

Nigeria's New Tax Gamble: Avoiding Fiscal Boobytraps and Finding Quick Wins.



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"The best things in life are free, but sooner or later, the government will find a way to tax them."-Anonymous.

Taxes have been both a boon and bane of society for centuries. Those who pay taxes gripe angrily, and those who collect taxes smile gleefully. The trouble is that citizens seldom see the link between taxes and social welfare. Governments tend to collect taxes to splurge on either white elephant projects or the latest wonders on wheels for public officers. In other words, the problem is not just why taxes are collected but how taxes are used.

In the face of dwindling federal revenues and rising public debt, the President Bola Tinubu administration has found itself squeezed between a rock and a hard place. With little headroom for capital expenditure to support growth, the president's economic team has had to think of the best way to steady the fiscal ship. The first-choice approach has been to simplify the tax code and widen the tax net, an option many see as sensible.

President Tinubu, on August 8, 2023, inaugurated a federal fiscal policy and tax reform committee headed by a former PwC Partner, Mr Taiwo Oyedele. Over roughly ninety days, the committee has produced a slim report that sets the tone for fresh fiscal policies and tax reforms that may provide quick fiscal fixes to improve the government's relatively weak financial situation.

The early fiscal problems of the Tinubu administration have been products of an underlying failure of successive

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governments to deal with the country's festering revenue and expenditure issues.

Nigeria's Fiscal Reforms-A Mixed History

Nigeria's journey towards fiscal reforms has been a complex and multifaceted tale characterised by a delicate balance between ambition and adversity. Before gaining independence from British colonial rule in 1960, Nigeria had a relatively simple fiscal system with limited revenue sources, primarily based on agriculture and exports. Nigeria's budgetary landscape drastically changed with the discovery of oil in the late 1950s. The oil boom in the 1970s brought substantial revenues to the government, and the country became heavily reliant on oil, and non-oil sectors were neglected. One of the successful reforms, which was the introduction of the Treasury Single Account (TSA) launched in 2012 by President Goodluck, aimed to consolidate government revenues into a single account to improve cash management, enhance transparency, and minimise leakages, failed to gain traction until President Buhari's executive order in August 2015. As of May 2018, 92% of all MDAs had implemented the TSA system.

Other reforms have had mixed outcomes, such as the **Power Sector Privatization**, intended to improve electricity efficiency, investment, generation, and supply by introducing a competitive market and reducing the state's role. It faced several challenges and did not achieve its expected outcomes. The attempt to **remove fuel subsidies** in 2012 led to widespread protests and social unrest. A similar result (without the mass protests) has occurred under President Tinubu's administration, as a recent subsidy removal has led to a fuel price hike that has increased the cost of living, especially for low-income and vulnerable citizens. Transportation fares, food prices, electricity tariffs and other essential goods and services have risen significantly, eroding citizens purchasing power and welfare. In July 2023, President Tinubu formed a Presidential Committee on **Fiscal Policy and Tax Reforms**. The committee aims to review and enhance fiscal policies and tax laws, focusing on simplifying the tax system. The Committee has proposed a quick set of reforms, implemented within 30 days. It is now working on broader fiscal reforms, including legislative and constitutional amendments, to reduce the over 200 official and unofficial taxes collected from Nigerians across different federating units to fewer than 10.

A Decade of Fiscal Trials.

How has fiscal policy fared in Nigeria over the last decade? Analysts have noted a serial disconnection between annual budgets and national development plans, including medium-term financial frameworks. The absence of coordination between these planning arrangements has resulted in a mix of self-contradictory and unsustainable policies.

The NDP 2021-2025 and, more recently, the MTEF/FSP 2024-2026 need to be contextualised and broken into annual execution plans and budgets that serve as **key performance indices** (KPIs) for Ministers. Budgets and Development Plans mean little if they are not designed to be implemented. The implementation should be tied to MDAs and targets set for officials making the budgets and plans as 'projects' with modern tools of dynamic **GANTT Charts** used as monitoring and management mechanisms. The weakness of fiscal performance management and control has led to fiscal 'mission drift' or a situation where budget targets are routinely missed. The slip in budget goals leads to the failure of development plans.

American President Abraham Lincoln once said, 'Give me six hours to chop down a tree, and I will spend the first four hours sharpening the axe'. The relevant principle here is that to achieve the government's desired goals; it must harmonise its budgets with a detailed work plan feeding into a multi-year cycle. Most of the work is designing and coordinating the budgets and multi-year projects. An example of where this fails is the president's statement at the recently concluded Nigerian Economic Summit Group's October 2023 Summit, NES 29, where the president talked about creating a N1trn economy over the next three years. The goal, though laudable, is practically impossible. It would require a growth rate of 35.7% per annum over the next three years (assuming a current GDP of N400b), a rate not even fast-paced China has ever achieved. China's recent GDP growth rate is 4.9%, and Nigeria's Q2 2023 growth rate is 2.31%. With detailed work plans, the President would make more accurate and temperate pronouncements.

Meanwhile, economic theory suggests that countries' fiscal policies are tools to achieve various economic transformation objectives, including economic growth, price stability, income redistribution, job creation, etc. Over the last decade, Nigeria has witnessed many fiscal adjustments and three democratic transitions with modest economic improvements, if any.

Fiscal actions have been aspirational, but their impacts are uninspiring. In the past eight years, the country has fought the economic growth and productivity battle like a one-armed swordsman, with monetary policy playing the lead role.

Over the last decade, Nigeria's aggregate approved national budget is about N88.22trn from a proposed N85.55trn, suggesting a persistent increase in annual budgetary provision. However, macroeconomic indicators have not been desirable despite these fiscal budgetary expansions.

The administration of President Tinubu has come into office with daring policies at a period bedevilled by volatility and uncertainty involving global political disruption and economic fragmentation. CBN indicators suggest that the first part of 2023 witnessed a fall in real GDP from 3.3% in 2022 to 2.4% year-on-year (Y-o-Y) in Q1 2023; FX has fallen at the Bureau de Change market to N1,300/US\$ as of Oct 26, 2023), and inflation currently persists at 26.72% (Sept. 2021).

In a bid to improve public finances, the admiration has come up with an 8-point agenda reiterating its desire to chart a new course towards growth, informing certain reforms such as the petrol subsidy removal, revision of the FX market management regime, appointment of a new

minister of finance, the setting up of a tax reform committee (TRC) which recently submitted a **quick win** report to the president, a conditional cash transfer policy, a World Bank loan to fund critical spending plans, the development of a Medium-term National development plan (MTNDP 2024-2026) to guide fiscal affairs over the next three years and a proposed 26.01 trillion Naira budget.



Table 2:

THE NEW TAX MANDATE: UNDERSTANDING THE PAINS AND GAINS OF QUICK FIXES.				
S/N	Quick Wins	Area of Focus	Expectations	Impact
1	Measures to address duplication of functions in public service, ensure prudent public financial management and optimise value from government assets and natural resources.	Governance	The whole of Government Approach: <ul style="list-style-type: none"> Economic management institutional Framework. National Development Plans as an anchor for MTEF and Budgets. Central Procurements. Ease of Doing Business. Red Tape Reduction. 	<ul style="list-style-type: none"> Improved public financial management. Optimization of value from government assets and natural resources.
2	Policy signalling and collaboration by MDAs, economic management, and policy execution teams.	Governance	<ul style="list-style-type: none"> Economic Management Institutional Framework, MEAL – Auditor General's Report. Continuous pro-market forward guidance. 	<ul style="list-style-type: none"> Improved policy execution and economic management.
3	Use of technology "Data4Tax" to expand the tax net.	Taxation	<ul style="list-style-type: none"> Efficient Tax Administration Expanded Tax Net. Digitization of Tax Administration. Data privacy and security. 	<ul style="list-style-type: none"> Increased tax revenue. Reduction in tax-related corruption and diversions.

S/N	Quick Wins	Area of Focus	Expectations	Impact
4	Increase personal income tax exempt threshold and personal relief allowance.	Taxation	<ul style="list-style-type: none"> ▫ Personal Income Tax Act (PITA) review. ▫ Consolidated Relief Allowance. ▫ Finance Act 2024 	<ul style="list-style-type: none"> ▫ Reduced tax burden on low-income earners.
5	Tax breaks for the private sector regarding wage increases to low-income earners, transport subsidies and net increase in employment.	Taxation	<ul style="list-style-type: none"> ▫ Finance Act 2024. ▫ National Employment Policy. ▫ National Transport Policy. ▫ National Social Investment Programmes . 	<ul style="list-style-type: none"> ▫ Reduced tax burden on low-income earners. ▫ Possible Increase in bottom-line earnings.
6	Permit the payment of taxes on foreign currency-denominated transactions in Naira for Nigerian businesses.	Taxation	<ul style="list-style-type: none"> ▫ CBN Circular to this effect 	<ul style="list-style-type: none"> ▫ Possible reduction in demand for FX in the parallel market. ▫ Reduce FX inflow to the government.
7	Remove impediments to global employment opportunities for Nigerians based in Nigeria.	Employment	<ul style="list-style-type: none"> ▫ National Policy on Migration. ▫ National Diaspora Policy. 	<ul style="list-style-type: none"> ▫ Increased employment opportunities for Nigerians ▫ Possible increase in diaspora remittance. ▫ Increased FX inflow.
8	Suspension of VAT on diesel and tax waivers on CNG, CNG conversion, and renewable energy items.	Taxation	<ul style="list-style-type: none"> ▫ Finance Act 2024 with specific details on VAT and Tax waivers on gas. ▫ CNG - based regulations 	<ul style="list-style-type: none"> ▫ Lower energy cost. ▫ Lower operating costs for businesses. ▫ Low tax revenue in the short-term for an eventual increase in tax revenue inflow.
9	A comprehensive review of tariffs on the 43 items unbanned from accessing forex in the official market and fiscal policy review of other items prohibited for imports.	Trade	<ul style="list-style-type: none"> ▫ Trade policy. ▫ Import adjustment taxes. ▫ Fiscal Policy Measures 2024. 	<ul style="list-style-type: none"> ▫ Reduce pressure on FX in the parallel market and curb illicit financial flows. ▫ Improved trade policies. ▫ Increased access to FX.
10	Reforms of withholding Tax Regulations to ensure simplicity and ease the pressure on working capital businesses.	Taxation	<ul style="list-style-type: none"> ▫ Finance Act 2024 ▫ PEBEC 	<ul style="list-style-type: none"> ▫ Streamlined tax regulations. ▫ Reduced tax burden on businesses.
11	Facilitate the use of mobile phones for conditional cash transfers and introduce a spending framework for subsidy removal and forex reform windfall, including a national portal to track spending by FG, states, and local governments.	Fiscal Spending	<ul style="list-style-type: none"> ▫ Nigeria Humanitarian Response Plan. ▫ Sub-national appropriation bills. 	<ul style="list-style-type: none"> ▫ Improved quality and delivery of public services through the national portal for tracking government spending transparency. ▫ Possible reduction in leakages of public funds.



S/N	Quick Wins	Area of Focus	Expectations	Impact
12	Suspension of multiple taxes which place burdens on the poor and small businesses and compensate with windfalls revenue of certain agencies.	Taxation	<ul style="list-style-type: none"> Finance Act 2024. Presidential Enabling Business Environment Council (PEBEC). 	<ul style="list-style-type: none"> Reduced tax burden on the poor and small businesses. Reduce cost of doing business. Fiscal autonomy and revenue. allocation of sub-nationals may be affected.
13	Expand the official foreign exchange market to incorporate BDCs, forex apps and retail FX dealers, and outlaw transactions in the black market.	Trade	<ul style="list-style-type: none"> CBN International Money Transfer Services Guidelines. CBN Circular on FX management. 	<ul style="list-style-type: none"> Improve access to foreign exchange. Reduce illegal FX transactions. Effective FX policy.
14	Digitalise Nigeria's FX regime and discourage speculative demand and hoarding of FX in cash.	Trade	<ul style="list-style-type: none"> CBN Circular on FX management. 	<ul style="list-style-type: none"> FX transactions become more traceable and verifiable. Lowers illegal transactions. Improve access to FX.
15	Imposition of excise tax on foreign exchange transactions outside the official market.	Taxation	<ul style="list-style-type: none"> CBN Circular on FX management. 	<ul style="list-style-type: none"> Increase tax revenue for the government. Possible widening of the gap between the official and black market if the policy fails.
16	Implement forward contracts for importing PMS as a short-term measure pending improvement in key economic indices.	Trade	<ul style="list-style-type: none"> Draft of PIA Regulations on the downstream oil industry. Foreign Trade policy. 	<ul style="list-style-type: none"> Improve trade policies. Stability in the supply and price of PMS in the domestic market. Reduce fiscal burden and subsidy payments. Promote a predictable energy market.
17	Discontinue with the FX verification portal and requirement for a certificate of capital importation and export proceeds restriction.	Trade	<ul style="list-style-type: none"> CBN Circular 	<ul style="list-style-type: none"> Simplify the process of FDI and capital inflow. Reduced administrative burden and cost for investors. Improve the liquidity and availability of foreign exchange.
18	Address impediments to export promotion and bottlenecks regarding Export Expansion Grants, remove restrictions on repatriation and use of export proceeds by exporters.	Trade	<ul style="list-style-type: none"> Nigerian Export Promotion Council (NEPC) Act. Foreign Trade Policy. National Implementation Plan on the AfCFTA. 	<ul style="list-style-type: none"> Improved export policies. Increase in total export. Increased access to foreign exchange.
19	Modify Tax ProMax to allow taxpayers to make part payments of outstanding tax liabilities.	Taxation	<ul style="list-style-type: none"> FIRS Circular to that effect. 	<ul style="list-style-type: none"> Reduced tax burden on taxpayers. Efficient tax collection.
20	Grant waiver of penalty and interest on the condition of full payment of outstanding tax liabilities on or before 31 December 2023.	Taxation	<ul style="list-style-type: none"> FIRS Circular to that effect. 	<ul style="list-style-type: none"> Increased tax compliance. Increased revenue collection. Reduced tax burden on taxpayers.

Source: Fiscal Policy and Tax Reform Committee, Proshare Research,

Proshare.

Finding Financialization- the Benefits of the Sale of Idle Assets.

Nigeria's recurrent revenue shortage has kept the economy in a ring of mounting debts, budget deficits, low productivity, currency depreciation, illiquidity, and hefty infrastructural deficits. The overdependence on oil, lower oil production due to theft, poor tax collection and neglect of other viable revenue sources have kept the country in the stifling web for years. The way out of the misery might be to look at the country's **balance sheet** rather than its **income statement**. Nigeria is known to have substantial dormant assets, functioning below optimum capacity, like Ajaokuta, Federal Secretariat, National Theatre, and many others. These idle assets can be exploited by a proper valuation at the capital market and equity sales to the private sector and high-net-worth stakeholders that can remodel the assets for sturdy revenue generation.

The growing global preference for assets for capital gains makes it a viable option to stimulate foreign investors, both foreign portfolio investors (FPIs) and foreign direct investors (FDIs), thereby improving FX inflow into the country to shore up reserves and support naira. The private sector inclusion gives room for better efficiency through innovative ideas and technology integration that would generate higher taxes for the government and stimulate economic growth. **Financialisation** (or listing government assets on a formal trading Exchange) would be a critical option for sectors like agriculture, real estate, and others that will aid development and higher revenue generation. Since low productivity and capital have been some of the problems plaguing the country, embracing financialisation provides a platform for change while ensuring government revenue diversification to reduce oil sector dominance that exposes the country to global price and revenue risk (see illustration one below).



Analysts Thoughts.

The federal government needs to rethink and tinker with its budgets, medium-term financial framework, and national development plan over the next three years. The assumptions need to be rethought, and the linkages established and reinforced between budgets and plans. The approach may presumably require accountability officers who would ensure monitoring and management.

Proshare analysts note that even quick wins require deep thinking and careful planning. Yogi Berra once said, 'If you do not know where you are going, you will end up somewhere else.' Although it sounds like an oxymoron, it is true. To achieve goals, plans must align with aspirations. The big goals set by the Tinubu administration require more detailed templates, work plans, and execution frameworks.

The deep thought embodied in detailed worksheets must be implemented to achieve the administration's laudable goals. The current work needs revisiting and macroeconomic frameworks revised. For example, the recommendation by the fiscal policy and tax reform committee to impose an excise tax on parallel FX market transactions would be a self-inflicted body blow to the market. Imposing taxes on parallel market transactions would encourage citizens to hold cash to avoid tax payments. The consequence would be that both the official and parallel markets would be starved of FX, suggesting a classic '**Cobra Effect**' or a situation where the solution is worse than the original problem.

Quick fixes are good and usually necessary, but they are often temporary. The real work lies in the detailed work plan leading to policy outcomes resulting from deliberate actions. The administration may need to create a central data coordination centre that provides timely data to monitor and manage its macroeconomic goals. Adopting a **whole-of-government** approach to economic management may help reduce internal contradictions and conflicts and strengthen the budget and planning processes.

The Tinubu administration, no doubt, has good intentions, but in the words of USA Army General, Gordan Sullivan (Rtd), '**Hope is not a method**'. If the Tinubu plan is to work, a cross section of analysts agree that it will take brains, grit, guts, and elbow grease.

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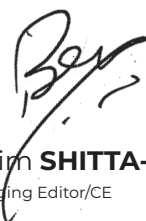
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Saheed **KIARIBE**
Director, Stakeholder Engagements



Teslim **SHITTA-BEY**
Managing Editor/CE

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0700-PROSHARE
info@proshare
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Contacts.


 Olufemi **AWOYEMI**, *mni*
ceo@proshare.co

 www.proshare.co


 Saheed **KIARIBE**
saheed.kiaribe@proshare.co

 +234 902 407 5284


 Teslim **SHITTA-BEY**
teslim.bey@proshare.co


 @proshare

 Tosin **IGE**
research@Proshare.co

 proshare.co

 Ademidun **SHOGO**
ireconomist@Proshare.co

 proshare.co

 proshare.co

 Plot 590b, Lekan Asuni
Close, Off Toyin Omotosho Street,
Omole Phase 2, Isheri Olowora
Ikeja, Lagos, Nigeria **PC: 105102**
Tel: **0700 – PROSHARE**
E-mail: info@proshare.co