Tax Waivers for Multi-Nationals in Nigeria: Are These Based on Economic or Political Reasoning?

Hakeem Onapajo and Magnus Ezuma
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Abstract

Does Nigeria need tax waivers to grow its economy? As reports show the huge losses in tax incentives Nigeria has recorded over the years, the aforementioned question growingly has been a subject of discussion in the economic space, especially in the midst of the recent economic recession. This paper does not focus on this topic only; it extends the analysis by advancing an explanation of the reasoning behind the tax waivers granted to multinational corporations (MNCs). We ask whether the idea behind tax waivers is mainly driven economically or if there are other political (or ulterior) motives behind it. The paper discovers that there is no substantial evidence to prove that the tax waivers are a major driver for Foreign Direct Investment (FDI) into the country. Rather, the system of tax waivers has been a conduit for MNCs to evade taxes and perpetuate corruption in the system. Therefore, the study concludes that, although there are some economic benefits around tax incentives for MNCs, there appears to be more politics around it. Owing to this, the study offers some recommendations on ways to strengthen the tax system and ensure that tax incentives – if they must continue – must serve the purpose for which they are designed and not exploited by foreign companies (and the local collaborators) at the expense of Nigeria.

Introduction

It is not debatable that Nigeria’s heavy reliance on oil earnings has had a negative effect on the other viable sectors of revenue generation. Obviously, this is the story of the taxation system in Nigeria. Until recently when the reality of the country’s over-dependence on petrodollars dawned on the economy following a sharp decline in oil prices at the global market and increased vandalism of oil installations in the Niger Delta, which slid the economy into a recession in 2016, a lackadaisical attitude was paid to the potential of tax in the economy. The Minister of Finance, Kemi Adeosun, once lamented that only 20% of 70 million taxable adults
pay taxes, surprisingly in a state with many billionaires who own private jets and display stupendous wealth. The Minister further noted that Nigeria’s tax to GDP ratio, with a mere 6%, is one of the lowest in the world (Onuba, 2017).

The weak commitment of individuals and organisations towards fulfilling their tax obligations cannot be disconnected from the less significance attached to tax income by the government. Over the years, the government has apparently shown less interest in tax revenues as it characteristically engaged in offering tax incentives in the form of waivers and concessions to individuals, state and private agencies. The tax incentives, especially to multinational firms, were offered on the notion that they would encourage foreign investments and promote economic growth. This economic logic seems rational and acceptable if it actually met its desired objectives. However, recent statistics from the Ministry of Finance and international development agencies give cause to raise some pertinent questions. For example, the former Minister of Finance, Ngozi Okonjo Iweala, remarked that the country lost N170.74 billion to different forms of tax waivers between 2011 and 2013 alone. In another report by ActionAid and Tax Justice Network, it was estimated that Nigeria alongside other three countries in West Africa lose about US$9.6 billion to tax incentives annually (ActionAid, 2015).

Based on the above revelations, the question that requires an answer is whether the granting of tax incentives has any significant economic benefits or it is a strategy to promote political interests by regimes or individuals in the corridors of power. This question is more important at this time given that there has been a sudden shift towards taxation as one of the means to rebound the economy in the face of the last economic recession between 2016 and 2017, and the fact that the system of tax incentives is still a significant aspect in the economic agenda of the present administration, with new beneficiaries, despite increased awareness and complaints over the losses the country has recorded from it.

This study interrogates the major motives behind tax waivers for multinational corporations (MNCs) in Nigeria. The study aims to answer the question concerning the economics and politics of the tax waivers that have been granted to multinational corporations in Nigeria. In doing so, the paper analyses the global practice of tax incentives and its forms, Nigeria’s taxation system and the system of tax incentives and waivers, and the political or economic motives behind tax waivers in the country. On the basis of the analyses, we offer some useful
recommendations on how the strengthen the tax system and address the abuse of tax waivers in the country.

**Tax Incentives and Practices: The Different Perspectives**

Tax incentive has been an economic strategy used by states especially the developing countries to promote development. It is a form of reliefs or favorable terms granted to individuals and agencies in the payment of taxes, which may be in the form of tax holiday or waivers, reduced corporate income tax and tax deductions (Klemm and Parys, 2010; Uwaoma and Ordu, 2016). Tax incentives are basically introduced as instruments to stimulate economic activity, create job opportunities, achieve economic growth, and increase the competitiveness of a state’s economy in the international market (Francis, 2016). The practice is not a Nigerian phenomenon only as research shows that it has been a common phenomenon, particularly in the developing countries. Indeed, it is an old economic strategy employed from the colonial times. As noted by Buss (2001), the old colonial towns used bounties as a strategy to encourage investments and attract skilled workers. As far back as the 18th and 19th centuries, it was discovered that states did not only provide tax incentives but also provided capital and financed infrastructure for private enterprises to establish their business in America. For example, as noted by Buss (2001: 91), “by 1844, Pennsylvania had invested more than $100 million and placed directors on the boards of more than 150 corporations.”

State tax incentives are usually offered in four major ways: (i) job creation (incentives for companies that create new jobs or retain jobs in the midst of general job cuts); (ii) business investments; (iii) industry-specific (incentives aimed at retaining some industries from leaving or to specifically encourage diversification, such as agriculture, manufacturing, technology, etc.); and (iv) targeting specific locations (incentives aimed at encouraging economic activity in a particular geographical location by creating enterprises or trade zones) (Francis, 2016: 3).

There are two major perspectives on the implications of tax incentives for the economy. The first perspective comprises a group of scholars and policymakers who favor the idea of tax incentives. They argue that states benefit from the practice of tax incentives in many ways. They insist that the introduction of tax incentives increases the potential of foreign investment, generates
employment opportunities, and ultimately facilitates economic growth. They argue that the costs of the tax incentives, no matter the amount, would be easily recuperated from the improved economic activity that would emerge from the process (Francis, 2016). In addition, it is argued that tax incentives usually encourage tax compliance because a favorable tax regime discourages tax evasion, thereby increasing tax revenue for the state (Uwaoma and Ordu, 2016).

On the other side of the argument are economists who are opposed strongly to the practice of tax incentives because they are considered detrimental to the economy and affects social welfare. They argue that tax incentives are inefficient and costly to the extent that states lose a huge amount that could be allocated for other developmental projects that would benefit the citizens (Francis, 2016; Klemm and Parys, 2010). In this regard, ActionAid (2013) has proven that the developing countries lose an estimate of US$138 billion to tax incentives (corporate tax incentives alone) on a yearly basis. Besides, tax incentives – in this regard, to multinationals – are a recipe for the destruction of the infant local industries. If unmonitored carefully, it can also lead to abuse of the system and corruption in the taxation system. In their paper, Uwaoma and Ordu (2016) identified some of the corrupt practices and abuses that accompany tax incentives as the following: over-valuation, round tripping, double-dipping, transfer pricing, asset stripping and “fly-by-night” operations. Furthermore, it is important to acknowledge that foreign investors do not consider tax incentives as the primary factor that inform their decision to invest in a country as other factors including political environment, availability of skilled workforce, cost of labour, transparent regulatory system, existing infrastructure and market, are important for the investors (Howell Zee, 2001).

Nigeria’s Taxation System

Although it has been established in historical studies that taxation system had been in existence in pre-colonial Nigeria, the present system has its origins from the British colonial state which introduced the personal income tax in 1904 (Adesola, 1985). The taxation system was further strengthened through different colonial policies which were passed on to the state in its post-independence era. To better analyse Nigeria’s taxation system, Dike (2014) argues that this can be done successfully by looking at the tripartite structure of the system: tax policy, tax legislation
and tax administration. The tax policy is enshrined in the National Tax Policy which provides the rules and guidelines governing the taxation system in Nigeria. Its principal aim is the creation of a tax system that will encourage economic growth and improve the lives of the people.

The tax legislation is an expression of the legal instruments governing the enforcement of taxes in Nigeria. The following are the existing tax laws in Nigeria: Federal Inland Revenue Service (Establishment) Act No. 13 of 2007; Companies Income Tax Act (CITA) CAP C21 LFN, 2004 (commencement 1st Jan, 1958); Personal Income Tax Act (PITA) CAP 8 LFN, 2004 (as amended); Petroleum Profits Tax Act (PPTA) CAP 13 LFN, 2004 (commencement 1st Jan, 1958); Deep Offshore and Inland Basin Production Sharing Contracts Act; Value Added Tax Act (VATA) CAP D1 LFN, 2004 (commencement 1st Dec, 1993); Education Tax Act CAP E4 LFN, 2004 (commencement 1st Jan, 1993); Capital Gains Tax Act (CGT) CAP C1 LFN, 2004 (commencement 1st April, 1967); Stamp Duties Act CAP S8 LFN, 2004 (commencement 1st April, 1939); National Information Technology Development Agency Act (NITDA); Nigeria LNG (Fiscal Incentives, Guarantees & Assurances) Act; Industrial Development (Income Tax Relief) Act; Industrial Inspectorate Act; Investment and Securities Act, 2007; and Insurance Act of 1997 (as amended) (Dike, 2014).

The tax administration entails the constitutionally defined authorities responsible for the implementation of the tax laws. Given the Nigerian federal structure, the authorities are categorised under the federal (Federal Inland Revenue Service), state (State Inland Revenue Service) and local governments. The Joint Tax Board contains a list of taxes and levies for collection by the three tiers of government as approved by the government contains the following:

1. Companies income tax
2. Withholding tax on companies
3. Petroleum Profit Tax
4. Value-added Tax (VAT)
5. Education Tax
6. Capital Gains Tax-Abuja residents and corporate bodies
7. Stamp duties involving a corporate entity

B) Taxes/Levies Collectible by State Governments

1. Personal Income Tax such as Pay-As-You-Earn (PAYE), Direct (Self and government) assessment and Withholding tax (individuals only).
2. Capital Gains tax
3. Stamp duties(instruments executed by individuals)
4. Pools betting, lotteries, gaming and casino taxes
5. Road taxes
6. Business premises registration and renewal levy:
   a. Urban areas as defined by each state (maximum of N10,000 for registration and N5,000 for the renewal per annum)
   b. Rural areas (Registration of N2,000 per annum and renewal of N1,000 per annum)
7. Development levy (Individuals only) not more than N100 per annum on all taxable individuals.
8. Naming of street registration fee in state capitals
9. Right of occupancy fees in state capitals
10. Rates in markets where state finances are involved.

C) Taxes/Levies Collected by the Local Governments:

1. Shops and kiosks rates.
2. Tenement rates
3. On and off liquor license
4. Slaughter slab fees
5. Marriage, birth and death registration fees
6. Naming of street registration fee(excluding state capital)
7. Right of occupancy fees (excluding state capitals)
8. Market/motor park fees (excluding market where state fiancé are involved)
9. Domestic animal license
10. Bicycle, truck, canoe, wheelbarrow and cart fees
11. Cattle tax
12. Merriment and road closure fees
13. Radio/television (other than radio/TV transmitter) licences and vehicle radio licence (to be imposed by the Local Government where the car is registered).
14. Wrong parking charges
15. Public convenience, sewage and refuse disposal fees
16. Customary, burial ground and religious places permits
17. Signboard/advertisement permit. (Dike, 2014)

**Tax Incentives and Waivers for Multinationals**

The use of tax incentives and waivers is not a recent development in Nigeria. It started since the colonial era as the period was characterised by a tax system that offered different forms of reliefs, allowances and tax breaks for British companies and individual merchants as a strategy to establish trade links with the colony. Over the years, tax incentives were increasingly adopted by the government as a strategy to encourage the growth of the private sector and boost foreign investment for the general growth of the economy. A CBN report (Rapu et al., 2013) indicates that the Nigerian tax incentives can be better understood when classified as (1) General and (2) Sector-specific incentives.

(1) General Incentives: This is a category of incentives applicable to all sectors of the economy and extends to both local and foreign companies, with the aim of stimulating the economy. The major incentive in this category is the Pioneer Status granted to certain companies and service sectors for their exemption from paying income tax in their foundational years in order to encourage them to make adequate profit and survive in the business environment. In this context, a six-year period of tax holiday is granted to companies in economically disadvantaged areas, while a five-year tax holiday is granted to industries in more developed areas (Rapu et al., 2013).

The following are taken into consideration in granting a Pioneer Status to companies: the ability to generate employment and transfer technology, investment in infrastructure and development
of an economically disadvantaged area, their export potential, utilization of local resources, engagement in corporate social responsibilities, and other important social-economic activities that would ultimately benefit the country (Rapu et al., 2013).

(2) Sector-specific Incentives: These are characterised by incentives that mainly target a particular industry with the aim of encouraging investment in such industry. These include the oil and gas, agriculture, power, manufacturing, and telecommunications sectors. The tax incentives on sectoral basis are presented in the table below.

**TAX INCENTIVES IN DIFFERENT SECTORS**

<table>
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<th>Sector</th>
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| Oil Sector | • Tax inversion  
• Restriction on penalty charges  
• Minimum guaranteed notional margin  
• Capital allowance  
• Investment tax credit (ITC)  
• Investment tax allowance (ITA)  
• Balancing allowance  
• Provisions for losses  
• Concessionary profit taxes |
| Gas Sector | • Gas transmission, distribution and LNG projects (reduced and relaxed taxation in Income Tax, Capital Allowance, Investment Tax Credit, Royalty, and tax holiday)  
• Upstream gas utilization (Allowable deductions and Capital Allowances)  
• Gas utilization (Downstream) (Tax holiday, Petroleum Investment Allowance (PIA), Accelerated Capital Allowances, Tax deductible interest on loans, Tax Free Dividends and VAT exemptions on plant and machinery) |
| Power Sector | • New Multi-year Tarrif Order (MYTO) |
| | • Tax holiday
• Corporate Tax Income
• Import Duty Exemption
• Tax Relief for Research and Development
• Tax concession for Nigerian employees
• Infrastructure-based incentives
| Manufacturing | • Capital allowance
• Reduced Company Income Tax
• Reinvestment allowance
• Manufacture-in-bond scheme
• Duty free equipment for cassava processing
• Company tax incentives rebate for bakers
| Agricultural Sector | • Free duty on agricultural products
• A five–year tax holidays
• tax exemption for financial institutions on interests on agricultural trade or business unrestricted capital allowances
• VAT exemption for agricultural equipment and machinery
• Enhanced capital allowance of up to 50% for Agro-allied plant and equipment.
• 1% duty for all agricultural and agro-industrial machines and equipment
• Interest Drawback (IDP) for farmers to borrow from lending banks at market–determined rates
• CBN Agricultural Credit Guarantee Scheme Fund (ACGSF)
• Commercial Agricultural Credit Scheme (CACS), at 9% interest rate.
• Agricultural Credit Support Scheme (ACSS), at 14% rate.
• The Nigerian Incentive-Based Risk Sharing system for Agricultural Lending (NIRSAL)
• Insurance Facility (US$30 million).
| Technical Assistance Facility (US$60 million). |
| Holistic Bank Rating Mechanism (US$10 million) |
| Bank Incentives Mechanism (US$100 million). |

**Telecommunications Sector**
- Pioneer status
- Exclusivity period for licenses
- Reduced import duty on equipment
- A fair tariff structure
- Guarantee of long term loans at minimal interests
- Speedy clearance of goods at ports

**Export**
- Duty drawback scheme – refund for duties charged on raw materials
- Duty drawback facility – fixed and individual drawback facilities
- Export expansion grant (EEG)
- Export Development Fund (EDF)
- Trade Liberalization Scheme

Source: Rapu et al. (2013)

In addition to the above are Free Trade Zones (FTZs) created by the federal government in 1991. The policy encourages investors to establish industries in the zones with multiple tax incentives. The products from the industries are expected to be exported and increase the export revenues of the country. The incentives associated with the FTZs include the following: “tax holiday; unrestricted remittance of profits and dividends earned by foreign investors; no import or export licenses required; up to 100 per cent foreign ownership of enterprises; permission to sell up to 25 per cent of production in the domestic market” (Rapu et al. 2013: 37).

As regards multinational firms, it is clear from the above presentations that many of the tax waivers are designed for foreign investors on the belief that the incentives would facilitate economic development. We do not have access to data that indicates clearly the number of multinationals benefitting from the government’s multiple tax incentives. However, a useful
report by the ActionAid (2016) gives an idea the immensity of MNC benefits from the Nigerian system of “massive tax breaks”. The report focused on the three principal MNCs in the oil sector – Shell, Total and Eni – which partner with Nigeria’s NNPC in joint ventures. The report demonstrated how the 1990 NLNG Act granted blanket tax waivers to foreign companies. The companies enjoy three levels of tax waivers covering a period of twelve years: (1) tax exemption in the category of Pioneer Status in the first 5 years; (2) between the sixth and tenth year, they enjoy waivers on corporate income tax (CIT) (when other pioneer companies ought to have started paying 30% of CIT); and (3) in the 10th to 12th year, the companies enjoy a further CIT-free on the basis of deferred tax assets (ActionAid, 2016: 7). Clearly, this provides a good example of how the MNCs reap from the tremendous tax incentives in the country. Therefore, the question asked in the next section is: what are the economic or political motives behind the system?

**Tax Incentives/Waivers to MNCs: Economic or Political Reasoning?**

We have noted that the main objective of tax incentives is to facilitate industrialisation and economic growth. The question is: has the granting of tax waivers generated the expected economic growth for which it was originally meant? There are two sides to this question. There is a perspective that argues that the tax waivers have facilitated some developments in some sectors, which have had a positive impact on the health of the economy (Dike 2014; Uwaoma and Ordu, 2016). However, the problem with most studies favoring the idea of tax incentives is their failure to provide a clearly convincing link on the positive relationship between waivers and economic growth in Nigeria. For example, while aiming to analyse the positive impacts of tax waivers for foreign companies, Dike (2014) only showed how FDI has impacted positively on economic growth. As noted earlier, the policy of tax incentives is not the only factor that promotes FDI. In fact, there are other factors that take precedence over the existing system of tax incentives in a country. What this implies is that the advocates of tax incentives have not been able to show convincingly how the years of incentives have contributed to the growth of the economy. However, this does not imply that tax incentives have not contributed to the economy especially in the context of job creation, industrialisation and investment which are indexes for economic growth. For example, a study discovered that tax incentives attract foreign investment
and represents a viable means for full employment in the country, if well implemented. In addition, the study found that a system of tax incentives can build local industries to effectively compete with the foreign companies (Abdulrahman and Kabir, 2017). What is clear, based on sufficient evidence, is that the economy has lost a huge amount of money in the tax deals with MNCs, and in many cases the local industries have been more discouraged by the presence of the foreign companies. This gives credence to the second perspective opposed to the system of incentives for MNCs. Studies in this category show the massive cost of incentives to the country which is at the expense of other developmental projects. An ActionAid study (2016) proves that Nigeria has lost a whopping US$ 3.3 billion to a ten-year tax break granted to the three partners in the Joint Venture. The report painted a very sad picture of what this amount meant for Nigeria’s development. It noted that:

US$3.3 billion is urgently needed in a country where 110 million people live in extreme poverty and more than half of the population does not have access to clean water. 11 million children are out of school and US$3.3 billion is more than the Federal Government’s education budget for 2015, which at 11.29% of the aggregate budget remains lower than UNESCO’s recommended education budget of a minimum 15% of a nation’s annual budget. Fifteen out of every hundred children die before the age of five and US$3.3 billion is three times the Nigerian healthcare budget for 2015. (ActionAid, 2016: 4).

In another report focusing on the three multinational companies in the Joint Venture, it was observed that the tax break giving to the companies was illegally extended for seven years. This is because ‘the company’s tax bill was reduced to almost zero during the first 12 years of operation, instead of the standard period of 5 years’ (van Dorp, 2016; 7). It is of more concern that despite the tax waivers enjoyed by the MNCs, many of them still indulge in tax evasion. Clearly, this disproves the claim that tax incentives encourage tax compliance – at least not in the Nigerian situation. In 2003, Shell Petroleum and the Federal Government through the FIRS were locked in a conflict over the refusal of the former to pay US$ 17 million in tax liability. The company had claimed it was not liable to pay any taxes in Nigeria. After a long litigation process, the company – given its failure to get a favorable judgment at the courts – had to approach the government for an out-of-court settlement. In a similar vein, the Economic and
Financial Crimes Commission (EFCC) and the House of Representatives charged Chevron for tax evasion of over US$ 2 million for the years 1997 and 1999. So far, the Haliburton scandal happened to be the most popular of the cases following investigations that showed that the American oil company paid US$ 2.4 million as bribe to government officials to cover up their tax evasion practices (Bakre, 2006).

Based on the above, it can be argued that the Nigerian economy has not really benefitted from tax waivers offered to MNCs. The MNCs exploit the system to make excessive profits and perpetuate poverty, corruption and underdevelopment in Nigeria. Indeed, the exploitation is perpetrated in connivance with the local elites who do not only use state institutions and power to grant the waivers, but also help the companies to manipulate the system to evade taxes. This is not only because some of the elites have business interests in the companies but also because of their political interests. This brings to the fore the question of the political reasoning behind the massive tax waivers enjoyed by the companies. It is an undeniable fact that the MNCs play tremendous role in determining who occupies political positions in order to influence government policies. Also, the MNCs have the power to determine international supports for the government in power. The government who has benefited from the sponsorship, or realise the political capacity of the MNCs very often compromise to favor the companies.

A good example of the above statement is the Wikileaks report that surfaced in 2010 detailing the extent of the infiltration of Shell in the Nigerian government. The report quoted a senior executive of the British company in a communication with US diplomats that they had “seconded employees to every relevant department and so knew ‘everything that was being done in those ministries’.” Thus, this allowed them to have advanced intelligence reports of every actions of the government as they relate to the oil industry. The report further noted that the company had once “swapped intelligence with the US” about conflict in the Niger Delta (Smith, 2010).

Based on evidence such as this, there is no gainsaying that politics play a central role in the policies and discretions around tax waivers for the MNCs. If there are any economic benefits at all, they are about the promotion of individual and selfish interests of the foreign companies and a few elites and government officials who corruptly benefit from the arrangement. Clearly, the tax waivers have not been driven by national interest.
Conclusion and Policy Implications

The issue of tax incentives enjoyed by the MNCs has been a major concern in the Nigerian economy. The present administration has noted with dismay how much the country has lost from the system of tax incentives. Despite the increasing complaints, the government still rolled out some incentives including breaks as a strategy to ensure tax compliance. This policy extended tax waivers to an additional 27 companies. This policy does not take consideration of a number of reports from international development agencies that empirically show how developing countries bleed from the system of tax waivers to MNCs. For example, ActionAid (2013) argues that the developing countries lose US$ 138 billion to tax incentive annually. As such, many of the agencies including the International Monetary Fund and World Bank have consistently issued warnings against them. The countries have always been on the losing side, while the poor masses bear the consequences.

It should, however, be noted that tax incentives and waivers have become key aspects of the Nigerian economy. A weak economy such as Nigeria’s economy in reality needs radical approaches to attract investment and promote economic growth. Clearly, part of the approaches includes the institutionalisation of tax incentives to foreign investors. Notwithstanding the good economic objectives, the policy has been thoroughly abused, leading to outright corruption and poor outcomes. Given this, there have been rising calls for the discontinuation of the policy because it has been an apparent rip-off for the economy. Research conducted in other countries has shown that tax incentives are difficult to be discontinued once implemented because of intense lobbying by the investors especially MNCs with abundant resources. While tax incentives cannot be totally rejected as an insignificant economic strategy, it is important for the government to do a critical re-examination of tax incentives advanced to MNCs and strengthen the existing institutions around taxation in Nigeria.

Based on the above, the following recommendations should be given some consideration in order to address the problems inherent in the tax incentives system in Nigeria.
• Government must embark on an extensive review of tax incentives using an independent audit firm. This should be used as a parameter to judge if tax incentives are really beneficial or not to the economy.

• There is need for an efficient monitoring and evaluation system that would offer a periodic and timely evaluation of the tax incentives in order to prevent abuse by MNCs and their local collaborators.

• The government must incorporate the abuse of tax waivers in its anti-corruption drive. Those found to be culprits should be punished under the framework of the existing anticorruption institutions.

• The government should strengthen its tax institutions with the aim of preventing opacity around tax waivers to MNCs. Transparency in the number of beneficiaries and the motives behind the waivers granted to them will not only address the lingering problem around the taxation system but also significantly corruption in the taxation system.

• The National Assembly must improve on its oversight functions on the issue of tax waivers. Issues concerning tax waivers must be seriously checkmated by the legislature.

References


