

LESSON 9: RELIEFS AND ALLOWANCES

INTRODUCTION

Reliefs and allowances are meant to reduce the tax burden of the individual in recognition of his personal financial responsibilities. They are deductions allowed to individual taxpayers in a year of assessment to reduce the chargeable income of such individuals.

Reliefs and Allowances and Tax Exempt Deductions

Reliefs and allowances are deductions available to individual taxpayer under the Personal Income Tax Act Cap P8 LFN 2004 (as amended) to lighten his tax burden. In addition to the reliefs and allowances, Personal Income Tax (Amendment) Act, 2004 (as amended), also provides that certain deductions shall be tax exempted under the sixth schedule to the. Below are the reliefs and allowances (including tax exempt deductions) available under the law:

(a) Consolidated Relief Allowance (CRA)

CRA is granted at the higher of ₦200,000 or 1% of gross income plus 20% of gross income.

Gross Emolument means wages, salaries, allowances (including benefits in kind), gratuities, superannuation and any other income derived solely by reason of employment.

Gross Income means “all incomes from whatever source derived, unless excluded by law”. Gross income is not limited to cash received. It includes incomes realized in any form, whether money, property, or services

Going by the foregoing definition, it is obvious that gross income encompasses all income of a taxpayer, whether received in cash, in kind or in any form (excluding income specifically exempted). However, for purpose of CRA computation, Gross income shall be defined as the total income (excluding Franked investment Income (FII)) of a taxpayer i.e. Earned income plus unearned income (excluding FII).

Benefits in Kind (BIK)

These are expenses incurred by an employer for the benefit of an employee apart from his salary or allowance. Some BIKs are taxable while some are not. The benefits in kind **exempted from tax** are;

- i. Reasonable removal expenses, including a temporary substance allowance where a change in place of employment necessitates a change in place of residence
- ii. Provision of uniforms, overall or protective clothing
- iii. Provision of food in any canteen for staff generally

Taxable Benefit in Kind

- i. Where the employer provides assets for employee's benefit. The employee is taxed with 5% of the cost of the asset or the market value if cost is unknown
- ii. Where employer provides an accommodation for the employee; the employee is charged with the cost of the premises he enjoyed from the employer accommodation.
- iii. Where employer rents or hires assets for use by employee; the amount of BIK in the hands of the employee is the annual rent or hire paid

(b) National Housing Fund Contribution

The National Housing Fund Act of 1992 provides that a Nigerian earning an income of N3,000 and above per annum in both the public and the private sectors of the economy shall contribute 2.5 per cent of his basic monthly salary to the Fund. The employer is to deduct the contribution from the contribution from the employee's monthly salary and to the Federal Mortgage Bank of Nigeria within one month of making the deduction. The Act mandates the Federal Mortgage Bank of Nigeria to collect, manage and administer the fund. Contributions made to the fund are tax deductible.

(c) National Health Insurance Scheme

The National Health Insurance Scheme (NHIS) was set up by The National Health Insurance Scheme Act, 1999 for the purpose of providing health insurance which shall entitled persons insured under the scheme and their dependants the benefits of prescribed good quality and cost effective health services as set out in the Act. The Act provides that an employer who has a minimum of ten employees may, together with every person in his employment, pay contribution under the scheme, at such rate and in such manner as may be determined, from time to time, by the Governing Council

for the Scheme. An employer under the scheme shall cause to be deducted from an employee's wages the negotiated amount of any contributions payable by the employee. The employer's contributions and the contributions in respect of its employee are to be paid into the account of a designated health maintenance organization. Contributions to the scheme are tax deductible.

(d) Life Assurance Premium

A deduction of the annual amount of any premium paid by the individual during the year preceding the year of assessment to an insurance company in respect of insurance on his life or the life of his spouse, or for a contract for a deferred annuity on his own life or the life of his spouse;

(e) National Pension Scheme.

The Pension Reform Act 2004 establishes a uniform contributory pension scheme for payment of retirement benefits of employees. The scheme applies to all employees in both the public sector and private sector who are in employment in an organisation in which there are 5 or more employees. The rate of contribution to the scheme shall be a minimum of 7.5% of employee's monthly emolument (i.e. Basic salary, Housing Allowance and Transport Allowance) as contribution for employer and minimum of 7.5% contribution for employee in both the public and private sector except the Military in which case a minimum of 12.5% contribution for the employer and a minimum of 2.5% for the employee. However, contributions made by an employee to the Scheme shall be tax-deductible.

Notwithstanding the foregoing mode of contribution to the scheme, an employer may agree or elect to bear the full burden of the Scheme, provided that in such a case the employer's contribution shall not be less than 15% of the monthly emoluments of the employee. The Act further provides that in addition to the rates of contribution highlighted above, employers shall maintain life insurance policy in favour of the employee for a minimum of three times the annual total emolument of the employee.

A new Pension Reform Bill was signed into law by President Goodluck Jonathan on 1st July, 2014 to replace the old Pension Reform Act, 2004.

The new pension law introduced several key changes including:

- Increase in the minimum contribution into the scheme as follows:
Employers are now required to contribute a minimum of 10% of their employees' monthly emolument and employees are to contribute a minimum of 8%.
- A private sector entity would now be subject to the scheme where it has 15 or more employees.
- The Act now imposes a 10 years jail term for persons found guilty of misappropriating pension funds.

(f) Gratuities

Gratuity is money paid to an employee who is retiring or leaving his employer after several years of service. Gratuity is tax deductible.

Rate of Tax and Ascertainment of Tax Liability

Having ascertained the reliefs and allowances claimable, such are deducted from the Total income of the individual in order to arrive at the Chargeable income to which the graduated tax rates are applied in order to obtain the tax payable. The graduated rates currently applicable are as follows:

Income to be Taxed	Rate of Tax
First ₦300,000	7%
Next ₦300,000	11%
Next ₦500,000	15%
Next ₦500,000	19%
Next ₦1,600,000	21%
Above ₦ 3,200,000	24%

Minimum Tax

Where there is no Chargeable income for an individual or where the tax payable on the Chargeable income of that individual is less than 1 per centum of his Total income, the individual shall be charged to tax at the rate of 1 per centum of his Total income. In essence, minimum tax at the rate of 1% of Total income shall be payable where:

- (a) The taxpayer has no taxable income because of large personal reliefs; or
- (b) Taxable income produces tax payable lower than minimum tax; or
- (c) Earned income does not exceed N300,000.

Illustrative Questions

1. **Mr. Familusi** retired from the Public Sector of Lagos State Government on 31 March 2013. He subsequently secured employment with First Bank Nigeria Plc as a Marketing Manager, effective 1 July 2013.

The following information has been provided by Mr. Familusi:

- (a) Salary - 1 January to 31 March 2013: ₦360,000 per month
- (b) New employment: ₦2,640,000 per annum.
- (c) Pension income, effectively 1 April 2013: ₦720,000 per annum.
- (d) Transport allowance – new employment: ₦80,000 per annum.
- (e) Rent allowance – new employment: ₦240,000 per annum.
- (f) Contribution to National Housing Fund and National Pension Scheme: 2½% and 7½% of Consolidated gross income respectively.
- (g) Rental income received (Gross)

	₦
3/3/2012	250,000
9/8/2012	380,000
20/7/2011	180,000
2/12/2011	75,000

- (h) Mr. Familusi is married and has four children, aged between 2 and 19 years. All except one named Olawole aged 19 are still in school.
- (i) Familusi has a life assurance policy on his life with a sum assured of ₦5,000,000 and annual premium of ₦350,000.
- (j) His aged parents live with him. They have no income of their own.

Required:

Compute the Personal income tax payable by Mr. Familusi for the relevant year of assessment.

2. **Mrs. Amarachi Uba** retired as a Director in the Federal Ministry of Justice on 31 December 2011. On retirement, she was paid a gratuity of ₦30,000,000.

On 1 January 2012, she was employed by Septraco Limited as the Company Secretary, on a salary of ₦60,000,000 per annum. Mrs. Amarachi Onyemachi is married and has five children.

The following information was also provided at the end of his first year in his new employment:

- (i) The eldest son, Onyebuchi, is gainfully employed with Golf Bank Limited.
- (ii) The company provides Mrs. Amara Onyemachi with an official car – Toyota Prado- with a market value of ₦15,000,000.
- (iii) The company pays ₦7,500,000 per annum on her official accommodation.
- (iv) Mrs. Onyemachi has a life assurance policy with Mutual Assurance Plc. The sum assured is ₦50,000,000, while premium paid is ₦6,000,000 in 2011.
- (v) She contributed ₦400,000 monthly to an approved Pension Scheme.
- (vi) She spent ₦150,000 during the year for the upkeep of his two aged parents who have no source of income.

Required:

Compute Mrs. Amarachi Uba's monthly and annual tax liabilities for the relevant year of assessment.

3. **Mr. Willi Willi** was employed by Zenion Bank Plc as Head of Operations (Banking), effective 1 June, 2013. The details of his salary are as follows;

	₦
Basic salary per annum	48,000,000
Housing Allowance	12,000,000
Transport Allowance	2,000,000
Utility Allowance	800,000
Meal Allowance	500,000
Leave Allowance	4,800,000
Clothing Allowance	2,000,000

Mr. Willi Willi was provided with official car. The cost of the car is ₦7,500,000. He was also provided with a driver and a private personal assistant and were paid ₦300,000 and ₦500,000 per annum respectively. Prior to joining the Zenion Bank, Mr. Willi Willi was on annual salary of ₦32,000,000 while working with Caban Bank Plc. He resigned from the bank effective 31st May, 2013.

Additional information

- i. Mr. Willi Willi is married with 6 children, all of school going age. He maintains his aged parent who lives with him in Lagos
- ii. He paid life assurance premium of ₦2,800,000 in 2012 and ₦3,000,000 in 2013 on his life
- iii. His employers deducted and remitted on his behalf the following mandatory deduction of ₦4,900,000 and ₦1,166,667 for NHF and pension respectively for 2013
- iv. He paid NHIS premium of ₦350,000 in 2013 to a health service provider to provide medical cover for himself and his family.

Required: Compute the tax liability of Mr. Willi Willi for the relevant assessment year

4. Compare and contrast the provisions of Personal Income Tax Act 2004 and Personal Income Tax (Amended) Act 2011 on minimum tax as they apply to an individual taxpayer