

Tax Bites

Nigeria's Covid-19 Fiscal Policy Measures

A review of government's interventions and what else to consider!



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Nigeria's economic challenges predate the Covid-19 pandemic. Beyond the humanitarian crisis posed by the virus, the economic impact is just as important. Any policy response being introduced needs to be evidence-based rather than a trial prescription program which could worsen the crisis.

Overview and context

By now you must have read, heard and seen a lot about Covid-19 both authentic and fake news enough to write a book or make a movie. The focus of this article is not to regurgitate the facts or demystify the myths, there are other people who are more qualified to do that. My focus is rather on the economic impact and the actions government needs to take to manage this tough time and prevent things from even getting worse.

Conservative estimates suggest that Covid-19 may be with us for at least 3 months while the worst-case scenario could be up to 18 months. Whatever the estimates, one thing is certain, when we finally get rid of coronavirus, the economic impact would linger for perhaps twice as long. Our ability to cope with the attendant challenges will depend on how we respond now to prevent a free fall rather than trying to stop it once it has started.

Economic impact of Covid-19 on Nigeria

One of the biggest casualties of covid-19 has been the price of crude oil which has plummeted to just a little over \$20 per barrel from an average of \$60 at the beginning of the year. Like a virus infection the impact is spreading fast, it is infecting revenue generation, external reserve, exchange rate and the ability of federal and state governments to implement their 2020 budgets.

This will make it very difficult if not impossible for the FIRS to meet its ambitious revenue target of N8.5 trillion. The same will apply to the targets set for the Nigeria Customs Service and the various state internal revenue services.

Government's responses so far

There have been a number of interventions from various government quarters ranging from the adjustment to the 2020 budget, the stimulus package by the Central Bank of Nigeria, the downward adjustment of the pump price of petrol, reliefs announced by the FIRS and the "Emergency Economic Stimulus Bill" introduced by the National Assembly.

a) Budget adjustment – The first step was to adjust the 2020 budget to better reflect the likely outcome of events following the outbreak of covid-19. The adjustment resulted in a downward review of the benchmark price of crude oil from \$57 to \$30 per barrel and a reduction of the budget size by about N1.5 trillion. So far we are yet to see budget revisions at the states level.

b) CBN Stimulus – The CBN announced a number of monetary interventions including a reduction of interest rate on intervention facilities from 9% to 5%, one year moratorium on its intervention facilities, and a N50 billion credit facility for affected households and small businesses while granting forbearance for banks to restructure facilities for affected customers. More recently the Bankers' Committee agreed to grant funding facilities to pharmaceutical companies to enable them produce drugs locally.

c) Foreign exchange rate adjustment – the official exchange rate was adjusted to remove the existing rebate and move it towards a convergence with the investors and exporters window rate while the exchange rate for BDCs was adjusted upwards to around \$1=N380.

d) Fuel price reduction – The pump price of petrol was "modulated" downwards from N145 to N125 per litre to reflect the lower landing cost of imported petrol due to the decline in crude oil prices.

e) FIRS – the FIRS announced the extension of filing certain tax returns, exchange of communications via email, online filing of returns and protocol for physical meetings.

f) Economic Stimulus Bill – the National Assembly has introduced an "Emergency Economic Stimulus Bill 2020" to provide for tax relief, suspension of import duty on selected medical goods and deferral of residential mortgage obligations. Employers who retain their employees from 1st of March 2020 till the 31st of December 2020 will be granted tax relief but companies that are partly or wholly taxable under the Petroleum Profit Tax Act are not eligible. Deferral of mortgage payment will apply to mortgages under the National Housing Fund while import duty waiver will apply to medical equipment, medicines, personal protection equipment and other medical necessities required for the treatment and management of Covid-19 disease in Nigeria.

What else could government do in response to Covid-19?

While many of the interventions are commendable, here are other measures to consider:

1. Protecting the poor and most vulnerable people – expand the list of VAT exempt items to cover more basic consumptions and all materials needed to prevent and manage coronavirus.

2. Supporting businesses – suspend penalties imposed under the new Finance Act for 2020 tax returns and consider allowing full tax deductions for impairment charges and one-time write-offs that may arise as a result of the impact of the pandemic. Also consider allowing deduction for exchange losses involving investments and capital at this time. In addition, concessions could be provided for unusual circumstances where employees may be stuck in Nigeria and inadvertently become tax resident or create a permanent establishment for their employers.

3. Protecting jobs – assess industries and sectors that are hardest hit and most vulnerable with large number of low-income earners who may not have savings and investments to sustain themselves even with a temporary lay-off. These will include airlines, restaurants, hotels etc and design tax reliefs to encourage them to keep their employees. Minimum tax could also be suspended for such affected companies.

4. Stimulating the economy – government to consider settling domestic arrears to contractors and taxpayers could be given the flexibility to pay taxes due in foreign currencies in naira where they do not earn foreign currencies from their operations. The exchange rate for tax payment including import duties needs to be harmonized.

5. Ease of doing business and paying taxes – FIRS to suspend all bank freezing orders, extend the period for filing returns and tax payments. Tax audits could be suspended except in instances where fraud is involved while periods allowed for objections could be extended. In addition, FIRS could pay legitimate tax refunds quicker to eligible taxpayers.

6. Generating revenue for government – rather than reduce the pump price of petrol, government could have retained the price to offset some of the past under-recoveries given that the benefit of a price reduction doesn't go to the poorest people as transport fares and other prices have yet to come down. FX rates could be harmonized to increase the naira revenue available to government. Other subsidies such as those for pilgrimages, electricity and tax incentives could be rationalised while all MDAs should be made to remit their revenue to government and fully comply with their tax obligations.

7. Fighting coronavirus – grant tax relief for donations made towards fighting coronavirus and related interventions by individuals and corporate organisations. Consider granting a one-year suspension of VAT and import duties on all items needed to prevent and manage the outbreak.

8. Better use of technology – government needs to provide enhanced services through increased and more effective use of digital channels including dedicated hotlines, longer opening hours for call centres and dedicated webpages for communication and engagement with the public.

9. Relief for medical personnel – health workers and care givers who work round the clock and put their lives on the line to protect the rest of us could be granted tax reliefs by way of tax credits or one-time tax break against their income tax liability for 2020.

10. Make tough but necessary decisions – some decisions that will make the economic recovery easier post coronavirus should be considered such as harmonization of multiplicity of taxes; deregulation of petrol price, single exchange rate; eliminating multiple revenue collection agencies; and so on.

Next Steps

I recommend the following steps to ensure that the various interventions are well coordinated and impactful:

Action #1 – Conduct an economic impact assessment
Review and evaluate the impact of the coronavirus disease on various sectors of the economy. Attempting to address all sectors with a one-size-fits-all interventions may not work.

Action #2 – Consider possible options and scenarios
Review all the measures and responses that have so far been introduced and evaluate the possible options to address the economic impact and weigh the costs versus benefits of each option based on data and evidence. There should be scenarios planning to deal with the best case, worst case and most likely scenarios under different assumptions.

Action #3 – Coordinate and align action plans
All organs and levels of government and agencies with key roles to play in responding to covid-19 must work together not only to manage the public health and safety aspect of the crisis but also the short, medium and long-term economic impact.

Action #4 – Issue legal instruments
Many of the interventions will require changes to existing laws and introduction of new legislation, guidelines or pronouncements. This is where the lawmakers working with the executives is critical to urgently enact the necessary legal framework to operationalise the various interventions.

Action #5 – Monitor implementation and keep under constant review

The situation is fluid so things are changing really fast and sometimes in an unpredictable manner. Therefore, all the interventions must be kept under constant review and be modified as the need arises.

My final thoughts

The measures so far introduced will help to a great extent but not enough. Although most of the interventions are by design short term or temporary in nature, government could nonetheless use this opportunity to make some long-term decisions that are necessary to improve the country's preparedness to deal with future economic challenges. For instance, government could use this opportunity to fully deregulate the price of petrol.

Nigeria's economic challenges predate the Covid-19 pandemic. Beyond the humanitarian crisis posed by the virus, the economic impact is just as important. Any policy response being introduced needs to be evidence-based rather than a trial prescription program which could worsen the crisis. Ultimately, the crisis presents another opportunity for reforms which should not be wasted.



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