



Tax incentives and the reality of revenue generation in Nigeria

CITN – Pre-induction orientation programme paper

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#1 Objective

#2 Understanding
the concept of
taxation

#3 Overview of
Nigeria's tax
regime

#4 Tax incentives in
Nigeria

#5 Interplay between
granting tax
incentives and
generating revenue
for Nigeria

#6 Conclusion
&
Case Study

At the end of the session, participants should be able to:

- i. Learn various tax incentives available in Nigeria
- ii. Appreciate the fiscal regime in Nigeria and its impact on claiming tax incentives
- iii. Understand the interplay between granting tax incentives and generating revenue for Nigeria

Understanding the concept of taxation



The National Tax Policy defines 'Tax' as:

Definition

“a monetary charge imposed by government on persons, entities, transactions or properties to yield revenue.”

The system of taxation is not a quid quo pro system wherein the benefits reaped are equivalent to the amount invested.

The primary purpose of taxation is to finance government expenditure.

Characteristics

Understanding the concept of taxation



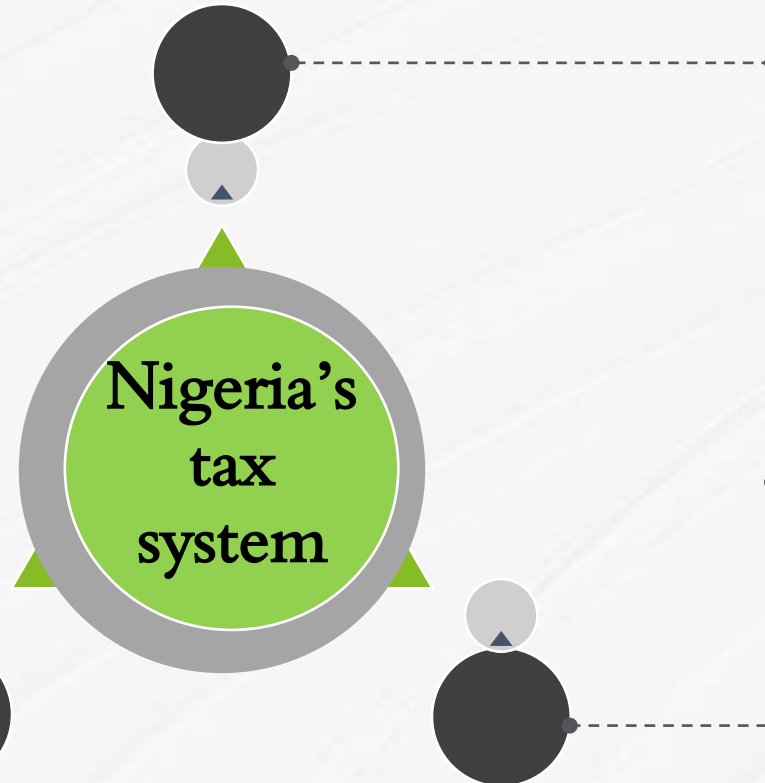
Key features

- Revised National Tax Policy approved in February 2017, defines the philosophy of the tax system.
- Taxes & Levies (Approved list of collection) Act contains a list of the major taxes and levies in Nigeria.
- Each tier of Government has a tax administration body responsible for tax collection.
- Taxpayers, together with their advisors, are crucial elements of the tax system.

Understanding the concept of taxation

Tax Administration

Different tax authorities – each with its own distinct composition, powers and functions – responsible for administering various taxes, levies and rates



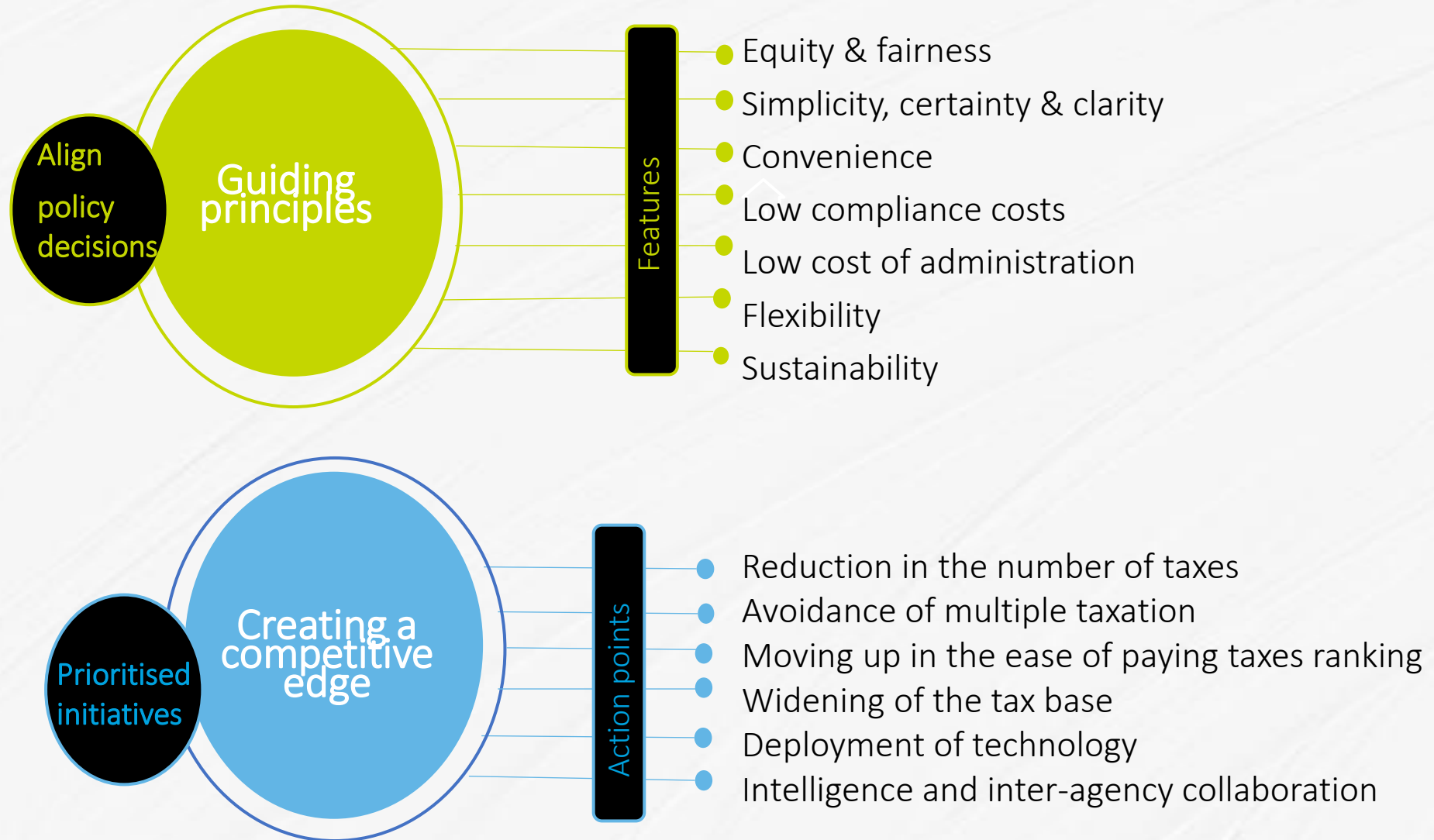
National Tax Policy 2017

Provides guidelines and parameters for taxation and other ancillary matters including tax administration, tax legislation and the development of the Nigerian tax system

Tax Laws

Spells out the taxes and levies that can be collected by different tiers of government, including applicable rates, filing/compliance requirements and penalties for default

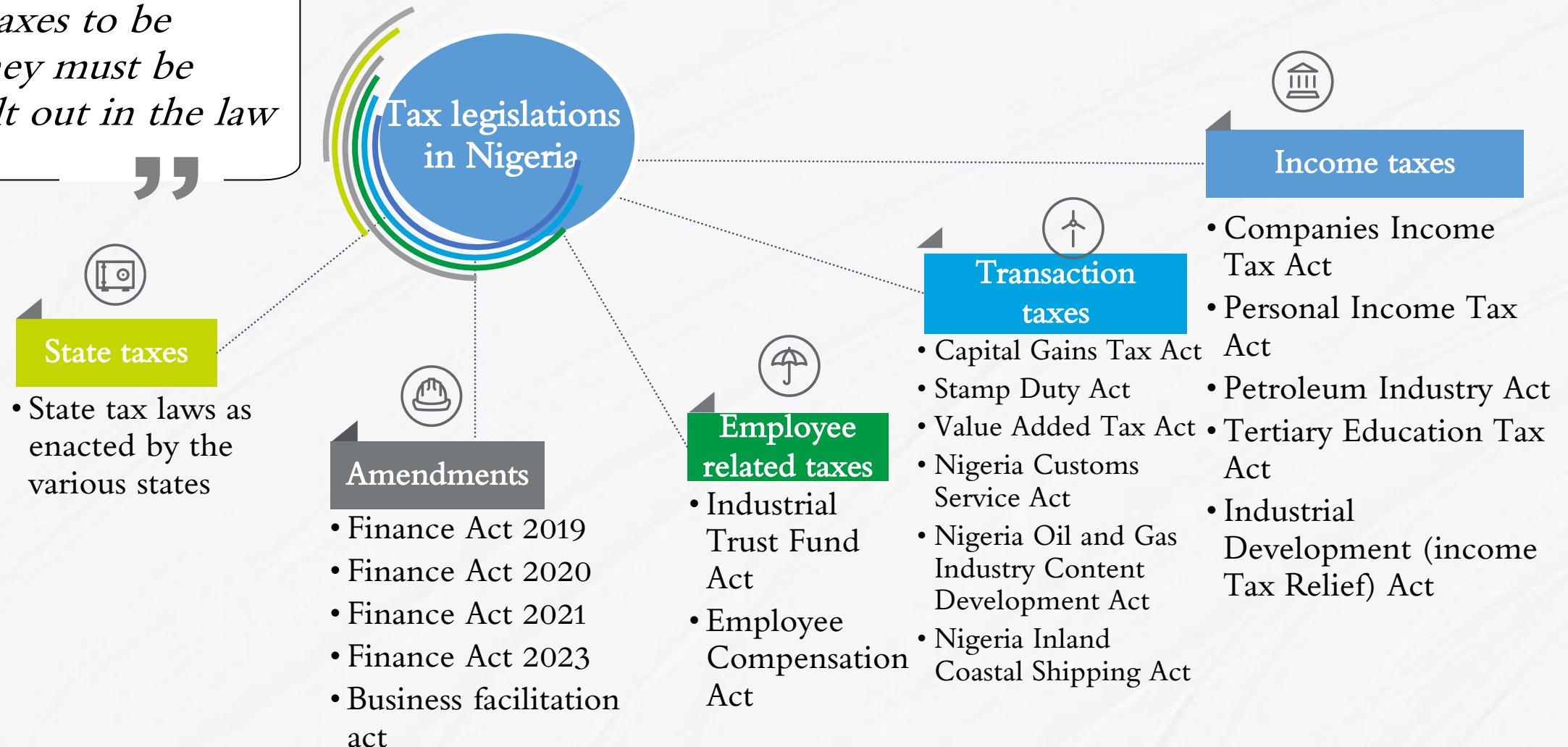
Understanding the concept of taxation – National Tax Policy 2017



Understanding the concept of taxation – Tax laws



*Taxation is statutory.
Thus, for taxes to be payable, they must be clearly spelt out in the law*



Challenges

Multiplicity of tax laws; old with recent attempts to align with modern realities through Finance Acts and executive orders

Different states exercising their legislative powers, adding to the already crowded tax regime, e.g consumption tax in Lagos State

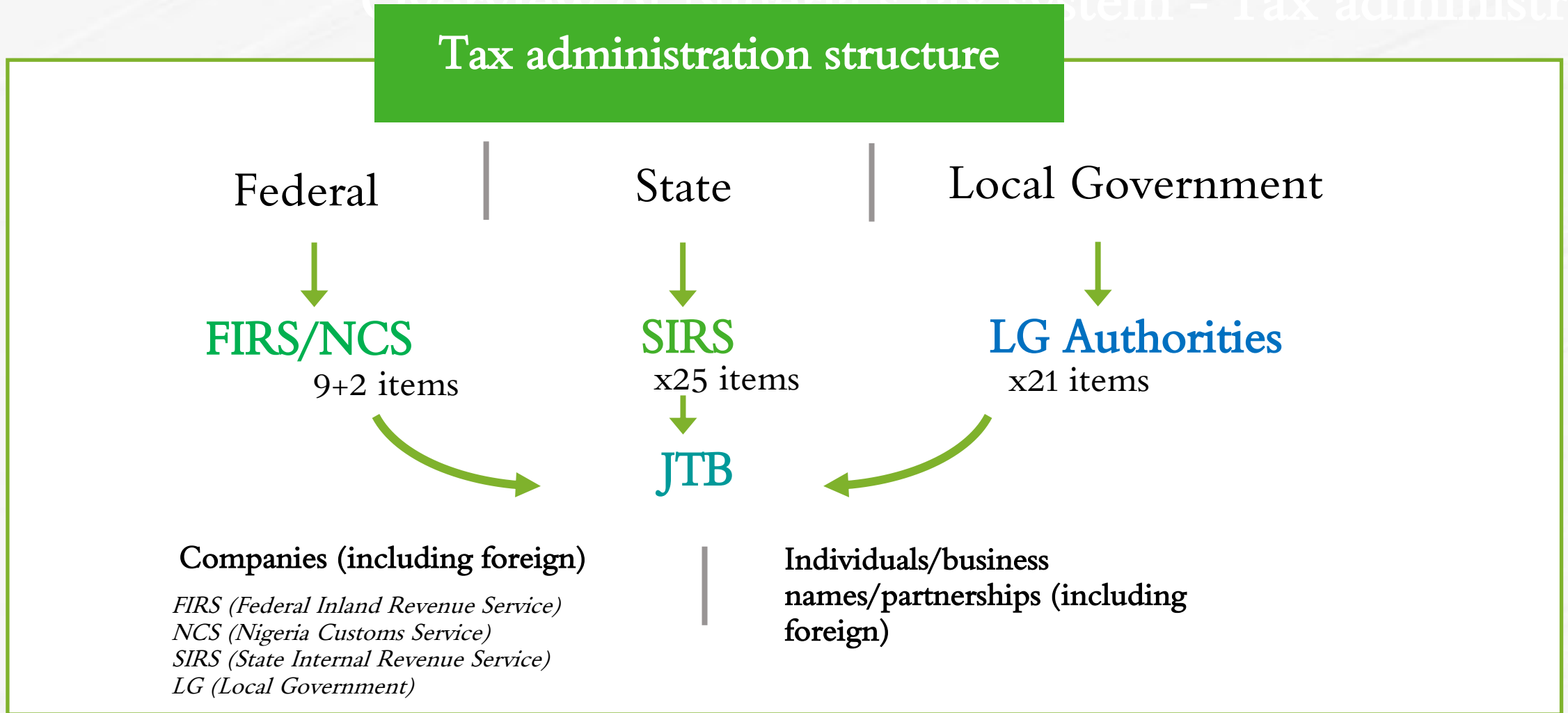
- Subjecting the same profits to tax more than once
- Disconnect between tax policies and tax laws
- inadequate amendments to tax laws to help address obsolescence in tax laws

Understanding the concept of taxation

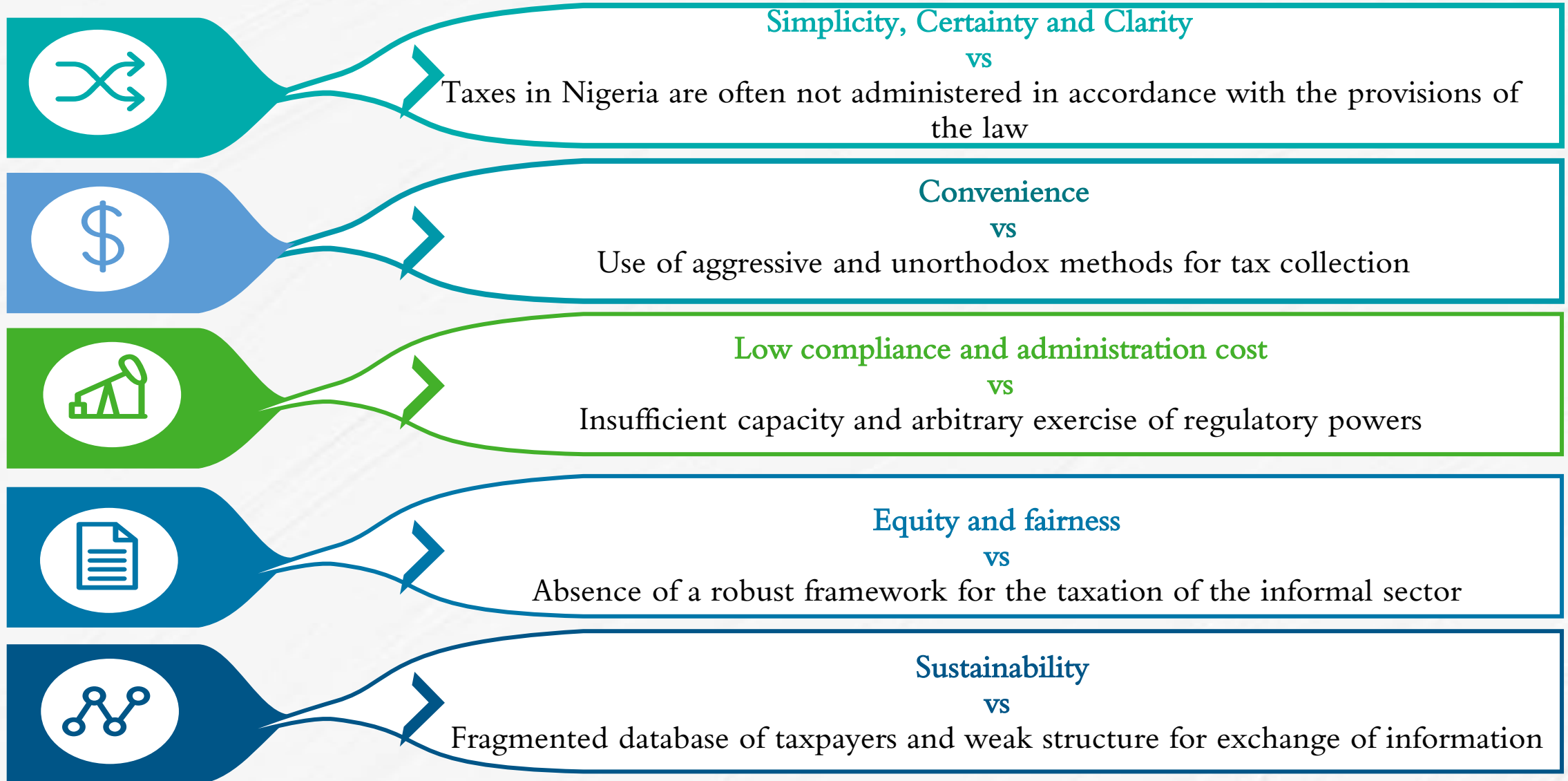
- Tax administration



Overview of Nigeria's tax system - Tax administration



Overview of Nigeria's tax system - The Ideal Tax System VS The Nigerian Reality



Tax incentives in Nigeria



What are tax incentives?

These are special tax provisions put in place to indirectly support investors, such that it does not require the government to use its funds or resources as an initial outlay / support.

Government's objective for granting incentives is to:

- Attract, retain, increase and stimulate investment in target sectors/industries
- Expansion of domestic production capacity
- Protect existing foreign and local investments from unfair competition, etc.

Tax incentives are put in place to ensure the overall growth of the Nigerian economy and development of all its sectors

Tax incentives in Nigeria

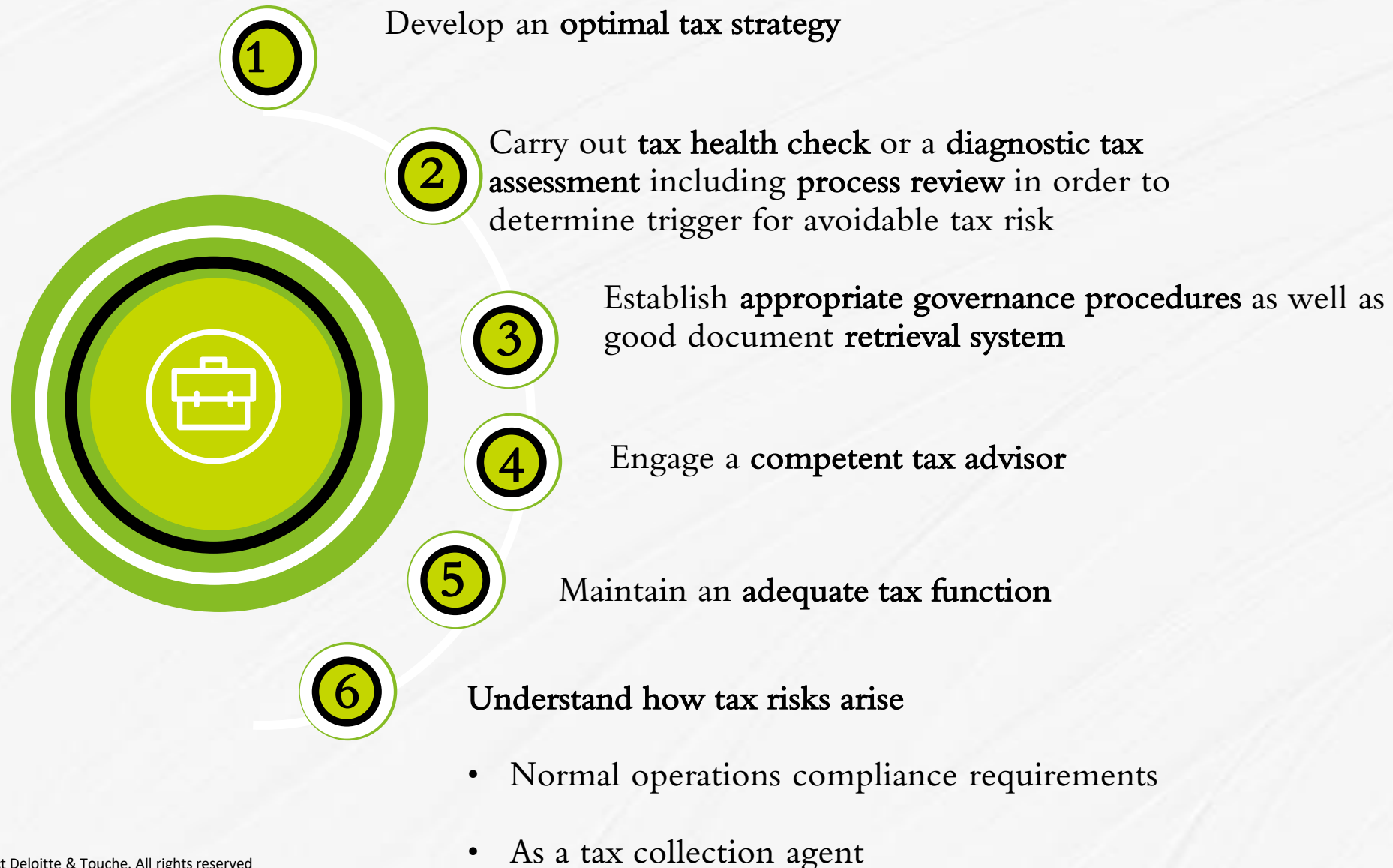
Various Nigerian tax laws contain special tax provisions granted (tax incentives) to qualified investment projects or entities/individuals providing a favorable deviation from the general tax requirements.

Text

Tax incentives are generally classified into two – cost-based tax incentive (tax credits) and profit-based tax incentives (tax holidays or reduced tax rates).



Tax incentives in Nigeria – Managing tax exposure



Tax incentives in Nigeria – CITA & CGTA



Capital allowances

Minimum tax exemption

Exemption of certain income e.g. dividend distributed by unit trust, profits on goods exported from Nigeria where proceeds are used to purchase raw materials, spare parts & plant equipment

Pioneer status incentives

Operation in the free trade zone from approved entities carrying out approved activities within the zone

Tax incentives

Small companies (as defined by CITA) pay taxes at 0%

Reduced withholding tax on interest income on foreign loans which meets certain criteria

Companies Income Tax exemption on bonds issued by the Federal Government

Rollover relief on Capital Gains Tax

Exemption from CGT for gains accruing to ecclesiastical, charitable or educational institutions

Tax incentives in Nigeria - VATA

The first schedule of VATA lists certain goods and services exempted from VAT.



All exports



All medical and pharmaceutical Products



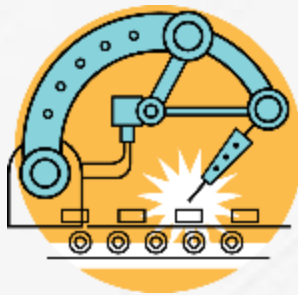
Basic food items



Medical services



Tractors and other farm equipment



Plant, machinery and goods for use in the Export Processing Zone (EPZ) or Free Trade Zone (FTZ)*



Educational books and materials



Fertilizers, locally produced agricultural chemicals, locally produced veterinary medicine

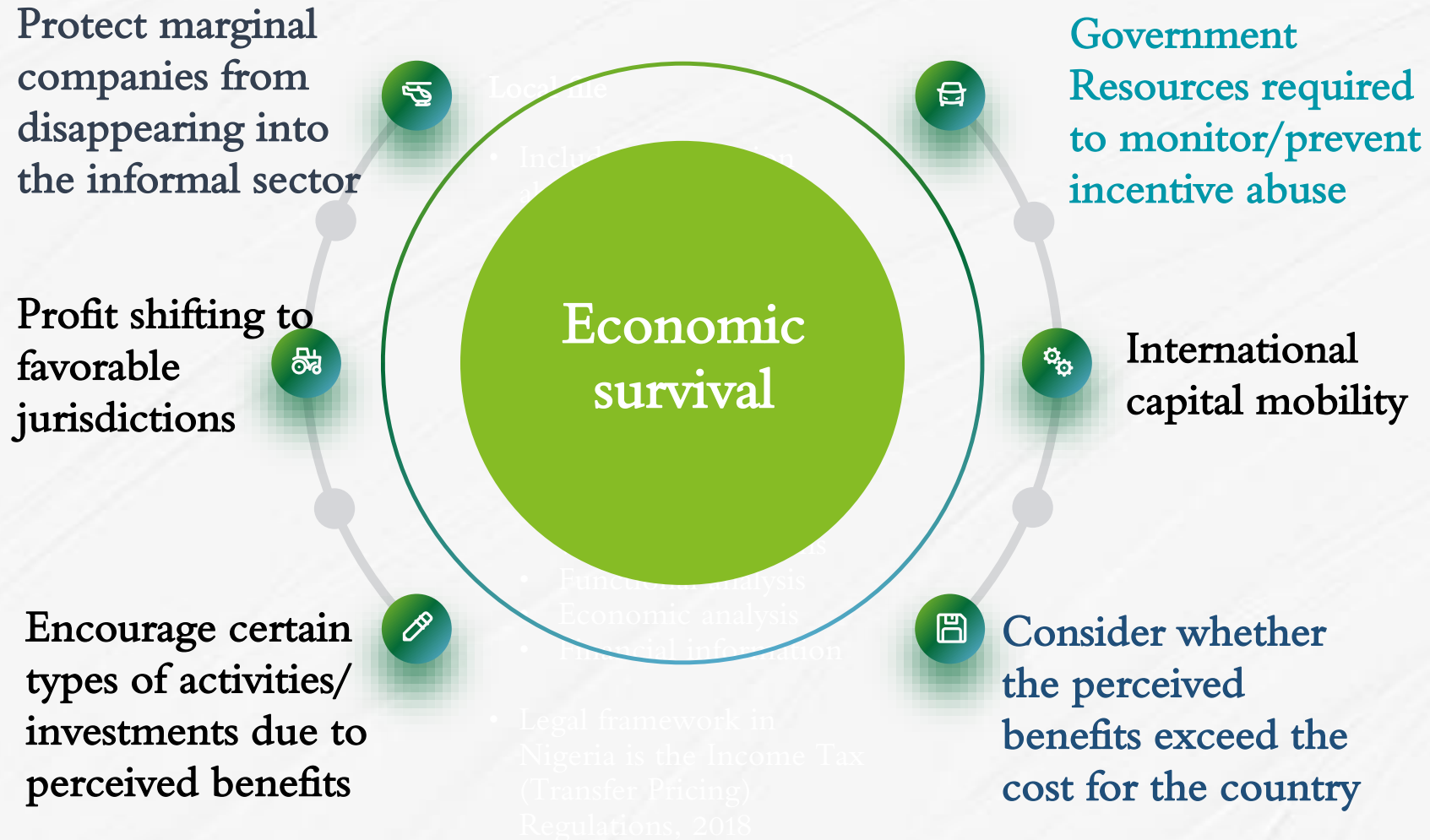


Baby products



Plant and machinery for utilisation of gas in the downstream operations

Tax incentives in Nigeria – Effect on economic survival



Revenue generation vis-à-vis tax incentives

- The primary objective of a modern tax system is the generation of revenue to help the government finance public sector expenditure.
- Tax incentives are a device of fiscal policy implemented to effectively boost revenue generation in a country. They are designed to influence investment in the country by lowering the tax burden of specific class of taxpayers.
- Nigeria's economy can also be improved by attracting investments into the country, particularly through tax incentives whilst also granting tax incentives to local companies to aid their businesses and revenue generation.
- Additionally, the goal of bringing more taxable Nigerians and entities into the tax net can be achieved through tax incentives.
- Taxation and tax incentives are not mutually exclusive. A balanced implementation of taxation and the application of tax incentives will achieve better revenue generation for government

Tax incentives are used to generate revenue

Tax Incentives and reality of revenue generation in Nigeria

Employing taxation and tax incentives as complimentary tools for revenue generation



Optimal taxation

Tax incentives should be employed to discourage tax evasion and tax avoidance as well as broaden the tax base



Investment promotion

Tax incentives should be aimed at attracting foreign investments as well as encouraging local businesses in relevant sectors



Prevention of abuse

Measures should be put in place to ensure tax incentives are not abused. This will involve scrapping incentives that have



Enabling business environment

Government should create an enabling environment for business to thrive so as to boost the

The Presidential Committee on Fiscal Policy and Tax Reforms (“the Presidential Committee”) recently announced that Nigeria loses 6 trillion Naira to tax incentives annually.

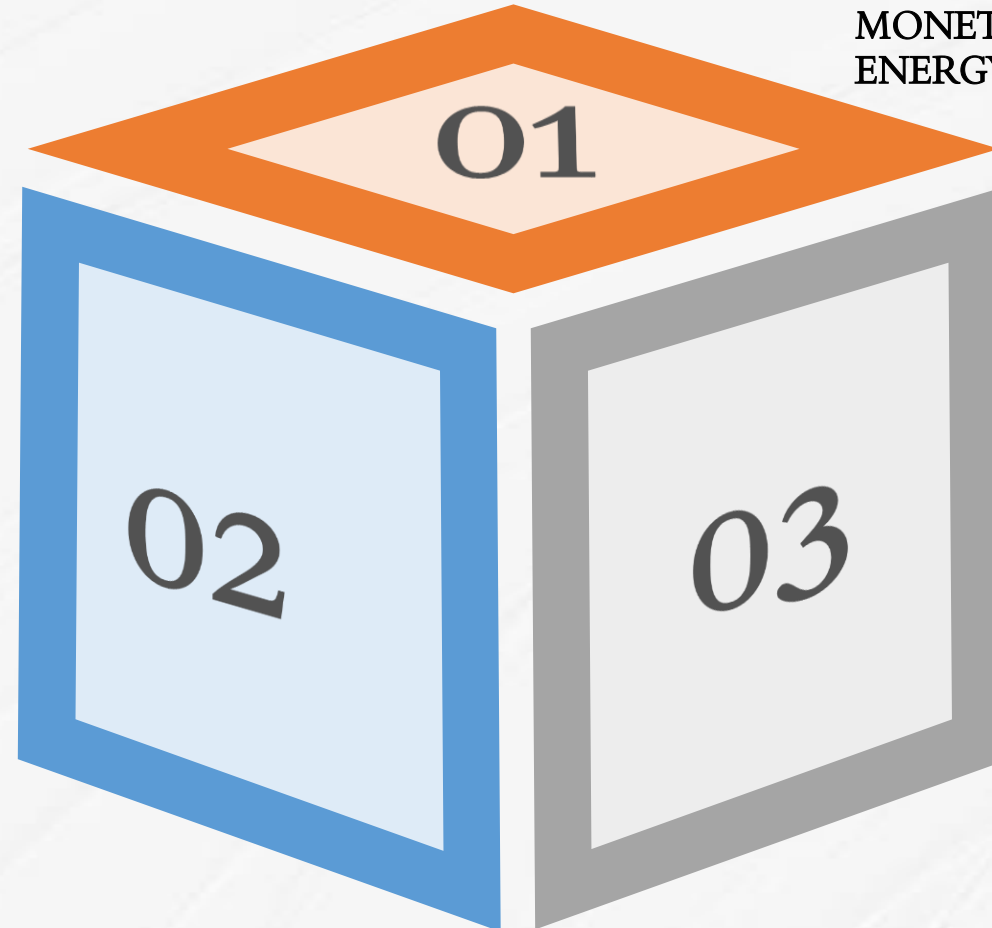
The Presidential Committee has been mandated to review the incentive regime based on data, and evidence, and design what is appropriate for the country.

The Chairman of the Presidential Committee noted that the government plans to remove disincentives in the tax system in order to stimulate the economy and contribute to inclusive growth and wealth creation.

Fiscal trends that will shape 2023 and beyond

REVENUE GENERATION & ADMINISTRATION

1. Harmonization of taxes and levies
2. New Frontiers – Taxes & New Markets
3. “Corresponding reduction” in headline corporate tax rates
4. Review of outdated tax legislation in line with global best practices to combat Base Erosion Shifting.
Dealing with Pillars 1&2
3. Tax Automation - *data for insights*
 - ❑ FIRS – Tax administration & People
 - ❑ Other revenue generating agencies
 - ❑ Sub-nationals
6. Collaboration
 - ❑ Joint audits by FIRS and sub-nationals
 - ❑ NFIU, NIMC, etc.
 - ❑ EOI



BETTER COORDINATION -
MONETARY, FISCAL, TRADE &
ENERGY POLICIES

REBUILDING OF
PUBLIC TRUST &
SOCIAL CONTRACT

Closing quotes



1

If we are to create tomorrow's jobs, we can't remain frozen in time in yesterday's tax system
– Dick Armev

2

The nation should have a tax system that looks like someone designed it on purpose
– William E Simon

3

If you are not paying your due share of taxes in Nigeria or you collude to cheat Nigeria of its share of taxes, then you are an enemy of Nigeria
– Oluseye Arowolo

4

5

The newly inaugurated government of the Federal Republic of Utopia (a third world country) intends to roll out various tax incentives that would encourage its taxpayers to comply with tax obligations and further increase tax revenue within the next 4 years. The government of Utopia is wary of the possible economic, social and political realities that could impede achieving revenue generations.

As a tax professional, kindly advise the government.

- Digitization of tax processes such as payment of taxes, filing of returns etc. to enhance voluntary tax compliance by taxpayers
- The government should put in place tax incentives for ease of doing business. Incentives such as pioneer status for new companies, tax holidays, special tax waiver such as lower tax rate based on revenue threshold, interest and penalty waiver.
- Unambiguity in the provision of tax law in order to forestall contentious issues that will lead to different interpretations.
- Capacity building to ensure an optimal level of competency among tax administrators
- Collaboration with bodies and agencies such as Financial institutions to enhance tax compliance
- Continuous sensitization of taxpayers

A city skyline at dusk with a white rounded rectangle containing the text 'Thank You.' and a green dot. The background is a dark blue and black cityscape with several tall buildings. A white rounded rectangle is centered in the middle of the image, containing the text 'Thank You.' in a serif font. A small green dot is positioned at the end of the period. In the top left corner, there are two overlapping light blue rounded squares. A yellow and orange gradient is visible on the left side of the image.

Thank You.


Speaker's Profile – Toluwalogo Odutayo




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Toluwalogo is a Partner in our Tax & Regulatory Services. She is a graduate of Accounting from Obafemi Awolowo University, Ile-Ife, Osun State and holds an M.Sc. in Management from the University of Leicester, United Kingdom.

Toluwalogo has about 20 years of experience in tax consultancy and regulatory practice in Nigeria. She is a partner in the Global Employer Services unit of the Tax & Regulatory function of Deloitte & Touche.

She is a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN) and a Fellow of the Chartered Institute of Taxation of Nigeria (CITN).

‘Toluwalogo’ (as she is popularly called) is experienced in the provision of immigration, tax advisory and compliance services to companies in the oil and gas sector, the fast-moving consumer goods (FMCG) sector, public companies, non-governmental organizations, high net worth individuals, local and expatriate employees. She has worked on numerous immigration and tax assignments for both local and international clients. She is a speaker on tax issues and has attended and facilitated several trainings within and outside the country.

Toluwalogo is happily married with 2 lovely children and enjoys travelling, mentoring young

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