

Invest in Nigeria

Recent reforms foster recovery, unlocking the potential for West Africa's economic powerhouse

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Country Overview

Africa's second largest economy is home to 190 million people

Nigeria is West Africa's unrivalled economic powerhouse. With a population of over 190 million people and a gross domestic product of over US\$380bn, Nigeria is Africa's most populous country and second largest economy.¹

Economy

The country's gross national income (GNI) per capita was US\$5 740 in 2016. While its GNI per capita puts Nigeria in the top third among African countries, its GINI score of 48.8 (in 2013) suggests that income is unevenly distributed across the population.² Nigeria is endowed with Africa's second largest oil reserves. In addition to its large oil deposits, Nigeria has a number of other notable mineral resources including coal, gold, bitumen, iron ore and uranium.

Political Landscape

Two major political parties, the All Progressives Congress (APC) and the People's Democratic Party (PDP), dominate Nigerian politics. President Muhammadu Buhari, of the APC, currently governs the country, while the next elections are due to be held in early 2019. Analysts predict another close race between the two dominant parties, as it is at this point unlikely that a third party will be able to mobilise sufficient resources to mount a serious challenge.³

Society

Nigeria is a culturally diverse country. Ethnic groups play a significant role in the country where political and economic power is often tied to cultural allegiances. The major ethnic groups are the Hausa-Fulani (29%), Yoruba (21%) and the Igbo (10%).⁴ Furthermore, the country is split geographically along religious lines, the 46% Muslim population living predominantly in the north, while the 46% Christian population mostly live in the south of the country.⁵ Outliers to this trend are the diverse populations of major urban centres such as Lagos, Kano, Ibadan and Kaduna.

Nollywood is the second largest film industry in the world

Volatility

In recent years, violence occurred in a number of regions across the country. In the Niger Delta, located in the southeast of the country, the 50-year-old Biafra independence movement has regained traction, leading to sporadic sabotage of oil production. Concurrently, Fulani herdsmen have carried out violent raids in the country's middle belt. Tensions over land rights with farmers in the region are seen as the root cause for the conflict.

For over a decade, government forces have been fighting Boko Haram, an insurgent group in the north of the country set on creating an Islamic caliphate. Since the start of the conflict, tens of thousands have been killed and over 2.3 million have been displaced.⁶ A regional coalition between Nigeria and its neighbours Benin, Cameroon, Chad and Niger was formed to combat Boko Haram in 2015. The coalition has made headway in recapturing territory controlled by insurgents.

Soft Power

While trying to shake off the negative image that the volatile security situation created internationally, Nigeria has become a global force through its soft power of arts and culture. In terms of sales volume, Nollywood (Nigeria's film industry), is second only to India's Bollywood.⁷ The country's minister of information and culture has described the arts industry as the "new oil", its spread accelerated by the 17 million Nigerian diaspora living across the world.⁸

Regional Integration

Nigeria is part of the Economic Community of West African States (ECOWAS), a group of 15 countries with a combined population of over 360 million people. In 2016, Nigeria played a critical role in ECOWAS' intervention in the Gambia, supporting the democratic process by persuading former President Jammeh to vacate his office after he refused to step down upon being defeated in elections.

Economic Environment

Nigeria weathers economic tempest

Nigeria's economy was hit hard by the global commodity price downswing in 2014. Growth slowed down notably between 2015 and 2016, contracting 1.6% in the latter year.⁹ This was the country's first recession in over 20 years. As oil revenues dried up, the government experienced massive foreign exchange shortages, aggravating hardship in the economy. The contagious effects of the oil crisis highlighted Nigeria's exposure and vulnerability of the broader economy to external shocks.

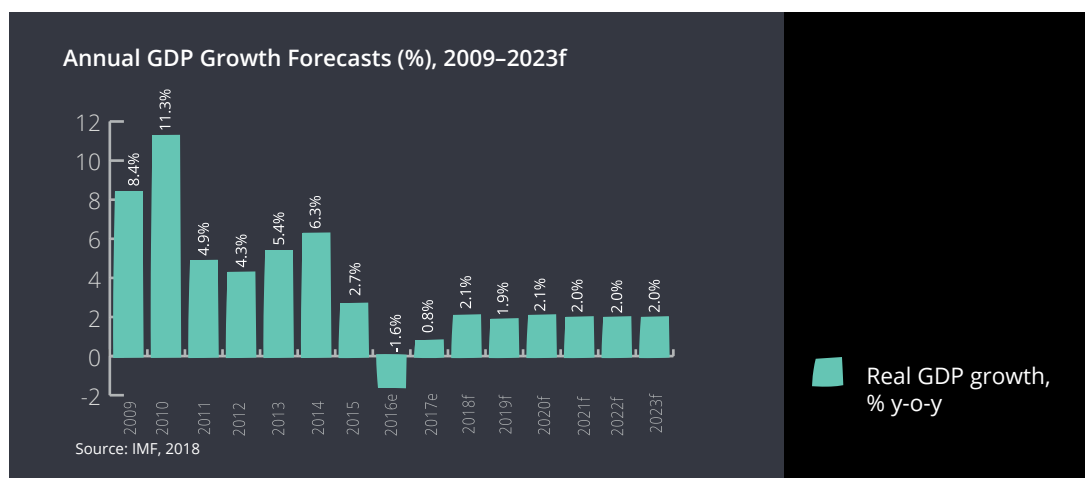
FDI has bounced back – reaching US\$12bn in 2017

Feeling the pinch from the oil price shock, Nigeria's government, which collects about three-quarters of its revenues from oil, acknowledged the need to reduce the economy's oil dependency, setting up a number of initiatives aimed at diversifying the economy.¹⁰

The Economic Recovery and Growth Plan (ERGP), launched in early 2017, led the drive to relook previous policy decisions. New policies included an investor and exporter foreign exchange window (IEFX) and a tightening of monetary policy, which converged the parallel exchange rates and decreased inflationary pressures.

The recent recovery of the oil price nudged Nigerian growth back into the green in 2017. However, growth remains below pre-2015 levels and is expected to remain around 2% over the short to medium term.¹¹

The combination of higher oil revenues and positive policy decisions have rekindled Nigeria's economic prospects. Due to policy changes and the recovery in the oil sector, capital inflows (FDI, portfolio and other investment) reached US\$12bn in 2017, more than doubled that of the previous year.¹²



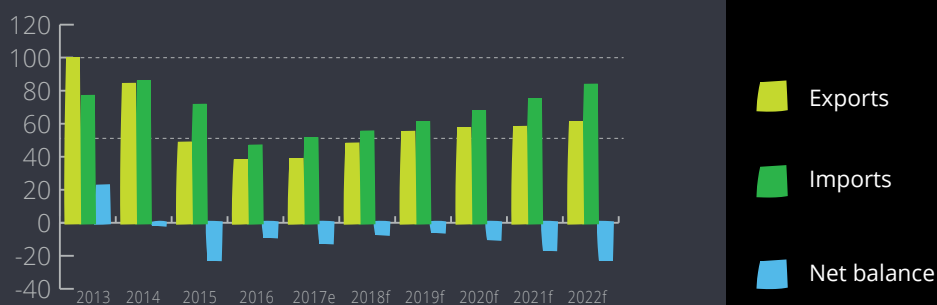
Trade

Oil dominates Nigeria's export basket. Following the oil price crash in late 2014, Nigeria's exports fell by more than half. With the recovery in the oil market, exports have started to claw back some of these losses and in 2017, Nigeria's total trade exceeded US\$90bn and is expected to increase 12% this year. For 2018, analysts project imports of US\$56bn and exports at US\$47bn, resulting in a trade deficit of US\$9bn.

Although Nigeria is one of the world's largest producers of oil, the country remains dependent on petroleum products, which account for 28% of total imports. The reason for this paradox is Nigeria's limited refining capacity. The second largest import category are manufactured goods including machinery (US\$3.9bn), electronics (US\$1.7bn) and vehicles (US\$1.5bn). China is Nigeria's most important source of imports, accounting for almost one-fifth of the total.

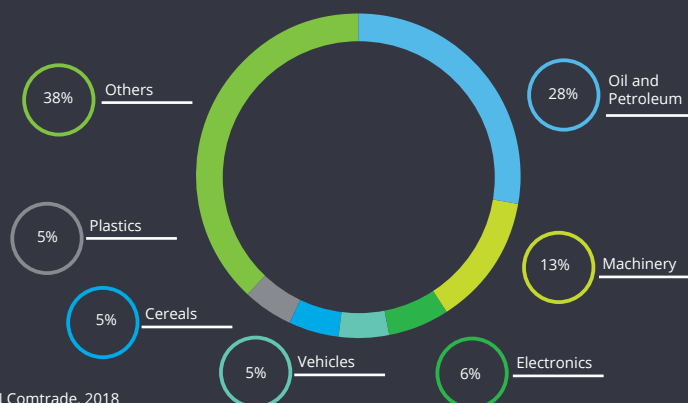
Nigeria's exports are also concentrated among a small number of partners. In 2017, Nigeria's top five partners accounted for about half of the country's exports. India was Nigeria's largest trading partner, accounting for 5% of Nigeria's total imports and 18% of exports. Like most of Nigeria's export destinations, the main product exported to India was crude oil.

Trade Balance, Goods and Services (US\$), 2013–2022



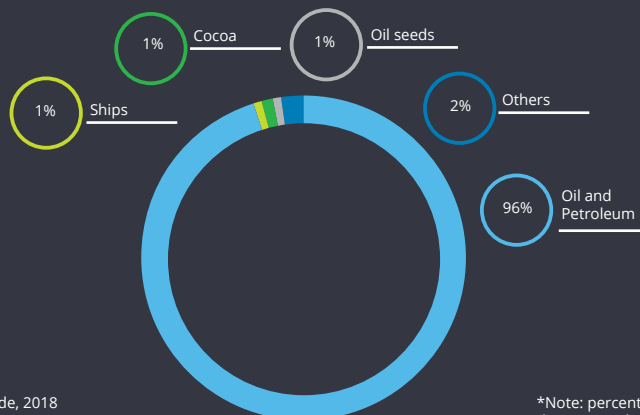
Source: Central Bank of Nigeria, 2017

Composition of Imports (%), 2017



Source: UN Comtrade, 2018

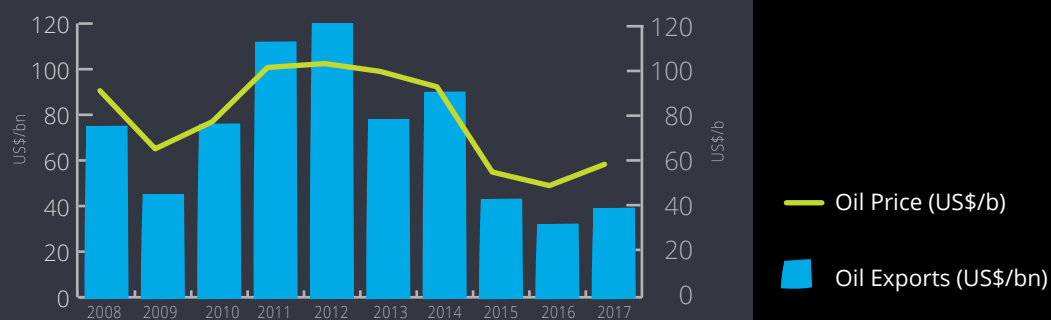
Composition of Exports (%), 2017



Source: UN Comtrade, 2018

*Note: percentages may not sum up to 100% due to rounding

Nigeria Oil Dependency



Source: UN Comtrade, OPEC, 2018

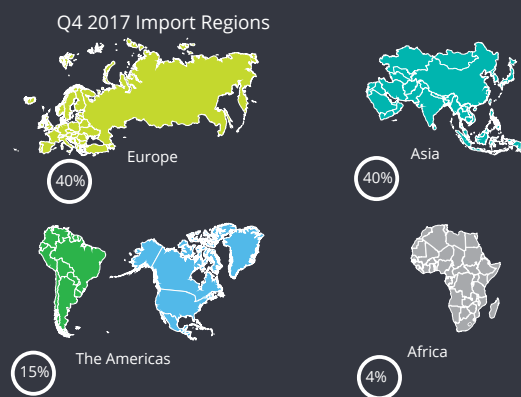
Nigeria Top Trade Partners, Merchandise, 2017

Exports

Country	Value (US\$bn)	Share in %
India	7.3	18%
United States of America	5.2	13%
Spain	4.1	10%
Netherlands	3.4	8%
France	3.1	8%
South Africa	1.8	5%
Canada	1.4	3%
Indonesia	1.3	3%
United Kingdom	1.1	3%
Togo	1	2%
Others	11	27%
World	40.7	100%

Source: UN Comtrade, 2018

Share of Exports by Region (%)

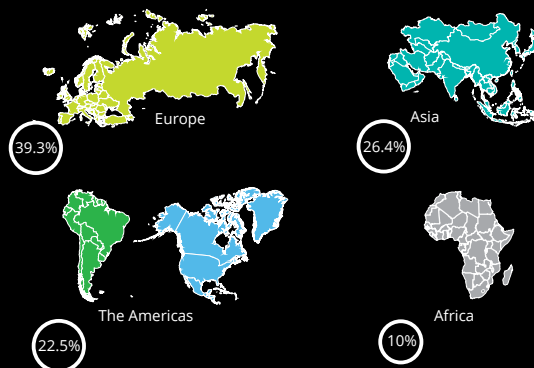


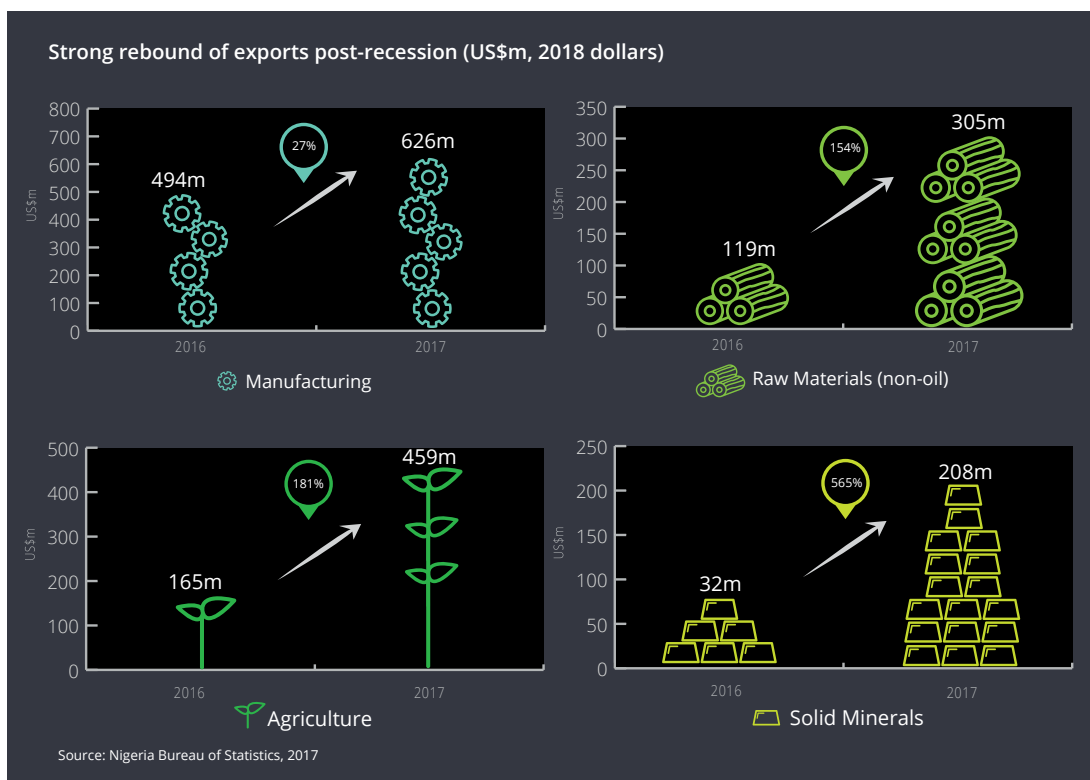
Source: Nigeria Bureau of Statistics, 2017

Imports

Country	Value (US\$bn)	Share in %
China	5.4	19%
Belgium	3.7	13%
Netherlands	2.7	9%
United States of America	2.3	8%
India	1.4	5%
Germany	1.2	4%
United Kingdom	1.1	4%
France	1.1	4%
Italy	0.9	3%
Brazil	0.7	3%
Other	8.5	29%
World	28.9	100%

Q4 2017 Export Regions



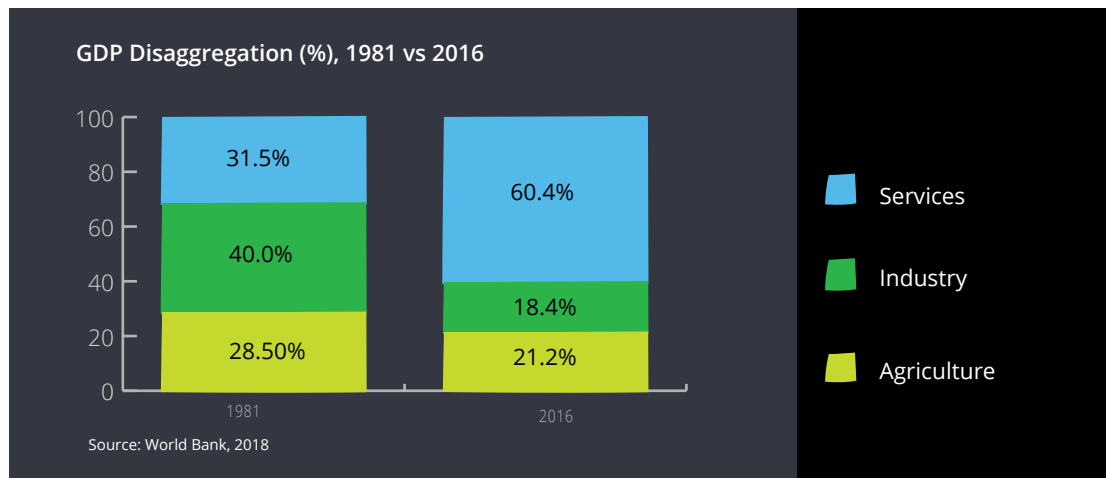


While coming from a relatively low base, agriculture, manufacturing, solid mineral and raw material exports have seen rapid recovery since the recession

Services sector accounts for 60% of the economy

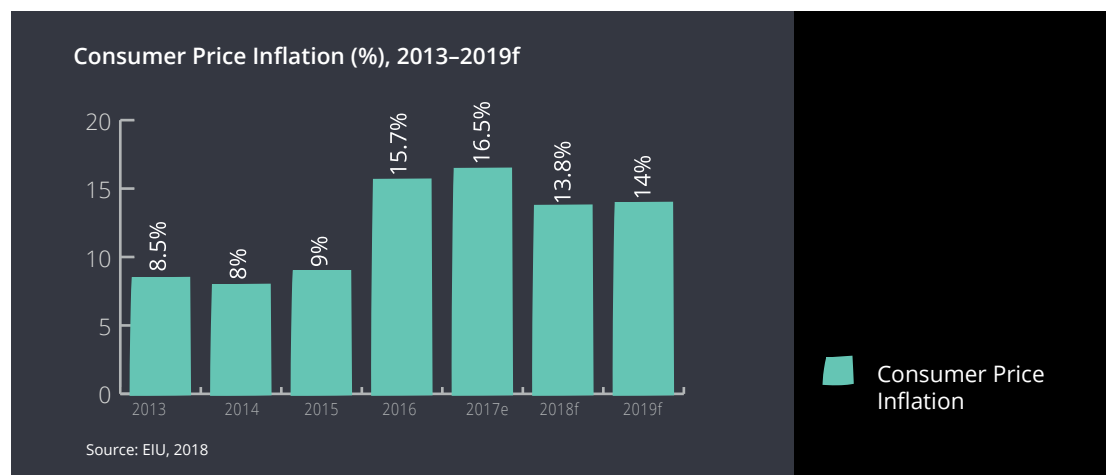
Breakdown of Economy by Sector

Over the last three decades Nigeria's economy has shifted from being a predominantly industry driven economy (40% in 1981) to one dominated by services (60% in 2016). A large share of the shift happened virtually overnight when Nigeria rebased its economy in April 2014. This changed the way GDP is measured and resulted in an 89% increase in nominal GDP once recalculated.¹³ Most of this increase was due to the inclusion of previously excluded categories in the services sector.



Inflation

The Central Bank of Nigeria (CBN) follows an inflation targeting policy with a target range of 6% to 9%. However, due to supply factors and the sharp depreciation of the naira in recent years, Nigeria's inflation exceeded the upper end of the target range in early 2016, peaking at over 18% in the last quarter of that year. Analysts predict that current measures taken by the central bank and a more positive economic outlook will lead to consumer price inflation easing. However, stubbornly high food prices, partly due to attempts to replace food imports with costly local produce, and an increase in government spending in the run-up to the 2019 presidential elections, are likely to keep inflation above the target range during the short to medium term.



REMITTANCES

According to the World Bank, Nigeria is the largest recipient of remittances in sub-Saharan Africa. In 2016, the country received an estimated US\$20bn in remittances from abroad.¹⁶ This places Nigeria as the sixth largest recipient of remittances globally. Remittances provide a wealth of benefits such as additional purchasing power for recipients or funds to start a business. Due to high transaction fees, low banking penetration and a widespread black market for currency, analysts estimate that informal channels may contribute an additional 50% to official remittances. Fintech opportunities exist to formalise this sector and lower transaction costs for international flows of capital.

Lending

Nigeria's lending rate is high compared to other countries across the continent due to a shortage of liquidity in the financial sector. This shortage is partly the result of the central bank's intervention in the currency market in order to stabilise the exchange rate.

High rates hamper long-term business prospects in the non-oil sector as small businesses are discouraged from borrowing to grow their businesses. In 2017, the lending rate reached 17.6% and is estimated to decrease slightly to 16.8% in 2018.¹⁴ High rates will have the most significant impact on domestic manufacturing firms and potentially undermine national diversification efforts.

Currency

In the last few years, Nigeria's currency markets experienced a large degree of volatility. Despite a strain on its foreign currency reserves due to the oil price downturn of 2015, the Central Bank of Nigeria (CBN) opted not to devalue the naira but to continue to defend the currency. As the CBN defended the currency, the country's foreign exchange reserves fell sharply from US\$43bn before the oil crash to US\$27bn in June 2016.¹⁵ Simultaneously, the efforts to prop up the currency resulted in a large spread between the official exchange rate and the black market rate, reflecting the massive shortage of foreign currency in the market.

As the economic situation worsened and the CBN was forced to relax its exchange rate policy, the naira started to depreciate sharply against all major currencies. As the naira is not convertible outside Nigeria, and the exchange rate was not fully floated, the gap between the official and black market rate increased further, reaching a chasm of N220 per dollar in February 2017. Due to the lack of foreign currency in the local market, this left the official rate of N305 per dollar almost half of the black market rate of N525 per dollar.

Combatting the downward spiral, the CBN stepped in, supplying banks with additional foreign currency and creating allowances for individuals to buy foreign currency. These measures, as well as improved liquidity due to rising oil revenues, resulted in the black market rate returning to a level closer to the official rate. By mid-2018, both rates had converged to around N360 per dollar.

Analysts estimate that the naira will continue to depreciate due to the global economic slowdown (most notable in China and the US), and the upcoming Nigerian election in 2019.¹⁷ However, by 2022 it is expected that the official rate and the parallel market rate will remain convergent at just over N400 per dollar.¹⁸

Business Environment

Looking Ahead

Nigeria moved up 24 places in the World Bank's Ease of Doing Business Index

The government plans to invest US\$30bn in infrastructure by 2020

The oil price shock of 2014 was an abrupt wake up call for countries dependant on oil revenues. Many of these countries had become complacent and neglected reforms that are required to diversify their economies.

Following the recession in 2016, Vice President Osinbajo launched the Economic Recovery Growth Plan, 2017–2020 (ERGP). The plan seeks to correct market failures and pre-empt “internal and external shocks produced by financial crises and negative business cycles” in the future. The plan creates a roadmap to wean Nigeria off oil revenues by providing a business environment that is more conducive to fostering a diversified economy. The plan aims to improve access to finance, reduce inefficient bureaucracy, address ambiguous and inconsistent regulations, combat corruption and upgrade infrastructure.

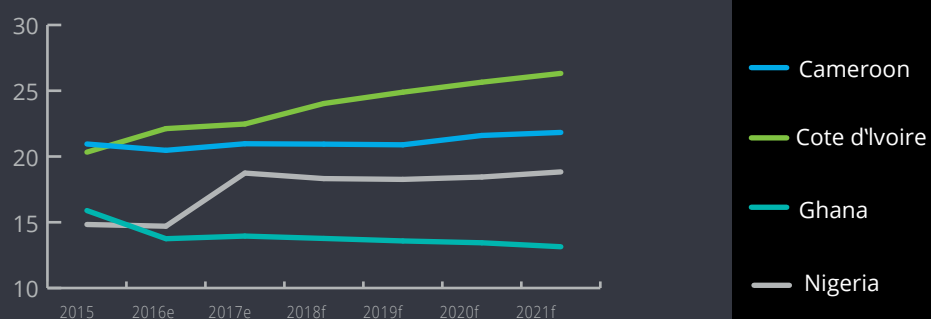
One of the driving forces behind the ERGP is the Presidential Enabling Business Environment Council (PEBEC), which specifically deals with improving the overall business environment. In just the first year following the launch of the ERGP, Nigeria has moved up 24 places in the World Bank's 2018 Ease of Doing Business Index, indicating that reforms have already reaped their first results. This placed Nigeria among the 10 most improved business environments globally; however, there is room for further progress as the country ranks 145th out of 190 countries.

Infrastructure

Nigeria's rapid population growth and lack of enabling infrastructure investment has led to infrastructure bottlenecks, which in turn have hindered diversification efforts in the country. The value of Nigeria's total infrastructure stock (road, rail, power, airports, water, telecoms, and seaports) represents only 35% of GDP, significantly below that of South Africa (87% of GDP), and the emerging economy average of 70%.¹⁹

The ERGP recognises the need to address the lack of infrastructure, and sets a goal for the government to invest US\$30bn in infrastructure between 2017 and 2020, ultimately attracting infrastructure investment of US\$3trn by 2030. To succeed in this target, fixed capital formation (government spending on infrastructure) must outperform analysts' forecasts and the government needs to ramp up its capacity to manage this massive undertaking.

Fixed Capital Formation (% GDP), 2015–2021



Source: BMI, 2018

Current Infrastructure Projects



Lekki Free Trade Zone, Lagos
US\$1 billion



Abuja Centenary City, Abuja
US\$180.6 billion



World Trade Centre, Abuja
US\$1 billion



Eko Atlantic City, Lagos
US\$6 billion



Lagos-Ibadan Expressway



Abuja Gateway Airport, Abuja
US\$371 million



Lagos Light Rail, Lagos



1.400 MW Gas Turbine Power Station, Delta



Abuja Millennium Tower, Abuja
US\$333 million



Deep Seaport Badagry, Abuja

Source: Nigeria Bureau of Statistics,
Infrastructure Concession Regulatory Commission

Tax Administration and Compliance

In order to avoid any repercussions from noncompliance, it is very important to adhere to the local tax regulation at all times. Taxation in Nigeria is administered by the three major tiers of government: the Federal Inland Revenue Service (FIRS), State Internal Revenue Service, and Local Government Revenue Committee.

Companies

1. Tax year – The tax year is 12 months on a preceding year basis, except for the commencement of a new business, a change of accounting date and the cessation of business, where special rules apply.
2. Consolidated returns – Consolidated returns are not permitted; each company must file a separate return.
3. Filing and payment – A corporate taxpayer must file an annual return based on its income for the accounting year. The return is due within six months after the end of the accounting year. The taxpayer's audited financial statements must accompany the return.
4. Penalties – A taxpayer that fails to file a return will be assessed by the tax authorities to the best of their judgment. Penalties may apply for late filing.
5. Rulings – A private ruling can be obtained from the FIRS on the tax consequences of a transaction.

Individuals

1. Tax year – The tax year is the calendar year.
2. Tax filing – Each taxpayer must file a return. Joint returns of spouses are not permitted.
3. Filing and payment – An individual engaged in full-time employment is taxed under the Pay-As-You-Earn (PAYE) system. The employer withholds personal income tax from the employee's salary or wages and pays it to the tax authorities. A taxable person, resident in the year of assessment, is required to file a tax return unless his/her employment income does not exceed N30 000 per year. Other individuals pay tax by self-assessment or direct assessment.
4. Penalties – Penalties and interest are levied for late payments or failure to file returns.

Value added tax

1. The tax period is one calendar month.
2. Filing and payment – VAT returns and the relevant payment are due no later than the 21st day after the month of the transaction.
3. Registration – All taxable persons that make taxable supply of goods and services are required to register for VAT within the earlier of six months of the commencement of business and the effective date of the VAT Act.
4. Penalties – Fines and penalties plus interest are levied for various misdemeanours such as furnishing false documents, failing to register for VAT, failing to collect VAT, collecting the VAT but failing to remit and failing to file a VAT return.

Income Tax - Individuals

Annual Taxable Income (in naira)	Rate
0 – 300 000	7%
300 001 – 600 000	11%
600 001 – 1 100 000	15%
1 100 001 – 1 600 000	19%
1 600 001 – 3 200 000	21%
Over 3 200 000+	24%

Income tax – Companies

	Rate
All companies	30%
Small companies (i.e. those whose turnover does not exceed N1m)	20%

Withholding Taxes (WHTs)

Certain payments to domestic companies/individuals and non-resident companies/investors are subject to WHT at the following rates:

Payments	Corporate bodies	Individuals
Dividends	10%	10%
Interest	10%	10%
Royalties	10%	5%
Directors' fees	n/a	10%
Rent (including the hire of equipment)	10%	10%
Construction and related activities	5%	5%
Agency arrangements, including contract for supply	5%	5%
Management, consultancy, professional fees and technical service fees	10%	5%

Tax treaties

Nigeria has concluded tax treaties with the following countries:

Treaty partner**	Dividends*	Interest*	Royalties*
Belgium	7.5%	7.5%	7.5%
Canada	7.5%	7.5%	7.5%
China	7.5%	7.5%	7.5%
Czech Republic	7.5%	7.5%	7.5%
France	7.5%	7.5%	7.5%
Netherlands	7.5%	7.5%	7.5%
Pakistan	7.5%	7.5%	7.5%
Philippines	7.5%	7.5%	7.5%
Romania	7.5%	7.5%	7.5%
Slovakia	7.5%	7.5%	7.5%
South Africa	7.5%	7.5%	7.5%
United Kingdom	7.5%	7.5%	7.5%
Italy	7.5%	7.5%	7.5%

** The treaty with Italy covers only air and shipping income.

* Based on a directive issued by the Nigerian government, the WHT rate on dividends, interest and royalties paid to a resident of a treaty partner country is 7.5%.

Anti-avoidance Rules

Transfer pricing

The Companies Income Tax Act contains general provisions on anti-avoidance rules that require transactions between related parties to comply with the arm's length principle. Additional guidelines covering applicable transactions, acceptable transfer pricing methods, documentation, advance pricing agreements, and offenses, penalties and dispute resolution are governed by the Income Tax (Transfer Pricing) Regulations.

Employment-Related Taxes

Payroll tax

Nigeria operates a Pay-As-You-Earn system under which personal income tax due on employment income is deducted from the employee's salary and wages by the employer, who must remit the relevant amount to the Nigerian tax authorities by the 10th day of the month following the month of withholding.

Employees Compensation Act (ECA) 2011

The ECA aims to provide safer working conditions for employees in both the public and private sectors. The rate of contribution is 1% of total payroll costs, including any share awards or benefits.

Social security

Nigeria operates a contributory pension scheme, under which the employer is required to make compulsory pension contributions at a minimum of 10% of the employee's monthly emoluments. An employee also contributes a minimum of 8% of his/her monthly emoluments. While there is no maximum limit to the amount that may be contributed by an employer, the minimum total contribution is 18% where the employer chooses to be responsible for the employee's portion of the contribution.

Indirect Tax

Value Added Tax (VAT)

	Rate
Standard rate	5%

Customs and Excise Duties

Customs duties are levied on goods imported into Nigeria at varying rates ranging from 0% to 35% of the import value at the port of entry. Import adjustment taxes (also known as levies) are applicable as prescribed by annual fiscal policy measures.

A list of excisable items (i.e. wines and spirits, tobacco and cigarettes, alcoholic beverages, etc.) and factories can be obtained from the Nigeria Customs Service.

Other Taxes

Inheritances and donations

There is no donations tax and no inheritance/estate tax in Nigeria. Donations, however, can give rise to capital gains tax in some instances.

Stamp duties

The Stamp Duties Act sets out the details of dutiable transactions and applicable duties. Transactions that attract stamp duty include the incorporation of companies, an increase in companies authorised share capital, mortgage bonds, debentures and dealing in securities, settlement of estates and conveyance of property.

Tertiary education trust fund act

Tertiary Education Tax (at a rate of 2%) is payable by all resident companies on the adjusted/assessable profits for corporate income tax, or PPT purposes, before the deduction of capital allowances. The tax authorities are required to issue assessments for the tax, which is payable within 60 days of service of the assessment notice on the company. However, in practice, the tax is self-assessed and paid within six months after the accounting year-end.

Information technology (IT) levy

IT tax (at a rate of 1% of pre-tax profit) is payable by telecommunications, cyber, insurance companies and banks with annual turnover of N100m or more. The tax usually is self-assessed and paid within six months after the accounting year-end. Any IT tax paid is treated as a deductible expense.

Industrial training fund (ITF)

All employers with five or more employees or with a minimum annual turnover of N50m are expected to contribute an amount equal to 1% of annual payroll costs to the ITF. The ITF is used to provide and promote skills acquisition in the industry. The fund amount is payable no later than 1 April of the following year. The employer may obtain a refund of up to 50% of ITF contributions made if suitable training courses are provided to the employees.

Oil and gas content development fund

Any operator, contractor, subcontractor, alliance partner or other entity involved in a project, operation, activity or transaction in the upstream sector of the Nigerian oil and gas industry pays 1% of the value of every contract into the oil and gas content development fund.

Cabotage fund levy

A surcharge of 2% of the contract sum performed by any vessel engaged in coastal trade must be paid into the Cabotage Vessel Financing Fund. The Cabotage guidelines provide for the surcharge to be based on the gross earnings on contracts performed by the relevant vessel. The surcharge is deducted at source by the employer or charterer of the relevant vessel, based on the charter or freight invoice and remitted to the Nigerian Maritime Administration and Safety Agency.

Local taxes

States within the Federation of Nigeria (currently 36 states) impose a variety of local taxes in their areas of jurisdiction. Local taxes include motor vehicles license/registration, consent fees for the transfer of real estate, property tax, gaming/casino tax, water rates, etc. In addition, local councils impose tenement rates and several other fees.

General Investment Information

Investment Incentives

Tax incentives

- Pioneer status – For three to five-years, pioneer industries enjoy a 100% tax-free period if products are deemed “pioneer products” under the Industrial Development (Income Tax Relief) Act.
- Infrastructure – Investment tax relief is available for each year of expenditure at the following rates to companies that provide basic infrastructure: tarred roads (15%), water (30%), electricity (50%) and 100% for companies that provide all such basic facilities where they do not exist.
- Research and development (R&D) – Qualifying R&D expenses are tax deductible by a company but the amount deducted may not exceed 10% of the company's total profits for the relevant year of assessment. In addition, companies and organisations engaged in R&D activities for commercialisation are granted a 20% investment tax credit on qualifying expenditure.
- Export trade - Companies engaged in export trade are entitled to the following incentives, among others:
 - Profits of a Nigerian company relating to goods exported from Nigeria (provided the proceeds from the exports are repatriated to Nigeria and used exclusively for the purchase of raw materials, plant and equipment and spare parts) are exempt from tax.
 - Profits of companies whose products are used exclusively as inputs for the manufacturing of products for exports are tax-exempt.
 - An export expansion grant is available, which is settled by issuing an export credit certificate to the beneficiaries. The certificate can be used to settle federal government taxes among other benefits.

Other Incentives

- ***Incentives for investors in the agriculture sector*** – Numerous incentives are available to stimulate investment in agricultural activities. Import levies have been increased on certain agricultural products, such as wheat flour, wheat grain and brown rice, to encourage local production. These include an enhanced capital allowance regime; an agricultural credit guarantee scheme fund with a loan guarantee of up to 75%; an exemption from the minimum corporate income tax; and a 0% import duty on agricultural equipment and machinery.
- ***Incentives for the tourism sector*** – Incentives have been put in place to encourage domestic and foreign investor participation in the tourism industry. 25% of income in convertible currencies are exempted from tax.
- ***Free Trade Zones (FTZs)*** – FTZs offer numerous incentives to businesses. Locating in any FTZ in Nigeria automatically confers on the investor certain locational advantages and other generous incentives. Essentially, companies operating in an FTZ are exempt from tax on business transactions concluded within the zones.
- ***Investment Promotion and Protection Agreement (IPPA)*** – As part of an additional effort to foster foreign investor confidence in Nigeria, the federal government has continued to enter into IPPAs with countries that do business with Nigeria (e.g. China, South Africa, United Kingdom, etc.)
- ***Small- and Medium-Sized Enterprise Equity Investment Scheme (SMEEIS)*** – The SMEEIS requires all banks in Nigeria to set aside 10% of their profits after-tax (PAT) for equity investment and the promotion of SMEs.
- ***Gas industry*** – The government has approved various fiscal incentives, including an accelerated capital allowance, tax-free dividends and a deduction for interest expense incurred on loans for companies involved in the utilisation of gas.

Exchange Controls

Equity and/or loan capital must be brought into Nigeria through authorised dealers (i.e. banks).

The remittance of dividends and interest is permitted, provided the equity and/or loan is imported and is evidenced via an appropriate certificate of capital importation. There are no restrictions on the percentage of profits that may be distributed as dividends subject to the dividend tax rule. The remittance of royalty and service fees is permitted, provided the underlying license and service agreements have been approved by the National Office for Technology, Acquisition and Promotion.

A tax clearance certificate, or other evidence of payment of the appropriate tax, must be obtained by any person wishing to remit dividends, interest, and royalty or service fees outside the country.

Authorised dealers of foreign currencies must notify the Central Bank of Nigeria of any cash transfer to, or from a foreign country, of any sum in excess of US\$10 000.

Immigration

All non-residents/citizens must obtain visas before entry into Nigeria, except citizens of ECOWAS (Economic Community of West African States), who only need ECOWAS cards upon arrival. There are four categories of visas – tourist, business, temporary work permits (TWP) and the subject to regularisation (STR) visas.

Employers obtain expatriate quotas to enable them to bring in foreign employees, and these usually are valid for at least two years. Expatriate quotas are approved based on the need for the skill to be imported into Nigeria. Employers of expatriates are required to file monthly immigration returns stating the utilisation of expatriate quotas.

For full details on Nigeria's tax regulation, please consult the Deloitte Guide to Fiscal Information – Key Economies in Africa 2018



Reducing Nigeria's oil dependency

Industries to watch

- Power infrastructure
- Automotive industry
- Technology
- Healthcare
- Agriculture
- Light manufacturing

Historically, investors focused on Nigeria's oil sector but overlooked a wide range of other sectors that hold notable potential. Nigeria's 190m-strong consumer market presents a range of attractive opportunities in sectors such as agriculture, healthcare, light manufacturing, infrastructure development and technology.

In the past, there have been multiple attempts to promote the development of Nigeria's manufacturing sector. These attempts often included an import substitution approach that relied on tariffs and import bans. Additionally, in 2015, foreign exchange restrictions were introduced on a wide range of goods, such as rice, cement, steel pipes, glass, and clothes, reducing the attractiveness of importing these products into the country. This restriction aims at preventing the outflow of foreign exchange and at stimulating the domestic economy by encouraging import substitution.

These various policies have had mixed success in spurring local production due to inhibitors such as a lack of infrastructure, corruption, but also porous borders that allowed goods to enter the market unchecked. However, Nigeria's recent tax and investment incentives, coupled with infrastructure investments are starting to connect the puzzle pieces to build the business environment that will help unlock the country's large economic potential.

Power Infrastructure

Inviting private participation

Due to the lack of sufficient and reliable electricity supply, many Nigerians rely on generators for their daily electricity demands. To improve power supply by attracting private investment, the Nigerian government implemented reforms that restructured the energy sector in 2005. These reforms included the reduction of subsidies and the privatisation of the national energy company.

42% of Nigerian businesses have a secondary power system installed

Since then, energy generation has started to improve; however, utilisation remains low. It is estimated that only 5 000 megawatts of the country's 12 500 megawatt installed capacity are utilised at peak.²⁰ As a result, only 45% of Nigeria's population have access to power via the grid.²¹ Due to the unreliability of the national grid, about 42% of Nigerian businesses have a secondary power system (typically diesel generators) installed to reduce the negative impact of energy failures across the public power grid.²²

Currently, the Nigerian government is not a stakeholder in the distribution market, providing room for private sector competition. As current installed capacity outweighs usage, opportunities exist in enhancing utilisation of power plants and in the distribution of power.

Renewable energy production set to increase from 10% in 2015 to 18% in 2020

Apart from opportunities in large-scale electricity generation and distribution, a large untapped market exists in rural areas, which are currently not connected to the electricity grid. Mini-grids serving individual communities hold significant potential, specifically in areas earmarked and targeted by the government for industrialisation projects.

The 2015 National Renewable Energy and Energy Efficiency Policy (NREEEP) outlines the government's aim to increase renewable energy production from 10% in 2015 to 18% in 2020. To incentivise renewable energy investments the government offers feed-in tariffs (FIT), which guarantee a stable price for renewable energy production for a fixed duration. Additionally, return on investment for renewable energy projects is guaranteed by the government, hence reducing the risk of these projects.

Industry Specific Incentives

- Investment in manufacturing plants for energy related equipment (such as transformers, meters, control panels, switchgears and cables) enjoy a 5 to 7 year tax holiday
- Power plants using gas are subject to a 30% reduction in income tax
- Electricity plants can be 100% foreign owned
- Import duty exemption for powersector machinery, spares and consumables

Automotive Industry

Reigniting a dormant sector

During the 1970s and 1980s, Nigeria was home to a vibrant automotive industry. During this period, six international automotive assembly and manufacturing companies (Peugeot, Volkswagen, Leyland, Mercedes-Benz, National Trucks and Steyr) had an estimated installed production capacity of 149 000 units per annum.²³ However, by 2013, capacity had dropped to under 100 000 units due to a neglect of the industry as government abandoned its 'buy local' directive and also shifted its focus toward oil production.²⁴

The automotive sector is a cornerstone of Nigeria's new growth strategy

To address the downward spiral in the automotive industry, the government launched the National Automotive Industry Development Plan (NAIDP) in 2014. This plan made the automotive sector one of the cornerstones of the government's new growth strategy. The initiative aims at generating additional government revenues and at increasing demand for domestically made vehicles. In order to encourage local production, the government increased import levies on passenger cars from 22% to 70% and on commercial vehicles from 10% to 35%.²⁵ Additionally, the policy incentivises global vehicle manufacturers to set up local production facilities by exempting two vehicles from the import levy for every vehicle produced locally.

In the course of the economic downswing which resulted in the devaluation of naira, new passenger vehicle sales dropped from 42 000 units in 2014 to 4 051 units in 2017.²⁶ At the same time the cash-strapped government struggled to mobilise sufficient funds to support the development of automotive supplier parks and clusters. These developments undermined the implementation of the NAIDP.

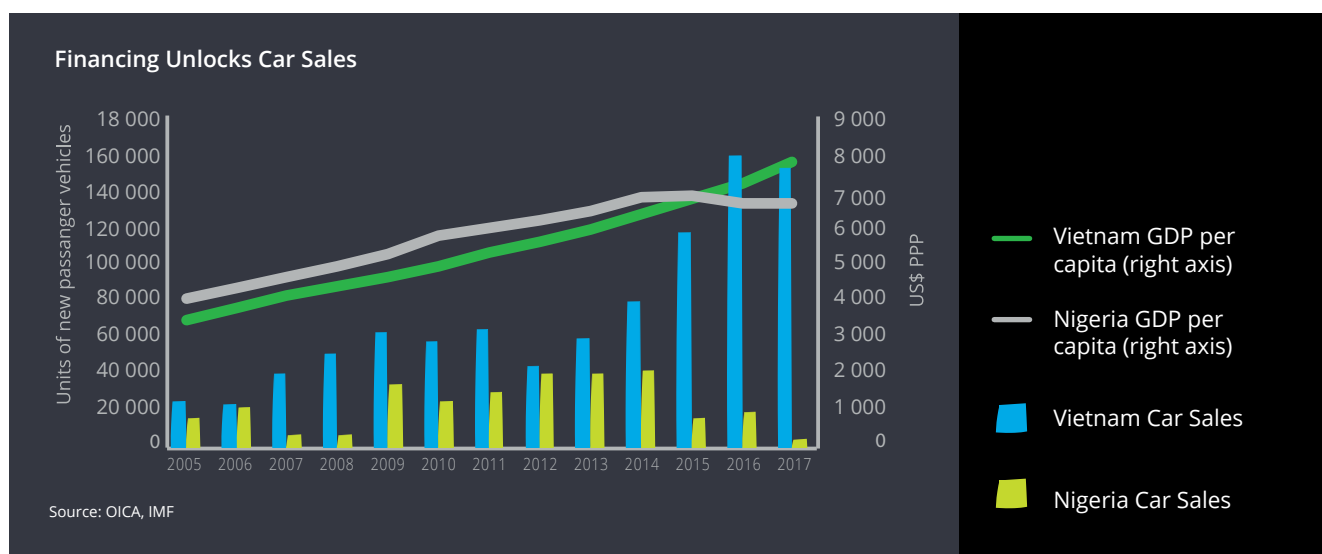
In late 2017, as the economic conditions in the country improved, the Senate passed the Bill on Nigeria Automotive Industry Development Plan. In June 2018, Minister of Industry, Trade and Investment Okechukwu Enelamah indicated that the signing of the automotive policy into law was imminent.

Import Tariff Regime, 2015

Category	Duty	Levy
Capital equipment used for auto assembly	0%	0%
Completely knocked-down kits (CKD)	0%	0%
Semi knocked-down kits 1 (SKD1)	5%	0%
Semi knocked-down kits 2 (SKD2)	10%	0%
Fully built vehicles (within the programme)	35%	0%
Fully built passenger vehicles (outside the programme)	35%	35%

Source: NAC, 2014

While current sales figures for new vehicles might look discouraging, the experience of other emerging markets shows that sales numbers can pick up quickly if the right policies and support are in place. Vietnam, with similar income levels to Nigeria, had similar levels of vehicle sales in 2006. Improved access to finance unlocked Vietnam's vehicle market and sales increased more than six-fold in 12 years, reaching over 150 000 in 2017.²⁷ As part of the NAIDP, the government is looking to improve access to vehicle finance by introducing an automobiles purchase scheme. This scheme is expected to drive domestic demand and to unlock the local market.



Nigeria's automotive sector is a medium- to long-term play. Opportunities exist by leveraging the current market landscape, which consisted of 3.75 million vehicles in 2015, most of which were imported as second hand vehicles.²⁸ Furthermore, a large share of Nigeria's vehicle fleet is old. Therefore, automotive manufacturers can capitalise on the high demand for automotive spare parts for used vehicles. Specifically, opportunities exist for domestic production of parts that are at particular risk due to poor road conditions, such as tires, brake pads and suspension. Once domestic expertise has been developed, part manufacturers have an opportunity to move up the value chain and start producing components that are more complex. Improving the depth and sophistication of the value chain would also help to increase domestic assembly activities and to unlock the potential of the domestic automotive industry.

For further analysis, see Deloitte report:
Deloitte Africa Automotive Insights

Technology

Addressing local challenges, unlocking markets

In 2017, Nigeria attracted about one third of startup investment in Africa

There is a gap in funding for startups looking to raise between US\$100 000 and US\$1m

In recent years, many local entrepreneurs and international companies have started to recognise the large potential of building a digital or technology-driven economy in Africa. African technology startups raised over US\$195m in 2017, up 51% from funds raised in 2016.²⁹ Today, Nigeria has become the most attractive destination for international startup funding in Africa. In 2017, the country's emerging technology sector attracted US\$63m – roughly one-third of all capital directed towards the continent's technology startups.³⁰ Both the number of ventures and the average capital raised has increased in Nigeria. Within one year, the average size of startup investments increased from US\$57 000 to US\$73 000.³¹

The potential of Nigeria's startup scene has been recognised by leading technology entrepreneurs including Facebook founder Mark Zuckerberg. Following a 2016 visit to Lagos' Yaba District, deemed Nigeria's Silicon Valley, Zuckerberg launched a startup hub in the city, strengthening Lagos' image as a leading tech hub in West Africa.

In addition to the international recognition, Nigeria's government has recognised the potential the tech sector holds for job creation and its contribution to the economy through its enabling character. In early 2018, vice president Yemi Osinbajo toured leading startup hubs such as Co-Creation Hub and Venia Hub and visited leading startups such as Paystack, Flutterware, Andela and Farmcrowdy.

An advantage of Nigeria's startup sector is that its innovation is often focused on solving everyday challenges consumers face in the domestic market. This focus allows for rapid commercialisation of innovation and increases the attractiveness for the investors.

These innovative technologies provide the tools for entrepreneurs to solve challenges stemming from infrastructure bottlenecks, insufficient banking penetration and market fragmentation. Insufficient infrastructure in particular impedes the growth of many sectors that rely on efficient supply chains including the automotive industry.

According to the World Bank, less than 40% of Nigerian adults have access to formal bank accounts.³² The low penetration of financial services increases transaction costs for B2B and B2C transactions as well as cross-border remittances. Locally developed solutions allow Nigeria's unbanked to access financial services and provide innovative ways of transacting in Nigeria's economy.

Nigeria's e-commerce sector will reach about US\$13bn in 2018

In the absence of a well-established formal retail sector, e-commerce has started to gain traction in the country. The widespread access to mobile phones and the emergence of innovative payment solutions have unlocked Nigeria's e-commerce sector. A recent industry report estimates that the annual value of Nigeria's e-commerce sector will reach about US\$13bn in 2018.³³

A major challenge is the fragmentation of markets in Nigeria. The agricultural sector, for instance, has not been able to reach its full potential due to the lack of aggregation of smallholder farmers and infrastructure bottlenecks (see agriculture). Technology solutions that target these inefficiencies and challenges may hold the key to unlocking the sector's potential. Innovative, shared transport solutions would improve the access to regional markets for smallholder farmers. Mobile processing units would decentralise processing activities and reduce the need for costly logistics of fresh produce. The introduction of digital solutions that facilitate the sharing and allocation of farming inputs including tractors, tilling equipment and fertilisers, holds the potential to reduce the cost of these inputs and enhance productivity of smallholder farmers.

Healthcare

Providing quality care to Nigerians

Demand for healthcare in Nigeria currently outstrips supply, presenting a wide range of opportunities for foreign investment and expertise. The domestic healthcare sector is estimated to be worth US\$5bn per annum. In addition, Nigerians spend more than US\$1bn on about four million medical treatments abroad each year.³⁴

Nigerians spend more than US\$1bn on medical treatments abroad each year.

High rates of healthcare tourism are not for lack of local physicians, as close to 3 000 doctors are trained in Nigeria every year.³⁵ However, over 63% of trained doctors end up practicing medicine abroad.³⁶ The exodus of doctors is due to a range of reasons such as unattractive remuneration, poor working conditions, and lucrative opportunities abroad. As a result, there is a dire need to retain doctors in the country, where the ratio is one doctor per 5 000 people, significantly lower than the World Health Organizations recommended ratio of one per 600.³⁷ This trend has left a gap in the domestic medical industry, suggesting potential for a wide range of opportunities.

Academic research suggests a major shift towards processed foods in Nigeria. The increased popularity of processed food products is likely to increase the need for treatments linked to so-called lifestyle diseases including cancer, cardiovascular disease and obesity. Nigeria's current health system will require major investments to increase its capacity to deal with these diseases going forward.

Opportunities

Hospital Management

As many Nigerian patients travel abroad for treatment, global hospital management firms have an opportunity to leverage the international trust in their brand to manage medical facilities and implement innovative technology to develop Nigeria's health industry as a regional leader. International brands may help lure the large number of Nigerian doctors working abroad to return to the country, amalgamating their international expertise with understanding of the local operating environment.

Pharmaceuticals

Nigeria's pharmaceutical market is worth US\$2bn but only eight out of over 130 companies are listed on the Nigeria Stock Exchange.³⁹ Potential exists for foreign firms to collaborate with smaller Nigerian players who need funding and expertise to expand in the regional market.

Diagnostic Services

Diagnostic services hold massive untapped potential. The diagnostic services industry has seen healthy growth of close to 10% in recent years.⁴¹ Beyond imaging, further diagnostic service opportunities exist in nuclear medicine, pathology and paternity testing.

Health Insurance

Low levels of health insurance penetration coupled with large population growth present opportunity in the health insurance sector. However, due to relatively low-income levels, innovative insurance models are key to success in the insurance space.

Nigerians spend over
US\$1bn on
medical treatment abroad

US\$6bn
imports of vaccines³⁸

There were just
four MRI machines
in Nigeria in 2017⁴⁰

Only **1%** of
Nigerians have
health insurance⁴²



Agriculture

Sowing seeds to feed a growing population

Nigeria holds vast agricultural potential due to its large domestic market and its abundant arable land. However, only 40% of the country's 84 million hectares of arable land is currently under cultivation.⁴³

Despite its large agricultural potential, Nigeria has been a net importer of foodstuffs for almost two decades, and the gap between imports and exports continues to grow. Currently, the agricultural sector is fragmented and dominated by smallholder farmers, suggesting that most producers cannot take advantage of the economies of scale required to compete globally or against imports.

Opportunities exist by utilising arable land, aggregating small firms, and implementing technological innovations to overcome local challenges.

Unlocking the cassava industry

Cassava and yams account for over half of all agricultural production in Nigeria. In 2016, the country produced more than 50 million tonnes of cassava and production is expected to double by 2020.⁴⁵ As the world's largest producer of cassava, Nigeria also has a notable but untapped potential in the production and export of processed cassava products.

Finding opportunity through chinks in the supply-chain

Opportunities exist along the entire value chain; however, the most potential exists where there are current weak links in the supply chain. Cassava producers face a number of barriers that inhibit expansion, including a lack of affordable transportation, insufficient processing centres, lack of pesticides and other farming inputs. Innovative technology can play an important role in overcoming these challenges and can increase the sector's competitiveness.

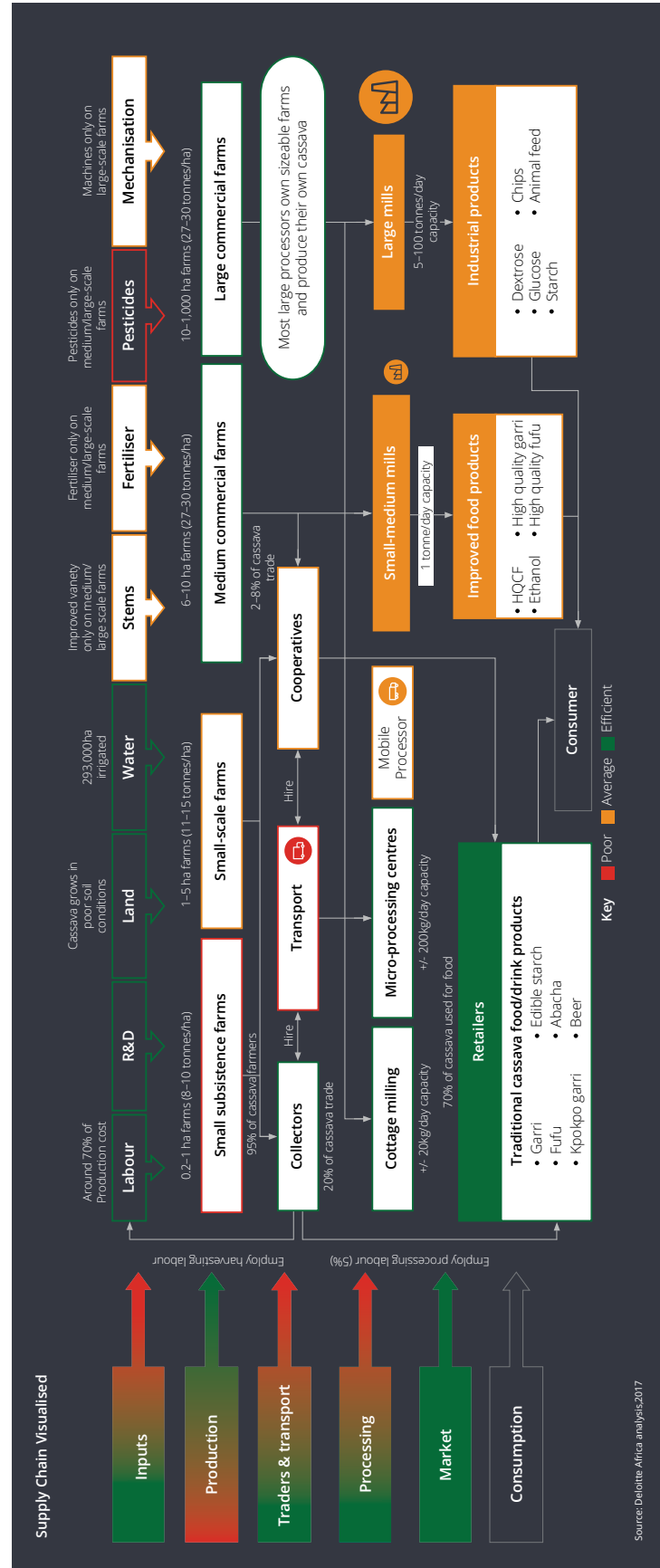
Key Challenges:

- Lack of transport infrastructure to connect rural areas to urban agglomerations where high concentrations of customers are located
- Storage facilities are undermined by Nigeria's unreliable power supply causing massive wastage
- Lack of resources to mitigate the impact of erratic weather patterns
 - Major floods hit 32 of Nigeria's 36 states in early 2017, significantly affecting crops, specifically cocoa, which is Nigeria's largest agricultural export, making up 6% of global cocoa exports⁴⁴
- Lack of quality control and food safety have led to the US and EU implementing import restrictions on certain goods such as cocoa. These restrictions could be removed once Nigeria signs the Economic Partnership Agreement between the EU and West African states.



For further analysis, see Deloitte report: Agricultural Opportunities in Africa

The cassava supply chain visualised*



*This supply chain template can be applied across a range of agricultural products

Light Manufacturing

Bringing production home

Onshoring could reduce Nigeria's import bill by US\$11bn

Government initiatives such as the import ban on a number of goods, forex restrictions, and targeted incentives to onshore production are geared towards creating a more attractive environment for investors, thereby unlocking a range of industries, including the automotive sector. By onshoring alone, light manufacturing opportunities could reduce Nigeria's import bill for manufactured goods by US\$11bn.⁴⁶

Key manufacturing industries with potential of import substitution include:

- **Electronics** – phones US\$334m, TV equipment US\$121m
- **Appliances** – refrigerators US\$83m, sewing machines US\$78m, air-conditioners US\$74m
- **Basic Automotive Components** – motorcycle parts US\$51m, parts for commercial vehicles (such as bumpers and suspension systems) US\$62m

Targeted investment incentives:

- Tax holiday granted for up to 5 years for investments in "Pioneer Industries"
- Repatriation of profit
- Investment Promotion and Protection Agreement guarantees investment even in event of war, revolution and nationalisation.

In addition to these investment incentives, in 2016, the Nigerian government announced the launch of six special economic zones (SEZs) across the country. The SEZs will provide incentives such as tax rebates and infrastructure subsidies for investors looking to set up production facilities in the country. The government hopes that these initiatives will drive the diversification of exports while transferring foreign expertise to Nigerians. Vice President Osinbajo announced this year that the first of these SEZs would focus on the textile and garment industry, providing opportunities for much-needed value addition in the already significant local cotton industry. The government's support for light manufacturing will also play an important role in creating the much-needed supply chain for the re-emerging automotive industry in the country. The government's support for light manufacturing will also play an important role in creating the much-needed supply chain for the re-emerging automotive industry in the country.

List of imports that are banned or have foreign exchange restrictions:

Outright Ban		Foreign exchange restrictions	
1	Poultry products (meat, eggs etc.)	1	Rice
2	Pork and beef	2	Cement
3	Refined vegetable oils and fats	3	Margarine
4	Cane or beet sugar and chemically pure sucrose, in solid form in retail packs	4	Palm kernel/Palm oil products/vegetables oils
5	Cocoa butter, powder and cakes	5	Meat and processed meat products
6	Spaghetti/noodles	6	Vegetables and processed vegetable products
7	Fruit Juice in retail packs	7	Poultry chicken, eggs, turkey
8	Beverages (water, sweetened drinks, beer etc.)	8	Private airplanes/jets
9	Bagged cement	9	Indian incense
10	Wide range of medicaments	10	Tinned fish in sauce
11	Soaps and detergents in retail packs only	11	Cold rolled steel sheets
12	Mosquito repellent coils.	12	Galvanised steel sheets
13	Sanitary wares of plastics and domestic articles and wares of plastics	13	Roofing sheets
14	Retreaded and used pneumatic tyres	14	Wheelbarrows
15	Paper products (corrugated paper, toilet paper etc.)	15	Head pans
16	Telephone Recharge cards and vouchers	16	Metal boxes and containers
17	Carpets and other textile floor coverings	17	Enamelware
18	All types of foot wears, bags and suitcases	18	Steel drums
19	Glass bottles	19	Steel pipes
20	Used compressors and used fridges/freezers.	20	Wire rods(deformed and not deformed)
21	Used motor vehicles above fifteen (15) years from the year of manufacture.	21	Iron rods and reinforcing bard
22	Furniture	22	Wire mesh
23	Ballpoint pens and parts	23	Steel nails
		24	Security and razor wine
		25	Wood particle boards and panels
		26	Wood Fibre Boards and Panels
		27	Plywood boards and panels
		28	Wooden doors
		29	Toothpicks
		30	Glass and Glassware
		31	Kitchen utensils
		32	Tableware
		33	Tiles-vitrified and ceramic
		34	Textiles
		35	Woven fabrics
		36	Clothes
		37	Plastic and rubber products, polypropylene granules, cellophane wrappers
		38	Soap and cosmetics
		39	Tomatoes/tomato pastes
		40	Eurobond/foreign currency bond/share purchases

Risks for Investors

Applying historic patterns to achieve future business success

Risks

Reform delays – Previous patterns of policymaking in the run-up to elections in Nigeria suggest that it is unlikely that the government will pass major reforms in the coming year. As politicians bunker down for typically contentious campaigns, analysts predict that political capital will be used to support election bids. However, any delay in reform would undermine the current diversification efforts and the country's exposure to commodity price volatilities would remain.

Insecurity – Boko Haram has been largely repelled, however, potential for violence remains over land issues in the ethnically diverse Middle Belt. In addition, the Biafra separatist movement in the southeast continues to inject volatility in the oil-rich region of the country. In the past, violence has been known to flare in the run-up to elections; careful political manoeuvring will be required to maintain a peaceful election, specifically in traditionally unstable regions.

Resource Overreliance – Oil dependence has been a significant barrier to achieving inclusive and sustainable growth in the past. The government has recognised the urgent need to diversify the economy, but plans now need to be translated into sustainable and actionable reforms. As oil is still a major revenue earner, the currency is at risk to disturbances in the oil sector. Stable policy decisions and successful diversification will boost investor confidence, which in turn will support the naira.

Mitigating Risk

Nigeria is a unique market where conditions do not always lend themselves to textbook business strategies. While there is no one-size-fits all solution to succeeding in Nigeria, foreign investors should heed lessons learned by previously successful investment and penetration of the market by foreign firms. Investors in Nigeria typically implement a long-term strategy due to the complexity of the domestic market. This pattern suggests that it is key to invest time and effort to achieve success in the market.

Flexibility – Implementing nimble business strategies helps to build capabilities to respond to unforeseen events in market. However, it is of paramount importance to ensure strict compliance with local and international laws, and to apply sound internal governance practices. This will help companies to protect themselves from country specific risks.

Partnerships – A key to success in Nigeria is working through trusted local partners who have well-established networks and understand the dynamics of the economy and country. As partners provide the eyes and ears on the ground, trust should form the foundation of these partnerships. Paying close attention to due diligence when entering into partnerships is stressed, specifically in regard to political affiliations close to elections.

Protocol – Nigeria's business culture is vastly different from that of the rest of the world, and even its regional neighbours. Penetrating the market successfully requires consideration of local business practices. Due to unpredictable factors affecting the business environment, personal relationships within a business setting are highly valued in the country. Understanding the nuances of protocol in the country enables investors to navigate difficult business situations and helps to mitigate risks.

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Appendix

Individual Income Tax Notes:

1. **Basis** – Nigerian residents are taxed on worldwide income; non-residents are taxed only on Nigerian-source income.
2. **Residence** – An individual is deemed resident in Nigeria if he/she spends more than an aggregate of 183 days (inclusive of annual leave or temporary period of absence) in any 12-month period in Nigeria, and meets other conditions for residence.
3. **Taxable income** – Employment income generally is taxable unless otherwise exempt. This includes employment income earned by both temporary and permanent employees. Business profits earned by an individual from a trade or profession and other investment income also are taxable.
4. **Exempt income** – Foreign-source income of residents, arising from dividends, interest, rents, royalties, fees or commissions earned from abroad is exempt if brought into Nigeria in convertible currency and paid into a domiciliary account in a bank approved by the government. Income brought into Nigeria through domiciliary accounts via an authorised bank by athletes, playwrights, authors, musicians and artists (who are professionals) also is exempt.
5. **Deductions and allowances** – There is a consolidated relief allowance of 20% of gross income, plus the higher of N200 000 or 1% of gross income. The following deductions are tax-exempt when computing taxable income:
 - National Housing Fund Contribution
 - National Health Insurance Scheme
 - Life Assurance Premium
 - National Pension Scheme
 - Gratuity contributions, provided the scheme is approved.
6. **Rates** – Individuals in Nigeria are taxed at progressive rates ranging from 7% to 24%. Capital gains generally are taxed at a rate of 10% (although gains from the disposal of shares are exempt). Non-residents are taxed via deduction at source.

7. **Employment income** – The Pay-As-You-Earn (PAYE) system of collection is used. A minimum tax of 1% of gross income is applicable where computed tax amount is less than 1% of gross income.

Company Income Tax Notes:

1. **Basis** – Nigerian companies are taxed on worldwide income, while companies registered in a foreign jurisdiction with a fixed base or permanent establishment (PE) in Nigeria are taxed only on Nigerian-source income.
2. **Residence** – Resident companies are liable to tax on their worldwide income. A company is resident in Nigeria if it is incorporated in Nigeria. A non-resident company operating through a fixed base (or PE as defined in a tax treaty) also is subject to income tax on its Nigerian-source profits.
3. **Taxable income** – Taxable income is a company's income less allowable deductions and losses. Income of a capital nature is not included in taxable income. Dividends received by a Nigerian company from another domestic company are excluded in the determination of taxable income to the extent the distribution suffered withholding tax (WHT) in the hands of the initial recipient (distributing company).
4. **Deductions** – Expenses that are incurred wholly and exclusively for the business generally may be deducted. Capital allowances are granted to companies against taxable income in lieu of the wear-and-tear of business assets. Rates of capital allowances are highest (95%) for expenditure on replacement plant and machinery for mining, agricultural production, industrial plant and machinery and motor vehicles used for public transportation. Investment allowances of 10% are available to companies in their first year of acquisition of plant and machinery. Certain business assets (such as factory buildings, furniture and fittings) enjoy capital allowances at lower rates of 25% or 15% (initial) and 20% or 10% (annual), but generally at 50% (initial) and 25% (annual) in other cases.
5. **Losses** – Losses may not be carried back but may be carried forward indefinitely (except losses incurred by insurance companies, which are limited to a four-year carry forward period and losses incurred by other (non-upstream oil and gas) companies within the early years of operation, which may not be carried forward beyond the fourth year).

6. **Foreign tax credit** – A unilateral credit is not available to corporate taxpayers. However, income tax paid in non-treaty countries is deductible if Nigeria also taxes the income.
7. **Group relief** – There is no provision allowing for any group relief or the transfer of losses between members of a group of companies.
8. **Rate** – The corporate tax rate is 30% for all companies, except oil and gas companies in the upstream sector. A lower rate of 20% is applicable to manufacturing or agricultural production companies and companies engaged wholly in exports within the first five years of operation and where the turnover does not exceed N1m. Capital gains generally are taxed at a rate of 10% (although gains from the disposal of shares are exempt). Non-resident companies are subject to the same rate as resident companies. Nigeria does not levy a branch profits tax.
9. **Minimum tax** – A minimum tax is levied to ensure that, unless exempt, every company pays a certain amount of corporate income tax. The minimum tax is payable by a company where, in any year of assessment, the total assessable profits from all sources results in a loss or no tax being payable or tax payable that is less than the minimum tax. When turnover is N500 000 or less, the minimum tax is the highest of 0.5% of gross profits or 0.5% of net assets, or 0.25% of paid-up capital or 0.25% of turnover. When turnover exceeds N500 000, an additional tax is payable, calculated at the rate of 0.125% of turnover exceeding N500 000. Agricultural and agro-allied companies, companies with at least 25% foreign equity and any company in the first four years of commencement of business are not required to pay the minimum tax.
10. **Petroleum Profit Tax (PPT)** – PPT (rather than corporate tax) is imposed on petroleum companies. Income for PPT purposes refers to the value of the oil and related substances extracted, except gas, plus any other income of the company. Various deductions are allowed. The nature of the contract entered into by persons in the oil and gas industry determines the applicable tax regime. Income derived by companies engaged in petroleum operations is assessable to tax at a rate of 85% with some variations for companies within the first five years of operation (chargeable at 65.75%) and those that are operating under a production sharing contract (chargeable at 50%).

Profit from any activity that does not qualify as petroleum operations is subject to tax at a rate of 30%.

Withholding Tax Notes:

1. WHT deducted from the income of resident individuals and companies is a payment on account of tax. WHT credit notes may be used to offset personal and company income tax liabilities, except where the tax withheld is a final tax (e.g. WHT on dividends). Where the recipient is a non-resident, the WHT is a final tax.
2. Certain interest payments are exempt from WHT.
3. The WHT rate on non-residents is reduced to 7.5% where the recipient is resident in a country that has concluded a tax treaty with Nigeria. The withholding rate for non-treaty countries is 10%.

Value Added Tax Notes:

1. Taxable transactions – VAT is charged on the taxable supply of goods and services in Nigeria, and on the import of goods.
2. Rates – The standard VAT rate is 5%. Exports and international transport are zero-rated and certain transactions are exempt. Input tax paid on purchases to produce exempt supplies is not recoverable.
3. Registration – All taxable persons that make taxable supply of goods and services are required to register for VAT purposes within the earlier of six months of commencement of business and effective date of the Value Added Tax Act.

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