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Olukolade Ehinmosan,[1]

NIGERIAN TAX ISSUES

UNDERSTANDING THE TAXATION OF INCOME OF EMPLOYEES UNDER THE TAX REFORM ACTS

Background

The recent tax reform laws have significantly reshaped how employees' income is taxed in Nigeria, introducing new bands and reliefs, and clarifying existing ones to promote economic fairness and tax compliance. Beyond the general computation of total and chargeable income, the reforms place strong emphasis on allowable deductions and reliefs to reduce an employee's tax burden and encourage socially beneficial contributions such as pension savings, health insurance, and home ownership.

For employees, understanding these reliefs goes beyond mere curiosity; it directly affects how much tax is ultimately payable and the quantum of disposable income. From pension and life insurance deductions to housing and rent reliefs, the new legal framework under the *Nigeria Tax Act* 2025 sets out what qualifies and how each relief should be applied.

This article explores the income tax reliefs available to employees under the new tax regime, explaining their legal basis, conditions for eligibility, and practical impact on take-home pay.

Total Income

An employee's total income is determined on a yearly basis, after which the monthly equivalent is computed for compliance with the Pay-As-You-Earn (PAYE) regime. Under the new tax reform laws, an employee's total income for any year of assessment is the taxable income less total deductions.

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[1] **Associate, Tax, Real Estate, and Succession, SPA Ajibade & Co., Lagos, Nigeria.**

This naturally raises two important questions:

What is taxable income? And what constitutes “total deduction”?

Taxable Income and Total Deduction

For employees, taxable income refers to all income earned from employment, including salaries, wages, bonuses, commissions, and other employment-related benefits.

Unlike individuals engaged in business or professional practice, employees generally do not incur business or professional losses and are not entitled to capital allowances. Consequently, an employee’s total income is usually equivalent to their taxable income before the application of allowable reliefs or deductions.

Chargeable Income

An employee’s chargeable income is the amount remaining after subtracting all eligible deductions from total income. The law recognizes the following as eligible deductions:

a. National Housing Fund (NHF) contributions;

b. National Health Insurance Scheme (NHIS) contributions;

c. Pension Reform Act contributions;

d. Interest on loans obtained for the development of an owner-occupied residential house (including mortgage interest on qualifying buildings);

e. Annual amount of any annuity or premium paid by an employee during the year before the year of assessment whether on the employee’s life or that of a spouse; and

f. Rent relief of 20% of annual rent paid, subject to a cap of ₦500,000 (five hundred thousand Naira), provided that the rent and other relevant details are truthfully declared to the internal revenue service of tax residency.

It is important to note that eligible deductions are only claimable in writing, and in the form prescribed by the relevant tax authority.

Conclusion

The new tax reform laws have been regarded in some parts of the public domain as a reaffirmation of the government’s commitment to easing the tax burden on employees through targeted reliefs that promote social welfare, savings, and home ownership. Understanding how these reliefs operate, and applying them correctly, ensures that employees pay only what is truly due, while also taking full advantage of lawful tax benefits.

However, the key to enjoying these reliefs lies in diligent record keeping. Employees must retain accurate documentation as evidence to support their claims, including but not limited to

pension statements, NHF and NHIS contribution slips, mortgage interest schedules, rent agreements and receipts, and insurance premium records.

By maintaining complete and verifiable records, employees not only safeguard their entitlement to these reliefs but also contribute to a transparent and compliant tax environment.

Stay tuned to our internet publishing space for our next article in this tax reform series.

For further information on this article and the area of law,
please contact **Olukolade Ehinmosan**
at S. P. A. Ajibade & Co., Lagos by
Telephone (+234.1.270.3009; +234.1.460.5091),
Fax (+234 1 4605092)
Mobile (+234.810.370.8623, +234.815.086.5646)
Email: oehinmosan@spaajibade.com
www.spaajibade.com