



What SMEs Should Know About the 2024 Withholding Tax Regulations

The Federal Government of Nigeria, through the Chairman of the Presidential Committee on Fiscal Policy and Tax Reforms, has introduced the Deduction of Tax at Source (Withholding) Regulations, 2024 ("Regulations"). This new regulatory framework aims to reduce Withholding Tax (WHT) rates, offer exemptions, and align Nigeria's tax system with global best practices.

Key Highlights of the New Regulations

- Revocation of Previous Regulations:**
 The new Regulations repeals all existing rules and practices related to deductions at source including Withholding Tax (WHT).
- Reduction in Withholding Tax Rates:**
 The Regulations reduce WHT rates for sectors with low margins, preventing excessive tax burdens on businesses.
- Exemptions for Small Transactions:**
 Small companies (as defined by the Companies Income Tax Act) are exempt from WHT for transactions under ₦2 million per month, provided the vendor or service provider involved holds a valid Tax Identification Number (TIN).
- Implementation Timeline:**
 The Regulations are set to take effect from January 1, 2025, ensuring businesses have adequate time to adjust to the updated framework.



- **Early Application Option:**

Businesses may opt for early implementation starting from July 1, 2024, subject to specific circumstances. Guidelines for early application will be issued by the relevant tax authority, with the Minister of Finance's approval.

Implications for Stakeholders

For Businesses:

- **Increased Cash Flow:**

Lower WHT rates will allow businesses, particularly SMEs, to retain more earnings, boosting liquidity and profitability.

- **Growth Opportunities:**

With more available capital, businesses can reinvest in expansion, workforce development, and innovation.

- **Simplified Compliance:**

Streamlined tax processes reduce administrative burdens, allowing businesses to focus on core activities.

For the Government:

- **Revenue Impact:**

While WHT collections may decline initially, particularly from SMEs, long-term compliance and business growth could offset this impact.

- **Improved Tax Compliance:**

Simplified tax rules could encourage voluntary compliance, increasing collections over time.

- **Administrative Adjustments:**

The relevant tax authorities will need to issue guidelines, monitor compliance, and adjust revenue projections accordingly.

For the Economy:

- **Business Expansion:**

Increased capital retention is expected to drive investments, entrepreneurship, and economic growth.

- **Broadened Tax Base:**

Although short-term revenue may dip, the expanded business activity could enhance the overall tax base in the long term.

What Next for SMEs?

1. **Tax Planning and Optimization:**

Reassess tax strategies to take full advantage of WHT exemptions and reduced rates.

2. **Regulatory Compliance:**

Update financial reporting processes to align with the new Regulations and maintain compliance.

3. **Contract Review:**

Revisit contracts with clients and consultants to adjust the new WHT obligations and adjust terms where necessary.

4. **Engage with the Tax Authorities:**

Staying informed about tax guidelines will help businesses benefit from early application of the WHT relief.

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The Regulations provide a timely opportunity for businesses to optimize tax strategies and streamline compliance. However, non-compliance can result in significant penalties, highlighting the importance of adhering to remittance deadlines. For expert guidance on how SMEs can align with these regulatory changes efficiently, please visit www.scp-law.com or contact us at info@scp-law.com.