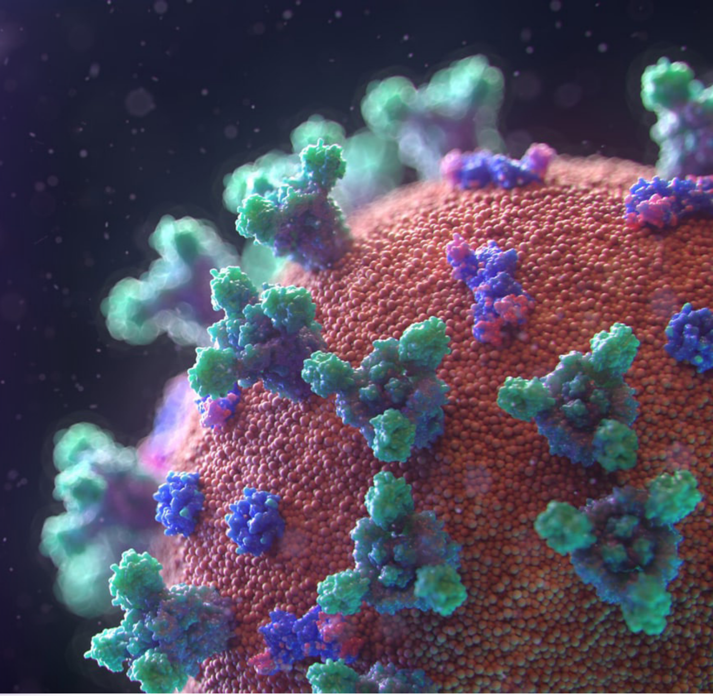
KPMG

Nigeria introduces tax and economic measures in response to COVID-19 pandemic

KPMG in Nigeria | March 2020



The outbreak of Coronavirus disease (COVID-19) and its rapid spread across the world has introduced a new wave of disruption never seen before. The health systems have been stretched to the limits and the economic impacts are taking their toll on government revenues, businesses, families and individuals across the world. This has prompted various governments across the world to introduce fiscal and economic stimulatory measures to ameliorate the impact of the pandemic on taxpayers and save their economies from collapse.

Below is a summary of the tax and economic measures announced by the Federal Inland Revenue Service (FIRS), Central Bank of Nigeria (CBN) and proposals by the House of Representatives (HORs) in the Emergency Economic Stimulus Bill, 2020 ("the Bill).

Tax measures by the FIRS

On Monday, 23 March 2020, the FIRS announced health and safety protocols for physical visits to its offices and the following measures to mitigate the impact of COVID-19 on taxpayers:

- Extension of timeline for filing of value added tax and withholding tax from the 21st day to the last working day of the month, following the month of deduction
- Extension of the due date for filing of companies' income tax (CIT) returns by one month
- Use of electronic platforms for payment of taxes and processing of tax clearance certificates
- Filing of tax returns by taxpayers without audited financial statements which must be submitted within two months of the revised due date of filing
- Proposed creation of a portal where documents required for desk reviews and tax audits will be uploaded by taxpayers for online access by the tax authority
- Submission of tax returns online by taxpayers via efiling.firs.gov.ng or by designated e-mail accounts published by the FIRS.

Economic measures by the CBN

The CBN announced policy measures worth ₦3.5 trillion, that include:

- Additional moratorium of 1 year on CBN intervention facilities
- Interest rate reduction on intervention facilities from 9% to 5%
- Creation of ₦50 billion target credit facility for affected households and small and medium enterprises
- Granting regulatory forbearance to banks to restructure terms of facilities in affected sectors
- Improving FX supply to the CBN by directing oil companies and oil servicing companies to sell FX to the CBN rather than the Nigerian National Petroleum Corporation
- Additional ₦100 billion intervention fund in healthcare loans to pharmaceutical companies and healthcare practitioners intending to expand/build capacity
- Identification of few key local pharmaceutical companies that will be granted funding facilities to support the procurement of raw materials and equipment required to boost local drug production
- ₦1 trillion in loans to boost local manufacturing and production across critical sectors.

Additionally, the CBN has taken steps towards adoption of a uniform US Dollar to Naira exchange rate by increasing its intervention rate at the Investors and Exporters' (I&E) Window of the FX market from ₦366 to ₦380 to the dollar and prescribing a similar rate at the end users' retail market. While increasing the official rate from ₦306 to ₦360 per dollar has narrowed the gap between the official rate, the end user rate, and I&E Window intervention rate, it has only effectively replaced the multiple exchange rate regime with a dual exchange rate regime. It is hoped that sooner than later, the CBN will move from the new dual exchange rate to a market-driven uniform exchange rate regime for full transparency in the operation of the FX market and accounting for public revenue and expenditure.

Fiscal measures by the HORs under the Bill

The HORs on Tuesday, 24 March 2020 passed the Bill which seeks to:

- protect employees from loss of jobs as a result of COVID-19 by granting a 50% income tax rebate on the total actual amount due or paid as pay-as-you-earn (PAYE) tax under the Personal Income Tax Act, 2004 (as amended), to Nigerian companies who retain all their employees from 1 March 2020 to 31 December 2020
- suspend import duties on medical equipment, medicines and personal protective gears required for the treatment and management of COVID-19 for three months, effective 1 March 2020.
- introduce a new moratorium on mortgage obligations of Nigerians under the National Housing Fund.

The Bill was sponsored by all principal officers of the House and is awaiting the Senate's review and passage before presentation to the President for his assent.

Other notable measures

Mention must be made of reduction of petrol pump price from ₦145 to ₦125/litre by the Federal Government. While this is a welcome development, the Government must move away from a fixed price regime for fuel, and use the opportunity of the current low crude oil prices to fully deregulate and privatize the downstream sector of the petroleum industry. If this is done, the price per litre of these refined products will move in response to market forces, engender competition between operators, promote efficiency, eliminate the long-standing fuel subsidy albatross once and for all and release the much-needed cash to fund infrastructural development. It will be easier for consumers to accept and adjust to fuel subsidy withdrawal as they enjoy the benefit and bear the burden of deregulated fuel pricing depending on the crude oil price trajectory.

Commentary on FIRS' and HORs' actions

We commend the Federal Government and its agencies for the tax and economic measures introduced to ameliorate the impact of COVID-19 pandemic on Nigerians and businesses.

However, while the FIRS' administrative measures to assist taxpayers to comply with the law during this difficult period is appreciated, the adequacy of the tax measures needs to be reviewed in light of the reality of the impact of COVID-19 on production, supply chains, sales, profitability and cashflow for businesses. For instance, the extension of CIT filing deadline by one month may be inadequate given the challenges associated with lockdowns and impact of this on productivity, notwithstanding remote working measures which a limited number of businesses have initiated for business continuity. The FIRS should also be explicit on extension of the payment deadline, and waiver of penalty and interest on late filing of tax returns and payment of the taxes due, especially as businesses experience illiquidity at this time.

The FIRS can take a cue from actions taken by its counterparts in other countries to mitigate the impact of COVID-19 on taxpayers. Bulgaria, for instance, has granted companies a 3-month extension of timeline to file their tax returns in addition to extending the timeline for payment of taxes. Similarly, France, Netherlands, Austria and Belgium have announced plans to grant a waiver of interest and penalty for late payment of income taxes during the pandemic, just as Germany has announced measures to allow businesses to defer tax payments, if such payment will affect the business' survival. Notwithstanding its technological advancement and capability for offsite tax audits, Austria has further suspended new tax audit exercises for the time being. While we recognize that the Government needs all the non-oil revenues that it can collect in the face of erosion of its oil revenues due to the collapse of global crude oil prices, the situation of many taxpayers who were struggling before the outspread of the pandemic has become aggravated, as they are in dire straits which forbearance by the authorities will help to mitigate.

The State tax authorities need to follow the example of the FIRS to announce their palliative measures on employers' monthly pay-as-you-earn tax and withholding tax compliance obligations, especially in the midst of business closures, lay-offs and delays by, or inability of, employers to meet up with the monthly obligations to their employees.

The Bill introduced by the HORs is also a welcome development and the HOR is commended for taking this initiative. However, the Bill needs to be refined in some respects to clarify whether the Government intends to give cash refunds to eligible companies or whether the relief will be taken as a deduction against the income tax payable under the Companies Income Tax Act. Candidly, the latter will be easier and cheaper to administer than a cash refund, which may be unrealistic in view of the acknowledged cashflow challenges that will dog the implementation of the 2020 National Budget arising from the drastic fall in oil revenues. It is unclear why the Bill makes the oil producing companies ineligible for the palliative, notwithstanding that their business will be significantly challenged financially with crude oil selling below the production cost, and the security of employment of their staff is equally threatened as their counterparts in other industries.

The limitation of the forbearance on mortgage repayment in the Bill to only contributors to the National Housing Fund is concerning, as non-NHF contributors who have borrowed from banks are in no less dire position than their NHF counterparts.

The foregoing commentaries should be considered by the Senate in refining the Bill to make it more responsive to the needs of businesses and individuals.

Overall, we expect the Government to continue to monitor COVID-19 developments and introduce additional measures to give lifelines to Nigerian businesses and citizens in these hard times. In this regard, there is need for effective co-ordination by the concerned agencies of the Government to ensure a wholistic response to COVID-19 that takes into consideration all stakeholders' interests.

Until additional measures are announced, and we see the desired ending of COVID-19 pandemic, stay healthy and be safe.

Please click here to download a copy of the Executive Chairman's message and here for the Bill.

For further enquiries, please contact:
Wole Obayomi
NG-FMTAXEnquiries@ng.kpmg.com