National Pension Commission Issues Circular on Voluntary Contributions Under the Contributory Pension Scheme

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The National Pension Commission (PenCom or "the Commission") has issued a Circular ('the Circular') on "Emerging Matters on the Payment of Voluntary Contribution (VC) under the Contributory Pension Scheme (CPS). *Please click here to download a copy of the circular.*

According to PenCom, the Circular has been issued following the review of submissions made by the Pension Fund Operators Association of Nigeria and other independent contributors on certain provisions of the Pension Reform Act (PRA) 2014 and the Guidelines on Voluntary Contribution under the Contributory Pension Scheme ('the Guidelines').

Implications of the Circular for relevant stakeholders

The implications of the Circular, which is effective from 10 June 2024, for the relevant stakeholders are as follows:

i. Retention Period

Contributors to voluntary pension can now access the contingent portion (50% of contribution) of their voluntary contributions after one (1) year from the date the contribution was made. This is a revision to the previous requirements which specified a minimum of two (2) years from the date of contribution or at expiration or termination of contracts with respect to mandatory and non-mandatory contributors respectively.

ii. Uniform Withdrawal Rules

Retirees, exempted contributors, political office holders, employees in an organization with an Approved Existing Scheme (AES), and foreigners are now allowed to withdraw 50% of the voluntary contributions as contingent withdrawal before their employment contracts expire. Prior to the issuance of the Circular, these categories of contributors could only access their contributions at the expiration or termination of their contracts.

iii. Taxable Portion of Withdrawals

Based on the provisions of Section 10(4) of the Pension Reform Act (PRA) 2014, any income accrued on voluntary contributions shall be taxable in accordance with the relevant laws where withdrawal is made before the end of five (5) years from the date the voluntary contribution was made, for mandatory and non-mandatory contributors.

On the other hand, Clause 3.29 of 'the Guidelines' provides that tax deductions will be made on both the income earned and principal amount where the withdrawal is done less than five (5) years from the date the contribution was made by non-mandatory contributors (exempted, foreigners, retirees under the defunct Defined Benefits Scheme and retirees under the CPS).

With the newly issued circular, PenCom has aligned with the provisions of the PRA that subject only the income accrued on VCs to tax where withdrawal is made before the 5-year period for exempted individuals.

iv. Documents Request

The PenCom has also provided lists of documents to be submitted by the Pension Fund Administrators in their requests for a "No Objection" to pay the contingent portion of voluntary contributions to contributors in the following categories:

- Active Contributors under CPS
- Retired Contributors under CPS who secured another employment
- Retired Contributors under the Defined Benefit Scheme who secured another employment
- Exempted Persons
- Foreigners working in Nigeria
- Partners of Firms/ Members of Religious Bodies and non-executive directors of Companies who are participating in the CPS

The documents include letters of employment, payslips, bank statements, copies of residence permits for foreigners and any other document that may be specified from time to time by the Commission.

Commentaries

The circular is aimed at increasing participation in the voluntary pension scheme. It also demonstrates PenCom's continued efforts to address stakeholders' concerns.

By reducing the timeframe for accessing the contingent portion of Voluntary Contributions (VCs) for both mandatory and non-mandatory contributors, it is expected that more eligible individuals would be encouraged to participate in the scheme to access the benefits it offers. In addition to reducing the previously lengthy waiting period for withdrawals, the changes should facilitate uniformity across the categories of contributors which will aid the administrative process for PenCom.

Overall, the revision is a welcome development, as it addresses some critical issues within Nigeria's pension contribution framework, particularly concerning the taxation of voluntary contributions.

Given this development, stakeholders are advised to seek appropriate professional guidance regarding the handling of VCs. KPMG is well-placed to provide the required guidance and support.

For further enquiries, please contact:

Adewale Ajayi ng-fmtaxenquiries@ng.kpmg.com