HARUNA YAHAYA & CO.
Chartered Accountants

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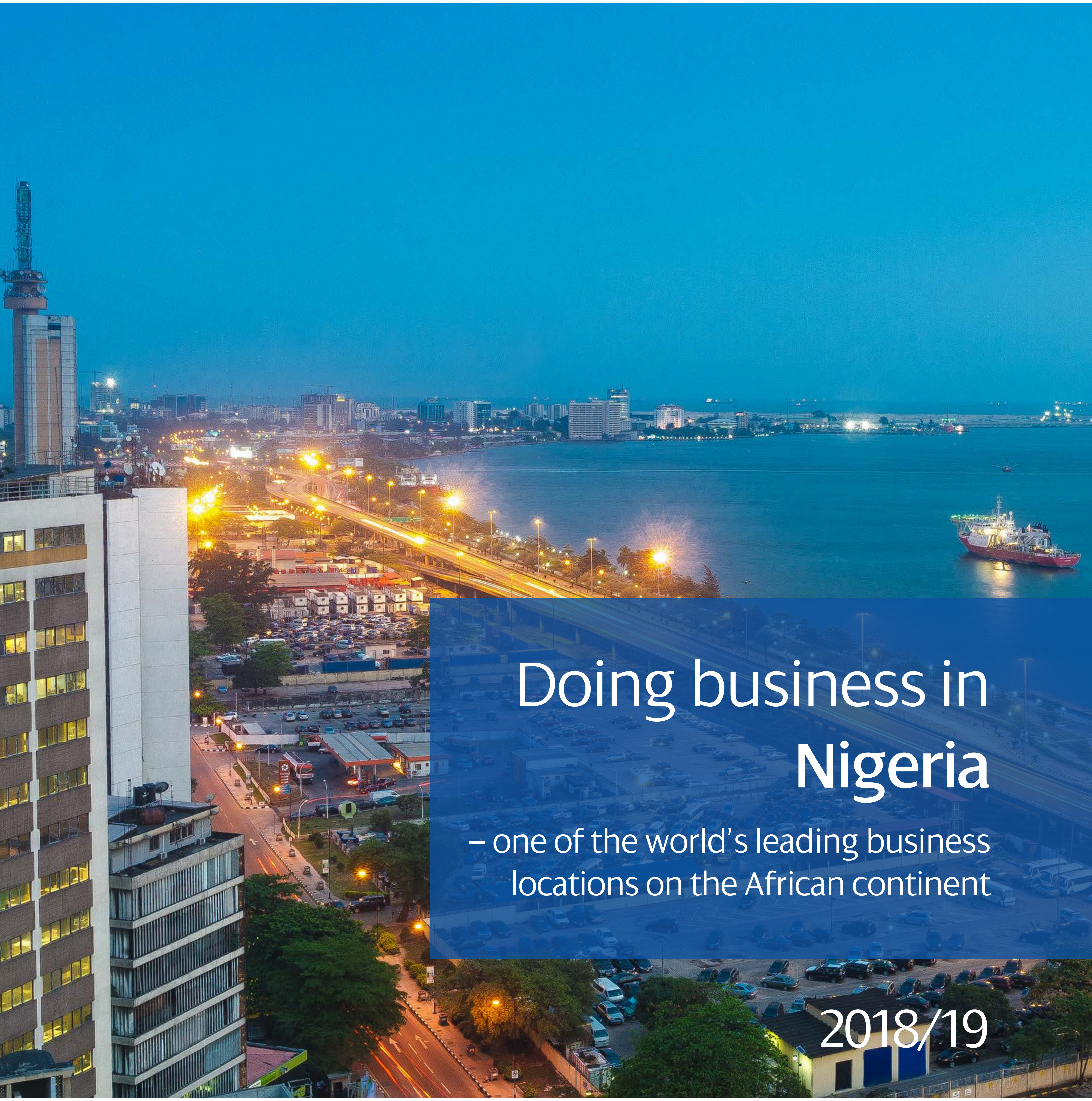

Doing business in **Nigeria**

– one of the world's leading business locations on the African continent

2018/19

www.harunayahaya.org

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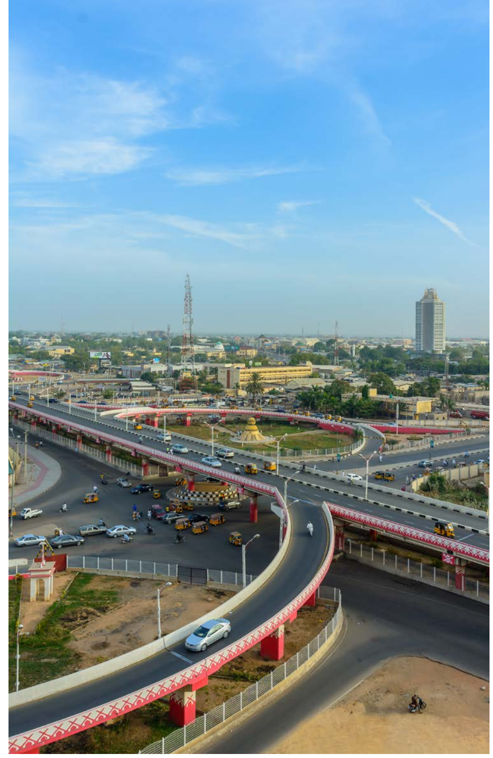
Located in the heart of West Africa, Nigeria is the continent's largest nation; its vast natural resources, substantial agricultural sector and developing tourism industry providing ever-expanding opportunities for foreign investors.

With 65% of its 200 million population under the age of 25, the country disposes of a readily available workforce and is currently Africa's sixth fastest growing economy. Positive initiatives are being taken by the federal government in the form of their new Ease of Business Policies; these include market-friendly policies and simplified regulatory frameworks and have resulted in Nigeria moving up 24 points in the World Bank's Ease of Doing Business Index.

According to the IMF's recent World Economic Outlook update, Nigeria can expect a 2.3 percent growth rate in 2019. This, along with Lagos being one of Africa's top financial hubs means there are a wide range of untapped opportunities for investors in this West African market.



01

Investment Opportunities

Manufacturing

Nigeria's population is an estimated 186 million people. This population suggests a massive potential workforce, as well as a considerable consumer base. For a manufacturer this is an ideal scenario: a significant potential client base as well as readily accessible workforce.

Information and Communication Technology Services

Nigeria is one of the fastest growing internet users in the world. According to Statista, a global statistics company, there were approximately 76.2 million Nigerian internet users as of 2017 with a growth rate of 10% per annum. This new economy does not require someone to be in a specific location to provide the service needed, rather they can be located anywhere in the world.

Agriculture

Nigeria has stable weather and fertile land for Agriculture. Nearly one third of all employed Nigerians find themselves working in the agricultural sector, which is one of the country's main foreign exchange earners. There are numerous government incentives for modernising and mechanising the agricultural system.

Private Education

Due to massive population expansion where about 30% of Nigerian Population are of school age, there is a huge need for education both vocational and professional.

Government facilities are no longer able to provide for this ever-growing need, which opens the door to private initiatives. This opportunity abounds at primary, secondary and tertiary education levels.

Potential for exceptional returns

Nigeria is in the fortunate position to be able to offer investment opportunities to both local and international persons and companies. =The need to develop the Nigerian economy offers lucrative potential returns for those looking to invest in the above sectors, which are in some ways interconnected. By increasing the investment and development in one area, there is tremendous potential for spillover into the other sectors.

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>
> Haruna Yahaya
> Managing Partner
> Haruna Yahaya & Co.

02
Ease of doing business in Nigeria

Business can be carried in Nigeria using the following vehicles:

a. **Sole proprietorship**
This is a form of business owned and run by an individual whereby there is no legal distinction between the owner and the business. A foreigner is not allowed to engage in a lawful business activity as a sole proprietorship unless he is able to obtain citizenship or residency status.

b. **Partnership**
This is a form of business arrangement in which two or more individuals own a business and are personally responsible for the debts and other obligations of the business up to a maximum of 20 partners except for certain professions such as law and accountancy. Foreign participation is allowed, but the investors must obtain residency status and work permit.

c. Company
A company with foreign shareholding must have minimum share capital of N10 million Or US$50,000 before they can obtain a business permit from the Nigerian Investment Promotion Council (NIPC). In banking sector, the minimum share is N25 billion or US$125million.

d. Free Trade Zones (FTZs)
The FTZs are designed to attract Foreign Direct Investment. Foreign investors can set up businesses directly in FTZs without necessarily incorporating a company in the customs territory. Registered companies are also eligible to register separately and operate in an FTZ. Such registered FTZ entity would have a suffix FZE at the end of its name. An FTZ entity enjoys the benefits of 100% capital and profit repatriation, exemption from all federal, state, and local government taxes, levies and rates, and waivers on customs and import duties.

Importation of Capital

Investments in the form of share capital contribution or loans may be made in foreign currency but information on such transactions must be submitted to the CBN by the dealer within 24 hours in order to obtain a Certificate of Capital Importation (CCI).

The following can be repatriated without hindrance provided the foreign investor has a CCI:

- Dividends, Rent, Royalties, Profits (net of taxes) attributable to the investment.
- Payment of interest and capital on foreign loans.
- The remittance of proceeds (net of taxes) and other obligations in the event of a sale or liquidation of the enterprise or any interest attributable to the investment.
- Authorised dealers of foreign currencies need to notify the CBN of any cash transfer to or from a foreign country of any sum in excess of US$10,000. A tax clearance certificate is required to remit dividend and interest out of the country.

National Office for Technology Acquisition and Promotion (NOTAP)

NOTAP regulates the transfer of foreign technology to Nigerian companies. Agreements covering services provided by a non-resident company must be registered with NOTAP as a pre-condition for obtaining foreign currency. Fees payable under the agreement (such as royalties, management fees, software licenses, etc.) must not exceed limits prescribed by the NOTAP and the CBN. The agreement must clearly specify the services to be provided or the features of the process or product being licensed.

Nigerian Tax System

There are several taxes and levies imposed on people, goods and services in Nigeria which are collected by the 3 tiers of government (Federal, State and Local Governments). The major taxes are listed below: -

a. Companies Income Tax Act (CITA)

CITA forms the legal basis for the taxation of the profits of companies other than companies engaged in oil exploration and production in Nigeria. CITA imposes tax upon the profits of any company accruing in, derived from, brought into, or received in Nigeria in respect of a trade or business. Companies are taxed at a rate of 30% of taxable profits. Nigerian companies are liable to tax on their global or worldwide income while non-resident companies are liable to tax only on the profit or income deemed to be derived from Nigeria.

b. Excess dividend tax

When a company pays out dividend, this would be compared to its taxable profit for the period. Where the dividend is more than the taxable profit, the excess will be charged to tax at 30% as if the dividend is the taxable profits of the company.

c. Double Tax Agreement (DTA)

Nigeria has ratified tax treaties with Belgium, Canada, China, Czech Republic, France, Netherlands, Pakistan, Philippines, Romania, Slovakia, South Africa and United Kingdom. Nigeria also has tax treaties with Kenya, Mauritius, Poland, South Korea, Spain and Sweden.

d. Pioneer tax incentive

Upon satisfaction of certain conditions, pioneer status is granted to companies in an industry that is categorized as a pioneer industry and these companies qualify for a tax holiday for 5 years (3 years initially and renewable for a further 1 or 2 years upon application). There are special rules on computing the profits of the company that will be exempt from tax (as well as the amount of dividends that will be exempt from withholding tax).

The updated list of industries / products which qualify for pioneer status can be obtained from the NIPC website (www.nipc-nigeria.org).

e. Taxation of non-resident companies

There are two broad categories of income of a non-resident company liable to tax. The first includes dividends, interest and royalty, generally referred to as passive income and it is liable to withholding tax at the rate of 10%. The second category consists of business income liable to tax in Nigeria to the extent that it is derived from Nigeria through a Permanent Establishment (PE) or fixed base.

f. Personal Income Tax Act

The Personal Income Tax Act (PITA) 2011 (as amended) is the legal basis for the imposition of personal income tax in Nigeria. The Act requires an employer to deduct and remit its employees' income tax under the Pay-As-You-Earn (PAYE) scheme and grants certain allowances and reliefs to individuals to reduce their tax payable.

g. Petroleum Profits Tax

The Petroleum Profits Tax Act (PPTA) is the principal Act for the imposition of tax on the profits of companies engaged in upstream petroleum operations for their own account. It does not apply to risk service contractors and other oil and gas contractors.

h. Withholding Tax (WHT)

WHT is an advance payment of income taxes deductible from payments made on qualifying transactions. The remittance is made in the currency of transaction to the Federal Inland Revenue Service (FIRS) or the relevant State Internal Revenue Service (SIRS) within 21 days and 30 days respectively. Different WHT rates apply for qualifying transactions and in certain instances, it can be applied as a tax credit against the corporate income tax liability of the company that suffered the WHT.

i. Value Added Tax (VAT)

VAT is charged at a flat rate of 5% on the supply of goods and services except those expressly exempted or zero rated under the Act. Oil and Gas companies and Government Agencies are required to remit VAT on their purchases directly to the FIRS rather than pay it over to their vendors. A non-resident company carrying on business in Nigeria only need to register for VAT using the address of its local counter party and include the tax on its invoice. The local company is required to remit the VAT directly to the FIRS rather than pay it over to the non-resident company.

j. Other Taxes

- **Nigerian Content Development (NCD) levy**

  The Nigerian Oil and Gas Content Development and Monitoring Board (NCDMB) was established and vested with the responsibility to implement the provisions of the Nigerian Oil and Gas Industry Content Development Act 2010 (Local Content Act), make procedural guidelines and monitor compliance of operators within the oil industry. Companies increase their chances of obtaining contracts through high local content ratings. The Act imposes a levy of 1% of contract sum to be deducted at source from any contract awarded to any operator, contract, subcontractor, alliance partner or any other entity in any project, operation, activity or transaction in the upstream sector of the industry.

- **Nigerian Communications Commission (NCC) levy**

  The Annual Operating Levy (AOL) Regulations issued by the Nigerian Communications Commission provides that all network providers in the telecommunication industry must pay 2.5% of their annual income as operating levy and a 2% levy on electronic gadgets.

03
Tax Incentives

The government gives tax incentives and reliefs to encourage both local and foreign participation in most sectors, alleviate the burden of taxes, reduce the costs of doing business and to promote investment and economic development.

Some of the incentives and relief available include:

Incentives available to the Agricultural sector

- Companies engaged in Agricultural trade or businesses are not liable to minimum tax.
- Tax exemption of the interest earned from agricultural loans, provided the moratorium is not less than 18 months and the rate of interest is not more than the base lending rate at the time of the loan.
- No restriction of capital allowance claimable for companies in the agro-allied business.
- VAT exemption on tractors, ploughs and agricultural implements purchased for agricultural purposes.

Incentives available to the Energy sector

Gas Utilization Incentive: In the utilisation of gas, such companies would enjoy:

- A tax-free period of 3 years which may be renewed for further 2 years or 35% investment allowance.
- Additional investment allowance of 25% on plant and machinery.
- Accelerated capital allowance after the tax-free period.
- Tax free dividend during the tax-free period.

Petroleum upstream operations: the incentives available to companies are determined by the nature of business which could be joint ventures or sharing contracts.

These will include:

- Lower tax rates and graduated royalty rates to encourage offshore production.
- Dividends distributed are not subject to withholding tax.
- Petroleum investment allowance and investment tax credits also apply.

Incentives available to the Power sector

- Investors in power generating companies may enjoy a pioneer status incentive as well as gas utilization incentives include.
- Exemption from VAT on plant and equipment acquired to generate electricity through the use of Nigerian gas.
- Exemption from import duties on plant and equipment imported to generate electricity through the use of Nigerian gas.

Incentives available to Export Processing Zones

Export oriented companies carrying on businesses in these zones especially

manufacturing companies are granted tax incentives. Approvals must be

sought to operate in these zones and the incentives available include:

- Tax holiday from all federal, state and local government taxes, custom duties, rates and levies arising from operations within the zones.
- Waiver for import and export lincenses. Tax and duty free on raw materials and components goods imported for export.

Incentives available for Foreign Capital Contribution

- The form and source of capital employed by a business will affect its tax liability. While debt capital attracts interest cost, the cost of equity capital is dividend.
- If there is an element of foreign participation in the company amounting to at least 25% of its equity capital, the company will be exempted from the minimum tax provision.
- Interest on foreign loans received for business is exempt from taxes at different periods and graduated rates.
- Such loans must be brought in through Government Approved Channels (i.e. a Nigerian Bank) and a Certificate of Capital Importation must be processed in respect of the loan capital.

Minimum Tax Exemptions

Where a company has made no taxable profits or has made a profit which is less than the minimum tax, such company will pay minimum taxes.

Tax exemptions will be available where such company:

- has at least 25% foreign equity contribution,
- is engaged in agricultural trade or business manufacture,
- is within the first four calendar years of commencement of business.

Pioneer Status Incentives

Companies in certain industries are granted corporate income tax exemptions to encourage further development of the economy and promote business activities. The incentives are:

- Exemption of profits from company income taxes during the tax holiday.
- Dividends distributed from profits made in the pioneer regime are exempted from withholding tax.
- Tax losses and capital allowances incurred during pioneer period can be utilized against taxable profits after the pioneer period.

04

Other business related matters

Accounting, audit requirements and practices

i) Accounting requirements

There is no requirement to use a specific chart of accounts for reporting purposes in Nigeria. There is also no requirement for the use of specific accounting systems or to host the server of accounting records in Nigeria.

However, all companies must maintain books of accounts in Nigeria and produce their financial statements under the International Financial Reporting Standards (IFRS).

Investors should consider the following provisions of the Companies and Allied Matters Act (CAMA):

- All companies shall keep sufficient accounting records.
- The accounting records shall contain a record of the assets and liabilities of the company.
- The accounting records are to be kept in the registered office of the company or other places as the Director may deem fit and it must be open for inspection by the officers of the company.
- The accounting records shall be kept for a minimum period of 6 years from the date on which they were made.
- All companies must file audited financial statements annually with the tax authorities and the Corporate Affairs Commission (CAC).
- Group accounts are required of a company with at least one subsidiary.
- The Directors of a company shall at their first meeting after incorporation of the company, determine to what date in each year that the financial statements shall be made up, and they shall give notice of the date to the CAC within 14 days of the determination.

ii) Auditors' requirement

The CAMA requires the shareholders to appoint auditors during the annual general meeting. Such auditor must possess a practicing certificate and be a member of the Institute of Chartered Accountants of Nigeria (ICAN) or the Association of National Accountants of Nigeria (ANAN). Nigerian auditors generally adopt International Standards on Auditing (ISA) as issued by the International Auditing and Assurance Standards Board complemented by local rules. The auditors must report to the shareholders of the company on the accounts and are required to express their opinion as to whether the accounts provide a true and fair view of the financial status of the company.

iii) Regulation of Non-governmental agencies

Non-governmental agencies (NGOs) are typically non-profit organisations and they play an increasingly important role in development cooperation on issues of public interest. There are no restrictions in NGOs provided that the purposes for which the group is formed, or the methods that it uses are not in themselves illegal. While it is not necessary that every group or association be registered, if an NGO considers it important to have a legal personality, it must be registered as either a company limited by guarantee or as incorporated trustees under the Companies and Allied Matters Act (CAMA).

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Haruna Yahaya & Co. is a member of MGI Africa, part of MGI Worldwide, a top 20 ranked international audit, tax, accounting and consulting network with some 5,000 professionals in over 260 locations around the world.

Established in 2002 our attention to outstanding customer service and constant reinvestment in our business has rewarded us with year-on-year growth. Today hundreds of businesses from all over Nigeria, both large and small, entrust us to manage their accounts and tax affairs for them every single day. Amongst others, our areas of expertise include Extractive Industries Accounting/Auditing and Oil & Gas Sector audit.

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Haruna Nma Yahaya is the Managing Partner and Chief Executive Officer of Haruna Yahaya & Co (Chartered Accountants and Tax Practitioners). He holds a B.Sc. in Accounting from Bayero University Kano, Post-Graduate Diploma in Computer Science from Obafemi Awolowo University, Ile-Ife and Master of Business Administration from Ahmadu Bello University, Zaria.

He is a fellow of the Institute of Chartered Accountants of Nigeria (ICAN), and a Fellow of the Chartered Institute of Taxation of Nigeria (CITN) as well as the Nigeria Institute of Management (NIM).

He has attended various courses both within and outside Nigeria among which are Harvard University, Boston Massachusetts USA and Euromoney Training in London.

Before establishing Haruna Yahaya & Co. Chartered Accountants in 2002, he had over twenty years working experience that cut across the private and public sector.

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