



TaxC

WHAT IS PERSONAL INCOME TAX

FREE BOOK

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Who Pays Tax in Nigeria?

Disclaimer

Before we dive in: This isn't to be taken as financial advice. This ebook is for educational purposes only. Always confirm your personal tax obligations with a professional or the relevant tax authority. Or, you can connect with a tax agent through TaxC.

Introduction

Welcome back!

Since you've already gone through "Who Pays Tax in Nigeria?", you now know *whether* you're supposed to pay tax.

Now let's talk about the main tax most Nigerians pay, Personal Income Tax, or P.I.T.

I promise you, it sounds scarier than it really is.

By the time you finish this short guide, you'll understand:

- what P.I.T. actually means (in plain English),
- who collects it,
- how it's calculated,
- what counts as "income",
- and how the new 2026 tax reform affects you.

Let's break it down, no grammar, no stress.

So... what exactly is Personal Income Tax?

Personal Income Tax (P.I.T.) is simply the tax you pay on the money you earn as an individual.

If you:

- work a job,
- run a small business,
- freelance,
- own property that generates rent,
- or make money from any activity whatsoever...

...then P.I.T. is the tax that applies to your personal earnings.

It doesn't matter whether you earn online, offline, from Nigeria, or from abroad, as long as you are considered a tax resident in Nigeria, the income is taxable.

Think of P.I.T. as you contributing a small part of your income to keep the system running.

Who collects P.I.T.?

This part confuses a lot of people, so let me simplify it:

1. State Internal Revenue Service (SIRS)

Your **state** government collects tax from:

- salary earners (PAYE),
- freelancers,
- landlords,
- small business owners (sole proprietors),
- and basically anyone earning personal income.

So if you live in Lagos, it's LIRS; if you live in Oyo, it's OYIRS; and so on.

2. Federal Inland Revenue Service (FIRS)

FIRS collects P.I.T. only in a few special cases, such as when:

- you work for the Federal Government,
- you are part of the armed forces or police,

- you are a foreign resident earning from Nigeria,
- your income is on the “non-resident” list.

If none of these describe you, then it’s your **state** that handles you — not FIRS.

What counts as “income” for P.I.T.?

This is where many people get caught off guard because income is more than just salary.

Under the new NTA rules, income includes:

- monthly salary
- wages, commissions, allowances
- business profit
- rent
- freelance payments
- digital income (e.g., remote jobs, Upwork, Fiverr, etc.)
- interest, bonuses, royalties
- any other money that “comes in” because of work, skills, or assets you own.

Simply put:

If money enters your pocket because of something you do or own → it is income.

How does P.I.T. work?

There are TWO ways your P.I.T. gets handled:

1. PAYE (Pay As You Earn); for salary earners

If you have a job, your employer calculates and deducts your tax before paying you.

This makes your life easier — because they handle all the stress.

What you receive at the end of the month is your salary after tax.

2. Direct Assessment; for non-salary earners

This applies to:

- freelancers
- self-employed individuals
- traders
- gig workers
- small business owners (sole proprietors)
- landlords

Here, *you* file and pay your tax yourself.

Your state IRS assesses your income and calculates what you owe.

If you earn money outside a salary job, this is your category.

The New 2026 P.I.T. Rates (NTA Reform)

Thanks to the 2025 NTA reform, P.I.T. is progressive, which means higher income = higher tax rate.

These are the exact progressive tax brackets going into effect on 1 January 2026:

Annual Income (₺)	Tax Rate
0 – 800,000	0%
800,001 – 3,000,000	15%
3,000,001 – 12,000,000	18%
12,000,001 – 25,000,000	21%
25,000,001 – 50,000,000	23%
Above 50,000,000	25%

Let me break this down:

What does “progressive” mean?

It means:

“The more you earn, the higher the percentage of tax you pay. ”

But this doesn't mean the government will take 25% of your whole income.

No, each portion of your income is taxed at the rate of its bracket.

This protects low-income earners and places more tax burden on high-income earners.

What does the ₦800,000 tax-free rule mean?

If your entire annual income is ₦800,000 or less, you pay ₦0 tax. Zero. Nothing.

The government keeps your whole income untouched.

This is part of the reform to protect low-income Nigerians.

Allowances and deductions (in simple English)

You might have heard words like:

- “reliefs”
- “allowances”
- “deductions”

Let me simplify:

These are simply legal ways to reduce how much tax you pay.

Your taxable income =

(Your total income) – (Your reliefs + deductions)

- Examples include:
- pension contributions
- NHF deductions
- life insurance premiums
- some reimbursable expenses

I'll explain these more in later ebooks (so we don't repeat info here).

Just know they help reduce your tax bill.

How P.I.T. is calculated (simple example)

Let's assume you earn ₦1,800,000 per year.

Breakdown:

First ₦800,000 → taxed at 0%

Remaining ₦1,000,000 → falls into the 15% bracket

So tax =

$₦1,000,000 \times 15\% = ₦150,000$ per year
which is ₦12,500 per month.

That's all.

Common questions people ask

1. Do I pay tax if I'm self-employed?

Yes, but through *Direct Assessment*, not PAYE.

2. Do I pay tax on my salary and also on my side hustle?

Yes, but it all adds up into **one P.I.T. calculation**.

3. I work for a foreign company from Nigeria. Do I pay tax?

Yes.

If you live in Nigeria for 183+ days in a year, you are automatically a tax resident.

4. Do students pay P.I.T.?

Only if they earn **income**.

Next Steps

Now that you know what P.I.T. is, the next thing you'll probably want to understand is:

If you're even tax eligible.

That's what the next ebook covers:
"Am I Tax Eligible? (Quick Quiz)"

It gives you quick questions and tells you immediately whether you fall under the tax rules.

You can also use the TaxC Calculator to get your tax instantly, no maths needed.

Conclusion

Understanding P.I.T. is the most important step towards becoming tax-smart in Nigeria.

Most people fear taxes because they don't know how it works, but now you do.

To recap:

- P.I.T. is tax on personal income.
- Salaries → PAYE.
- Freelancers/business owners → Direct Assessment.
- Nigeria now uses progressive brackets under the new NTA reform.
- Your first ₦800,000 is completely tax-free.

- The higher you earn, the higher your marginal rate.

And remember, paying your taxes keeps you compliant, avoids penalties, and even helps you access things like visas, loans, and grants later.

You're getting smarter already.
Let's keep going.