The Nigeria Customs Service Issues Guidelines for the Implementation of Zero Duty Rate on Some Basic Food Items

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The Nigeria Customs Service (NCS) has released the guidelines for the implementation of the Zero percent (0%) duty rate and value added tax (VAT) exemption on selected basic food items. This is in furtherance of government's policy to enhance food supply in the country and reduce the soaring prices of foodstuffs.

The special tax concession will be effective from 15 July 2024 to 31 December 2024.

Scope and Purpose of the Zero-Duty Rate

The zero-duty rate applies to a defined list of food items that are considered essential under the standard consumer diet. These items are husked brown rice, grain sorghum, millet, maize, wheat, and beans[1] and do not include the respective seeds.

Key Provisions of the Guidelines

1. **Eligibility Criteria:**

   The zero-duty rate is applicable where the following specific conditions are met:

   - The intending importer must be a Nigerian company, which must have been in business for over five years.
   - It must have submitted its annual returns and financial statements for the last 5 years and complied with the tax and statutory payroll regulatory requirements.
   - Intending Importers of husked brown rice, grain sorghum or millet must have a milling plant with a production capacity of a minimum of 100 tonnes per day and must have been in operation for at least four years with adequate farmland for cultivation.
   - Importers of maize, wheat or beans must be agricultural companies with sufficient developed farmland or feed mills/agro-processing companies with an out-grower network for cultivation.

2. **Compliance Requirements:**

   Intending Importers of these food items may need to register with the Federal Ministry of Finance (FMoF) for an approved status and confirmation of their quotas. They must also keep extensive records

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[1] The Value Added Tax (VAT) Act (Modification) Order 2021 currently exempts husked brown rice, beans and cereals including maize, rice, wheat, millet, barley, sorghum, oats, fonio and finer millet, in the form of grain, flour, crop, whether raw or semi-processed, whether in bulk or retail from VAT.

of their activities and the government can demand these at any time for verification. The Guidelines further stipulate that at least 75% of the imported item must be traded on recognized commodity exchanges.

Failure to meet the stipulated compliance requirements will result in the forfeiture of all waivers and the company will have to pay the applicable VAT, levies and import duties. This penalty also applies if the company sells the imported items in their original or processed form to other countries.

Commentary

The introduction of the zero-duty rate and VAT exemption on basic food items is a strategic response to the escalating cost of living, particularly driven by inflationary pressures and supply chain issues. As at the end of July 2024, food inflation was 39.53% according to the National Bureau of Statistics. Should the policy work as intended and tame food prices, it will go a long way in addressing the general economic mistrust amongst citizens and hence feed into growth. However, there is the need for government to monitor the implementation of this policy properly to ensure that there are no market distortions. Although this policy may provide an instant remedy, it may not be sufficient to address the root causes of food inflation in Nigeria, which include factors such as security, lack of storage and infrastructure facilities, poor land governance and poorly developed value chains.

The long-term impact of this policy will depend on several factors, including the response of local producers and the broader economic environment. If the policy succeeds in stabilizing food prices, it could contribute to improved economic confidence and potentially stimulate growth. On the other hand, if the policy leads to increased imports at the expense of local production, it could have negative consequences for the agricultural sector and related industries. There is, therefore, the need for complementary policies that boost local production of the food items and enhance stability of the supply chain in the long run. Government also needs to ensure a periodic review and assessment of the policy to ensure its success.

It is critical that the requirement for the FMoF to provide the list of approved importers and applicable quotas to the NCS does not result in bureaucracy, which may be counterproductive. As we have reiterated in our earlier newsletters, it is important that government determine the budgetary and financial implications of this measure. It also needs to properly articulate any countervailing measures that will be implemented based on the provisions of the Fiscal Responsibility Act. Unfortunately, successive governments in the country have not been complying with this requirement. Government, therefore, needs to carefully balance the benefits of the new measure with fiscal responsibility, as reduced NCS' revenue could affect public finances if not offset by other revenue streams.

Please click **here** to download a copy of the press release on the Guidelines.

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