



TAX BITES

MONTHLY FOCUS ON TAX RELATED ISSUES



Treasury Single Account and Taxation (Part 1)

We have not passed that subtle line between childhood and adulthood until we move from the passive voice to the active voice—that is, until we have stopped saying “It got lost,” and say, “I lost it.” - Sydney J. Harris

TAIWO OYEDELE

What is TSA?

Imagine a rich businessman who has 28 wives and 542 children altogether a family of 571 each managing a division or unit of the business empire. Some of the units are income generating while others are mere cost centres but all are meant to work together for the benefit of the family.

Each unit manager is authorised to spend money based on pre-approval by the family head. For some reasons each unit prefers to keep their monies separate. By implication some divisions have to borrow to keep their operations running even as others may have cash surpluses not immediately required. Incidentally it costs far more to borrow than you get from savings thereby unnecessarily increasing the family's debt and related costs. It is even more painful knowing that some of the units end up borrowing the same excess funds kept with the moneylenders by other units. The family head therefore directed all units to henceforth keep all their funds in a central account so that he can have a view of all revenue and expenses and so that there may be less need to borrow externally going forward.

Well, the rich businessman is Nigeria. The wives are the ministries; the children are the various departments and agencies while the central account

is the Treasury Single Account (TSA) which is a way of unifying various government bank accounts to give a consolidated view of government cash resources. There are obviously too many ministries, departments and agencies (MDAs) which must be streamlined but that is a topic for another day. In the current year, total cost of debt service is N1 trillion which is about one-third of the federal government revenue before borrowing. Nobody needs a soothsayer to know that this is dysfunctional and unsustainable therefore someone has to take responsibility for fixing it.

How does TSA operate?

For TSA to work effec-

held by MDAs in commercial banks do not necessarily have to be closed, but they must be operated as Zero-Balance Accounts where any closing balance must be swept to TSA at the Central Bank of Nigeria (CBN) on a daily basis to give government a consolidated cash position.

TSA can therefore cover all funds including earmark and extra-budgetary accounts or even funds held in trust by government. To make this work, accounting systems must be robust and capable of accurately distinguishing trust assets in the TSA. This is not different from what a private company operating in many states or even internationally will do to consolidate its

Indonesia.

Are there exceptions and what role should commercial banks play?

Organisations where government is only a shareholder and public corporations that are providing commercial rather than social services should be excluded to avoid hampering their operations given the level of bureaucracy in government. Examples include organisations such as AMCON, Federal Mortgage Bank, and the Sovereign Wealth Fund.

The adoption of TSA will involve retail banking which can still be performed by commercial banks such as collection of

the model adopted and the policy response of the CBN. The CBN recently reduced the cash reserve ratio - CRR (the portion of cash deposits a commercial bank must keep with the CBN) from 31% to 25% resulting in cash injection of about N740 billion according to the Bankers' Committee. Not long ago (Q1 2014) the CRR on government deposits was as high as 75% and as low as 12% on private sector deposits which meant banks only effectively had 25% of government deposits but 88% of private deposits at their disposal. This means the CBN currently has more room to cushion the impact by further reducing the CRR on private sector deposit to ensure that overall liquidity in the system remains largely unchanged. A lower monetary policy rate should also be considered to ensure that cost of borrowing does not increase for banks with consequences for businesses and individuals.

What are the potential benefits and challenges?

With the adoption of TSA, government will borrow less and therefore the debt servicing cost should reduce drastically to probably less than half of the current level. It is also likely that a lot of funds previously unaccounted for will be uncovered. Kaduna state for instance discovered as much as N24 billion recently through adoption of TSA.

• To be continued ...

TSA should provide some transparency around unspent budgetary allocations which should be carried forward automatically to another year. I have always wondered why we have low budget executions (sometime 60% or less) and yet we begin every budget year on the basis of zero revenue.

tively there must be daily clearing of and consolidation of cash balances into the central account even where the MDA's accounts are already held at the CBN such as the FIRS. Some may argue that it is necessary to separate the cash transactions of each MDA for control and reporting purposes; however this objective can be achieved through proper accounting rather than by holding cash in separate bank accounts. In any case, the various bank accounts

funds rather than fragment them by divisions or sub-entities. Hence, a company will only borrow externally if and only if its overall cash position is negative rather than when a division has a deficit even though others may have surpluses. I should quickly point out that TSA is not a new concept; it has been adopted for decades in many countries both in the developed world such as the United States, UK, France and developing economies like India and

taxes/levies and disbursements of funds such as payment of salaries to civil servants. Different models of TSA have various levels of commercial bank involvement ranging from France where there is no involvement whatsoever to the UK where there is significant involvement of commercial banks to Peru where the TSA is actually managed by a commercial bank rather than the central bank.

Therefore, the impact on banks will depend on

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Tax Academy

October 2015 Session

Topic: Base Erosion and Profit Shifting: Understanding the Global Debate and Local Implications.

Venue: Oriental Hotel, Lekki, Lagos.

Date: Tuesday 20 October 2015 (starting from 8.30am)



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