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TEMPLARS Transcripts: Tax Digest

Tax Market Review

Policy and Tax Administration

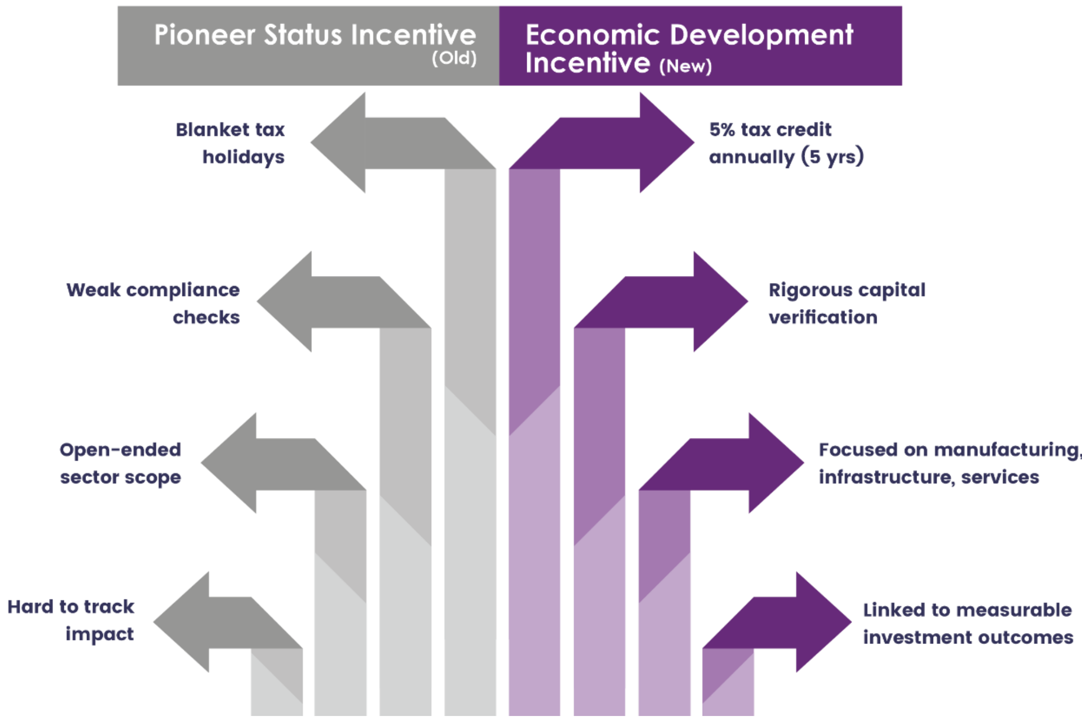
- **Nigeria to replace pioneer status incentive with new tax credit scheme to drive investment**

As part of its ongoing fiscal reform efforts, Nigeria is introducing a new tax incentive framework—the Economic Development Incentive (EDI)—designed to replace the longstanding Pioneer Status Incentive (PSI). This was the highlight of a keynote address delivered by Taiwo Oyedele, the Chairman of the Presidential Committee on Fiscal Policy and Tax Reforms, at BusinessDay's Policy Intervention Series held on April 22, 2025 in Lagos. According to Mr. Oyedele, the EDI aims to resolve inefficiencies in the PSI regime by directly linking tax relief to verifiable capital investments in priority sectors such as manufacturing, infrastructure, and services. This marks a shift from broad-based tax holidays to a performance-based system intended to stimulate real economic activity and improve transparency in Nigeria's incentive regime.

Under the EDI scheme, qualifying companies will receive a 5% annual tax credit for five years, amounting to a cumulative 25% of their verified investments, in addition to existing capital allowances. Eligibility is tied to minimum investment thresholds, with companies in capital-intensive sectors required to invest at least ₦200 billion (Two Hundred Billion Naira) to qualify. Further, the tax credit only kicks in after capital deployment, with rigorous inspections by the Industrial Inspectorate Division to ensure compliance and accountability. This structure aims to curb abuse and prevent the kind of long-term tax advantages that critics say have plagued the PSI.

Chairman, Zacch Adedeji has also recently noted that the government struggles to assess the actual cost and benefits of these waivers due to poor data availability and unquantified socio-economic outcomes.

Goodbye PSI, Hello EDI



- **Increased Tariffs on goods imported from Nigeria into the U.S**

On April 2, 2025, the U.S. government, under President Donald Trump, introduced a new trade policy referred to as the "Universal Baseline Tariff." This measure imposes a standard 10% levy on all imports into the country. However, for nations perceived to engage in unfair trade practices with the U.S., additional reciprocal tariffs apply. Nigeria falls within this category, bringing the total tariff on its exports to the U.S. up to 14%.

This new policy has been viewed by some to be a retaliatory response to the Central Bank of Nigeria's directive first introduced in 2015, which restricts access to foreign exchange for twenty-five categories of imported goods. The policy, aimed at promoting local manufacturing and preserving foreign reserves, has since evolved into a significant barrier for international trade, particularly with the United States.

While crude oil and energy-related goods are exempted from the new tariff, Nigeria's growing portfolio of non-oil exports to the U.S. may now face steep challenges placing over ₦323.96 billion (Three Hundred and Twenty-Three Point Nine Six Billion Naira)" worth of Nigerian exports at risk. According to 2024 data from the National Bureau of Statistics, Nigeria earned approximately N4.49trillion (Four Trillion, Four Hundred and Ninety Billion Naira) from the export of crude oil and energy products to the United States. While these items have been spared, the country's non-oil and non-energy exports – worth ₦323.96 billion (Three Hundred and Twenty-Three Nine Six Billion Naira)" in the same period, are now subject to the new tariff regime.

In response, the Federal Government of Nigeria acknowledged the imposition of the 14% tariff by the US in an official statement issued by the Honourable Minister of Industry, Trade and Investment, Dr. Jumoke Oduwole. The government reaffirmed its commitment to mitigating the adverse effects of the policy while intensifying efforts to diversify the economy. The Minister noted that while oil exports have historically dominated trade with the U.S., non-oil products - many of which previously benefited from the exemption under the African Growth and Opportunity Act (AGOA) – will now face potential disruption.

Small and medium enterprises (SMEs), building their business models around AGOA exemptions will face the pressures of rising costs and uncertain buyer commitments from this new tariff imposition.

- **NEITI recovers $4.85 billion in outstanding liabilities from oil and gas sector**

The Nigeria Extractive Industries Transparency Initiative (NEITI) has announced that the Federal Government has successfully recovered over $4.85 billion (Four Billion Eight Hundred and Fifty Million United states Dollars) out of the $8.26 billion (Eight Billion Two Hundred and Sixty Million United states Dollars) owed by oil and gas companies, as highlighted in its 2021 industry report. This update was provided by the NEITI's Executive Secretary, Dr. Orji Ogbonnaya Orji, during a press briefing held in March.

Dr. Orji noted that the NEITI's 2023 report, released in September 2024, identified total outstanding liabilities of $6.175 billion (Six Billion One Hundred and Seventy-Five Billion United States Dollars) and ₦66.378 billion (Sixty-Six Billion Three Hundred and Seventy-Eight Million Naira) owed to the NUPRC and the FIRS, marking a notable reduction from the figures reported in 2021($8.26 billion). Despite this progress, he raised concerns regarding the unresolved liabilities, particularly in light of the Federal Government's efforts to source funding for the 2025 budget. He emphasized that the outstanding amounts, if fully recovered, could potentially offset approximately 72% of the projected 2025 budget deficit.

In response, NEITI has called on relevant revenue-collection agencies to intensify efforts to ensure full recovery of these funds. The Executive Secretary underscored the importance of these revenues in supporting government initiatives at all levels and in facilitating the delivery of critical infrastructure to citizens.

Looking ahead, Dr. Orji revealed that the 2024 industry report is expected to be published in October. In the interim, NEITI will focus its attention on monitoring divestments by international oil companies. This strategic focus aligns with the Federal Government's renewed emphasis on enhancing tax compliance within the oil and gas sector, which has become particularly evident through the surge in stamp duty assessments imposed on major oil companies in 2025.

Given these developments, it is anticipated that there may be a more assertive regulatory stance and heightened scrutiny of oil and gas companies, as authorities seek to improve compliance and shore up public revenues.

- **FIRS to commence scrutiny of tax incentives to identify infractions**

The Federal Inland Revenue Service (FIRS) has commenced a comprehensive review of all tax incentives under its administration, with the aim of improving transparency, addressing inefficiencies, and ensuring greater value for money within Nigeria's tax expenditure framework. This development was announced at the recent Tax Expenditure Workshop held in Abuja. Speaking on behalf of, Dr. Zacch Adedeji, the Executive Chairman of the FIRS, Mrs. Bolaji Akintola emphasized the critical need to reassess existing incentives. She noted that preliminary monitoring and evaluation efforts have already revealed several infractions within the current system.

Key issues identified include overlapping and conflicting tax incentives, insufficient coordination among relevant stakeholders, the lack of a centralized incentive management framework, and inadequate legislative oversight, which is partly attributed to the absence of a dedicated tax committee in the National Assembly.

To address these concerns, the FIRS Tax Expenditure Management Unit has been mandated to undertake a detailed assessment of all existing tax incentives. In line with this directive, companies currently benefiting from such incentives should anticipate heightened scrutiny and review by the FIRS in the near future.