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LEGAL PRACTICE

COMPREHENSIVE GUIDE: PERSONAL INCOME TAX DEDUCTIONS UNDER THE NIGERIA TAX ACT 2025

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Q1

What is the Nigeria Tax Act 2025?

The Nigeria Tax Act 2025 (“NTA”) is a comprehensive legislation signed into law on June 26, 2025, which consolidates all major tax provisions in Nigeria into a single statute. It repeals several existing tax laws, including the Personal Income Tax Act, and it took effect from January 1, 2026.

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Q2

What is "chargeable income" under the Nigeria Tax Act 2025?

Chargeable income is defined under Section 30(1) as the total income of an individual less eligible deduction.

Formula: Chargeable Income = Total Income - Eligible Deductions, Where:

- **Total Income** includes employment income, business income, investment income, and chargeable gains
- **Eligible Deductions** are the allowable deductions listed in Section 30(2)(a)

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Q3

What types of income are taxable under Section 4?

Section 4 of the Act defines income, profits, or gains that are chargeable to tax for individuals, including:

1. Employment Income
2. Business and Professional Income
3. Investment Income
4. Other Taxable Income (Section 4(1)(h):
   - Prizes, winnings, honoraria, grants, awards
   - Profits from disposal of property or fixed assets
   - Profits from digital or virtual assets

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Q4

What are the key deductions allowable under Section 30 of the Nigeria Tax Act 2025?

Section 30(2)(a) provides for "eligible deductions" which individuals can claim to reduce their taxable income. The six main deductions are:

1. **Rent Relief** -Rent relief is a new deduction introduced under Section 30(2)(a)(vi), allowing individuals to deduct 20% of annual rent paid, subject to a maximum of ₦500,000, whichever is lower, provided the individual accurately declares the actual amount of rent paid.

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2. **Pension Contributions:** Section 30(2)(a)(iii) allows employees to deduct contributions made under the Pension Reform Act. Only the employee's 8% contribution, calculated on basic salary, housing allowance, and transport allowance, is deductible. The employer's 10% contribution is excluded from taxable income.

3. **National Housing Fund (NHF):** Section 30(2)(a)(i) permits the deduction of contributions made under the National Housing Fund. Employees earning ₦3,000 or more monthly must contribute 2.5% of their basic salary. These contributions are fully deductible from taxable income, reducing overall tax liability.

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4. **NHIS Contributions:** Section 30(2)(a)(ii) provides that contributions under the National Health Insurance Scheme are deductible. All NHIS payments made by employees can be subtracted from taxable income, thereby lowering tax liability. However, proof of payment must be presented to claim this deduction.

5. **Life Insurance Premiums**: Section 30(2)(a)(v) allows deduction of any annuity or premium paid by the individual in respect of insurance on his life or the life of his spouse, or contract for a deferred annuity on his own life or the life of his spouse.

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6. **Housing Loan Interest**: Section 30(2)(a)(iv) permits the deduction of interest on loans taken to develop an owner-occupied residential house. The loan must be for the taxpayer’s own home, and the property must be occupied by the owner. Proof of interest payments is required to claim this deduction.

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Q5

What's the Tax-Free Threshold?

The first ₦800,000 of your income (after deductions) is completely tax-free!

Tax Rates (Fourth Schedule) include:

- ₦0 - ₦800,000: 0%
- ₦800,001 - ₦3,000,000: 15%
- ₦3,000,001 - ₦5,000,000: 18%
- ₦5,000,001 - ₦7,000,000: 20%
- ₦7,000,001 - ₦20,000,000: 23%
- Above ₦20,000,000: 25%

Individuals earning only the national minimum wage (₦70,000 monthly as of 2025) are exempt from personal income tax.

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Q6

How Does Rent Relief Work?

Formula: Rent Relief = Lower of (20% of Annual Rent OR ₦500,000)

Examples:

- Pay ₦1.5M rent → 20% = ₦300k → Claim ₦300k
- Pay ₦3M rent and above → 20% = ₦600k → Claim ₦500k (capped)
- Own your home → Claim ₦0 (not eligible)

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Q7

What Documentation Do I Need?

Section 31 of the Nigeria Tax Act states that all deductions MUST be claimed In Writing. Section 32 of the Act also states that an individual MUST provide proof, or claims will be rejected.

Required Documents:

- Rent Relief: Receipts, tenancy agreement
- Pension: PFA statements
- NHF: Contribution records
- NHIS: Payment receipts
- Life Insurance: Premium receipts
- Housing Loan: Interest certificates

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Q8

Who is completely exempt from personal income tax?

Under Section 58, individuals earning only the national minimum wage are excluded from paying personal income tax. Individuals earning at or below the legally prescribed minimum wage are completely exempt, offering relief and protecting the disposable income of the country's lowest-paid workers.

As of 2025, the national minimum wage in Nigeria is ₦70,000 per month (₦840,000 per year).

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Q9

What happens if I don't provide proper documentation for my deductions?

Section 32(1) clearly states that the relevant tax authority may require documentary evidence to support claims, and in the absence of such evidence, or where evidence is inadequate, the authority may refuse to allow the deduction.

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Q10

Are there penalties for false claims or fraudulent documentation?

Yes! Making false claims or providing fraudulent documentation can result in serious consequences under the Nigeria Tax Act 2025 and the Nigeria Tax Administration Act 2025:

- Disallowance of the deduction
- Additional assessment for underpaid tax
- Interest on unpaid tax
- Penalties up to 200% of the tax underpaid
- Possible criminal prosecution

Always claim only what you're genuinely entitled to and provide accurate documentation.

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Q11

Do these deductions apply to self-employed individuals?

Yes! All Section 30 deductions apply to self-employed individuals, including:

- Rent Relief (if you pay rent)
- Pension contributions (to approved PFA)
- NHIS contributions
- NHF contributions
- Life insurance premiums
- Housing loan interest

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However, you must:

- File annual tax returns
- Keep proper records
- Make tax payments directly (no PAYE deduction)
- Claim deductions in writing with documentation under Section 31

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Q12

What if I have multiple sources of income?

Section 4 of the Act defines income, profits, or gains that are chargeable to tax for individuals, including employment income, business and professional income, and investment income. You must declare ALL sources of income, and Section 30 deductions apply to your total income.

Steps:

- Calculate total income from ALL sources (Section 28)
- Apply all eligible Section 30 deductions
- Arrive at chargeable income
- Apply tax rates from Fourth Schedule

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Q13

I own my home. What deductions can I claim?

If you own your home and don't pay rent, you CANNOT claim Rent Relief under Section 30(2)(a)(vi). However, you can still claim:

- Pension contributions
- NHF contributions
- NHIS contributions
- Life insurance premiums
- Housing loan interest (if you have a mortgage)

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Q14

Can my employer claim these deductions on my behalf?

Your employer can calculate and apply these Section 30 deductions when computing your Pay-As-You-Earn (PAYE) tax. However:

- You are still personally responsible for ensuring accuracy.
- You must file your personal income tax return.
- You must provide documentation to your employer.
- You should also verify calculations on your payslip.

Please note that the employer acts as an agent for tax collection under PAYE, but the responsibility for accurate declaration remains with you.

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Q15

What Should I Do NOW?

Immediate Actions:

- Organize all receipts and statements
- Calculate eligible deductions
- Verify PAYE deductions on payslips.
- File returns with supporting documents

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THANK YOU FOR READING

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