Tax Incentives and Made In Nigeria Goods[1]

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Abstract
This work examines the relationship if any that exists between tax incentives, "Made in Nigeria" concept and Companies that engage in made in Nigeria goods. It will explore how tax incentives can accelerate the growth of companies engaged in manufacturing of such made in Nigeria goods. From this paper, written primarily to evaluate the relationship between the two within the context of made in Nigeria goods, it has been explained that tax incentives would enhance economic growth and development in Nigeria, if such incentives are well focused and available to only deserving companies and sectors. Indeed, it is generally perceived that incentives complicate the tax system due to the additional cost and time required to monitor the beneficiaries of such incentives in order to avoid possible abuse; and may not be beneficial to the economy especially where the tax forgone exceeds the anticipated benefits from granting the incentives.

Keywords: Taxation, Tax Incentives (TI), Manufacturing Companies, Micro, Small and Medium Enterprises, Multiple Taxation.

Introduction

The theme of the 2016 Annual Tax Conference of the Chartered Institute of Taxation of Nigeria was *"Fiscal Challenges and Opportunities of the Nigerian economy"*. A carefully chosen theme noting the current economic imbroglio the nation finds herself today. It is acclaimed globally that taxation is an instrument of economic growth for funding the government budget universally. But then, the huge gap between tax collections and the quantum left uncollected year after year needs to be addressed if the nation is to make a sustainable progress.

The International Monetary Fund reported on May 2nd, 2016 that "the growth forecast for this year, represents the lowest for the region in the past 15 years". It attributed the development to severe shocks, tight external financing, and called for a stronger policy response to counter the effect and secure the region's growth potential.[3] One of the ways to counter the shocks is to promote "made in Nigeria" goods.

MADE IN NIGERIA GOODS

Made in Nigeria can refer to assemble, manufacture, finished or packaged in Nigeria. Such activity can be carried out by Nigerians and Non-Nigerians. Made in Nigeria Goods are generally dominated by our local manufacturers which constitute the manufacturing companies, and the Micro, Small and Medium enterprises (MSMEs). Nigeria is blessed with numerous goods made in Nigeria from shea butter to palm oil, textiles, iron and steel etc. Indeed, the latest

[3]http://economicconfidential.com/2016/05/imf-forecasts-low-growth-nigeria/

public opinion poll released by NOIPolls revealed that 97 percent of Nigerians have expressed their willingness to buy locally made products in order to strengthen the country's economy which is dwindling. Similarly, the poll indicated that about 98 percent of Nigerians are willing to support a "BuyNaija" campaign to encourage patronage of locally made products.[4]

Types of Made in Nigeria Goods

The classification includes:

a. Manufacturing Sector
b. Oil and Gas Sector
c. Agricultural and Agro Allied Businesses
d. Electrical and Electronics; (fans, deep freezers)
e. Iron and Steel
f. Plastics
g. Textiles etc

Companies involved in Made in Nigeria Goods

a. Large Companies/ Manufacturing Companies
b. Micro, Small and Medium enterprises (MSMEs)

   The Federal Inland Revenue Services (FIRS) recognizes MSMEs by segregating the taxpayers with turnovers between N200million and N1billion to the Medium Tax Department from the former Small and Medium Department (SMD) while others below that threshold are in the Micro and Small Tax Department (MSTD).

The Revised National Tax Policy paid attention to the MSMEs by prescribing that "qualification for the lower income tax rate applicable to small businesses should be reviewed in line with current economic realities. The income tax rate for small businesses should be further reduced as an incentive to encourage compliance and promote Micro, Small and Medium enterprises (MSMEs)".

Small Companies.

Small companies are those companies that earn a total gross sales (annual turnover) of below one million naira (N1,000,000.00). They are charged at a lower rate of tax of 20 per cent for four years from the commencement of the business. The rate of tax is applicable only to companies engaged in the business of agricultural production, manufacturing, mining of solid minerals and wholly export trade[5]. One of the recommendations of the 2003 Study Group on the Tax System was that "Small companies whose turnover falls below N50m in a year, and which make profit in that year, should pay company income tax at State level at the rate of 2% of turnover, or 20% of chargeable profit, whichever is lower"[6]. This recommendation is yet to be implemented.

Tax Incentives

Nigeria has always put in place policies to attract foreign direct investment (FDI) in order to promote economic growth and development. Nigeria's experience in the granting of tax incentives came on stream in 1958 and included: Pioneer companies relief, import duties relief and approved user scheme. Thus, plethora of tax incentives are available to attract local and foreign investors. Examples are tax holidays, tax cuts, reliefs and allowances, credits and exemptions. Tax incentives are granted on sector basis-agriculture, mining, oil and gas etc.

What are Tax Incentives?

The United Nations Conference on Trade and Development (UNCTAD) (2000)[7], defined tax

[4]http://www.noi-polls.com/root/index.php?pid=374&parentid=14&ptid=1 accessed on 7th March,2017 [5](previously subsection 8; re-numbered subsection 7 by the Companies Income (Amendment) Act 2007 [6]Recommended by the Study Group (2003), at Pg 342 of the Main Report. [7]http://www.academia.edu/4695385/an appraisal of tax incentives in Nigeria. Ajaga Chikezie

incentives as any measurable advantages accorded to specific enterprises or categories of business by a Government, in order to encourage them to behave in a certain manner. Bruce (2004) defined tax incentives as fiscal measures that are used to attract local or foreign investment capital to certain economic activities in particular areas in a country[8]. The reduction in tax liability which a tax incentive constitutes can be achieved through reduction in tax rate, reduction in tax base, outright tax exemption, tax deferment and so on (Dotun Philips)[9]. The term "tax incentive" encompasses all the measures adopted by Government to motivate taxpayers to respond favourably to their tax obligations (Manuwa,1996)[10].

Objectives of Tax Incentives(TIs)

Philips (1996)[11] itemized five objectives of TI: Regional Investment, Sectorial Investment, Performance Enhancement, transfer of technology and structural development. Some of the TIs in Nigeria are sector-based; they are targeted at agriculture, petroleum industry, mining etc and businesses with new technology. Tax holidays which cover an initial period of three years, renewable for an additional two years are available for pioneer products and companies involved in industries that are not fully developed. A new company going into mining of solid materials is exempted from tax for the first three years of operation.

A company engaged in marketing and distribution of natural gas for commercial purposes, enjoy a three-year tax-free period, renewable for an additional two years; accelerated capital allowances at the rate of 90 per cent of plant and machinery after the tax-holiday period.

Companies engaged in exploration of petroleum in deep offshore areas (water depths over 200 metres) and inland basin areas are granted a concessionary profits tax at the rate of 50 per cent of chargeable profits for the duration of the production-sharing contracts (PSCs) instead of the normal rate, 85 per cent. Royalties for deep offshore PSCs are graduated from 12 per cent to 0 per cent depending on water depth, while inland-basin PSCs are charged a flat rate royalty of 10 per cent.

Another objective is the structural development (OECD, 2010)[12]. Some governments offer incentives to develop certain industries or activities considered crucial for development, such as industrial parks, export activities, the film industry or business with new technologies.

Bruce (2004)[13], identified certain costs that are key features of tax incentives: Foregone Revenues, Resource Allocation, Enforcement and Compliance Cost, Fairness and Lack of Transparency.

Types of Tax Incentives

Manuwa (1996)[14] referred to the following as tax incentives: tax credits, tax cuts, tax deferments and write-offs, tax Exemptions, tax holidays, tariff reductions, reliefs and allowances, reduction in the number of effective taxes and low tax rates. UNCTAD has a more elaborate list.

Others include Loss carry forwards, Investment allowances, Investment tax credits, Reduced taxes on dividends and interest paid abroad, Preferential treatment of long-term capital gains, Deductions for qualifying expenses, Zero or reduced tariffs, Employment-based deductions and Tax reductions/credits for foreign hard currency earnings.

[8]Bruce .B. (2004), Effectiveness and Economic Impact of Tax Incentives in the SADC Regions. Submitted to the SEDC Tax Subcommittee ibid [9]Corporate Tax Incentives and Economic Growth in Nigeria, pg. 9, Nigerian TaxNews , Volume11 No 1, April, 1996) [10]A Critique of Tax Incentives, Nigerian TaxNews Vol. 11 No.1,1996 [11]"Corporate tax incentives and economic growth in Nigeria". Tax News, No. 1 Vol. 2 [12]OECD, 2010. Investment Reform Index 2010, Paris: OECD. 9.Bruce .B. (2004), Effectiveness and Economic Impact of Tax Incentives in the SADC Regions. Submitted to the SEDC Tax Subcommittee ibid [13](A Critique of Tax Incentives, Nigerian Taxnews Vol. 11 No.1,1996)

Made in Nigeria Goods and Multiple Taxation

Many of the companies that engage in Made in Nigeria goods encounter some challenges, one of which is multiple taxes. For example, a typical Nigerian company like Cadbury Nigeria plc, is confronted with payment of the numerous taxes, and charges. Companies income tax, tertiary education tax (if it makes profit), capital gains tax (if applicable), stamp duties (where instruments are stamped). Apart from aforementioned, companies operating in Lagos state are also subjected to Value Added Tax (VAT) and hotel consumption tax, all based on sales revenue. Since firms employs individuals who work for pay, the employees also pay personal income tax. In addition, other taxes, fees and user charges such as road taxes, business premises registration fee, signboard and land use charge are levied on businesses.

Other Challenges include-

Tis and Revenue Losses in Nigeria

Tis in form of reliefs, waivers, concessions, tariff reductions, low rates of tax and exemptions generally lead to revenue loss. (Adegbie and Fakile, 2011)[15] observed in a study conducted on Nigeria Customs Service (NCS) that there is under-assessment of payable duties, unauthorized transfer of funds, abuse of waivers, concessions and exemptions as well as non-remittance of government revenues. For instance, their findings revealed a revenue loss to all concessions in 2004 was N56.8billion which increased to N71.2billion in 2005 and reduced to N54.9billion in 2006. With so much outflows of income in billions of naira, the policy adopted by the government in the concession are of concern and being reviewed (Adegbie, 2011).

Demerits of Tax Incentives

Apart from massive losses as explained, various studies have proved that not all target beneficiaries of TIs actually enjoy them and thus tax incentives can be a total waste. Tax Incentives may help a company increase its profitability, but they cannot create profits for any organization. (Vito Tanzi,)[16] cautioned nations that tax incentives can lead to inefficiency in resource allocation.

Exemption Of Made In Nigeria Goods From VAT

Not all the goods manufactured in Nigeria are liable to VAT. The exemptions to encourage made in Nigeria Goods include: -

i. All goods manufactured in Nigeria which are for exports.
ii. Basic food items manufactured in Nigeria.
iii. Baby products.
iv. Fertiliser, locally produced agricultural and veterinary medicine, farming machinery and farming transportation equipment.
v. Plant and machinery for use in the export processing zones.

EASE OF DOING BUSINESS IN NIGERIA

The Ease of doing business index ranks countries against each other based on how the regulatory environment is conducive to business operation and stronger protections of property rights.

Economies with a high rank (1 to 20) have simpler and more friendly regulations for businesses. Nigeria is ranked 169 among 190 economies in the ease of doing business, in 2016 World Bank report, a miniature improvement from 170 in 2015. According to the Minister of Information and Culture, Lai Mohammed, the government is working to improve Nigeria's ranking adding that the current ranking of 169 out of 190 countries is unacceptable.

[15] Fakile, Adeniran Samuel Adegbie, Festus Faboyede, Olusola, Tax Expenditure in Sub-Saharan Africa, the Nigerian Experience.
[16] (Vito Tanzi has been Head of the Tax Policy Division (1974-81) and Director of the Fiscal Affairs at the IMF (1981-2000),

Importance of Made in Nigeria Goods in Economic Development

Companies that manufacture local goods have been considered to a certain extent by government and donors as a means to fight unemployment and poverty through self-employment.

Governments derive benefits in terms of multiple taxes payable by the companies and their personnel by way of companies income tax (CIT), personal income tax (PIT) and other taxes. Therefore, Government should not allow the companies to be stifled with too many taxes.

Government should take steps to promote Made in Nigeria Goods by curbing the preference for foreign goods and embrace the Nigerian goods made locally. It should therefore regulate the importation of products that can be produced in Nigeria and providing adequate fund to encourage small/medium scale enterprises (SME).

I believe that government is thinking in this direction. Jumoke Oduwole, the Coordinator and Secretary to the Presidential Enabling Business Environment Council (PEBEC) said the 2017 priority areas for business reform include Starting a Business, Getting Credit, Trading Across the Border, Paying Taxes, Construction Permits and Registering Property. Indeed, the Micro, Small and Medium Enterprises Clinic is being organised by the Council across the states of the federation, which aims at addressing the challenges confronting the MSMEs[17]. With all these measures, an enabling environment is being developed to promote the companies that deal in made in Nigeria goods.

Conclusion

The importance of taxation as a veritable tool of economic growth and development depends on efficient and effective tax system which has the capacity to generate adequate revenue through taxes from non-oil. Indeed, all hands must be on deck to advocate for transparency, accountability and equality in Nigeria's tax system.

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