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NIGERIA TAX SUMMARY

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Nigeria Tax Summary

PERSONAL INCOME TAX
(PERSONAL INCOME TAX DECREE)
(Decree N0. 104 of 1993) CAP P.8 L.F.N 2004

Taxable Income ₦		Rate of Tax %	Tax Payable ₦	Taxable Income ₦	Tax Payable ₦
First	300,000	7	21,000	300,000	21,000
Next	300,000	11	33,000	600,000	54,000
Next	500,000	15	75,000	1,100,000	129,000
Next	500,000	19	95,000	1,600,000	224,000
Next	1,600,000	21	336,000	3,200,000	560,000
Over	3,200,000	24			

Notes:

1. State Internal Revenue Offices administer personal income tax. Individuals resident in Nigeria are to pay their taxes to the State\Tax Office where they are resident on 1st January of each year.

2. Non-resident individuals, staff of the Nigerian Armed Forces, Officers of the Nigeria Foreign Services, persons resident within the Federal Capital Territory, Abuja and persons employed in the Nigeria Police Force (other than in a civilian capacity) are to pay their taxes to the Federal Inland Revenue Service.

3. The 183 days residency rule for liability to Nigerian tax is to be reckoned on a 12 month basis and not merely within an assessment year.

TAXABLE INCOME

Any salary, wage, fee, allowance or other gain or profit from employment including compensations, bonuses, premiums, benefits or other prerequisites allowed, given or granted by any person to any employee other than so much of any sums as may be admitted by the relevant tax authority to represent reimbursement to the employee or expenses incurred by him in the performance of his duties.

TAXABLE BENEFITS IN KIND

Type	Basis
1. Free Accommodation	Retable value of accommodation occupied
2. Free use of a company's asset	5% of cost of the asset e.g. car.
3. Asset rented or hired for use of own employee	Cost of rental or hire

INCOME TAX RELIEFS

• Consolidated relief Allowance	₦200,000 plus 20% of gross emoluments
• National Housing Fund Contribution	Free
• National Health Insurance Scheme	Free
• Life Insurance Premium	Free
• National Pension Scheme	Free
• Gratitudes	Free
• Reimbursement to employee for expenses incurred in the performance of his duties	Free provided it is not intended that the employee should make any profit.

WITHHOLDING TAXES

Type of payment	Rate
• Royalty	5%
• Interest	10%
• Dividend	10%
• Rent (including hire of equipment)	10%
• Director's fees	10%
• All aspects of building construction and related activities	5%
• All types of contracts and agency arrangements other than outright sale and purchase of goods and property in the ordinary course of business	5%
• Consultancy and professional services	5%
• Management services	5%
• Technical services	5%
• Commissions	5%

Withholding tax on dividend and interest is a final tax on such income.
Penalty for failure to withhold and or pay over tax withheld is 200% of tax involved.

EXEMPTION FROM FILLING OF RETURNS

A person whose only source of income in any year of assessment is employment in which he earns ₦30,000 or less is exempted from filling a tax return.

MINIMUM TAX PROVISION

This is at the rate of 0.5% of total income where:

(a) an individual has no taxable income because of large personal reliefs: or

(b) taxable income produces tax payable lower than minimum tax.

COMPANIES INCOME TAX
(COMPANIES INCOME TAX ACT CAP 60 LFN 1990)
(CAP C.21 L.F.N. 2004)

RATE OF TAX

On total profit	30%

WITHHOLDING TAXES

Type of payment	Rate
Royalty	10%
Interest	10%
Rent (including hire of equipment)	10%
Dividend	10%
All aspects of building construction and related activities	5%
All types of contracts and agency arrangements other than outright sale and purchase of goods and property in the ordinary course of business	5%
Consultancy and professional services	10%
Management services	10%
Technical services	10%
Commissions	10%

Penalty for failure to withhold and or pay over tax withheld is 200% of tax involved.

MINIMUM TAX

The is applicable where a company has no total profit or total profit produces tax less than minimum tax arrived at as follows:

(a) With turnover of ₦500,000 or less, highest of: 0.5% of gross profit; 0.5% of net assets; 0.25% of paid-up capital; and 0.25% of turnover.

(b) With turnover is excess of ₦500, 000 where a company has no total profit or total profit produces tax less than minimum tax, minimum tax arrived at in (a) plus 0.125% of turnover in excess if ₦500,000.

This tax is not applicable to:

- a company with at least 25% foreign equity,
- those engaged in agricultural trade or business and
- to any company during the first four calendar years of commencement of business.

INVESTMENT ALLOWANCE

Type of Asset	Rate
Plant and equipment generally	10%
Plant and machinery bought to replace old ones (in manufacturing)	15%
Plant and machinery used in gas utilisation activities	15%

RURAL INVESTMENT ALLOWANCE

A company which has incurred capital expenditure on the provision of electricity, water, tarred road or telephone for the purpose of its trade or business which is located at least 20 kilometers away from such facilities which were provided by government can claim rural investment allowance on such capital expenditure as follows:

(i)	No electricity, water, tarred road and telephone	-	100%
(ii)	No electricity	-	50%
(iii)	No water	-	30%
(iv)	No tarred road	-	15%
(v)	No telephone	-	5%

Notes

a) Investment allowance cannot be claimed on the same assets on which rural investment allowance has been claimed.

b) Rural investment allowance can only be claimed in the year the capital expenditure is incurred and cannot be carried forward.

CAPITAL ALLOWANCES

(a)

Qualifying expenditure in respect of	Rates	
	Initial allowance %	Annual allowance (Straight line) %
Industrial and non-industrial buildings	15	10
Mining	95	Nil
Plant & Machinery:		
• For agriculture production	95	Nil
• Bought to replace old ones	-	95 (First Year)
• Used in gas utilization	-	90 (First Year)
• Others	50	25
Furniture and Fittings	25	20
Motor Vehicles:		
• For Public Transportation	95	Nil
• Others	50	25
Plantation Equipment	95	Nil
Housing Estate	50	25
Ranching and Plantation	30	50
Research and Development*	95	Nil

(b) Capital allowance granted in any year are restricted to $66\frac{2}{3}\%$ of the year's assessable profit for companies not engaged in manufacturing, mining and agricultural trade or business.

(c) It is a condition in granting capital allowances that capital expenditure acceptance certificates are obtained from the Inspectorate Division of the Federal Ministry of Industries for capital expenditure of a company is respect of individual assets costing ₦500, 000 or above.

* This relates to expenditure incurred on equipment and facilities, patents, licenses, secret formula or process or information concerning industrial, commercial or scientific process, technical feasibility or products or process and purchase, searching for and discovering and testing products or process for future market or use and such other similar cost which has not brought into existence any asset.

Income Exempted From Tax

(i) Dividends (Franked Investment Income).

(ii) Interest due on any foreign loan granted on or after 1st April, 1978.

(iii) Interest on foreign currency domiciliary accounts.

(iv) Interest earned on a deposit in Nigeria by a non-resident company where the deposit account was opened wholly with foreign currencies transferred to Nigeria with effect for 1st January, 1990.

(v) Interest earned by banks on loans granted for agricultural trade or business and for purposes of manufacturing goods for export.

In the case of loans for agricultural trade or business, the following conditions must be fulfilled:

(a) Moratorium period should not be less than 18 months.

(b) Rate of interest should not be more than the ‘’base lending rate” (of the bank granting the loan) at the time the loan was granted. Base lending rate is defined as the weighted average of the cost of funds to any bank.

(c) For loans granted for the purpose of manufacturing goods for export, a bank is required to present a certificate issued by the Nigerian Export Promotion Council stating that 50% of the goods manufactured by the company which was granted the loan was exported.

(vi) Profit in respect of goods exported.

(vii) Profit of a company whose supplies are exclusively inputs to the manufacturing of products for export.

(viii) Interest earned by banks on loans granted.

(a) For local fabrication of plant and machinery

(b) Under the Family Economic Advancement Programme (FEAP)

(ix) Interest, dividend, royalty or rent derived outside Nigeria and brought into the country through an authoised channel.

(x) Dividend received from small companies in the manufacturing sector in the first five year of operation.

(xi) The profit of a company established within the export processing zone or free trade zone.

Investment Tax Relief

A company which has incurred an expenditure on electricity, water, tarred road or telephone for the purpose of trade or business carried on by the company at a location which is at least 20 kilometers away from electricity, water, tarred road and telephone facilities provided by government can enjoy investment tax relief in the year such expenditure is incurred at rates similar to those under Rural Investment Allowance. The relief, which can be claimed for only three years, is not available to a company which has been granted a pioneer status.

Investment Tax Credit (ITC)

Type of Asset		**Rate**
Research and Development	-	20%
Capital expenditure for the fabrication of tools, spares, etc	-	25%
Locally manufactured plant, machinery, and equipment	-	15%
Plant and machinery to replace obsolete ones	-	15%

Self Assessment Tax System

All companies are to file a self-assessment when delivering their tax returns to the tax office. The self assessment is an indication that a company has assessed itself on the date the self-assessment form is signed by a principal officer of a company defined as either the Managing Director, an Executive Director or the Company Secretary. Although the tax office requires a tax payer to file and pay, approval is usually granted for payment to be made in installment as a form of encouragement to self assessment filers.

PENALTY FOR LATE FILLING OF RETURNS

Tax returns are required to be filed not later than 6 months after the end of a company's accounting year. Any failure to comply with this requirement attracts a penalty of ₦25,000 in the first month of failure and ₦5,000 for each subsequent month in which failure continues. The penalty is imposed without recourse to any court of law.

PENALTY FOR LATE PAYMENT OF TAX

Any tax assessed on a company is payable within two months from the date on the assessment notice or 14th December of an assessment year, whichever is earlier. A penalty of 10% per annum is imposed on any sums paid after the due date. Interest at prevailing commercial rate is also chargeable.

PETROLEUM PROFITS TAX
(PETROLEUM PROFITS TAX ACT CAP 354 LFN 1990)
(CAP P 13 L.F.N. 2004)

Rate of tax	
On exports	85%
On domestic sales of oil and gas	65 75%
On deep offshore PSC	50%

Rates of Royalty	
Onshore production	20%
Offshore production in areas up to 100 meter water depth	18.50%
Offshore production in areas beyond 100 metres water depth	16.67%
On deep offshore PSC:	
• Up to 1000 metres depth	Between 12% & 4%
• In excess of 1000 metres depth	0%

Capital Allowances	
Year 1 to Year 4 (Rate per annum)	20%
Year 5	19%

Investment Tax Allowance	
For deep offshore PSCs executed after 1st July, 1998	50%

Investment Tax Credit	
Onshore operations	5%
Offshore operations in areas up to 100 metres water depth	10%
Offshore operations in areas between 100 & 200 metres water depth	15%
Offshore operations in areas beyond 200 metres water depth	20%
For deep offshore PSCs executed prior to 1st July 1998	50%

OTHERS:

1. **CAPITAL GAINS TAX (CAPITAL GAINS TAX ACT CAP 42 LFN 1990) (CAP C1 L.F.N. 2004)**

   Rate of tax – 10% of capital gain

2. **VALUE ADDED TAX (VAT) DECREE NO. 102 OF 1993 (ACT CAP V 1 L.F.N 2004)**

   Value Added Tax (VAT) was introduced on 1st January, 1994 to replace Sales Tax which had a very narrow coverage. Taxable persons are obliged to register under the VAT Decree. The tax which is at a single rate of 5% of taxable goods and services is to be borne by the final consumer but collected at each stage of the production and distribution chain. Supply of all goods and services except those specifically exempted are subject to VAT. Non-resident companies which transact business in Nigeria are also required to register for VAT and render returns.

   The following goods and services are specifically exempted from the tax:

   Exempted goods:

   1. All medical and pharmaceutical products.
   2. Basic food items.
   3. Books and educational materials.
   4. Baby products.
   5. Fertilizer, locally produced agricultural and veterinary medicine, farming machinery and farming transportation equipment.
   6. All exports.
   7. Plant and machinery imported for use in the Export Processing Zone.
   8. Plant, machinery and equipment purchase for utilization of gas in downstream operations.
   9. Tractors, ploughs, agricultural equipment and implements purchased for agricultural purposes.

   Exempted services:

   1. Medical services
   2. Services by Community Banks, Peoples' Bank and Mortgage institutions.
   3. Plays and performances conducted by educational institutions as part of learning.
   4. All exported services.

3. EDUCATION TAX (DECREE NO. 7 OF 1993)

An education tax at the rate of 2% on the assessable profit of a company is payable. The tax applies to all companies registered in Nigeria. The assessment and collection of the tax are to be undertaken by the Federal Board of Inland Revenue which is to pay over monies collected to the Education Tax Board of Trustees established under the Decree.

4. INDUSTRIAL TRAINING FUND (INDUSTRIAL TRAINING FUND ACT CAP 182 LFN)

Rate of contribution	1% of total payroll cost

5. PENSION AND PROVIDENT SCHEMES – PENSION REFORMS ACT NO.2 2004

Scheme	Rate of contribution
Pension Scheme	As approved by the Nigerian Pension Commission: Minimum of 15% of gross income of employee by both employer and employee.
Nigeria Social Insurance Trust Fund	6.5% and 3.5% of basic pay by employer and employee respectively subject to a maximum of ₦2,860, and ₦1,540 monthly by employer and employee respectively.

6. NATIONAL INFORMATION TECHNOLOGY DEVELOPMENT FUND

The fund is established under the National Information Development Agency Act 2007.

Section 12 (2)(a) of the Act mandates companies and enterprises within the following categories and with an annual turnover of ₦100,000,000 and above to pay into the fund a levy of one percent of their profit before tax annually and such payments by the company shall be tax deductible.

The companies and enterprises under these categories are:

i. GSM service providers and all Telecommunication companies
ii. Cyber companies and Internet providers
iii. Pension Managers and Pension related companies
iv. Banks and other financial Institutions
v. Insurance companies.

7. PIONEER STATUS

The terminology ‘pioneer status’ is a tax holiday status which confers on the grantee, tax relief for a specified number of years (usually 5 years).

The Industrial Development (Income Tax Relief) Act Cap 17 Laws of Nigeria 2004 declares a number of industries as pioneer industries. Thus, any company within the categorised industries that produces products declared as pioneer products could be conferred with pioneer status.

It should be noted however that even if a company’s activities and/or products are classified within pioneer industries, the grant of pioneer status is not automatic.

The criteria for granting pioneer status are related and/or based on the following considerations:

1. The amount of underlying capital investment in a company (N5 million and above) must be verifiable by physical inspection and supported by a report of the Industrial Inspectorate Division of the Federal Ministry of Industry before a pioneer certificate is granted.
2. The socio-economic advantage of a company’s activities to the Nigerian economy as set out in its feasibility study is also an important consideration.

Without prejudice to the foregoing, the Nigerian Investment Promotion Commission (NIPC) is empowered to confer pioneer status and other investment incentives in any other deserving circumstances as the Council of the NIPC may approve.

8. SECTORAL INCENTIVES:

This section is as per information from Nigeria Investment Promotion Commission (NIPC) which is subject to review from time to time

8.1 Local Raw Materials Utilisation: A 30 percent tax concession is available for five years to industries that attain minimum local raw materials utilisation as follows:

Industrial Sector	Minimum Level
Agro	80%
Engineering	70%
Agro Allied	60%
Chemical	60%
Petro- Chemical	70%

8.2 **Labour Intensive Mode of Production:** A 15 percent tax concession is available for five years. The rate is graduated in such a way that an industry employing 1,000 persons or more will enjoy the 15 percent tax concession while an industry employing 100 will enjoy only 6 percent, while those employing 200 will enjoy 7 percent and so on.

8.3 **Local Value Added:** A 10 percent tax concession is available for five years. This applies essentially to engineering industries, where some finished products serve as inputs. The concession is aimed at encouraging local fabrication rather than the mere assembly of completely knocked down parts.

8.4 **In-Plant Training:** A 2 percent tax concession is available for five years computed as a percentage of the cost of facilities provided for training.

8.5 **Export-Oriented Industries:** A 10 percent tax concession is available for five years. This concession will apply to the industries that export not less than 60 percent of their products. The emphasis here is on the encouragement of the pre-establishment stage of an export-oriented enterprise.

8.6 **Infrastructure:** 20 percent cost of providing basic infrastructure such as roads, water, electricity where they do not exist is tax deductible once and for all.

8.7 **Investment in Economically Disadvantaged Areas:** A 100 percent tax holiday for 7 years and an additional 5 percent depreciation is available.

8.8 **Research and Development (R and D):** 120 percent research and development tax deductible expenses are allowed, provided the research and development is carried out in Nigeria; and 140 percent is allowed for R and D on local raw materials.

8.9 **Abolition of Excise Duty:** In order to boost local industries, stimulate trade and reduce business costs, Government decided that all excise duties be abolished with effect from 1st January, 1998 but from 1st January 1999 excise duties were re-introduced on the following specific products.

- Spirits and other spirituous alcohol
- Cigarettes, Cigars, Cheroots and Cigarillos
- Other manufactured tobacco and tobacco manufactured substitutes.

8.10 **Double Taxation Agreements:** Additional Double Taxation Agreements are being negotiated and concluded with various countries. The idea is to eliminate double taxation on investment income and encourage the inflow of foreign investments generally.

8.11 **Re-Investment Allowance:** This incentive is granted to companies engaged in manufacturing which incur qualifying capital expenditure for the purpose of approved expansion etc. The incentive is in the form of a generous allowance of capital expenditure incurred by companies for the following:

- expansion of production capacity
- modernization of production facilities; and
- diversification into related products.

This Scheme is desirable to encourage the re-investment of profits at a time such investment is declining.

8.12 Added Incentive to Agriculture:

Without prejudice to Government's commitment to the on-going liberalization process in the financial sector, banks are now enjoined to continue to recognise the difference in the gestation periods for each category of agricultural projects and observe the grace periods on various agricultural loans.

NOTE: The incentives itemised here are in no way exhaustive and neither are the quantum nor percentage of relief mentioned fixed for all times. A would be investor is therefore advised to ascertain the current operative figures at the time of making his investment.

The information in this publication is based on the laws as amended to date and relevant regulations in force as at the date of publication.

The information in this publication is by no means exhaustive. Users are advised to contact our office for further advice.

150 Adebowale House (3rd floor)
Onipanu, Ikorodu Road,
Lagos, Nigeria
234 1 8510989, 234 802 301 3324, 234 702 901 4658
email: onirusy@orandccounsultants.com, onirusy012000@yahoo.co.uk
Web: www.orandcconsultants.com