



LAGOS STATE GOVERNMENT

PUBLIC NOTICE



EXEMPTION OF COMPENSATION FOR LOSS OF EMPLOYMENT

The Lagos State Internal Revenue Service (LIRS) is issuing this Public Notice to all employers, company owners or their representatives, employees and other members of the public.

Definition

Compensation for loss of employment could either be a termination benefit or terminal benefit. An employee will receive compensation for loss of employment when any of the following occurs:

- Where an employee is made redundant and gets a settlement, which may include the statutory redundancy lump sum, and a further sum negotiated by the employee or the trade union with the employer. This is termination benefit.
- When an employee retires and is paid a lump sum by his employer. This is a terminal benefit.
- Where an employee had a fixed-term contract and it is ended early, and the employee gets paid a lump sum in compensation. This is a termination benefit.

Legal basis

Paragraph 26 of Schedule 3 of Personal Income Tax Act (PITA) exempts from taxation any income earned as compensation for loss of employment. Section 6(a) subjects such compensation to tax under the Capital Gains Tax Act.

Compliance Requirements

The following principle should guide employers in determining how to tax terminal benefits and termination benefits

1. Tax relief will only be granted for PAYE if the amount paid was never pre-agreed before the disengagement process began. However, in such cases capital gain tax will be applicable on such sums as they are capital in nature and payable to LIRS.
2. Pre-agreed amounts are generated from employment and subject to PAYE.
3. Gratuity payments are tax deductible for PAYE purposes if they are paid under an approved pension scheme in line with Section 5 of the Pension Reform Act (PRA) 2014. If paid outside the PRA, the gratuity payments would be taxable if the conditions under Paragraph 18 of the 3rd Schedule is triggered, i.e.
 - The service period is not up to 10 years;
 - Any amount in excess of N100,000; and
 - Where the service period is not up to five years (or an aggregate of 63 consecutive months in the case of a service that is not continuous), the exemption allowed is N1,000 per annum for such period or aggregate period of employment. Any excess calculated does not qualify for the exemption.
4. Reporting Obligations: It is no longer acceptable to lump terminal benefits under the heading of compensation for loss of employment. Employers are required to show each pay component and the corresponding payments in their tax returns to enable the LIRS determine the correct tax treatment. Every employer is required to notify the LIRS of payments for compensation for loss of employment and who those amounts were paid to.

For further enquiries, please call **0700-CALLLIRS (0700 2255 5477)** or visit www.lirs.gov.ng

Thank You

Signed
Ayodele Subair
Executive Chairman
Lagos Internal Revenue Service

Lagos State Internal Revenue Service

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