

VAT Modification Order 2024 - Incentivising Energy Transition in Nigeria

Introduction

The Federal Government of Nigeria has recently issued the Value Added Tax (Modification) Order 2024 (the "Order" or "VMO 2024"), which introduces notable amendments to the VAT Act.

The VMO 2024 does not repeal or replace the most recent VMO which was issued in 2021, but only introduces some specific amendments. Please see link [here](#) to the VMO 2021, including our previous Tax Alert on the subject.

The modifications in the VMO 2024 are significantly focused on Nigeria's ongoing efforts around energy transition. In our view, the Order relies on three broad principles:

1. Recognises and incentivises gas as an important fuel in the long-term transition to clean energy.
2. Provides VAT exemption for the renewable energy value chain.
3. Recognises the impact of Nigeria's current energy challenges (and the related costs of fuels) since the harmonisation of exchange rates, and seeking to provide reliefs for Nigerian citizens in the medium-term.

Major changes

We highlight the changes introduced in the VMO 2024 below:

1. Goods exempted from VAT

- a) Under the VAT Modification Order 2024, the following items are now exempt from VAT:
 - Equipment and infrastructure for Compressed Natural Gas (CNG) and Liquefied Petroleum Gas (LPG) expansion, including conversion kits.
 - Domestic LNG processing facilities and equipment.
 - Electric vehicles and parts for their assembly.
 - Biogas and biofuel equipment for clean cooking and transportation.
- b) The Order also provides a new definition of "petroleum products", which expands the previously exempt items to now include:
 - Feed gas for all processed gas.
 - Automotive Gas Oil (AGO).
 - Compressed Natural Gas (CNG).
 - Imported Liquefied Petroleum Gas (LPG).

The VAT exemption for AGO (also referred to as "diesel") takes effect from 1 October 2023.

2. Services exempted from VAT

The following services are now VAT exempt under the Order:

- CNG conversion and installation services.
- LPG conversion and installation services.
- Manufacturing, assembly and sale of electric vehicles.

Analysis and Takeaways

The VMO 2024 underscores the Nigerian government's drive to stimulate economic growth through fiscally and environmentally-responsible tax laws.

Nigeria's Energy Transition Plan targets net-zero emissions by 2050, and this requires significant investments in renewable energy. VAT exemptions for CNG, LPG, and electric vehicles support these goals, encouraging clean energy adoption and reducing environmental impact, while fostering increased production and stimulating new market entry. The amendments deliver on some key policy objectives of the Presidential Fiscal Policy and Tax Reforms Committee (PFPTRC). Following the removal of subsidy on PMS imports and ongoing scarcity of the product, there have been public concerns over the availability of sustainable alternatives to PMS. The Order alleviates some of these concerns by providing incentives for investments in potentially cheaper and more environmentally-friendly alternatives.

Most of the incentives in the Order were previously published in a Circular issued by the Ministry of Finance (MoF) in December 2023. However, there were concerns that the Circular did not have sufficient legal basis, considering that the VAT Act empowers the MoF to make certain amendments through a gazetted Order. The VMO 2024 therefore largely addresses this concern.

The Order exempts "feed gas for all processed gas". This should mean that natural gas is now exempt from VAT. This is also a movement away from VMO 2021 which did not exempt natural gas from VAT, except for gas supplied to Gencos. In addition, the VAT exemption in the Order is expected to apply to the supply of gas at different levels of the supply value chain, unlike VMO 2021 which limited the VAT exemption to gas supplied by gas producing companies to Electricity Generating Companies only.

The Order also clarifies the VAT-exempt status of AGO / diesel, which was previously not very clearly communicated in the VMO 2021. The retroactive effective date for this exemption will provide some relief for taxpayers facing FIRS and Customs scrutiny over historical treatment.

Finally, Nigeria's VAT exemptions for clean energy technologies align with global best practices, positioning the country as a leader in Africa's sustainable energy transition. It is hoped that the relevant agencies (the Nigeria Customs Service and FIRS) will provide further clarity through guidelines issued pursuant to the 2024 Order.



Contributors

Chijioke Uwaegbute
Partner
chijioke.uwaegbute@pwc.com

Kenneth Erikume
Partner
kenneth.y.erikume@pwc.com

Emeka Chime
Associate Director
chukwuemeka.x.chime@pwc.com

Israel Obadina
Manager
israel.obadina@pwc.com

Opeoluwa Sanni
Associate