

# Client Advisory



Nigeria PAYE system reviews and how Additional Voluntary Contributions (AVCs) can improve personal tax management.

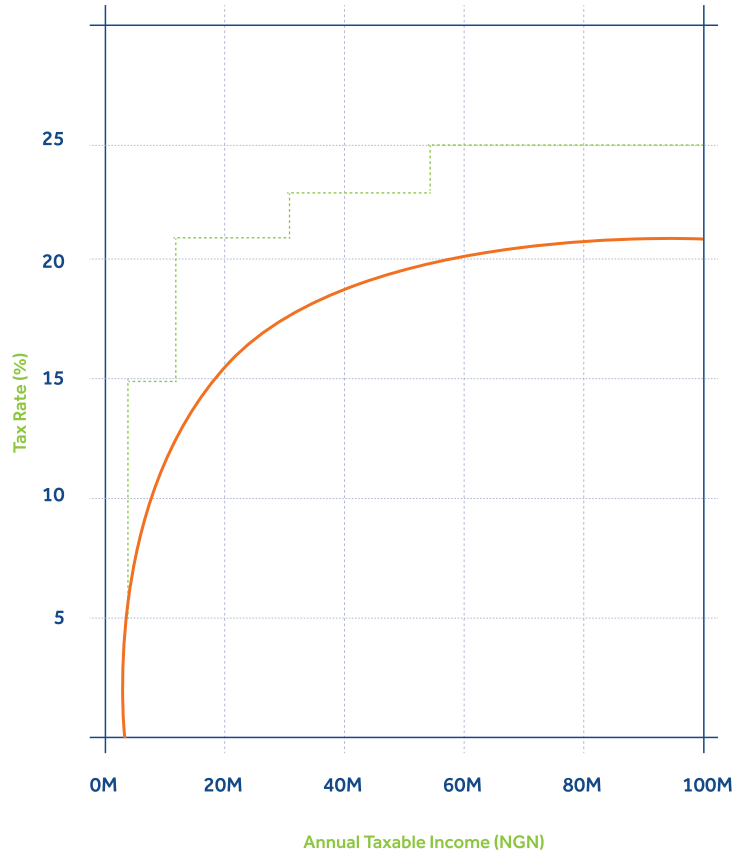
## Overview

From 2026, personal income tax under PAYE is computed using revised graduated tax bands. For many salary earners, this increases the value of disciplined tax planning, especially for those whose income falls into the **21%, 23% or 25%** marginal brackets.

➔ Your mandatory pension contribution remains a pre-tax deduction. Under the CPS, the minimum contribution is 18% of monthly emoluments (Basic + Housing + Transport), split 10% employer and 8% employee.

➔ You may instruct your employer to make Additional Voluntary Contributions (AVCs) into your Retirement Savings Account (RSA). When processed through payroll, AVCs reduce your taxable income and can lower PAYE immediately.

➔ AVCs are most effective when treated as medium-to-long term retirement savings. Where voluntary contributions are withdrawn within five years, the income earned on those contributions may be subject to tax at the point of withdrawal.



## What changed in 2026

### Revised PAYE tax bands

A revised PAYE table is now applied for computing personal income tax on taxable income, replacing the prior PAYE table.

The new bands are graduated, starting with 0% on the first NGN 800,000 of taxable income and rising to 25% for taxable income above NGN 50,000,000.

Taxable Income band (Annual)	Rate	Cummulative Band Limit
First N 800,000	0%	N 800,000
Next N 2,200,000	15%	N 3,000,000
Next N 9,000,000	18%	N 12,000,000
Next N 13,000,000	21%	N 25,000,000
Next N 25,000,000	23%	N 50,000,000
Next N 50,000,000	25%	No Upper limit

### Key thresholds to note

- ➔ NGN 3,000,000 (end of 15% band)
- ➔ NGN 12,000,000 (end of 18% band)
- ➔ NGN 25,000,000 (end of 21% band)
- ➔ NGN 50,000,000 (end of 23% band; 25% applies above this level)

#### Planning Note

Each additional NGN 1 of deductible pension contribution generally reduces PAYE by your marginal tax rate (i.e., the rate applicable to your highest taxable income band), subject to your full tax computation and other reliefs.

## Pension as a payee tool

Under the CPS, pension contributions are funded through monthly contributions remitted into an employee's RSA. Your employee pension contribution is a statutory pre-tax deduction, and employees may also make voluntary contributions (AVCs) in addition to the mandatory 18%.

### Key definitions

→ Monthly emoluments for CPS purposes are defined as Basic salary + Housing allowance + Transport allowance (BHT).

→ Minimum pension contribution rate: 18% of BHT (10% employer, 8% employee).

→ Voluntary contributions (AVCs): additional contributions an employee elects to make, typically executed by the employer through payroll at the employee's direction or directly to Fund V under the PPP segment

→ Remittance discipline: pension contributions should be remitted by the employer within seven working days after payment of salaries (per pension guidance).

## How AVC improves tax management

AVC improves tax management by converting part of your taxable earnings into pension savings "before" PAYE is calculated. In practical terms, this reduces your annual taxable income and can lower the PAYE deducted from your salary each month.

### How it works

→ Estimate your annual taxable income (salary plus taxable allowances).

→ Confirm your mandatory employee pension deduction (8% of BHT).

→ Decide an AVC amount to contribute (monthly and/or from bonuses).

→ Ensure your employer processes AVC through payroll as a pre-tax deduction and remits it to your RSA.

→ Monitor your RSA statements and payslips to confirm contributions and the updated PAYE.

## Liquidity and access

Pension savings are regulated and are not designed for day-to-day spending. Access to RSA balances is typically restricted to specific conditions (e.g., retirement/eligible age, or specified job-loss circumstances) and may require regulatory approval and documentation. Clients should keep separate liquidity for emergencies.

## Scenarios

The examples below show the PAYE impact of AVC under the revised tax bands. These illustrations are simplified and exclude other reliefs/adjustments that may apply in your full tax computation.

### Example 1: Mid to Senior Level Professional

Annual Gross Income	NGN 18,000,000
BHT (basis for pension)	NGN 12,000,000
Employee pension (8% of BHT)	NGN 960,000
AVC (additional voluntary contribution)	NGN 1,500,000
Taxable income after pension deductions	NGN 15,540,000
PAYE (no AVC)	NGN 3,008,400
PAYE (with AVC)	NGN 2,693,400
Estimated PAYE saved	NGN 315,000
Estimated monthly PAYE saved	NGN 26,250

**Interpretation:** the PAYE saved is broadly the AVC amount multiplied by the marginal tax rate applicable to your highest band, subject to your full tax computation.

### Example 2: Senior Management to Executive Management

Annual Gross Income	NGN 60,000,000
BHT (basis for pension)	NGN 24,000,000
Employee pension (8% of BHT)	NGN 1,920,000
AVC (additional voluntary contribution)	NGN 10,000,000
Taxable income after pension deductions	NGN 48,080,000
PAYE (no AVC)	NGN 12,450,000
PAYE (with AVC)	NGN 9,988,400
Estimated PAYE saved	NGN 2,461,600
Estimated monthly PAYE saved	NGN 205,133

**Interpretation:** the PAYE saved is broadly the AVC amount multiplied by the marginal tax rate applicable to your highest band, subject to your full tax computation.

## Practical Guidance

### Set up AVC through payroll

- Write to your HR/Payroll team instructing a fixed monthly AVC (or a percentage of salary/bonus) to be deducted and remitted to your RSA.
- Confirm the AVC is treated as a pre-tax deduction in payroll before PAYE is computed.
- Confirm your employer remits pension contributions promptly and that your RSA is credited (PFAs typically issue RSA statements at least quarterly).
- If your RSA is not credited, raise it promptly with your employer and your PFA for reconciliation.

### Additional guides

- Bracket protection: use AVC to keep taxable income below key thresholds (NGN 12m, 25m, 50m).
- Bonus planning: consider directing part of annual bonuses into AVC to reduce one-off PAYE spikes.
- Annual review: reassess AVC levels at least annually (and after salary changes) to align with cash-flow and retirement goals.

### Important Notice

Tax treatment on withdrawal is an important consideration for voluntary contributions. Where voluntary contributions are withdrawn within five years, the income earned on those contributions will be subject to tax at the point of withdrawal. Withdrawals after five years are fully tax exempted, consistent with pension guidance.

## Sample payroll instruction

Subject: Instruction to commence Additional Voluntary Contribution (AVC) deduction

Dear HR/Payroll Team,

Please commence Additional Voluntary Contributions (AVC) into my Retirement Savings Account (RSA) effective (Month/Year.)

AVC amount: NGN [amount] per month (or [percentage]% of monthly salary)

RSA PFA: (PFA name)

RSA PIN: (RSA PIN)

Kindly process the AVC as a pension deduction through payroll and remit it alongside my mandatory pension contribution.

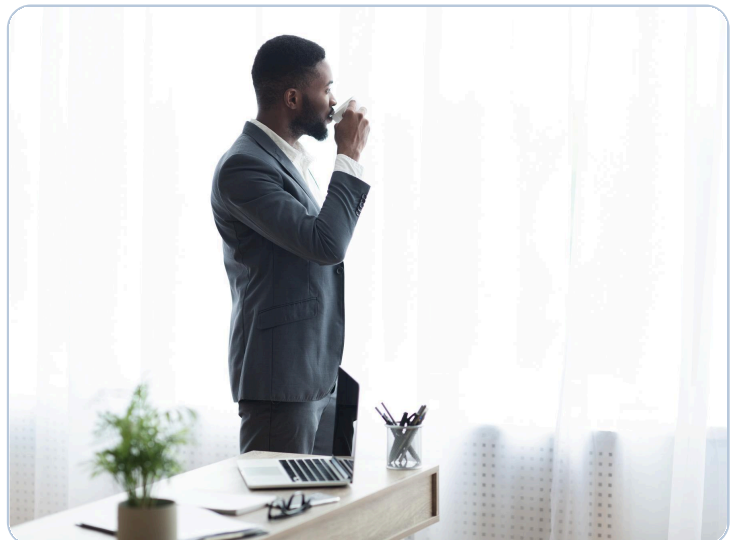
Thank you.

(Name)

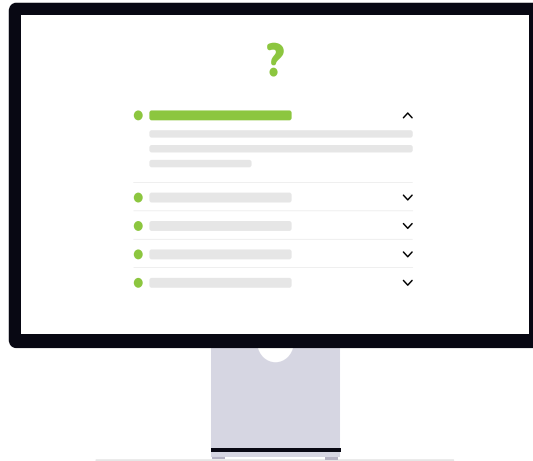
(Employee ID / Department)

## Next Steps

- ✔ Confirm your BHT (Basic + Housing + Transport) with HR and the 18% pension basis.
- ✔ Confirm your RSA details with your employer (PFA name and RSA PIN).
- ✔ Decide your AVC amount (monthly and/or bonus-linked).
- ✔ Send a written instruction to Payroll to implement AVC as a pre-tax deduction.
- ✔ Review RSA statements to confirm all contributions were credited.
- ✔ Plan liquidity separately: AVC is not designed as emergency cash.



## Frequently Asked Questions



### Does AVC reduce my PAYE immediately?

Typically, yes—if your employer processes AVC through payroll as a pre-tax pension deduction. If paid outside payroll, you may need to claim the relief via your annual tax filing.

### Will AVC reduce my take-home pay?

Your gross pay is unchanged, but your net take-home may reduce by less than the AVC amount because PAYE usually falls at the same time.



### What happens if I withdraw AVC early?

Where voluntary contributions are withdrawn within five years, the income earned on those contributions may be subject to tax at the point of withdrawal. Please confirm the applicable process and documentation with your PFA.

### What documents should I keep?

Keep payslips, employer remittance schedules (if available), and RSA statements showing mandatory and voluntary contributions.

## References

-  National Pension Commission (PenCom), Circular PenCom/INSP/MPD/2026/07 dated 18 February 2026: Applicable PAYE tax table and guidance on tax treatment of income earned on voluntary contributions when withdrawn within five years.
-  National Pension Commission (PenCom), Frequently Asked Questions and Answers on the Contributory Pension Scheme (CPS) in Nigeria (Reviewed 17 April 2018): contribution rates (18% of BHT), voluntary contributions (AVC) and related guidance.

## Need Help?

For additional questions or inquiries, please reach out to your relationship manager or contact our customer care on 02094613333 Or 02012715000



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