

TaxThursday

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How To Reduce Your Personal
Income Tax (PIT) Liabilities: The Voluntary
Pension Contribution (VPC) Option!



Taxaide

Personal Income Tax savings option Part 1: Voluntary Pension Contribution (VPC)

As a professional in the tax sector I've had quite a number of individuals share their concerns with me about the huge sum being deducted as tax from their monthly pay (Personal Income Tax). In order to address this issue, I thought to write this piece to address some of the issue and proffer solutions to the pressing complaints.

Introduction:

Its been observed that taxpayers over the years, have complained about how much is being deducted from their pay. The never-ending monthly squabble between employees and their employers over this issue has been scrutinized, and the bone of contention is the simple question from the employees "how can I be paying this much as **tax**?"

So, what if I told you that you don't have to pay that "ridiculous" amount as tax and still remain tax compliant? Allow me bring to your attention, Income tax savings options. Income tax savings options are expenses that are tax deductible according to the provisions of the Personal Income Tax, 2011, as Amended ("PITAM") and they include Voluntary Pension contributions, Interest on mortgage, National Housing Fund contributions etc.

Today, however, we will only consider the Voluntary Pension Contribution, in details.

Voluntary Pension Contribution (VPC) and its impact on tax obligation and net pay:

I believe we are aware of the statutory pension we are to remit to our respective Pension Fund Administrator (PFA) but a VPC is a non-obligatory remittance of not more than one-third of the contributor's salary for the month in question to his/her respective PFA. A taxpayer can make voluntary pension contributions by notifying his employer in writing of his intention to make a VPC. Also, the amount to be deducted and remitted should be included in the notice

Introducing VPC to the personal income tax computations of a taxpayer will bring about the following:

1. increase in the total reliefs;
2. decrease in taxable income;
3. decrease in personal income tax payable;
4. decrease the contributor's net pay.

I am sure that (4) above is beginning to deter you, but rest assured I will explain why this is a better option.

50% of VPC contributions is treated as contingent and available for withdrawal after two years of lodgment while the remaining 50% is treated as fixed for pension until retirement date. In simpler terms, you can access half of your total VPC contributions made every two years.

It is a win-win situation for you; you get to legally reduce your taxes and also, you get to access a good portion of your VPC contributions within a short period of time.

So, would you rather pay a high amount of tax or remit a high amount as pension to yourself in the long run?

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