

## Exemption of Profit Order: Why is Industry frigid?

In the two years remaining, it becomes imperative to revisit the agenda of the Exemption of Profit Order and investigate thoroughly why Industry appears disinterested in the relief package. Such a process may enable Government to re-evaluate its intention and refocus the Order

The Federal Government of Nigeria has never disguised its desire to promote job creation and engage the teeming unemployed youths available within the economy annually.

According to the National Bureau of Statistics, the unemployment rate in the country stands at 7.5%, translating to about 17.7 million people between ages 15-65 either unemployed or underemployed as at the end of first quarter of 2015. This is not a befitting state of play.

Three years before, the Federal Government issued the Companies Income Tax (Exemption of Profit) Order (The Order) on 27 April 2012 to drive significant reduction in unemployment and boost private sector investment in the economy. The Order stipulates certain package of incentives to realise these objectives.

Specifically, the Order provides for three different tax incentives namely:

- Employment Tax Relief (ETR);
- Work Experience Acquisition Programme Relief (WEAPR); and
- Infrastructure Tax Relief (ITR).

These incentives are targeted at encouraging specific corporate behaviours.

The ETR entitles companies who employ fresh graduates and satisfy other criteria to an income tax exemption of five per cent of their assessable profits. This is however restricted to gross salaries paid to the qualifying employees.

Similarly, companies with a minimum net employment<sup>1</sup> of five new employees; who retains them for a minimum of two years are entitled to WEAPR. This tax incentive affords such companies an income tax exemption of five per cent of their assessable profits at the end of the second year of employment of the qualifying employees.

In the case of ITR, a tax relief of thirty percent of the cost incurred by a Nigerian company in providing infrastructures or facilities of a public nature is granted against the company's income. This is in addition



to the total cost of the infrastructure / facilities provided, which is deductible from the company's income for tax purposes.

Given that the above incentives have been available to companies for the past three years, it is important to examine at this time, if the Government has achieved the objectives for which the incentives were introduced. The inevitable reality in 2015 is that there has not been any significant increase in the employment rate compared to 2012 when the Order was issued.

An evaluation of the tax returns of some Nigerian companies reveal that most companies have not been claiming the above incentives. One would assume that this package of reliefs is attractive enough to elicit

the desired response from the targets. However, this appears not to be the case and given that the Order is expected to be in force for only five years (out of which three years have elapsed), there is need to raise the questions that may change the course of its application in the remaining two years positively.

- **Awareness gap:** Is the low utilisation a matter of low awareness in the Industry? Does the Government need to up the level of awareness for the reliefs?
- **Expectation asymmetry:** Is there an expectation gap between the Government and the Industry? Is the lukewarm attitude towards these reliefs a reflection that Government has misjudged the Industry's priorities?

- **Scope of reliefs:** Are the incentives not significant enough to spur companies to change their orientation towards the creation of employment opportunities?
- **Coverage:** Why are the reliefs only applicable to companies? Are these the only category of potential employers recognised by Government? Is the Government unwittingly or deliberately excluding sole proprietorships and partnership from such reliefs even when they contribute to employment generation? Or could this be because the Federal Government did not wish to wrangle with State Governments who assesses sole proprietors and partnerships to tax, that is why these categories of employers have been left out?
- **Administration of the Order:** Are the conditions for enjoying the reliefs too tedious and/or impracticable for companies to meet? For instance, companies are required to, amongst other things, submit a certification by their statutory auditors, detailing the particulars of their compliance with the qualifying criteria in respect of the ETR, WEAPR and/or ITR. Further, the certification provided by the Company's statutory auditors must be verified by FIRS.

The problem of unemployment in Nigeria is not primarily a problem of taxation. It is a problem in which Government had thought taxation could be the solution or one of the solutions. Hence, the Exemption of Profit Order package of incentives.

The results of the rebasing of the GDP reflect the potential and capacity of the Nigerian economy for phenomenal growth as well as the need to plan for full employment of available skilful and qualified Nigerians of employment age.

Unemployment or under-employment "victimises" the unemployed within the socio-economic context. It exposes the "unemployed" to suffer poverty, destitution, degradation, loss of self-respect etc. It often provides the

"excuse" for resorting to options that society will disapprove of to mitigate suffering and enhance survival. Accordingly, the problem of unemployment remains the burden of effective socio-economic planning and executive capacity to deliver on this agenda across the three-tiers of Government.

In the two years remaining, it becomes imperative to revisit the agenda of the Exemption of Profit Order and investigate thoroughly why Industry appears disinterested in the relief package. Such a process may enable Government to re-evaluate its intention and refocus the Order. It may also encourage the Government to extend the validity period of this Order beyond the initial five years period envisaged and allow the reliefs to cover sole proprietorship and partnerships.

<sup>1</sup> This is the difference between incoming and outgoing employees of the company within the assessment period

### The problem of unemployment in Nigeria is not primarily a problem of taxation

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