



Revised excise regime and fiscal incentive

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Federal Government of Nigeria revises excise regime and removes import duty on certain materials

The Federal Government of Nigeria (FGN) has re-introduced an ad-valorem excise structure to spirits and wines, and recalibrated the specific excise structure for levying excise duty on other tobacco-based products. FGN has also waived import duty on certain inputs used for the production of banknotes by the Nigeria Security Printing and Minting Plc.

These revisions were communicated in a circular signed by the Honourable Minister of Finance, Budget and National Planning, and dated 20 August 2020 ('the Circular'). The revisions, which will take effect immediately and supersede the circulars of 6 March 2018 and 7 February 2019, are in accordance with the Customs, Excise Tariff, Etc. (Consolidation) Act ('CETA'), which empowers the President to impose, vary or remove any import duty or modify the schedules to CETA¹.

It would be recalled that the 6 March 2018 circular discontinued the use of an ad-valorem structure for levying excise duty on alcoholic beverages. It also expanded the structure for levying excise on tobacco products, to include a combination of both ad-valorem and specific excise duty structures (click [here](#) for more information). Some aspects of the 6 March 2018 circular were unclear, and so the 7 February 2019 circular was issued to make these clarifications, specifically defining the scope of products classified as "beer and stout", and confirming the effective date of the upward excise duty review (click [here](#) for more information).

¹Schedule 5 of CETA lists the items subject to excise duty, and the basis for levying excise duty

Key highlights

Spirits and wines



a. Reduction or increase in excise duty?

The revised excise regime reduces the rate applicable in the specific excise structure but imposes an ad-valorem rate of twenty percent. A determination of whether the revised excise structure will lead to an overall increase or decrease in excise duty payable will depend on the customs value for excise purpose. The customs value for imported excisable goods remains the summation of the cost, insurance and freight (cif) value, whilst the customs value for locally manufactured excisable goods primarily remains the ex-factory price.



b. Navigating the Unit Cost Analysis (UCA) regime

The re-introduction of ad-valorem excise structure automatically sees the return of UCA discussions, where the customs value of locally manufactured excisable goods are pre-agreed with the Nigeria Customs Service (NCS). It is often claimed that the process for reaching these pre-agreements are ambiguous and inconsistent across the industry, leaving room for an uneven competitive landscape. To ensure that the UCA regime does not inhibit business growth, it is important that NCS levels the playing field by implementing a unified and legislatively supported approach.



c. Removal of excise duty on ethyl alcohol and vinegar

The revised excise regime appears to have waived excise duty on products of Tariff Heading (TH) 22.07 and 22.09 (i.e. ethyl alcohol and alcohol vinegar and their variations), which until now were subject to excise duty. Based on the general usage of these products i.e. medicinal, pharmaceutical and scientific purposes², the removal of excise duty was deemed expedient at this time. Hence, we expect the cost of these products to potentially decline, resulting in more efficient use of resources by affected industries.

Other smoking tobacco and its variations



A change in the specific excise structure for taxing 'other smoking tobacco' i.e. products classifiable under TH24.03, was driven by the need to ensure a more realistic basis for taxing these products as they are usually presented in a form that would otherwise be challenging to tax under the old regime. Specifically, some of these tobacco products are not in 'sticks' form (e.g. dissolvable tobacco, hookah and snuff) and hence, using a 'price per stick' structure is not realistic for taxation.



²When used as inputs to alcohol beverage production, the alcoholic beverages themselves are subject to excise duty.

Revised excise regime

The revised excise regime, which will now be the basis for levying excise duty on excisable products, is shown in the table below:

Old regime

Item and description	Harmonised Tariff Schedule (HTS) code	Ad-valorem rate (%)	Specific rates (₺)
 Beer and stout, including other alcoholic beverages and beer not made from malt – whether fermented or not fermented	2203.00.10.00, 2203.99.90.00 & 2206.00.10.00 – 2206.00.99.00	–	35.00 per litre
 Wines	2204.10.00.00 – 2205.90.00.00	–	150.00 per litre
 Spirits and other alcoholic beverages	2208.20.10.00 – 2208.90.00.00	–	200.00 per litre
 Cigarettes	2402.10.00.00 – 2402.90.00.00	20	2.90 per stick
 Other smoking tobacco, containing tobacco substitutes in any proportion, homogenized or reconstituted tobacco, expanded tobacco, chewing, snuffing tobacco and manufactured tobacco substitutes	2402.10.00.00 – 2402.90.00.00	20	2.90 per stick

Revised regime

Ad-valorem rate (%)	Specific rates (₺)
–	35.00 per litre
20	50.00 per litre
20	50.00 per litre
20	2.90 per stick
–	1,000/Kg 3,000/litre



Import duty waiver on materials used for the production of banknotes



In a similar development (as contained in the Circular), the FGN has waived import duty on certain inputs used for the production of banknotes by the Nigeria Security Printing and Minting Plc. The affected input materials, as well as the approved import duty rates, are shown in the table below:

Item	HTS code	Old tariff (%)	New tariff (%)
Polymer substrate	3920.20.20.00	30	0
Stamping foil	3921.90.20.00	20	0
Security ink	3215.19.00.00	10	0
Security ink pigments	3212.90.00.00	5	0
Varnishes	3209.90.10.00	20	0

This move appears to be in reaction to an increasing cost of printing banknotes, which is estimated to have increased by approximately one hundred and five percent from 2013 to 2018³.



³ Source: CBN 2018 Annual Report



Conclusion

It is unclear what impact the revised excise regime would have on the economy – especially in a COVID-19 climate. While FGN may have created a more efficient mechanism for excise duty collection⁴, the revised excise regime may result in reduced overall spending in the value chain⁵. This will have an impact on revenue generated from excise duty, potential investment in the sector and the overall success of industry players.

In a COVID-19 era, businesses will struggle to simply pass any additional costs of compliance – in this case a consumption tax – to consumers whose purchasing power is already challenged. Therefore, affected businesses will need to evaluate the impact of the revised excise regime on their businesses, and where the impact is unfavorable, seek efficient ways to manage the additional excise duty cost. We expect businesses to, at the minimum, review their supply chain and approach to excise accounting.



⁴ For instance, by making it clearer for excise collection on other smoking tobacco

⁵ This would be the case, if the revised excise regime increases the excise duty payable on the affected products. This could deter consumption and consequently investment in the industry.

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