Export Incentives

Introduction

In the previous newsletter tagged "Covid 19 Pandemic – Government Interventions and Tax Incentives", we discussed the Government interventions and tax incentives available to businesses and individuals before and during this period. In this edition, we bring to you tax incentives available to exporters of made in Nigeria Goods.

1. Export Incentives

Export Processing Zones (EPZs) and Free Trade Zones (FTZs) are locations within Nigeria designated by the government as free areas where export trade activities can be carried on free of tax and foreign exchange restrictions.

Companies operating within EPZs shall be exempted from all Federal, State, and Government taxes, levies, and rates.

A company that is engaged in an approved manufacturing activity in an EPZ and incurs expenditures in its qualifying building and plant equipment is entitled to 100% capital allowance in that year of assessment.

In addition, a company that is 100% export oriented but located outside an EPZ will enjoy a three year tax holiday, provided the company is not formed by splitting up or reconstruction of an already existing business and the export proceeds form at least 75% of its turnover.

Profits of companies whose supplies are exclusively inputs to the manufacture of products for export are exempt from tax. Such companies are expected to obtain a certificate of purchase of the input from the exporter to claim tax exemption.

Where plant and machinery are transferred to a new company, the tax written down value of the asset transferred must not exceed 25% of the total value of plant and machinery in the new company. The company should also repatriate at least 75% of the export earnings to Nigeria and place it in a Nigerian domiciliary account to qualify for a tax holiday.

Profits of any Nigerian company in respect of goods exported from Nigeria are exempt from tax, provided that the proceeds from such exports are repatriated to Nigeria and are used exclusively for the purchase of raw materials, plant, equipment, and spare parts.

To streamline the administration of permissible taxes within the tax-free zones, the Oil and Gas Free Zone Authority (OGFZA) has established the Free Zones Tax Administration (FZTA) Unit with effect from January 2015. Going forward, all tax matters relating to the free zones will be coordinated by the FZTA.

2. Export Expansion Grant (EEG) Scheme

The EEG Scheme grants the Export Credit Certificate (ECC) as an incentive that can be used to settle all federal government taxes, such as VAT, WHT, CIT, etc. It can also be used to purchase government bonds and repay credit facilities from Bank of Industry, NEXIM bank and CBN intervention facilities and settlement of debts due to the Assets Management Company of Nigeria (AMCON).

To encourage export of value added and processed/manufactured products, exporters are divided into four categories with maximum applicable EEG rates as indicated below:

- Fully manufactured products: 15%.
- Semi-manufactured products: 10%.
- Processed/intermediate products: 7.5%.
- Merchants/primary agricultural commodities: 5%.

The Export (Incentives and Miscellaneous Provisions) Act, No. 65 of 1992, Cap. E19, Laws of the Federation of Nigeria (LFN) provides for a post-shipment incentive designed to improve the competitiveness of Nigerian products and commodities and expand the country's volume and value of non-oil exports.

2.1 Validity for EEG Application

Qualifying export transactions must have satisfied all formal export requirements and the proceeds fully repatriated within 300 days, calculated from the date of export and as approved by the EEG Implementation Committee

2.2 Incentives Rate

- The scheme operates a 'Weighted Eligibility Criteria' to assess applications
- The Weighted Eligibility Criteria has four bands: 15%, 10%, 7.5%, and 5%

Eligibility Criteria	Threshold	Weight
Local Value added	30%	20%
Local Content	70%	20%
Employment (Nigerians)	500	10%
Export growth	5%	35%
Capital Investment	10%	15

2.3 Export Credit Certificate (ECC)

The grant computed shall be settled by issuing negotiable tax credit known as ECC, to the beneficiaries. The instrument can be used to settle all Federal Government taxes such as company income tax, VAT, WHT.

2.4 Administering Agency:

- Nigerian Export Promotion Council (NEPC)

2.5 Eligibility:

Exporter must:
- be registered with Corporate Affairs Commission.
- be registered with Nigerian Export Promotion Council.
- shall be a manufacturer or merchant of products of Nigerian origin intended for the export market.
- submit its baseline data which includes audited Financial Statement, information on operational capacity and Export Expansion Plan to NEPC.

3. **Export Development Fund**: The Export Development Fund aims to prepare, facilitate, and support exporters to penetrate global markets. The incentive is available for potential exporters and exporters who just started. It aims to provide support on product development for market access in international markets. This is done by:
   - providing export promotion training via training courses / seminars / symposia
   - supporting exposure via trade fair participation / trade missions / etc.
   - financially supporting collection of trade information
   - providing logistics support

4. Exemption of Export profit from CIT

Section 23(1) (q) exempts the profits of any Nigerian company in respect of goods exported from Nigeria, provided that the proceeds from such export are repatriated to Nigeria and used exclusively for the purchase of raw materials, plant, equipment and spare parts.

5. ETLS under the ECOWAS Treaty Protocol

ECOWAS Trade Liberalization Scheme (ETLS) is a trade instrument designed by the Regional Economic Community. It is administered by the ECOWAS Commission through member states' National Approval Committee (NAC) (which is domiciled at the Ministry of Foreign Affairs in Nigeria) to encourage duty-free trade between ECOWAS countries. The scheme offers unhindered access to the fifteen member countries and promotes economic relations within the sub-region.

To qualify for the ETLS benefits, products must be originated from the ECOWAS region. The ETLS NAC considers strict criteria for the admission into the scheme as follows, among others:

- at least 60% local content of products
- at least 30% value addition for products

The products covered under ETLS enjoy the following incentives:

i. no quantitative restrictions
ii. ii. total or partial exemption from input duty and taxes of equivalent effect.

To get approval for ETLS, the following documents are required:

i. Certificate of incorporation
ii. NAFDAC/SON product registration certificate
iii. Evidence of registration with MAN, and
iv. Evidence of registration with NACCIMA

We confirm that the Company will be able to benefit from the above incentive where it meets the criteria above. In this regard, the Company's products will enjoy full or partial import duty exemption on entry into another West African countries. This will make the Company's diapers price competitive in the countries in ECOWAS.

However, please note that in practice, most West African countries tend to impose import charges that are almost as significant as the import duty exempted.

6. Investment Allowance

Section 32 CITA makes available to a company an investment allowance of 10% of the actual expenditure incurred on plant and equipment. This shall be in addition to any initial allowance initial tax depreciation of 50%) under the second schedule to the Act.

7. Deduction for Research & Development

Section 26 of CITA, in determining the taxable profit of a company, a taxpayer is allowed an amount of reserved made from its profits for the purpose of R &D. However, the amount to be allowed shall not exceed 10% of the total profits of the company for that year of assessment

8. Rural Investment Allowance (RIA)

Section 34 CITA provides that where a company incurs capital expenditure on the provision of facilities such as electricity, water, or tarred road for the purpose of a trade or business, such company shall enjoy rural investment allowance.

It is administered by the FIRS. The Second Schedule of CITA provides the rate for the RIA as follows:

- No facilities – 100%
- No electricity – 50%
- No water - 30%
- No tarred road – 15%

8.1 Eligibility for RIA:

- The company must be located at least 20 kilometers away from such facilities provided by the government.
- It cannot be enjoyed if company already enjoyed provision of Section 32: Reconstruction Investment Allowance.
- Allowance can only be applied against the profit of the year in which such investment (facility) was completed.

Conclusion:

We hope exporters of made in Nigeria goods will take advantage of the numerous tax incentives available to them to make Government's objectives and vision in this regard a reality

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