



LAGOS STATE GOVERNMENT

PUBLIC NOTICE



WITHHOLDING TAX ON EMPLOYEE OUTSOURCING ARRANGEMENTS AND OTHER LABOUR BROKERAGE ARRANGEMENTS

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

Definition

In an employee outsourcing arrangement, workers who are not part of the employer's regular work force, may be hired through an outsourcing firm or labour broker. Employee outsourcing arrangements can take the form of traditional leasing arrangements, where the ultimate employer hires all or substantially all of its employees from another company (outsourcing firm), with the employees remaining on the payroll of the outsourcing firm. The ultimate employer pays the outsourcing firm a fee for procuring the staff on its behalf, while the outsourcing firm pays the staff salaries.

Legal Basis

Under the Companies Income Tax (Rates, etc. of Tax Deducted at Source [Withholding Tax]) Regulations and the Personal Income Tax Companies Income Tax (Rates, etc. of Tax Deducted at Source [Withholding Tax]) Regulations, a deduction is required to be made from payments made for any activity or a service, and the deductions shall be regarded as tax due on the payment, and not as an additional cost on the contract.

Compliance Requirements

1. The amount liable to Withholding Tax (WHT) shall be the margin earned on the service (i.e. the difference between the contract sum and the payroll cost to the hiring company) if clearly specified on the face of the invoice with clear documentary evidence of the salary cost incurred.
2. In respect of documentary evidence to benefit from this treatment, the outsourcing firm is required to provide documentation to:
 - a. Justify the salary of the employees by keeping appropriate records, AND
 - b. Demonstrate that PAYE has been fully accounted for on all staff.In the event, where there is no evidence that PAYE has been fully accounted for on all staff, the LIRS reserves the right to demand for the full WHT on the full contract sum.
3. This guideline has been issued to encourage economic activity in the state and to reduce the burden on taxpayers. The LIRS will not collect Withholding Tax and PAYE on the same tax base in such arrangements in order to eliminate double taxation.

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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