



An appraisal of the key changes in personal income tax under the Nigerian tax reform laws, 2025

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Abstract

This article appraised the key changes in Personal Income Tax (PIT) under the recent 2025 tax reforms laws in Nigeria. The objective of the study was to analyse the new legal regime for the taxation of persons in Nigeria. Key findings from research revealed that the reforms introduced a progressive tax rate, broaden tax base to include digital assets and clearly defined residency rules. It was also found that consolidated reliefs allowance has been replaced with rent relief allowance. Despite these ambitious reforms, it was observed that without corresponding state and local government tax reforms, the problem of taxation in Nigeria is only half-solved. It was therefore recommended that state governments should harmonise their tax systems to consolidate their multiple taxes and levies. Furthermore, it was recommended that tax authorities should invest in tax payer education, build staff capacity and whilst calling on all governments to enhance digital infrastructure to ensure effective implementation of the reform regime. It was concluded that the tax reforms provide a modernised, equitable and administratively efficient framework for PIT in Nigeria.

Keywords: PIT, Tax Reforms, Nigeria, Tax Administration, Taxpayer Education.

Introduction

Taxation is a credible source of government revenue ^[1]. It is a vital tool that provides the funding for critical sectors of the economy. It funds education, security, healthcare and other important necessities. Personal income tax is one of the forms of taxation that is used to generate revenue for the country. The tax is imposed on the income of an individual who is resident in a particular state and is paid to the relevant revenue/ tax authority within the state in Nigeria. This form of taxation has been governed by the Personal Income Tax Act ^[2] enacted in 1993. The Act has been severally amended in 2011 and subsequently through the Finance Acts from 2019. With the tax reforms Acts enacted in 2025 that repealed the Personal Income Tax Act, there is a new regime for the taxation of persons in Nigeria. This study examines this new regime. It specifically looks at the key changes introduced in the Nigeria Tax Act, 2025 on the imposition and administration of personal income tax in Nigeria.

Conceptual Clarifications

Conceptual clarification is essential in every research work. It is a way through which a researcher can explain some phrases and terms connected to the research work. It is therefore a means for defining, analysing, and organizing abstract ideas to remove ambiguity. Thus, it simplifies an understanding of the topic under discussion. It also ensures a shared and precise understanding of a subject matter of a research. In this work the terms tax, taxable person, chargeable income, and personal income tax have all been clarified.

Tax

Tax has long been recognised as the most viable and sustainable pillar for economic development and growth ^[3]. Its significance as an economic stabiliser and policy instrument lies in its ability (when properly managed) to resuscitate a tumbled-down economy, fund expenditure ^[4], redistribute wealth, and provide government with the fiscal

capacity to deliver essential public good ^[5]. However, as important as tax is to the Nigeria economy, ^[6] there is no Nigerian tax law or court that have comprehensively defined the term tax. This failure of the Nigerian tax laws to provide a comprehensive definition of the term tax can be attributed to the fact that when you define, you limit and if limitation is placed on what is to be taxed, then the government may be denying itself new things to be taxed. Notwithstanding this, few definitions in the tax laws will be provided.

The Nigeria Tax Act, 2025 in section 202 defines the term tax to 'mean any imposition, duty, levy, royalty or revenue accruing to government in full or in Part under this Act or any other law'. Likewise, the Nigerian Revenue Service (Establishment) Act, 2025 defines tax in section 42 to 'include any duty, levy or other revenue accruable to the Government in full or in part under this Act, the laws listed in the Second Schedule to this Act or any other law'.

The court in *Nichol v Ames* ^[7] considered tax from its importance. It defines tax as "one great power upon Which the whole national fabric is based. It is as necessary to the existence and prosperity of a nation as is the air he breathes to the natural man. It is not only the power to destroy; it is also the power to keep alive." Justice Latham of the Australian Supreme Court in *Mathews v. Chicory Marketing Board* ^[8] stated that: 'A tax is a compulsory exaction of money by a public authority for the public purposes or taxation is raising money for the purposes of government by means of contributions from individual persons.' The definition above shows that tax is not a matter of choice of whether to pay or not. It is a legislative imposition and demand from the government. It is a civic duty. Thus, section 24(f) of the 1999 Constitution of the Federal Republic of Nigeria provides that "it shall be the duty of every citizen to declare his income honestly to the appropriate and lawful agencies and pay his tax promptly". Similarly, section 44 (2) (a) of the 1999 Constitution provides that: "Nothing in subsection (1) of this section shall be construed as affecting any general law for the imposition or enforcement of any tax..." Thus, the

compulsory imposition of tax on a citizen is not a derogation from the right of the citizens to his property, but a necessary exercise of governmental powers.

Taxable Person

The Court of Appeal, Lagos Division, in *D.S.A. Agricultural Machinery Manufacturing Company Limited v Lagos State Internal Revenue Board* ^[9], adopted the definition of a taxable person under the Personal Income Tax Act. The Court defined a taxable person to mean any individual or body of individuals (including family) and any corporation sole, trustee or executor, having any income which is chargeable with tax under the provisions of the law. Under the Nigeria Tax Act, 2025, a 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, or carries out an economic activity, a person 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 ^[10].”

Chargeable Income

NTA defines chargeable income of an individual to include the total income of that individual ascertained under the provisions of section 28 of this Act, less eligible deductions ^[11]. Section 28 did provide that “*taxable income is the aggregate amount of (i) assessable profits from trade, business, profession or vocation ascertained in accordance with Part V of Chapter Two of this Act, (ii) employment income, (iii) income from investing activities, (iv) profits or income from any other source, and (v) chargeable gains from the disposal of chargeable assets*”.

The combined effect of the provision of sections 4, 28 and 30 of NTA presupposes a chargeable income is income from all sources minus all non-taxable income, income on which no further tax is payable, tax-exempt items, allowable business expenses, and capital allowances. Thus, all personal profits, gains from trade or business including salaries, wages and other allowances ^[12] are categorised as chargeable income.

Personal Income Tax (PIT)

Personal income tax is “*a tax levied on personal income like salary, wages, dividends, royalties, director’s fees*” ^[13]. It is also defined as a direct tax collected on the income of a person. Personal income tax like any other form of tax is imposed by law. The first time Nigeria a law was passed to regulate the taxation of personal income in Nigeria was in 1961. The Income Tax Management Act (ITMA), ^[14] exclusively provides for income tax for individuals as well as the uniform system of personal income taxation across the country. It is important to note that The Act did not repeal either law such as the Direct Tax Ordinance ^[15] and the Income Tax Ordinance, Cap 85. Rather pursuant to an order granted by the Governor – General in line with section 1 ITMA, upon the application of a region as aforesaid, the provisions of the Direct Taxation Ordinance and the Income Tax Ordinance continued to apply to the region in question with some modifications. The tax was imposed on individuals, itinerant workers, communities, families, trustees and executors whose income were taxable under the regional law. As ITMA applied throughout the country, the question as to which tax authority could impose tax on any

of the taxable persons listed above was determined in the case of an individual, by his place of residence. Between 1961 and 1993, several amendments were made to the ITMA 1961.

Some of the major amendments included the Income Tax (Amendment) Decree ^[16], Income Tax Management (Amendment) Decree ^[17], Income Tax Management (Uniform Taxation Provisions etc) Decree ^[18], Income Tax (Armed Forces and other Persons) (Special Provisions) Decree. The Personal Income Tax Act ^[19] became the operating law regulating the administration of personal income tax in Nigeria. While PITA was similar in provisions to previous income tax laws in all material respects, it contains other provisions that were completely novel in the administration of Personal Income Tax in Nigeria ^[20]. The provisions on persons and incomes chargeable, deductions allowed, incomes exempted, assessment, returns, offences and double taxation arrangements are similar in substance to that under the ITMA and other erstwhile income tax legislations. The novel provisions under the Personal Income Tax Act relate to the establishment of tax authorities, the introduction of the Tax clearance certificate and the pay-As-You-Earn Scheme. PITA was also subject to series of amendments by virtue of various Finance (Miscellaneous Taxation Provisions) Decrees. Further amendments were contained in the Personal Income Tax (Amendment) Act, 2011, and the Finance Acts, 2019, 2020, 2021 and 2023. The Challenge has been outdated law, multiplicity of amendments and lack of equity in taxing individuals. There are also challenges of complexity of compliance and lack of digitalisation. While the Finance Acts made several efforts on modernisation including the introduction of the significant economic presence rule for personal income tax, certainty requires that a regime for imposition of PIT be consolidated and reflect current realities. Given this, the Nigeria Tax Act, 2025 was enacted. The Act repeals the Personal Income Tax Act and consolidates the Finance Acts to provide a single legal framework for taxing the income of persons in Nigeria. The next sections of this paper will extensively discuss these changes introduced by this reform regime.

Imposition of PIT

NTA, 2025 impose income tax on the income of any individual or family; and income arising, accruing or due to a trustee, or an estate ^[21]. On what income is liable to tax, section 4 of the NTA provides as follows:

1. Income, profits or gains of a person accruing in or derived from Nigeria, including (a) profits or gains from any trade, business, profession or vocation for whatever period of time such trade or business may have been carried on; (b) royalties, fees, rents or interests arising from a right granted for the use, exploitation or occupation of any property; (c) dividends, premium, charges or annuities; (d) fees, dues, allowances, or any remuneration for services rendered; (e) discounts or rebates; (f) disposal of money or money instruments; (g) income, profits or gains from disposal or lending of securities; (h) prizes, winnings, honoraria, grants, awards, laurels, etc.; (i) profits or gains from the disposal of property or fixed assets; (j) profits or gains from transactions in digital or virtual assets ^[22]; and (k) any other income, profit or gain not falling within the preceding categories.

- Income, profits or gains of an individual, including (a) salaries, wages, fees, allowances, compensations, bonuses, premiums, benefits or other perquisites allowed, given or granted by any person to any employee other than payment for expenses incurred in the performance of the duties of the employment, and from which it is not intended that the employee should make any profit or gain; and (b) any pension, annuity or any other similar income.
- Income of a family recognised under any law or custom in Nigeria as family income in which the several interests of individual members of the family cannot be separately determined, excluding income on inherited assets before distribution.
- Income arising to a trustee of any settlement or trust, or estate or to an executor of any estate of a deceased person.
- Any other income, profit or gain not falling within the preceding categories.

Section 4 of the NTA copiously reproduced above is the charging provision in the Act for individuals. Charging provisions creates liability to pay taxes upon taxpayers. NTA has broadened the tax base. Unlike PITA, it has clearly captured income from digital asset transactions. This will address the loophole that existed in the former regime when it was difficult to tax digital assets.

Taxable Persons and Determination of Residence for the Purpose of PIT

In taxation, the liability of a person to income tax is determined by the principle of residency. A taxpayer is liable to tax in a state in which he is resident in the year of assessment ^[23]. Other than determining his tax liability, the rule of residency also determine the tax authority the taxpayer will engage ^[24]. The rules for determining residency under the NTA are the twelfth schedule to the Act.

For foreign employment ^[25], the provisions of paragraph 1 of the 12 Schedule applies. That is individuals holding foreign employment who do not fall under the specific exemptions under section 3(1)(a)(iv) of the Nigeria Tax Administration Act, 2025. Their residency is dependent n where employment duties are performed. For those whose duties are performed entirely outside Nigeria, residence is established in the territory where the employer's principal office is located as of January 1st in the year of assessment or when employment begins. However, where the duties are performed in Nigeria for a foreign employer, residence is determined by the individual's actual place of residence or alternatively, where the person habitually resides if no fixed residence exist.

For individuals holding a Nigerian employment ^[26], they are deemed resident in the territory containing their place or principal place of residence on 1st January of the year of assessment or the date they commence full employment duties in Nigeria ^[27]. For employees on leave, the Act provides that their residence is determined based on their residence immediately before leave. This provision envisages and addresses the loophole that can be manipulated on residency status through temporary absence. Paragraph 3 of the Schedule addresses employees whose circumstances do not fit standard categories. Those subject to Nigerian income tax but lacking a principal residence in

any state are treated as holding foreign employment. If they also lack residence under foreign employment rules, they fall under specific provisions of the Nigeria Tax Administration Act, 2025 ^[28]. This paragraph also covers employees working in Nigeria's Exclusive Economic Zone or territorial waters beyond littoral states who maintain no principal residence in coastal states.

For partnership, residence rules vary based on their participation level. For active partners performing partnership duties. Their residence is deemed to be the territory where they execute those duties. Dormant partners are considered resident where they habitually reside within Nigeria. Dormant partners without Nigeria residence fall under the provisions of NTAA.

Individuals whose only source of earned income is pension, residence depends on several factors ^[29]. Those with an established residence on January 1st are deemed resident in that territory. Pensioners without fixed residence face different rules based on pension type. Nigerian pensions ^[30] paid entirely by one territorial government establish residence in that territory, while non-Nigerian pensions establish residence where the pension fund's principal Nigerian office is located. Complex situations involving multiple government payers or multiple pensions from different territories trigger application of federal tax provisions.

Individuals with earned income ^[31] beyond employment or pensions (such as business income or professional fees) are deemed resident where they maintained their place or principal residence on January 1st. Two exceptions apply: first, when income sources are acquired during the assessment year and no prior residence existed, residence is established where the individual first settles during that year; second, without any established residence, individuals are deemed resident in the territory from which their earned income derives, or any such territory if income originates from multiple locations. Individuals without earned income sources but receiving unearned income (such as investment income, dividends, or rental income) are resident where they maintain their place or principal residence on January 1st. If unearned income arises entirely from one territory and no residence exists, that territory claims residence. When unearned income originates from multiple territories without established residence, the individual is deemed resident in any territory producing part of that income. The Act establishes a priority system when multiple paragraphs could determine residence. The lowest-numbered applicable paragraph takes precedence. When residence determination requires revision and the initially assessing tax authority differs from the correct jurisdiction, the original authority must discharge its assessment. This prevents double taxation and ensures proper jurisdictional assignment.

Corporations sole or bodies of individuals (excluding families or communities) are deemed resident where their principal Nigerian office is situated on January 1st. Without a Nigerian office, residence is established in any territory where taxable income arises.

Family income faces taxation exclusively by the territory where the family member who customarily receives that income first in Nigeria habitually resides ^[32]. This provision recognizes traditional family structures while establishing clear jurisdictional boundaries. Income from trusts, settlements, estates, or executors is taxed only by the territory where the settlor or trust creator resides, subject to

limitations specified in the Fifth Schedule ^[33]. This provision follows the principle of taxing at the source of trust creation rather than where trustees operate.

These provisions create a comprehensive framework addressing virtually every conceivable residence scenario. The hierarchical structure prevents jurisdictional conflicts between states while ensuring no individual escapes taxation entirely. The rules balance practical considerations (like leave periods and temporary relocations) with the need for clear, enforceable tax jurisdiction. The emphasis on January 1st as the determination date provides certainty and administrative efficiency, though provisions for mid-year employment commencement demonstrate flexibility where needed.

Tax Rates PIT

The Nigeria Tax Act, 2025 has restructured the tax rate for personal income tax in Nigeria. The Act provides for a graduated and progressive tax rate. The rate for income tax on persons is as provided under section 58 and the fourth schedule to NTA. The rates are as follows:

First N800k @ 0%

Next N2.2m @15%

Next N9m @18%

Next N13m @21%

Next N25m @23%

Above N50m @ 25%

This has increased from what was available under the PITA regime. Under PITA, the rates are as follows:

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%

The implication of the change in rate is that there is now a progressive tax rate in Nigeria. This means that once an individual annual income is 20 million and above, such an individual will pay higher tax under the Nigeria Tax Act as compared to PITA. It is important to note that chargeable gains have now been consolidated in and is taxed as income tax. Thus, the regime of 10% flat rate under Capital Gains Tax Act is now replaced with graduated and progressive tax rate under the fourth schedule to NTA as reproduced above. This is one of the major changes introduced under NTA.

Exemptions, Deductions and Reliefs

This is another aspect touched by the new tax law reform Act. For the purpose of economic development, the NTA made some changes in the provisions of PIT exemptions, deductions and reliefs.

Exemptions

NTA unlike PITA has exempted the following income from personal income tax. First, NTA has reduced the scope of employment income of non-residents taxable in Nigeria to only those exercised in Nigeria, with exclusions for start-ups, shared services, technology-driven services and creative arts ^[34].

More broadly, NTA exempt from tax the profits accruing to, or gains from disposal of assets of:

- a. Consular fees received on behalf of a foreign State, or by a consular officer on behalf of the State, and the employment income of such officer, other than income

in respect of any trade, business, profession or vocation carried on by the officer or in respect of any other employment exercised by him in Nigeria.

- b. An income in respect of which tax is remitted or exempt under the provisions of the Diplomatic Immunities and Privileges Act or of any enactment, order or notice continued in force or effected by that Act;
- c. pension, gratuity or any retirement benefits granted in accordance with the Pension Reform Act;
- d. wound and disability pensions granted to members of the armed forces or of any recognised national defence organisation, or to a person injured as a result of enemy action;
- e. a sum received by way of death gratuities or as consolidated compensation for death or injuries;
- f. redundancy lump sum payment and other compensation of capital nature for loss of employment up to N50 million;
- g. income earned from bonds issued by a State or the Federal Government of Nigeria;
- h. emoluments of any person serving as other rank and other personnel serving in combat zones, hazardous areas or in designated operations, provided that where any other income accrues to the person, not being income by way of personal emoluments, that income shall be liable to tax under Chapter Two of this Act;
- i. dividend received from investments in wholly export-oriented businesses and dividend, interest, rent or royalty derived from outside Nigeria and brought into Nigeria through approved channels;
- j. income of a person from an employment where such person earns gross income of national minimum wage or less from such employment;
- k. Wages and salaries of military officers; and gains accruing to pension funds and assets approved under the Pension Reform Act,
- l. Gains of an individual from disposal of investment held as part of any national provident fund or other retirement benefits schemes established under the provisions of any Act or enactment for employees throughout Nigeria;
- m. Gains on the disposal of a decoration, awarded for valour or gallant conduct which a person acquires otherwise than for consideration in money or money's worth ^[35].

These exemptions reflect a deliberate policy shift under the NTA towards equity, competitiveness and targeted economic protection. The Act insulate welfare-related, low income, high-risk, and strategically important incomes from taxation. PITA's more revenue-centred approach, the NTA uses exemptions as a regulatory tool to promote social justice, investment attraction, and economic modernisation rather than mere tax relief.

Allowable Deductions

NTA has introduced a closed scope of deductions under the Nigeria tax regime. The WREN test is now replaced with the WE test. Under PITA expenses deductible were those Wholly, Reasonably, Exclusively and Necessarily (WREN) incurred in the course of the taxable income. NTA under section 20 has reduced this to Wholly and Exclusively (WE). The section as cited *in extenso* provides thus "there

shall be deducted all expenses for that period wholly and exclusively incurred in the production of the income..." The allowable deductions include:

- a. any sum payable by way of interest on debt employed in generating the income of the trade, business, profession or vocation, subject to the provisions of the Third Schedule to this Act;
- b. rent and premiums, incurred during that period, in respect of land or building occupied for the purposes of generating the income;
- c. any outlay or expenses incurred in respect of (i) salary, wages or other remuneration paid to employees, and (ii) cost to the company (for businesses) of any benefit or allowance provided to its employees;
- d. any expense incurred for repair of premises, plant, machinery or fixtures employed in acquiring the income, or for the renewals, repair or alteration of any implement, utensil or articles so employed;
- e. any amount of expenditure incurred for establishing, preserving or defending title to or rights over an asset;
- f. any contribution to any staff pension, provident or other retirement benefits fund, society or scheme approved under the Pension Reform Act or any similar enactment in Nigeria;
- g. any expense proven to the satisfaction of the relevant tax authority to have been incurred, being damage to, or loss of stock or inventory of the trade, business, profession or vocation;
- h. bad or doubtful debts incurred in the course of a trade or business, notwithstanding that the debts were due and payable before the commencement of the basis period, being (i) debts becoming bad during the said basis period other than bad debt incurred in respect of transaction with a related party, or (ii) doubtful debts estimated in accordance with generally acceptable accounting principles and to the extent that it is proven, to the satisfaction of the relevant tax authority, that the debts in respect of which a deduction is claimed were incurred in the course of the company's business operations that produced the assessable profits;
- i. any expense incurred by the trade, business, profession or vocation on research and development for the period;
- j. any other expense incurred during any previous period for the purpose of such trade or business, or specifically for the period which the profits are being ascertained, provided that any expenditure incurred within six years prior to commencement of business which would have been deductible if incurred after commencement of business, shall be deemed to have been incurred on the first day of commencing the trade or business;
- k. dividends or mandatory distributions made by a real estate investment company duly approved by the Securities and Exchange Commission, to its shareholders;
- l. compensating payments made by a lender to its approved agent or a borrower in a regulated securities lending transaction, which qualify as interest under section 4 (6) (a) (ii) of this Act; or
- m. any expense incurred by a person on assistive devices and disability related products including hearing aids, wheelchairs, and braille materials.

The exhaustive list on allowable deductions in section 20 above curtails discretionary claims, limits aggressive tax

planning, and enhances certainty and administrability, albeit at the cost of reducing taxpayers' ability to deduct commercially reasonable but statutorily unlisted expenses. In addition, there are statutory deductions. These include "payments made by the individual in a year of assessment in respect of"

1. the individual's contributions under the National Housing Fund,
2. the individual's contributions under the National Health Insurance Scheme,
3. the individual's contributions under the Pension Reform Act,
4. interest on loans for developing an owner-occupied residential house,
5. annual amount of any annuity or premium paid by the individual during the year preceding the year of assessment 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

The Act has eliminated the Consolidated Relief Allowance (CRA) and introduces a rent relief ^[36]. RRA 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 ^[37]. The implication from this is that individuals that live in their own accommodation cannot claim such relief.

Deductions not Allowed.

The following are not allowable deductions under NTA ^[38]. These include capital repaid or withdrawn from a trade, business, profession or vocation; (b) any expenditure of a capital nature; (c) domestic or private expense, or expenditure on assets not used for the purpose of trade, business, profession or vocation; (d) any sum recoverable under an insurance or contract of indemnity; (e) taxes on profit or incomes levied in Nigeria or elsewhere; (f) any payment to a savings, widows and orphans, pension, provident or other retirement benefit fund, society or scheme not approved under the Pension Reform Act or any similar enactment in Nigeria; (g) depreciation or impairment of any fixed asset, investment or an unrealised exchange difference on any item denominated in foreign currency; (h) any sum reserved out of profits subject to the provisions of section 20 (j) of this Act; (i) any payment to a connected person that is not consistent with the Transfer Pricing Regulations issued by the Service; (j) any expense incurred in deriving an income that is exempt from income tax; (k) any expense allowable as a deduction in determining chargeable gains under this Act; (l) penalty or fine imposed under any law; (m) any tax or penalty borne on behalf of another person; (n) any compensating payment made by a borrower, which qualifies as dividends under this Act, to its approved agent or to a lender in a regulated securities lending transaction.

This comprehensive list ensures that only genuine expenses incurred in generating taxable income can reduce tax liability, while preventing abuse through capital transactions, non-compliance, or personal expenses.

Assessment of PIT

Tax administration is "the process of assessing and collecting taxes from taxable individuals and companies by

relevant tax authorities in such a way that correct amount assesses is collected with minimum tax avoidance or tax evasion ^[39].” Under the Nigerian tax system, the role of administering personal income tax is vested in the state internal revenue services ^[40]. However, the Nigeria Revenue Service is empowered to administer income tax on persons employed in the Nigerian Army, the Nigerian Navy, the Nigerian Air Force, the Nigeria Police Force, other than in a civilian capacity, officers of the Nigerian Foreign Service, non-resident persons who derive profit or income from Nigeria or any income derived from employment in Nigeria by a person, not being a resident of any State in Nigeria ^[41]. The Nigeria Tax Administration Act 2025 is the tax reforms Act that provides for the jurisdiction of tax authorities, procedures for filing returns, assessment, payments of taxes. the Act also provides for enforcement, offences and penalties for breach of provisions of the tax reforms laws.

The basic mode of assessment of personal income tax in Nigeria under NTAA is self-assessment. Government assessment only comes when there is failure or lateness in compliance with filing of returns or where the information declared and filed by the taxpayer is found to be incorrect or fraudulent. Section 13 of NTAA provides that

A return of income shall be filed, in the prescribed form, with the relevant tax authority in each year of assessment and without notice or demand, by — (a) every taxable person whether or not liable to pay tax; and (b) non-resident persons liable to pay tax in Nigeria under Chapter Two of the Nigeria Tax Act ^[42].

Subsection 2 of section 13 goes further to say that ‘the return required to be filed under this section shall contain – (a) a duly completed self-assessment form; (b) the amount of income from every source for the year preceding the year of assessment computed in accordance with the provisions of the Nigeria Tax Act or any regulation made under to the Act; (c) personal relief and tax computation; (d) in the case of income earned from trade, business, profession or vocation, an audited financial statement or a statement of accounts attested to by the taxpayer; and (e) evidence of payment of the tax due”.

These are the statutory provisions that guarantee self-assessment. Upon receipt of the return in prescribed form, the relevant tax authority may: (a) accept the tax return without making an additional assessment, accept the tax return and make additional assessment; or (c) reject the tax return and, to the best of its judgement, determine the amount of the tax due from the taxable person and make an assessment accordingly ^[43]. The implication is that where a taxable person fails to deliver the return or fails to deliver it within the prescribed time, the relevant tax authority shall use its discretionary judgment to assess the person, but that assessment shall not affect any liability otherwise incurred by such person by reason of his failure or neglect to deliver a return.

Again, where income records are inadequate as in the case of presumptive regime under section 29 of NTA or where the true amount of the assessable profit cannot be readily ascertained, the relevant tax authority may, in the case of “(a) a resident, assess and charge that taxable person on such fair and reasonable percentage of the gross income from the trade or business as the relevant tax authority may determine; or (b) a non-resident, the profits shall be any amount resulting from applying the profit margin of the person to the turnover generated from Nigeria”.

For PAYE, the law requires employers to file a return of the emoluments paid to its employee with the RTA. Section 14 of NTAA provides that “an employer shall file a return with the relevant tax authority for all emoluments paid to its employees, not later than 31st January of each year in respect of all employees in its employment in the preceding year”. NTAA further provides that “the returns shall disclose for each employee gross emoluments, including allowances and benefits in kind, total deductions, net emoluments and tax deducted”. Failure to deduct and remit the tax attracts an administrative penalty of 40% of the amount not deducted. Where the tax deducted is not remitted, such a person is liable to pay the amount deducted, collected or withheld but not remitted, 10% penalty per annum and interest at CBN rate. The Act also prescribe a three years imprisonment, or a fine not less than the principal amount plus 50% of the sum, or both where the person is convicted. This is a significant improvement from the old regime where the penalties were too insignificant to compel compliance ^[44].

Perhaps, a key change for strengthened compliance is the provision that “notwithstanding the provisions of subsection (1) of this section, an employee shall file an annual return of income from all sources, including employment income, in accordance with section 13 of this Act”. The implication of this provision is that, the traditional assumption that employees are automatically compliant once PAYE deductions are made by their employers is no longer sustainable. The law now re-characterises employees as independent taxpayers with a personal duty to make full and honest disclosure of income from all sources.

PIT Offences and Penalties

One of the changes introduced under the tax reforms law is the increase in administrative penalties. Section 100 of NTAA criminalises failure to register as a taxable person. Such a person is liable to a fine of N50,000 in the first month in which the failure occurs and N25,000 for each subsequent month in which the failure continues. Failure to file returns or filing an incorrect or incomplete returns attracts an administrative penalty of N100,000.00 in the first month in which the failure occurs; and N50,000.00 for each subsequent month in which the failure continues ^[45]. Where a taxpayer changes his address, cease carrying out business activities, he is to notify the relevant tax authority within 30 days. Failure to do so, he is liable to an administrative penalty of N100,000 for the first month and N5,000 for subsequent month. Failure to keep book of account to allow for easy ascertainment of your tax liability or upon request by the relevant tax authority, fails to provide any record or book account as an individual attracts administrative penalty of N10,000 ^[46].

The Effect of the NTA on the PIT

The exemption threshold shows that individuals earning the national minimum wage, annual gross income up to 1, 200, 000, which after deductions translate into about 800, 000 taxable income enjoy exemption for PIT ^[47]. Form the progressive tax rate, there is now a reduced PAYE tax for those who earn annual gross income below N20, 000, 000. With the top marginal PIT rate at 25%, higher income earners whose annual gross income is from N20 million and above will face increased liabilities ^[48].

NTA has also clarified the rule on residency. This used to be a serious administrative challenge under the old regime. There is now a clear definition of residency. For instance, those who are on leave are now assigned residency definition. The implication is that Individuals on international assignment who qualify as Nigerian tax resident would be taxable on their worldwide income.

Similarly, the reform has abolished the CRA relief. The only available relief an individual tax payer is now entitled to is the rent relief allowance which is either the lower of N500, 000 or 20% of the rent with a proviso for proof where necessary. Unlike CRA that is universal and automatically applied to every individual taxpayer, RRA is conditional and applies only to individuals who incur and can actually substantiate rental costs. The implication is that landlords and employees who stay in staff quarters or share apartment may not be able to claim this relief. Thus, RRA is a more targeted and expense-linked deduction.

Deductibility rules have also been narrowly defined to address the issue of expansive interpretation where individuals misused the rule under former regime. Under section 20 of NTA, only expenses wholly and exclusively incurred in the production of the income to be taxed.

There is also a major shift to digitalisation. Employers are not to file PAYE returns electronically. This is part of a broader toolkit for digitalisation and automation of tax processes in Nigeria. There are administrative penalties for non-compliance.

Again, the reforms have launched a system of streamlined payroll deductions, remittance timelines and record-keeping across the states in Nigeria. Already states are domesticating the reforms laws. There is now increased demand for and importance of tax ID. All employees and taxable persons are to register and obtain a valid Tax ID. It is now a requirement for entering into a contract with any federal or state ministry, department or agency and local government ^[69].

For tax authorities, the reforms offer them a platform for effective tax administration. The increase use of digitalisation and reporting obligations will enhance their access to quality taxpayer data, reduce the cost of compliance and subsequently improve the quality of revenue generation.

Conclusion

The Nigeria Tax Reforms laws present a paradigm shift in the administration of PIT in Nigeria. The reforms have harmonised and consolidated the rules on PIT. This has addressed the challenges associated with PITA regime. Such challenges like outdated tax provisions, multiplicity of tax rules, complexity of tax processes and inequities in PIT rate. The tax reforms have introduced a more progressive tax rate structure, clearly defined residency framework and narrowed the scope for allowable deductions and reliefs. Similarly, the reforms promote compliance through strengthened administrative penalties, mandatory annual returns for all employees and a digitalised reporting and assessment mechanisms. To reap the fruits of the reforms, the following are recommended:

a. First, the reforms are largely at the centre. State governments must also reform their tax administrative systems. Nuisance taxes and levies are majorly administered at state and local levels. To this end, if corresponding reforms to consolidate and harmonise taxes and administrative rules at state level, the solution

offered under the 2025 tax reforms will be halfway. Some states have domesticated the reform laws, others must swiftly join.

- b. There is a wide knowledge gap about the reforms. RTAs at all level of the government should invest in a robust taxpayer education to ensure individuals and businesses understand the new rules, rates, deductions and compliance obligations.
- c. RTAs especially NRS must invest in training and capacity building for their staff. The ambitious provisions for digitalisation and increased data sharing imperatives and broadened tax net must be matched with readiness and technical competency.
- d. The adoption of digitalisation in tax administration must be complemented with well-built and sustainable infrastructure. These digital systems rely heavily on energy, telecommunication infrastructures. The government must invest in these infrastructures and systems for optimal performance and real time administration.
- e. Finally, all tax authorities must collaborate closely to ensure proper jurisdictional application, minimise disputes and prevent double taxation.

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21. Section 3, NTA 2025
22. Emphasis supplied

23. *Skye Bank Plc v K.S.I.R.S.* (2021) 12 N.W.L.R. (Pt. 1789) 27
24. *Ecodrill (Nig.) Ltd. v. Akwa Ibom Board of Internal Revenue* (2015) 11 NWLR (Pt. 1470) 303 AT 336, PARAS C-F
25. Foreign employment means an employment the duties of which are wholly performed outside Nigeria save during any temporary visit of the employee to Nigeria or performed or exercised in Nigeria for a foreign employer.
26. Nigerian employment means any employment, not being a foreign employment, the duties of which are wholly or partly performed in Nigeria
27. Paragraph 2,12 schedule to NTA
28. NTAA 2025, s. 3(1)(a)(iv)
29. *Ibid.*, par. 4 & 5.
30. "Nigerian pension" means a pension in respect of past service under, and payable by, a resident person or a government in Nigeria
31. Earned income" in relation to an individual, means income derived by him from a trade, business, profession, vocation or employment earned on or exercised by him and a pension derived by him in respect of a previous employment
32. n.29., para.6,7,8,9 & 10
33. The schedule makes provisions for tax treatment of income from settlements, trusts and estates
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