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Tax Update:
Overview of the
Value Added Tax
(Modification)
Order 2024

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Introduction

In the exercise of his powers under the extant tax laws, the Minister of Finance and Coordinating Minister of the Economy (the “**Minister**”) issued the Value Added Tax (Modification) Order 2024 (the “**Order**”) on 1 September 2024. The Order has introduced significant changes to Nigeria’s tax framework.

This publication provides insights into key provisions of the recently gazetted Order and the potential implications for businesses and taxpayers.

Highlights of the Order

The Order amends and expands the Value-Added Tax Exemption List (VAT Exempt List) under Part I and II of the First Schedule to the Value Added Tax Act. The Order sets an effective date of 1 September 2024 for the implementation of its provisions but provides for a commencement date of 1 October 2023 for the provisions relating to Automotive Gas Oil. The Order primarily sets the tone for Nigeria’s energy transition strategy.

By way of background, at the inception of President Bola Ahmed Tinubu’s administration in May 2023, the removal of Premium Motor Spirit (PMS) subsidies was announced, bringing an end to the prolonged debates and attempts at reforms.

The price liberalisation of PMS prices meant that prices would fluctuate according to market forces. This further led to a significant increase in the price of PMS, with prices sometimes doubling or tripling in various states of the country. With the heightened concerns regarding the steep prices of PMS, the Federal government, by issuing the Order, has shown its commitment to fast-track Nigeria’s energy transition by providing incentives to promote investments in more sustainable energy alternatives.

In December 2023, the Federal Ministry of Finance, in line with the government’s energy transition objectives, issued a circular titled “Fiscal Incentives for the Presidential Gas for Growth Initiative” (the “**Circular**”), which directed the Federal Inland Revenue Service (FIRS) and the Nigeria Customs Service (NCS) to apply a zero percent (0%) VAT rate on *feed gas for all processed gas, compressed natural gas, imported liquified petroleum gas, compressed natural gas (CNG), liquified petroleum gas (LPG)* as well as equipment and infrastructure related to the expansion of CNG and LPG. Given the concerns about the validity of the Circular, especially in light of the VAT Act, which requires the Minister of Finance to make amendments to the VAT Act through a gazetted Order, the issuance of the Order is a welcome development. It preserves most of the incentives provided by the Circular and resolves any legal validity challenges that may have arisen.



Key Changes Introduced by the Order

- **Expansion of the VAT Exempt List items in Part I and II of the VAT Act**

The Order expands the VAT-exempt list of goods and services under Part I and II of the VAT Act to include items such as:

- a. Equipment and Infrastructure related to the expansion of Compressed Natural Gas (CNG);
- b. Liquefied Petroleum Gas (LPG), including conversion kits;
- c. Domestic Liquefied Natural Gas (LNG) Processing Facilities;
- d. Equipment, Electric Vehicles;
- e. Parts, semi-knock-down units for the assembly of Electric Vehicles;
- f. Biogas and Biofuel equipment and accessories for clean cooking and transportation;
- g. Compressed Natural Gas (CNG) conversion and installation services;
- h. Liquefied Petroleum Gas (LPG) conversion and installation services;
- i. Manufacturing, assemblage and sale of electric vehicles

- **Expansion of the definition of “Petroleum Products”**

The Order also expands the definition of “petroleum products” to include feed gas for all processed gas, aviation turbine kerosene, premium motor spirit, automotive gas oil, household kerosene, locally produced liquefied petroleum gas, compressed natural gas, imported liquefied petroleum gas, and crude petroleum oils.

- **Commentary**

The VAT exemption for Automotive Gas Oil takes effect from 1 October 2023. However, the Order does not provide for a refund policy with respect to the VAT charged on Automotive Gas Oil from the effective date to the commencement date. We expect that the FIRS will issue an implementation policy guideline that will cover the refund strategy adopted by the agency. The Order is also a response by the Federal Government to combat the high rise of inflation in food commodities and transportation. With the exemption of petroleum products from VAT, we believe



that there would be a reduction in the high cost of food and transportation services if implemented adequately.

In addition, the Order reinforces the Nigerian Government's objectives to boost investment in renewable energy, tackle the crises of energy poverty and climate change, and achieve the global *net zero* objective by 2050.

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