



BPSR Monthly Lunchtime Seminar Series

**| Public Finance Management Reforms: Successes,
Challenges & Way Forward |**

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OUTLINE

- I. *Context: Background & Introduction*
- II. *PFM in Nigeria – An Overview*
- III. *2019 FGN PEFA Assessment Process*
- IV. *Post PEFA Reform Actions*
- V. *Challenges*
- VI. *Strategic Revenue Growth Initiatives (SRGI)*
- VII. *Key Highlights of the Finance Act, 2021*
- VIII. *Way Forward & Conclusion*

**NIGERIA IN CONTEXT:
INTRODUCTION & BACKGROUND**

INTRODUCTION & BACKGROUND .../2



- Nigeria posted its fifth consecutive quarterly economic growth in Q4 2021, since the resumption of growth in Q4 2020, continuing the recovery from its deepest ever economic recession recorded in 2020 triggered by the Covid-19 pandemic.
- Recovery from the v-shaped recession was fuelled by the implementation of government's Economic Sustainability Plan (ESP) and the easing of COVID-19 induced restrictions on economic activities.
- Government continues to face significant fiscal constraints, with expenditures rising much faster than revenues, resulting in rising budget deficits and borrowings.

INTRODUCTION & BACKGROUND .../3



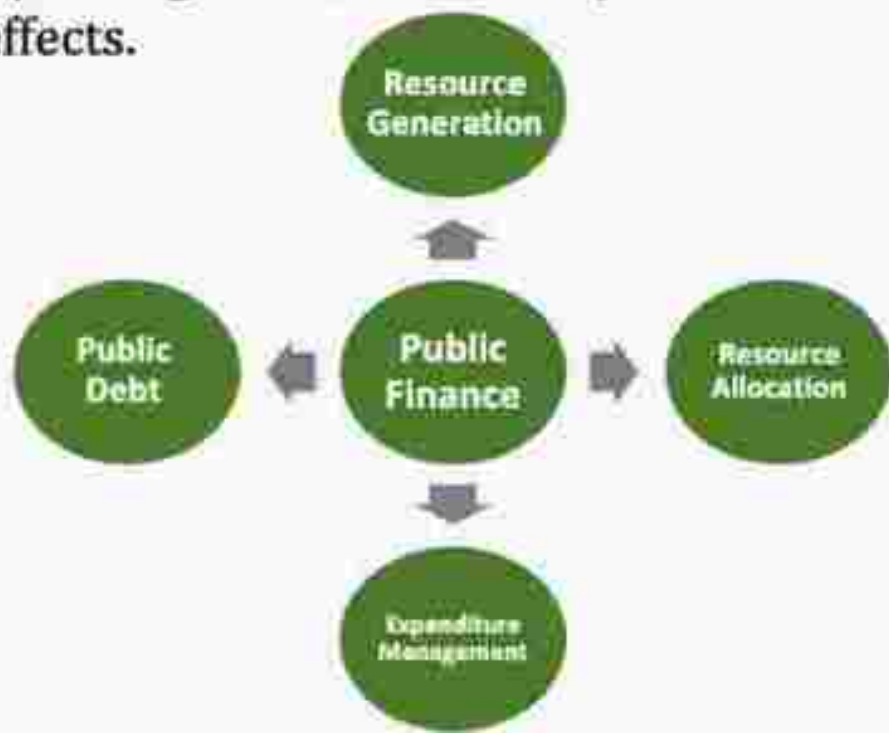
- Nigeria's inflation rate rose in March, 2022 to 15.92% from 15.7% recorded in the previous month, but still below a four-year high of 18.17% in March??? 2021.
- The uptick is largely attributed to the increase in prices of goods and services, which resulted from high transportation costs induced by rising crude oil prices and worsened by domestic shortages in supply of diesel and petrol during Q1 2022
- NBS' Q4 2020 estimates put unemployment at 33% and underemployment rate at 22.84%. High unemployment/underemployment rates have implications for poverty incidence in the population.

PFM IN NIGERIA: AN OVERVIEW

OVERVIEW OF PFM IN NIGERIA



- Public Finance Management encompasses all government's fiscal operations, principally tax policies, resource mobilisation activities, expenditure policies/management, and the adjustments of one or the other, to achieve desired effects.



PFM - LEGAL FRAMEWORK



| Core PFM Laws & Regulations | Brief Description |
|---|--|
| Sections 58, 80(1), 82, 122 1999 CFRN | Consolidated Revenue Fund (CRF) |
| Sections 80 - 89 of the 1999 Constitution of the FRN | Annual Budget of the FGN & States |
| Sections 85 - 87 of the 1999 Constitution of the FRN | Auditor General of the Federation |
| Sections 88 - 89 of the 1999 Constitution of the FRN | The Public Accounts Committee (PAC) of the NASS; <i>Review Audit Reports, hold public hearings on same & recover looted public funds</i> |
| Section 314 Constitution of the FRN; Items 7 & 50 of Part I, 2nd schedule of the CFRN | Management of Public debt |
| Other PFM Regulations & Laws | |
| Fiscal Responsibility Act, (FRA) 2007, (as amended) | Fiscal Discipline & Management |
| Public Procurement Act, 2007 | Procurement discipline/regulation |
| Statistics Act, 2007 | Promote use of statistical standards & methodologies in maintaining a comprehensive national statistical databank |
| Financial Regulations (2009) | Guidelines & standard operating procedures for day-to-day management of government financial activities |
| Freedom of Information Act (FOI), 2011 | Improves citizen's participation, transparency and public accountability by providing public access to non-sensitive official data |
| Executive Order 2 (E02), 2017 | Enhances Performance Management Framework for GOEs |
| Finance Act, 2020, 2021 | Improving taxation equity & Domestic Resource Mobilisation |
| Finance Control & management Act, 1958 | Overall Coordination of FGN Finance arrangements |

Others Include

- Public Service Manual
- Civil Service handbook
- Procurement procedure manual;
- Federal Treasury Circulars, etc.

PFM - INSTITUTIONAL FRAMEWORK



| FGN PFM INSTITUTIONAL FRAMEWORK | |
|---|---|
| Federal Ministry of Finance Budget & National Planning | Budget Office of the Federation (BOF) |
| | Office of the Accountant General of the Federation (OAGF) |
| | Federal Inland Revenue Service (FIRS) |
| | Debt Management Office (DMO) |
| | Nigeria Custom Service (NCS) |
| Other FGN Institutions | Fiscal Responsibility Commission (FRC) |
| | Revenue Mobilisation Allocation and Fiscal Commission |
| | Office of the Auditor General of the Federation |
| | Bureau for Public Procurement |
| | Bureau for Public Enterprises |
| | NNPC, DPR, NAPIMS |
| | Central Bank of Nigeria (CBN) |
| National Assembly | |
| STATES PFM INSTITUTIONAL FRAMEWORK | |
| State Ministry of Finance/Budget & Economic Planning | Office of the Accountant General of the State |
| | Budget Directorate |
| | State Internal Revenue Service/Board |
| | State Bureau for Public Procurement |
| Others | State House of Assembly |
| | Debt Management Unit |
| | Auditor General of the State |

2019 FGN PEFA ASSESSMENT PROCESS

OVERVIEW OF PFM IN NIGERIA .../2



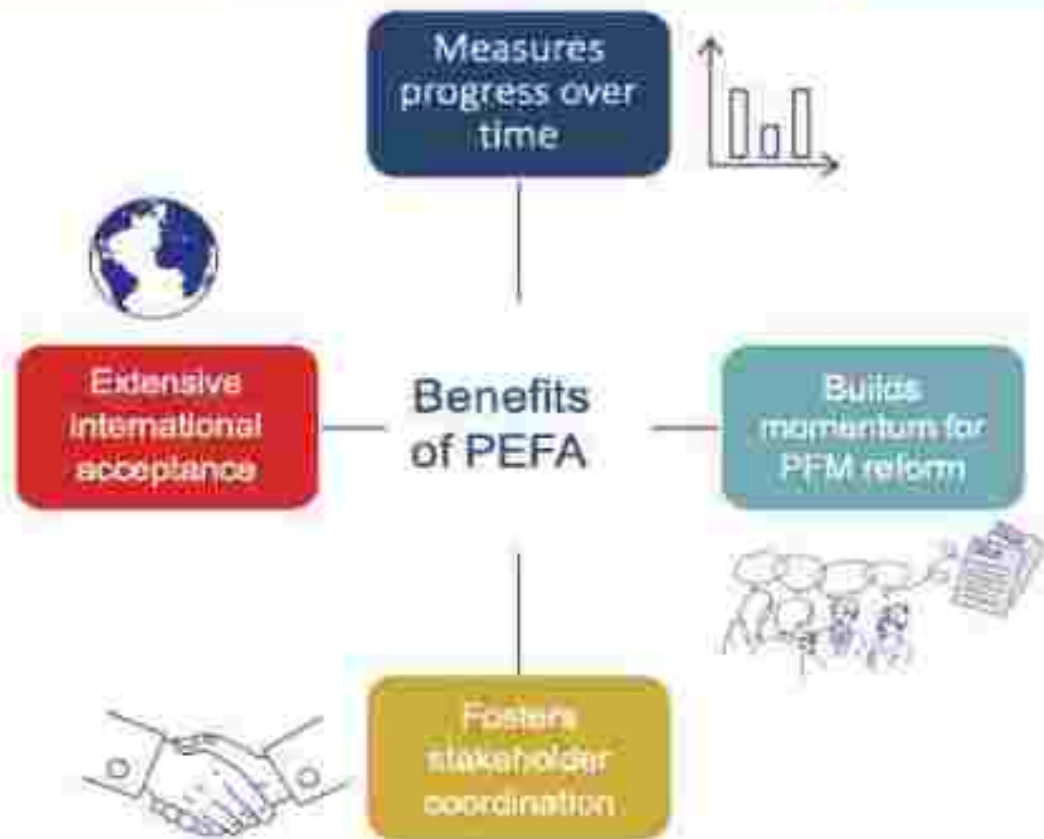
- In 2019, the FGN, in collaboration with the World Bank, undertook a Public Expenditure and Financial Accountability (PEFA) Assessment.
- This assessment was primarily undertaken as an FGN PFM health-check to position for key reforms within the PFM ecosystem.
- Overall, the assessment's preliminary findings helped identify areas within the FGN PFM ecosystem needing urgent reforms.
- The 2019 PEFA assessment was a **Joint Assessment**; hence, the government and non-government members of the Assessment Team performed the assessment and discussed scores/results as well as justifications for scores.

THE PEFA FRAMEWORK



In this presentation, I have adopted **the PEFA framework in evaluating the FGN's PFM policies and practices** (as proxy for PFM in Nigeria). References will be made to specific reform actions post the 2019 PFM assessment in course of this presentation

THE PEFA FRAMEWORK



PEFA 2019 PERFORMANCE ASSESSMENT



The PEFA framework was comprehensively upgraded in 2016.



Fiscal discipline
Efficient resource allocation
Efficient service delivery

7 PILLARS OF PFM PERFORMANCE



Pillar One
Budget reliability



Pillar Two
Transparency of
public finances



Pillar Three
Management of assets and
liabilities



Pillar Four
Policy-based fiscal
strategy and budgeting



Pillar Five
Predictability and
control in budget
execution



Pillar Six
Accounting and reporting



Pillar Seven
External scrutiny and
audit



PEFA performance indicators

— BUDGET RELIABILITY —

- PI-1. Aggregate expenditure outturn
- PI-2. Expenditure composition outturn
- PI-3. Revenue outturn

— TRANSPARENCY OF PUBLIC FINANCES —

- PI-4. Budget classification
- PI-5. Budget documentation
- PI-6. Central government operations outside financial reports
- PI-7. Transfers to subnational governments
- PI-8. Performance information for service delivery
- PI-9. Public access to fiscal information

— MANAGEMENT OF ASSETS AND LIABILITIES —

- PI-10. Fiscal risk reporting
- PI-11. Public investment management
- PI-12. Public asset management
- PI-13. Debt management

— POLICY-BASED FISCAL STRATEGY AND BUDGETING —

- PI-14. Macroeconomic and fiscal forecasting
- PI-15. Fiscal strategy
- PI-16. Medium-term perspective in expenditure

budgeting

- PI-17. Budget preparation process
- PI-18. Legislative scrutiny of budgets

— PREDICTABILITY AND CONTROL IN BUDGET EXECUTION —

- PI-19. Revenue administration
- PI-20. Accounting for revenue
- PI-21. Predictability of in-year resource allocation
- PI-22. Expenditure arrears
- PI-23. Payroll controls
- PI-24. Procurement
- PI-25. Internal controls on nonsalary expenditure
- PI-26. Internal audit

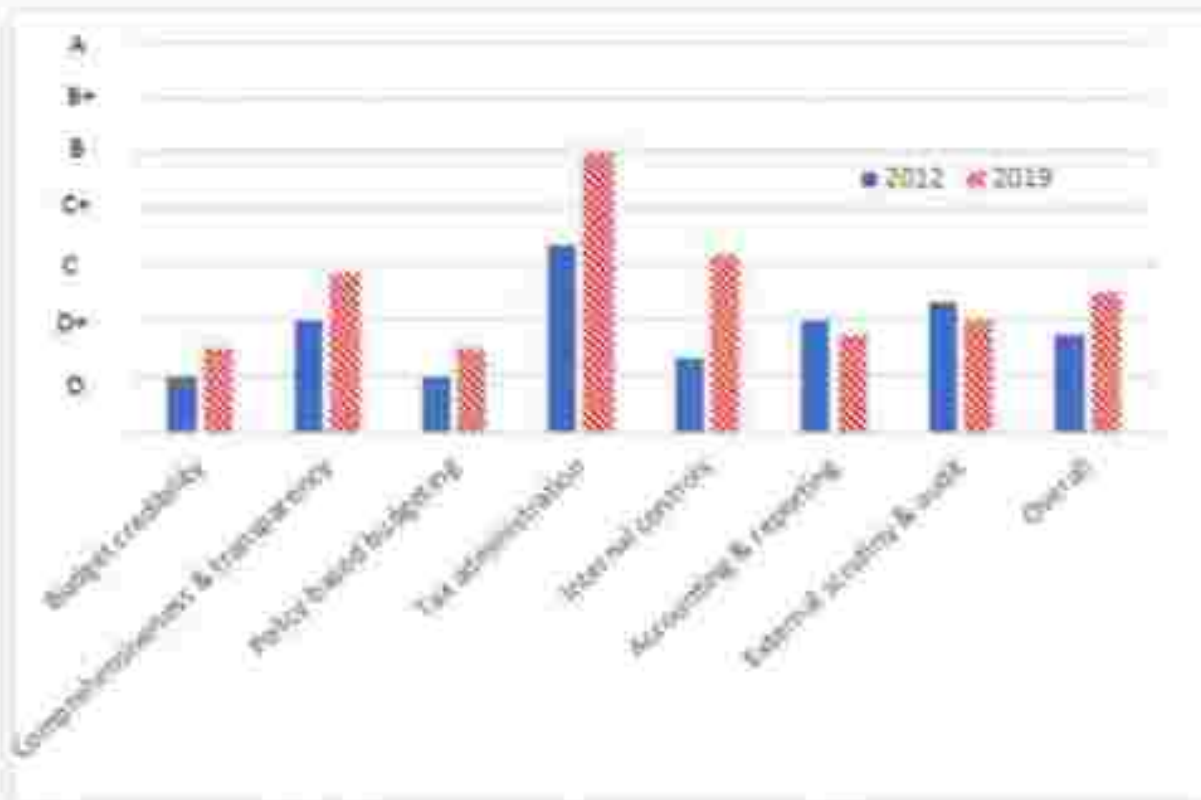
— ACCOUNTING AND REPORTING —

- PI-27. Financial data integrity
- PI-28. In-year budget reports
- PI-29. Annual financial reports

— EXTERNAL SCRUTINY AND AUDIT —

- PI-30. External audit
- PI-31. Legislative scrutiny of audit reports

PEFA PERFORMANCE INDICATORS



Source: PEFA

Highlights

Overall, there are remarkable improvements particularly in the following areas:

- Budget Credibility
- Comprehensiveness & Transparency
- Policy Based Budgeting
- Tax Administration
- Internal Controls

Performance dipped in the following areas

- Accounting & reporting
- External Scrutiny & Audit

POST PEFA PFM REFORM ACTIONS



POST PEFA REFORM ACTIONS

Pursuant to PEFA assessment, we identified short, medium and long term approach to our reform actions, we have been able to achieve the following...



Domestic Revenue Mobilisation

We have implemented the Strategic Revenue growth Initiative SRGI 1.0 and SRGI 2.0 is ongoing



Inclusion of the Budgets of 63 GOEs

This has better improved our comprehensiveness as well as transparency position in terms of reporting for GOEs



Timeliness

We have seen the timely submission of the MTEF/FSP and annual budgets including early approval by NASS



Better collaboration with key stakeholders

The Executive and the Legislature have witnessed improved coordination & collaboration which has improved timeliness



Improved Budget - Policy - Plan - linkage

Annual budgets are based on the National Development Plan (ERGP 2017-21, ESP (Covid-19 Response) & NDP 2021-25)



Improved Engagement with Citizens

We have had improved levels of engagements, leveraging technology to reach more Nigerians via virtual platforms

All of the above are captured under the FMF&NP ministerial deliverables reporting to the OSGF which forms part of the Honourable Minister of Finance's Score Card.



Priority Actions

Implemented Open Treasury Portal

- 1 For full disclosure of FGN's payments – available to state and non-state actors
- 2 Improved Transparency, governance, service delivery and accountability

Improvement in the Quality and Comprehensiveness of the Budget Documents

- 3 Inclusion of GOEs' Budgets as part of the Budget and Documents Mr. President lays before NASS
- 4 Inclusion of the Revenue component in the Appropriation Bill
- 5 Multi-lateral and Bi-lateral project tied loans as well as grants & donor funded projects now reflected in the FGN budget
- 6 Fiscal Risks and Contingent Liabilities also included in the Budget pack
- 7 Reflecting the transfers to TETFUND as well as Power Subsidy in the FGN budget details

Fiscal Response to Covid-19 disruptions

- 8 Fiscal Stimulus package via the Economic Sustainability Plan
- 9 Priority funding to the Health Sector for adequate response
- 10 Enhance Social Inclusion by Scaling-Up Social Investments
- 11 Revised the 2020 Budget to be able to accommodate the above as the reality then demanded.



Priority Actions

Gender Responsive Budgeting

- 1. Provided Guidelines to MDAs on GRB
- 2. Engagement with social sector MDAs ahead of the 2023 Budget preparation underway

Streamlining Processes and Improving overall internal efficiency

- 3. Activation and deployment (use) of the Budget Preparation Sub-system on GIFMIS
- 4. Regular budget preparation capacity building and refresher trainings for MDAs
- 5. Use of technology – GIFMIS, BIMMS and other solutions (dashboards(deployed for monitoring & execution)
- 6. Effective management of processes – online Budget helpdesk to reduce FAQs feedback to over 900 MDAs
- 7. Clear vision, leadership and hard work of dedicated members of staff

Tax Expenditure Statement

- 8. Inclusion of a Tax Expenditure Statement (TES) in our medium term fiscal strategy
- 9. Outlines Revenue forgone due to government policy
- 10. Cost Benefit Analysis of the efficiency or otherwise of such revenue forgone or policy
- 11. Dimensions (in Naira value) amount of such revenues foregone.



Priority Actions

Public Investment Management Guidelines

- 1. Issued Guidelines to MDAs on Public Investment Management
- 2. Ensure alignment with MDA's submission to reflect compliance and consistency with NDP

Citizens Engagement, Participation and Access to Information

- 3. Regular engagements with citizens on Pre-Budget Statements, Executive Budget Proposal as well as Enacted Budgets
- 4. Proactive disclosure of ALL key budget documents on the website of the budget office of the Federation – www.budgetoffice.gov.ng
- 5. Use of technology – i-monitor to engage with citizens and get feedback
- 6. The Open Government Partnership (OGP) Platform – via the open Budget and Fiscal Transparency Working groups
- 7. Use of online poll at public participation for a to get instant feedback from citizens

Improved Budget Performance

- 8. Aggregate budget performance has improved significantly over the last three years
- 9. MDA Capital releases have been 100% for 2020 & 2021
- 10. Significant efforts have shown positive improvement in non-oil revenues, with expected improvement from oil revenues with the full implementation of the PIA

Summary of Key PFM Reforms Thematic Areas



The Post PCFA PFM Reforms have been summarised across 4 broad PFM thematic areas:

Resource Generation

- Implementation of Annual Finance Acts.
- Tax administration and tax compliance - new resulting in increased revenue collections
- Amending aspects of the Fiscal Responsibility Act 2007;
- Enhancing fiscal efficiencies by controlling the cost-to-revenue ratios of key State and Government-Owned Enterprises;



Public Debt Management



- Debt Management Strategy is within the threshold of the approved MTDS (2016-2019) and (2020 - 2023)
- Public Debt as a percentage of GDP is to be under 40%;
- Borrowings will be from the domestic and foreign sources as well as use of long-term instruments.
- External borrowings from concessional and semi concessional multilateral and bilateral sources to be prioritised.

Resource Allocation

- Further to FGN's retained revenue and amount available to fund FGN Budget:
 - (i) Funds are allocated to MDAs based on the overarching priorities of the FGN;
 - (ii) Priority sectors that will stimulate growth;
 - (iii) Social investments for the most vulnerable segment of our population;
 - (iv) Infrastructure and public investments (including Education & Health)
 - (v) Security

Expenditure Management



- MDAs now integrated to GIFMIS-led payments system, effectiveness of commitment controls improving
- Cash balances now consolidated and reported with a few exceptions on a daily basis and payments publicly disclosed via the Open Treasury Portal.
- Revenue accounts reconciliation, conducted monthly within OAGF and via the Presidential Revenue Monitoring & Reconciliation Committee (PRM&RC)

PETROLEUM INDUSTRY ACT, 2021



PIA Signed into law by Mr. President in August, 2021

The PIA is expected to drive fundamental changes and further investments into the Nigerian Oil & Gas industry as well as FGN oil revenues. Some key provisions are highlighted below:



RECENT MILESTONES IN THE PFM SPACE



Recent Milestones in the PFM space over the last 4 Quarters...

Q2 2021 – Q1 2022

Q3 2021

- Enactment of Petroleum Industry Act (PIA)
- 2021 N982.7bn Supplementary Budget signed
- US\$ 3.35bn IMF SDR allocation to Nigeria to support external reserves

Q1 2022

- 2022 FGN Budget amendment bill approved by parliament
- \$1.25b Eurobond raised (budget financing)

Q2
2021

Q3
2021

Q4
2021

Q1
2022

Q2 2021

- Convergence in FX rates between CBN & NAFEX rates
- Growth recorded of 5.01% y-o-y in Q2 2021
- FGN approves establishment of N15 trillion Infracore Plc to boost infrastructure development

Q4 2021

- 2022 FGN Budget signed into law
- Growth recorded of 3.98% Q4 and annual growth of 3.4 for 2021

CHALLENGES

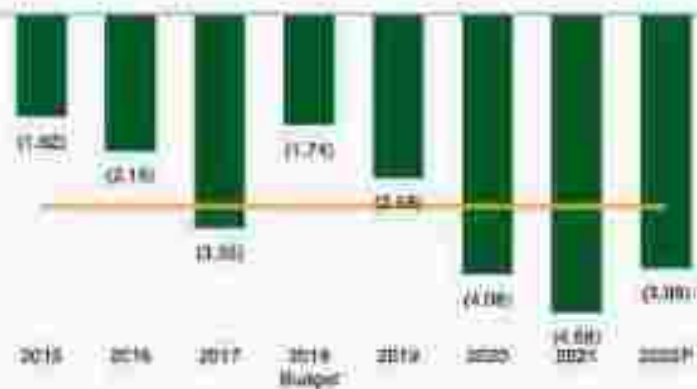


KEY CHALLENGES

Deteriorating Fiscal Balance

Trend in Fiscal Balances

Budget Deficit as % of GDP



- In 2020, the world was hit hard by the **twin shocks** of the **COVID-19 pandemic** and the **worst economic crisis (oil price shocks)** since the **Great Depression of 1929**.
- With a resulting 60% decline in FGN oil & gas revenues in 2020, we had to resort to borrowing.
- The graph above shows the impact and the trend of FGN's deficit to GDP ratio since the covid disruptions.
- Regressive Fuel & Power Subsidies have compounded the fiscal challenge

KEY CHALLENGES/2



However, we will continue to ensure fiscal discipline & optimise some revenue improvement initiatives that have been achieved thus far, including:

Efficiencies

- Treasury Single Account implementation
- Integrated Payroll Personnel System (IPPS) implemented across several MDAs to improve public service productivity and increase government revenue
- Establishment of **Efficiency Unit** to cut costs and block leakage

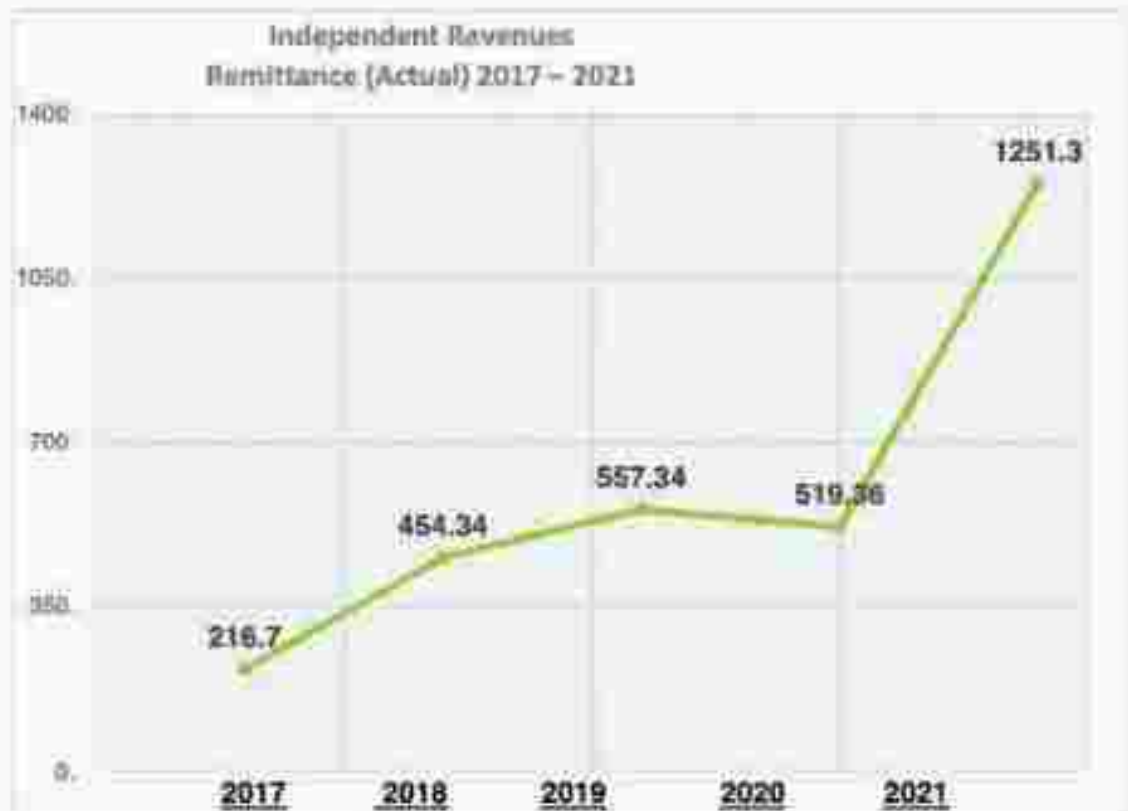
Financial Sustainability

- Adoption of a 22-point **Fiscal Sustainability Plan** with the States as one of the measures to tackle the 2015-2016 fiscal crisis at the sub-national level following the decline in revenue
- Presidential Revenue Monitoring & Reconciliation Committee (PRMARC)
- **Tighter performance management framework** for SOEs

Improving Non-Oil Revenues

- Improving Value Added Tax (VAT) collection
 - 65% allocated to state and local governments
- Introduction of a **Policy on Tax on select luxury items**
- Increase in **Excise Taxes** on alcohol and tobacco
- Reform of pioneer tax incentive regimes

INITIATIVES TO IMPROVE FGN REVENUES



- The trend in the graph shows a steady improvement of our independent revenues over the years.
- By year end 2021, we had surpassed all collections for FGN independent revenues from 2017 to date. This reflects performance of our revenue growth initiatives for this revenue stream.
- For the first time we surpassed the 1 trillion mark collection for independent revenues (***₦1.251tn collected for FY 2021 exceeding the budget target of ₦1.061tn***). Analysts have always considered our projections unrealistic, but we have always insisted on the potentials that exist to grow FGN independent revenues.

STRATEGIC REVENUE GROWTH INITIATIVES

INITIATIVES TO IMPROVE FGN REVENUES



- Revenue generation remains the major fiscal constraint of the Federal Government.
- The systemic resource mobilization problem has been compounded by recent economic recessions as well as covid-19 disruptions.
- Several measures are being instituted under the Administration's **Strategic Revenue Growth Initiatives** to improve government revenue and entrench fiscal prudence with emphasis on achieving value for money.
- The SRGI 2.0 is synced with our Accelerated Resource Mobilization Reforms

THE STRATEGIC REVENUE GROWTH INITIATIVES



The Strategic Revenue Growth Initiatives (SRGI) aim to boost revenue generation in order to meet our targeted revenue to GDP ratio of 12% as set out in the Development Agenda.



3 Thematic Areas:

1

Achieve sustainability in revenue generation

Build a sustainable revenue generation ecosystem by ensuring resilient and optimal performing revenue streams while applying the right incentives, safeguards, accountability and performance management systems

2

Identify new and enhance enforcement of existing revenue streams

Grow revenues by implementing new taxes, broadening the tax base and enabling strategic investments that spur economic growth

3

Achieve cohesion (people and tools)

Implement a revenue generation operating model that enhances collaboration, synergies, capacity building, use of data, celebrates transparency and eliminates leakage

Cross-cutting

Initiatives that provide the legal & other enablers for effective implementation & performance management of SRGI

INITIATIVES TO IMPROVE FGN REVENUES .../2



| Objective | Policy action | Result | Implementing Agency |
|---|--|---|--|
| Pillar 1 - Increase revenues | | | |
| 1. Increase revenue from telecom and banking sectors. | <ul style="list-style-type: none"> Issue regulation and implement collection processes for excise on telecom services Issue regulation, with clarification on collection responsibility for electronic money transfers (EMT) | <ul style="list-style-type: none"> Collect EMT levy and excise on telco services | FPRC, NCS, FIRS, FMF (TSD), MCDE (NCC), FMJ, CBN |
| 2. Increase revenue from pro-health taxes | <ul style="list-style-type: none"> Issue fiscal regulation to further increase the excise rate on alcohol and tobacco. Introduce an excise tax on through the Finance Act 2021 | <ul style="list-style-type: none"> Increase revenues from pro-health taxes | FPRC, NCS, FMH, FMF (TSD) |
| 3. Reduce forgone revenues | <ul style="list-style-type: none"> Allow the exemption of interest income from corporate bonds provided by Executive Order under section 23(2) of CITA in 2011 to sunset in January 2022 Amend Section 30 of the Capital Gains Tax Act to remove exemption of capital gains on sales of stocks greater than NGN 100 million in a 12-month period Introduce, a general anti-avoidance rule in the VAT Act and issue regulations that allow FIRS to set aside artificial fragmentation of businesses for VAT and CIT purposes. Reform concessions granted under the pioneer industry scheme. | <ul style="list-style-type: none"> Recover forgone revenues from rationalizing tax expenditures Reduced fragmentation practices | BoF, FPRC, FIRS, FMF (TSD), SEC |
| 4. Increase revenues from green taxation | <ul style="list-style-type: none"> Introduce a green surcharge on imported vehicles through amendment of the CETA | <ul style="list-style-type: none"> Collect revenues from green surcharge | FPRC, NCS, MoEnv ³³ |

INITIATIVES TO IMPROVE FGN REVENUES .../3



| Objective | Policy action | Result | Implementing Agency |
|---|--|---|--|
| Pillar 2 - Strengthen tax administration | | | |
| 5. Improve taxpayer services and enhance voluntary compliance | <ul style="list-style-type: none"> FIRS obtains NITDA certification for the TaxPro Max computer system FIRS develops and launches a VAT lottery scheme Issue notification to firms under the Oil & Gas Free Zones Authority (OGFZA) and the Nigeria Export Processing Zones Authority (NEPZA) to file returns with FIRS | <ul style="list-style-type: none"> FIRS achieve filing and payment compliance rates of 95% for large taxpayers and at least 80% for medium taxpayers At least 75% of OGFZA and NEPZA firms file returns with FIRS | FIRS, NITDA, FMT (NPA & NEPZA), FMF (TSD) CBN77, MPR (OGFZA) |
| 6. Enhance enforcement and strengthen tax audit | <ul style="list-style-type: none"> Design and implement a VAT control visit program targeting VAT taxpayers Operationalize memorandum of understanding (MOUs) for exchange of information with Nigeria Customs Service and different states FIRS will implement a risk-based selection system for selecting cases for audit | <ul style="list-style-type: none"> VAT educational visit program targeting 15% of VAT taxpayers At least 50% of cases selected for audit are as a result of analysis by the risk-based audit selection system | FIRS, NCS, FMF (TSD & HFD) |
| 7. Enhance traders' participation | <ul style="list-style-type: none"> Establish a framework for the Nigerian Customs Service's Fast Track 2.0 Program (FT2P). | <ul style="list-style-type: none"> At least 300 companies are part of the FT2P by end-2023 | NCS, FMF (HFD) |
| 8. Optimize customs revenues through trade facilitation | <ul style="list-style-type: none"> Improvement in the customs intervention results based on risk management Decrease in the number of physical examinations by NCS | <ul style="list-style-type: none"> 10% improvement in the customs intervention results based on risk management 10% decrease in the number of physical examinations by NCS | NCS, FMF (HFD) |



Cross-cutting areas

Initiatives that provide the legal enablers & other enablers for effective implementation and performance management of SGRI

Information, Communication & Technology (ICT)

- Revenue reporting in key offices via the use of dashboards that will provide an integrated view

Law & Regulatory

- Review of all extant laws in relation to SGRI and recommend amendment thereof

Performance Management

- Performance based contracts with Heads of Government Owned Enterprises

Monitoring & Evaluation

- Performance monitoring & evaluation of the revenue growth program

KEY HIGHLIGHTS OF FINANCE ACT, 2021

ANNUAL FINANCE ACTS: A RENEWED FISCAL TRADITION...



• Keeping Presidential Commitments Vis-à-vis Annual Finance Bills as a renewed Fiscal Tradition

- ✓ When Mr. President presented his 2022 Budget of 'Economic Growth & Sustainability', he directed the Hon. Minister of Finance, Budget & National Planning ('HMFBNP') to prepare a Finance Bill to support the Budget, as in the two previous years.
- ✓ Mr. President assented to the Finance Act, 2021 on 31st December 2021, alongside the 2022 Appropriation Act.

• Key Reform Areas amended by the Finance Act, 2021 include:

1. Domestic Revenue Mobilisation

2. Tax Administration & Legislative Drafting

3. International Taxation

4. Financial Sector Reforms & Tax Equity

5. Public Financial Management Reforms

ON LAWS & STATUTES PROPOSED TO BE AMENDED

1. Capital Gains Tax Act ('CGTA');
2. Companies Income Tax Act ('CITA');
3. Customs, Excise Tariffs Etc. (Consolidation) Act ('CETECA');
4. Federal Inland Revenue Service (Establishment) Act ('FIRSEA');
5. Personal Income Tax Act ('PITA');
6. Stamp Duties Act ('SDA');
7. Tertiary Education Trust Fund (Establishment) Act ('TETFEA');
8. Value Added Tax Act ('VATA');
9. Insurance Act;
10. Nigeria Police Trust Fund (Establishment) Act;
11. Nat'l Agency for Science & Engineering Infrastructure Act ('NASENI');
12. Finance (Control & Management) Act; &
13. Fiscal Responsibility Act.

FINANCE ACT, 2021: CRITICAL POLICY THRUSTS



Key Points

#1. Domestic Revenue Mobilisation

| Sections | Issues | Mechanisms | Rationale & Commentary |
|----------------------------|---|---|---|
| §2-FA, amending §30-CGTA | Partial Roll-back of Exemption of Shares from Capital Gains Taxes | <ul style="list-style-type: none">• 10% Capital Gains Tax imposed on Shares' Disposal Transactions where the aggregate Disposal Proceeds exceed N100m in any 12 consecutive calendar months;• Reinvestment Relief provided to defer Capital Gains Tax where Disposal Proceeds are Wholly or Partially Reinvested; &• Taxpayers are required to report Disposals annually for ease of administration & compliance (to FIRS for corporate shareholders & State IRS for individuals) | Partial Roll-back of CGT exemption on Shares intended to raise revenues for States & FGN: ✓ Reinvestment Relief retained to encourage long-term investments in equities ✓ Pension Funds' Assets are exempted under §10 Pension Reforms Act, 2014 to protect Pensioners) |
| §17-FA amending §21-CETECA | Duty on Non-alcoholic, Carbonated & Sweetened Beverages | <ul style="list-style-type: none">• Excise Duty of N10/liter imposed on all Non-alcoholic, Carbonated & Sweetened Beverages• To discourage excessive consumption of sugar in beverages which contributes to diabetes, obesity, etc. | New 'Sugar Tax' introduced to raise excise duties & revenues for health-related & other critical expenditures (in line with the 2022 Budget's Priorities) |

FINANCE ACT, 2021: CRITICAL POLICY THRUSTS



Key Points

#2. Tax Administration & Legislative Drafting

| Sections | Issues | Mechanisms | Rationale & Commentary |
|----------------------------|-------------------------------|---|--|
| §18-FA amending §25-FIRSEA | FIRS Automation & ICT Reforms | <ul style="list-style-type: none">• FIRS empowered to sanction non-compliant taxpayers refusing access to IT systems• FIRS may deploy both Proprietary & Third-Party Tech Applications to collect information from taxpayers | ✓ To enhance the ongoing ICT & Tax Admin. reforms by FIRS to increase revenue generation (in line with the 2022 Budget's Priorities) |
| §21-FA amending §50-FIRSEA | Taxpayers' Confidential Data | <ul style="list-style-type: none">• Enhance confidentiality & non-disclosure by FIRS staff of Taxpayers' Confidential Data• Penalize data breaches by non-compliant FIRS staff | ✓ Provide safeguards to protect Taxpayers' Data & provide sanctions |

FINANCE ACT, 2021: CRITICAL POLICY THRUSTS



Key Points

#3. International Taxation

| Sections | Issues | Mechanisms | Rationale & Commentary |
|---|--|---|---|
| <p>§4-FA amending §13-CITA; & §8-FA amending §30-CITA</p> | <p>Taxation of E-Commerce Biz. by Non-Resident Companies on a Fair & Reasonable Turnover Tax Basis (i.e. 8% of Turnover)</p> | <ul style="list-style-type: none"> Empower FIRS to assess Non-Resident Firms to tax on Fair & Reasonable Turnover Tax Basis on Turnover earned from providing Digital Services to Nigerian customers Introduce Turnover Tax on Fair & Reasonable Percentage of Profits earned from providing Digital Services to Nigerian customers <u>Note</u> that such Digital Services include Apps, High Frequency Trading, Electronic Data Storage, Online Advertising, etc. | <p>✓ Modernize the taxation of ICT & digital economy in line with current realities (in line with the NDP 2021-25)</p> |
| <p>§30-FA amending §10-VATA; & §31-FA amending §14-VATA</p> | <p>VAT Obligations of Digital Non-Resident Companies</p> | <ul style="list-style-type: none"> Restrict VAT obligations mainly to Digital Non-Resident Companies (who supply individuals who cannot self-account for VAT) Reduce compliance burden on other Non-Resident Taxpayers who are not required to register for VAT in Nigeria Clarify that FIRS may appoint persons (including Non-Residents) for the purpose of tax collection Clarify that such appointed persons may collect & remit taxes to FIRS / Relevant Tax Authorities | <p>✓ Enhance administrative modalities for the taxation of Non-Resident Taxpayers deriving revenues from Nigeria (in line with the NDP 2021-25)</p> |

FINANCE ACT, 2021: CRITICAL POLICY THRUSTS



Key Points

#4. Financial Sector Reforms & Tax Equity

| Sections | Issues | Mechanisms | Rationale & Commentary |
|--|---|--|---|
| §3-FA amending §9-CITA | Securities Lending Transaction Reforms by Securities & Exchange Commission ('SEC') | <ul style="list-style-type: none">• Securities Lending: permit Lenders to receive compensating 'manufactured dividends' from securities lending traders | ✓ Tax Equity: to enable Securities Lending Reforms being championed by SEC (in line with the NDP 2021-25) |
| §14-FA amending §78-CITA; & §16-FA amending §105-CITA | Real Estate Investment Trusts ('REITs') Reforms by SEC | <ul style="list-style-type: none">• Clarify that Withholding Taxes deducted from Unit Trusts' dividends are final taxes on Unit Trusts' income• Clarify that REITs' special tax regime provisions apply to REITs set up as Unit Trust Schemes | ✓ Tax Equity: in support of SEC's REITs & Unit Trusts financial sector reforms (in line with the NDP 2021-25) |
| §33, §34, §35-FA amending §9, §10 & §102-Insurance Act, 2003 | Insurance Companies' Capitalization Reforms by the National Insurance Commission ('NAICOM') | <ul style="list-style-type: none">• Enhance definition of share capital (capital requirement) in determining minimum capital to enhance NAICOM's recapitalization reforms | ✓ Tax Equity: in support of NAICOM insurance sector capitalization reforms (in line with the NDP 2021-25) |

FINANCE ACT, 2021: CRITICAL POLICY THRUSTS



Key Points

#5. Public Financial Management Reforms

| Sections | Issues | Mechanisms | Rationale & Commentary |
|---|--|---|--|
| §22-FA amending §68-FIRSEA | Reinforce FIRS' mandate as Principal Tax Collection Agency is reiterated | <ul style="list-style-type: none">• FIRS confirmed as FGN's Principal Tax Revenue Collection Agency & may collaborate with other Federal Law Enforcement MDAs | ✓ Tax Administration & DRM reforms to streamline tax collection under FIRS |
| §37-FA amending §20-NASENI Act | NASENI Levy comprises: <ul style="list-style-type: none">✓ 1% of FAAC✓ 0.25% Levy on PBT on major companies with Turnover ≥ N100m in the banking, oil & gas, maritime, aviation, telecoms & ICT sectors | <ul style="list-style-type: none">• Empower FIRS to collect NASENI Levy• Increased Funds to accrue into a special NASENI account to fund budgeted expenditures targeted at nurturing dynamic science & engineering sectors | ✓ New changes introduced by NASS to clarify aspects of the NASENI Levy & enhance administration by FIRS |
| §38 & §39-FA amending §3 & §4-Finance (Control & Mgt.) Act 1958 | Reiterate the supremacy of Fiscal Rules in the the 1999 Constitution & other Extant Money Acts in public financial management | <ul style="list-style-type: none">• Reiterate & reinforce the 1999 Constitution as well as the Finance (Control & Mgt.) Act's provisions vis-à-vis mgt. of public finances & collection of revenues | ✓ Enhance public financial mgt. reforms to reduce revenue leakages & better tie actual expenditures to revenue performance |

ANNUAL FINANCE ACTS: CONCLUDING THOUGHTS



The annual tradition of enacting Finance Acts to accompany the Federal Budget is one of many reforms being undertaken by the FGN to drive its agenda of fiscal sustainability;

- This Administration is committed to accelerating post-COVID-19 economic recovery through the NDP 2021-2025 by:
 - ✓ Stimulating inclusive, diversified & sustained economic growth;
 - ✓ Supporting the private sector's productivity & competitiveness;
 - ✓ Creating productive employment & preserving jobs;
 - ✓ Ensuring macroeconomic stability; &
 - ✓ Promoting poverty reduction & more equitable wealth creation.

ANNUAL FINANCE ACTS: CONCLUDING THOUGHTS



Accelerating Strategic Revenue Generation Initiatives ('SRGIs') through the Annual Finance Bills

- ✓ While ongoing fiscal reforms to enhance Non-Oil Revenues are yielding tangible results, there remains a significant fiscal gap to be bridged to effectively finance the 2022 Budget & other tiers of Government;
- ✓ Nigeria must diversify its revenues from Oil & Gas to fund critical developmental expenditures;
- ✓ The Finance Act, 2022 enacts significant tax, fiscal & other reforms to drive Domestic Revenue Mobilisation;
- ✓ More fiscal reforms & measures may be required during the 2022 Fiscal Year to deal with emerging fiscal constraints & challenges, particularly as the Economy recovers; &
- ✓ However, this Administration remains committed to continuous dialogue & robust engagement with all key Stakeholders in developing & implementing its fiscal policies.

**WAY FORWARD
&
CONCLUSION**

WAY FORWARD



- We remain committed to all the different moving parts of our PFM reform agenda. Central to this is our bullish Domestic Revenue Mobilisation effort as well as efficiency in revenue and expenditure management.
- We have been privileged to have some committed development partners working with us over the years on various parts of our reform programmes.
- The Open Government Partnership (OGP) is currently working on its 3rd National Action Plan (NAP III). The FMFBNP oversees the Fiscal Transparency working group and the Open Budget commitment. We shall continue to work with non-state actors and various CSO groups to entrench public participation in government programmes
- Achieving government's reform agenda requires bold, decisive and urgent actions, some of which may entail short-term pain but medium-/long-term gain.

CONCLUSION



- Revenue currently remains our main fiscal challenge; Government is therefore committed to effective implementation of the Strategic Revenue Growth Initiatives to improve revenue collection/accounting, expenditure management and fiscal sustainability.
- We are optimistic about our reform plans considering the positive outlook and the continuing improvement in our non-oil revenues.
- We shall explore available opportunities to streamline processes and leverage technology where necessary to improve the PFM ecosystem in Nigeria.
- Furthermore, Government remains committed to implementing measures aimed at moderating the unintended negative effects of its reforms and policies on the citizenry.

THANK YOU!