

WHAT YOU MUST KNOW
ABOUT THE **DEDUCTION**
OF TAX AT SOURCE
(WITHHOLDING)
REGULATION 2024





The Deduction of Tax at Source (Withholding¹) [Regulation, 2024](#), was issued by the Federal Ministry of Finance, on July 1, 2024. It stipulates the rules for deducting taxes from payments to taxable persons in specified transactions. This article highlights relevant provisions of the Regulation.

1 Persons Who Must Deduct Tax at Source²

These entities are required to deduct tax at source:

- I. All corporate and unincorporated bodies
- II. Government & MDAs (Ministries, Departments, and Agencies)
- III. Statutory bodies and public authorities
- IV. Any other institution, establishment or enterprise including those exempted from tax
- V. Payment agents who act on behalf of these entities must also deduct tax at source.

Small companies or unincorporated entities with a gross turnover of 25 million Naira or less are also exempted if:

- I. The supplier has a valid Tax Identification Number (TIN); and
- II. The value of the specified transaction is less than N2,000,000.³

2 Time to Deduct and Remit⁴

- I. Previously, there was no specific time to make deductions,⁵ except for passive incomes, which were deducted when the payment was made or credited.⁶ Now, deductions must be made at the earlier of these events: when payment is made, when the amount due is settled or when the liability is recognised (for related parties).
- II. Remittances to the Federal Inland Revenue Services (FIRS) shall be due on or before the 21st day of the month after the payment.⁷
- III. Deductions payable to any State Internal Revenue Service (SIRS) with respect to Capital Gains Tax and Pay-As-You-Earn (PAYE) must be remitted on or before the 10th day of the month following the payment. All other deductions must be made on or before the 30th of the next month after the payment.⁸

For example, previously, PAYE deductions were made from employees' salaries and remitted at the employer's convenience.⁹ Now, PAYE must be deducted when salaries are paid and remitted to the SIRS on or before the 10th day of the following month.

¹Afterwards referred to as WHT

²Paragraph 2 of the Deduction of Tax at Source (Withholding) Regulation 2024 (Afterwards referred to as The Regulation)

³Paragraph 2(a) of the Regulations, Section 105 of the Companies Income Tax Act

⁴Paragraph 4 of the Regulation

⁵Section 81 of the Companies Income Tax Act and Personal Income Tax Act and Section 25 of the Capital Gains Tax Act (Afterwards referred to as the CITA, PITA and CGTA respectively)

⁶Sections 78(1), 79(1) and 80(1) of the CITA and Sections 69(1), 70(1), 71(1) and 72(1) of the PITA

⁷Paragraph 5 of the Regulation

⁸Paragraph 5 of the Regulation

⁹Section 81 of PITA only stipulates that, as directed by the tax authority, employers shall deduct the applicable income tax of employees from their emoluments. Additionally, employers must file a return of all emoluments paid to employees with the relevant tax authority by January 31st each year for the preceding year.



3 Tax Rate¹⁰

The Regulation introduced more diversified tax rates and expanded the scope for transactions where WHT applies. Notable changes include:

- I. Increased WHT rate for resident individual directors from 10% to 15%.
- II. Reduced the WHT rates on consultancy, management, technical, commission and professional fees and construction of roads, bridges, buildings and power plants by resident companies.
- III. Introduced WHT for new transactions such as co-location and telecommunication tower services, brokerage fees, constructions and related activities other than construction of roads, bridges, buildings and power plants, supply of goods or materials other than by the manufacturer or producer,¹¹ compensation for loss of employment, entertainment and sportspersons, winnings from lottery, gaming,¹² reality shows, and supply or rendering of services not listed.¹³

Also, note that, for non-resident companies with Double Taxation Treaties (DTT) with Nigeria, the WHT rate will be the lower between the rates specified in the DTT or the Regulation.¹⁴

Please find all rates below.

Transactions	Corporate Recipients- Resident	Corporate Recipients- Non-resident	Non Corporate Recipients- Resident	Non Corporate Recipients- Non-resident
Dividend, Interest	10%	10%	10%	10%
Royalty	10%	10%	5%	5%

¹⁰ Paragraph 1 of the Regulation and the First Schedule to the Regulation

¹¹ Goods manufactured or materials produced by the person making the supply are exempted from WHT

¹² Winnings from a game of chance or a reality show with content designed exclusively to promote entrepreneurship, academics, technology or scientific innovations are exempt from WHT.

¹³ First Schedule to the Regulation

¹⁴ Paragraph 1(b) of the Regulation

Rent, Hire or Lease.	10%	10%	10%	10%
Commission, Consultancy, Technical, Management, and Professional Fees	10%	10%	10%	10%
Supply of goods or materials other than by the manufacturer or producer	2%	N/A	2%	N/A
Co-location and telecommunication tower services	2%	5%	2%	5%
Supply or rendering of services other than those specifically listed in this in this schedule	2%	5%	2%	5%
Construction of road, bridges, buiding and power plants	2%	5%	2%	5%
Any other form of construction and related activities	5%	10%	5%	10%
Brokerage fee	5%	10%	5%	10%
Directors' fees	N/A	N/A	15%	20%
Compensation for loss of employment	N/A	N/A	10%	10%
Entertainers and sportspersons	N/A	15%	N/A	15%
Winnings from lottery, gaming, reality shows, etc.	N/A	N/A	5%	15%



4 Penalties and Compliance

- I. **Persons without Tax Identification Number (TIN):** If goods or services or any eligible transaction involving non-passive income¹⁵ are provided without a TIN, the tax deducted at source will be twice the specified rate.¹⁶
- II. **Failure to Deduct or Remit:** If an entity fails to deduct WHT or remit the deductions to the relevant authority, it shall pay the tax not deducted or remitted, in addition to a penalty assessed at 10% of that tax not deducted or remitted, with interest at the prevailing CBN rate. For remittances to the FIRS, these penalties apply in addition to a potential imprisonment of up to 3 years.¹⁷
- III. **Administrative Penalties:** Additional penalties apply for deducting but failing to remit,¹⁸ and for paying the deduction amount directly to a taxable person.¹⁹

5 Exemptions from WHT²⁰

The following transactions are exempt from WHT, but this does not exempt them from other relevant income taxes unless specified by law.

- I. Compensating payments under a Registered Securities Lending Transaction
- II. Across-the-counter transactions
- III. Interest and fees paid to a Nigerian bank by way of direct debit of funds which are domiciled with the bank
- IV. Distributions or dividends to a Real Estate Investment Trust or Real Estate Investment Company
- V. Goods manufactured or materials produced by the supplier
- VI. Imported goods supplied by non-residents without a taxable presence²¹
- VII. Income or profits exempted from tax
- VIII. Out-of-pocket expenses normally expected to be incurred by the taxable person distinct from contract fees
- IX. Insurance premiums
- X. Winnings from a game of chance or a reality show that exclusively promotes entrepreneurship, academics, technology or scientific innovations
- XI. Supply of Liquefied Petroleum Gas (LPG), Compressed Natural Gas (CNG), Premium Motor Spirits (PMS), Automotive Gas Oil (AGO), Low Pour Fuel Oil (LPFO), Dual Purpose Kerosene (DPK), and JET-A1.

¹⁵Non-passive incomes are earnings that come from active involvement in work or business activities. For example, wages and salaries, bonuses, commissions, self-employment income etc.

¹⁶Paragraph 1(c) of the Regulation

¹⁷Paragraph 7(1) of the Regulation, Section 40 of the FIRS (Establishment) Act, Section 74 of the Personal Income Tax Act

¹⁸Paragraph 7(3) of the Regulation

¹⁹Paragraph 7(2) of the Regulation

²⁰Paragraph 8 of the Regulation

²¹Non-Resident Companies/Individuals with significant economic presence in Nigeria and whose profits can be attributed to business activities carried out in Nigeria are said to have a Taxable presence in Nigeria.



6 Other Notable Points

- I. WHT deducted from payment is not a separate tax and should not be treated as an additional transaction cost.²²
- II. WHT deducted from payments to non-residents shall be the final tax except where the income is liable to additional tax due to the taxable person's presence in Nigeria.²³
- III. Entities who deduct WHT must issue a receipt to the taxable persons. These receipts serve as proof of deduction for tax credit claims. Beneficiaries will receive credit regardless of whether it was remitted, as long as a receipt was issued.²⁴
- IV. Deductions on winnings from lottery, gaming, reality shows, etc. would take effect from October 1, 2024, while all other deductions have been implemented.²⁵

Summary

The Deduction of Tax at Source (Withholding) Regulation 2024 introduces comprehensive updates to compliance, transparency, and efficiency in tax administration. The regulation clarifies who must deduct WHT and the specific time frames for deductions and remittances. Stakeholders are encouraged to familiarise themselves with the new requirements and comply accordingly to avoid penalties.

For more information, please reach us at cosec@topeadabayolp.com

²²Paragraph 3 of the Regulation
²³Paragraph 4.3 of the Regulation
²⁴Paragraph 6 of the Regulation
²⁵First Schedule to the Regulation

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