GENERAL INCENTIVES

The Nigerian Government has put in place a number of investment incentives for the stimulation of private sector investment from within and outside the country. While some of these incentives cover all sectors, others are limited to some specific sectors. The nature and application of these incentives have been considerably simplified. The incentives include:

(i) COMPANIES INCOME TAX

The Companies Income Tax Act has been amended in order to encourage potential and existing investors and entrepreneurs. The current rate in all sectors, except for petroleum, is 30 percent.

(ii) PIONEER STATUS

The grant of Pioneer Status to an industry is aimed at enabling the industry concerned to make a reasonable level of profit within its formative years. The profit so made is expected to be ploughed back into the business.

Pioneer status takes the form of five-years tax holiday to qualified or (eligible) industries anywhere in the Federation and seven-year tax holiday in respect of industries located in economically disadvantaged local government area of the Federation. At the moment, there is a list of 69 approved industries declared pioneer industries, which can benefit from tax holiday.

To qualify, a joint venture company or a wholly foreign-owned company must have incurred a capital expenditure of not less than five million Naira whilst that of qualified indigenous company should not be less than ₦150,000.00. In addition, an application in respect of Pioneer Status must be submitted within one year the applicant company starts commercial production otherwise the application will be time-barred.

(iii) TAX RELIEF FOR RESEARCH AND DEVELOPMENT

Industrial establishments are expected to engage in Research and Development (R&D) for the improvement of their processes and products. Up to 120 per-cent of expenses on (R&D) are tax deductible, provided that such R&D activities are carried out in Nigeria and are connected with the business from which income or profits is derived. Also, for the purpose of R&D on Local raw materials, 140 per-cent of expenses are allowed. Where the research is long-term, it will be regarded as a capital expenditure and will be written off against profit. The result of such research could be patented and protected in accordance with internationally accepted Industrial Property Rights.

(iv) CAPITAL ALLOWANCES

The current rates applicable in respect of capital allowances are:

S/N	Qualifying Expenditure in Respect of:-	Initial Allowance (%)	Annual Allowance (%)
i)	Building Expenditure	5	10 per Annum
Ii)	Industrial Building Expenditure	15	10
Iii)	Mining	20	0
Iv)	Plant excluding furniture and fittings	20	10
v)	Furniture and Fittings	15	10

Vi)	Motor Vehicle Expenditure	25	20
Vii)	Plantation equipment expenditure	20	33
Viii)	Housing Estate Expenditure	20	10
Ix)	Ranching and Plantation Expenditure	25	15
x)	Research and Development Expenditure	25	12
Xi)	Public Transportation Motor Vehicle	30	-

The amount of capital allowance to be enjoyed in any year of assessment is restricted in Nigeria to 75% of assessable profit in case of manufacturing companies and 66% in case of others, except such companies in agro-allied industries that are not affected by this restriction. If leased assets are used in agro-allied ventures, the full (100%) capital allowance claimed will be granted. Moreover, where the leased assets are agricultural plants and equipment, there will be an additional investment allowance of 10% on such expenditure.

(v) IN-PLANT TRAINING

This is applicable to industrial establishments that have set up inplant training facilities. Such industries enjoy a two percent tax concession for a period of five years.

(vi) INVESTMENT IN INFRASTRUCTURE

This is a form of incentive granted to industries that provide facilities that ordinarily, should have been provided by government. Such facilities include access roads, pipe borne water and electricity. Twenty percent (20%) of the cost of providing these infrastructural facilities, where they do not exist, is tax deductible.

(vii) INVESTMENT IN ECONOMICALLY DISADVANTAGED AREAS

Without prejudice to the provision of the pioneer status enabling law, a pioneer industry sited in economically disadvantaged Local Government Area is entitled to 100% tax holiday for seven years and an additional 5% capital depreciation allowance over and above the initial capital depreciation allowance.

(viii) LABOUR INTENSIVE MODE OF PRODUCTION

Industries with high labour/capital ratio are entitled to tax concessions. These are industries with plants, equipment and machinery, which essentially are operated with minimal automation. Where there is automation, such automation should not be more than one process in the course of production. The rate is graduated in such a way that an industry employing 1,000 persons or more will enjoy 15 percent tax concession, while an industry employing 200 will enjoy 7 percent and those employing 100 will enjoy 6 percent and so on.

(ix) LOCAL VALUE ADDED

10% tax concession for five (5) years. This applies essentially to engineering industries, where some finished imported products serves as inputs. The concession is aimed at encouraging local fabrication rather than the mere assembly of completely knocked down parts.

(x) RE-INVESTMENT ALLOWANCE

This incentive is granted to companies engaged in manufacturing which incur qualifying capital expenditure for the purposes of approved expansion, etc. the incentive is in the form of a generalized allowance of capital expenditure incurred by companies for the following:-

- Expansion of production capacity
- Modernization of production facilities
- Diversification into related products

(xi) MINIMUM LOCAL RAW MATERIALS UTILIZATION

A tax credit of 20% is granted for five years to industries that attain the minimum level of local raw material sourcing and utilization. The minimum levels of local raw materials sourcing and utilization by sectors are: -

Agro-allied	-	70%
Engineering	-	60%
Chemicals	-	60%
Petrochemicals	-	70%