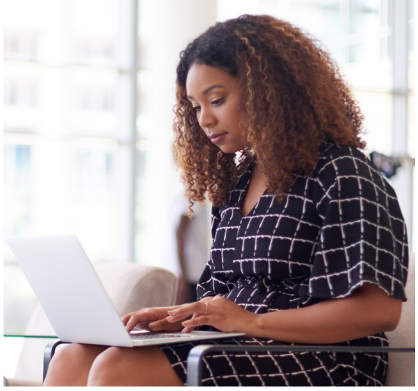
Considerations on the Quick Wins Report by the Presidential Fiscal Policy and Tax Reforms Committee



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The Presidential Fiscal Policy and Tax Reforms Committee ("the Committee") was inaugurated on 8 August 2023 and tasked with the mandate of addressing critical challenges around 3 main pillars

1 Fiscal Governance

2 Revenue transformation

3 Economic growth facilitation

The Committee streamlined its objectives under these pillars into 3 phases/milestones -

01 Quick wins (to be completed within 30 days),
02 Critical tax reforms (to be completed within 6 months), and
03 Implementation (to be completed within 1 year).

The Committee, on 24 October 2023, presented its report to the President on the quick wins recommendations. The recommendations covered key economic matters such as foreign exchange management, multiplicity of taxes and efficiency of collection, quality of spending, stimulation of local production, facilitation of economic growth e.t.c.

Highlights

Below are highlights of key recommendations contained in the report:

Ministries, Departments, and Agencies (MDAs)

- Addressing duplication of functions in public service, ensuring prudent management of government assets and ensuring collaboration within government.

Tax reforms

- Use of technology to expand the tax net, simplification of taxes and grant of amnesty to encourage compliance and expansion of the tax net;
- Improvement of economic conditions of individuals and businesses through the grant of relief allowances, increase in the income threshold for tax exemption on personal income tax, removal of VAT on diesel, grant of waivers on CNG, introduction of tax breaks for companies that increase wages of low-income earners; and
- Encouraging payment of taxes on foreign currency denominated transactions in Naira and allowing for global employment opportunities for Nigerians based in Nigeria.

Monetary and fiscal policy measures

- Addressing foreign exchange (forex) challenges by digitising the forex regime and expanding official sources across diverse platforms, discouraging speculative demands and hoarding of forex by imposing excise tax on transactions conducted outside the official market;
- Facilitating the use of mobile phones for conditional cash transfers, introducing a spending framework for subsidy removal and forex reform windfall, and creating a national portal for tracking government spending at all levels;
- 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;
- Addressing impediments to export promotion and bottlenecks regarding Exports Expansion Grants (EEG), removing restrictions on repatriation and use of export proceeds by exporters, discontinuing the forex verification portal and requirement for Certificate of Capital Importation (CCI) and removing export proceeds restriction; and
- Implementing forward contracts for the importation of PMS as a short-term measure pending improvement in key economic indices.

Implications

For many years, Nigeria has contended with a lot of bureaucracy and duplication in functions among government agencies which has resulted in a rigid civil service, administrative inefficiencies, and an escalation in the cost of governance. Streamlining and increasing collaboration among government agencies is expected to prune the civil service and make it leaner, focused and result -oriented, with the attendant benefit of promoting ease of doing business in Nigeria.

Technology and data intelligence are key to improving the efficiency of tax administration, and capturing additional tax revenue from the informal (and formal) economy. It is interesting that in a country like South Africa, Personal Income Tax generates the highest tax revenue for the government, unlike in Nigeria where the highest revenues are from taxes imposed on corporate companies. Technology can play a critical role in mobilising revenue from this largely untapped source.

The deadline of 31 December 2023 under the proposed amnesty scheme may not be sufficient for taxpayers to complete their reviews and remediate their tax affairs.

The increase in the PIT exemption threshold, provision of tax breaks for private sectors providing benefits and increased wages to low-income earners, suspension of VAT on diesel and introduction of tax waivers on CNG are expected to help mitigate the impact of the economic shocks from the subsidy removal on the most vulnerable. These interventions are not only fair but also efficient given that businesses would be required to report their interventions to the government in order to qualify, hence providing data for future policy decisions.

Foreign exchange (forex) has been a key concern for the Nigerian government given our fast depleting reserves and the low inflow of foreign direct investment. The amendment of the tax law to allow for payment of all taxes in Naira will go a long way in reducing the demand for forex in the parallel market. The government should go further and ensure issuance of receipts and credit notes for tax payments in forex which has been very difficult to obtain from the FIRS in recent years.

Removal of restrictions to capital repatriation is expected to excite foreign investors who have been worn out by the regulatory hurdles required to take out investment proceeds. If implemented, such a move could be instrumental in reversing the downward trend of Foreign Direct Investment (FDI) which slid from $2.2billion in 2014 to $468million in 2022. Furthermore, with the advent of remote working, Nigerians working for foreign companies locally would also be able to earn foreign exchange in Nigeria without exposing these foreign companies to tax regulations in Nigeria, thereby increasing the pool of forex available in the country. However, a comprehensive human capital export strategy is required to ensure comprehensive capture of all forex inflows.

The proposed introduction of excise duty on transactions outside the official market is intended to discourage the use of the black market. However, two critical issues that need to be looked into are availability of forex and accessibility to the official window as the duty might not be significant enough to deter activities in the black market where these issues are left unaddressed. It is therefore important that the government completely implements the supply recommendations on the expansion of the official windows via other platforms.

Takeaway

The recommendations from the Committee are commendable and are expected to contribute immensely to tackling some of the current economic challenges plaguing the country. It is however important that the policy is implemented in full as a large part of the recommendations are dependent on each other to achieve their desired outcome. Nigeria generated 98% of its revenue across all governments from less than 10 taxes, hence the recommendation to shrink the number of taxes (which officially are about 60) to a single digit would be beneficial to both government (in terms of collection efficiency) and to taxpayers who often have their businesses interrupted by non-state actors who collect the other less-revenue generating taxes.

Nigeria has been said to have not only a revenue challenge but also a spending challenge. Given the savings that have been made from the two significant policies around deregulation of petrol and forex, the windfall savings to the government need to be utilised in a way that improves the quality of life for Nigerians. The frequent collapse of the national grid and the unstable power supply across the country has caused businesses to shift to alternative forms of energy thereby driving their cost of operations. Energy-focused palliatives should therefore be considered for small businesses. Furthermore, the poor state of road infrastructure in the country has caused significant losses to businesses both in terms of time loss and damages to businesses like farmers who only get to transport about 40% of their agricultural produce to the markets thereby propelling food inflation currently at 30.64%.

It is therefore important that the government pays attention to quality in its spending by focusing on critical infrastructure such as power, transportation and human capital development in a way that boosts productivity, employment and addresses business challenges across all sectors of the economy. The decision of the Committee to also focus on transparency and accountability of government spending would help boost confidence and build trust in taxpayers, which is a missing ingredient in the Nigerian social contract.

A good thing to take away from the Committee is its commitment to engagement with a broad range of stakeholders ranging from private sector, public sector, Associations and Bodies, diaspora, the disabled e.t.c. With input from every segment of the economy and government's willingness to fully implement these recommendations within the one year timeline, there may yet be some bright prospects for the future.

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