



FEDERAL INLAND REVENUE SERVICE
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INFORMATION CIRCULAR

NO:2021/18

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Subject: **CLARIFICATION OF THE PROVISIONS OF THE FINANCE ACT, 2020 AS IT RELATES TO PERSONAL INCOME TAX**

This circular is issued for the information and guidance of the general public, taxpayers and tax practitioners in line with the provisions of the relevant tax laws. The circular amends, updates or replaces contents of any circular, notice or other publication previously issued by the Service on the subject.

1.0. Introduction

This Information Circular provides clarification on the provisions of Sections 6, 20, 33, 37, 48, 73, 86, 89, 93, 106A and 108 of Personal Income Tax Act (as amended).

2.0 Profit of a Trade or Business of furnishing of services carried out by Non-Resident.

Section 6A of PITA states that; *"an individual, executor or trustees outside of Nigeria who carries on a trade or business that comprises furnishing of technical, management, consultancy or professional services to a resident person in Nigeria, the gains or profits of such trade or business shall be deemed to be derived from and taxable in Nigeria to the extent that the individual, executor or trustee has significant economic presence in Nigeria.*

Provided that the withholding tax applicable to income pursuant to this Act shall be the final tax on the income of a non-resident recipient who does not otherwise fall within the scope of section 6 of this Act".

Consequently, a non-resident individual who renders services stated in the above provision, to a person resident in Nigeria, shall be liable to pay tax in Nigeria and the person making payment to such non-resident shall deduct tax at the appropriate rate and remit same to the Service. The tax withheld from such payment shall be the final tax on such transaction by the non-resident.

3.0 Deductions Allowed

3.1 Contribution to Pension, Provident or Retirement Fund

Section 20(1) (g) of PITA provides that "a contribution to a pension, provident or other retirement benefits fund, society or scheme, recognised under the Pension Reforms Act".

As such, the allowable deductions now include pension, provident or other retirement benefits fund, society or scheme, recognised under the Pension Reforms Act.

4.0 Gross Income

Section 33 (2) of PITA is amended by substituting "**gross emoluments**" with "**gross income**" and provides a definition as follows:

"income from all sources less all non-taxable income, income on which no further tax is payable, tax exempt items listed in paragraph (2) of the sixth schedule and all allowable business expenses and capital allowance."

Illustration 1:

Below is the basis of Pay as You Earn calculation for Mr. ABC whose annual gross income is N6,000,000 only. It is assumed that his pension is at 8% of gross income, National Health Insurance 2.5% of gross income, Life Assurance contribution of 2% of gross income. He also contributes 2.5% of his gross income to the National Housing Fund to enable him secure a loan and has a gratuity amounting to N500,000. His PAYE deductions is as shown below:

	=N=	=N=	=N=
Earned Income from Employment (Salaries, Allowances, Grants, Benefit-in-Kind, Others)			6,000,000.00
			6,000,000.00
EXEMPTIONS:			
National Housing & Fund Contribution (2.5%)	150,000.00		
National Health Insurance Scheme (2.5%)	150,000.00		
Life Assurance Premium (2%)	120,000.00		
National Pension Scheme (8%)	480,000.00		
Gratuities	500,000.00		
TOTAL EXEMPTIONS	1,400,000.00	1,400,000.00	1,400,000.00
GROSS INCOME			4,600,000.00
RELIEF: CRA (Higher of A or B)			
A (N200,000 + 20% GI)	1,120,000.00	1,120,000.00	1,120,000.00
B (1% GI + 20%GI)	966,000.00		
Total Reliefs/Exemptions		2,520,000.00	
Taxable Income			3,480,000.00
TAX INCOME RATES:			
First N300,000 @ 7%	21,000.00		
Next N300,000 @ 11%	33,000.00		
Next N500,000 @ 15%	75,000.00		
Next N500,000 @ 19%	95,000.00		
Next N1,600,000 @ 21%	336,000.00		
Next N3,200,000 @ 24%	67,200.00		
Tax Payable	627,200.00		627,200.00
PIT per Annum	627,200.00		
PIT Per Month	52,266.67		
Tax Free Pay			2,852,800.00

Illustration 2:

Mr. ABC has a personal business in addition to his employment income illustrated above, his PAYE deductions will be calculated as follows;

TRADING INCOME	=N=	=N=	=N=
Revenue			2,500,000.00
Less Cost of Sale			1,500,000.00
Gross Profit			1,000,000.00
Other Income (Interest, Royalty, Rent, Others)			500,000.00
			1,500,000.00
Less Operating Expense (Salaries, Wages, Rent)			450,000.00
Assessable/Adjusted Profit			1,050,000.00
Less Capital Allowance Adjustments			50,000.00
Profit from Trading after CA Adjustment			1,000,000.00
EMPLOYMENT INCOME			
Earned Income from Employment (Salaries, Allowances, Grants, Benefit-in-Kind, Bonus Others)			6,000,000.00
Income from all sources			7,000,000.00
EXEMPTIONS:			
National Housing & Fund Contribution (3%)	150,000.00		
National Health Insurance Scheme (2.5%)	150,000.00		
Life Assurance Premium (2%)	120,000.00		
National Pension Scheme (8%)	480,000.00		
Gratuities	500,000.00		
	1,430,000.00	1,400,000.00	1,400,000.00
GROSS INCOME			5,600,000.00
RELIEF: CRA (Higher of A or B)			
A(N200,000 + 20% GI)	1,320,000.00	1,320,000.00	1,320,000.00
B(1% GI + 20%GI)	1,176,000.00		
Total Reliefs/Exemptions		2,720,000.00	
Taxable Income			4,280,000.00
TAX INCOME RATES:			
First N300,000 @ 7%	21,000.00		
Next N300,000 @ 11%	33,000.00		
Next N500,000 @ 15%	75,000.00		
Next N500,000 @ 19%	95,000.00		
Next N1,600,000 @ 21%	336,000.00		
Next N3,200,000 @ 24%	259,200.00		
Tax Payable (Per Annum)	813,440.00		819,200.00
Tax Free Pay			3,460,800.00

4.1 Insurance Premium Relief

A new **subsection 3** introduced under Section 33 provide that: there shall be allowed a deduction of the annual amount of any premium paid by the individual during the year preceding the year of assessment to an insurance company in respect of insurance on his life or the life of his spouse, or of a contract for a deferred annuity on his own life or life of his spouse.

Accordingly, insurance premium paid in respect of a person's life and/or that of his spouse shall be allowed as deduction in the computation of income tax.

5.0 Exemption of Minimum Wage from Tax

A new paragraph 33 was inserted after paragraph 32, in the Third Schedule of PITA which reads thus;

*The income of a person from an **employment** where such person earns gross income of National Minimum Wage or less from such employment.*

As such, an individual who earns gross income of National Minimum wage or less from employment, is exempted from paying tax (including minimum tax).

The National Minimum Wage in Nigeria currently stands at NGN30,000 per month or NGN360,000 per annum.

Likewise, **a new proviso was inserted in Section 37 of PITA which provides** that, minimum tax shall not apply to any person who earns in any year of assessment national minimum wage or less from an employment. .

Illustration 3:

Mr. XYZ earns a total gross income of ₦240,000 annually, while Mr. BCD earns is ₦1,200,000 every year. Given that they both have allowable deductions for Pension, NHF, and Life Assurance at 8%, 2.5% and 2% respectively, their total taxable income and subsequent tax computation will reflect the below:

- i. Mr. XYZ will be exempted from paying tax because he earns gross income **below** National Minimum Wage; while
- ii. Mr. BCD will be liable to pay tax because he earns gross income **above** the National Minimum Wage.

6.0 Section 108 - Interpretation.

The Section defines-

“Board” to mean Joint Tax Board established under section 86 of PITA;
and

“National Minimum Wage” means the extant National Minimum Wage pursuant to the National Minimum Wage Act.

7.0 Amendment or Revision of the Circular

The Service may, at any time, withdraw or replace this Circular or publish an amended or updated version.

8.0 Enquiries

Any request for further information or clarifications on this Information Circular should be directed to the:

Executive Chairman,
Federal Inland Revenue Service,
Revenue House, 15, Sokode Crescent,
Wuse Zone 5, Abuja.

Or

Director, Tax Policy and Advisory Department,
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Revenue House, 12, Sokode Crescent,
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Or

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