

Overview of the 2019 Finance Bill

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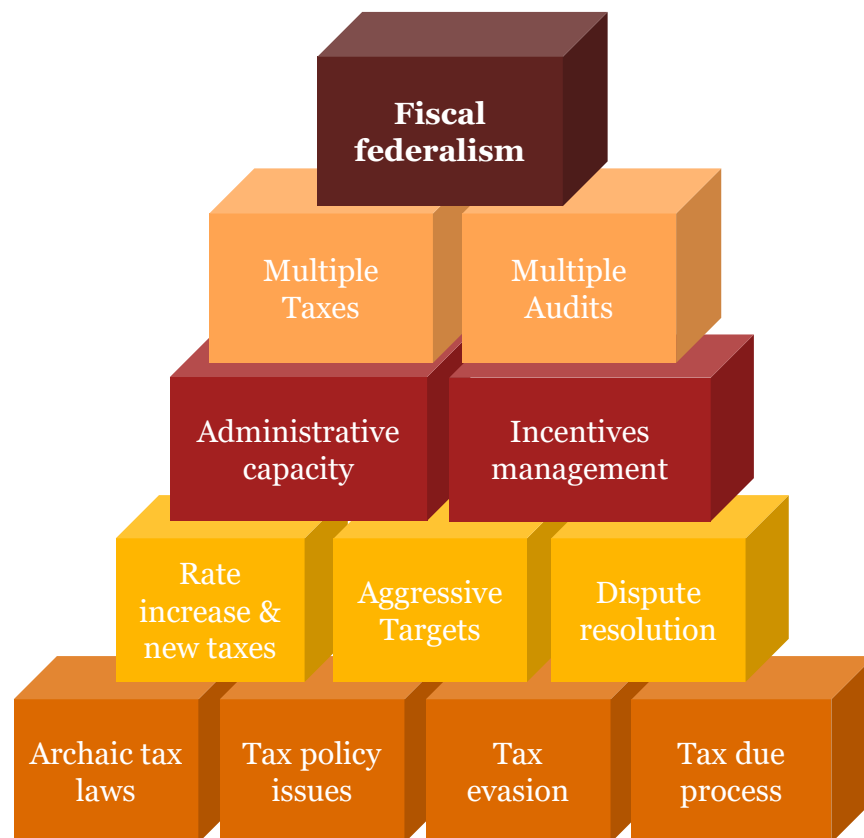
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1

Background and
context

Nigeria has a complex tax system and a revenue challenge

Tax Agencies	2018 Revenue N'Billion	2017 Revenue N'Billion
FIRS (incl NCS VAT)	5,320	4,020
Customs	1,200	1,037
SIRS (36) & FCT	1,100	931
LGs (est.)	275	279
Total Tax Revenue	7,895	6,267
GDP	127,763	113,712
Tax to GDP ratio	6.1%	5.5%



Resulting in a deficit budget and unsustainable debt burden

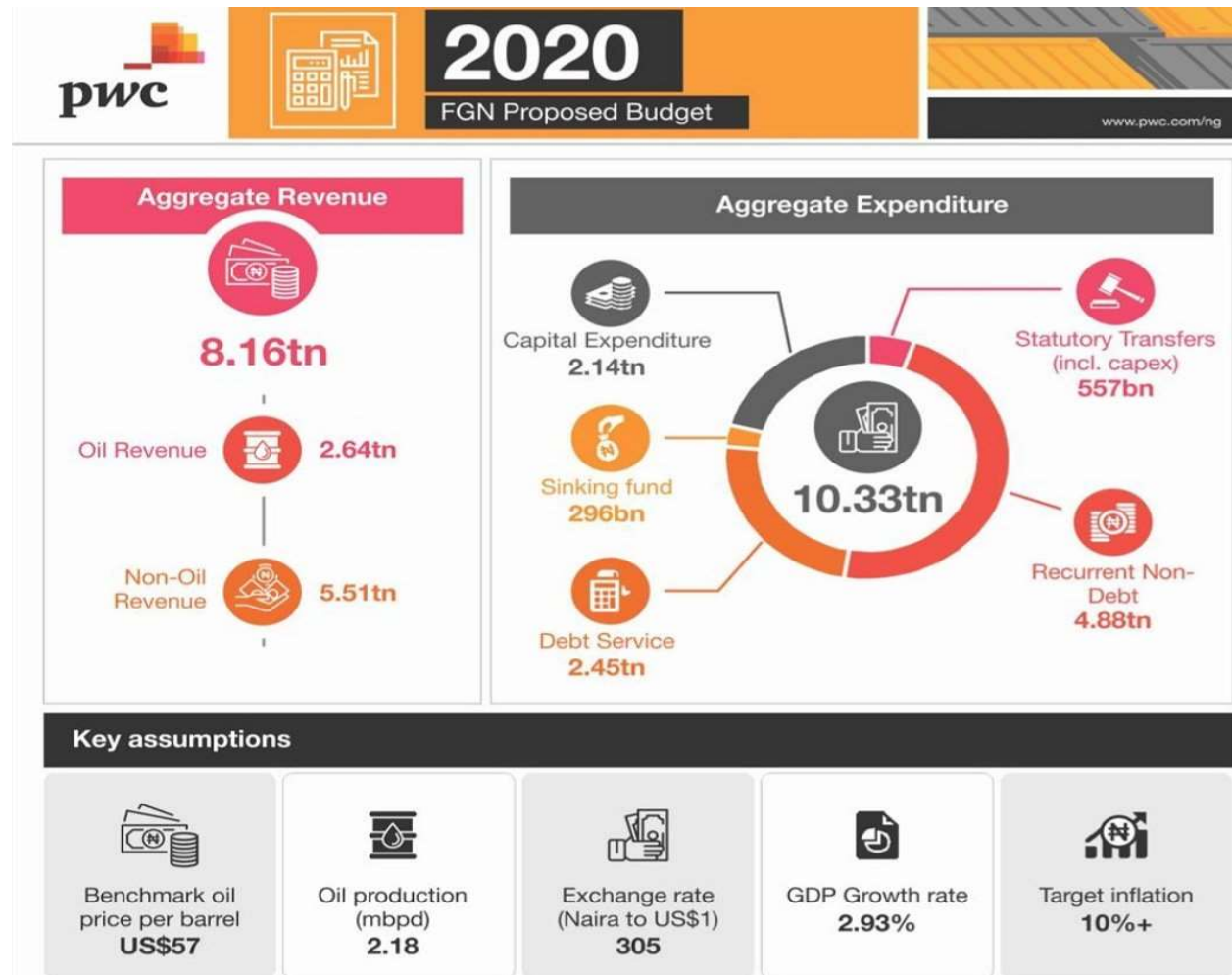
While the country's debt to GDP ratio is within acceptable limits, other indicators suggest a revenue crisis.

Budget deficit
N2.17 trillion

Debt service
N2.45 trillion

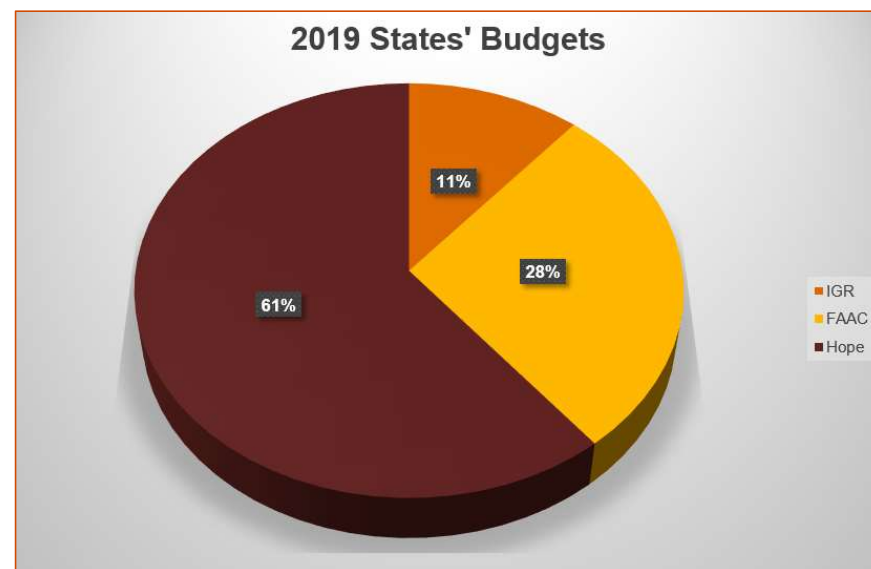
Debt service to revenue (2018) 54%

National Debt (2018)
N24.3 trillion
(FG 19.2t, States N5.1t)



States also have huge fiscal gaps

- Internally generated revenue still very low across the country
- Distributions to the tiers of government are constrained by unbudgeted fuel subsidy and other tax expenditures.
- There is a huge fiscal gap at the state level which is about to be compounded by the implementation of new minimum wage.



2019	N'Billion	Percentage
Budget	8,930	100%
Capex	5,051	57%
Recur	3,881	43%
Revenue		
IGR	1,100	12%
FAAC	2,500	28%
Fiscal Gap	5,330	60%

So Nigeria is poor even with oil revenue



Nigeria

- An oil producing country but not an oil rich country
- At 2.3m bbl/day, \$60 per/bbl, per capita is N210 assuming \$0 cost of production and 100% ownership
- By comparison US (with circa 11.5m bbl/day) is N660 and Saudi Arabia (with circa 10.5m bbl/day) about N5,650
- Poverty threshold is circa N580 per day

2

Citizens' perception of the tax system

(a national study by the NESG)

Tax morale is low - most Nigerians don't pay tax

One of the critical challenges facing the tax system in Nigeria is the shockingly **high level of non-compliance** as a result of **low tax morale**.

Tax Morale is the willingness to comply with taxes and the belief that tax evasion is wrong.

Different factors influence tax morale, including:

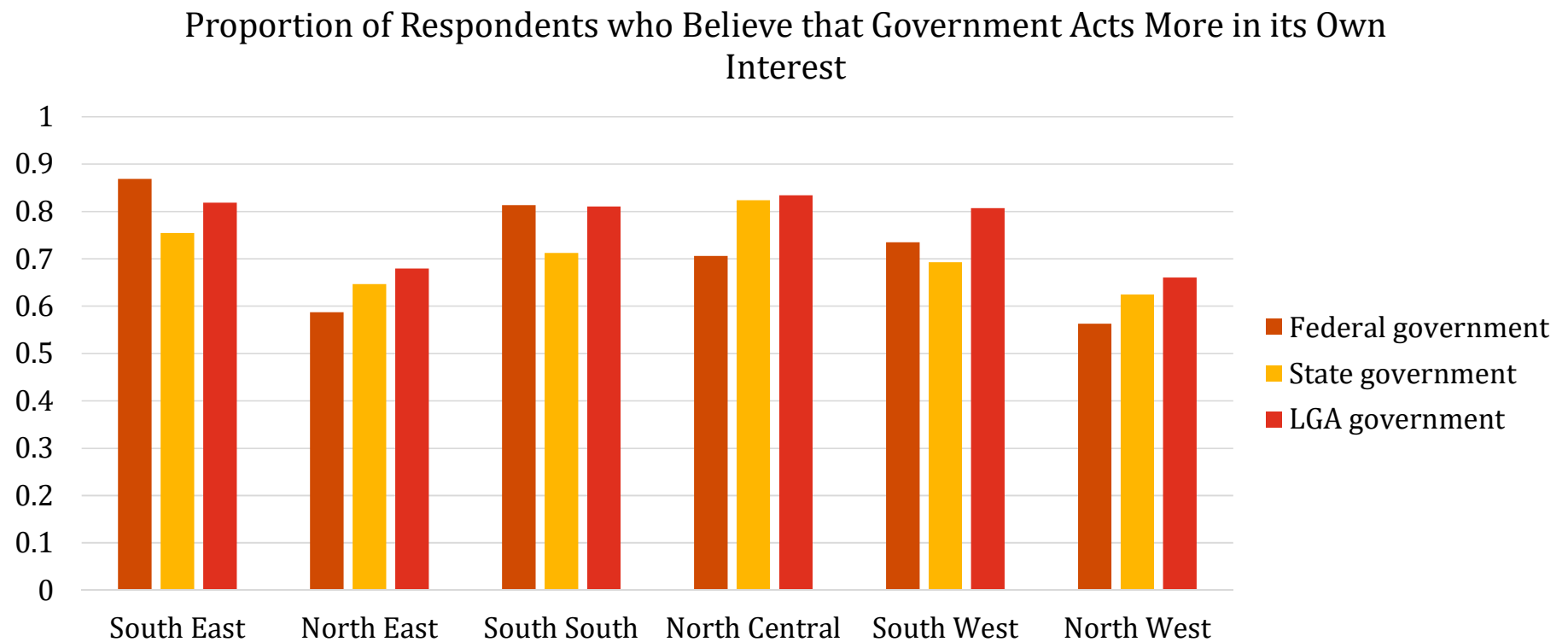
- Knowledge and Complexity
- Fiscal Exchange/Social Contract
- Social and Individual Norms
- Legitimacy, Trust and Fairness
- Participation and Voice

Tax Type	Percentage Compliant
Income tax	18.9
Land use or property tax	6.7
Business premises registration fee	15.5
Tenement rates	7.8
Market taxes and levies	17.4

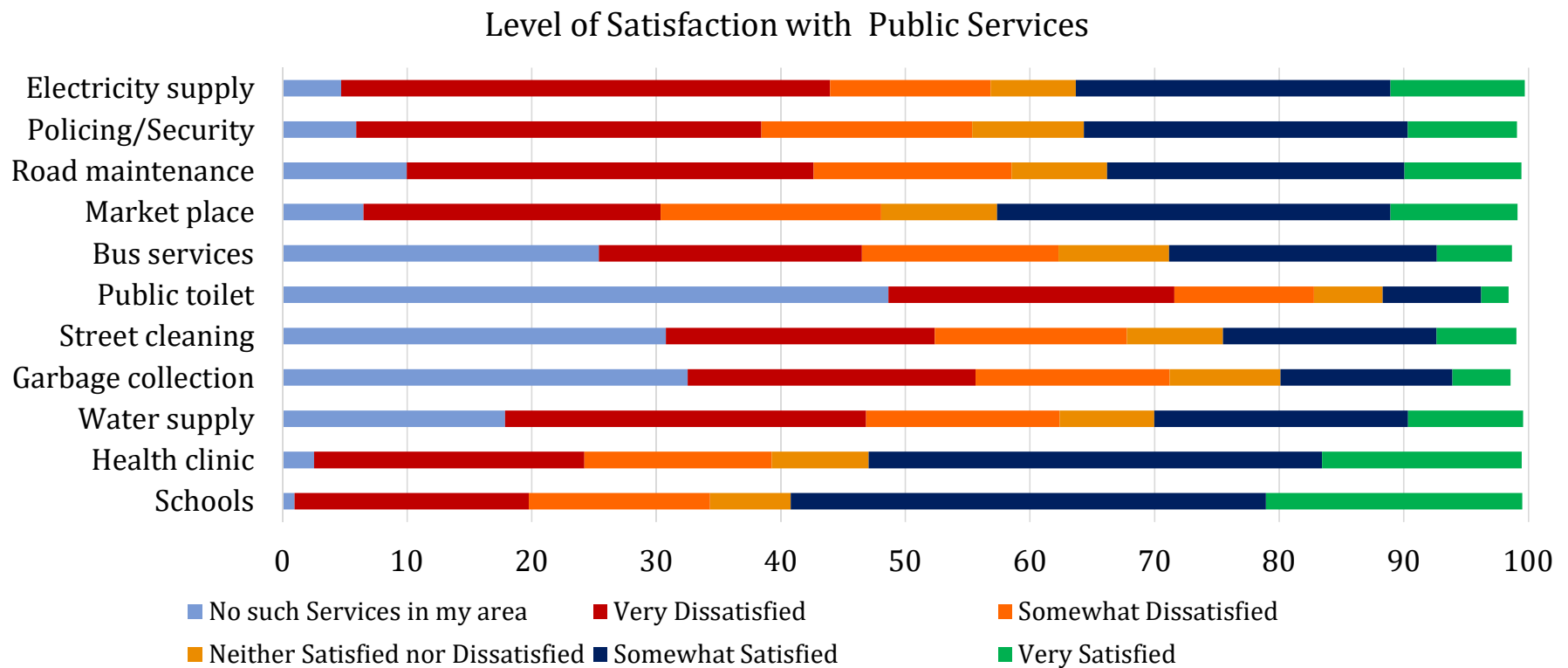
... and they do not think that evasion is wrong

Perception of Tax Evasion	Individuals (%)	Small Businesses (%)
Not wrong at all	22	14
Wrong but understandable	54	50
Wrong and punishable	17	31
Don't know	6	4
No Response	1	1

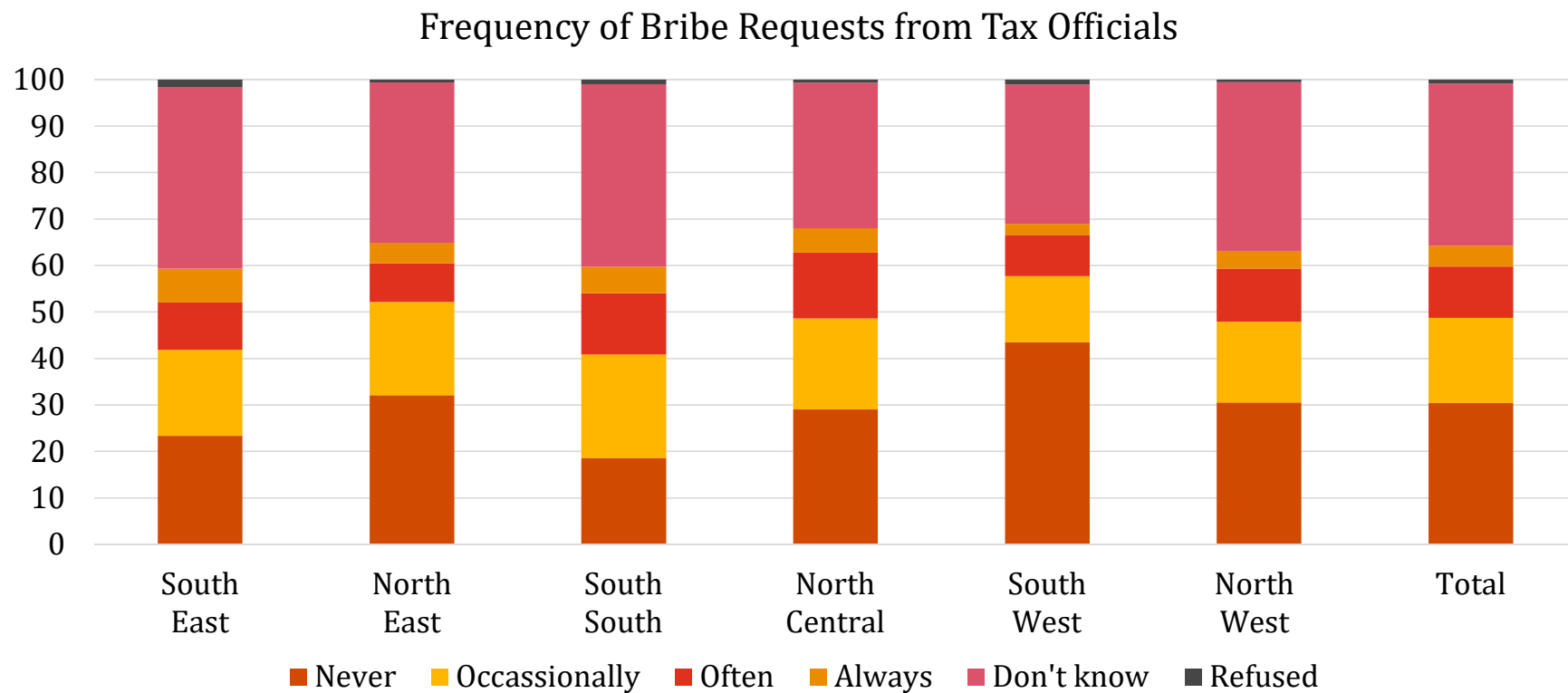
Major reason is lack of trust in government and tax officials



And dissatisfaction with Public Services

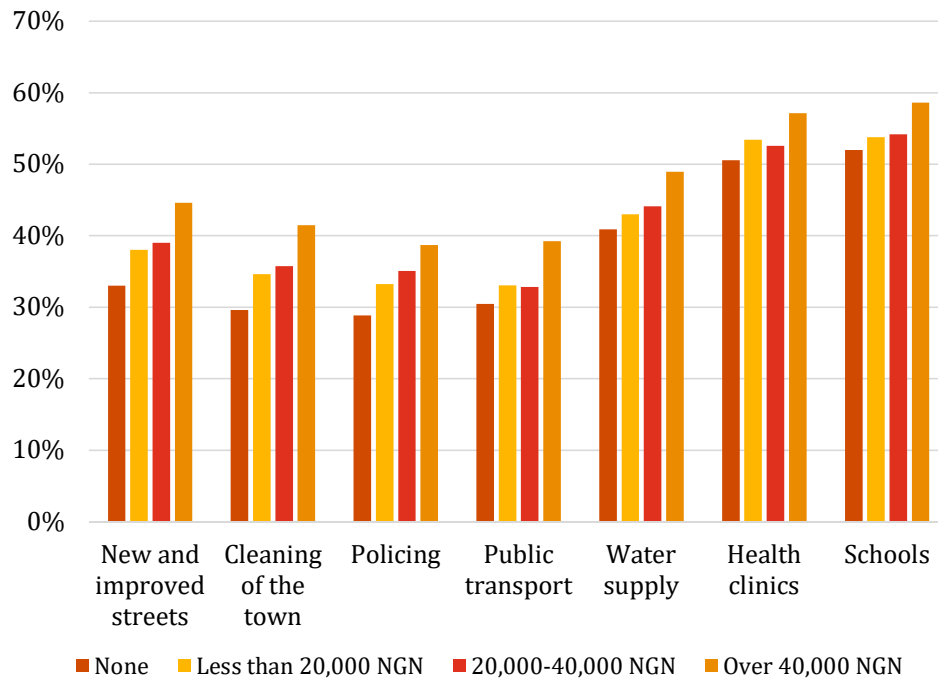


Plus a complex and corrupt tax collection process

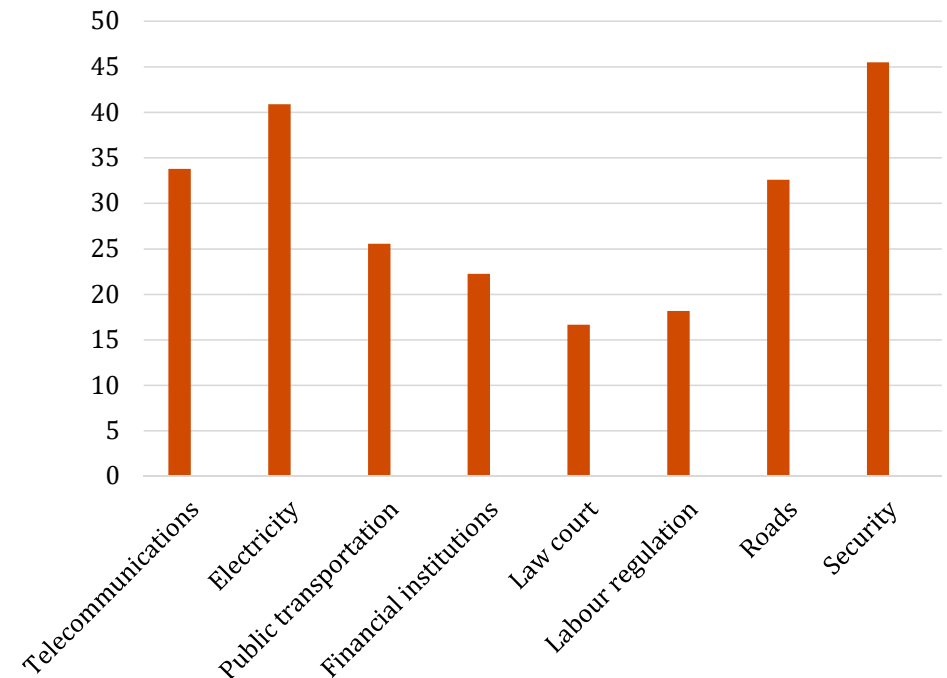


But Nigerians are willing to pay their taxes for improved services

Respondents Willing to Pay More Tax for Improved Services



Percentage of Small Businesses Definitely Willing to Pay more Tax for Improved Services



3

Overview of the Finance Bill



Edo crisis: Obaseki sets condition for peace talks

P. 4



Protest as DSS fails to release Sowore, Bakare

P. 7



SPICE

I have 4,000 children
Hide Owoye

Ps. 21, 28 & 39

Sunday

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FINANCE BILL BROUHAHA

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P. 2

...vow to mobilise stakeholders against bill during public hearing

• Nigerians really suffering — Senate Minority Leader



Proposed omnibus tax bill – 2019 Finance Bill

Highlights:

1. Excess dividend tax to apply only to untaxed distributions other than profits specifically exempted from tax and franked investment income
2. Small businesses with turnover less than N25m to be exempted from Companies Income Tax
3. A lower CIT rate of 20% to apply to medium-sized companies with turnover between N25m and N100m
4. Commencement and cessation rules modified to eliminate overlaps and gaps to avoid double taxation and complication during commencement
5. Minimum tax provisions amended to 0.5% of turnover and exemption only applies to small companies (less than 25m turnover), so non-resident companies will now pay minimum tax
6. Insurance companies can now carry forward tax losses indefinitely, deduct reserve for unexpired risks on time apportionment bases while special minimum tax for insurance has been abolished
7. Bonus of 2% of tax payable (medium-sized companies) and 1% for large companies for early payment of CIT
8. Introduction of thin capitalisation of 30% of EBITDA for interest deductibility. Any excess deduction can be carried forward for 5 years
9. Deemed tax presence for non-residents with respect to imported technical and management services now taxable at a final WHT rate of 10%
10. Any expense incurred to earn exempt income now specifically disallowed as a deduction against other taxable income

Proposed omnibus tax bill – 2019 Finance Bill

Highlights:

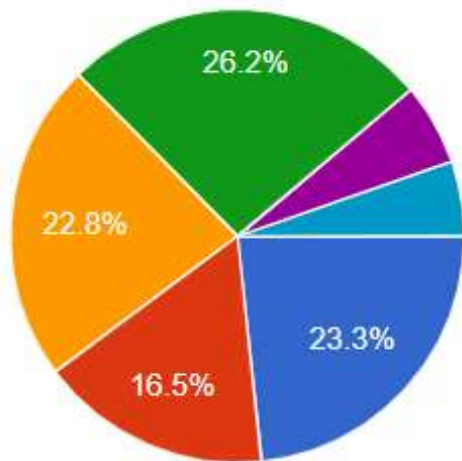
11. Dividend distributed from petroleum profits now to attract 10% withholding tax
12. Banks to request for Tax Identification Number (TIN) before opening bank accounts for individuals, while existing account holders must provide their TIN to continue operating their accounts
13. Email correspondences to be recognised for communicating with tax authorities
14. The meaning of supply and definition of goods and services has been expanded to cover intangible items other than land, among others
15. Specific requirement for VAT deregistration for discontinuing operations
16. Introduction of VAT reverse charge on imported services
17. VAT registration threshold of N25 million turnover in a calendar year to be introduced
18. Remittance of VAT now to be on cash basis, that is, difference between output VAT collected and input VAT paid in the preceding month
19. Compensation for loss of employment below N10m to be exempted from CGT
20. Stamp duty on bank transfer to apply only on amount from N10,000 and above. Transfers between the same owner's accounts in the same bank also to be exempted

4

Your feedback on the
Finance Bill

Participants' organisations

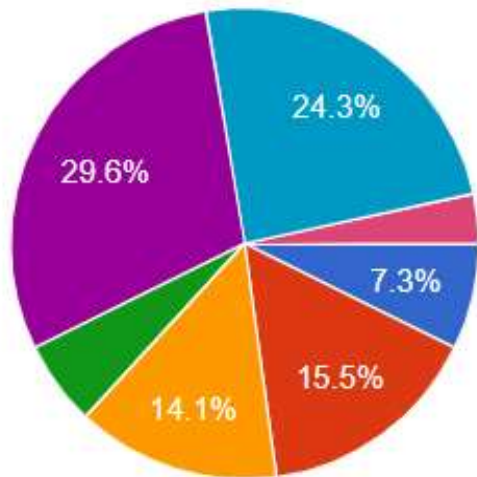
Multinationals – 40%
Large domestic companies – 23%
SMEs and others – 37%



- Foreign Owned Multinational
- Locally Owned Multinational
- Large Local Company (annual turnover above N100m)
- SME
- NGO / Not-for-profit organisation
- Government Ministries, Departments and Agencies

Participants' roles

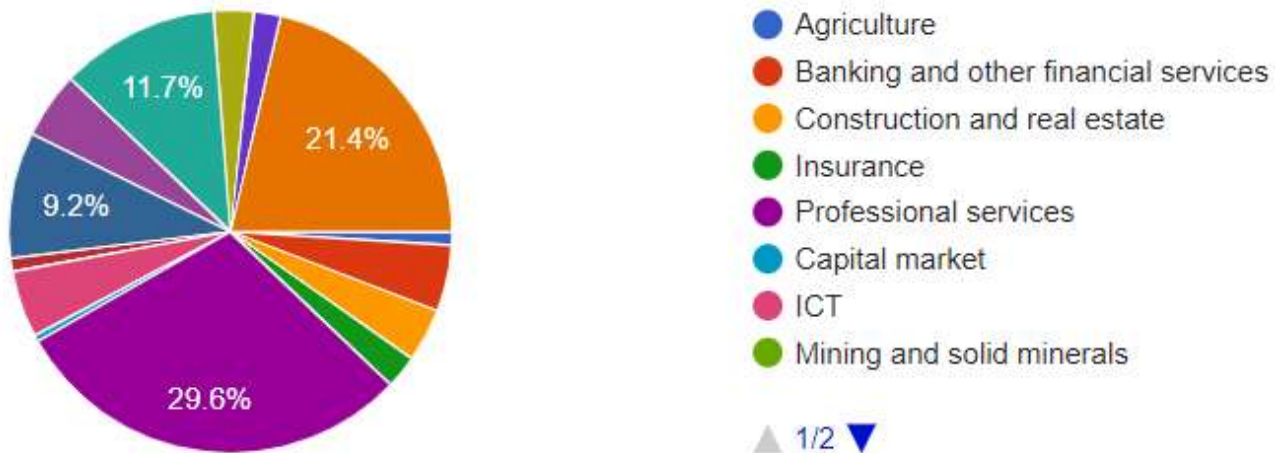
Business owners & CEOs – 23%
CFOs and EDs – 20%
Tax managers – 28%
Others – 29%



- Business Owner
- CEO / MD
- CFO / Finance Director
- Executive Director
- Tax manager / Tax function leader
- Others
- Civil servant

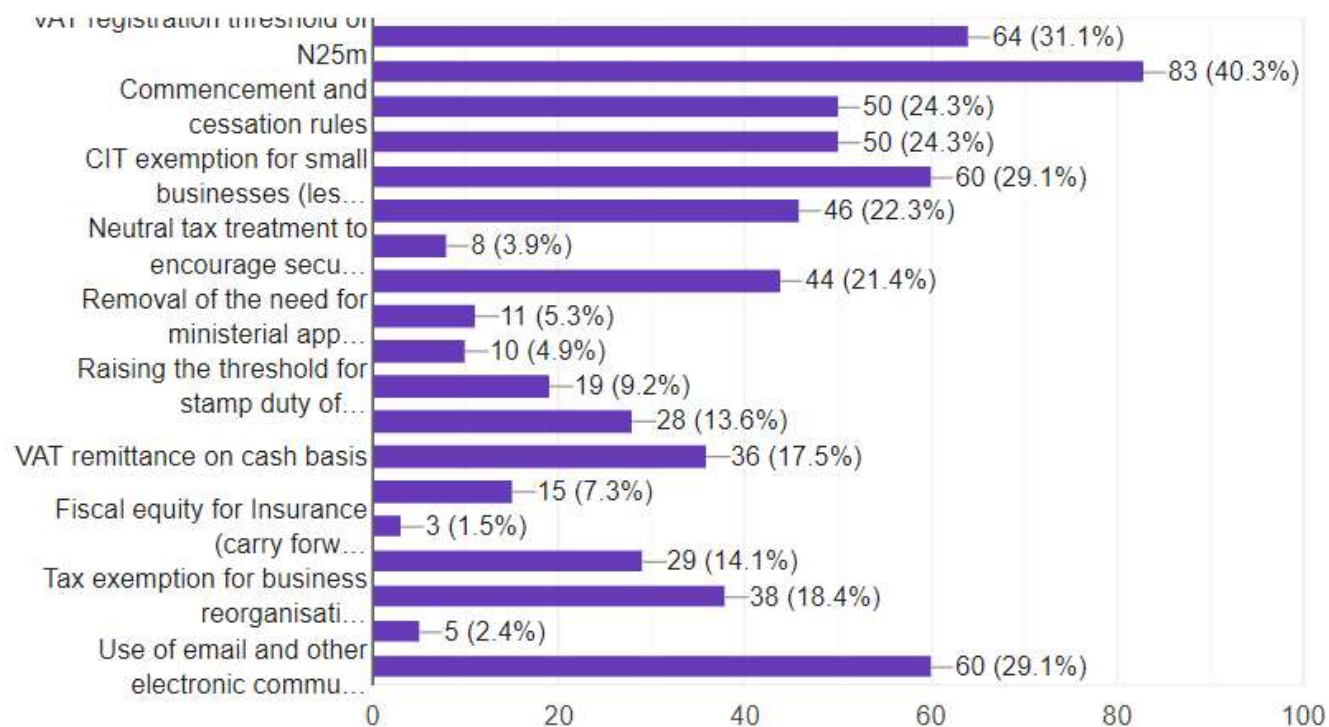
Over 15 key sectors represented

Participants represent over 15 key sectors of the economy



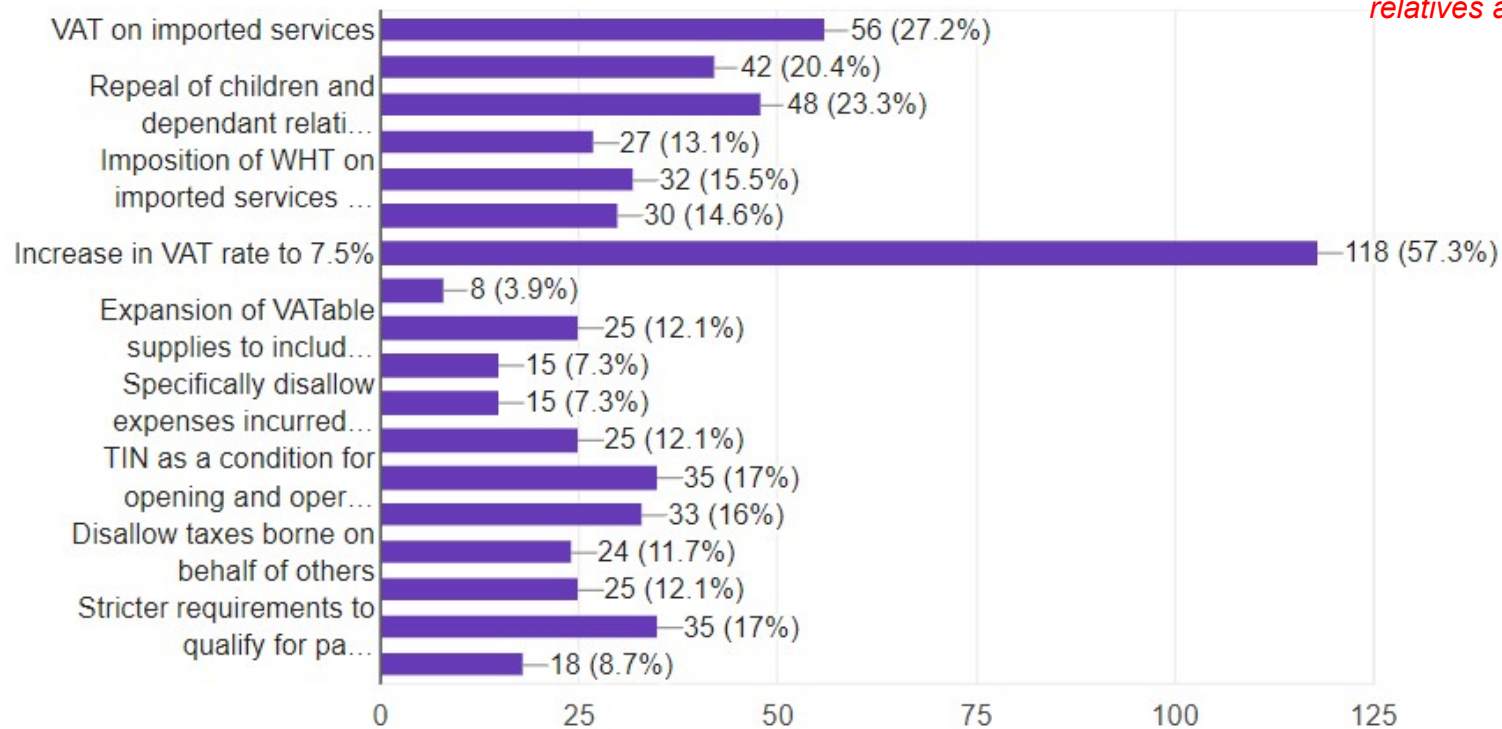
The top 3 changes you are most excited about

1. *Excess Dividend Tax*
2. *VAT registration threshold*
3. *CIT exemption for small businesses / Use of email for tax*

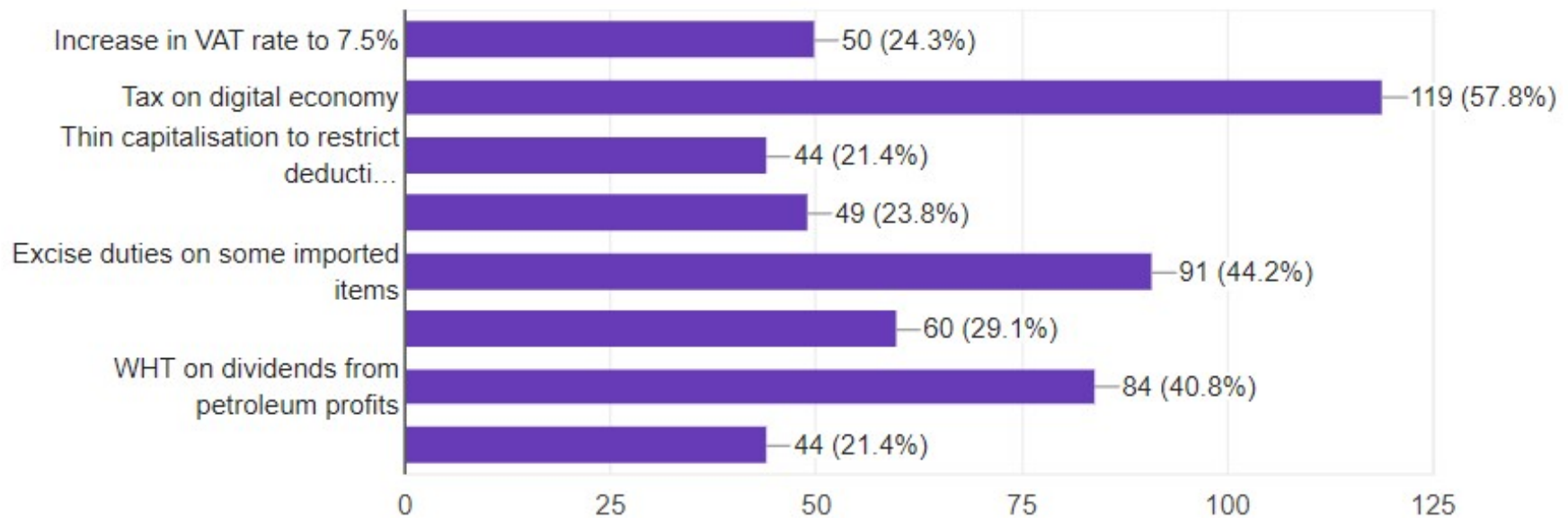


The top 3 changes you most disagree with

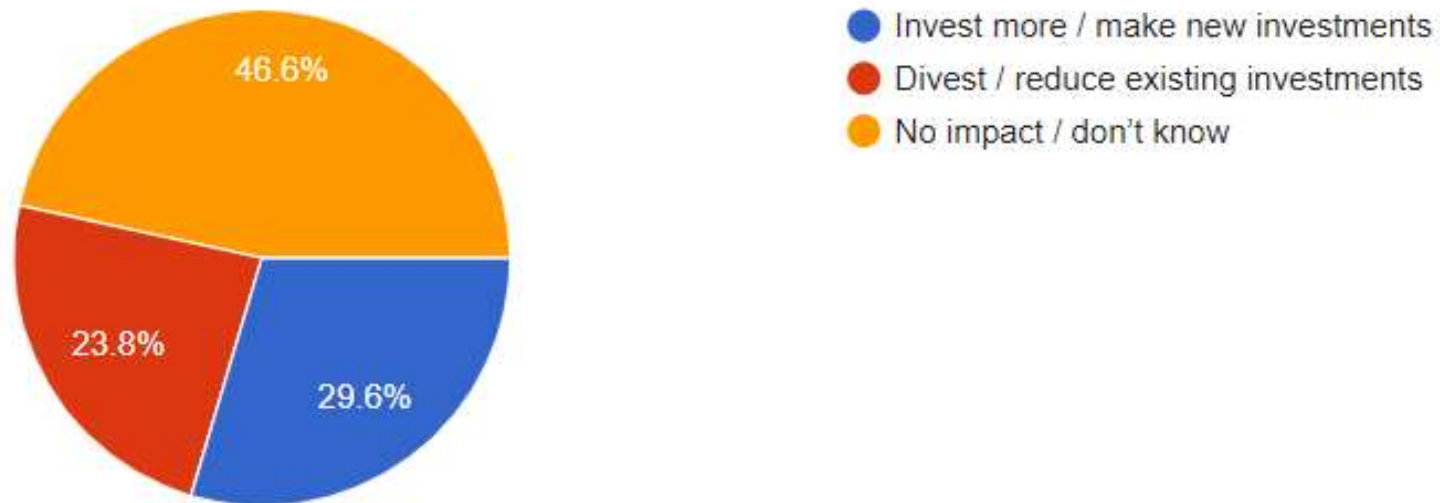
1. VAT rate increase
2. VAT on imported services
3. Repeal of children and dependent relatives allowances



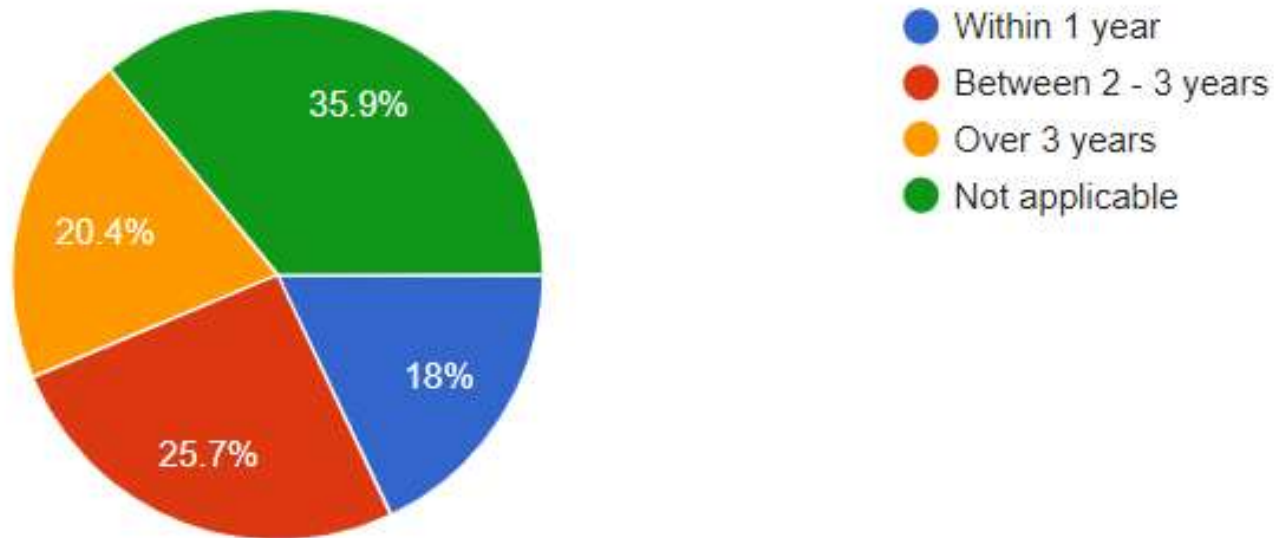
Given the need for government to raise revenue to cater for the various proposed reliefs, which 3 tax increase proposals do you support?



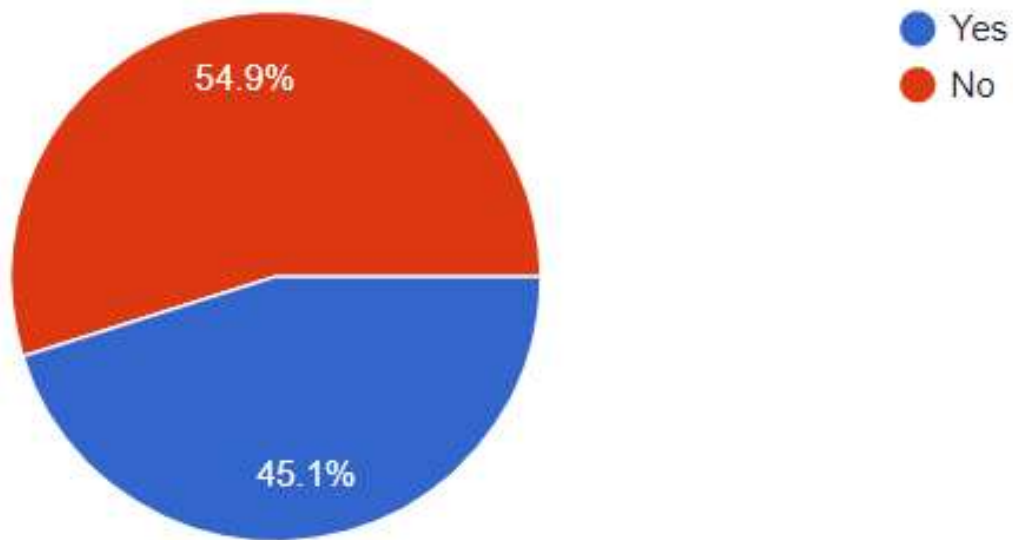
How is the Finance Bill likely to affect your investment decisions?



What is the horizon for your investment decision?



Overall, do you support the Bill assuming no changes are made to it as currently drafted?



Some of your comments (1/2)

- Are there any concrete plans in place to improve the level of transparency of tax revenue utilisation?
- I recognize the need to grow the revenue base of our economy. I believe that we need to work on the existing laws effectively. This entails better accountability on the part of government and the Administrators increasing the level of compliance. It would be merely an academic exercise if we pass the Bill without the needed machinery to harness the benefits therefrom.
- What has happened to VAIDS?
- Government should not tax those within its tax net to death. Government should rather devise citizen/business-friendly ways of getting more citizens and businesses into its tax net. Multiple taxation should end and government should reduce various tax rates while enforcing compliance by all taxable citizens and businesses.
- What steps would be taken for efficiency of tax administration and spending as this for me is the most critical
- Care should be taken in the area of taxation of the digital economy. Government should clarify what constitutes "Significant economic presences" with respect to digital economy.

Some of your comments (2/2)

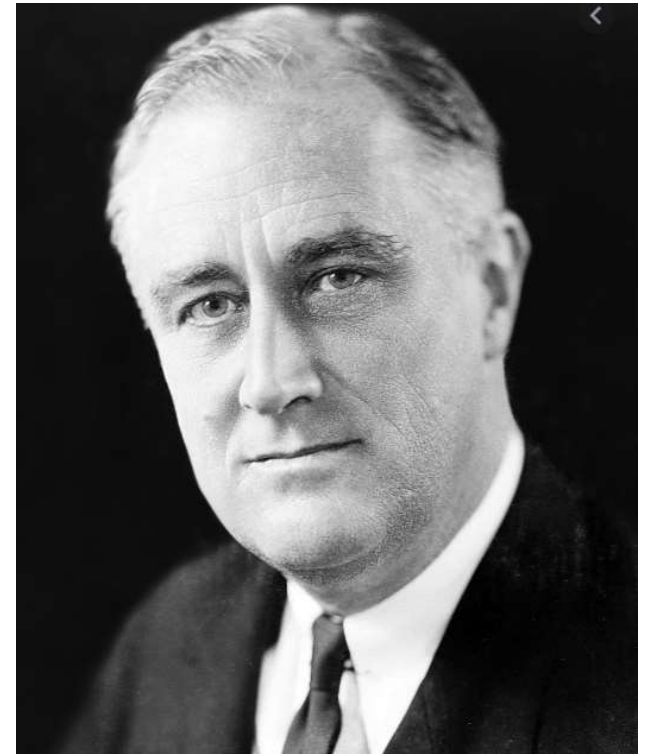
- The Finance Bill should consider expansion of scope for input VAT claim
- Focus should be more on capturing citizens not already in the tax net rather than burdening the few that are complying with more obligations.
- For revenues to grow, taxes should be set up to stimulate growth in the economy. Revenues will increase in a growing economy rather than through increase in tax rates
- The government should consider amending the WHT regulation such that WHT is deducted on money paid not accrual or non cash items. Also minimum tax rate should be reviewed downwards.
- Personally think that CIT should be reduced for every one and the govt should expand the tax net
- Government officials should engage stakeholders extensively before finalising any of their reform proposals/bills
- Why is withholding tax so difficult?

5

Final thoughts

“Taxes, after all, are dues that we pay for the privileges of membership in an organised society.”

— Franklin Roosevelt.



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