Is Gas Utilization Incentive still necessary?

It is important to appreciate that fiscal incentive packages alone will not trigger the level of investment demanded under the GMP.

Presently, the Nigerian economy is in need. It is in need of huge capital injection by way of direct foreign investment from foreigners or Nigerians in diaspora into critical sectors or industries. It is in need of serious infrastructural investment hitherto can be achieved. And despite the present challenges facing Nigeria’s oil and gas sector, the sector is still very much relevant to Nigeria’s progress. The pursuit of diversification and growth in the contribution of the non-oil sector to GDP is not and should not be treated as an abandonment of Nigeria’s crown jewel source of revenue.

It is a fact that “Nigeria is endowed with abundant natural gas resources, which in energy terms, is in excess of the nation’s proven crude oil reserve. Moreover, the gas was discovered whilst searching for crude oil, as no deliberate effort had been made to search for natural gas then. The current reserve estimate of the Nigerian gas is over 120 trillion cubic feet, with about 50/50 distribution ratio between Associated Gas (AG) and Non Associated Gas (NAG). Only a small fraction of this quantity is currently being utilized. This reserve estimate indicates an inherent possibility of exploiting Nigeria’s gas reserves for at least the next 100 years with the potential for a further 600 tcf in undiscovered reserves.

Accordingly, one of the significantly big plans before the Federal Government of Nigeria is the Gas Master Plan (GMP). This is aimed at significantly improving the level of gas utilization in Nigeria and to provide stimulus for development and production of natural gas in Nigeria. It is noteworthy that about 63% of the AG produced during the production of crude oil is flared. Whilst this appears a considerable improvement relative to about 80% that was flared in the past, Nigeria loses an estimated 18.2 million U.S. dollars through gas flaring.

No surprise, applicable fiscal terms for gas utilization are a crucial component of the GMP. It is indeed anticipated that the adoption of the GMP, Nigeria’s tax framework thus contain incentives to gather the AG and to develop the NAG. Thus, it is stipulated that “all incentives granted in respect of investments in associated gas shall be applicable to investments in non-associated gas”.

These incentives include:
- Equipment and machinery meant for gas project development are exempted from VAT and import duty
- Applicable tax rate under the PPT Act to be at the same rate as Companies Income Tax Act (CITA) currently at 30 %.
- Capital allowance at the rate 20 % per annum in the first four years, 19 % in the fifth year and remaining 1 % in the books.
- Investment Tax Credit (ITC) at the current PPT rate of 50 % which was the same rate of credit granted to oil producing companies.
- Royalty at the rate of 7 % on-shore and 5 % offshore.
- Pioneer status for companies engaged in gas production, transmission and distribution for a period of 5 years.
- An initial three years (renewable for an additional two years) tax holiday.
- Accelerated capital allowances after the tax-free period in the form of annual allowance of 90 % with 10 % retention, for investment in plant and machinery.
- Additional 15 % investment allowance.
- Tax free dividend during the tax free period.
- As an alternative to the tax free period, companies may claim an additional investment allowance of 35 %.
- Interest payable on any loan obtained with the prior approval of the Minister for a gas project, shall be deductible for tax purposes.
- Gas utilization covers a range of projects involving marketing and distribution of natural gas for commercial purposes and includes power plant, liquefied natural gas, gas to liquid plant, fertilizer plant, gas transmission and distribution pipelines.
- Despite that there are many gas manufactures for at least the next 100 years with the potential for a further 600 tcf in undiscovered reserves.
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