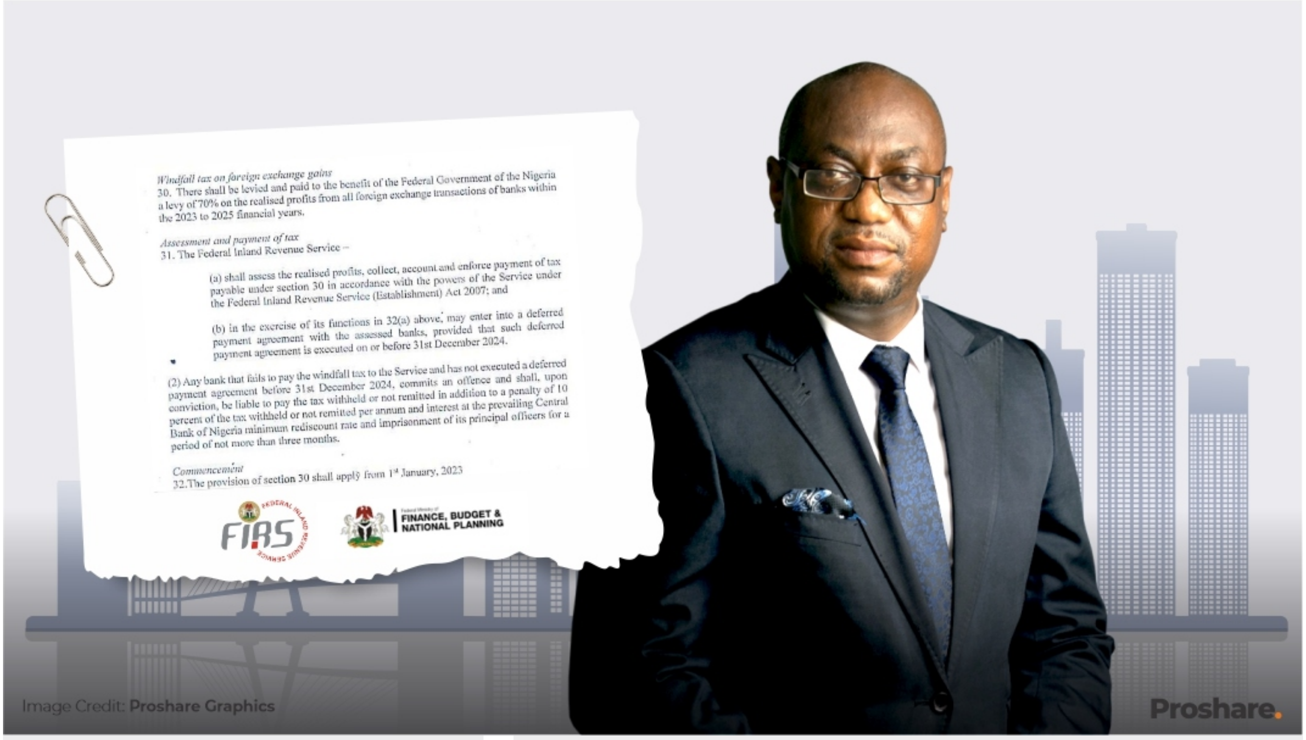
The Analyst™ Note.

# The Case for A Nigerian Windfall Tax: Addressing the Nuances, Concerns and Governance Gaps.



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*Being the opening remarks by* Teslim SHITTA-BEY*, M.IoD, Managing Editor/ Chief Economist of Proshare LLC at the* ***Economists' Conference Webinar*** *to discuss issues of taxes on supernormal profits themed "****Windfall Tax: From Concerns to Governance****' held on Friday, September 6th, 2024,*

I want to emphasise that in times of challenges, the engagement tools for policymakers and corporate leaders are usually their deep thoughts, sequenced actions, and unshakeable commitment to meeting deliverables. The urgency of Nigeria's fiscal situation is not to be underestimated. In the last 17 months, Nigeria has had to navigate peculiar fiscal challenges ranging from rising domestic and foreign debt to increasing local operating expenses caused by rising inflation and falling currency values.

Despite these challenges, the federal government has remained unwavering in its commitment to restoring economic stability. Its efforts to contain inflation, raise public sector revenues, and redirect spending towards growth sectors are commendable but inadequate. Unfortunately, the efforts have yet to yield the desired results and do not, in the main, show a clear pathway to growth and a discernible endgame to prosperity.

Our analysts have noted that between May 2023 and July 2024, headline inflation rose from 22.41% per annum to 33.40% per annum. The total debt situation worsened from

N46.25trn in Q1 2023 to N121.67trn in Q1 2024, a rise of 163.07%. As a result of government efforts to harmonise exchange rates, the currency rate fell from N464.67/US$ in May 2023 in the official market (NAFEM) to N1,600/US$ in the harmonised market in August 2024, representing a decline of 70.96%.

It is commendable that, with several fiscal holes to fill, the government has demonstrated resourcefulness by resorting to unorthodox means of raising revenue. The latest is the banking sector FX revaluation windfall gains tax introduced to bridge part of the 2024 budget deficit.

After seeing banks make large FX revaluation gains in their 2023 Audited Financial Statements (AFS), the federal government introduced a 70% windfall tax on banks' extraordinary FX earnings. The tax was not unusual, but it certainly was unexpected. Proshare analysts, in their recent **report**, note that windfall taxes are typically designed as win-win outcomes between consumers and producers, with producers compensating consumers for a significant spike in commodity prices or the cost of services. Nigeria's windfall tax, however, takes money from the banks and shovels it into the federal treasury.

In other words, Nigeria's windfall tax on FX revaluation gains has a straightforward tax base but an unclear tax utilisation structure. This is at the root of the **trust deficit** surrounding the tax, and I hope our panellists today can help us find a fitting solution.

American journalist Sidney J. Harris once noted, '***Man's dilemma is that we hate change and love it at the same time. What we really want is for things to remain the same but get better.***' Unfortunately, staying the same and getting better rarely happens. The new windfall tax on FX revaluation gains is an unexpected change; the challenge now is how to use it to improve things. This is the task needed to ensure that the country's latest tax works for all.

Indeed, a key consideration for the federal government while imposing the tax is that once certain people are made better off (for example, through direct cash transfers), others should not be made worse off. Our panellist will recognise this as the 'Pareto optimality' condition for an efficient tax system. If we must impose windfall taxes, we should ensure that it is a coastal wave that lifts all boats. This is where the use of the tax becomes just as important as the amount raised.

To this end, a **whole-of-society** approach to governance requires a **whole-of-government** approach to policy execution, monitoring, and control. The administration has yet to demonstrate this consciousness, thereby perpetuating a sense of administrative drift and the absence of **coordinated** and **impactful** policy.

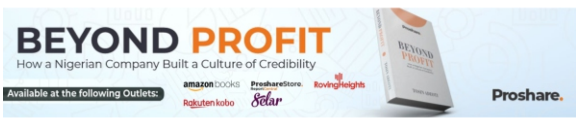
A windfall tax has uses but is not a substitute for a carefully crafted tax framework. A butcher's work knife has two sharp cutting edges, but its use is more important than its design. Likewise, how a tax is assessed and used is more important than what it is called.

As we allow participants to offer diverse and independent opinions, express their realities, and capture the nation's mood, we will summarise the submissions and provide a unified body of thought as a strategic advisory to the government.

I wish all participants productive deliberations.

Thank you.





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