Nigerian Oil and Gas Industry Content Development

Fiscal Incentives

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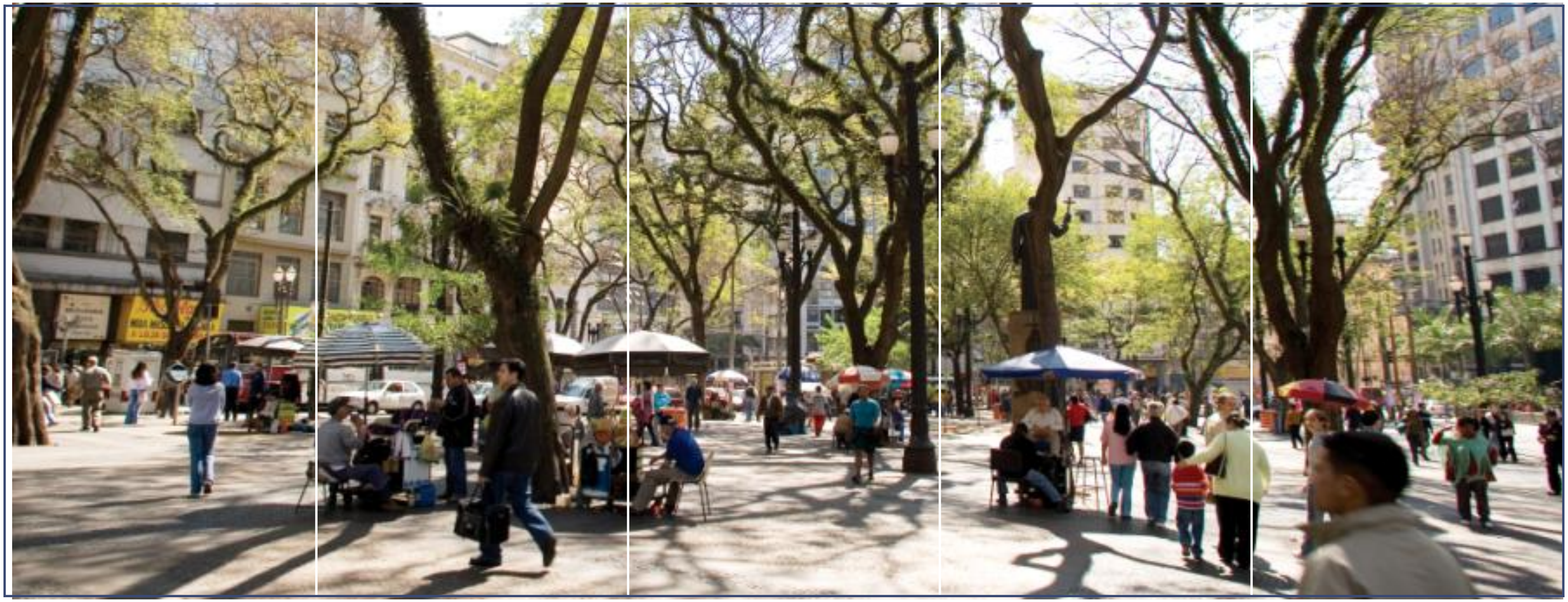
15 September 2010



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Objectives

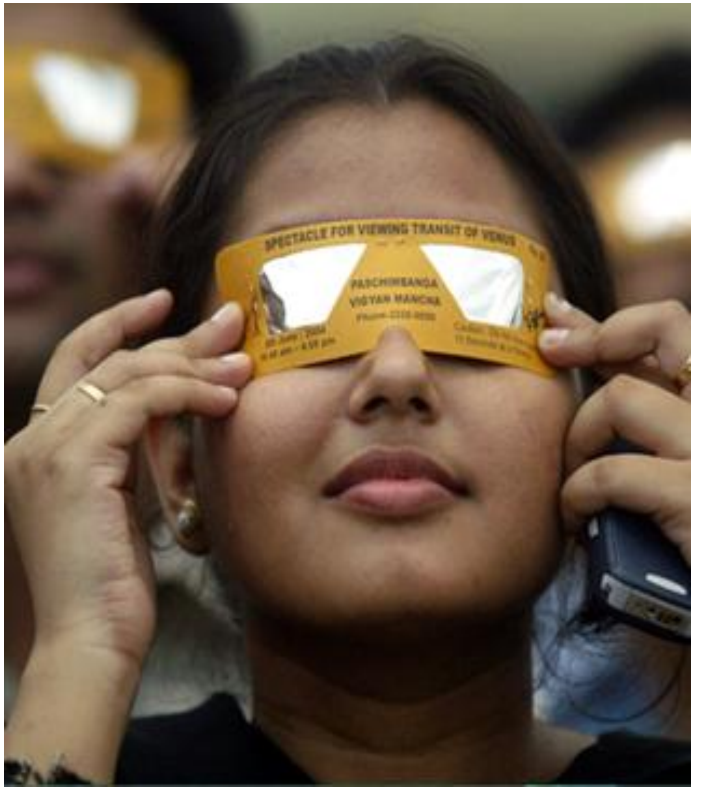
The main objectives of this session are to:

- Consider the potential fiscal incentives under the Nigerian Oil and Gas Industry Content Development ("the Act"); and

- Discuss related issues in order to set the tone for an informed debate leading to possible solutions .

Agenda

- Overview of the NCD
- Incentives
- Disincentives
- Planning Opportunities
- Ambiguities and Challenges
- Conclusion
- Questions & answers



Overview

Nigerian content means:

“the quantum of composite value added to or created in the Nigerian economy by a systematic development of capacity and capabilities through the deliberate utilization of Nigerian human, material resources and services in the Nigerian oil and gas industry”

Specifically, the NCD Act is designed to:

- Transform the oil and gas industry into the economic engine for job creation and national growth
- Develop local human capacity and indigenous capabilities
- Require the use of locally sourced materials and other inputs
- Ensure the use of equipment owned by Nigerians
- Eventually achieve technology transfer to Nigerians
- Make Nigeria economically independent
- Create wealth for Nigerians
- Earn more revenue for the government

Incentives

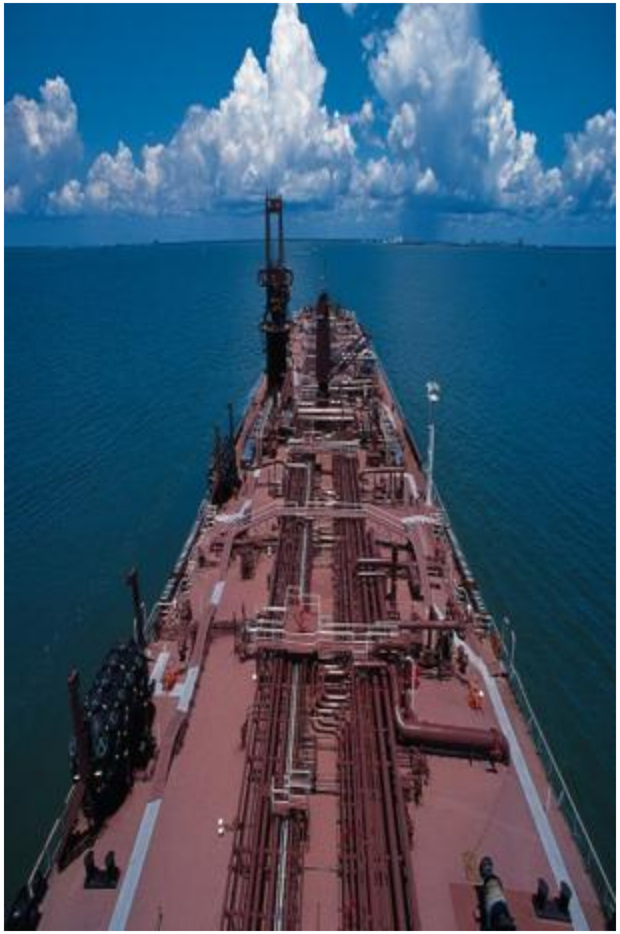
- There are no specific fiscal incentives in the Act. However section 48 states that:

  "the Minister (of Petroleum) shall consult with the relevant arms of government on appropriate fiscal and tax incentives for foreign and indigenous companies that establish factories, facilities and production units or other operations in Nigeria for purposes of carrying out production, manufacturing or for providing any services and goods otherwise imported into Nigeria."

- Potential incentives are:
  - Income tax relief
  - Import duty waiver / Temporary importation permits
  - VAT exemption
  - Investment allowance
  - Tax free dividend

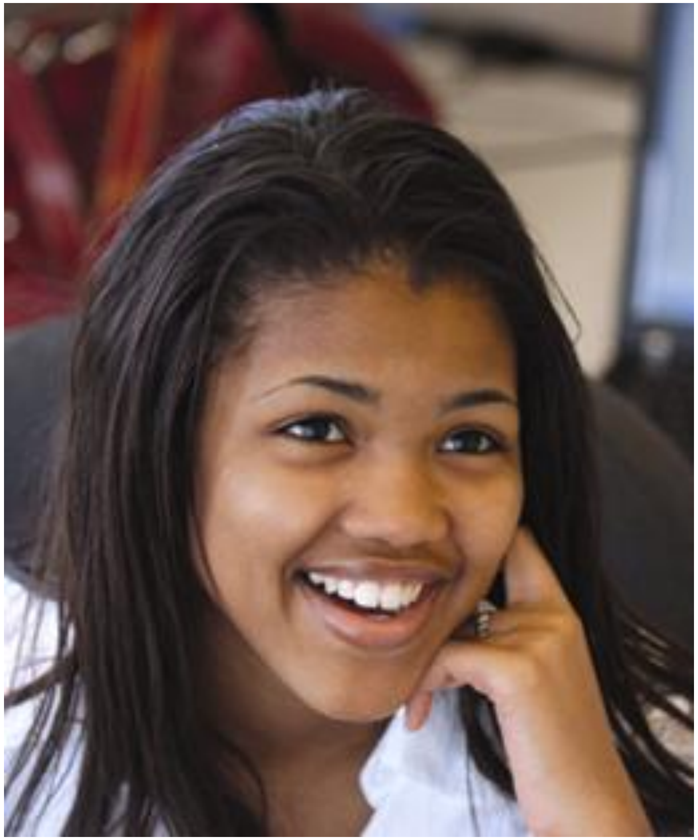
Disincentives

- Tax on structuring (VAT, WHT, CGT, Stamp duty etc)
- Increased tax cost for operators and contractors
- Compliance cost
- 1% levy on contract sum and the cascading effect
- Redundancy cost for expatriates to be disengaged
- Fine of 5% of contract value or cancellation for non compliance with NCD
- Potential dividend tax exposure



Planning Opportunities

- Opportunity to restructure existing contracts, legal and operating structures for efficiency
- Potential margin for higher local content (up to 10% more in price) – s16
- Tax incentives for R&D
- Industrial Training Fund refund claim arising from detailed training under the NCD



Ambiguities and Challenges

- 1% levy – tax deductible? Timing of remittance?
- Key definitions e.g. what is an indigenous company?
- 50% of equipment to be owned by subsidiaries of MNCs – How?
- 10% retention of revenue in Nigeria – what does this mean?
- Weighting for the individual local content criterion
- Commencement of the Act
- No clear transition arrangements for existing contracts and structures
- 5% of management position for expatriates – what is management and what happens if less than 20 personnel?
- Local procurement of legal services without any exception – how practicable?
- Other practical issues – 4 years for Nigerians to take over expatriate positions and lack of infrastructure to support local manufacturing and fabrication.

Conclusions

- The key aim of the Act is to improve participation by Nigerians in the oil and gas industry but there is a risk of focus on form rather than substance.
- There are no specific tax incentives for investors under the Act. The Minister only has powers to consult with relevant arms of government on fiscal incentives.
- All stakeholders should work together to reduce or eliminate the potential disincentives to ensure the achievements of the NCD objectives.
- There is no doubt that the NCD is a major reform that will have far reaching implications for all stakeholders. It is important that the regulation and guidelines are clear to make the transition as easy as possible.
- Notwithstanding the potential challenges, the NCD holds great opportunities for the future.

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