SPECIAL REPORT

DEBT MANAGEMENT OFFICE
NIGERIA

FEDERAL GOVERNMENT APPROVES TAX WAIVERS FOR ALL CATEGORIES OF BONDS AND SHORT TERM FEDERAL GOVERNMENT SECURITIES AND REDUCTION IN STAMP DUTIES

His Excellency, Dr. Goodluck E. Jonathan, GCON, Acting President, and Commander-in-Chief of the Armed Forces, Federal Republic of Nigeria has approved a waiver of taxes on all categories of bonds(Federal, Sub-national, Corporate and Supra-national bonds, Mortgage-backed Securities and Asset-backed Securities) and short term Federal Government of Nigeria (FGN) securities such as Nigerian Treasury Bills. The approval also includes a reduction in Stamp Duties for re-issues of previously executed debentures to 20% of the Stamp Duty payable on a new debenture of the same value compared to 100% prior to this approval. The approvals are sequel to the submission made to the Acting President by the Honourable Minister of Finance who is the Chairman of the Bond Market Steering Committee (BMSC).

The BMSC which is a consensus building body with a mandate to drive the growth of all segments of the domestic bond market was constituted by the Honourable Minister of Finance in 2006. Its members include regulators (Debt Management Office, Securities and Exchange Commission, Central Bank of Nigeria, The Nigerian Stock Exchange, National Pension Commission, Federal Inland Revenue Service and National Insurance Commission) and private operators under their trade or professional associations(Association of Issuing Houses of Nigeria, Financial Markets Dealers Association, Primary Dealer Market Makers Association, Nigerian Discount Market Association, Association of Corporate Trustees and The Chartered Institute of Stockbrokers). Tax waivers and Stamp Duty reduction are two of a number of initiatives that were identified by the BMSC as necessary for the development of the domestic bond market, especially the sub-national and corporate segments

The range of taxes covered by the approval, are those prescribed under the Personal Income Tax Act, Value Added Tax and the Capital Gains Tax Act. The government had earlier approved tax exemptions for bonds and short term FGN Securities for persons taxable under the Companies Income Tax Act. These tax exemptions are for an initial period of ten years. With these two approvals, all bonds issued by sub-nationals, corporates and supra-nationals and bonds relating to different categories of Mortgages, as well as, asset-backed securities will now be tax exempt. sub-nationals and corporates can now access long term capital by issuing bonds at a relatively cheaper cost than they would have if there had been no tax exemptions. It would be recalled that prior to this approval, only FGN Bonds were tax exempt. This development, therefore, serves to create a level playing field for all bonds irrespective of the issuer

By granting these concessions, the FGN has demonstrated in very strong terms, its commitment to the long term development of the Nigerian economy and its willingness to provide the support required by the various sectors of the economy to enable them contribute to the nation's growth and development.

One of the significant aspects of the tax waivers is that for the first time in Nigeria, bonds issued by multilaterals such as the World Bank, International Finance Corporation and the African Development Bank amongst others, will also be exempted from taxes. The purpose is to encourage them to contribute to the development of the domestic bond market and improve the perception of Nigeria in the international financial markets. It is expected that their participation in the Nigerian bond market will increase the range of securities available to investors, encourage the development of new products and attract more foreign investors to the domestic capital market. Indeed, it is one of the several steps that would facilitate the emergence of an International Financial Centre in Nigeria as envisaged under the Financial System Strategy 2020.

The increased activities expected as a result of these concessions will provide investors with more investment options while also, providing an opportunity for increased portfolio diversification. Issuers on the other hand, will have an opportunity to raise stable capital from a large investor base at a relatively lower cost. Overall, the capital market will be the better for it, since it would now have an equities component and a bond component that are equally active. The government expects that these desirable outcomes would ultimately translate into an increase in the Gross Domestic Product and higher disposable incomes.

Arrangements are already being made to ensure that the administrative and legislative processes required to operationalise the approvals are concluded within a short period, so that issuers and investors alike, can begin to benefit from the concessions.

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This release has been done on behalf of the Bond Market Steering Committee

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