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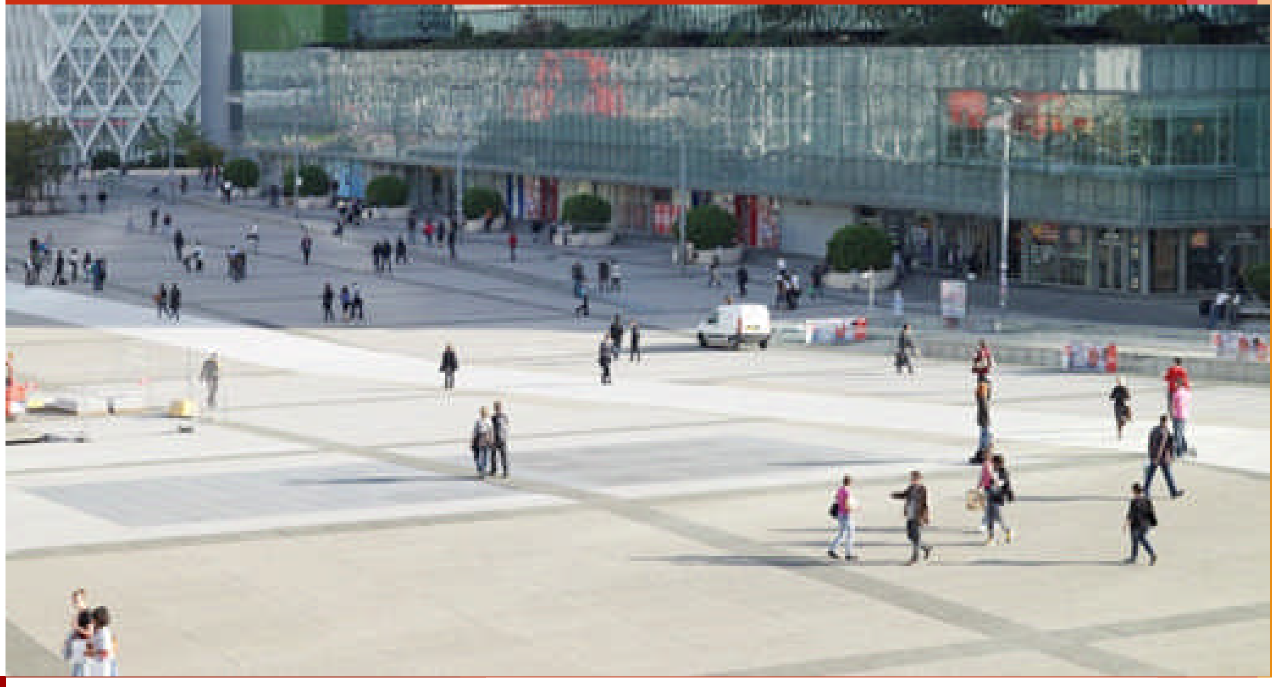
The Evolving Tax and Regulatory Landscape: Implications for Business & Investment Growths



Taiwo Oyedele
Partner/Head of Tax,
PwC Nigeria

April 2015

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Setting the tone!

"As you know, our revenue ratio to GDP before was 20%, just about in the middle of the emerging market economy, not as good as the 22% that we want to be…

But now with this recalculation, our revenue to GDP ratio is 12% and our non-oil revenue ratio to GDP is 4% …

For tax revenue to GDP, we now have to redouble our efforts to get back to the 20% ratio, at least to where we were before…"

Ngozi Okonjo-Iweala –
Finance Minister, Coordinating Minister for the Economy (Q1 2014)

Agenda

45 minutes

1.
Overview of the Current Tax and Regulatory Landscape

2.
Key Tax and Regulatory Developments

3.
Implications for Business & Investments

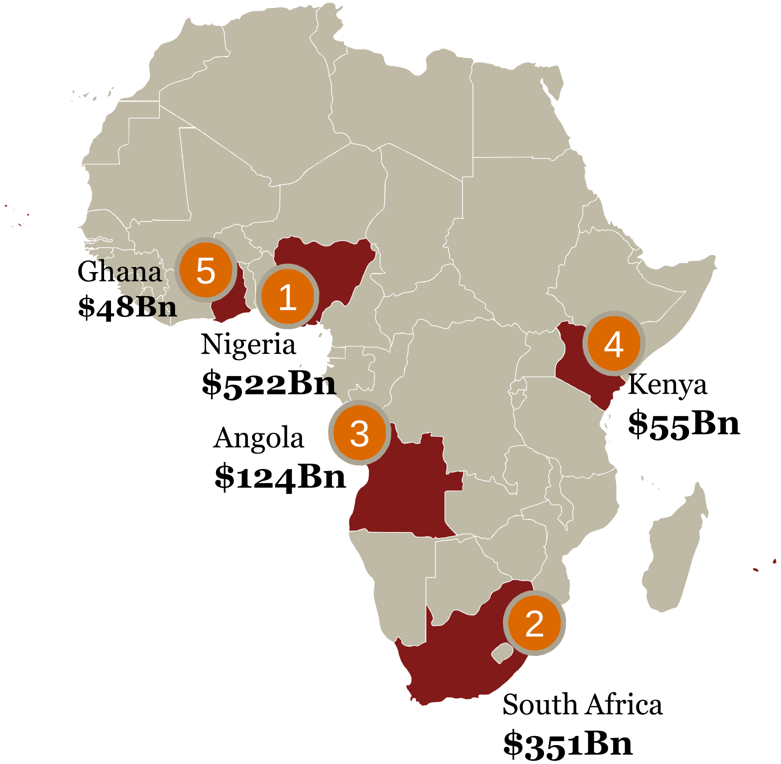
4.
Conclusions and Closing Thoughts

1

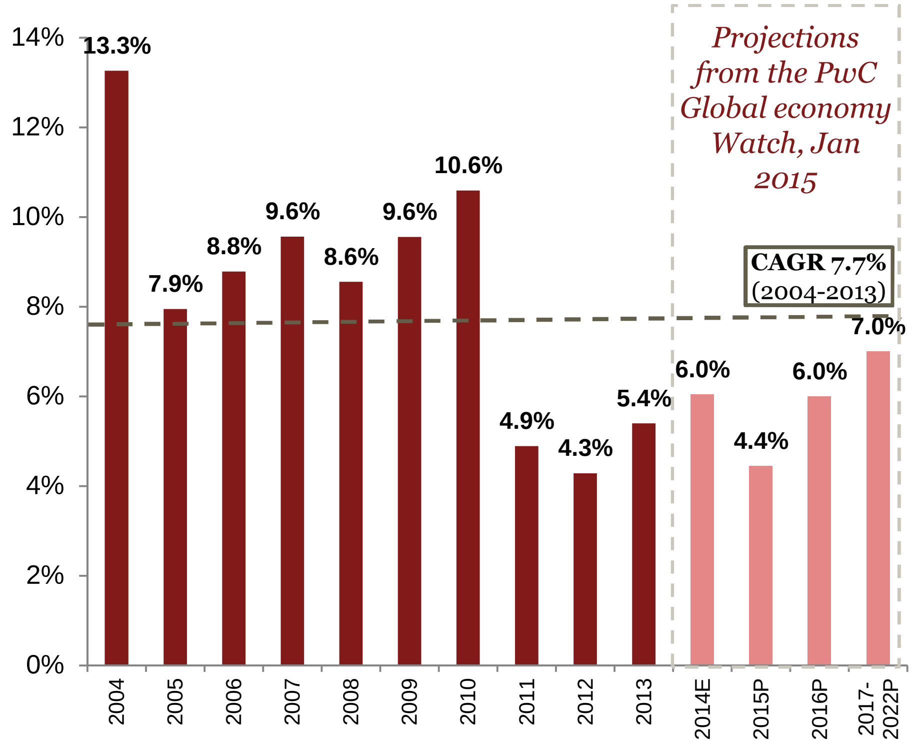
Overview of the Current Tax and Regulatory Landscape

After a statistical revision last year, Nigeria became the largest economy in Africa. However, growth has almost halved since 2010, falling to 5.4% in 2013 and 6.23% in 2014

Top 5 SSA Economies by 2014 GDP



Annual Real GDP Growth (%)



Source: IMF World Economic Outlook October 2014, World Bank

Nigeria became the largest economy in Africa but revenue profile remains abysmal

Pre-rebased Tax to GDP Ratio was actually 12% (not 20%)

Post-rebased Tax to GDP Ratio became about 8% (non oil 4%)

Total tax collection in 2013 (FIRS + Customs+ States = N6 trillion or USD 38 billion).
Tax per capita: 190 USD

South Africa makes more money from tax alone than what Nigeria makes from oil and tax combined.

Tax to GDP Ratio 25%

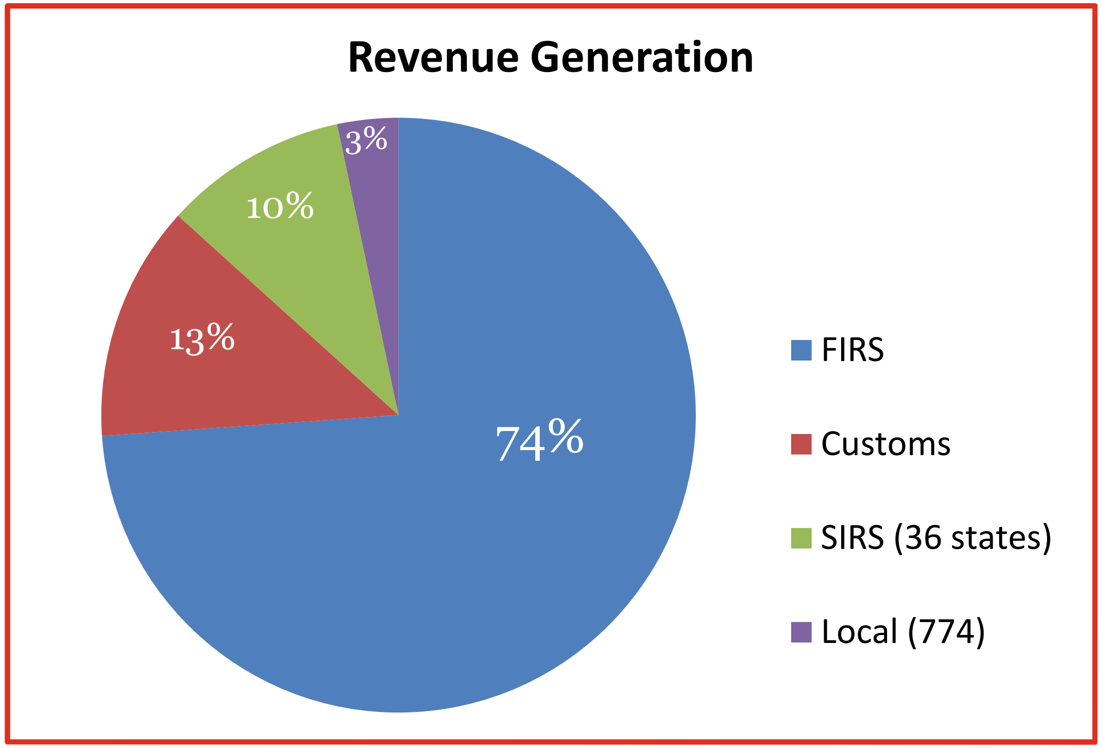
Total tax collection in fiscal 2013 USD 75 billion

Tax per capita: 1,090 USD

Tax revenue collected by all 3-tiers of government in fiscal 2013 was $38bn which declined to about $30bn in 2014

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%*

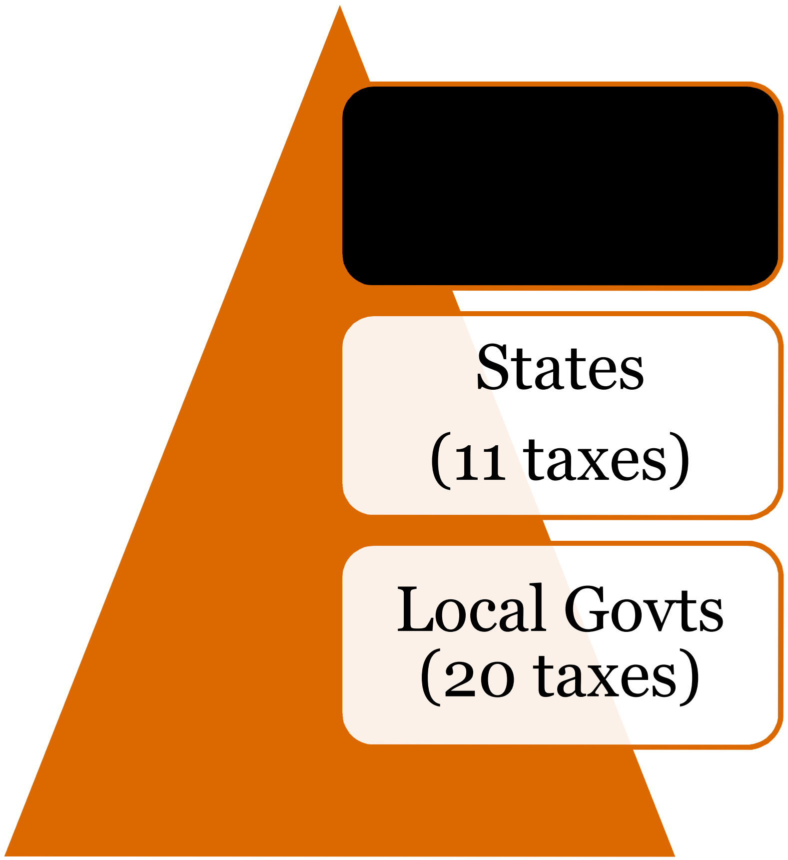
Nigeria's Tax to GDP ratio is the 2nd lowest in Africa and 4th lowest in the world

Nigeria's tax to GDP ratio is one of the lowest in the world

Country	GDP $'m	Tax to GDP
Nigeria	$510	8%
United States	$16,720	17%
China	$13,370	23%
Japan	$4,729	35%
Germany	$3,227	45%
France	$2,273	52%
United Kingdom	$2,378	40%
Brazil	$2,422	39%
Russia	$2,553	21%
Italy	$1,805	48%
India	$4,962	10%
Mexico	$1,845	22%
Indonesia	$1,285	16%
Turkey	$1,167	23%
South Africa	$381	25%
Angola	$132	43%
Ghana	$90	23%
Kenya	$80	17%
Afghanistan	$45	11%

https://www.cia.gov/library/publications/the-world-factbook/rankorder/2221rank.html

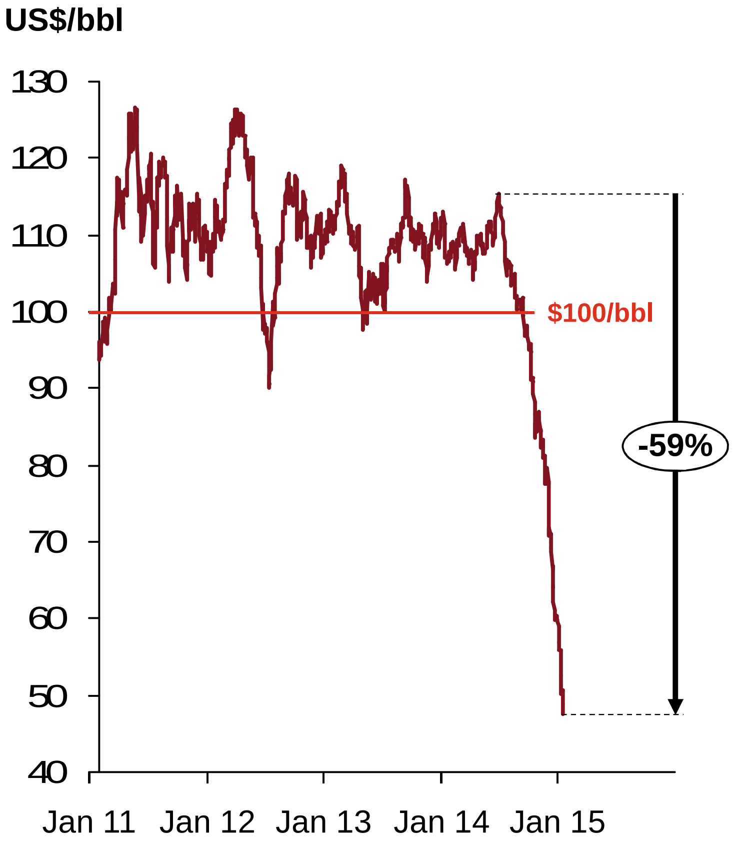
… this is despite the many taxes that are collectible by governments at all levels



- There are even more taxes that are not on the approved list
- Nigeria currently ranks 179 out of 189 economies on the ease of paying taxes
- Poor tax reporting makes the real tax collection overstated.
- This is because the figures include tax refunds and credits due to taxpayers which should really not be reported as revenue.
- If tax revenue is properly reported then Nigeria will most likely be the country with lowest Tax to GDP ratio in the world.

No thanks to oil price which has declined by some 60% since June 2014, driven by oversupply in the market and cooling demand fundamentals…

Brent (BFOE) Spot Price June 2014 – January 2015



Source: Datastream; PwC research

Commentary

Overview:

- Over the past 4 years Brent oil prices have mostly traded above US$100/bbl
- Since June 2014, a fundamental mismatch between demand and supply opened up, causing the price to fall dramatically (by 60% to mid-January 2015)

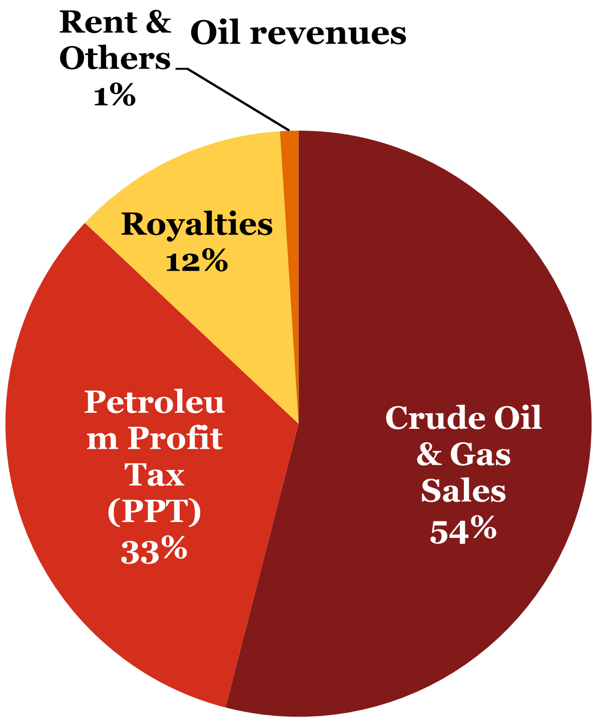
Supply

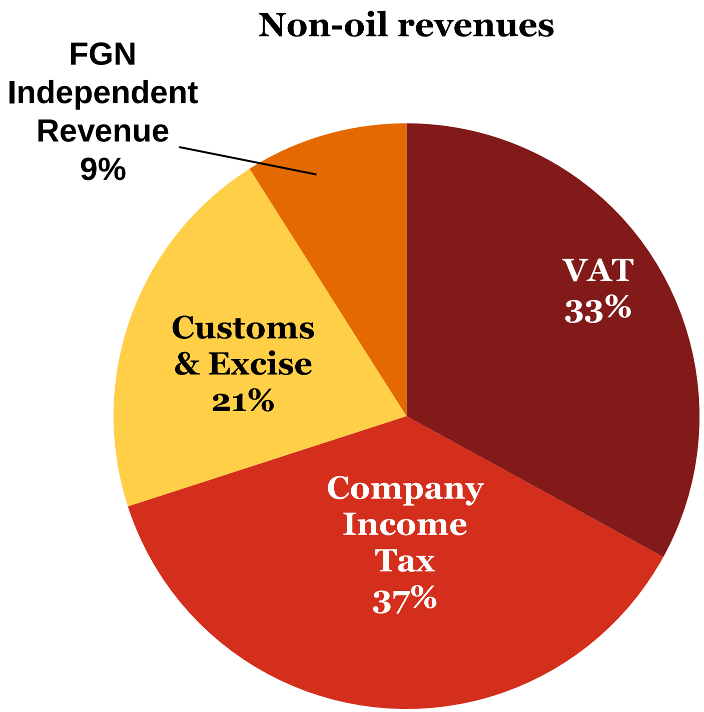
- Strong growth in non-OPEC production is driven by US Gulf of Mexico wells and growing shale oil production
- OPEC is maintaining its production quota of 30m bbl/d despite low oil price levels

Demand

- Oil consumption is weakening with slower economic growth in China and Europe
- As the US satisfies additional domestic demand through localised production, US oil imports are falling

The bulk of the revenue accruing to government from crude oil and gas is not from taxes, only a third is derived from taxes



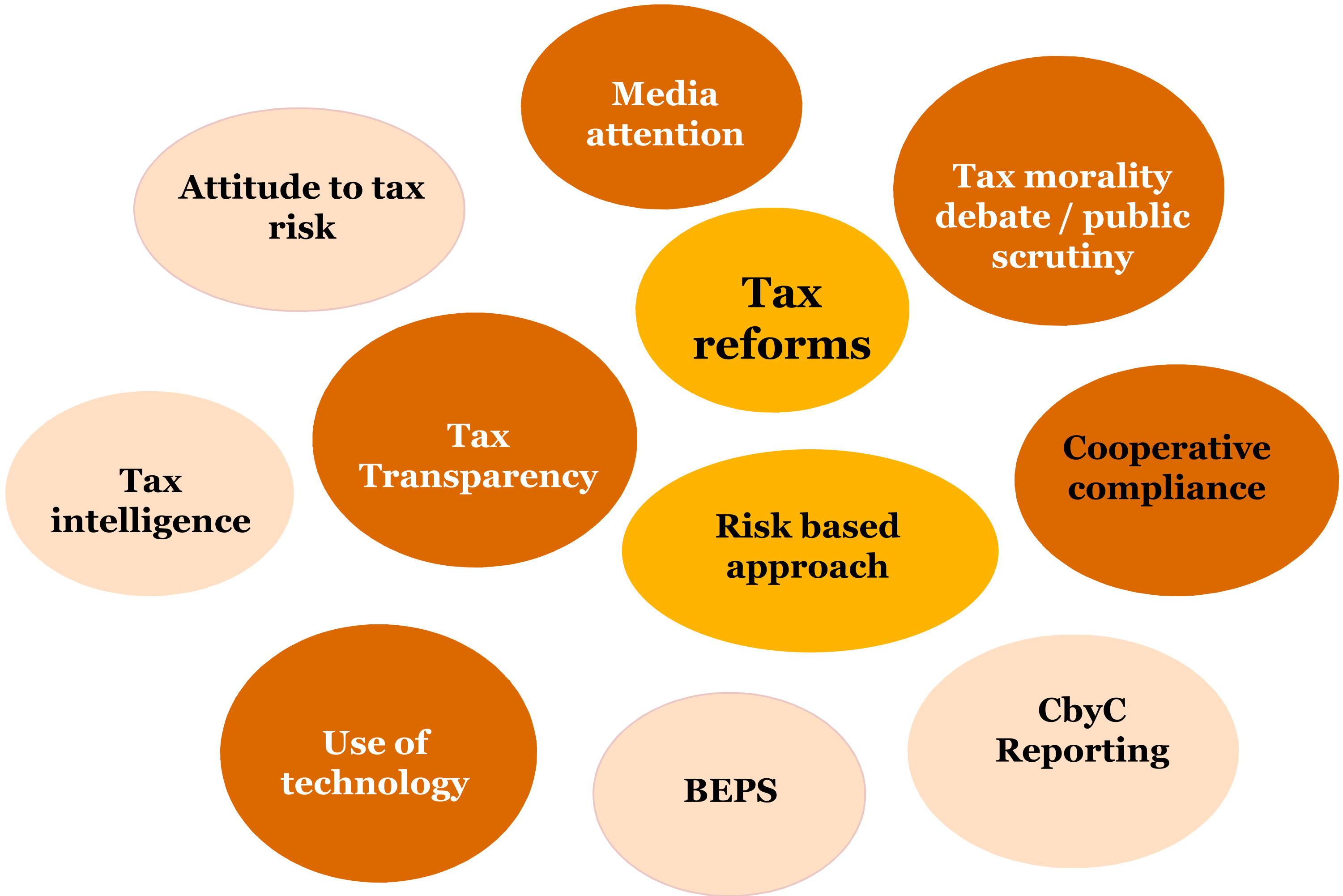


Source: Nigerian Budget Office, Breakdown of Annual Average Oil Revenues (2008-2012)

2

Key Tax and Regulatory Developments

What's changing in the global tax space?



What's changing in the Nigerian tax space?

Recent developments

- Transfer pricing implementation/NRC filing
- Luxury tax / Fiscal policy measures
- Decided cases
- VAT increase on the horizon

Tax authorities approach

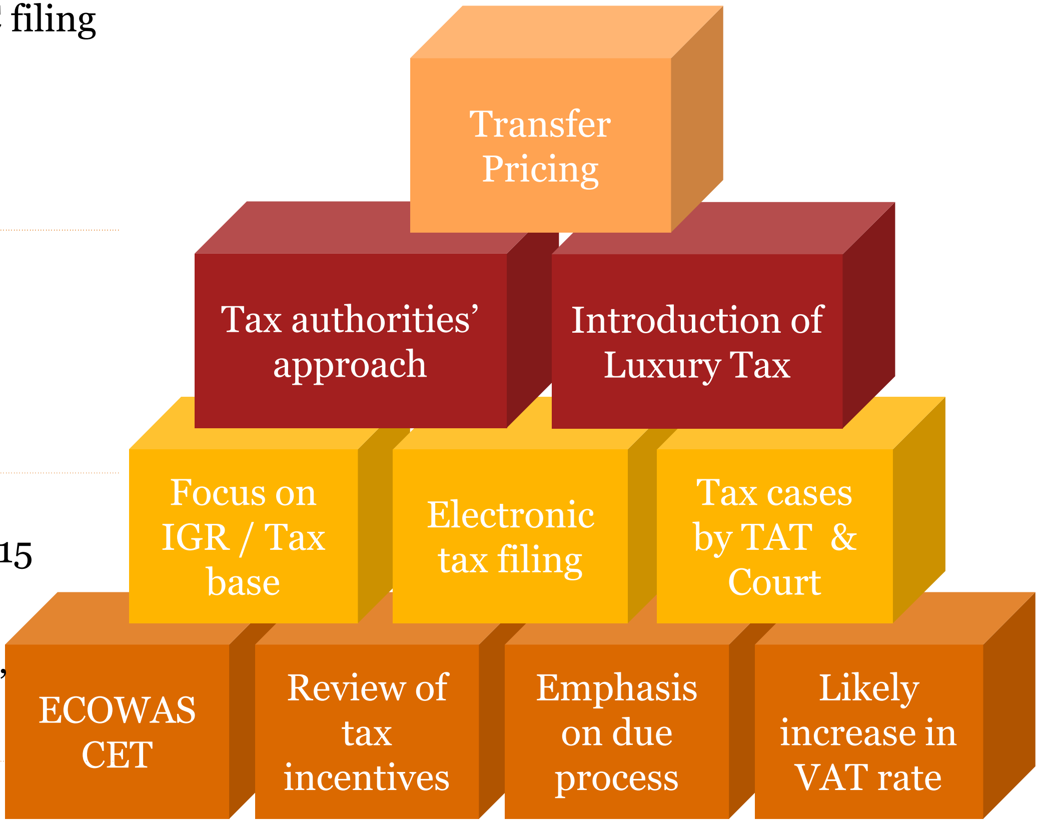
- More aggressive stance e.g. tax raids
- Participation in global BEPS debate
- Introduction of e-filing
- Tax diversification/focus on IGR

ECOWAS CET

- Adopted Jan '06, implementation Jan'15
- Nigeria to implement from April 2015
- Composed of 4 tariff bands 0% - 20%
- 35% special rate on 'sensitive products'
- Supplementary Protection Measures

Tax Incentives

- Review of pioneer status
- More emphasis on due process
- Still a number of exemptions and waivers e.g. employment and infrastructure exemption, VAT waiver on capital market transactions



3

Implications for Business and Investments

Implications for Business and Investments

It is no longer business as usual

- Increased uncertainties in the tax environment
- The only thing that is certain is that we will all pay more taxes
- Cost of tax compliance will go up resulting in higher cost of doing business
- Companies and individuals will face more tax audits and investigations as well as public scrutiny
- There will be more focus on tax reporting by companies
- Businesses and investors who do not follow due process in obtaining tax rulings and tax waivers from government are highly exposed
- The risk of damage to reputation has increased. Bear in mind that 'winning' is not only a matter for the court of law but also the court of public opinion

4

Conclusions and Closing Thoughts

Conclusions and closing thoughts

The tax environment is changing. No longer business as usual

Pay more attention to tax matters. Compliance must be total

Ensure to follow due process when dealing with government

Design tax controls and risk management framework

Conduct regular reviews and seek 3rd party tax assurance

Move tax from back office to the Boardroom

Overall, you need to keep abreast of tax developments and ensure effective compliance. Refrain from using tax avoidance vehicles created without economic substance. And avoid aggressive tax planning.

“Taxes, after all, are the dues that we pay for the privileges of membership in an organised society.”

Franklin D. Roosevelt: "Address at Worcester, Mass.," October 21, 1936.

Thank you!

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Questions!

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