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Tax Alert

Proposed amendments to CITA

A bill to amend the Companies Income Tax Act Cap C21 LFN 2004 (CITA) recently passed the second reading at the National Assembly (Senate). The proposed amendment aims at providing additional tax incentives for gas utilization, mining sectors and businesses located in areas with inadequate infrastructure. It is expected that this will lead to economic growth, employment generation and reduction in rural-urban migration.

The key changes include:

1. **Increased investment allowance:** An increase in the rate of rural investment allowance from 10% to 20% for companies that incur capital expenditure on roads where no tarred road has been provided by the government within 10kms (instead of the current 20kms) of their businesses.
2. **10 year tax holiday:** The introduction of a new Section 34A for the provision of a 10-year tax holiday to any company established in a place where no infrastructure such as electricity, water, or tarred road is provided by the government.
3. **Increased tax free period for Mining companies:** An increase in the tax free period for mining companies from 3 to 5 years.
4. **Increased tax free period for Gas utilization companies:** An increase in the tax free period for companies engaged in gas utilisation (downstream operations) from 5 to 7 years.

Good tax reforms are positive for the economy as they attract more investors, encourage business expansion and create more jobs in Nigeria as a result.

It would be great to complement this with other changes such as the removal of commencement rule which taxes same profits twice after the tax holiday or the dividend taxation which taxes exempt retained earnings when distributed.

The proposed amendment, subject to necessary fine-tuning if it must go through, will be a welcome development for many investors and taxpayers although it is not clear to what extent tax incentives as proposed are useful in achieving economic growth or employment generation.

Given the federal government's policy direction to move away from selective tax incentive regime to a sector focused approach should be considered to create a level playing field. The proposed tax incentive should perhaps apply to all companies in Nigeria. The reason for this, which is not far-fetched, is that many companies do not rely on water or electricity provided by government. Also in many cases roads are in a terrible state that they are as bad as un-tarred. Consequently, this means virtually all companies operating in Nigeria (including those located in cities) should be eligible for the incentive.

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