

A Deep Dive into Taxation of Individuals – Understanding the New Realities

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CONTENTS



PERSONAL INCOME TAX CHANGES.



ILLUSTRATION 1 (THOSE IN EMPLOYMENT)



CAPITAL GAIN CHANGES

Introduction

The Tax Law Reform involved the comprehensive review and redrafting of all tax and related legislations. It is a transformative journey aimed at simplifying tax compliance, and enhancing clarity, coherence, and effectiveness of the tax laws.

In this paper, we shall be looking at some critical changes of the 2025 Tax reforms as it relates to Individual & Corporate Income Taxes which became effective 1st January, 2026.



Why?

Section 24(f) of the Constitution of the Federal Republic of Nigeria 1999 (as amended) provides that: **"It shall be the duty of every citizen to- Declare his income honestly to appropriate and lawful agencies and pay his tax promptly."**

Section 44(2) of the Constitution also provides the basis for taxation in Nigeria. Therein it implies that the compulsory imposition of taxes on citizens does not amount to an infringement of their right to own property but a necessary exercise of governmental powers. The section provides thus: **"Nothing in subsection (1) of this section shall be construed as affecting any general law for the imposition and enforcement of any tax, rates and duty."**



Who?

- **Taxable Person** means person who carries out economic activity in a place or a person exploiting tangible or intangible property for the purpose of obtaining income therefrom by way of trade or business, or an agency of Government acting in that capacity

Taxable Person includes a company, **individual or body of individuals**, family, community, corporations sole, trustee, executor or any other legal arrangement, or any person **who earns income** (by way of employment), **or carries out an economic activity** (by exploiting tangible or intangible property) **for the purpose of obtaining income therefrom by way of trade or business**, or any person or agency of government acting in that capacity

- **Employment** includes any appointment or office, whether public or otherwise, for which remuneration is payable
- **Trade or Business** means any activity or venture from which income is generated, for whatever scale or period it is carried on, but does not include employment
- See Sections 202 NTA and 147 NTAA

We shall now look briefly at some of the Changes in Taxation of Persons in Employment

Total Income

The total income of an individual for any year of assessment is the taxable income less total deduction. For the purposes of (subsection (1) (a)) taxable income is the aggregate amount of:

	₹
▪ Employment income	XXX
▪ Assessable profits from trade, business, profession or vocation (Less Losses & Capital Allowance)	XXX
▪ Income from investing activities	XXX
▪ Profits or income from any other source	XXX
▪ Chargeable gains from the disposal of chargeable assets	XXX
Less	
▪ Income of the individual that is exempt from tax	(XXX)
▪ Franked Investment Income	(<u>XXX</u>)
• TOTAL INCOME	XXXX

Chargeable Income

- The chargeable income of an individual, is the total income of that individual ascertained under the provisions of (Section 28) of the NTA 2025, less eligible deductions
- **Eligible deductions** include payments made by the individual in a year of assessment in respect of:
 - the National Housing Fund (NHF) Contribution
 - The National Health Insurance Scheme Contributions
 - Employee's contributions under the Pension Reform Act
 - Interest on loans for developing an owner-occupied residential House
 - Annuity or premium paid in respect of insurance on his life or the life of his spouse
 - Rent relief of 20% of annual rent paid, subject to a maximum of N 500,000

➤ **Introduction of rent relief:**

The NTA eliminates the Consolidated Relief Allowance (CRA) and introduces a rent relief. See Section 30 (2) (vi)

which is 20% of annual rent paid, subject to a maximum of ₦500,000, whichever is lower.

However, to claim this relief,

Declarations must be made regarding the actual rent paid, and the tax authority has the right to request additional relevant information. The takeaway from this is that individuals that live in their own accommodation cannot claim such relief.

PERSONAL INCOME TAX (PIT) CHANGES.

Changes in PAYE/PIT Rates

1. PITA Rates

First	N300,000	@7%
Next	N300,000	@11%
Next	N500,000	@15%
Next	N500,000	@19%
Next	N1,600,000	@21%
Above	N3,200,000	@24%

2. Relief

Consolidated relief
20% of gross
income plus
N200,000 for every
one

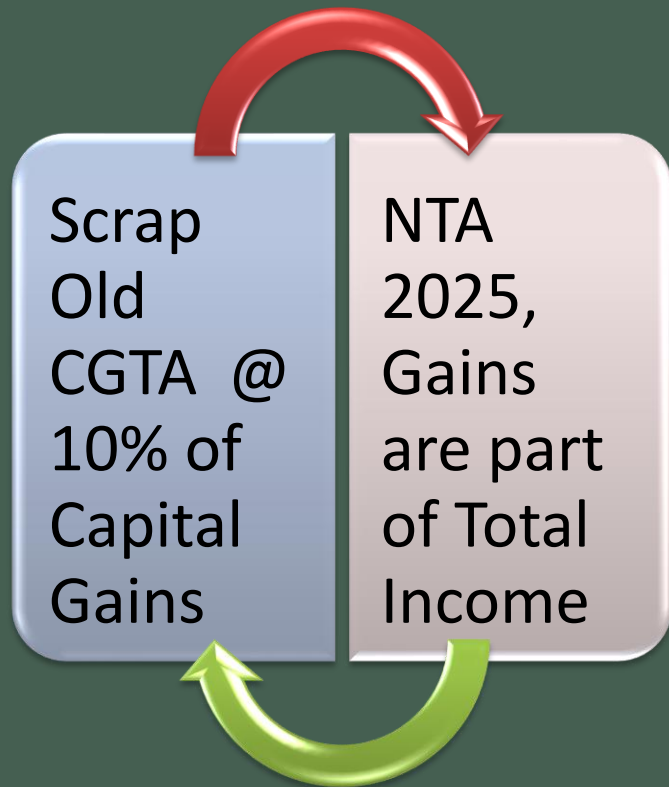
NTA Rates

First	N800k	@ 0%
Next	N2.2m	@15%
Next	N9m	@18%
Next	N13m	@21%
Next	N25m	@23%
Above	N50m	@ 25%

Relief

Rent relief of 20% on
paid rent not more
than a threshold of
N500,000. Landlord
not included.

Changes in PIT (Contd.)



➤ Changes in Capital Gain Tax Computations

Chargeable gains shall be tax as income tax. Before now, if an individual's chargeable gain is 100 million from disposal of his property, such gain will be charged under capital gain tax of which 10% will be applied on the gains.

In the new law, tax rates which ranges from 0%, 15% to 25% will be applied on the 100 million gains which will be aggregated with income from other sources.

➤ **Employees Filing Obligations under the Acts**

In addition to the existing obligation for employers to remit income taxes and file returns under the Pay-As-You-Earn (PAYE) scheme, the Nigeria Tax Administration Act introduces a requirement for employees to file annual tax returns on their total income. Unlike PAYE returns, which cover only employment income, these returns will capture both employment and non-employment income. This measure will enable tax authorities to effectively assess and tax non-employment income, thereby contributing to increased tax revenue

Requirement for Employees to File Returns

Due dates for Returns

➤ **Due date for Employers returns (PAYE)**

31st January remains the due date for employers to file returns on behalf of their Employees in Nigeria. Section 14 of NTAA

➤ **Due date for Personal Income Tax return**

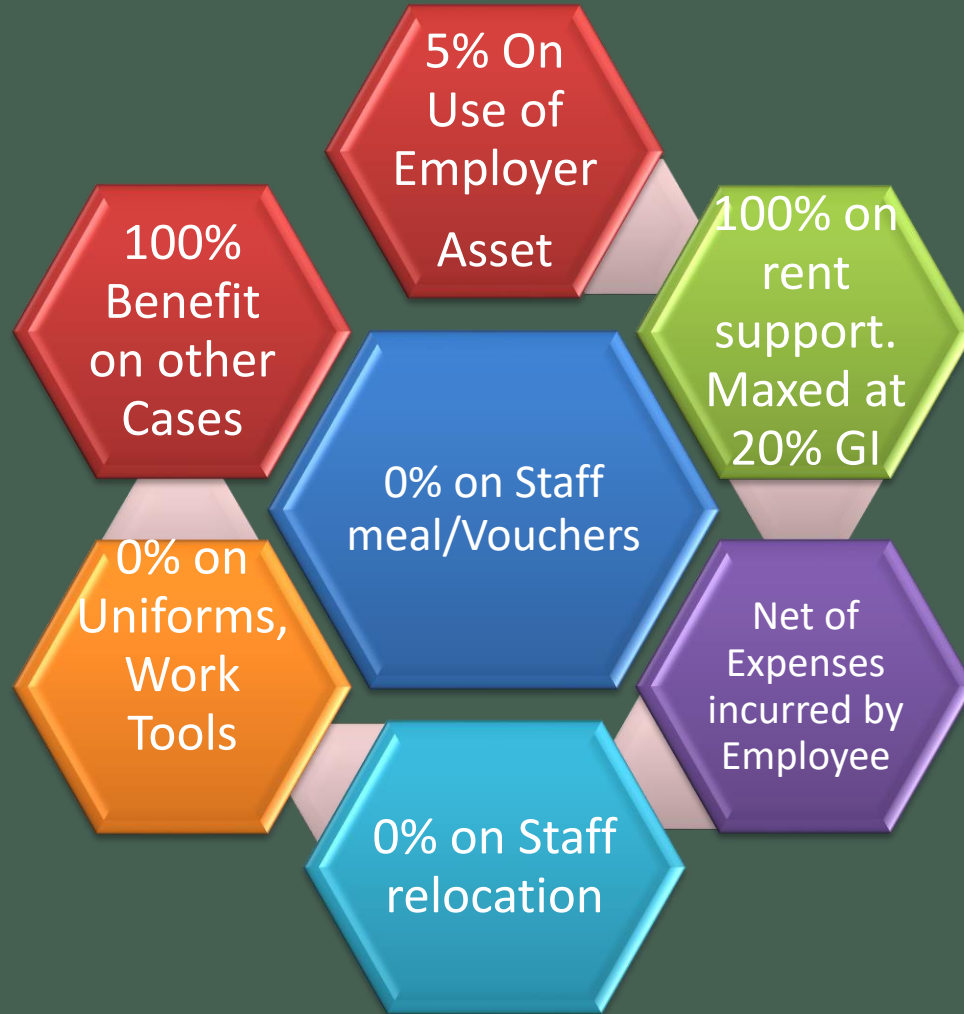
31st March as due date for PIT return has been eliminated. PIT return is now annually depending on the accounting date chosen by the individual. See section 13 of NTAA.

➤ **Due date for Persons in the Informal Sector**

guidelines for the filing of a simplified income tax return by low income earners or persons operating in the informal sector, will be issued a relevant tax authority may issue

BENEFITS IN KIND

BIK



A reference the section 14 (5) as it relates to anything provided for an employee shall, unless the reference is expressly to something provided for the employee, be construed as including a reference to anything provided for the spouse, family, servant, dependent or guest of that employee by the employer.

ILLUSTRATION OF PAYE (THOSE IN EMPLOYMENT)

In 2024 Mrs. Hilda J. Morris receives a monthly gross salary of 3 million from a company. She pays Rent of 3.5 million per annum at the GRA where she lives. The Company also provides work uniform of N560,000 for use in the work premises. In Dec 2024 she disposed her generator plant which she bought 10 million (in late December 2021) for 6 million after refurbishing it with N1,700,000. The generator has an annual straight-line depreciation of 25% per annum. Her employer deducts and remits the following on her behalf: -

- NHF 2.5% of salary
 - NHIS 2.5% of salary
 - Pension 8% of Salary
 - Life assurance premium of 2% of the salary
1. Calculate her tax per annum and per month based on PITA 2011.
 2. Calculate her tax per annum and per based on NTA 2025.

	N	N	N
Gross Emolument	3,000,000 x 12		36,000,000
Other Income	-	-	-
Total Income from employment	-	-	36,000,000
Less Exemptions			
NHF 2.5%	900,000		
NHIS 2.5%	900,000		
Life Assurance 2%	720,000		
Pencom 8%	2,880,000		
Total Exemptions	5,400,000	5,400,000	<u>(5,400,000)</u>
Gross Income (GI)			30,600,000
Less Consolidated Relief Allowance (CRA)			
A) 20% of GI + 200,000	6,320,000	6,426,000	(6,426,000)
B) 20% of GI + 1% of GI choose higher amount	6,426,000		
Taxable Income			24,174,000
Tax Rates			
1 st 300,000 X 7%	21,000		
Next 300,000 X 11%	33,000		
Next 500,000 X 15%	75,000		
Next 500,000 X 19%	95,000		
Next 1,600,000 X 21%	336,000		
Next 20,970,000 X 24%	5,032,800	5,592,800.00	5,592,800.00
Per month (Divide by 12)		466,066.67	466,066.67

COMPUTATION BASED ON PITA

COMPUTATION OF CGT

		₱
Disposal Amount		6,000,000
Less Net Book Value (NBV)		(2,500,000)
Less Refurbishing Cost		(1,700,000)
Chargeable Gain		1,800,000
Tax @ 10%	=	180,000

Note NBV

Initial Cost as at 2021		10 million
Less Depreciation	(25%)	(2,5 million)
NBV as at 2022		7.5 million
Less Depreciation	(25%)	(2,5 million)
NBV as at 2023		5 million
Less Depreciation	(25%)	(2.5 million)
NBV as at 2024		2.5 million

Under PITA, income tax is computed separately from capital gains tax.

Capital Gains Tax Computation

	₦	₦	₦
Gross Emolument	3,000,000 x 12		36,000,000
Other Income	-	-	-
Total Income from employment	-	-	36,000,000
Less Exemptions			
NHF 2.5%	900,000		
NHIS 2.5%	900,000		
Life Assurance 2%	720,000		
Pencom 8%	2,880,000		
Total Exemptions	5,400,000	5,400,000	(5,400,000)
Gross Income (GI)			30,600,000
Less Rent Relief			
A) 20% of 3,500,000	700,000		
B) 500,000. max threshold is 500,000	500,000	500,000	(500,000)
Taxable income from employment			30,100,000
Gains on disposal of Asse			1,800,000
Total Chargeable Income			31,900,000
Tax Rates			
1 st 800,000 X 0%	0		
Next 2.2M X 15%	330,000		
Next 9M X 18%	1,620,000		
Next 13M X 21%	2,730,000		
Next 6,900,000 X 23%	1,587,000		
Total Tax Per Annum	6,267,000	5,853,000	6,267,000
Per month (Divide by 12)		487,750	

COMPUTATION BASED ON NTA

COMPUTATION OF CHARGEABLE TAX BASED ON NTA

Mrs. Ada Okeke Taxable income from Employment is **30,100,000** while her chargeable gains on asset disposal is **1,800,000**

Using the NTA tax rates

Total income is $30,100,000 + 1,800,000 = 31,900,000$

First N800k	@ 0% = 0
Next N2.2m	@15% = 330,000
Next N9m	@18% = 1,620,000
Next N13m	@21% = 2,730,000
Next N6.9m	@23% = 1,587,000
Above N50m	@ 25%
Total=	<u>6,267,000</u>

She will pay N414,000 as a result of the gain on the disposal of her asset based on NTA in addition to the PAYE deductions from her salary

Workings

Note

Pencom of 8% is applied on monthly emolument which should not be less than (Basic Salary + Transport allowance + Housing Allowance)

An organization has right to apply 8% on total emolument that is more than Basic Salary, transport and housing allowance.

NHF of 2.5% is applied on basic salary

NHIS of 2.5% is applied Basic Salary. Where organization did not break down the emolument into basic and other allowances, NHF & NHIS will be applied on Gross emolument.

Mortgage Interest on owner occupier deduction is applied on gross emolument/salary

Life insurance premium deduction is applied on gross salary/emolument. The law did not place restriction to applicable rates.



Implication for Capital Gains of Individuals

- We shall now look briefly at some of the Changes in relation Capital Gains



Exemptions from Chargeable Gains

- Disposal proceeds shares, in aggregate, is less than 150,000,000 and the chargeable gain does not exceed 10,000,000 in any 12 consecutive months,
- Shares are transferred between an approved borrower and a lender in a regulated securities lending transaction, or Proceeds from such disposal, notwithstanding the threshold above, are reinvested within the same year of assessment in the acquisition of shares in the same or other Nigerian companies, provided that tax shall accrue proportionately on the portion of the proceeds which are not reinvested in the manner stipulated in this subsection
- Sums received under a policy of insurance and the risk of any kind of injury or damage, or the loss or depreciation of assets; (c) received in return for forfeiture or surrender of a right, or for refraining from exercising a right; and (d) received as consideration for use or exploitation of any asset
- Chargeable gain shall not accrue on the disposal of an interest in, or the rights under any such policy of assurance or contract, except where the person making the disposal is not the initial beneficial owner and acquired the rights or interests for a consideration in money or money's worth
- Sums not exceeding 50,000,000 obtained by way of compensation or damages for any wrong or injury suffered by an individual in his person or in his profession or vocation, including compensation for loss of office or employment, wrong or injury for libel, slander or enticement shall not be chargeable gains.

- The gains accruing to an individual in respect of the disposal of, or an interest in (a) a dwelling-house or part of such dwelling-house; and (b) land, other than land used for commercial purposes, immediately adjoining the dwelling house up to a maximum of one acre. (The exemption under this section shall be enjoyed once in the lifetime of an individual)
- A gain accruing on a disposal of an asset which is tangible movable property being personal chattels of an individual shall not be a chargeable gain if the total amount or value of the consideration for the disposal does not, in a period of assessment, exceed 5,000,000 or three times the annual national minimum wage, whichever is higher
- A motor vehicle used solely for private or non-profit purposes shall not be an asset for the purposes of determining capital gain, and this exemption shall be limited to not more than two motor vehicles by an individual in any year of assessment
- Where a person disposes by way of a gift, an asset acquired by him by way of a gift or any other form of gift, not being an acquisition on a devolution on death, the gains accruing from the disposal shall not be chargeable gains.
- Any property held in trust for charity and not-for-profit organisations shall not be subject to the provisions on Capital gains provided it is not in connection with any trade or business.

Computation of chargeable gains on disposal of shares base on NTA 2025

Mr Jaiye Peters sold shares value at 100 million for 145 million making a gain of 45 million but reinvested the whole amount in another shares in an Oil Prospecting firm in Senegal during the year. Calculate capital gains liable to tax

SOLUTION

Disposal Amount	145 million
Less cost	(100 million)
Capital gain	(45 million)

Capital gain has exceeded 10 million stipulated by law.
Hence taxable amount = $45 - 10 = 35$

The Gain of 35 million is Chargeable to Tax

ILLUSTRATION II

CONCLUSIONS

Over the last few years, the Nigerian Government has consistently ensured the review of the tax and fiscal regulations in the country. This Tax Reforms offers the most comprehensive overhaul of our Tax laws in recent times.

This reforms are critical in enhancing the social contact nexus between the state and the citizenry.

Importantly, to build trust, the Government should improve communication about how tax revenues fund public services & infrastructure, and also invest in Long-term taxpayer education to build a culture of compliance and national development.



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