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Abstract

Tax is a levy imposed and administered by the different tiers of government in Nigeria. There are several methods of tax administration in Nigeria one of which is the Withholding tax system. Withholding tax is not another type of tax but the deduction of tax at source from payment made in certain transactions to a taxable person from the supply of goods or services. Withholding Tax (WHT) is one of the most effective tools for curbing tax evasion and ensuring early collection of revenue in Nigeria. The Withholding Tax system is a veritable source of revenue to government. It enhances the collection efforts of tax authorities and it is an advanced method of income tax payment. The enactment of the Nigeria Tax Administration Act, 2025, Nigeria Tax Act, 2025 and Deduction of Tax at Source (Withholding) Regulations 2024 represents a significant reform aimed at harmonizing tax administration, enhancing compliance, and strengthening the country's fiscal system. This paper examines the administration of withholding tax under the New Tax Reform Acts and the Deduction of Tax at Source (Withholding) Regulations 2024, highlighting its legal framework, institutional arrangements, and procedures for deduction and remittance. To this end this research examined the legal regime for the administration of withholding tax in Nigeria. The study adopted doctrinal method of legal research which includes both primary and secondary sources of data. The primary data includes: statutes and case laws while the secondary data includes: legal textbooks, online articles, journals among others. The study found that withholding tax was introduced to curb tax evasion by allowing payment to be deducted at source and remitted to the appropriate tax authority - Federal or State Board of Internal Revenue within 21 days after the end of the month the transaction was made. It further analysed the major challenges hindering efficient administration, including non-remittance, overlapping jurisdiction between Federal and State authorities, limited automation, and poor taxpayer awareness. The study concluded that although the 2025 Act has introduced progressive measures such as digital remittance, unified taxpayer identification, and stricter penalties, effective implementation depends on robust institutional capacity, inter-agency coordination, and sustained taxpayer education.

Keywords: Tax, Tax Administration, Withholding Tax, Challenges and Nigeria

1. Introduction

Taxation is a vital instrument for economic development and fiscal sustainability in every modern state. In Nigeria, the Withholding Tax (WHT) system was introduced to strengthen tax compliance, minimize evasion, and ensure a steady inflow of government revenue. The New Nigerian Tax Reform Acts, Deduction of Tax at Source (Withholding) Regulations 2024 alongside the Companies Income Tax Act (CITA) and Personal Income Tax Act (PITA) as amended, provides the legal framework for the administration, deduction, and remittance of withholding tax. The system operates on the principle of

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collecting tax at source - that is, tax is deducted from certain payments before the payee receives the net amount.

Taxation plays a vital role in the economic development of every nation, serving as a major source of government revenue. In Nigeria, the Withholding Tax (WHT) system was introduced as a mechanism to enhance tax collection efficiency and minimize tax evasion. It operates by requiring certain payers-known as withholding agents-to deduct tax at source from payments made to individuals or companies for specific transactions such as contracts, rents, dividends, interests, and professional fees. The deducted amount is then remitted to the relevant tax authority as an advance payment of income tax. The administration of withholding tax under the Nigeria Tax Act, 2025, involves several institutional actors including the Federal Inland Revenue Service (FIRS), State Boards of Internal Revenue (SBIRs), and designated withholding agents. Despite the importance of the system in ensuring tax efficiency, its administration continues to face challenges such as weak compliance, non-remittance, and administrative inefficiencies. This paper examines the framework for administering withholding tax under the Nigeria Tax Act, 2025, the roles of the key institutions involved, and the major issues affecting its effectiveness.

2. Conceptual Clarification

For the purpose of this research study, an attempt will be made at defining the following concepts:

2.1 Tax

There is no legislative definition for tax. That is, there is no definition of tax in all our laws relating to tax. Thus, we shall only rely on the available definitions. Although the word taxation is sometimes misconstrued as it is used interchangeably with levy or charge⁵. However, definitions of tax have been proffered in some decided cases, similarly some scholars have given their opinion on what tax is. This research will take these definitions accordingly. In the Australian case of *Mathews v Chicory Marketing Board*⁶ tax was defined as ‘a compulsory exaction of money by a public authority for public purpose or raising money for the purpose of government by means of contributions from individual persons.’ One of the simplest definitions of tax is the one offered by the New Webster Dictionary of the English Language. It describes ‘tax’ simply as “a charge imposed by governmental authority upon property, individuals or transactions to raise money for public purposes”.⁷ The Black’s law Dictionary defines it as “monetary charge imposed by the government on person’s entities or property, levied to yield public revenue.”⁸ A tax may be direct or indirect. It is direct where it is levied on the person who is intended, should pay the tax. This is usually the case in the taxation of income, for example companies’ income tax and personal income tax are direct taxes. It is indirect if the levy is imposed on one person who pays with the expectation to pass the burden unto third parties. Custom duties and value added tax are example of indirect taxes because the levy imposed by the government is factored into the price of the item upon which they are levied and passed unto the consumer.⁹

2.2 Withholding Tax

Withholding tax is not a type of tax¹⁰ on its own, it suffices to say that it is the deduction of tax at source from payment made in certain transactions to a taxable person from the supply of goods or services.¹¹ It can

⁵ T A Muhammed, *Revenue Law and Practice in Nigeria* (3rd Edition, Lagos: Malthouse, 2015) 1.

⁶ (1938) 60 CLR 263.

⁷ M Webster, *The New Webster's Dictionary of the English Language* (International Edition, USA: Delair Publishing Co. 1993) 1064.

⁸ B A Garner, *Black's Law Dictionary* (8th edition, USA: West Publishing Co. 2004) 1500.

⁹ Federal Inland Revenue Service (FIRS), *A Comprehensive Tax History of Nigeria* (Ibadan: Safari books Ltd, 2012) 201.

¹⁰N Media, ‘Accounting for Withholding Tax Operation in Nigeria: Its Relevance and Adequacy (A Case Study of Federal Inland Revenue Service, Ilorin)’ < <https://www.academia.edu/resource/work/41736398> > accessed on 11th April 2025.

¹¹K Erikume, ‘The Corporate Withholding Tax (WHT) Administration System needs to be Overhauled’ < <https://www.pwc.com/ng/en/assets/pdf/withholding-tax-administration%20.pdf> > accessed on 11th April 2025.

also be a tax collection device that can be built into any type of tax.¹² Withholding tax is a tax collection mechanism used by governments worldwide to ensure that taxes are paid on income earned by individuals and businesses.¹³ According to Sage¹⁴ withholding tax is a tax deducted at source in Nigeria for certain types of income. It is applicable to both individuals and corporations involved in financial transactions. The tax is withheld by the payer and remitted to the tax authority. The purpose of withholding tax is to collect tax from income earned by non-residents or non-corporate residents. In Nigeria, withholding tax is deducted from various transactions, including dividends, interest, rent, royalties, and contract payments. The rates vary depending on the type of income and the taxpayer's status. The types of withholding tax in Nigeria are¹⁵:

1. Withholding Tax on Rent: This applies to rental income derived from real estate properties including residential or commercial properties. The rate for individuals and companies is 10%.
2. Dividend Withholding Tax: This applies to dividends paid by companies to their shareholders. The rate for individuals and companies is 10%.
3. Withholding Tax on Royalties: This applies to royalty payments made for the use of intellectual property. The rate for individuals is 5%, while it is 10% for companies.
4. Withholding Tax on Interest: This is deducted from interest paid on loans, bonds, or deposits. The rate for individuals is 10%, while it is also 10% for companies.

2.3 Tax Administration

Black's Law Dictionary¹⁶ defined administration as; management or conduct of an office or employment; the performance of the exercise of duties of an institution, business or the likes in public law. Tax administration is the administration, management, conduct, direction and supervision of execution and application of revenue laws or related statutes or tax conventions. Tax administration includes assessment, collection, enforcement, litigation, publication and statistical gathering functions under such laws, statutes or convention. Tax administration is all about the machinery put in place to determine, monitor and enforce the collection of taxes by government of a country. To Kiabele¹⁷, tax administration is the process of assessing and collecting taxes from individuals and companies by the relevant tax authorities, in such a way that correct amount assessed is collected efficiently and effectively within minimum tax avoidance or tax evasion.

Ogbonna¹⁸ noted that, tax administration involves all the principles and strategies adopted by any government in order to plan, implore, collect, account and coordinate personnel charged with the responsibility of taxation. It also includes the effective use of tax revenue for efficient provision of necessary social amenities and other facilities for the tax payers. The core functions of a tax administrator include inter alia: registration of taxpayer, detection of non-registration and false registration, filing and processing of tax returns, withholdings and third party information, verification or examination of the correctness and completeness of received information (including audit activities), payment of tax due and interests, handling of administrative appeals and complaints, provision of service and assistance to taxpayers and detection and prosecution of tax fraud¹⁹. The administration of tax in Nigeria is vested in the various tax authorities depending on the type of tax under consideration. Such authorities are the Joint Tax Board, which is the apex

¹²N Media, 'Accounting for Withholding Tax Operation in Nigeria: Its Relevance and Adequacy (A Case Study of Federal Inland Revenue Service, Ilorin)' < <https://www.academia.edu/resource/work/41736398> > accessed on 11th April 2025.

¹³ K Erikume, 'The Corporate Withholding Tax (WHT) Administration System needs to be Overhauled' < <https://www.pwc.com/ng/en/assets/pdf/withholding-tax-administration%20.pdf> > accessed on 11th April 2025.

¹⁴ F Sage, 'Understanding Withholding Tax in Nigeria's Financial System' < <https://personalfinance.ng/withholding-tax-in-nigeria/> > accessed on 15th April 2025.

¹⁵ *ibid.*

¹⁶ *ibid.*

¹⁷ B D, Kiabele, *Principles of Taxation in Nigeria* (Owerri, Springfield Publishers 2011). 74

¹⁸ G N, Ogbonna and A, Ebimobowei, 'Impact of Tax Reforms and Economic Growth in Nigeria: A Time Series Analysis.' *Current Research Journal of Social Sciences* (2012)1-4

¹⁹ Dr. CJ Ubanyionwu and Uchenna Maryjane Anushiem, 'Curbing Corruption in Nigeria through effective Tax Administration', *African Journal of Constitutional and Administrative Law* [2019] 109-110

unifying body for all tax authorities in Nigeria.⁶ It is charged with the powers of assessment, collection of and accounting for all the taxes which the federal government is empowered to collect. The State Board of Internal Revenue in each State is another tax authority vested with the administration of tax in each state and the local government authorities in the state also has specific tax functions. It is the responsibility of these bodies to ensure that tax administration is strengthened in such a way that no leakage or loophole of collectible tax is allowed²⁰.

3. Administration of Withholding Tax under the Deduction of Tax at Source (Withholding) Regulations 2024

3.1 Transactions Subject to Withholding Tax

The transactions subject to withholding tax are stipulated under the Regulations²¹. The new Regulation included new categories of transactions. The transactions are as follows²²:

- (a) Dividend, interest, rent, and royalty (corporates);
- (b) Commission, management, technical, consultancy, and professional fees;
- (c) Contracts for the supply of goods or materials excluding supplies made by the manufacturers or producers, which shall not be liable to WHT;
- (d) Payments for co-location and tower services;
- (e) Contract sums for the construction of roads, buildings, power plants and bridges;
- (f) Contract sum for any other form of construction or related activities;
- (g) Brokerage fees;
- (h) Director's fee;
- (i) Amount earned by non-resident entertainers and sportspersons in Nigeria;
- (j) Winnings from lottery, gaming, and reality show;
- (k) Payment for the supply or rendering of services other than those specifically listed in the Regulation;
- (l) Compensation for loss of employment.

3.2 Transactions and Persons Exempted from making Deductions

In a bid to end the debate on what constitutes "ordinary course of business", the WHT Regulations 2024 has now replaced the WHT exemption for "sales in the ordinary course of business" with a clear enumeration of transactions that will not attract WHT.²³ The Regulations include the following as transactions exempted from WHT²⁴:

1. Goods manufactured or materials produced by the person making the supply. The Regulations define manufacturing/production to include the production of energy, including electricity, gas and petroleum products;
2. Compensating payments under a Registered Securities Lending Transaction;
3. Distribution or dividend payment to a Real Estate Investment Trust or Real Estate Investment Company;
4. Across-the-counter transactions, i.e. transactions carried out between parties without an established or prior contractual relationship and in which payment is made on the spot;
5. Interest and fees paid to a Nigerian bank by way of direct debits to accounts in the banks;
6. Out-of-pocket expenses normally expected to be incurred by the supplier distinguishable from contract fees;
7. Insurance premium;

²⁰ *ibid*

²¹ Deduction of Tax at Source (Withholding Regulation) 2024, first schedule.

²² *ibid*.

²³ A Nkwachi, I Ajayi, S Ayobami and O Tokunboh, 'An Overview of Withholding Tax Regulations 2024' < <https://www.grantthornton.com.ng/insights/Withholding-Tax-Regulation-2024/> > accessed on 29th May 2025.

²⁴ Deduction of Tax at Source (Withholding) Regulation 2024, reg 10.

8. Supply of Liquefied Petroleum Gas, Compressed Natural Gas (CNG), Premium Motor Spirits (PMS), Automotive Gas Oil (AGO), Low Pour Fuel Oil (LPFO), Dual Purpose Kerosene (DPK) and JET-A1;
9. Commission retained by broker from monies collected on behalf of principal in line with the industry norm;
10. Winnings from a game of chance or a reality show with contents designed to promote entrepreneurship, academics, and technological or scientific innovation;
11. Imported goods where the transaction does not create a taxable presence in Nigeria for the foreign supplier;
12. Any payment in respect of income or profit which is exempt from tax.

The Regulations reiterate that an exemption from WHT as set out above does not mean that the income is exempted from the relevant income tax, except where the income is also exempted from tax under the enabling statute. Persons exempted from deducting WHT on the other hand are²⁵:

1. Individuals
2. Small businesses and unincorporated entities (with turnover less than N25million per annum) are exempted from deducting WHT on the condition that their vendor has a valid TIN, and the value of the transaction is N2,000,000 or less during the relevant calendar month.²⁶ This is aimed at reducing the compliance obligation on small companies. Where these conditions are not met, the small company/unincorporated entity making the payment will need to deduct the tax at the applicable rate and remit the amount deducted to the relevant tax authority. However, individuals are not permitted to deduct tax under any circumstance.

3.3 Persons Required to make Deductions

The Regulation require all entities, including businesses, tax-exempt organizations, government ministries, departments, agencies, and their payment agents to deduct WHT on applicable transactions. These include²⁷:

- a) A body, corporate or unincorporated, other than an individual;
- b) A Government, Ministry, Department or Agency;
- c) A Statutory body;
- d) A Public Authority;
- e) Any other institution, organization, establishment or enterprise including those exempts from tax;
- f) A payment agent on behalf of any person in (a-e) above.

As earlier stated, small companies (that is, companies with annual turnover below NGN25 million) and unincorporated entities of similar attributes are not permitted to deduct tax at source from any transaction if the (a) recipient has a valid tax identification number; and (b) value of the transaction is NGN2 million or less in the relevant month. However, if a transaction from their vendor is higher than NGN2,000,000 during the relevant calendar month and the vendor has a valid Tax Identification Number (TIN), the small company is required to deduct and remit the WHT.²⁸

3.4 Deductions of Withholding Tax

The WHT Regulation 2024 also clarified the timeline for deducting WHT on payment to suppliers. According to the regulation, the obligation to deduct WHT between unrelated parties shall arise at the earlier of when payment is made, or the amount due is otherwise settled. However, for related parties, WHT shall be due at the time of payment or when the liability is recognised.²⁹ The above amendment now creates

²⁵ Deduction of Tax at Source (Withholding) Regulation 2024, reg 4 (2).

²⁶ K Erikume, 'The Corporate Withholding Tax (WHT) Administration System needs to be Overhauled' < <https://www.pwc.com/ng/en/assets/pdf/withholding-tax-administration%20.pdf> > accessed on 11th April 2025.

²⁷ Deduction of Tax at Source (Withholding) Regulation 2024, reg 4.

²⁸ *ibid*, reg 4 (2); A Nkwachi, I Ajayi, S Ayobami and O Tokunboh, 'An Overview of Withholding Tax Regulations 2024' < <https://www.grantthornton.com.ng/insights/Withholding-Tax-Regulation-2024/> > accessed on 29th May 2025.

²⁹ *ibid*, reg 6.

clarity to the lingering question – "when does one deduct WHT?". Also, the amendment ensures that taxpayers do not unnecessarily bear the WHT cost on transactions that have not been paid or settled. This is especially for transactions between unrelated parties.³⁰ Also, deduction made on any eligible payment shall neither be an additional tax nor an additional cost for the contract or transaction. It shall be treated by the supplier/recipient as an advance payment of income tax or the final tax as the case may be.³¹ Deduction from payment due to a non-resident recipient is the final tax, except where, other than in relation to interest, royalty, dividend and rent, the recipient of the income has a tax presence in Nigeria. This appears to be aimed at preventing the shifting of the tax burden to the recipient of an income on which tax is required to be withheld and remitted to the relevant tax authority.³²

3.5 Remittance of Amount Deducted at Source

The obligation to deduct and remit WHT now arises on the earlier of payment or settlement, rather than payment or accrual under the old regime. For connected parties, however, it remains the earlier of payment or accrual. The remittance to the FIRS remains due by the 21st of the following month³³. While the remittance to the relevant SBIR remains due by the 30th of the following month³⁴. For Capital Gains Tax (CGT) and Pay As You Earn (PAYE), the Regulations specify that CGT withheld from payments to individuals must be remitted to the relevant SBIR by the 10th of the following month,³⁵ in a manner like income tax payments under the PAYE scheme. Generally, a person who deducts withholding tax is required to issue a receipt for the tax so deducted. The liability to deduct and remit WHT extends to payment agents who make payments liable to WHT. The old position is that, the FIRS does not have an obligation to provide a taxpayer with credit notes until the agent who deducted the WHT has remitted it to the FIRS. The law stipulates that upon deduction, the agent is to provide the FIRS with certain particulars of the transaction along with the remittance of the WHT including the name and address of the recipient, the gross amount of the transaction, the amount of the tax, the percentage that has been deducted among others³⁶. The FIRS therefore argue that without the agent remitting the WHT and providing this information, the FIRS will not be able to properly process and credit the company with the WHT.³⁷

However, the new Regulation stipulates that it is the deduction agent's (payer's) responsibility, not the tax authority's, to issue a receipt for the tax deducted to their vendor. The vendor can present the receipt as proof of WHT deduction to the relevant tax authority, regardless of whether the deduction agent has remitted the WHT or not.³⁸ This shows that the Regulation have now resolved the protracted issue wherein vendors cannot get WHT credits because the beneficiary of the supply have made the WHT deduction but have not remitted the WHT to the tax authorities³⁹. The receipt issued to the vendor serves as evidence that WHT has been deducted from the payment to the vendor. The vendor, therefore, can get their WHT credit upon

³⁰ N Obinwa and M Maxwell, 'The Withholding Tax Framework in Nigeria: The Unclear and the Reformed' <<https://www.mondaq.com/nigeria/withholding-tax/1568456/the-withholding-tax-framework-in-nigeria-the-unclear-and-the-reformed>> accessed on 12th April 2025.

³¹ Deduction of Tax at Source (Withholding) Regulation 2024, reg 5.

³² U Udoma and B Osagie, 'An Overview of the Nigerian Withholding Tax Regulations of 2024' <<https://uubo.org/wp-content/uploads/2024/07/An-Overview-of-the-Withholding-of-Tax-Regulations-2024.pdf>> accessed on 13th May 2025.

³³ Deduction of Tax at Source (Withholding) Regulation 2024, reg 7 (1) (a).

³⁴ *ibid*, reg 7 (1) (b).

³⁵ *ibid*.

³⁶ PITA 2011, s 69 (3); CITA 2007, s 78 (5).

³⁷ J Dasun, 'Nigeria's Withholding Tax Reforms: Key Changes and Implications' <<https://www.aalex.com/nigerias-withholding-tax-reforms/>> accessed on 29th May 2025.

³⁸ A Nkwachi, I Ajayi, S Ayobami and O Tokunboh, 'An Overview of Withholding Tax Regulations 2024' <<https://www.grantthornton.com.ng/insights/Withholding-Tax-Regulation-2024/>> accessed on 29th May 2025.

³⁹ N Obinwa and M Maxwell, 'The Withholding Tax Framework in Nigeria: The Unclear and the Reformed' <<https://www.mondaq.com/nigeria/withholding-tax/1568456/the-withholding-tax-framework-in-nigeria-the-unclear-and-the-reformed>> accessed on 12th April 2025.

presentation of the receipt to the tax authorities⁴⁰. This amendment ensures that the tax framework in Nigeria is fair to all parties.

3.6 Eligible Transactions and Applicable Rates

The Regulation⁴¹ provides for the transactions that are liable to WHT and their applicable rate. The transactions and applicable rates are as follows:

- (a) WHT rate on dividend, interest, rent, and royalty (corporates) remains at 10%. Royalty payment to individuals (resident or non-resident) remains at 5%;
- (b) Commission, management, technical, consultancy, and professional fees now attract a 5% WHT rate for resident recipients, and 10% for non-resident recipients which shall be the final tax;
- (c) Contracts for the supply of goods or materials now attract a 2% WHT rate for suppliers, excluding supplies made by the manufacturers or producers, which shall not be liable to WHT;
- (d) Payments for co-location and tower services now attract a 2% WHT rate for resident recipients, and 5% for non-resident recipients;
- (e) Contract sums for the construction of roads, buildings, power plants and bridges now attract a 2% WHT rate for resident recipients, and 5% for non-resident recipients;
- (f) Contract sum for any other form of construction or related activities now attracts a 5% WHT rate for resident recipients and 10% for non-resident recipients;
- (g) Brokerage fees now attract a 5% WHT rate for resident recipients and 10% for non-resident recipients;
- (h) Director's fee now attracts a 15% WHT rate for resident recipients, and 20% for non-resident recipients. This is against the rate of 10% as prescribed by the Personal Income Tax Act⁴². The section neither gives the Minister the power to alter the rate nor differentiate between resident directors and non-resident directors. The Minister's power to make regulations under the Personal Income Tax Act⁴³ does not give him any power to (a) alter the WHT tax rate applicable to director's fees; and (b) differentiate between resident directors and non-resident directors. Consequently, it has been argued that the Minister acted in excess of his powers in increasing the statutorily prescribed rate and differentiating between resident and non-resident directors;⁴⁴
- (i) Amount earned by non-resident entertainers and sportspersons in Nigeria is liable to deduction at the rate of 15%;
- (j) Winnings from lottery, gaming, and reality show attract 5% WHT rate for resident recipients, and 15% for non-resident recipients. Unlike other changes that came into effect on 1st July, 2024, this came into effect from 1st October, 2024;
- (k) Payment for the supply or rendering of services other than those specifically listed in the Regulation attract 2% WHT rate for resident recipients, and 5% for non-resident recipients;
- (l) Compensation for loss of employment is liable to deduction of capital gains tax at the rate of 10% for resident and non-resident recipients.

While the Minister retained the rates set out in the enabling statutes except directors' fees, which he increased, he retained some of the rates and reduced others as set out in the repealed regulations. The WHT transactions that were increased and decreased are grouped as follows:

a. Decreased WHT rates

The Regulation tried to solve the issue of perpetual WHT credit for low-margin companies by reducing the WHT rate applicable on certain qualifying transactions from 5% to 2%. This is especially for transactions

⁴⁰K Erikume, 'The Corporate Withholding Tax (WHT) Administration System needs to be Overhauled' < <https://www.pwc.com/ng/en/assets/pdf/withholding-tax-administration%20.pdf> > accessed on 11th April 2025.

⁴¹ Withholding Tax Regulation 2024, first schedule.

⁴² PITA 2011, s 72 (2).

⁴³ *ibid*, s 73 (6).

⁴⁴ U Udoma and B Osagie, 'An Overview of the Nigerian Withholding Tax Regulations of 2024' < <https://uubo.org/wp-content/uploads/2024/07/An-Overview-of-the-Withholding-of-Tax-Regulations-2024.pdf> > accessed on 13th May 2025.

conducted by low-margin companies⁴⁵. These transactions include co-location services, construction services etc. The WHT for these payments to a non-resident company remains at 5%.⁴⁶ The rate of WHT has been reduced from 10% to 5% for payments to a Nigerian company for professional, management, technical, and consultancy services. The WHT for these payments to a non-resident company remains at 10%, and as before, no further tax is payable in Nigeria by the non-resident. The rate of WHT has been reduced from 5% to 2% for payments to a Nigerian resident for any service (other than professional, management, technical, and consultancy services) and the supply of goods or materials. This excludes “over-the-counter supplies” of goods or materials (i.e., transactions without a pre-existing contractual relationship or any prior formal agreement, where payment is made immediately in cash or via electronic means on the spot). The rate of WHT has been reduced from 2.5% to 2% in respect of payment to a Nigerian resident for the construction of roads, bridges, buildings and power plants. This reduced rate ensures that these companies have better/improved cash receipts and are able to optimize their tax assets like WHT credit notes.

b. Increased WHT Rates

A 15% WHT is now to be deducted from the earnings of non-resident “entertainers and sportspersons”, and this is the final tax payable in Nigeria. Winnings from lotteries, gaming, reality shows, and similar activities will attract WHT of 5% for a resident and 15% for a non-resident. No further tax is payable in Nigeria by the non-resident. WHT on payment to a non-resident for the construction of roads, bridges, buildings and power plants has been increased from 2.5% to 5%. The WHT on payment of directors’ fees has been increased from 10% to 15% for residents and to 20% for non-residents. As before, no further tax is payable in Nigeria by a non-resident director.⁴⁷

4. Administration of Withholding Tax under the Nigeria Administration Tax Act, 2025

The New Tax Reform Acts⁴⁸. consolidate various tax laws and provided updated provisions to improve transparency, accountability, and efficiency in tax administration. Under this Act, withholding tax serves as an advance payment of income tax, deducted at source on specified transactions including: Contracts and consultancy services, Rent and lease payments, Dividends, interest, and royalties, and Professional and technical fees. The applicable rates generally range between 5% and 10%, depending on the nature of the payment and the status of the recipient (individual or company)⁴⁹. The law mandates that the amount deducted must be remitted within 21 days of the transaction to the relevant tax authority⁵⁰. However, where a person that deducts, collects, or withholds any tax under the new tax act, and fails to remit the amount deducted, collected or withheld by the 21st day of the month immediately succeeding the month in which the amount was deducted, collected or withheld is liable to pay the amount deducted, collected or withheld and not remitted, an administrative penalty of 10% per annum of the tax deducted. Collected, withheld but not remitted and interest at the prevailing Central Bank of Nigeria monetary policy rate⁵¹. Failure to collect, deduct, withhold or remit withholding tax as required attracts administrative penalty of 40% of the amount not deducted⁵². The Act also reinforces the power of the Federal Inland Revenue Service (FIRS) and State Boards of Internal Revenue (SBIRs) to administer, audit, and enforce compliance.

⁴⁵N Obinwa and M Maxwell, ‘The Withholding Tax Framework in Nigeria: The Unclear and the Reformed’ < <https://www.mondaq.com/nigeria/withholding-tax/1568456/the-withholding-tax-framework-in-nigeria-the-unclear-and-the-reformed> > accessed on 12th April 2025.

⁴⁶K Erikume, ‘The Corporate Withholding Tax (WHT) Administration System needs to be Overhauled’ < <https://www.pwc.com/ng/en/assets/pdf/withholding-tax-administration%20.pdf> > accessed on 11th April 2025.

⁴⁷K Erikume, ‘The Corporate Withholding Tax (WHT) Administration System needs to be Overhauled’ < <https://www.pwc.com/ng/en/assets/pdf/withholding-tax-administration%20.pdf> > accessed on 11th April 2025.

⁴⁸ Nigeria Tax Administration Act, 2025 and Nigeria Tax Act, 2025

⁴⁹ *ibid*

⁵⁰ *ibid*

⁵¹ Nigeria Tax Administration Act, 2025 s. 107

⁵² Nigeria Tax Administration Act, 2025 s.105

4.1 Procedure for Withholding Tax Administration in Nigeria

a. Deduction at Source: When a payment subject to withholding tax is made, the payer must deduct the prescribed percentage before paying the beneficiary. For instance, 10% is deducted from consultancy or professional service fees, while 5% is deducted from dividends, rents, and interest.

b. Remittance to the Appropriate Authority: The deducted amount is remitted to the FIRS (for companies and federal transactions) or the relevant SBIR (for individuals) within 21 days of deduction. The remittance is accompanied by a schedule containing details of the payees, nature of transactions, and tax amounts deducted.

c. Issuance of Withholding Tax Credit Notes: Upon confirmation of payment, the tax authority issues a Withholding Tax Credit Note to the agent. The payee uses this credit note to offset final income tax liability when filing annual returns.

d. Filing and Reconciliation: At the end of each financial year, both withholding agents and taxpayers must reconcile deductions and remittances with the tax authorities. The FIRS and SBIRs use digital systems such as TaxPro-Max (for FIRS) and eTax (for some states) to facilitate this process.

5. Conclusion

The withholding tax system in Nigeria, as governed by the Deduction of Tax at Source (Withholding) Regulations 2024, presents both opportunities and challenges. While the regulations provide clarity on transactions subject to withholding tax, exemptions, and applicable rates, the system still faces issues such as inconsistent practices, complex tax rates, and unrealistic refund mechanisms. The administration of withholding tax in Nigeria is a crucial component of the country's tax system, aimed at ensuring steady revenue collection and curbing tax evasion. However, the system's success largely depends on effective coordination among tax authorities, technological advancement, and compliance by withholding agents. Strengthening administrative capacity, embracing digital solutions, and promoting taxpayer awareness will go a long way in improving the efficiency and credibility of withholding tax administration in Nigeria. Moreso, the administration of withholding tax under the Nigeria Tax Administration Act, 2025 represents a significant step toward modernizing Nigeria's tax system. By promoting transparency, digital efficiency, and accountability, the Act aims to make withholding tax a more reliable instrument for revenue collection. However, its success depends on effective inter-agency collaboration, robust enforcement, and sustained taxpayer education. If these are achieved, the withholding tax system will continue to serve as a powerful tool for advancing Nigeria's fiscal sustainability and economic development.

6. Recommendations

The following recommendations are made to improve administration of WHT in Nigeria and for effective utilization of such fund for meaningful development.

1. Need for Adequate Implementation of the Nigeria Tax Administration Act, 2025 and Deduction of Tax at Source (Withholding) Regulations 2024

There is need for adequate implementation of the Nigeria Tax Administration Act, 2025 and Deduction of Tax at Source (Withholding) Regulations 2024. The new Tax Act and the Regulations increased sanctions for withholding agents who fail to remit deductions within the statutory period.

2. Need for Full Automation of WHT Processes

There is need for Expand the use of digital platforms for filing, remittance, and reconciliation. The Act mandates electronic filing, remittance, and issuance of receipts to promote transparency and traceability.

3. Need for Enhanced Collaboration between FIRS and SBIRs

Establish a clear framework to avoid double taxation and jurisdictional conflicts. There is an urgent need for all tiers of governments to clearly state the basic objectives of its tax system and the relationship between these objectives. This will assist to give the tax administrators a sense of direction and thus make taxpayers conscious of the reasons why they should pay their tax as at when due.

4. Need for Regular Taxpayer Education

There is need to conduct sensitization campaigns to improve public understanding of WHT obligations among the taxpayers.

5. Simplification of Refund Mechanisms

There is need for a streamline refund and credit systems to encourage voluntary compliance. The new Nigeria Tax should be implemented in order to achieve a simplified refund mechanism. Also Excess remittance should be refundable whether or not it is a final tax. Also the process for refund should be streamlined and made easy for business owners;