund
6. Nigeria Social Insurance Trust Fund

## 1. Pension contribution

The Pension Reform Act 2014 (PRA) creates a uniform contributory pension scheme (CPS) for the public and private sectors in Nigeria. Every employer in the public and private sector that have 15 or more employees will participate in a CPS for their employees. Members of the Armed Forces, the Intelligence, and Secret Services of the Federation are exempt from CPS.

Also, CPS is optional for expatriates as foreign individuals often keep their offshore pension plan. The employer and employee contributions are a minimum of 10% and 8% of the employee's monthly emolument. An employer can contribute the entire amount, but it should be at least 20% of the employee's monthly emolument. Here, monthly emoluments refer to the total emolument stated in the contract of employment. Yet, it should not be lower than the sum of the basic salary, housing allowance, and transport allowance.

Companies are required to deduct as well as remit the employee's and employer's monthly contributions to the Pension Fund Administrator (PFA). An employee is required to open retirement savings account with an approved PFA. The due date for remitting pension contributions is seven working days after the payment of salaries. Non-compliance attracts a penalty of at least 2% of the unpaid amount. An employee can also file a whistle-blowing report where an employer does not pay retirement benefits correctly or promptly. PRA further provides that private organizations with less than three employees will be governed by guidelines. In March 2019, the National Pension Commission (PenCom) launched the Micro Pension Plan (MPP). The MPP seeks to provide pension services to self-employed persons in the informal sector and organizations with less than three employees. This leaves a gap for companies with 3 to 15 employees.

## 2. Contribution to the National Housing Fund (NHF)

The main goal of NHF is to offer loans to Nigerians for developing, buying, or renovating houses. Contributors of the Fund can get long-term loans from Mortgage Institutions. Employers are required to deduct the NHF levy at the rate of 2.5% of employees' monthly basic salary and remit the amount to the Federal Mortgage Bank of Nigeria within one month after the deduction of NHF. An employer is also required to register an employee with NHF.

Employees with an annual income of below ₦3,000 and expatriates are exempt from the Scheme.

Penalties vary as follows;

- Failure to deduct or remit NHF: Employers ₦50,000, self-employed person ₦5,000 or one-year imprisonment on conviction or both.
- Obstructing deduction or remittance: ₦5,000 or one year imprisonment or to both; on conviction.
- Failure to make a deduction on behalf of the employer: ₦50,000 or 5-years imprisonment or both (on conviction).

## 3. Contribution to the National Health Insurance Scheme (NHIS)

NHIS provides easy access to healthcare for all Nigerians at an affordable cost through different prepayment plans. As a type of Social Health Insurance, contributors can enjoy Health Care Services from the pool of funds created. NHIS applies to every employer with at least ten employees. An employer will contribute 10% of the monthly basic salary of an employee while an employee contributes 5%. The health care covers the contributor, spouse, and four biological children under 18 years of age. However, a contributor with more than six family members can register the additional persons as dependent(s). What then is the relationship between these statutory contributions and net pay?

An employee's contribution to NHF, NHIS, and an approved pension fund will reduce net pay and not taxable income. The revised method for determining gross income is based on the Finance Act 2020.

## 4. PAYE Tax

The Personal Income Tax (Amendment) Act 2011, PITAM, covers the taxation of individuals. Under PITAM, taxable persons include employees, sole proprietors, artisans, and partnerships. The PAYE tax rate ranges from 7% on taxable income of ₦300,000 and 24% for above ₦3,200,000. Furthermore, an employer handles deducting and remitting monthly taxes on an employee's salary. The due date for remitting monthly PAYE tax to the relevant tax authority is within 10 days after the month of deduction.

Self-employed persons will file an annual self-assessment tax return by 31st March of the next year. The penalty for late filing is 10% as well as interest at the ruling bank lending rates.

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### Illustration

Back to Hauwa Obi! Assuming her monthly gross income is ₦920,000, basic salary is 300k while housing is 200k. Other allowances are transport - 250k and feeding - 170k. Then, the payroll tax calculator will be

Pension:  $8\% * ₦(300,000 + 200,000 + 250,000)$   
= ₦60,000

NHF:  $2.5\% * ₦300,000 = ₦7,500$

NHIS:  $5\% * ₦300,000 = ₦15,000$

Taxable income: Gross income - consolidated relief allowance - statutory deduction =  $₦920,000 - 184,166.67 - (60,000 + 7,500 + 15,000) = ₦653,333.33$

PAYE tax: ₦139,466.67

Therefore, net pay will be Gross income - PAYE tax - statutory contributions =  $₦920,000 - 139,466.67 - 82,500 = ₦698,033.33$

Under the old law, Hauwa's payroll tax calculator was

PAYE tax: ₦135,506.67

Net pay: ₦701,993.33

*Hauwa's net pay dropped by 0.56%, while PAYE tax grew by 2.92%. The difference increases every month a taxable person uses the old method.*

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## 5. Industrial Training Fund (ITF) contribution

Every employer with at least five employees or an annual turnover of ₦50 million must contribute 1% of its annual payroll cost to the Industrial Training Fund. ITF aims to equip indigenous workers with adequate skills for economic development. An employer can, therefore, claim a refund of up to 50% of the amount contributed; if employees received appropriate training. First-time employers have to register for [ITF](#) at the relevant zonal office.

Furthermore, new and old employers will submit a complete set of ITF return. It includes evidence of ITF payment, completed ITF form, copy of the audited financial statement, and cover letter. A copy of the document for new employer registration as well as for annual submission of returns is available in the training tab in <https://itf.gov.ng>.

The due date for filing an ITF return is within 3 months from year-end. The penalty for late payment is 5% of the unpaid sum. It is payable for every month of default or part of a month after the date of default.

Note: ITF is an annual payroll contribution for the employer only.

## 6. Contribution to the Nigeria Social Insurance Trust Fund (NSITF)

The Employees' Compensation Act (ECA) 2010 provides a definite and adequate compensation for workers or their dependents in the event of death, injury, disease, or disability arising out of, or during, employment. The Act also aims to provide safer working conditions for employees by ensuring that all relevant stakeholders help to avert workplace disabilities and work-related risks. Employees refer to persons in the formal and informal sectors of the economy. However, members of the Armed Forces of the Federal Republic of Nigeria are exempt from the Scheme.

NSITF applies to every employer and employee in the public and private sectors. Employers will, therefore, contribute 1% of employees' monthly payroll to the NSITF in the first two years of commencement of the Act. (Payroll means remuneration defined in the Act, excluding pension contributions, bonuses, overtime payments, and one-off payments such as 13th-month income).

Thereafter, NSITF Board will perform a risk assessment to classify contributions on workers' exposure and estimate the appropriate payments. This contribution is not a deduction from an employee's monthly salary. Rather, it is a statutory payroll contribution by an employer.

## Payroll Costs: Who should contribute?

Payroll costs	Contribution by / Deduction from	
	Employer	Employee
Industrial Training Fund	Yes	No
National Housing Fund	No	Yes
National Health Insurance Scheme	Yes	Yes
Nigeria Social Insurance Trust Fund	Yes	No
Pay-As-You-Earn (PAYE) Tax	No*	Yes
Pension Fund	Yes	Yes**

Table showing who should contribute or deduct the payroll costs

Note: The employer may bear the  
\* - employee pension contribution on behalf of the employee.  
\*\* - PAYE tax for tax equalized employees.

The table above shows who should pay for payroll contributions.

## Closing remarks

The revenue authority usually requires a taxpayer to provide evidence of remittance of tax reliefs during a tax audit. The tax authority will follow up with the employer for any outstanding payment. Where an employer wants to regularize the PAYE tax filings after an employee leaves an organization, there will be hard decisions. Persons in a management capacity or business owners should seek professional guidance in complying with the numerous payroll obligations in Nigeria.