FIRS Imposes 10% Withholding Tax

On Interest From Short-term Instruments

+234 (0)702 558 0053
3 Theophilus Orji Street, Off Fola Osibo Road, Lekki Phase 1, Lagos, Nigeria

www.strenandblan.com
contact@strenandblan.com
@strenandblan

5th December 2025

Introduction

The Federal Inland Revenue Service (FIRS) has introduced a **10% Withholding Tax (WHT)** on interest earned from short-term investments such as treasury bills, promissory notes, and corporate bonds which applies to both individual and corporate investors. **Effective from October 28, 2025**, financial institutions must deduct this tax at the point of interest payment and remit it to FIRS by the 21st of the following month. This move reflects FIRS's ongoing efforts to broaden Nigeria's non-oil revenue base and align tax policy with current investment trends.

Historical And Legal Context

Over the past decade, Nigeria's approach to taxing interest earned from short-term debt instruments, like treasury bills and corporate bonds, has shifted significantly.

The journey began with the 2011 Companies Income Tax (Exemption of Bonds and Short-Term Government Securities) Order, which came into effect on January 2, 2012. This policy granted a ten (10) year tax holiday on interest and capital gains from bonds and short-term government securities (excluding Federal Government bonds). The exemption applied to Companies Income Tax (CIT), Personal Income Tax (PIT), and Value Added Tax (VAT). The goal was to encourage investment and boost the domestic debt market.

However, this exemption expired on January 2, 2022. From that point on, income from these instruments became taxable again under the general rules of the Companies Income Tax Act (CITA). The Federal Inland Revenue Service (FIRS) confirmed this change in a Public Notice issued in February 2022, clarifying that interest and gains from most bonds and short-term securities, except for Federal Government bonds and Eurobonds, were now subject to tax.

To implement this change, the government introduced the Deduction of Tax at Source (Withholding) Regulations in 2024, followed by a directive from FIRS in October 2025. These regulations require banks, stockbrokers, and other financial institutions to withhold 10% tax on interest payments from qualifying short-term instruments and remit it to FIRS.

Together, these steps mark a clear shift from a decade of tax exemptions to a standardized tax regime for investment income. This move aims to broaden Nigeria's tax base, increase revenue, and align tax policy with current economic realities.

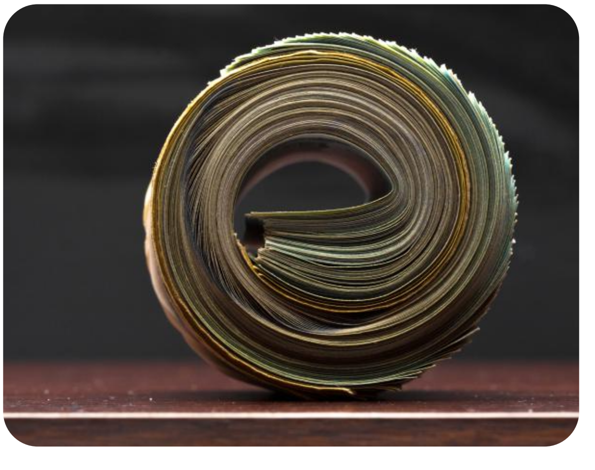
Scope Of Application

The 10% withholding tax applies to interest income earned from a wide range of short-term debt instruments, regardless of the type of issuer. This means that whether the instrument is issued by a private company, a state government, or a government-backed agency, the interest earned is subject to tax. The directive specifically lists instruments such as treasury bills, corporate bonds, promissory notes, government bonds, commercial papers, and bills of exchange as falling within the scope of this tax. However, there are notable exceptions. Interest earned on Federal Government of Nigeria (FGN) bonds is exempt from this tax, as is interest from Open Market Operation (OMO) bills issued by the Central Bank of Nigeria (CBN).

The tax is to be deducted at the point when the interest is either paid or credited to the investor, whichever occurs first. Once deducted, the paying institution, whether a bank, discount house, or other financial entity, is responsible for remitting the withheld amount to the Federal Inland Revenue Service (FIRS) within the timeframe stipulated by law. This framework ensures that the tax is collected efficiently and aligns with broader efforts to improve compliance and revenue generation

10%

Withholding tax applies to interest income earned



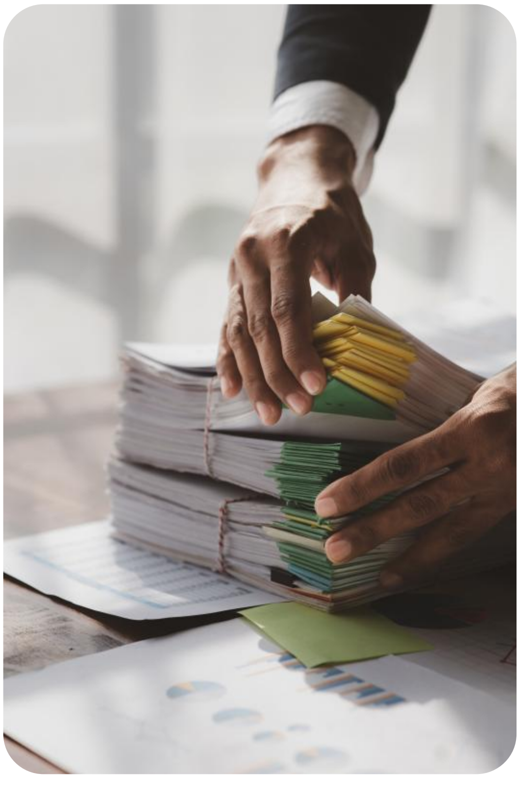
Legal Basis For The Directive

The FIRS directive is rooted in the provisions of Sections 78(1) and 81(1) of the Companies Income Tax Act (CITA), which mandate any person making payments of interest or other qualifying income to deduct tax at source and remit same to the Service. Furthermore, Section 85 of the CITA prescribes penalties and interest for failure to deduct or remit the tax as required. "Where any tax remains unpaid, a penalty of ten (10) percent per annum shall be added to the amount due, together with interest at the prevailing bank lending rate until full payment is made. Such penalty and interest shall be recoverable in the same manner as the tax itself. The Deduction of Tax at Source (Withholding) Regulations, 2024, reinforce these provisions by establishing standardised procedures for withholding agents, including the obligation to remit deducted taxes monthly and to maintain detailed records for audit verification.

Where any tax remains unpaid

10%

Penalty per annum shall be added to the amount due



Compliance And Administrative Obligations

All institutions involved in the issuance, management, or settlement of short-term instruments, including banks, brokers, trustees, and investment managers, are required to ensure full compliance with the deduction and remittance process prescribed by the Federal Inland Revenue Service (FIRS). In practical terms, this entails the following key obligations:

i. **Deduction at Source:** Withholding agents must deduct 10% of the gross interest payable at the time of payment or credit to the investor's account, whichever occurs first.

ii. **Timely Remittance:** The deducted tax must be remitted to the FIRS on or before the 21st day of the month following the month in which the deduction was made.

iii. **Tax Credit Treatment:** The person from whose payment the tax is deducted is entitled to a tax credit equal to the amount withheld and remitted, except where the tax is regarded as final.

iv. **Record-Keeping:** Withholding agents are required to maintain accurate and comprehensive records of all deductions and remittances, including transaction details, investor information, and payment confirmations, for audit and verification purposes.

vi. **Return Filing:** Periodic returns of withholding tax deductions must be filed in accordance with FIRS reporting guidelines and using the prescribed formats or electronic filing systems. Nigeria's digital tax administration system requires all filings and remittances to be made through the FIRS TaxPro-Max platform for federal obligations, while state tax authorities operate similar e-portals. Each electronic filing generates a unique receipt and credit note that serves as official proof of remittance. Importantly, the 21st of every month is the statutory deadline for remitting WHT deducted in the previous month and submitting the corresponding return, while companies must also include a summary of all WHT transactions in their annual tax returns to ensure full compliance and proper crediting of taxpayers.

vii. **Compliance Verification:** Institutions should conduct periodic internal reviews to ensure that their tax reporting, reconciliation, and remittance processes align with statutory requirements.

viii. **Penalty Exposure:** Non-compliance attracts statutory penalties, including a 10% surcharge on the unremitted amount and applicable interest until full payment is made.

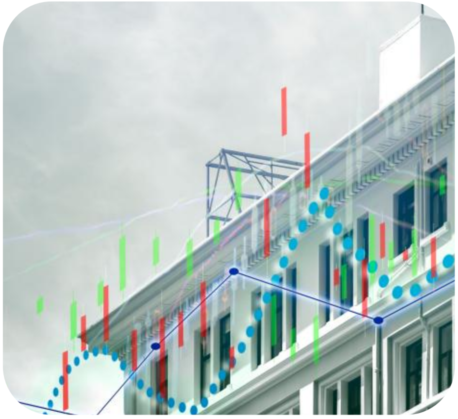
Implications For Market Participants

i. **Investors and Portfolio Managers:** The 10% withholding tax will reduce the actual (after-tax) return investors earn on short-term instruments. This may prompt portfolio managers, pension funds, and mutual funds to review their investment mix, comparing the new net yields with those from other assets such as Federal Government bonds and equities.

ii. **Issuers (Corporate and Sub-Sovereign):** Since investors will now earn less after tax, issuers of short-term instruments may need to offer slightly higher interest rates or reprice their instruments to stay attractive. The change could also reduce demand for short-term borrowing or make funding more expensive.

iii. **Financial Institutions and Intermediaries:** Banks, brokers, and issuing houses must now act as withholding agents. deducting and remitting the tax to the FIRS. This adds new compliance duties and may require system upgrades or process adjustments to ensure timely remittance and avoid penalties.

iv. **Policy Alignment and Market Effects:** The continued exemption of Federal Government bonds and the Central Bank OMO bills means these sovereign instruments now have a tax advantage. As a result, investors may shift funds from private or corporate securities toward federal government-issued instruments, strengthening government borrowing capacity but slightly tightening liquidity in the private credit market.



Conclusion

The introduction of **a 10% withholding tax on interest from short-term instruments marks a major change in how Nigeria taxes income from fixed-income investments.** It brings to an end the long-standing tax exemption that short-term securities have enjoyed and reflects FIRS's effort to create a more balanced and consistent tax system across the fixed income market.

Market players, including investors, issuers, and intermediaries, should now take active steps to comply with the new rule, review their existing investment structures and pricing, and adjust their return expectations. They may also need to explore alternative ways of structuring their investments to manage the impact of this new tax and achieve better after-tax returns in the changing market environment.

About Stren & Blan Partners

Stren & Blan Partners is an innovative and dynamic Law Firm with a compelling blend of experienced lawyers and energetic talents. We are focused on providing solutions to our client's business problems and adding value to their businesses and commercial endeavours. This underpins our ethos as everything we do flows from these underlying principles.

Stren & Blan Partners is a full-service commercial Law Firm that provides legal services to diverse local and multinational corporations. We have developed a clear vision for anticipating our client's business needs and surpassing their expectations, and we do this with an uncompromising commitment to Client service and legal excellence.

Authors

Noble Obasi

Team Lead

NobleObasi
@strenandblan.com

Oreoluwa Nehizena

Senior Associate

OreoluwaNehizena
@strenandblan.com

Ebube Okorji

Associate

EbubeOkorji
@strenandblan.com

STREN & BLAN PARTNERS

+234 (0)702 558 0053
3 Theophilus Orji Street, Off Fola Osibo Road,
Lekki Phase 1, Lagos, Nigeria

www.strenandblan.com
contact@strenandblan.com
@strenandblan