ICAN Symposium on FGN 2014 Budget

BUDGET 2014: TAX AND FISCAL POLICY IMPLICATIONS

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Objectives

At the end of this session, participants will have a better understanding of:

- The fiscal performance of previous year's budget;
- Key tax and fiscal policy measures contained in the 2014 budget;
- The effect of the fiscal policies on key economic initiatives; and
- Implications for individuals, businesses and the economy at large.

Agenda

1) The role of taxation in budgeting
2) Review of 2013 performance
3) Analysis of the 2014 Budget
4) Tax implications of the 2014 Budget
5) Concluding thoughts

The role of taxation in budgeting

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Role of taxation in budgeting

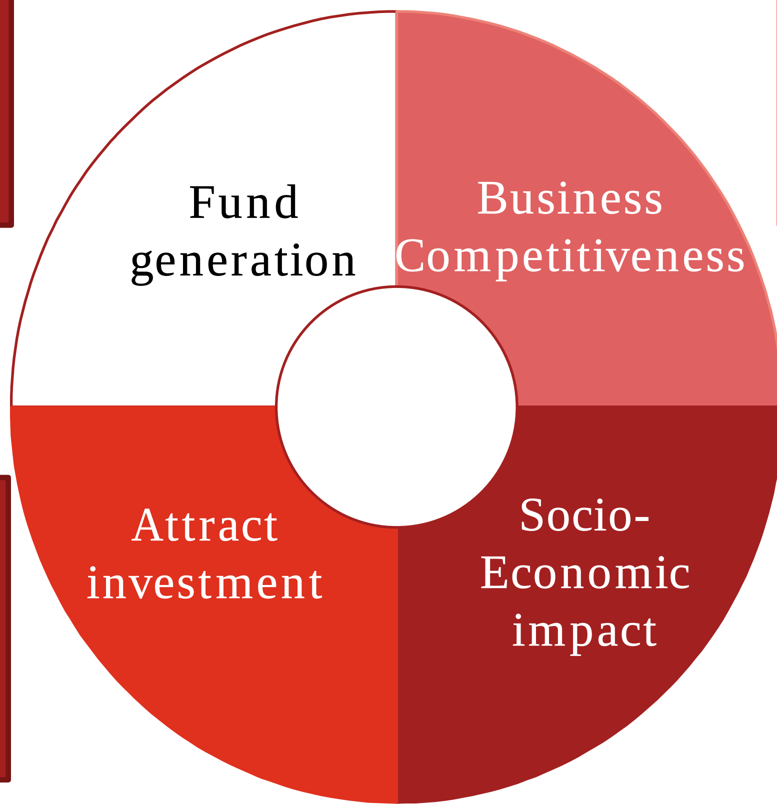
- A budget is simply a plan of revenue and expenditure over a specified period;
- Outlines holistically the sources of Government spending and the projects on which such funds would be directed towards;
- Details the allocation of revenue and resources across the different tiers of government as well as parastatals, ministries and other government agencies;
- It is an important tool for making resource allocation decisions to implement strategic goals that should improve the welfare of the citizens; and
- It provides a framework to measure the performances of political office holders and to demand accountability for the resources of the country.

Role of taxation in budgeting

Taxation plays several key roles in the budget of a state/country.

Taxes are a vital and increasingly reliable source of revenue to the budget of the Federal Government.

Tax policies in the budget are used to achieve macro economic goals.



Tax incentives may be used to attract investment to and thereby stimulate growth of the economy.

Tax policy is a tool for job creation, environmental sustainability, and economic growth all leading to a wider tax base.

Review of 2013 budget performance

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Which of the following phrases best describes Nigeria?

a) A rich country with rich people

b) A rich country with poor people

c) A poor country with rich people

d) A poor country with poor people

Review of 2013 Budget

Revenue performance - Oil

- PPT and gas tax accounted for 2,159.21 billion as against the budgeted amount of N1,772.36 billion. This represents an increase of N386.84 billion.
- Royalties collected was N684.45 billion as against the budgeted amount of N570.81 billion. This represents an excess of N113.64 billion.
- Crude oil sales achieved was N2,208.71 billion compared to the budgeted amount of N3,182.93 billion. This represents a shortfall of N974.22 billion.
- Total oil revenue stood at N5,257.21 billion, as against the budgeted performance of N5,800.61 billion. This represents a shortfall of N543.40 billion attributed to the fall in oil lifting figure during the year.

Review of 2013 Budget

Revenue performance – Non oil

- Companies Income Tax of N816.45 billion was above the budget of N744.03 billion. This represents an excess of N72.42 billion and is a trend that the Revenue would want to consistently achieve. Hence – aggressive tax collection and more strategic audits.
- Value Added Tax collected was N573.58 billion compared to the budget of N708.96. This represents a shortfall of N135.38 billion.
- Customs and excise duties collected was N304.64 billion as against the budget of N594.71. This represents a shortfall of N290.07 billion.
- The total non oil revenue stood at N1,694.66 billion, as against the budgeted performance of N2,138.76 billion. This represents a shortfall of N441.1 billion and is attributed to the shortfall in indirect tax revenue during the period.

Review of 2013 Budget

Revenue performance – learning points

- Strategic spending should be allocated to key non-oil sectors to diversify the economy and ensure sustainable growth.
- Increase spending on capital projects and prudent management of recurrent expenditure.
- Arbitrary incentives and waivers of duties and VAT accounted partly for the shortfall in tax revenue collection.
- Increase in oil theft also accounted for revenue loss.
- High level of tax evasion must be addressed to raise revenue profile from taxation
- Taxpayers' money should be put into good use and there should be better accountability of tax collection.

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Analysis of the 2014 Budget

Key highlights

The purpose of the budget is to create jobs, improve the standard of living for Nigerians and ensure inclusive growth.

Approved 2014 Budget (Appropriation Act)

- Total expenditure = N4.964 trillion
  - Recurrent expenditure = N2.455t
  - Capital expenditure = N1.119t
  - Debt service = N712 b
  - SURE-P = N268.37 b
  - Statutory transfers = N408.69b
- Largest allocation to Defense = N968.13 billion
- Projected revenue for the 3 tiers of government = N10.88t
- FGN = N3.73t (N4.1t in 2013)
- Borrowing to finance deficit = N571 billion

Key highlights

Crude oil Indices

- The oil price benchmark of US$77.5 was lower than that of US$79 used in the 2013 budget.
- The oil price benchmark is still conservative compared to the market price of around US$104 per barrel projected for 2014 by the IMF in the January 2014 edition of its World Economic outlook publication.
- Some justification for the low benchmark price may be increasing production of shale oil in the United States.
- Other issues include discoveries of crude oil around the world particularly in Africa and potential increase in production quotas by members of OPEC.

Key highlights

Revenue generation

- The budget put the gross federation revenue at N10,453.39 billion of which N7,164.81 billion was projected as oil & gas revenue while N3,288.58 billion was budgeted as gross federally collectible non-oil revenue.
- This portends a likely drive by revenue authorities to meet set targets aggressively.
- Taxpayers should therefore consider strategies to mitigate issues that may arise from tax audits.

Key highlights

Tax policies

- To encourage local production of and assembly of vehicles in Nigeria, import of new and used vehicles will attract import tariff of 70% of the cost of the vehicle, plus 35% duty.
- To improve the value chain on key automobile products like metals, iron ore, plastics and tyres, there will be a tax holiday for five to ten years for local manufacturers. Unless this is applied to unincorporated entities, there is already a framework for the tax relief under the Industrial Development Act.
- In order to encourage local production of rice, a 10% duty and 100% levy was applied to brown and polished rice. However, as local producers were not able to increase production to meet consumer demands, there was a surge in smuggled rice last year. Consequently the government is considering a review of the import duty regime.

Tax implications of the 2014 budget

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Tax as a driver of economic growth

- The budget policies should be directed towards stimulating the economy and thereby increasing the tax base.
- Increasing tax base will involve job creation, sustainable development, investment in capital projects, stable investment climate and reduced tax uncertainties.
- Sustained job creation is effectively achieved through capital expenditure and private sector investment.
- Capital expenditure for 2014 was just 23.7% of the aggregate expenditure.
- The government needs to increase the capital expenditure portion of the budget and create a conducive environment for private sector growth.

Tax as a source of revenue

Oil Taxes and Levies

- Major components of oil taxes are royalties and petroleum profit tax.
- Oil benchmark reduced from $US79 to $US77.5.
- Budgeted crude oil production reduced from 2.53 mbpd to 2.39 mbpd in 2014.
- Reduced crude oil production may result in decline in oil revenue and subsequent fall in government take.
- The government anticipates this fall in oil revenue as the proposed amount is N2,114.53 billion compared to N2,354.51 billion in the 2013 budget.
- Slow progress in passing the Petroleum Industry Bill. This is hampering investment in the sector.

Tax as a source of revenue

Non Oil Taxes and Levies

- These include companies' income tax, customs and excise duties, capital gains tax and various levies.
- The fall in oil taxes would lead to more drive to increase non oil taxes to bridge the revenue gap.
- A measured approach is needed for tax waivers, incentives and treaty negotiations which will reduce the country's tax base.
- The budgeted amount for non oil tax increased from N996.71 billion in 2013 to N1,021.41 billion in 2014.
- More focus will be on generating revenue from companies income tax which is 12% of total revenue and over 45% of non-oil taxes.
- The Federal Inland Revenue Service (FIRS) would be taking measures to achieve this.

Rebased GDP and tax implications

Nigeria now Africa's largest economy

Pre-rebased Tax to GDP Ratio was 12%

Post-rebased Tax to GDP Ratio now about 8%

Total tax collection in 2013 (FIRS + Customs+ States = N6 trillion or USD 37.5 billion)

Tax considerations

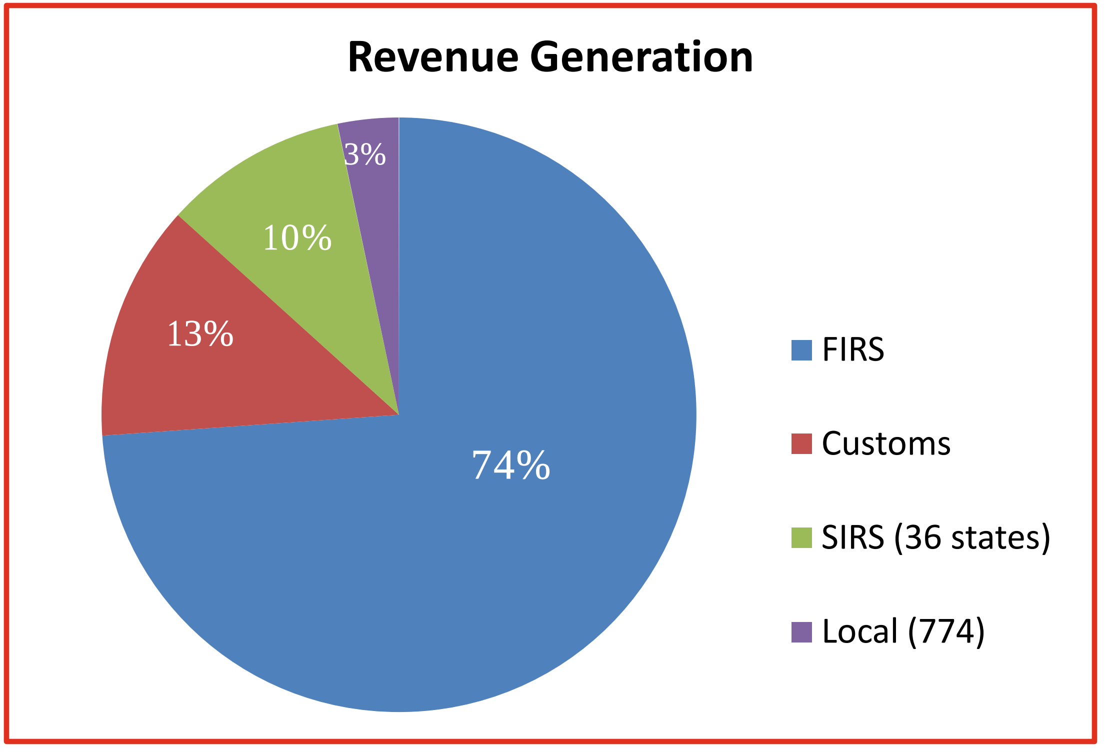
More focus on how to increase tax revenue:

- Transfer Pricing / BEPS
- Efforts to improve level of compliance across all levels of government
- Expansion of the tax net to new areas (informal sector, Nollywood, religious bodies etc)
- Not enough focus on ease of paying taxes

Nigeria's current tax revenue profile
How do we stand?

Fiscal Year 2013

Agencies	Revenue N'm
FIRS	4,805,642
Customs	833,400
SIRS (36)	648,897
Local (774)	216,299
Total	**6,504,238**



Total tax revenue of N6.5 trillion as a percentage of GDP of N80 trillion in 2013 is circa 8%

Concluding thoughts

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Conclusion

- The dwindling oil revenue and budget deficit must be shored up through aggressive tax drive to be anchored in the FIRS.
- Some measures introduced by the FIRS such as the recent introduction of transfer pricing rules will help raise government revenue.
- There will be an increased drive to collect IGR/taxes in 2014
- Ensure to pay your taxes correctly and on time or be prepared to face difficulties
- Fuel subsidy and the need to fund internal security will continue to put a strain on government's revenue
- Government may impose tax indirectly by way of inflation (QE)
- Delay in passing the 2014 FGN budget means that budget performance will be poor (again).

Conclusion

Food for thought

Why do we start our budget from a zero base every year? What happens to the unspent amounts from previous years due to budget under-performance?

Why do we not subject actual implementation to value for money audit? The question is whether what “it is” is as good as “what could have been”.

Should Nigeria not consider a conservative budget and then a conditional budget to deal with excess crude account?

Should Nigeria be saving money given the current state of our economy? Most developed countries actually borrow to build their economies.

… and should we continue to have security votes?

"Don't tell me what you value, show me your budget and I'll tell you what you value."

- Joe Biden (Current US Vice President)

Thank you!

Profile – Taiwo Oyedele

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Mr Taiwo Oyedele is the Head of Tax and Regulatory Services at PwC Nigeria (the world's leading professional services firm with presence in over 150 countries). Mr Oyedele has been in the forefront as a thought leader and prominent speaker on key economic, accounting and tax issues including the tax implications of IFRS Adoption and Transfer Pricing. He is an ardent advocate of tax reforms with particular emphasis on tax simplification and transparency. He recently represented the Manufacturers Association of Nigeria at the National Economic Council (body of all 36 Governors and the Vice President) to successfully make a case for reforms to address multiplicity of taxes.

Mr Oyedele writes articles in leading national newspapers (including Guardian and BusinessDay), professional journals, international magazines and newsletters. He is a regular presenter and a highly sought after public speaker delivering over 200 speeches and presentations around the world in the past 3 years alone. Notable among these include presentations at the Africa Congress of Accountants (Kenya 2011 & Ghana 2013), Oil & Gas / Energy Conference (Houston 2011 & Dubai 2013), Series of Executive IFRS Training (London & Dubai 2011 - 2013), Global Transfer Pricing Conference (New York 2012), Mergers & Acquisition Conference (Istanbul 2012), BT Africa Conference (South Africa 2012), Nor Shipping Conference (Norway 2013), "Tax and Transparency" at the House of Commons in Westminster (London 2013), Africa Tax and Business Symposium (Mauritius 2013).

Mr Oyedele is the Head of PwC Tax Academy, Dean of the Direct Taxation Faculty of the Chartered Institute of Taxation of Nigeria, member of the Nigerian Taxation Standards Board and a member of the Taxation and Fiscal Policy Management Faculty Board of ICAN.

He is the author of the "Top 50 Tax Issues in Nigeria" and a contributor to the annual "Doing Business" report of the World Bank, and PwC "Paying Taxes" publication, as well as Worldwide Tax Summaries. In his roles on these projects, Mr Oyedele examines the various areas requiring reforms in the tax legislation, administration, policy and practice in Nigeria compared to over 180 countries around the globe. He also runs a blog on tax matters with thousands of followers from over 20 countries worldwide (www.pwc.com/nigeriataxblog).

He is a member of the ACCA Global Governing Council, a Fellow of the Institute of Chartered Accountants of Nigeria (FCA), Fellow of the Chartered Institute of Taxation of Nigeria (FCTI), and a Fellow of the Association of Certified Chartered Accountants (FCCA).

Mr Oyedele is a mentor to many young people and patron to a number of youth organisations including the JCI, Reformed Ambassadors Network, Unilag Tax Club, Students' Associations in various universities such as Obafemi Awolowo University, University of Lagos, and Yaba College of Technology. He is the Founder and President of Impact Africa Foundation, a non profit organisation established to support the education of less privileged students across Africa.