



Exploring the Nigeria Startup Act 2022 for Transformative Growth

In recent years, Nigeria's startup ecosystem has shown remarkable promise, and the trajectory is set for even more significant growth with the enactment of the Nigeria Startup Act, 2022. This landmark legislation not only signifies the government's commitment to fostering a conducive environment for startups but also addresses crucial regulatory and compliance challenges. The Act introduces notable incentives aimed at promoting the establishment, development, and operation of startups in Nigeria, with a particular emphasis on technology-driven enterprises. It also aims at providing for the development and growth of technology-related talent; positioning Nigeria's startup ecosystem, as the leading digital technology centre in Africa, with world standard tech talents and an optimal exportable capacity.

Eligibility for the Grant of a Startup Label

The Act outlines specific criteria that tech-based businesses must meet to access its incentives. These include incorporation under the Companies and Allied Matters Act 2020 and obtaining the startup label. This label is a certificate issued to a startup upon fulfilling designated requirements which include:

- **Incorporation as a Limited Liability Company:** Businesses must be incorporated under the Companies and Allied Matters Act 2020,
- **Existence for a Limited Period:** The startup should have been in existence for a period not exceeding 10 years.
- **Innovation Focus:** The business must have innovation, development, and commercialization of a digital product or process as its primary objectives.

- **Ownership of Digital Technology Assets:** The startup should be a holder or repository of a product or process of digital technology or the owner/author of a registered software, with at least one Nigerian co-founder sharing in the profits or revenue from the sale of shares.

Recognizing that some businesses may initially register as sole proprietorships or partnerships, the Act allows for the granting of a pre-label status for a period of six months. This provides an opportunity for these businesses to get incorporated and meet the necessary labelling requirements, ensuring inclusivity and flexibility in the startup ecosystem.

Incentives Available to a Labelled Startup

The Act introduces a comprehensive set of incentives designed to empower and support labelled startups in their growth journey. These incentives can be categorized as follows:

Startup Investment Seed Fund

The Act establishes a fund dedicated to providing early-stage finance for labelled startups. This fund aims to offer relief to technology laboratories, accelerators, incubators, and hubs, fostering an environment conducive to innovation and growth.

Training and Capacity Building

Labelled startups gain access to training facilitated by the Industrial Training Fund. This initiative aims to enhance the skills and capabilities of entrepreneurs and their employees, ensuring a continuous pipeline of qualified talent in the technology sector.

By addressing regulatory challenges and providing a robust set of incentives, the Act not only supports the growth and development of startups but also positions Nigeria as a key player in the global digital space. The combination of fiscal incentives, a supportive regulatory environment, and other strategic initiatives creates a conducive environment for innovation and entrepreneurship.

Tax and Fiscal Incentives

The Act provides various tax reliefs and incentives creating a favourable fiscal environment. These incentives include:

Pioneer Status Incentive:

Startups engaged in activities such as the development and publishing of ready-made software and production of digital content for motion pictures are eligible for tax relief from company income tax for an initial period of three years which can be extended for one or two additional years.

Income Tax Exemption:

Labelled startups enjoy exemption from the payment of income tax or any other tax chargeable on revenue for a period of four years.

Percentage-based Tax Relief: Startups with at least ten employees, where 60% have no prior work experience and graduate within three years, are eligible for percentage-based tax relief.

Access to Export Facilities: Labelled startups can access export facilities, export incentives, and financial assistance from the Export Development Fund, Export Expansion Grant, and the Export Adjustment Scheme Fund.

- **Access to Government Grants, Loans, and Facilities:** The Act facilitates access to government grants, loans, and facilities administered by the Central Bank of Nigeria (CBN), the Bank of Industry, and other bodies empowered to assist small and medium-scale enterprises and entrepreneurs.
- **Credit Guarantee Scheme:** The Act introduces a Credit Guarantee Scheme to support the development and growth of startups.
- **Incentives for Investors:** Individuals, impact investors, angel investors, companies, venture capitalists, private equity funds, accelerators, or incubators investing in a labelled startup or the startup ecosystem can benefit from incentives and reliefs such as tax credits on investment.
- **Personal Income Tax Exemption:** Eligible employees of labelled startups enjoy a 35% personal income tax exemption for a period of two years from the date of engagement.
- **Withholding Tax on Foreign Entities:** Foreign entities providing technical, consulting, professional, or management services to a labelled startup are subjected to a 5% withholding tax on income derived from such services, qualifying as the final tax for non-registered companies in Nigeria.

Support with regulators

The Act streamlines interactions with regulators through the Startup Portal, providing ease of registration, obtaining licenses, and expedited access to regulatory bodies.

Ease of Crowdfunding

The Startup Portal is made available for use by crowdfunding intermediaries and commodities investment platforms, enabling startups to raise funds from the public. This initiative encourages broader participation in supporting innovative ideas and businesses.

Repatriation of Capital and Profits

The National Information Technology Development Agency ("Secretariat") collaborates with the CBN to guarantee the repatriation of investment by a foreign investor through the CBN's authorized dealer in freely convertible currency. Repatriation of investments in a labelled startup is conducted at the CBN's official foreign exchange rate, contingent upon presenting a Certificate of Capital Importation (CCI) as evidence of the initial investment fund's proper injection.

Accelerators and Incubators

To further promote the objectives of the Act, a national policy for the development of accelerators and incubators is outlined. Registered startup accelerators and incubators will be entitled to incentives as granted by the Federal Government, fostering an ecosystem that nurtures innovation and growth.

Clusters, Hubs, and Innovation Parks

The Act provides for the establishment and operation of startup innovation clusters, hubs, and physical and virtual innovation parks in each state of the Federation. These hubs are designed to connect and foster collaboration between startups and large companies, as well as among startups, collating expertise and ideas. Furthermore, they provide startups with access to resources and professional services.

Technology Development Zones

The Act introduces the creation of Technology Development Zones ("Zones") to drive the growth and development of startups, accelerators, and incubators. Startups, accelerators, or incubators operating within these zones will be granted licenses before commencing approved activities and will also enjoy existing incentives provided under the Nigeria Export Processing Zones Act.

Obligations of a Labelled Startup

- While labelled startups enjoy an array of incentives, the Act outlines specific obligations they must adhere to. These obligations are essential to maintain accountability and transparency in the startup ecosystem:
- **Compliance with Laws:** Labelled startups must comply with all Nigerian laws governing businesses in Nigeria.
- **Annual Reporting:** Startups are required to provide annual reports on the number of human resources, total assets, and annual turnover achieved from the period the startup label was granted.
- **Book of Accounts:** Startups must maintain proper books of accounts in accordance with reporting obligations provided under extant laws and regulations.
- **Reporting on Incentives:** Startups must provide an annual report on incentives received and advancements made by virtue of the incentives.

- **Notification of Changes:** Startups must notify the Coordinator of any changes in structure, composition, or objects within one month from the date of such change.
- **Compliance with Coordinator's Obligations:** Startups must comply with the obligations set out by the Coordinator after the issuance of the startup label.

A New Vista of Transformative Growth in Nigeria's Digital Economy

With the implementation of the Nigerian Startup Act, the country's digital economy is poised for transformative growth. The following important factors contribute to this positive outlook:

- **Supportive Regulatory Environment:** The Act establishes a supportive regulatory environment, offering startups a clear framework within which to operate in addition to offering robust financial and fiscal incentives which facilitate foreign direct investment inflow,
- **Efficient Tax Regime:** The tax incentives provided by the Act create a favourable fiscal environment, encouraging startups to invest in innovation and expansion,
- **Local Expertise:** The availability of local expertise for the deployment and operation of innovative technologies further strengthens Nigeria's position as a hub for tech businesses and investment,

- **Global Attractiveness:** The growth of the in-country talent pool positions Nigeria as an attractive destination for tech offshoring, attracting global attention

leverage its provisions, Nigeria is well-positioned to solidify its reputation as one of the most thriving startup ecosystems on the continent. The future holds exciting possibilities for the Nigerian digital economy, driven by the vision and impact of the Nigeria Startup Act, 2022.

Concluding Remark:

The Nigeria Startup Act, 2022, marks a significant leap forward for the country's startup ecosystem. By addressing regulatory challenges and providing a robust set of incentives, the Act not only supports the growth and development of startups but also positions Nigeria as a key player in the global digital space. The combination of fiscal incentives, regulatory support, and strategic initiatives creates a conducive environment for innovation and entrepreneurship. As the Act is implemented and startups begin to

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Contributors



ABIMBOLA OJENIKE
abimbola@slingstonelaw.com



DAMILOLA OMOTOSHO
damilola@slingstonelaw.com