

Withholding Tax in Nigeria: A Comprehensive Guide

This guide thoroughly explains withholding tax (WHT) in Nigeria, catering to resident and non-resident companies (NRCs). Understanding WHT is crucial for ensuring compliance and avoiding potential penalties.

What is Withholding Tax (WHT)?

WHT acts as an advance payment of income tax on specific transactions in Nigeria. When a Nigerian resident company or individual makes certain payments, they must deduct a portion of the payment as WHT. This withheld amount is then remitted to the Federal Inland Revenue Service (FIRS) on behalf of the recipient.

Who is Involved in WHT?

- **Payer:** The entity responsible for collecting and filing WHT. This can be businesses, individuals, or government agencies.
- **Resident Payer:** A Nigerian company or individual making a payment.
- **Recipient:** The entity receiving the payment, which could be a resident company, individual, or a non-resident company (NRC).

Who is Exempt from Withholding WHT (as of July 2024)?

- **Small Businesses:** Defined by the FIRS based on annual turnover not exceeding N25 Million
- **Farmers:** Engaged in agricultural production.
- **Manufacturers:** Involved in the physical transformation of materials into finished goods.

Transactions Subject to WHT:

- Payments to suppliers (resident or non-resident) for goods or services
- Rent payments to landlords (resident or non-resident)
- Dividends paid to shareholders (resident or non-resident)
- Consultancy fees (resident or non-resident)
- Management fees
- Directors' fees
- Royalties

WHT Rates:

The WHT rate varies depending on the transaction type and recipient status (resident or non-resident). Here's a breakdown:

Transaction	Resident Recipient	Non-Resident Recipient (Unless Significant Economic Presence Applies)	Non-Resident Recipient (With Significant Economic Presence)
Consultancy fees	N/A	10%	May be exempt
Consultancy fees (individuals)	N/A	5%	May be exempt
Others (rent, management fees, directors' fees, dividends, royalties)	Varies	10%	May be exempt

Non-Resident Companies (NRCs): Special Considerations

NRCs with a Significant Economic Presence (SEP) in Nigeria are subject to full corporate income tax (CIT) filing and may be exempt from WHT depending on the income type. SEP is established if the NRC:

- Carries on business in Nigeria through a dependent agent
- Derives profits from Nigeria for a period exceeding 183 days in 12 months
- Undertakes specific activities like executing a contract, exploration, or extraction of minerals

NRC Obligations (Even with WHT Deduction):

- Register for WHT with FIRS (if SEP applies)
- File WHT Returns with FIRS (if SEP applies)



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WHT Deduction and Remittance by Resident Payer:

- Calculate and Deduct WHT at the appropriate rate.
- Issue a WHT Deduction Certificate to the recipient.
- Remit the deducted WHT to FIRS within 21 days of the deduction month.

Claiming Credit for Withheld Tax (NRCs):

If an NRC establishes SEP and becomes liable for full CIT filing, the WHT already deducted on Management, Consultancy, Professional, and Technical Services (PCMT) can be claimed as a credit against their final CIT liability. However, WHT on other income types (dividends, royalties, interest) is considered final tax and cannot be offset.

Compliance and Penalties:

Failure to comply with WHT regulations can lead to penalties for both the NRC and the resident payer.

Seeking Professional Advice:

Navigating withholding tax can be challenging, especially for NRCs with SEP or complex situations. Adroit Advisors, a trusted tax expert, can help ensure compliance and minimize risks.



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