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# The bottom line

How will the National Tax Policy affect you?

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By Seun Adu

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I was catching up with a friend last weekend and our conversation drifted to the work of the committee reviewing the National Tax Policy (NTP). His question was simple yet very important, “what is the bottom line, are we going to pay more tax or will our tax remain the same or even less?” Then it struck me that; after all is said and done, this is the simple question that many people want answered. The average taxpayer, whether individual or company just wants to know: what is in it for me? How does the on-going review of the National Tax Policy impact my pocket?

Without the right context, any answer you give to this question, may not be very useful. So let’s put this in context.

## *Why does anyone need a National Tax Policy?*

Assume for a minute that you are the coach of a football club that is in dire need of a new striker. You have the option of purchasing either a young and relatively unknown striker (touted to have huge potential) for a relatively small fee, or a well-established and older striker for many times the amount. You and your technical advisers are divided on the options; who do you go for? Assuming “*money is not your problem*”, chances are the decision could come down to you and your club’s philosophy (or put more formally - policies) on the issues of youth versus experience and potential versus proven performance. This philosophy/policy (and the rationale behind it) effectively helps to make the decision.

In general, policies provide a set of guiding principles to help with decision making.

When it comes to tax matters in any country, there are many decisions to be made. Do we focus more on indirect taxes rather than direct taxes? Do we tax all industries equally? Who should we exclude from paying taxes and for how long? Do we introduce a new type of tax or increase the rates of existing ones? Having a well thought out tax policy can help the government make the most appropriate decisions and serve as the basis to evaluate performance.

### ***Is this really a good time to be discussing the National Tax Policy?***

This is another question many people ask. Some people are concerned that bringing up another tax discussion at a time when businesses are struggling to stay afloat will only lead to more problems for businesses and the economy. What I have found is that people's views on this pretty much depends on what they consider to be the aim of the National Tax Policy review. Most people that consider it "bad timing" generally assume that the National Tax Policy is all about increasing the tax burden on taxpayers. But is this really the case?

A review of the draft National Tax Policy can help with this question. For example, the document identified a number of challenges facing the Nigerian tax system. Some of these include: the exercise of taxing powers to the detriment of taxpayers; uncertainty, lack of accountability for tax revenue and expenditure, use of aggressive and unorthodox methods for tax collection; lack of adherence to specific policy direction for tax matters.

The document also outlined what should be considered as the guiding principles of the Nigerian tax system. Some of these are: that taxpayers should pay according to their ability (equity and fairness); taxation should be flexible and dynamic to respond to changing circumstances in a way that does not retard economic activities (flexibility); the requirement for the tax system to promote sustainable economic growth and be aligned with other economic policies of government; and the requirement of the tax system to be designed to minimise the negative impact of revenue volatility due to changes in the economic fortunes of the country.

In addition, the document has guidance on steps to be taken by the tax authorities to improve voluntary compliance. Many people will agree that dealing with the above challenges and giving effect to these guiding principles are immediate needs and any initiative that will help further these goals cannot come at a better time.

### ***What is the bottom line?***

Back to our original question; does the revision of the National Tax Policy mean more taxes or less taxes for the average taxpayer? It will depend.

If you live in Nigeria and you don't have an electricity meter, one of two things will happen to you. You either get an estimated bill from the power company or you may be outside their radar for some time and therefore pay nothing for the power you consume. If you have ever been a victim of *the estimated bill*, you know that more often than not, they are outrageous and have no bearing with your actual power consumption; so installing a meter will be a welcome development and will likely have an immediate positive impact on your pocket. If however, you fall into the category of people who never got a bill, you are not likely to greet the installation of a meter with a lot of excitement as the impact on your pocket will be the reverse. As a whole however, the power system will improve if everyone pays their fair share of the bill.

In essence, while the short term impact (on different persons) of fixing a bad system will be mixed, in the long run, the impact for the overall system should be positive.

The National Tax Policy on its own, will not impose taxes. It will only set out a framework that will help government and tax administrators make decisions on taxation. The objective will be to provide guidance that can help create an efficient tax system to support the government and promote economic development. A good tax policy should kick start the process that can help address the biggest challenges that businesses face with regards to taxation in Nigeria. A good tax system should complement other efforts geared at economic growth and development.

Of course, the policy has to be implemented for it to have any impact at all. The National Tax Policy is a statement of intent, good intent; but we can't stop there; it is what we do after that will count the most.

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