



FEDERAL GOVERNMENT OF NIGERIA ISSUES VALUE ADDED TAX (MODIFICATION) ORDER, 2024

10th **October**, 2024

Introduction

On 3rd September 2024, the Federal Government of Nigeria (FGN) issued the Value Added Tax (Modification) Order, 2024 (the Order), in its Official Gazette No. 149, Vol. 111 of 3rd September 2024, through the Honourable Minister of Finance, Mr. Adebayo Olawale Edun. This Order modifies the First Schedule of the Value Added Tax (VAT) Act, Cap. V1, Laws of the Federation of Nigeria, 2004, specifically addressing exemptions and VAT treatment on equipment, infrastructure, and services related to energy sectors such as Compressed Natural Gas (CNG), Liquefied Petroleum Gas (LPG), Electric Vehicles (EV), and related technologies. These modifications seek to align the VAT Act with Nigeria's energy transition objectives and promote cleaner energy solutions. The Order also provides clarity on the treatment of certain goods and services, ensuring that taxpayers understand their obligations under the revised VAT framework.

What Does the New Order Entail?

The Order expands the exemptions for equipment and services associated with LPG, electric, and CNG vehicles, thereby significantly modifying the VAT regime. The main goal is to promote investment in sustainable energy technology while providing clarification on how certain goods and services related to these sectors are treated with regard to VAT. Some of the key modifications introduced by the order includes:

Expansion of VAT Exemptions to Clean Energy Technologies:

The Order focuses on extending VAT exemptions to equipment and services associated with sustainable energy technologies. Specifically, the Order grants VAT exemptions to a variety of essential goods and services required for the advancement and implementation of CNG, LPG, and electric vehicle technologies. These items include vehicle conversion kits, batteries for electric vehicles, components for assembling electric cars, and infrastructure such as charging stations, etc. These exemptions aim to enhance the affordability and investment appeal of these sustainable energy technologies to businesses and consumers, thus speeding up the adoption of cleaner energy solutions throughout Nigeria.

Modifications to Part I of the First Schedule of the VAT Act:

Paragraph 2 of the Order modifies Part I of the First Schedule of the VAT Act by introducing new paragraphs 20, 21, 22, 23, 24 and 25, thereby including Equipment and infrastructure related to the expansion of Compressed Natural Gas (CNG) including conversion kits; Equipment and infrastructure related to the expansion of Liquefied Petroleum Gas (LPG) equipment including conversion kits; Domestic Liquefied Natural Gas (LNG) Processing Facilities and Equipment; Electric Vehicles; Parts, semi-knock-down units for the assembly of Electric Vehicles; Biogas and biofuel equipment and accessories for clean cooking and transportation; as part of the goods qualified for VAT exemptions under the Schedule. These changes promote the adoption of alternative fuels and provide businesses with an opportunity to lessen their VAT obligation on crucial capital investments in expenses.

Modification to Part II of the First Schedule of the VAT Act:

Services Exempt from VAT: Paragraph 3 of the Order broadens the scope of VAT exemptions by introducing new paragraphs 9, 10 and 11 to Part II of the Schedule to cover essential services in the sustainable/clean energy sector. These services encompass the installation of equipment utilized in CNG and LPG conversion, along with services for manufacturing, assemblage and sale of electric vehicles. By extending the range of VAT-exempt services, businesses benefit from reduced operational expenses, which in turn makes participation in clean energy initiatives more viable.

Broadened Interpretation of Petroleum Products:

The Order also substituted the interpretation of “petroleum products” under the Act, for a broadened definition of petroleum products to include feed gas for processed gas, automotive gas oil (AGO), CNG, and imported LPG. This expansion ensures that products related to cleaner energy sources are subject to the same VAT treatment as traditional fossil fuels. This clarification offers businesses a more defined regulatory framework and removes uncertainties regarding which products are exempt from VAT. It also supports Nigeria's aim to reduce dependence on traditional fossil fuels by promoting alternative energy solutions.

Retrospective Application of VAT Exemptions for Automotive Gas Oil (AGO):

A notable feature of the Order is the retrospective implementation of VAT exemptions on Automotive Gas Oil (AGO), which is effective from 1st October 2023. This feature gives companies that have been involved in AGO investments and transactions during this period the chance to get back VAT paid or get tax credits, which could lead to significant cost savings. Furthermore, the order stated that the relevant agencies (e.g., Nigeria Customs Service and FIRS) may issue guidelines to ensure the effective implementation of this Order.

What are the Implications of the Order for Businesses?

Promotion of Clean Energy:

The exemptions will encourage investment in cleaner energy technologies, helping to reduce reliance on fossil fuels and support Nigeria's transition to a greener economy. Furthermore, through the reduction of VAT on these services, the Order encourages the growth of companies involved in constructing and maintaining clean energy infrastructure, such as CNG filling stations and EV charging points. Also, by expanding the interpretation of petroleum products to include feed gas for all processed gas, automotive gas oil, CNG and Imported LPG, the Order ensures that these products are subject to the same rules as conventional fuels thereby making regulatory control clearer.

Cost Savings for Businesses:

Businesses engaged in the production or use of CNG, LPG, and electric vehicles will benefit from these VAT exemptions through lower capital expenditure on critical equipment and this will in turn potentially lower operational costs and promote sustainable practices.

Enhanced Clarity for Taxpayers:

By clearly specifying the exemptions and the applicable VAT treatment, the Order provides much-needed clarity for taxpayers involved in transportation and energy-related sectors thereby helping businesses understand their obligations, reducing the risk of non-compliance and facilitating accurate tax reporting.

Conclusion

The Value Added Tax (Modification) Order, 2024, introduces VAT exemptions for businesses in the CNG, LPG, and electric vehicle production and sales in Nigeria. These exemptions aim to reduce operating expenses and promote investment in sustainable energy technologies. To take full advantage of these exemptions, companies must understand the eligible items and services, review and maintain accurate records, and ensure compliance with the updated VAT structure. Working with tax professionals and investing in compliance audit systems are crucial. These proactive measures can help businesses navigate regulatory challenges, improve efficiency, and gain a competitive edge in Nigeria's clean energy market.



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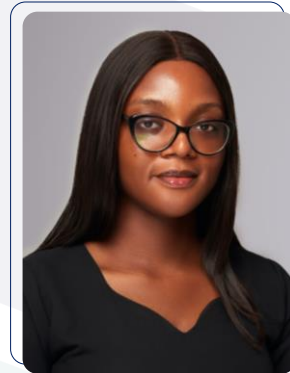
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