YOU ASK, WE ANSWER

The Nigerian Tax Reform Bills

A Presidential Office of Digital Engagement & Strategy (statehousedigital) Production for The Presidential Fiscal Policy and Tax Reforms Committee

Objectives

Background

Nigeria has a revenue crisis, and it cuts across all tiers of government. The country's Tax-to-GDP ratio is one of the world's lowest and much below the African average. This has led to an overreliance on borrowing to finance public spending, limiting the fiscal space as debt service costs consume a greater portion of government revenue annually, resulting in a vicious cycle of inadequate funding for socio-economic development.

While incremental progress has been recorded over the years, the outcomes have not been transformative enough to change the narrative. To solve this issues as well as reduce the burden of too many taxes on Nigerians, President Bola Tinubu set up the Presidential Fiscal Policy and Tax Reforms Committee upon assuming office to review and redesign Nigeria's fiscal system with respect to (1) revenue mobilisation, both tax and non-tax; (2) quality of government spending; and (3) sustainable debt management. In addition, the committee will identify relevant measures to make Nigeria an attractive destination for investment and facilitate inclusive economic growth.

Objectives contd.

The key objectives of the Committee's work include:

1. Harmonisation of multiple taxes and levies at all levels of government to a few that are broad-based and easy to administer
2. Unification of revenue collection functions into a single agency per level of government as much as possible
3. Modernisation and simplification of the tax system, including the use of technology for revenue administration
4. Leveraging on data for intelligence to curb evasion and aggressive tax avoidance
5. Remove tax provisions which serve as impediments to business and economic growth
6. Devise structures and framework to institutionalise reforms for effective policy coordination and collaboration among government agencies and tiers of government
7. Improve the efficiency of revenue collection and transparent reporting
8. Ensure effective utilisation of tax and other revenues for social good to boost citizens' tax morale, promote tax culture and drive voluntary compliance
9. Transform revenue generation for sustainable development to achieve at least an 18% Tax to GDP ratio within the next 3 years, that is, by 2026

Introduction

It is not unusual for a major reform such as this to elicit keen interest from all stakeholders. This development is necessary to achieve the best outcomes that benefit all and provide an opportunity for further engagements, which is healthy for the system.

In this regard, the Presidential Fiscal Policy and Tax Reforms Committee has collated the most frequently asked questions about the tax reform bills to inform all stakeholders better and address some misinformation in circulation.

What is the whole fiscal and tax reforms all about?

Nigeria's tax system has over time become complex, stifling growth and unable to generate the required revenue for development. This is largely due to lack of policy clarity and inconsistency, obsolete and ambiguous tax laws, weak and fragmented revenue administration.

The main objectives of the reform is to redesign the system to support growth by addressing current challenges such as multiplicity of taxes, ambiguous and obsolete provisions, reduce the tax burden on individuals and businesses while promoting the ease of doing business to facilitate sustainable economic growth and deliver shared prosperity for Nigerians.

The key targets include single digit number of taxes, harmonised and efficient revenue administration, increase in tax to GDP ratio, economic competitiveness, and removal of tax burden on the poor.

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Q.1

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How representative or inclusive was the process leading up to the various proposals?

The committee comprised over 80 individuals from all walks of life across the 6 geopolitical zones of Nigeria representing more than 20 government institutions, the organised private sector, trade associations, professional bodies, professional services firms, and the civil society. The composition ensures there is adequate gender balance, with people of different faiths and the youth. About 45 students were selected from 22 universities across Nigeria who support the secretariat work, conduct research and participate in committee meetings on a rotational basis.

Tailored sessions were conducted for more than 40 sectors representing over 90% of the economy and focus group engagements for people with disabilities, youths, and Nigerians in the diaspora. The committee requested inputs from all stakeholders and received memoranda from people in all the 36 states and the FCT.

Furthermore, exposure consultation sessions were organised for CFOs with over 300 companies represented, journalists, public analysts, tax consultants, and business owners. We also had engagements with the Nigeria Governors' Forum, the Federal Executive Council, National Economic Council, finance commissioners, the Joint Tax Board, among others.

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Q.2

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Why is the VAT proposal generating so much controversy? Are we trying to fix what is not broken?

The current VAT system is fractured. The major issues include:

(i) **Disputes over VAT administration between some states and the federal government resulting in some landmark judgements and pending court cases.** This is compounded by the fact that VAT is not stated in the 1999 Constitution thereby creating a lacuna. Our analysis shows that a central collection system is more efficient and benefits all. Once the contentious issues have been resolved, then VAT can be properly included in the constitution. The current sharing formula of FG 15%, States 50% and LGs 35% is proposed to become FG 10%, States 55% and LGs 35%.

(ii) **Imposition of parallel consumption taxes in some states along with VAT which increases the tax burden on the people and contributes to multiple taxation.** The reform seeks the discontinuation of all consumption taxes other than VAT.

(iii) **Basis of distribution** - the current formula for sharing VAT among states is based on 20% derivation, 50% equality and 30% population. The tax reform proposes a different model of derivation which will attribute VAT to the place of supply and consumption rather than the current model which attributes VAT to the state where it is remitted thereby favouring

Q.3

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states with companies headquarters. Further, derivation under the new model will account for 60% of VAT distribution for better equity and to discourage any state from seeking to administer VAT as a state tax, which will not only result in much lower revenue for all tiers of government but will impose a higher burden on businesses.

The proposed derivation model is contained under S.22(12) of the Nigeria Tax Administration Bill which states that "For the purpose of attribution, any return under this section shall provide details of derivation of taxable supplies by location ..."

The controversy has arisen from the perception that the proposed formula would lead to lower revenue for some states. However, the 5% to be ceded by the FG can be set aside for equalisation transfers to cater for any shortfall to a state under the new model. This ensures that no state is worse off in the short term while significantly enhancing economic activities and revenue for all states in the medium to long term.

Watch the explainer here **https://bit.ly/48LIVBN**

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Q.3 contd.

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Are the bills also seeking to merge or scrap some agencies?

No. The bills are seeking to merge taxes and harmonise revenue administration.

The system will leverage technology for integration which will ensure seamless revenue administration with greater efficiency and less burden for people and businesses.

Government agencies will be able to focus on their primary mandates rather than being distracted with revenue targets. Agencies that are currently collecting taxes and levies other than regulatory fees will therefore be funded through the budgetary process.

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Q.4

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One of the reform targets is to double Nigeria's tax to GDP ratio over the next few years. Are we to expect more taxes?

The plan is to reduce the overall tax burden, not increase it. By simplifying the tax system, harmonising taxes and addressing impediments to investments, the reforms will boost economic activities and therefore enhance revenue generation for all tiers of government.

This will ensure that we can raise tax revenue without raising tax burden, through various strategies including removal of disincentives to business formalisation, use of technology and data for intelligence, tax simplification and enhanced administrative capacity.

Beyond raising revenue, curbing tax evasion also ensures that there is a level playing field for all rather than implicitly penalising compliant taxpayers and rewarding evaders.

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Q.5

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How will the reforms benefit businesses, large and small?

Businesses have consistently cited tax issues such as multiplicity of taxes and complex tax compliance requirements as major impediments to investment and competitiveness. Addressing these issues will therefore facilitate economic growth and boost the country's GDP.

Some of the proposals include reduction of corporate income tax rate from 30% to 25% over the next 2 years and elimination of earmarked taxes on companies to be replaced with a harmonised single levy at a reduced rate.

Others include elimination of minimum tax on loss-making companies and those with low margins, grant of input VAT credit to businesses on assets and services to reduce cost of investment, ability to pay taxes on foreign currency transactions in naira, WHT and VAT exemptions for small businesses and a higher threshold of N50m annual turnover for corporate income tax exemption. There will be an office of the tax ombudsman to check administrative excesses and protect vulnerable taxpayers. In addition, tax incentives are being rationalised with clear rules to ensure certainty and provide a level playing field for all investors, while a new priority sector incentive regime will replace the current pioneer status scheme etc.

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Q.6

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Is it true that workers will pay more PAYE tax?

The current taxable income bands and rates were introduced in 2011. Due to the lack of review, the structure has resulted in "fiscal drag" where many low income earners have been pushed to the top bracket over time due to high inflation. Also, the system discourages formalisation given that the tax rate on companies is nearly double that of enterprises which also encourages arbitrage in many cases.

The proposal seeks to address these issues and simplify the system by eliminating various reliefs and allowances while adjusting the bands and rates to achieve an overall lower effective tax rate for workers. This will ensure that an individual with basic education should be able to file their tax returns without any assistance. There is a rent relief allowance to provide additional benefits for low income earners.

Individuals earning about N1.7m or less per month will pay lower PAYE tax while those earning the new minimum wage and slightly more will be fully exempted. These thresholds will result in about 98% of workers in the public and private sector paying lower taxes while the top 2% will pay slightly more in a progressive manner up to 25% for high networth individuals.

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Q.7

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Are there specific proposals for the ordinary Nigerian?

Yes. The lowest income earners accounting for about one-third of all workers will be fully exempted from tax while low and middle income earners will pay less. This is consistent with the policy philosophy of not taxing poverty. Also, self employed persons and entrepreneurs will enjoy tax exemptions available to individuals in formal employment.

The VAT reform includes a zero (0%) rate for food, education, health, and exemption for rent and public transportation. These items constitute an average of 82% of household consumption and nearly 100% for low income households which will ameliorate the rising cost of living for the masses.

In addition, there are proposed changes to the income tax laws to facilitate remote work opportunities for Nigerians in Nigeria within the global business process outsourcing. This will empower our youths to play a key role in the digital economy space.

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Q.8

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We have seen different recommendations and proposals in the past. What will be different this time around?

The Presidential Fiscal Policy and Tax Reforms Committee was set up with a broad mandate covering fiscal governance, revenue transformation and economic growth facilitation.

In addition, the committee is charged with implementation rather than merely submitting a report of recommendations at the end of its assignment which has a much lower chance of success. The various proposals were co-created with inputs from Nigerians, using data and evidence to inform the recommendations.

There are measures to ensure that the reforms are institutionalised via legal framework and administrative structures including systems to curb corruption and block loopholes through technology, self service and tax agents regulation as well as planned amnesty and whistleblowing framework to sanitise the system.

Q.9

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What else is being done beyond the new tax bills?

There are various proposals which have been implemented or are at different stages of implementation including the 2024 WHT Regulations, Executive Orders, and the 2024 National Fiscal Policy with clear principles for fair taxation, responsible borrowing and sustainable spending including frameworks for subsidy and cash transfers, ESG and Sustainable Development Goals.

Q.10

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Know the Truth about the Tax Reforms Bills

1. Changes to the income tax laws to facilitate remote work opportunities for Nigerians in Nigeria within the global business process outsourcing. This will empower our youths to pay a key role in the digital space

2. Zero rated VAT and other incentives to promote exports in goods, services and intellectual property.

3. Tax exemption for small businesses including WHT, VAT, and 0% CIT.

4. Exemption from personal income tax for minimum wage earners and reduced tax burden for over 90% of private and public sector workers.

5. VAT at 0% for foods, education, health and exemption for rent and public transportation. These items constitute an average of 82% of households to ameliorate the rising cost of living for the masses.

6. Introduction of the Tax Ombudsman to advocate for improved tax system and protect vulnerable taxpayers.

7. Reduction of corporate income tax rate from 30% to 25% over the next 2 years and elimination of earmarked taxes on companies to be replaced with a harmonised single levy at a reduced rate.

8. Elimination of minimum tax on loss-making companies and those with low margins.

9. Grant of input VAT credit to businesses on assets and services to reduce cost of investment and improve competitiveness.

10. Redesign of the personal income tax band and rates, VAT and Capital Gains Tax to be progressive while protecting the poor.

11. Proposal to repeal over 50 nuisance taxes and levies, and harmonise the remaining taxes to a single digit.

12. Rationalisation of tax incentives to reduce uncertainty and provide equitable basis for VAT revenue sharing to ensure that States without many headquarter companies are fairly treated and recognised for their economic contributions to create a level playing field for all investors.

13. A new National Fiscal Policy to set the framework for taxation, responsible borrowing and sustainable spending.

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More information can be found on the Committee's social media accounts, **fiscalreformsng** on X, LinkedIn, Instagram, Facebook, YouTube channel and website **https://fiscalreforms.ng/**. You can also reach us via email at **enquiries@fiscalreforms.ng** or via WhatsApp chat on **+234 810 975 3151**.