Payroll, Tax and Social Security Contributions in Nigeria

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INTRODUCTION

Hauwa Obi got a promotion! She also received a pay raise in September 2020. She could estimate her net salary after deducting statutory contributions based on her knowledge of Nigeria's payroll. She was, however, surprised to receive a lower net salary in her bank account in June 2021. The net salary and deductions in her monthly payslip were different from the amount she expected. 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.

Apart from an employee, a business needs to know the total payroll costs of hiring an employee in Nigeria, whether local or expatriate. This will help in proper payroll management in Nigeria. Payroll costs in Nigeria include salary as well as statutory contributions that will be deducted and/or remitted to the relevant agency. This article, therefore, discusses the payroll, tax, and social security contributions in Nigeria.

TYPES OF PAYROLL, TAX AND STATUTORY CONTRIBUTIONS IN NIGERIA

One of the responsibilities of the Federal Government is the welfare and security of its citizens. Social security contributions help to fund the objective. As a mandatory payment, a person making social security contributions can receive a future social benefit.

Companies should be aware of eight (8) major types of payroll deductions/contributions in Nigeria. While the first three (3) deductions below can reduce the taxable income and net salary of an employee, the fourth is tax while the last four are employer contributions.

1. Pension Fund
2. National Housing Fund (NHF)
3. National Health Insurance Scheme (NHIS)
4. Pay-As-You-Earn (PAYE) tax
5. Industrial Training Fund (ITF)
6. Nigeria Social Insurance Trust Fund (NSITF)
7. Expatriate Employment Levy (EEL)
8. Development Levy

1. Contribution to Pension Fund

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 with fifteen (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 emoluments stated in the employment letter. Yet, it should not be lower than the sum of the basic salary, housing allowance, and transport allowance.

Companies must deduct and remit the employee's and employer's monthly contributions to the Pension Fund Administrator (PFA). An employee is required to open a 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 income 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 below the national minimum wage, currently ₦360,000, 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 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 ten percent (10%) of the monthly basic salary of an employee while an employee contributes five percent (5%). The health care covers the contributor, spouse, and four biological children under the age of 18 years.

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 formula for calculating gross income is based on the Finance Act 2020.

4. Pay-As-You-Earn (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. PAYE tax is payable to the relevant State Internal Revenue Service.

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. At the end of the year, an employer must file an annual return for the income and PAYE tax. The deadline for filing an annual payroll tax (Form H1) return is 31st January of the next year. Penalties are;

- Late payment: Penalty at 10% as well as interest at the ruling bank lending rates.
- Late filing of Form H1 return: ₦500,000 per annum.

Self-employed persons will file an annual self-assessment tax return by 31st March of the next year. The penalty for late filing is ₦50,000 per annum.

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% * ₦920,000 = ₦23,000

NHIS: 5% * ₦300,000 = ₦15,000

Taxable income: Gross income - consolidated relief allowance - statutory deduction = ₦920,000 - 184,166.67 - (60,000 + 23,000 + 15,000) = ₦640,933.33

PAYE tax: ₦136,490.67

Therefore, net pay will be Gross income - PAYE tax - statutory contributions = ₦920,000 - 136,490.67 - 98,000 = ₦685,509.33

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 2.35%, while PAYE tax grew by 0.73%. The difference increases every month a taxable person uses the old method.

5. Contribution to the Industrial Training Fund (ITF)

Any employer who has 25 or more employees and is outside a free trade zone shall contribute 1% of the annual payroll to the Industrial Training Fund (ITF). The scope also covers any supplier, contractor, or consultant with more than 25 employees and is bidding contracts from any Federal Government agency, commercial, industrial, or private entity. 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. A copy of the document for new employer registration as well as for annual submission of returns is available in the training menu at https://itf.gov.ng.

Furthermore, new and old employers will submit a complete set of Industrial Training Fund (ITF) returns that contain the following documents.

- ☐ Evidence of ITF payment
- ☐ Duly completed ITF form
- ☐ Copy of the audited financial statement or management accounts
- ☐ Cover letter

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 definite and adequate compensation for workers or their dependents in 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, 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, the 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.

7. Expatriate Employment Levy (EEL)

EEL is an annual levy for companies that hire expatriate employees in Nigeria. The fee is US $15,000 US Dollars for directors and US $10,000 for other levels of expatriates. The amount is payable to the Nigeria Immigration Service (NIS). Although EEL was introduced in February 2024, the Federal Government has not issued an effective date.

8. Development Levy

This is a flat rate of one hundred naira per employee per annum. The amount is payable to the relevant State Internal Revenue Service of the employee.

SUMMARY OF PAYROLL CONTRIBUTIONS IN NIGERIA

COMPARISON OF PAYROLL CONTRIBUTIONS IN NIGERIA

PAYROLL COSTS	CONTRIBUTION BY EMPLOYER	DEDUCTION FROM EMPLOYEE
Development Levy	✓	✗
Expatriate Employment Levy	✓	✗
Industrial Training Fund	✓	✗
National Housing Fund	✗	✓
National Health Insurance Scheme	✓	✓
Nigeria Social Insurance Trust Fund	✓	✗
Pay-As-You-Earn (PAYE) Tax	✗	✓
Pension Fund	✓	✓

The table above shows who should pay for payroll contributions. Note: The employer may bear the employee pension contribution on behalf of the employee and PAYE tax for tax-equalized employees.

CLOSING REMARKS

The revenue authority usually requires a business to provide evidence of the remittance of payroll contributions used to reduce PAYE tax during a tax audit. Thereafter, the tax authority will follow up with the employer for any outstanding tax payments. It is usually an expensive process for an employer to regularize the PAYE tax returns after an employee leaves an organization. Persons in a management capacity or business owners should seek professional guidance in complying with the numerous payroll obligations in Nigeria.

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