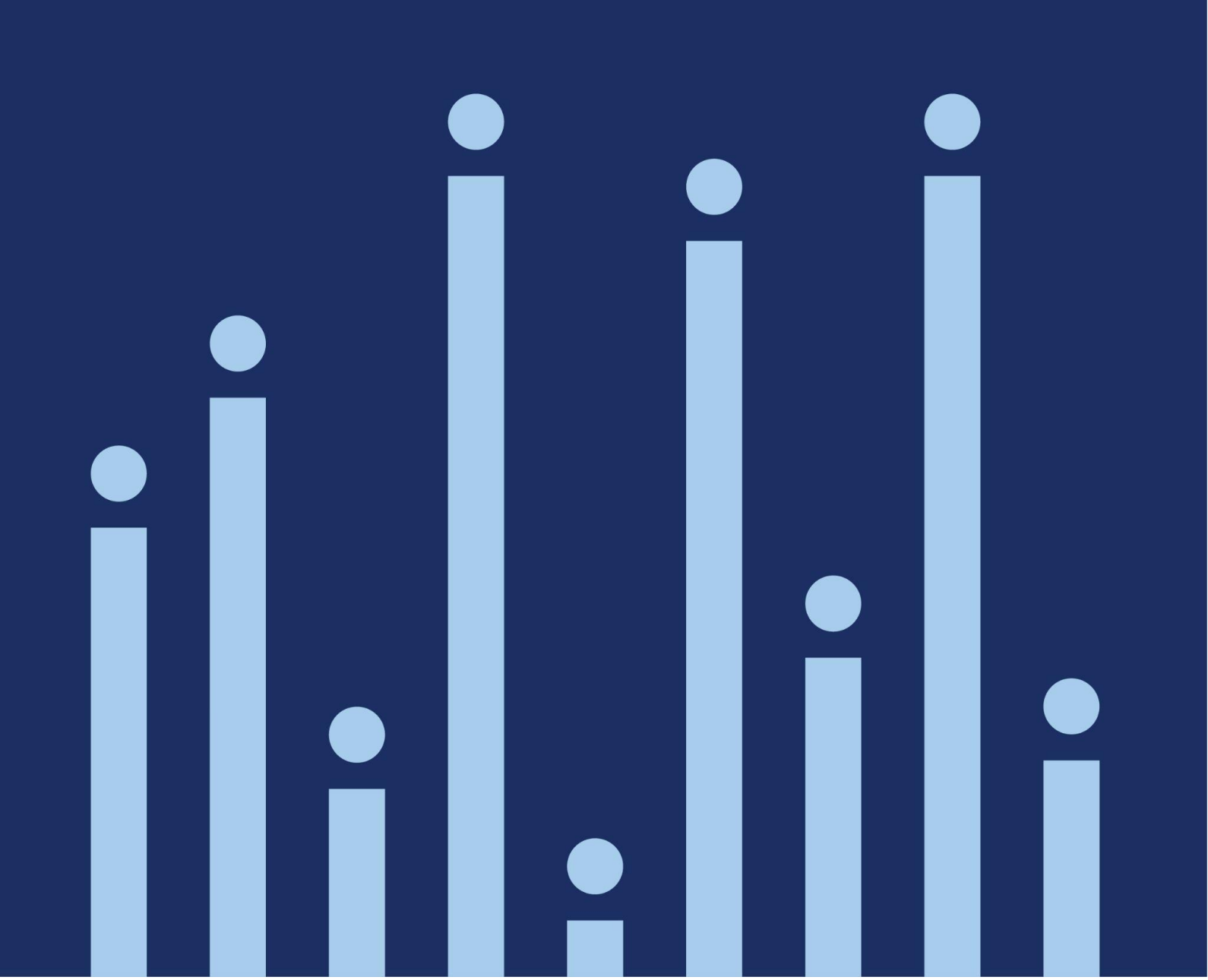

Tax Expenditures in Nigeria : an Overview

IDinsight

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Acknowledgements

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Executive Summary

Nigeria strives to increase its domestic revenues to finance its investments in public services and infrastructure. With the goal to increase Nigeria's tax-to-GDP ratio to 15% by 2025, Nigeria's Minister of Finance, Budget, and National Planning, in 2019, established the Strategic Revenue Growth Initiative (SRGI) which strives to coordinate revenue-enhancing initiatives of the federation's revenue agencies.

Particular attention has been given to tax expenditures (TEs) which take the form of preferential tax treatments to particular sectors of the economy or classes of taxpayers and provide an alternative mechanism to direct expenditures to pursue specific policy objectives. However, without proper monitoring and evaluation, TEs would limit economic growth and development. In Nigeria, in 2021, the Budget Office of the Federation estimated revenue forgone from TEs amounted to N6.8 trillion (~4% of GDP). Yet, these figures remain contentious and existing data constraints limit the ability of the Federal Government of Nigeria (FGN) to evaluate the budgetary cost of all tax expenditures.

In the quest for improvements in revenue generation, transparency and efficient management of public finance, the FGN aims to improve on the reporting of TEs, which is the first step towards understanding their cost-effectiveness and providing evidence to better inform fiscal policymaking. This involves the definition of a benchmark tax system, the adoption of a methodology for the evaluation of the budgetary costs of TEs, the validation of a harmonised TE reporting template and the preparation of a TE report. Efforts to support the management and evaluation of TEs are also being undertaken at the regional (ECOWAS / WAEMU) level, with the development of a regional template for the assessment of TEs and the harmonization of quantification methodologies and TEs report structures across Member States.

Despite such efforts, numerous challenges to the reporting of TEs remain, including high compliance and administration costs, insufficient data, limited data quality, weak inter-agency collaboration and poor human resources capacity.

The intention of this document is to provide a general understanding and overview of tax expenditures in Nigeria, with a particular focus on the evaluation and reporting framework of their budgetary cost. We focus on the Foundation for International Development Study and Research (FERDI) methodology for TE reporting, discuss findings from available Tax Expenditure Statements (TES) and explore current challenges faced by the FGN in tracking and reporting tax expenditures data. The lack of information on the design, approval and implementation process of tax incentives in Nigeria and the various legal forms under which they may be conceded hindered our efforts to provide a comprehensive description of their overall governance framework.

1. Tax Expenditures in Nigeria Concept, Purpose and the Governance Framework

For the purposes of this report, we define tax expenditures (TEs) as any tax measures that provide for a tax treatment of a particular activity, sector, goods or services, or a particular class of taxpayer, that differs from the benchmark tax system (BTS) applicable to taxpayers generally and that results in a reduction in the taxpayer's liability (MTEF/FSP 2023-2025). TEs may lead to a permanent reduction in the taxpayer's tax liability (e.g., tax exemptions, concessionary tax rates, and tax credits) or provide a time advantage by deferring the recognition of income, advancing the allowance of deductions (e.g., accelerated depreciation[1]) or delaying the payment of the tax liability (tax deferral). Table 1 lists all TEs that appear in Nigeria's Tax Expenditure Statements, for which cost estimates are available (more on this in Section III).

Tax expenditures lower tax revenue. For example, in Nigeria, the budgetary cost of tax expenditures, in terms of revenue forgone, is estimated to have amounted to N6.8 trillion (USD 17.8 billion) in 2021, approximately 4% of GDP. At the same time, tax expenditures may also provide an alternative mechanism to direct expenditures to pursue specific economic and social policy objectives, such as encouraging investment in specific sectors/regions or promoting employment. It is therefore critical to measure, report, monitor and evaluate the costs and policy outcomes associated with TEs to ensure they achieve their intended purposes and, ultimately, improve fiscal management transparency and enhance domestic revenue mobilization. However, challenges to the tracking and reporting of TEs, including poor data availability and quality, hinder a more comprehensive assessment of the cost of TEs in Nigeria.

The benchmark tax system (BTS) is the standard tax treatment applicable generally to taxpayers, activities, or goods and services for each type of tax, based on the norms applicable under the given tax system[2] (MTEF/FSP 2023-2025). For each tax, four different features are taken into account when establishing its benchmark:

1. the tax base - the total value of income and assets on which the tax is charged (profit, income, final consumption etc.);
2. the tax rate - the rate of tax applied to the tax base;
3. the tax unit - the entity liable to pay the tax (firm, individual, household, final consumer etc.); and
4. the tax period - the period of time used as a basis for calculating the amount of tax payable.

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[1] Accelerated depreciation provisions allow for faster depreciation of the value of an asset relative to the benchmark economic rate of depreciation. Companies can therefore reduce their tax liability in the year the investment cost is incurred and pay more CIT later. Accelerated depreciation hence affects the timing (rather than the amount) of the tax liability (Granger, McNabb & Parekh, 2022). This is an advantage to beneficiaries due to the time value of money.

[2] An alternative approach would be to define the BTS in accordance with the 'optimal' design of the specific tax from an economic and policy objective. However, this approach is more complex and open to debate (MTEF/FSP 2023-2025). More on this in Section II.

It is important to note that any special tax treatment that forms part of the BTS is not considered a tax expenditure. For instance, value-added tax (VAT) on exports is zero-rated. This is a structural feature of the VAT, which taxes domestic consumption, and is therefore not considered a TE.

In Nigeria, the Constitution of the Federal Republic of Nigeria vests the National Assembly with the power to make laws or amend existing laws on the taxation of income or profits. The Federal Ministry of Finance's role in the tax system encompasses various responsibilities, including initiating proposals for amendments to tax laws by the National Assembly and supporting the Federal Inland Revenue Service and the Nigerian Customs Service on tax administration matters. Finally, the Presidency is required to "*provide leadership and direction on all tax matters to the Ministry of Finance, the Federal Inland Revenue Service, the Nigerian Customs Service and other relevant revenue generating agencies involved in tax administration in Nigeria*". In addition, the Presidency is also responsible, inter alia, for signing and implementing all International and Regional treaties entered into by Nigeria and providing all necessary tools for effective and efficient tax administration in the country (National Tax Policy, 2012).

However, the governance framework for tax incentives is less clear and sometimes characterized by a "*lack [of] transparency and fairness*" (CBN, 2013) as well as weak coordination and implementation among the various Ministries, Departments, and Agencies (MDAs) (Egwaikhide, 2019). Moreover, tax concessions in Nigeria may be created by law, regulation, or other delegated powers. This makes the description of the governance framework (i.e. the design, approval and implementation process) of tax incentives[3] in Nigeria a complicated exercise. Below, we provide information on each TE listed in Nigeria's Tax Expenditure Statements (TES)[4], including the institution with whom the power to grant the tax incentive resides and the corresponding administering agencies and their role (see Table 1).

[3] In 2017, the Nigerian Investment Promotion Commission (NIPC) and the Federal Inland Revenue Service (FIRS) published a compendium of investment incentives in Nigeria, compiling the various fiscal incentives covered under the different Nigerian tax laws. In the Appendix, we explore the Pioneer Status Incentive (PIS), a corporate income tax incentive, in more depth.

[4] TES are found in Nigeria's Medium Term Expenditure Framework and Fiscal Strategy Papers (MTEF/FSP) 2023-2025; 2022-2024; and 2021-2023.

Table 1. List of tax expenditures in Nigeria for which cost estimates exist, and their governance framework

Tax expenditure	Type[5]	Time Frame	Definition of the Underlying Tax	Relevant Legislation	Power to Grant Tax Incentive	Administering Agencies of the Tax Incentive and their Role
Import Duty	Exemption	Permanent	Various import duty rates apply to different goods (see First Schedule of the Customs, Excise Tariff, Etc. (Consolidation) Act)	Customs, Excise Tariff, Etc. (Consolidation) Act Customs and Excise Management Act	The President of the Federal Republic of Nigeria ("The President")[6]	Nigerian Customs Service (NCS): see a description of its role in Section 3 of the Nigerian Customs Service Board Act
Surcharge (7% of Import Duty)	Exemption	Permanent	A tax levied on goods imported of 7% of the import tariff value, meant for port development	Customs, Excise Tariff, Etc. (Consolidation) Act	The President	Nigerian Customs Service (NCS)
Common External Tariff Levy	Exemption	Permanent	Rate to be applied to import for countries outside ECOWAS by ECOWAS members	ECOWAS Trade Liberalisation Scheme : Protocols and Regulations	The President	Nigerian Customs Service (NCS)
Comprehensive Import Supervision Scheme	Exemption	Permanent	A charge of 1% on imports	N/A	The President	Nigerian Customs Service (NCS)
ECOWAS Trade Liberalization Scheme	Exemption	Permanent	The scheme grants total exemption from import duties and taxes on products originating from ECOWAS Member States	ECOWAS Trade Liberalisation Scheme : Protocols and Regulations	N/A	Nigerian Customs Service (NCS)
Iron Levy	Exemption	Permanent	Discretionary	N/A	The President The Minister of Finance	Nigerian Customs Service (NCS)

[5] Information on the type and time frame of the TEs listed in Table 1 was extracted from the Global Tax Expenditures Database (GTED), except for RITCS. N/A stands for (information) not available.

[6] "*Notwithstanding the provisions of section 12 of this Act, the President may, on the recommendation of the Tariff Review Board, by order - (a) impose, vary or remove any import or excise duty; (b) add to or vary any of the Schedules; (c) delete the whole or any part of any of the Schedules; (d) substitute a new Schedule or Schedules thereto*".

Tax expenditure	Type[5]	Time Frame	Definition of the Underlying Tax	Relevant Legislation	Power to Grant Tax Incentive	Administering Agencies of the Tax Incentive and their Role
National Automotive Council Levy	Exemption	Permanent	Discretionary	N/A	The President The Minister of Finance	N/A
Value-Added Tax (VAT)	Exemption	Not Permanent	A tax levied on the consumption of goods and services at the rate of 7.5% (since 2020, previously 5%).	Value Added Tax Act (VATA)	The Minister responsible for matters relating to finance[7]	Federal Inland Revenue Service (FIRS): a full description of the role of FIRS is found in Section 8 of the FIRS (Establishment) Act, 2007.
Import VAT	Exemption	Not permanent				
25 Million Naira Threshold for VAT	Exemption	Permanent	The Finance Act 2019 was the first to establish a threshold for the remittance of Value-Added Tax (VAT) and other related tax obligations. By this change, VAT eligible payers whose taxable supplies (supplies or receipts of VAT-able goods and/or services, e.g., services of lawyers, engineers, accountants, construction contractors and consultants, etc.) within a calendar year below 25 million Naira enjoy exemption from specific VAT liabilities.	Section 23(1)(n) of Company Income Tax Act (CITA) Cap.C21, LFN as amended		

[7] *"The Minister may by order published in the Gazette - (a) amend the rate of tax chargeable; and (b) amend, vary or modify the list set out in the First Schedule* [Goods and Services Exempt] *to this Act" (VAT Act)*

Tax expenditure	Type[5]	Time Frame	Definition of the Underlying Tax	Relevant Legislation	Power to Grant Tax Incentive	Administering Agencies of the Tax Incentive and their Role
Companies Income Tax (CIT)	Exemption	Not permanent; 3 years in first place, then 1+1 year extension	A tax imposed on the profit of a company from all sources. Rates vary according to the size of the company: Small companies (0%) Medium-sized companies (20%) Large companies (30%)	Companies Income Tax Act (CITA) Industrial Development (Income Tax Relief) Act (IDITRA)	National Assembly[8] The President of the Federal Republic of Nigeria[9]	Federal Inland Revenue Service (FIRS): a full description of the role of FIRS is found in Section 8 of the FIRS (Establishment) Act, 2007 Nigerian Investment Promotion Commission (NIPC): see its role in the PSI Appendix Industrial Inspectorate Department, Federal Ministry of Industry, Trade and Investment: see its role in the PSI Appendix
Petroleum Profit Tax	Multiple (allowance /credit)	Permanent	A tax levied on the profits of any company engaged in petroleum operations. Various rates apply according to the nature of the operations (see a summary from PwC here).	Petroleum Profits Tax Act (PPTA) Deep Offshore and Inland Basin Production Sharing Contracts Act (DOIBPSCA)	N/A	Federal Inland Revenue Service (FIRS): a full description of the role of FIRS is found in Section 8 of the FIRS (Establishment) Act, 2007.

[8] *"The National Assembly may on the proposal by the President of each of the Houses of National Assembly impose, increase, reduce, withdraw or cancel any rate of tax, duty or fee chargeable specified in section 29* [Basis for computing assessable profits] *and the Second Schedule to the Act* [Capital Allowances] *in accordance with section 59 (2) of the Constitution of the Federal Republic of Nigeria, 1999"* (CIT Act)

[9] "*The President may exempt by order - (a) any company or class of companies from all or any of the provisions of this Act; or (b) from tax all or any profits of any company or class of companies from any source ; on any ground which appears to it sufficient".* (CIT Act) | [...] *the President may, in accordance with the provisions of this Act, issue the* [pioneer] *certificate to the company in any proper case*" (IDITRA)

Tax expenditure	Type[5]	Time Frame	Definition of the Underlying Tax	Relevant Legislation	Power to Grant Tax Incentive	Administering Agencies of the Tax Incentive and their Role
				Note: Only Petroleum Investment Allowance (PIA)[10], Investment Tax Allowance (ITA)[11] and Investment Tax Credit (PSC)[12] are taken as TEs (MTEF/FSP 2022-2024).		
The Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme (RITCS)	Credit	2019-2029	The Nigerian Road Investment Tax Credit Scheme (RITCS) is a Public-Private Partnership intervention that enables the FGN to leverage private-sector funding for the construction or refurbishment of eligible road infrastructure projects in Nigeria. Participants in the scheme are entitled to use the incurred project cost in the construction and refurbishment of eligible roads as a credit against CIT payable in and from the fiscal year in which the project cost is incurred until it is fully utilized.	Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme Order 2019	The President of the Federal Republic of Nigeria (Executive Order)	Road Infrastructure Development and Refurbishment Investment Tax Credit Scheme Management Committee: a full description of the role of this committee is found in the First Schedule of this order. Federal Inland Revenue Service (FIRS). Role: issue the Road Infrastructure Tax Credit Certificate to eligible beneficiaries.

[10] A company that has incurred any qualifying capital expenditure for the purposes of petroleum operations carried out by it is entitled to, for the accounting period in which that asset was first used or for the purposes of such operations, an investment allowance of 5 to 20% (in accordance with the nature of its operations) of such expenditure. (PPT Act)

[11] A crude oil-producing company that executed a Production Sharing Contract with the Nigerian National Petroleum Corporation after July 1, 1998, is entitled to an investment tax allowance of 50% flat rate on qualified capital expenditure that is deducted from assessable profit. (DOIBPSCA)

[12] A crude oil-producing company that executed a Production Sharing Contract with the Nigerian National Petroleum Corporation prior to July 1, 1998, is entitled, throughout the duration of such contract, to claim an investment tax credit allowance, as an offset against tax, of 50% flat rate of chargeable profit. The chargeable tax is thus the amount of the assessable tax less the investment tax credit. (DOIBPSCA)

Tax expenditure	Type[5]	Time Frame	Definition of the Underlying Tax	Relevant Legislation	Power to Grant Tax Incentive	Administering Agencies of the Tax Incentive and their Role
Nigerian Export Processing Zones Authority (NEPZA) Act	Exemption	Permanent	Companies carrying on approved businesses under (the third schedule to) the NEPZA and established in the Export Processing Zones or Free trade Zones are generally exempted from taxation. Section 18(1) (a) of NEPZA provides that entities established within the zones shall be entitled to legislative reliefs pertaining to taxes, levies, duties and foreign exchange regulations. Section 8 of NEPZA further provides that approved entities operating within a Zone shall be exempted from all Federal, State and local Government taxes, levies and rates.	The Companies Income Tax Act in section 23 (1) (s) expressly exempts a company established within an export processing zone or free trade zone from companies taxation, provided that 100% production of such company is for export.	The President of the Federal Republic of Nigeria	The Federal Ministry of Trade and Investment: supervises, promotes, and facilitates local and international investments into licenced free zones in Nigeria
Oil and Gas Export Free Trade Zone Authority (OGEFZA) Act	Exemption	Permanent	OGEFZA makes provisions for incentives similar to those in the NEPZA Act, notably establishing the Onne/Ikpokiri area of Rivers State as an oil and gas free trade zone (FTZ). The benefits of operating in the zone includes zero customs and tax, 100% repatriation of capital, 100% repatriation of profit and 100% foreign ownership.	OGFZA was established by Section 2 of the Oil and Gas Export Free Zone Act No. 8 of 1996 to regulate Nigeria's Oil and Gas free trade zones.	The President of the Federal Republic of Nigeria	Oil and Gas Free Zones Authority (OGFZA): charged with the responsibility to license, regulate, supervise, manage, control and co-ordinate the activities of OGFZs in the country; grant requisite permit and licence to all prospective investors wishing to do business within OGFZs in Nigeria; offer incentives to free zone enterprises; ensure that maximum free zone incentives and benefits are passed to the free zone registered companies; promote the free zones to investors
Gas Utilisation Incentive	Exemption	Not permanent; 5 year tax holiday with an additional dividend free investment	Companies engaged in gas utilisation are entitled to a form of Pioneer Status granting companies a tax-free period for up to five years, tax-free dividends during the tax-free period, and accelerated capital allowance after the tax-free period.	Petroleum Profits Tax Act	Ministry of Industry, Trade and Investment Ministry of Finance	Federal Inland Revenue Service (FIRS)

2. Tax Expenditures Reporting: Guiding Principles

The reporting of tax expenditures is the first step towards the evaluation of their effectiveness in attaining their intended policy objectives. Tax expenditure reporting involves defining the benchmark tax system, identifying deviations from the benchmark, estimation of their budgetary cost and preparation of the tax expenditure report. There exist several resources and guides on tax expenditure reporting, particularly for developing countries[13]. However, the methodology presented in this section is proposed by the Foundation for International Development Study and Research (FERDI), which has informed the preparation of TEs reports in several developing countries, including Guinea and Cameroon.

To begin with, FERDI recommends assigning the preparation of such report to two working sub-groups within a Tax Policy Unit that reports directly to the Minister of Finance:

- a Legislation sub-group responsible for the legal aspects and
- an Evaluation sub-group responsible for the actual estimation of the budgetary cost of TEs.

According to FERDI, the process involves three steps:

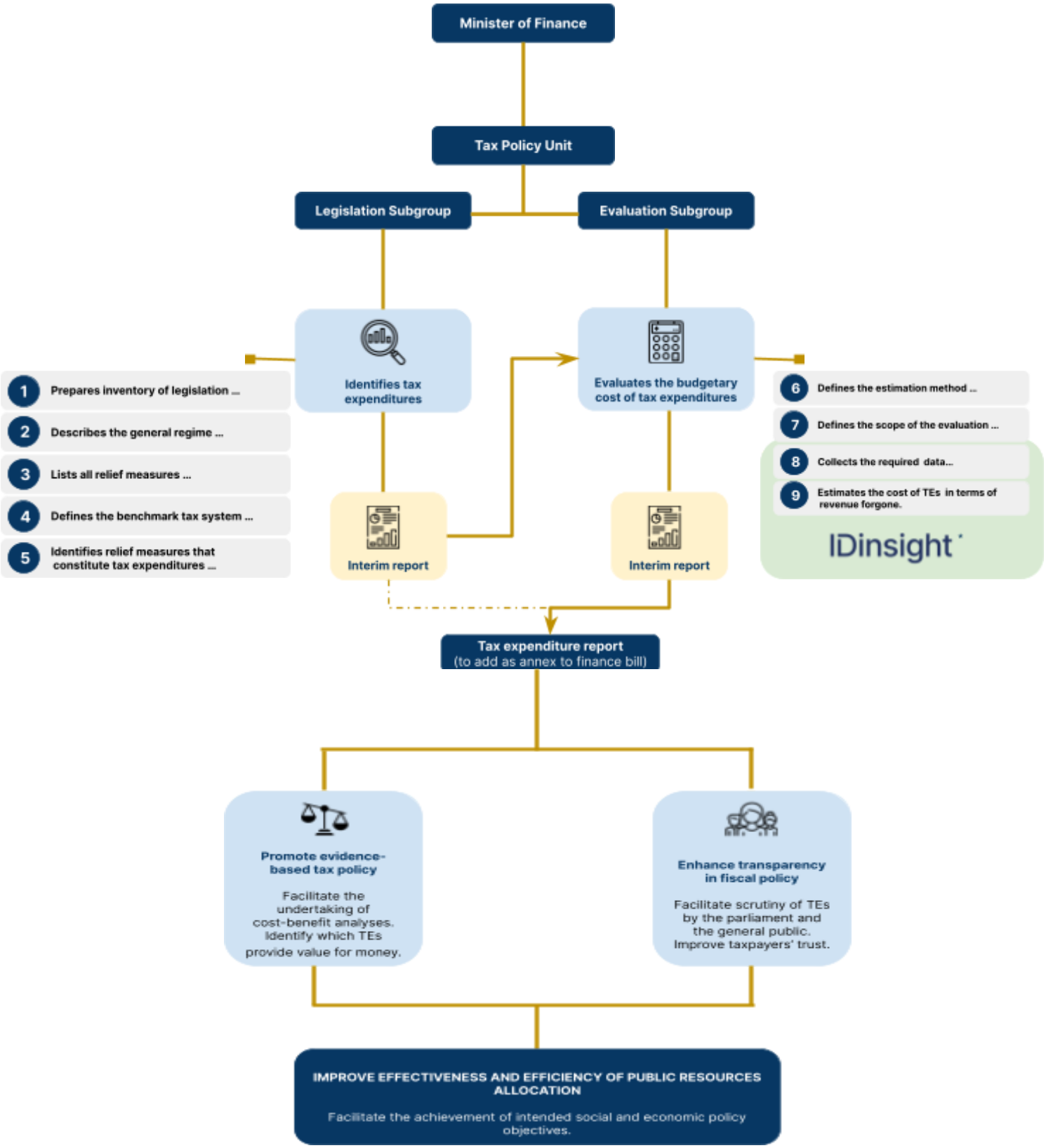
- The Legislation subgroup identifies the tax expenditures. This entails: (i) preparing an inventory of the legislation; (ii) describing the general regime; (iii) listing all relief measures; (iv) choosing the benchmark tax system (BTS) and identifying those relief measures that constitute TEs (i.e., those that deviate from the BTS and result in a definitive loss of revenue for the state) and; (v) preparing an interim report to be approved by the Ministry of Finance and submitted to the Evaluation sub-group ;

- The Evaluation subgroup conducts the evaluation of the budgetary cost of TEs. This entails: (vi) selecting the estimation method; (vii) defining the scope of the evaluation and collecting the data; (viii) calculating the tax expenditures and; (ix) preparing an interim report on the budgetary evaluation of TEs ;

- Both subgroups draft the final TEs report which shall be sent for approval to a decision-making entity, such as a “tax policy committee” that reports directly to the Minister of Finance. The approved report shall be published as an annex to the finance bill for debate in the parliament annually.

[13] See, for instance, Heady, C. & Mansour, M. (2019) from the IMF or Granger, H., McNabb, K. & Parekh, H. (2022) from ODI.

Figure 1. Steps to Prepare a Tax Expenditure Report (adapted from FERDI) and Intended Policy Goals



*IDinsight aims to collaborate with the Technical Services Department (TSD) in the short term to develop a semi-automated TE data reporting tool to simplify data collection and analysis for the preparation of the TEs report. In the longer term, IDinsight proposes to collaborate with the TSD to design and implement a comprehensive data system with interlinked databases across relevant MDAs through a learning partnership; an extended engagement characterised by deep relationships and tailored technical support to address the identified needs in an iterative, flexible and sustainable manner.

2.1. Identification of Tax Expenditures

2.1.1 Inventory of Legislation

The TE reporting process starts with gathering and listing all relevant legislation and describing the legal tax framework. This includes, for instance, the general tax code, the customs code, Finance Acts, the investment code or the oil code, at the national level; and the Revised Kyoto Convention, the Vienna Convention on Diplomatic Relations, the Chicago Convention on International Civil Aviation or the Florence Agreement and its Protocol of Nairobi, at the international level. Bilateral agreements (e.g. double taxation treaties) and regional agreements (e.g., a customs union in which a common external tariff applies to customs duties) are also accounted for.

2.1.2 Description of the General Regime

As a second step, the general regime of each type of tax identified (e.g., personal income tax, capital gains tax, corporate income tax, customs duties, excise duties and value-added tax) shall be described. This basically means defining its taxable base and tax rate(s)[14].

2.1.3 Identification of Relief Measures

The third step consists of identifying all relief measures that deviate from the general regime above, for each type of tax. Such provisions may take different forms, as discussed in Section 1 of this document. In addition to legislative and regulatory provisions, FERDI emphasises the need to account for contractual and exceptional special tax provisions, which may be granted in a discretionary manner (i.e., not within the provisions of the tax law), as they may also constitute tax expenditures. The output of this step is a table, produced in Excel, containing the relief measures (in the rows) and, at least, the following information in the columns:

- An identification code of the tax measure (to ease monitoring over time);
- Type of tax;
- The Harmonized System (HS) Code[15], if applicable;
- A description of the legal provision quoted verbatim from the legal texts;
- A reference to the source legislation and the article number;
- Whether the relief measure constitutes a TE or not (more on this later);

The following additional information may also be included (in the columns):

- Type of relief measure (concessionary rate, exemption, deduction, deferral…);
- Goal of the measure (economic, social, environmental…);
- Sector(s) of activity concerned (energy, agriculture, banking…);
- Beneficiaries of the measure (households, firms, government…);

[14] Four elements are taken into account when defining the BTS for each tax: the tax base, the tax rate, the tax unit and tax period. However, most TEs are the result of measures affecting the tax base or the tax rate (MTEF/FSP 2023-2025). Granger, McNabb & Parekh (2022) affirm that TEs defined along the time dimension are uncommon.

[15] The Harmonized Commodity Description and Coding System, generally referred to as Harmonized System or HS is a multipurpose international product nomenclature developed by the World Customs Organization (WCO).

Box 1

PATF: Supporting the Reporting of Tax Expenditures in West Africa.

The Fiscal Transition Support Program (in French PATF) is a joint ECOWAS-WAEMU program financed by the EU that aims to enhance the performance of tax and customs administrations in the fifteen states of the ECOWAS region and the Islamic Republic of Mauritania through the harmonisation of tax rules and the consolidation of the tax transitions programs in both regional organisations.

Supporting the management and evaluation of TEs to inform decision-making on tax incentives is one of the key areas of intervention of PATF. Specifically, the program aims to (i) define a common methodology for the quantification of TEs for all ECOWAS Member States; (ii) implement systematic cost-benefit analyses of TEs; (iii) define and harmonise the structure of the TEs report to be produced by each ECOWAS Member State; (iv) support the implementation of tax incentives policies and; (v) enhance the transparency around TEs including through the publication and dissemination of findings to tax administrations, civil society, parliaments, and other non-state actors.

PATF developed a regional template/matrix for the assessment of TEs, which is currently used in Nigeria for VAT and Import duties. The first regional evaluation reports (at the ECOWAS level) on Member States TEs are expected by December 31, 2022. The matrix contains the list of relief measures in the rows while the columns compile the following information:

i. the measure code (using a national coding system);
ii. the NTS Code for products (the Tariff and Statistical Nomenclature based on the Harmonized Commodity Description and Coding System (HS) of the World Customs Organization (WCO))
iii. the reference or legal basis;
iv. the wording of the derogation measure;
v. compliance (or non-compliance) with the Community Directives (e.g., the directive C/DIR.1/05/09 on the Harmonization of the ECOWAS Member States' Legislations on VAT);
vi. the nature of the exemption (i.e. TE or Non-TE);
vii. evaluation of the measure (yes/no);
viii. taxes concerned (e.g., VAT, PIT, CIT, CGT...);
ix. types of derogation (e.g., rate reduction, total exemption, tax holiday...);
x. basic elements of taxation (e.g., customs value, turnover, profits...);
xi. temporal scope (temporary/permanent);
xii. objectives (e.g., encourage investment);
xiii. sectors of activity (e.g., agriculture);
xiv. beneficiaries (e.g., NGOs) and the number of beneficiaries;
xv. budgetary function (e.g., economic affairs, social protection, security...);
xvi. structures/ administration (this is the source of the data, e.g., Tax Directorate, Customs Directorate, Budget Directorate...);
xvii. data source (e.g., financial statements);
xviii. method of calculation (this is the formula used to estimate the cost of the TE);
xix. amount (of the TE);
xx. year of adoption of the measure;
xxi. status of the measure in the founding legal text (i.e., whether the relief measure is in the General Tax Code (=1) or not (=0))
xxii. observations/comments

The template can be found in Appendix B.

2.1.4 Choice of the BTS and Identification of TEs

The fourth step defines the BTS and determines whether the identified relief measures (i) deviate from it and (ii) result in a definitive loss of revenue for the state. If both conditions are met, the relief measure constitutes a TE.

FERDI describes two approaches to defining the BTS:

- the normative approach, which defines the BTS as an ideal to be attained or the 'optimal' design of the tax system from an economic and tax policy perspective. For instance, a normative BTS for an excise duty rate on alcohol might be set at a rate such that the external costs of consuming a litre of alcohol are fully internalised (Granger, McNabb & Parekh, 2022) ;
- the positive approach, which defines the BTS based on the existing ordinary tax law. This is the most commonly adopted practice.

The BTS is a national tax policy decision. Authorities decide which relief measures are included in the BTS, making comparisons of tax expenditures across countries difficult, as one provision may lead to a TE in one country but not another. As mentioned earlier, any relief measure that falls within the definition of the BTS does not constitute a TE, thus precluding the estimation of its budgetary cost and the evaluation of its effectiveness. It is preferable to estimate the budgetary costs of all relief measures to inform decision-making and ensure the effective use of TEs using data and evidence.

Granger, McNabb & Parekh (2022) offer some practical guidance to help policymakers decide whether a particular tax provision should be included or excluded from the BTS. For instance:

- Provisions in international agreements and regional law (such as the tariff-free movement of goods between states pertaining to a regional trade bloc) are typically accepted as part of the benchmark. This is because individual countries no longer have the ability to take discretionary action and unilaterally change such provisions which are agreed on at the international/regional level. However, countries may still want to document and estimate the revenue forgone from these provisions;
- The taxation of official development assistance projects should be included in the BTS and its exemption accounted for as a TE, which has historically not been the case;
- Certain provisions may be included in the BTS for administrative efficacy reasons. For instance, some agriculture activities are tax-exempt due to high collection costs as a result of informality, seasonality or geographic remoteness, for instance. Also, some financial services for which the value added is not observable, are exempt from VAT;
- Finally, government transactions that are excluded from the tax system may be considered part of the BTS, as taxes owed by the government are owed to the government, resulting in a null net tax liability. In some countries, however, such as Uganda, tax provisions granted to public entities are still considered TEs.

2.1.5 Preparation of an Interim Report

In the fifth step, the Legislation sub-group drafts an interim report to be approved by the steering committee and the Minister of Finance and sent to the Evaluation sub-group. The report contains a summary of the steps above, namely, the definition of the BTS and the table listing all relief measures and their classification as TE or NTE.

2.2. Evaluation of the budgetary cost of TEs

After the identification of TEs by the Legislation sub-group, the Evaluation sub-group is in charge of the estimation of their budgetary cost.

2.2.1 Choice of the Estimation Method

FERDI describes three methods for estimating the cost of TEs, resulting in significantly different estimates:

1. The revenue forgone method estimates the revenue loss arising from TEs ex-post. This approach assumes no dynamic tax effects and constant compliance behaviour (Heady, C. & Mansour, M., 2019), which are important to consider for the interpretation of the TEs results:

    - No dynamic tax effects implies no change in behaviour among beneficiaries, should the tax expenditure be removed. Indeed, a behavioural response may result in the TE estimate being different from the additional tax revenue that would be collected following the removal of the TE. For instance, removing a concessionary VAT rate on a particular product may result in consumers purchasing less of it or switching to other substitutes leading to lower tax revenues overall (Heady, C. & Mansour, M., 2019).

    - Relatedly, constant compliance behaviour assumes beneficiaries' compliance behaviour remains constant, should the tax expenditure be removed. Again, a change in compliance behaviour may result in the TE estimate being different from the additional tax revenue that would be collected following the removal of the TE. For instance, taxpayers may react to such an event by engaging in tax avoidance strategies (Heady, C. & Mansour, M., 2019) ;

    - Finally, the forgone revenue methodology does not account for the interdependence between TEs as the removal of a particular TE may impact the revenue forgone from other TEs (Heady, C. & Mansour, M., 2019).

    The revenue forgone approach is the most widely used method to estimate the cost of TEs due to its simplicity. It attempts to calculate the difference between the revenue the state would have received in the absence of the relief measure and what it actually ended up receiving.

2. The revenue gain method estimates the revenue gain that would result from the removal of a TE taking into account the potential impact on the behaviour of beneficiaries and the revenue effects on other taxes. Accounting for such dynamic effects requires, inter alia, an understanding of taxpayers' behaviour (e.g., tax evasion/avoidance) and the elasticity of demand/supply of the goods/services affected by the tax provision (Heady, C. & Mansour, M., 2019) ;

3. The outlay equivalence method estimates the amount of direct expenditure that would be needed to provide a financial benefit that is equivalent to that of the TE to beneficiaries.

2.2.2 Definition of the Scope of the Evaluation and Data Collection

Tax expenditures should be estimated at the most disaggregated level possible, such as at the household level for PIT, the company level for CIT, VAT and CGT and at the product level for customs data. The scope of the evaluation, i.e.,the number of TEs for which the budgetary cost will be estimated, will depend directly on the quantity and quality of available data. The TE report should acknowledge when data constraints limit the ability to report revenue forgone from certain TEs in order to enhance transparency and governance of tax expenditures in the future (Granger, McNabb & Parekh, 2022). All the data required by the Evaluation subgroup should be provided in an Excel format by the administrative agencies responsible for the relief measure.

2.2.3 Calculation of the Tax Expenditures

Using the data collected from the various administrative agencies, the costing of tax expenditures is performed under the revenue forgone approach. At its most basic level, this is done by first computing the theoretical amount of tax that would have been paid assuming full compliance with the BTS, for each type of tax. Then, the amount of tax actually paid is subtracted[16].

2.2.4 Preparation of an Interim Report

The Evaluation subgroup drafts an interim report to be approved by the tax policy committee. The report contains a summary of the steps above, namely, the scope and method of evaluation chosen and the results of the costing estimations. FERDI recommends presenting such results in the following formats: (i) the national currency; (ii) as a percentage of GDP and; (iii) as a percentage of tax revenue.

[16] The indirect cost (or impact revenue) of a TE on the collection of other taxes may also be reported. For instance, a reduction in customs duties may lead to lower VAT or excise duty collections, which are levied on imported goods. Such indirect cost may appear as part of the customs TEs cost or under the other individual taxes (VAT, excise duties…) that were affected by the reduction in the customs duty (Granger, McNabb & Parekh, 2022).

2.3 Preparation of the Final Tax Expenditure Report

The final report combines the findings of both the Legislation and Evaluation subgroups and shall be approved by the tax policy committee and then by the Minister of Finance for its publication as an annex to the finance bill. The report shall contain the following four sections:

1. In the first section, the general regime for each tax is presented along with a description of the BTS ;
2. The second section describes the estimation method used and the scope of the evaluation ;
3. The third section categorises and presents the main findings from the cost estimations of TEs ;
4. The fourth section shall be an annex that provides more detailed information in the form of a table containing (i) the inventory of all relief measures identified; (ii) their classification as TE or NTE and; (iii) the cost estimate for each relief measure identified as a TE and that falls within the scope of the evaluation.

3. Tax Expenditures Reporting in Nigeria: Legal Framework and Findings from the 2019-2021 TES

3.1 The Tax Expenditure Statement (TES): Legal Background, Purpose and Framework

In April 2020, the Federal Ministry of Finance, Budget, and National Planning issued the FGN 2021 Tax Expenditures Statement Call Circular laying out the requirements and instructions for the preparation of the annual Tax Expenditures Statement (TES) by the Budget Office of the Federation (BOF), as part of the Medium Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP); and to be included in the Annual Federal Budget.

For this purpose, BOF was required to form a Tax Expenditures Committee with representation from the Presidency, the Federal Ministry of Finance, the Federal Inland Revenue Service, the Nigerian Customs Service, the Nigeria Investment Promotion Council, the Office of the Accountant-General of the Federation, the BOF and any other MDA that BOF determined to be relevant.

The Tax Expenditure Statement describes the methodological approach for the definition of the BTS and the measurement framework, and provides estimates of the revenues forgone caused by tax expenditures.

The Circular requires the TES to include:

- the benchmark tax system to be used as the basis for determining whether a particular tax measure constitutes a TE (Box 2 below describes the BTS for VAT and CIT);
- a separate calculation of the estimated revenue forgone for each TE[17]/beneficiary[18]. This is the difference between the revenue that would have been collected under the BTS (under the assumption that taxpayer behaviour remains unchanged) and the actual revenue collected as a result of the TE;
- the revenue forgone estimates for the current year and the following three fiscal years.

The purpose of the TES is to provide data on the cost of TEs to facilitate the evaluation of their effectiveness in achieving their stated social and economic policy

[17] The level of granularity of cost estimates presented in the TE report differs among countries. Preferably, TEs data should be presented at the most disaggregated level possible (see Section 2.2.2)

[18] TEs cost estimates per type of beneficiary are not currently available in the tax expenditure statements. However, information on the Pioneer Status Incentive beneficiaries is provided by the Nigerian Investment Promotion Commission (NIPC) (see Appendix A), although not in the TES.

objectives. In addition, it enables the efficient management of public finances for the stabilisation of the macroeconomic environment in Nigeria, it facilitates scrutiny of TEs by the Ministry of Finance, Budget and National Planning, the National Assembly and the general public and it allows for the compliance with the provisions of the Fiscal Responsibility Act (FRA), 2007.

Indeed, Section 29 of the Fiscal Responsibility Act, 2007 (FRA, 2007)[19] requires that "*any proposed tax expenditure shall be accompanied by an evaluation of its budgetary and financial implications in the year it becomes effective and in the three subsequent years, and shall only be approved by the Minister, if it does not adversely impair the revenue estimates in the annual budget or if it is accompanied by countervailing measure during the period mentioned in this subsection through revenue increasing measures such as tax rate raises and expansion of the tax base"*. In other words, Section 29 requires the introduction of any new TE to be revenue neutral.

In addition, the revised National Tax Policy 2017 requires that "*(v) any incentive to be granted should be broad, sector based, tenured and transparent. Implementation should be properly monitored, evaluated, periodically reported and kept under review*[20]*; (vi) revenue forgone from tax incentives or concessions should be quantified against expected benefits and reported annually. Where the benefits cannot be quantified, qualitative factors must be considered*".

[19] The Fiscal Responsibility Act (2007) aims to ensure the prudent management of the country's resources for long-term economic stability and enhance the accountability and transparency of fiscal operations. It also establishes the Fiscal Responsibility Commission to promote and enforce the Nation's Economic Objectives.

[20] The National Tax Policy (2017) does not specify who is in charge of the monitoring and evaluation of tax incentives.

Box 2. The Nigerian Reference Tax System (or BTS) for VAT and CIT

	Value-Added Tax (VAT)	Companies Income Tax (CIT)
Relevant tax legislations	Value Added Tax Act (VATA CAP VI LFN 2004) Value Added Tax (VAT) (Modification) Order, 2021	Companies Income Tax Act (CITA) Industrial Development (Income Tax Relief) Act
Reference rate	7.5% (in 2020 and 2021) and 5% (in 2019) 0% for exports	Flat rate of 30%
Reference taxable amount	In accordance with the relevant provisions of the VATA CAP VI LFN, 2004 (notably, Sections 5 on the Value of Taxable Goods and Services and Section 6 on the Value of Imported Goods).	The taxable income of a company for an accounting year, which is the total income derived by the firm during the accounting year less the total deductions allowed to the firm for the year. Capital gains are not included in the reference taxable amount as they are subject to separate taxation under the Capital Gains Tax Act, Cap C1 LFN 2004 (as amended). Expenditures incurred to derive income charged to tax are allowed as a deduction. These include operating expenditure, which is deducted outright in the tax year it is incurred, and capital expenditure, which is deducted on a depreciation or amortisation basis over the useful life of the expenditure. Further, a net loss for a tax year is carried forward as a deduction in the following tax year.
Data sources/ Methodology	Data on VAT estimates are based on the Supply-Use Tables (SUT)[21] prepared by the National Bureau of Statistics (NBS) for 2010 adjusted, where possible, to 2021, 2020, and 2019 for the respective TES. VAT is estimated as the product of final expenditures (households and governments) obtained from the SUT and the legislated tax rate of 7.5% (5% in 2019). The total VAT collected (net of input tax credits) is then deducted to calculate the revenue forgone. However, the computed difference accounts for both TEs and the compliance gap[22]. Only the 2020 TES distinguished between the two[23].	Data on CIT collections and CIT estimates for the computation of TEs is provided by the Federal Inland Revenue Service (FIRS), based on returns filed by companies benefiting from the Pioneer Status Incentive (PSI)[24].
Additional comments	Derogatory provisions contained in the following conventions and protocols, to which Nigeria is a signatory, are considered part of the BTS: ➔ The Vienna Convention on Diplomatic Relations ➔ The Florence Agreement and its Nairobi Protocol ➔ The Chicago Convention ➔ The Revised Kyoto Convention ➔ The 2009 ECOWAS VAT Directive (Articles 8, 9, and 10), as amended by the 2017 Directive. Input tax credits are considered an integral part of the VAT system since they ensure that VAT applies only to the value-added. They are thus part of the BTS and are not considered a tax expenditure. With the exception of the special economic zones and the oil and gas sector, Nigeria denies input tax credits on services and some capital expenditures and assumes that	Favourable tax measures for residents in countries with tax treaties with Nigeria form part of the CIT BTS. This is of particular relevance to the taxation of business profits, dividends, interest, and royalties under tax treaties. While a 30% CIT rate is assumed, which is the rate applied to large companies (i.e. those with gross turnover greater than N100 million), there are companies eligible for a 20% rate (medium-sized companies with gross turnover greater than N25 million and lower than N100 million) but data is not available on the distribution of firms.

[21] A Supply-Use table describes how goods and services become available in an economy (either through domestic production or imports) and how they are used (either for intermediate consumption or final use) during a particular period of time (United Nations Statistic Division).

[22] The compliance gap is caused by different factors including the informal sector, aggressive tax planning, or issues in tax administration (MTEF/FSP 2022-2024).

[23] The 2020 TES shows that if all commodities in the Nigerian VAT system were fully taxable, N6 trillion could have been generated. However, according to NBS, VAT yielded N1.8 trillion. The difference between the two was N4.3 trillion: N900 billion was attributable to VAT exemptions (resulting in TEs) and the remaining N3.4 trillion was attributable to the compliance gap.

[24] The TES do not specify the data sources for all tax relief measures under CIT, including, for instance, the exemption from CIT for companies under Section 23 of CITA or special tax provisions for activities performed in Free Zones.

	unrecoverable tax paid on such services and capital is a structural component of Nigeria's VAT system and thus considers it part of the BTS[25].	

As per the Circular, Ministers/Accounting Officers/Chief Executive of all Ministries/Departments/ Agencies (MDAs) should identify and list, using the "Information Return for Tax Expenditures" form (see Appendix C), all MDAs under their supervision that have the power to grant concessions (that may lead to TEs) created by law, regulation or other delegated powers. Such MDAs should complete the form for each financial year (starting in FY 2019). The form shall report all concessions granted by the relevant MDA by March 31 of the year following that in which the concession was granted and shall be sent to the Budget Office, accordingly. The Budget Office shall then prepare the TES and provide a list of concessions leading to TEs as an appendix to the TE.

In summary, Nigeria currently produces tax expenditures statements but is encouraged to produce more comprehensive TE reports, along the lines described by FERDI (see Section 2.3). This is not just an emerging consensus in the region, but will also allow the FGN to better quantify the estimated revenue forgone and enhance fiscal management transparency. The reporting of TEs is the first step towards the evaluation of their effectiveness. It is therefore crucial to improve current reporting processes in order to facilitate the design and implementation of evidence-based TE reforms and ultimately enhance domestic revenue mobilisation.

[25] FERDI recommends accounting for the collection of VAT on inputs and capital goods (or the non-reimbursement of VAT credits) as a negative tax expenditure, as such practice is against the objective of VAT, which is to tax final consumption and, moreover, it results in an increase in tax revenue.

3.2 A review of Nigeria's Tax Expenditure Statements from 2019 to 2021

In this subsection, we summarize and compare the estimated revenue forgone from Nigerian tax expenditures as listed in the 2019, 2020 and 2021 Tax Expenditure Statements. Due to reporting challenges (discussed in Box 3), including insufficient data, the quantification of all TEs was not possible. For a better appreciation of the magnitude of revenue forgone from TEs, the cost estimates are presented in the national currency, in US dollars and as a percentage of GDP. Further, we calculate the share of each individual TE as a percentage of the total revenue forgone, for each year, to shed light on the relative importance of the different TEs throughout time. Finally, we provide contextual information and discuss trends of the TEs cost estimates.

Table 2. Tax Expenditure Data From 2019 to 2021. Source: 2023-2025 MTEF/FSP, 2022-2024 MTEF/FSP and 2021-2023 MTEF/FSP[26].

Tax Expenditures			2019 N (Billion)	2020 N (Billion)	2021 N (Billion)
Taxes on Goods and Services	Customs Duties	Import Duty	127.74 (2.89%)	305.65 (5.23%)	216.88 (3.20%)
		Surcharge (7% of Import Duty)	8.64 (0.20%)	21.28 (0.36%)	15.10 (0.22%)
		Common External Tariff Levy	4.56 (0.10%)	223.99 (3.83%)	1,416.87 (20.88%)
		Comprehensive Import Supervision Scheme	2.64 (0.06%)	28.87 (0.49%)	125.68 (1.85%)
		ECOWAS Trade Liberalization Scheme	4.82 (0.11%)	19.26 (0.33%)	67.16 (0.99%)
		Iron Levy	0.00039 (0%)	0.11 (0%)	NA
		National Automotive Council Levy	0.23 (0.01%)	1.08 (0.02%)	NA
		Import VAT	64.42 (1.46%)	179.60 (3.07%)	111.15 (1.64%)
		Total customs duties	**213.08 (4.83%)**	**779.73 (13.35%)**	**1,953.19 (28.78%)**
	Value Added Tax[27]		3,100	4,300	3,870

[26] Comprehensive international tax expenditure data can also be found in the Global Tax Expenditures Database (GTED), led by the Council on Economic Policies (CEP) and the German Institute of Development and Sustainability (IDOS).

[27] As mentioned in Box 2, revenue forgone from VAT relief measures comprises both the compliance gap and the policy gap (i.e., TEs). Only the 2020 TES distinguishes between the two. Yet we provide the total tax gap (i.e., the sum of the policy and compliance gaps) for 2020 since we understand that the 2019 and 2021 TES VAT's cost estimates also represent total tax gaps, although not explicitly stated.

		(70.25%)	(73.58%)	(57.02%)
Taxes on Income	**Corporate Income Tax**	1,100[28] (24.93%)	457 (7.82%)	548.40[29] (8.08%)
	Petroleum Profit Tax**	NA	307 (5.25%)	337.70 (4.98%)
	RITCS	NA	NA	78.66 (1.16%)
Total Revenue Forgone (Naira, Billion)		**4,413**	**5,844**	**6,786.60**
Exchange Rate (USD/NAIRA) - UNCTAD		**306.92**	**358.81**	**381**
Total Revenue Forgone (USD, Billion)		**14.38**	**16.29**	**17.81**
GDP (Current LCU, Billion) - World Bank		**145,639.14**	**154,252.32**	**176,075.50**
Total Revenue Forgone (% of GDP)		**3.03%**	**3.79%**	**3.85%**

In 2021, the aggregate cost of TEs in terms of revenue forgone amounted to ~ N6.8 trillion (~ USD17.8 billion, ~4% of GDP):

- TEs related to taxes on goods and services represented 86% of total revenue forgone while those associated with CIT constituted the remaining 14%. A similar pattern was observed in 2019 and 2020 ;
- VAT relief measures alone represented more than half (57%) of estimated total revenue forgone (a decrease of about 17 percentage points relative to the previous period) amounting to N3.9 trillion, while total VAT collection was N1.6 trillion in 2021 . However, it is worth recalling that the cost estimates for VAT comprise both the policy gap (i.e. TEs) and the compliance gap, the latter being significantly higher. The 2020 TES points to the agriculture, banking and education sectors as the biggest beneficiaries ;.
- Relief measures associated with the Common External Tariff Levy constituted the major share of TEs within Customs Duties (72.5%) followed by those related to Import Duty (11%) and the Comprehensive Import Supervision Scheme (6.4%) ;
- While the table shows a total revenue forgone of N1,953.19 billion from Customs Duties TEs, total Customs Exemptions amounted to N2,296 billion[30] (MTEF/FSP 2023-2025). Total Customs revenue was N1,340 billion in 2021, implying that the country was forgoing more Customs Duties revenue than it was collecting. In addition, the country experienced a large increase in revenue forgone from customs duties, from N213 billion (5% of total revenue forgone) in 2019 to N1.95 trillion (29% of total revenue forgone) in 2021, led by relief measures associated with the Common External Tariff Levy which rose from N4.6 billion in 2019 to N1.417 trillion in 2021 ;
- Six countries benefited the most from customs relief measures: China, Singapore, Netherlands, Togo, Benin and India (MTEF/FSP 2023-2025);
- Petroleum products (fuels and lubricants) accounted for 46% of total import duty waivers granted ;

[28] Revenue forgone from CIT under the Pioneer Status Incentive (PSI) schemes was N10.49 billion. However, PSI data was provided on 26 businesses while NIPC quarterly reports showed at least 41 PSI beneficiaries in 2019.

[29] 2021 estimates of the cost of CIT and PPT TEs are forecasts.

[30] The difference between the two figures might be explained by the limited quality of available data (MTEF/FSP 2023-2025). Another potential reason could be that some of these exemptions form part of the BTS and are therefore not accounted for as TEs.

- Revenue forgone from CIT was forecasted to be N548.4 billion (about a 50% decrease since 2019) while gross CIT collection was N1,721 billion. Banks and financial institutions were projected to account for most of CIT forgone. In fact, in 2019, they accounted for 94% of total revenue forgone from CIT.

Box 3

Challenges to the Reporting of Tax Expenditures in Nigeria

Nigeria has recently made considerable efforts to improve tax expenditure reporting, yet several challenges remain :

High compliance and administration costs limit the ability of the government to collect data on TEs (MTEF/FSP 2023-2025) ;

Insufficient data to produce reliable estimates often results in unquantifiable TEs. For instance, lack of data from the relevant regulatory authorities severely constrains the computation of TEs related to concessions granted to Export Processing Zones and Oil and Gas Free Zones since beneficiaries are not required to file tax returns and the only source of information is the relevant authorities (MTEF/FSP 2023-2025) ;

Limited data quality, including inconsistencies in data formats and level of details obtained, restricts the scope and coverage of TE estimates. There is a need for quality assurance procedures to validate data used for the reporting of TEs (MTEF/FSP 2021-2023) ;

Governance issues, in particular, the multiplicity of actors involved in the administration of tax incentives and the weak inter-agency collaboration among the revenue-generating/collecting MDAs further complicates the tracking and reporting of TEs ;

Poor human resource capacity remains an important challenge to the preparation of TE reports, yet efforts are made to build capacity among officers by development partners.

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Appendix A – A Review of the Pioneer Status Incentive (PSI)

The Pioneer Status Incentive was established by the Industrial Development (Income Tax Relief) Act (IDITRA), No 22 of 1971. The incentive takes the form of a tax holiday granted to qualifying businesses making investments in industries designated as 'pioneer'. An industry of product is 'pioneer' if (i) it is not being carried on in Nigeria at all or on a scale that is convenient to the economic requirements of the country, or there is a favourable outlook for the development of such product or industry in Nigeria; (ii) the development or establishment of the product or industry is in the public interest.

PSI provides relief from payment of CIT for an initial period of three years, extendable for one or two additional years. In addition, the PIS offers the following benefits:

- It allows for any capital expenditure incurred by the pioneer company before the end of its tax relief period to be deemed to have been incurred after the end of such period for the purposes of capital allowances ;
- It allows for any net loss incurred by the pioneer company before the end of its tax relief period to be deemed to have been incurred after the end of such period in order to offset profits after the tax-exempt period ;
- Dividends paid out of a pioneer company's profits are exempted from withholding tax during the pioneer period.

PSI aims to reduce the cost of doing business in Nigeria and improve the profitability and sustainability of beneficiary companies with significant impact potential on the country's economic development. Indeed, applicants must demonstrate the tangible impact its activity will have on the country's economic growth and diversification, industrial and sectoral development, employment, skills and technology transfer, export development or import substitution, for the consideration of their application.

The main arms of the government that are involved in the formulation, approval and administration of the PSI are the following:

- The Federal Executive Council (FEC) is responsible, under the authority of the President, for amending the Pioneer List from time to time ;

- The Nigerian Investment Promotion Commission (NIPC) is responsible, on the delegated authority of the President, for approving and extending the PSI and for issuing pioneer certificates. NIPC is also responsible, on the delegated authority of the Minister of Industry, Trade and Investment, for processing PSI applications and cancelling pioneer certificates in case the relevant provisions are contravened. In addition, the Executive Secretary of the NIPC is responsible for performing periodic (at least every two years) impact assessments of the PIS. For this purpose, a report on the impact assessment is to be submitted to the Minister and published on the website of the NIPC[31]. A quarterly report on applications approved/rejected and a list of companies whose Pioneer Status was cancelled by the Minister for Industry, Trade and Investment, is also to be submitted to the Minister and published on NIPC's website [32] ;
- The Minister of Industry, Trade and Investment is responsible for specifying the mode of application for PSI[33] ;
- The Federal Inland Revenue Service (FIRS) is responsible for implementing PSI and issuing certificates of qualifying capital expenditure[34], which are needed for PSI extension applications.

The pioneer designation is granted upon the inclusion of the industry or product on a list approved by the Federal Executive Council (the cabinet of the Federal Republic of Nigeria).

The FEC placed an administrative suspension on the processing of PSI applications in 2016 for "*a comprehensive review and reform of the incentive regime [...] aimed at increasing transparency and process efficiency, better articulating the expected economic benefits, and improving the Federal Government's ability to measure the impact of the incentive*"[35]. The administrative suspension was lifted in 2017.

The latest (2017) list of pioneer industries and products comprised 71 pioneer industries in 11 sectors: agriculture, mining and quarrying, manufacturing, electricity and gas supply, waste management, construction, trade (e-commerce services), information and communication, professional services (photographic activities), financials, and administrative services (business process outsourcing and transportation). Previously, in 2015, the Ministry of Industry, Trade and Investment released a list of 44 pioneer industries, reproducing the list approved by the National Council of Ministers in 1989. The addition of 27 industries (including

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[31] Pioneer companies must also submit a performance report to NIPC annually for monitoring and evaluation purposes during the pioneer period.

[32] Quarterly reports on PIS applications are indeed published on NIPC's website. However, we were not able to find the aforementioned impact assessment reports.

[33] Applicants must apply for PSI in the first year of production/service, be engaged in an activity listed as a pioneer industry/product and have a non-current tangible asset of over N100 million. Further, applicants must demonstrate the tangible impact of their activity/project, as mentioned earlier. For a detailed description of the application process for new and extension applications, refer to Section 3 of the *Application Guidelines for Pioneer Status Incentive* (Federal Ministry of Industry, Trade and Investment, 2017).

[34] This is capital expenditure of a nature as described in the Second Schedule of the CITA.

[35] Indeed, it has been reported that the PSI was subject to certain abuse by previous administrations. For instance, according to LeLaw (2017), PSI was granted to upstream companies subject to the Petroleum Profits Tax Act (PPTA) while IDITRA applies only to companies governed by the CIT Act. LeLaw (2017) and others (e.g., Deloitte, PwC) also report the grant of the PSI to successful applicants for straight 5 years (instead of 3 years initially, extended thereafter by the President, subject to meeting stated conditions, by 1 or 2 additional years). However, NIPC might have done so for administrative convenience.

e-commerce services, business process outsourcing, software development....) aligns with the country's objective to diversify the revenue and promote the growth of the non-oil sectors of the economy in line with the Economic Recovery and Growth Plan for 2017-2020.

According to the Q2 2022 Report on PSI Applications, the number of PSI beneficiaries as of June 30, 2022, was 71 (a large increase since June 2018, when this number was 5).

Appendix B – PATF Template for the Assessment of Tax Expenditures

Order number	Measure Code	NTS Code (Products)	References or legal basis	Derogation Measure	Compliance with ECOWAS Directive	Nature of the exemption	Evaluation of the measure	Taxes concerned	Types of derogation	Basic elements of taxation
A	B	C	D	E	F	G	H	I	J	K
1										
2										

Temporal scope	Objectives	Sectors of activity	Beneficiaries	Number of beneficiaries	Budgetary function	Structures/ Administration	Data source (Computer application, Other)	Method of calculation	Amount 2019	Amount 2020	Amount 2021	Amount 2022	Amount 2023	Year of adoption of the measure	Status of the measure in the founding legal text	Observations/Comments
L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB

Source: Addis Tax Initiative, 2022. *Regional Workshop to Tax Expenditure Evaluation in ECOWAS/UEMOA*.

Appendix C – The "Information Return for Tax Expenditures" form

Budget Office of the Federation Ministry of Finance, Budget and National Planning, Federal Government of Nigeria (FGN)					
Information return: Annual Tax Expenditures Statement				Fiscal Year	FY 2020
Completing Ministry				Completion date	
Completing officer:		Designation		Tracking no:	
S/No	Name of MDA empowered to grant concession	Legislative provision allowing tax concession		Nature of concession	

Source: Federal Ministry of Finance, Budget and National Planning, April 2020. *FGN 2021 Tax Expenditures Statement Call Circular*.

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