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Finance Act 2021

Implication for FGN Budget implementation



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Appropriation Act 2022 and Finance Act 2021 - Overview

01

Both the Appropriation Act, 2022 (the Budget) and the Finance Act 2021 (FA2021) were signed by the President into law on 31 December 2021

02

Effective date is 1 January 2022

03

Budget 2022 is titled “Budget of Economic Growth and Sustainability”

04

Budget seeks expend an amount of N17 trillion and raise a revenue of N10 trillion with a deficit of N6.3 trillion.

05

The FA2021 amends 13 different laws and contains 42 sections.



Nigeria's National Development Plan 2021 - 2025

Overview

- The NDP is a medium term development blue print of the FG
- It is the transition plan between both Vision 20:2020 and Economic Recovery and Growth Plan 2017 – 2020 and the Nigeria Agenda 2050
- Collaborative plan between FG, sub-national government (SNG), private sector and civil society organization
- Objectives include - diversified economy, MSME growth, infrastructure growth, framework for better security and governance, healthy and educated populace, poverty alleviation and regional growth

Insights

Plan Structure

The plan is structured around 7 focal points:

- Economic Growth and Development
- Infrastructure
- Public Administration
- Human Capital Development
- Social Development
- Regional Development
- Plan Implementation

Plan financing

- Estimated requirement is N348.1 trillion.
- Split between FG (8.5%), SNG (5.8%) and private sector (85.7%)
- Broadening the tax base
- Creating investment opportunities for private sector
- Policy engagements and incentives
- Nigeria Investment and Growth Fund
- Infrastructure Corporation of Nigeria

The need to raise revenue in funding the Budget

01

The Budget currently has a deficit amount of N6.3 trillion.

02

The country has a debt stock of N38 trillion (Q3, 2021) and a high debt service to revenue ratio.

03

Nigeria in the year 2020 achieved 93% of the estimated expenditure but 63.7% of its projected revenue.

04

The oil sector, though representing less than 10 percent of our GDP accounts for over 80% of our foreign earnings.

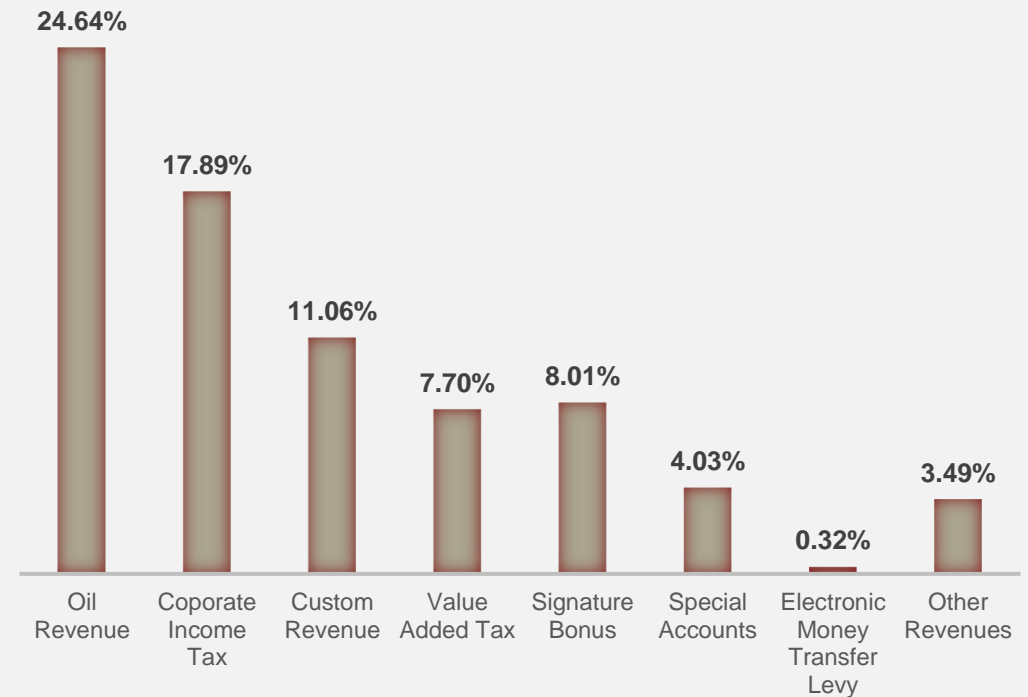
05

According to the World Bank, 91 million people are living below the poverty line.

06

The president at the COP 26 meeting reiterated that Nigeria needs \$1.5 trillion to bridge the infrastructure gap in 10 years.

Tax Revenue composition'2021



2021 Budget Implementation as at November 2021

Fiscal item	2021 Budget +Supply. Budget N'billion	Pro Rata budget (Jan-Nov) N'billion	Actual (Jan-Nov) N'billion	Percentage Implementatio n
Aggregate revenue	6,772.58	6,208.19	4,308.76	(30.6%)
Statutory transfers	496.53	455.15	455.15	0%
Non-Debt Recurrent Exp.	5,765.30	5,284.86	4,505.23	(14.8%)
Debt Service	3,324.38	3,047.35	4,201.35	37.9%
Capital Exp.	4,984.55	4,569.17	3,400.52	(25.6%)

Nigeria's 2022 Budget

Expenditure	2022 N'trn	2021 N'trn	% Change
Capital expenditure	5.47	4.98	10%
Non-debt recurrent expenditure	6.91	5.76	20%
Debt service and sinking fund	3.88	3.32	17%
Statutory transfer	0.87	0.50	74%
Total	17.13	14.57	18%

Revenue	2022 N'trn	2021 N'trn	% Change
Oil and non-oil revenue	5.53	3.50	58%
Independent and other sources	5.21	4.62	13%
Total	10.74	8.12	32%
Budget Deficit	6.39	6.45	-1%

Key Budget Assumptions 2022

Inflation Rate

% 13%

GDP Growth Rate

% 4.2%

Exchange Rate

(NGN/1USD) NGN 410.15

Oil Production

(mbpd) 1.88 mbpd

Oil price

(\$ per barrel) \$62.00pb

Appropriation Act 2022 and Finance Act 2021 - Overview

Objectives of the Finance Act include:

Amend relevant tax, excise and duty statutes in accordance with macroeconomics policy reforms of the Federal Government

Amend and make further provisions in specific laws in connection with the public financial management of the Federation.



Finance Act 2021 – A few highlights



Capital Gains Tax (CGT)

- Now applicable on gains arising from disposals of shares in any Nigerian Company.
- Proceeds from shares disposed must be over N100 million in any 12 consecutive months.



Tertiary Education Tax (TET)

A 25% increase in the TET rate from 2% to 2.5% of the assessable profits of a resident company.



Minimum Tax Amendment

Taxpayers can elect to choose any two years between the 2020 to 2021 tax years for which they will enjoy a reduced minimum tax rate of 0.25%.

Finance Act 2021 – A few highlights



Capital Allowance restriction

- Capital allowances computed for small and medium companies will be deemed to be utilised in the year computed.
- Capital allowance claimable on qualifying assets is now restricted to the portion of the assets used in generating taxable profits.



Value Added Tax

- Non Resident persons (NRP) to register for tax and include VAT on invoice of taxable supplies.
- Persons appointed by FIRS or taxable recipients of taxable supplies from NRP are to withhold and remit tax to the FIRS.



Nigerian Police Trust Fund Levy (NPTFL)

- A clear guidance has been provided on the administration of the NPTFL.
- FIRS is now to assess, collect and enforce payment of this levy.

The Strategic Revenue Growth Initiatives

The FG has reinforced its plan to improve revenue and entrench fiscal prudence with emphasis on achieving value for money. Some of the initiatives in place by the government include:

- Improving the tax administration framework including tax filing and payment compliance improvements;
- Evaluation of the process and policy effectiveness of Fiscal Incentives;
- Review of Sectors eligible for Pioneer Tax Holiday Incentives under the Industrial Development Income Tax Relief Act ('IDITRA');
- Dimensioning the cost of tax waivers/concessions, and evaluating their policy effectiveness;
- Setting annual ceilings on Tax Expenditures to better manage their impact on already constrained government revenues;
- Ensuring that MDAs appropriately account for and remit their internally generated revenue;
- Identifying and plugging existing revenue leakages to enhance tax compliance and reduce tax evasion;
- Leveraging technology and automation; and
- Plugging fiscal drainers like subsidies.

Implications for the 2022 Budget

How the FA2021 supports the government's revenue drive

- Introduction of sin tax in the form of excise duty on non-sugar carbonated drinks
- Raising of Tertiary Education Tax rate by 25% (i.e from 2% to 2.5%)
- Update on the administration and collection mechanism of both the National Agency for Science and Engineering Infrastructure, and the Nigeria Police Trust Fund levies aimed at funding science & technology as well as improving the welfare of the police.
- Amendment of tax registration requirements for non-resident persons carrying on business in Nigeria.
- Introduction of a restriction in the capital allowance claim that can be made by a Company having significant non-taxable income.



Implications for the 2022 Budget

How the FA2021 tends to plug leakages in government revenue

- Empowerment of the FIRS to deploy technology to assess and gather information on taxpayers.
- Strict compliance with the Constitution by MDAs in the remittance of moneys collected into the Consolidated Revenue Fund.
- Introduction of penalties for officers of MDAs who fail to comply with the above.
- Introduction of a debt management clause which requires borrowing to be made for projects with a significant national impact on concessional terms.
- Removal of the income tax exemption clause for companies operating in the oil and gas sector.



Implications for the 2022 Budget

Some thoughts

Need for analysis of impact of new taxes

The introduction of the new taxes such as the excise duty, although aimed at improving health of consumers, could have ripple effects on the revenue and profits of producers carbonated soft drinks and could adversely shift government revenue from other taxes such as VAT and CIT on this product.

Role of technology in tax administration

Government needs to put in place a reliable technology platform to plug loopholes and reduce human intervention in the collection of revenues.

Clarification of terms in the FA2021

With regards to the Fiscal Responsibility Act, there needs to be a clear definition of certain terms for which borrowings are to be made.

As a lack of a definition could serve as an incentive for reckless spending. Terms such as “significant national impact” and “capital expenditure”

Accountability

It is important that stakeholders dialogue with government on the allocation of resources.

Implications for the 2022 Budget

Conclusion

The FA2021, although not perfect, is a welcome development that will, to a considerable extent, help the current administration in achieving its finance and budget objectives for the 2022 financial year.

It is important though that the FA2021 is administered in a fair and equitable way such that it does not discourage business and investment in the country, but helps taxpayers to reap the dividends of their tax contribution to the Nigerian economy.





Thank you



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