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Finance Act 2020; Your PAYE Tax May Increase

Amongst other tax laws, the Finance Act 2020 introduced changes to the Personal Income Tax Act (PITA). With the changes introduced, have you considered how your salary and PAYE tax will be impacted? It is important to note that Section 20 of the Finance Act 2020 substituted Subsections 2 & 3 of Section 33 of the PITA with a new Subsection 2, which provides for a new definition of gross income for the purpose of computing the Consolidated Relief Allowance (CRA) as follows;
Gross income means "income from all sources less all non-taxable income, income on which no further tax is payable, tax-exempt items listed in paragraph (2) of the Sixth Schedule and all allowable business expenses and capital allowances."

Implications of the Amendment

By implication, any non-taxable income, franked investment income, allowable business expenses, capital allowance and any tax-exempt item listed in paragraph (2) in the Sixth Schedule of PITA such as contributions by employee to the National Housing Fund Scheme (NHF), National Health Insurance Scheme (NHIS), Life Assurance Premium and National Pension Scheme (Pension) will now be deducted from the gross income before the calculation of the CRA. CRA is the higher of 1% of gross income and N200,000 plus 20% of gross income.

Based on this amendment, PAYE would now be computed as follows;

PAYE Computation			
	₦	₦	₦
Basic Salary			5,400,000
Housing Allowance			2,700,000
Transport Allowance			1,620,000
Medical allowance			540,000
Utility			270,000
Entertainment			270,000
Gross Emoluments (a)			**10,800,000**
Less: Tax exempt items			
Pension Contribution		864,000	
NHF Contribution		135,000	(999,000)
Gross Income			**9,801,000**
Deduct: Relief and exemption			
Consolidated relief allowance; higher of;			
1% of gross income	*98,010*		
Fixed allowance	*200,000*	200,000	
Plus;			
20% of Gross income		1,960,200	
Consolidated relief allowance (b)			**2,160,200**
Pension Contribution **(c)**			864,000
NHF Contribution **(d)**			135,000
Chargeable income (a-b-c-d)			**7,640,800**
Tax payable (e)			**1,625,792**
Annual Net Pay (f)=(a-c-d-e)			**8,175,208**

Key takeaway

The changes highlighted above is effective from 1 January 2021. Hence, employers are to take note of these changes when computing January 2021 PAYE for their employees. Where January salaries have already been paid without taking into consideration these amendments, employers should ensure that adjustments are made for January's PAYE tax from salaries to be paid in the subsequent months. Should you require further clarifications with regards to these new changes, please contact us at Mazars Nigeria.

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