LEAD DEBATE ON THE FINANCE BILL, 2021 (SB. 873).

Sponsor: Sen. Abdullahi, Yahaya Abubakar (Kebbi North-Senate Leader).

Mr. President, my highly respected colleagues permit me to lead the debates on this very important bill titled the Finance Bill, 2021.

The Bill was read for the First Time in this Hallowed Chamber on Wednesday, 8th December, 2021.

The Finance Bill, 2021 seeks to support the implementation of the 2022 Federal Budget of Economic Growth and Sustainability by proposing key reforms to specific taxation, customs, excise, fiscal and other relevant laws. Specifically, this Bill provides for:

- Enhance Domestic Revenue Mobilization efforts to increase tax and non-tax revenues;
- Tax Administration and Legislative Drafting Reforms, particularly to support the ongoing automation reforms by the Federal Inland Revenue Service ('FIRS');
- Accelerate International Taxation Reforms to enhance the taxation of non-resident individuals and companies that nevertheless derive profits from Nigeria;
- Implement Financial Sector Reforms to support ongoing capital market reforms relating to Securities Lending Transactions, Real Estate Investment Trusts, Unit Trust Schemes and the recapitalization of Insurance Companies; and
- prioritize Critical Public Financial Management Reforms regarding the FIRS vital role in coordinating tax administration as well as the enforcement of key fiscal rules under the 1999 Constitution, Finance (Control & Management) Act and other relevant laws.

Mr. President, my highly respected colleagues, the Nigerian economy grew by 2.28% in Q3'19 compared to 2.12% in the previous period. The marginal improvement in the economy reflected growth in oil output, the services sector, mostly driven by activities in the telecommunications, agriculture and trade sectors. Examining other trends in the economy, inflation rose to 11.61% in October 2019. This was 0.36 percentage points higher than 11.24% in September 2019. Federal government's external debt profile stood at N22.89 trillion by H1'19, which was 28% higher than the N17.83 trillion recorded in H1'18. Imports grew by 8.2% quarter-on quarter in Q2'19 compared to 1.34% growth in export. Overall, the medium-term outlook for the country from the World Bank and IMF is one of a slowly growing but stable economy. The World Bank and IMF projected GDP growth rate at 2.2% and 2.3% respectively. There is room for improvement in economic outlook, if execution of policy reforms is accelerated and regulatory uncertainty is minimized.

The Finance Bill With a view to consolidating these macroeconomic effects and to help reduce budget deficits, THE President C-in- C submitted a Finance Bill to the National Assembly, to amend various tax laws in Nigeria. The Bill has the following strategic objectives:

- Promoting fiscal equity;
- Reforming domestic tax laws to align with global best practices;
- Introducing tax incentives for investments in infrastructure and capital markets; and
- Supporting MSMEs; and
- Raising revenues for government.

Companies Income Tax (CIT)

Mr. President, my highly respected colleagues currently, companies that declare and pay interim dividends are required to remit income tax at 30% on such dividends to the FIRS. There is a proposal to repeal this provision (which also specifies that WHT should not be applied on dividends that are not paid in money) in the Finance Bill. While the repeal will address the intended exemption of advance tax on interim dividend, it may also imply that WHT should be applied on bonus shares or dividend-in-specie.

The Bill seeks to amend the contentious commencement and cessation rules in CITA. The effect of these rules is that companies suffer tax twice on profits of at least 12 months, when they commence business. Conversely, on cessation of business, a period of up to 12 months escapes tax. The removal of these rules is considered a welcome development

Anti-avoidance provisions for business reorganization CITA empowers the FIRS to grant certain exemptions on group reorganizations, where certain criteria are fulfilled. Some of the criteria include that: i) The companies involved should be part of a "recognized group of companies", and ii) The transaction should be for the purpose of the "better organization of that trade or business". The Bill proposes that to obtain the exemption, the entities involved should be part of a recognized group of companies 365 days before the transaction, and the relevant assets should not be disposed earlier than 365 days after the transaction. The Bill defines "recognized group of companies" as "...a group of companies as prescribed under accounting standards".

Personal Income tax Act:

- Amendment to clarify that pension contributions no longer require the approval of the Joint Tax Board (JTB) to be tax-deductible;
- On the other hand, the Bill seeks to remove the tax exemption on withdrawals from pension schemes except the prescribed conditions are met;
- Child relief (2,500 per child up to a maximum of 4) and dependent relief (2,000 per dependent for a maximum of 2) are to be deleted;
- Banks will be required to request for Tax Identification Number (TIN) before opening bank accounts for individuals, while existing account holders must provide their TIN to continue operating their accounts;
- Emails are to be accepted by the tax authorities as a formal channel of correspondence with taxpayers;
- Penalty for failure to deduct tax will also apply to agents appointed for tax deduction. This penalty is 10% of the tax not deducted, plus interest at the prevailing monetary policy rate of the Central Bank of Nigeria;
- The conditions attached to tax exemption on gratuities have been removed. Therefore gratuities are unconditionally tax exempt; • The duties currently performed by the Joint Tax Board (JTB) as relates to administering the Personal Income Tax Act, will now be performed by the FIRS. This seems to be an error in the process of amendments to replace the word "Board" as it appears in Federal Board of Inland Revenue.

Value Added Tax (VAT) f:

Mr. President, my highly respected colleagues The Bill is introducing VAT exemption on Group reorganizations, provided that the following conditions are met: • The sale is to a Nigerian company and it is for the better organization of the trade or business;

- The entities involved are part of a recognized group of companies 365 days before the transaction, and the relevant assets are not disposed earlier than 365 days after the transaction The current practice is that companies send an approval request letter under CITA Section 29(9) to the FIRS, and include a VAT exemption request, even though there is technically no basis for this in the VAT Act. PwC 5 Takeaway Quite significantly, the Finance Bill seeks to introduce sweeping changes to the tax laws covering seven different tax laws. Many of the changes are expected to have positive impacts on investments and ease of paying taxes especially for MSMEs. Going forward, we hope that changes to the tax laws will be on an annual basis to ensure that Nigeria's tax system continues to evolve in line with changes in business and economic conditions.

Penalties:

Penalty for VAT late filing of returns increased to N50, 000 for the first month and N25, 000 for subsequent months of failure;

- The penalty for failure to register for VAT is reviewed upwards to NGN 50,000 for the first month of default and NGN 25,000 for each subsequent month of default;
- The penalty for failure to notify FIRS of change in company address to be reviewed upwards to N50,000 for the first month of default and N25,000 for each subsequent month of default. This penalty also covers failure to notify FIRS of permanent cessation of trade or business.

Capital Gains Tax Act:

Similar to the VAT amendment, the Bill is also introducing CGT exemption on Group reorganizations, provided that the following conditions are met:

- Assets are sold to a Nigerian company and is for the better organization of the trade or business;
- The entities involved are within a recognized group 365 days before the transaction, and the relevant assets are not disposed earlier than 365 days after the transaction The current practice is that companies send an approval request letter under CITA S29(9) to the FIRS, and include a CGT exemption request. CGT on "compensation for loss": Currently, the CGT Act imposes CGT on compensation for loss of employment above N10, 000. The Bill seeks to expand the coverage of this provision by renaming it "compensation for loss" and increase the minimum threshold from N10, 000 to N10 million

Quite significantly, the Finance Bill seeks to introduce sweeping changes to the tax laws covering seven different tax laws. Many of the changes are expected to have positive impacts on investments and ease of paying taxes especially for MSMEs. Going forward, we hope that changes to the tax laws will be on an annual basis to ensure that Nigeria's tax system continues to evolve in line with economic conditions

Mr. President, Distinguished Colleagues, I believe that this Bill is tailored to meet the critical needs of this country at this point of our democratic evolution and economic situation. All these are targeted at making Nigeria move to the next desired level of economic and social development.

I therefore urge you all my Distinguished Colleagues to support the Second Reading of this Bill and committal to the relevant Committee for detailed consideration.

Thank you.