

## IMPLICATIONS OF THE NEW PIONEER STATUS INCENTIVES IN NIGERIA'S TECHNOLOGY INDUSTRY

### A. Introduction

The Nigerian technology industry has witnessed explosive growth at a geometric progression of 34% year-on-year in the last decade; becoming the fastest-growing and one of the largest contributors to the economy. Its contribution to GDP grew from less than 1% in 2001 to about 11% in 2015. ([www.guardian.ng](http://www.guardian.ng)).

The emergence of tech companies like MainOne, Interswitch and Andela, has led to the emergence of Nigeria's software development market; and a booming e-commerce industry, with companies like Jumia, Konga, Dealdey, Paga, Payporte causing a huge disruption to the traditional retail market. Given its exponential growth rate, it is no surprise that the e-commerce industry attracted over \$200 million of Foreign Direct Investments in 2015, with a potential for growth to \$13 billion by 2018. ([www.innovation-village.com](http://www.innovation-village.com)).

On Monday, 7<sup>th</sup> August, 2017, the Federal Executive Council approved the inclusion of new industries to the pioneer status list following its reform of the scheme, which had been on suspension since September 2015. The reform was initiated to increase transparency and process efficiency, improve the Federal Government's ability to measure the impact of the incentives and bring the scheme in line with the current economic realities and the Economic Recovery and Growth Plan (ERGP).

In recognition of the immense potentials of the technology sector, e-commerce and software development now qualify for pioneer status incentives. The Nigerian Investment Promotion Commission (the NIPC) has since released the new guidelines for application for Pioneer Status Incentives in Nigeria (the Guidelines) to encourage



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and attract investments into these sectors of the economy, which have been identified as having the greatest potential to impact development and economic growth.

This article considers the impact of the pioneer status incentives on the technology sector; it also proffers recommendations on how the objectives of the Federal Government will be better served with respect to the implementation of the scheme within the technology industry.

### B. Overview of the Pioneer Status Incentives

Pioneer Status is an incentive granted pursuant to Industrial Development (Income Tax Relief) Act 2004 (the IDITRA) and is aimed at providing new businesses, which require huge capital outlay; a buffer to enable the timely recoupment of capital investments incurred at their start-up stages during the period of the grant (typically for a period of three years in the first instance).

Application for pioneer status is expected to be made in the first year of business. Companies seeking to apply must also demonstrate in real

terms; tangible impact that their businesses will have on the economy; and must have non-current tangible assets worth at least N100 million.

The incentives enjoyed by qualifying businesses include:

- i. **Tax holiday:** A three-year tax holiday in the first instance with possibility for extension by one or two additional years. (Clause 2.1 of the Application Guidelines for Pioneer Status Incentive). This enables the company to re-invest its otherwise taxable profit into the business;
- ii. **Tax-free dividends:** Qualifying companies are exempt from deducting the statutory 10% withholding tax from distributions paid to shareholders. This makes investments in qualifying companies attractive to investors, especially Private Equity and Venture Capital Firms. (Section 17 of the IDITRA);
- iii. **Tax losses:** Tax losses incurred during the tax holiday can be set off against taxable profits earned after the tax holiday (Section 14(3) IDITRA); and
- iv. **Capital allowances:** Even though qualifying companies are not subject to tax during the relief period; capital expenditure incurred during the tax relief period shall be deemed to have been incurred on that day following the end of the pioneer periods, such that they remain deductible after the Tax relief period. (Section 14(2) IDITRA).

### C. Impact on Sector Growth

The inclusion of software development and e-commerce (two of the critical sub-sectors in the technology industry) as qualifying industries on the pioneer status list is expected to stimulate entrepreneurial drive and emergence of new businesses (especially amongst the youth) and further assuage some of the challenges plaguing the industry. It is expected that these incentives would:

- i. **Encourage Foreign Investment:** The inclusion of software development and e-commerce on the pioneer status incentives list will encourage the emergence of private equity and venture capital players in the technology industry. This would most importantly increase the inflow of Foreign

Direct Investment into the sector.

- ii. **Bridge Local Data and Technology Infrastructure Gap:** Currently, the country suffers from a dearth of technology infrastructure, especially internet connectivity (which has become essential to every aspect of human endeavour) on account of the cost of internet transit, and the cost of laying fiber optic cables, resulting in the use of international bandwidth for local data needs. The tax incentives granted to local businesses will incentivize them to invest in technology infrastructure required to optimize their businesses.
- iii. **Minimize Brain Drain:** The pioneer status incentives will encourage many entrepreneurs to establish their businesses locally whilst many industry experts would also stand a better chance of getting comparable work opportunities locally, thereby minimizing expert migration, which is particularly prevalent in the technology industry.
- iv. **Create Employment Opportunities:** With increase in the number of local businesses comes increased job opportunities for Nigerians, enhanced labour productivity, and improved business efficacy.
- v. **Enhance Digital Economy:** With the inclusion of e-commerce, small and medium scale retail businesses would be empowered to increase their market reach and potential to become global brands without any need to relocate their businesses.
- vi. **Enhance Survival and Growth of Startups:** Technology start-ups will have a better chance for survival on account of the tax incentives they will enjoy in their formative years.

### D. Recommendations

The inclusion of the technology industry to the pioneer status incentives list is no doubt a step in the right direction. However, the intention of Government will be better served if the following

recommendations are considered in the implementation of the scheme:

- i. **Reduction of Applicable Statutory Fees:** The fees payable by applicants may be viewed excessive, especially for technology companies whose infrastructure spend is already significant. Further, the fees are non-refundable, even when an application is declined. This is a great disincentive to many businesses who may otherwise have qualified. The Federal Government may, therefore, consider a reduction in the cost of application or make the fees recoverable for unsuccessful applicants.
- ii. **Eliminating Bureaucracy:** The efforts of the NIPC at creating an enabling environment for investment in Nigeria is quite commendable. It is, however, necessary to consolidate its processes and quality of service delivery through the use of technology in the application, prequalification and approval processes.
- iii. **Introduction of other sector-specific incentives:** In view of the potential of the technology sector in economic development, Nigeria should take a cue from China whose economic growth has been bed-rocked on huge investments in its technology sector.

The pool of incentives enjoyed by technology businesses in china include: tax holidays; reduction in corporate income tax rate to 15% for High and New Technology Enterprise Status (HNTE); deduction of income derived from qualifying technology transfer; refund of value-added tax for software and integrated circuit enterprises (<http://app1.hkicpa.org.hk/APLUS/1105/pdf/38-40-china-tax.pdf>); deduction of 75% of Research & Development



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costs incurred by small and medium size technology enterprises ([www.chinadaily.com](http://www.chinadaily.com)); and ease of criteria for attaining the HNTE Status in order to benefit from the various tax incentives, etc. ([www.ecovis-beijing.com](http://www.ecovis-beijing.com)).

## E. Conclusion

The recent visit to Nigeria by the CEOs of two of the world's biggest technology companies (Google and Facebook), and the presence of global tech companies such as Microsoft, Google and more recently, YouTube is a validation that the Nigerian Technology Industry is earning its pride of place amongst viable investor destinations. It is, therefore, time to harness the potentials of the sector by creating an enabling environment for such businesses to thrive.

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