TAX EXPENDITURE REPORT FOR 2021

PRESENTED BY

Mr. IKATA, O. J

Head- Tax Expenditure & Pioneer

Federal Inland Revenue Service,

Nigeria.

Outlines

- ❑ Introduction;
- ❑ Objectives of the tax expenditure report;
- ❑ Methodology;
- ❑ The benchmark tax system;
- ❑ Ratio analyses of tax expenditure to tax revenue, tax expenditure to Gross Domestic Product (GDP);
- ❑ Key findings;
- ❑ Conclusion.

INTRODUCTION

- Nigeria has made significant progress in recent years in governance, improving the macroeconomic framework, investment, and economic and social development with stable and sustained growth.

- The intention of the report is to complement the ongoing efforts in improving governance, particularly in the management of public finances.
- This report is the result of a process that involved several actors involved in the granting and management of tax and customs duties. This report will be on the assessment of tax expenditures relating to the foremost taxes, namely;

❖ Value Added Tax (VAT)

- This report received technical support from the Support Program for Tax Transition in West Africa (PATF)

OBJECTIVES OF THE TAX EXPENDITURE REPORT

The overall objective of this report is to estimate the National Tax Expenditure with respect to;

Value Added Tax (VAT)

THE SPECIFIC OBJECTIVES ARE:

- Quantify tax expenditures for the tax heads under consideration for the year 2021;
- Provide statistics on tax expenditure for effective monitoring and evaluation;
- Enhance transparency and accessibility of information and improve inter-agency cooperation.

METHODOLOGY

Tax expenditures are measured with reference to baseline taxes

Tax expenditure evaluation are generally based on three approaches:

1- The revenue forgone approach;

2- The revenue gain approach; and

3- The outlay equivalence approach.

EVALUATION METHODOLOGY

For this report, and in line with the ECOWAS Tax Expenditure Directive, the revenue forgone method is adopted for its:

analytical simplicity

ease of reporting

availability of data

comprehension by the government

Foundation pour Les Etudes et Recherches sur Le Development International (FERDI) FERDI recommends two approach.

a Legislation sub-group responsible for the legal aspects

an Evaluation sub-group responsible for the actual estimation of the budgetary cost of TEs.

Evaluation Methodology Continue

The tax expenditure committee modified the FERDI approach and adopted

Three sub-groups were created as follows:

The Legislation subgroup identified the tax expenditures.	The Evaluation subgroup conducted the evaluation of the budgetary cost of TEs.	The Report sub-group reviewed the draft reports from the legislation and Evaluation subgroups and prepared the final TEs report.

IDENTIFICATION OF TAX EXPENDITURE

NATIONAL LEGISLATIONS

National legislations

The following are the various national legislations that was used for this report.

Value Added Tax (VAT) Act 2004 as Amended;

VAT Modification Order 2021;

NLNG Fiscal Incentives and Assurances Guarantees Act;

Nigerian Sovereign Investment Authority Act;

Nigeria Export Processing Zones Authority Act;

Oil and Gas Free Zones Act;

Finance Act, 2019, 2020 and 2021;

Diplomatic Immunities and Privileges Act;

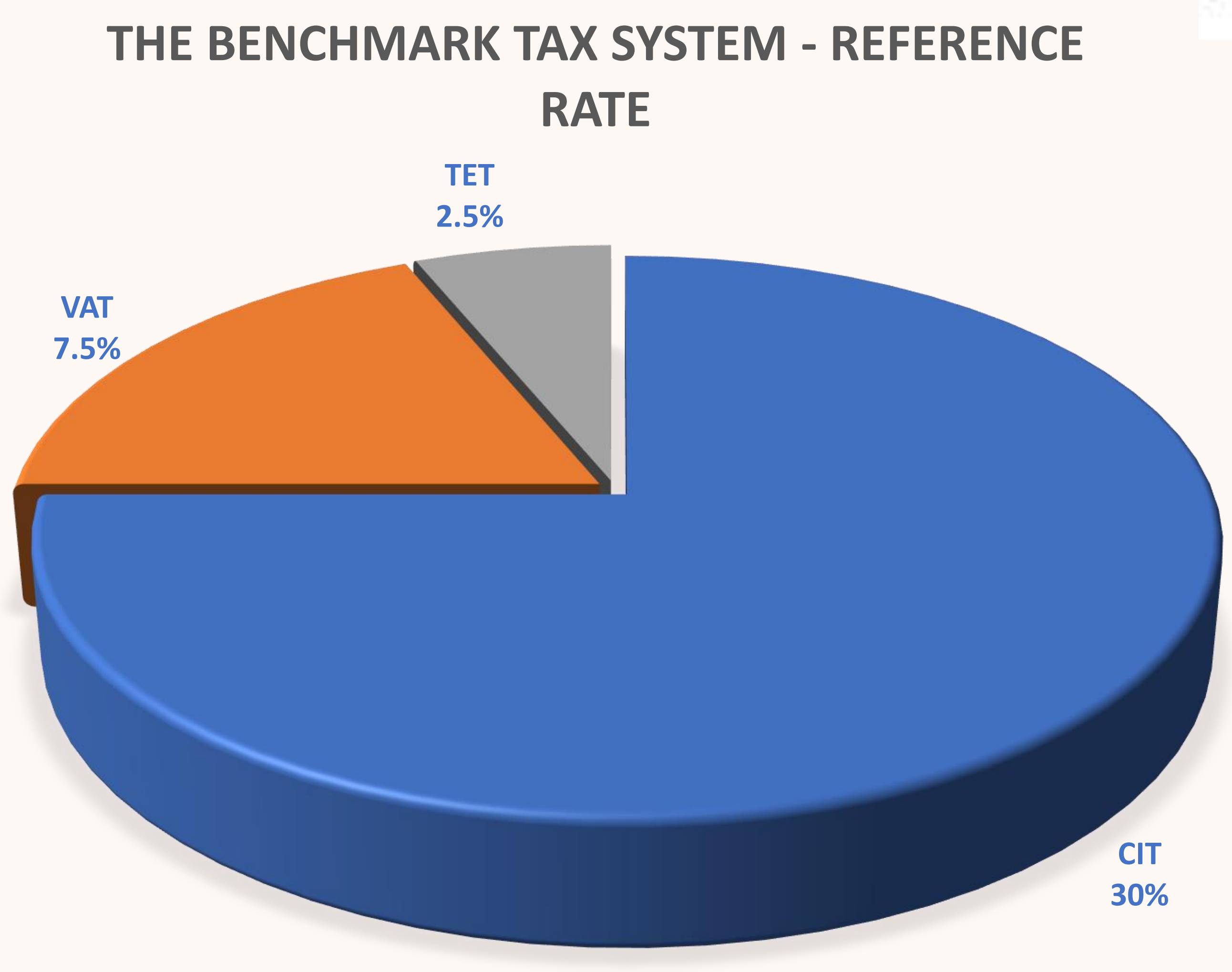
Petroleum Industry Act, 2021;

IDENTIFICATION OF TAX EXPENDITURE

INTERNATIONAL CONVENTIONS AND PROTOCOLS

- **International Conventions and Protocols**
- Vienna Convention (Principle of reciprocity) – Diplomatic and Consular Privileges;
- Florence Agreement and its Nairobi Protocol;
- Chicago Convention Exemption on exports concerning the refuelling of aircraft to foreign destination;
- Revise Kyoto Convention;
- Community texts of ECOWAS - Article 8, Paragraph 8, 9 and 10 of Directive C/DIR.105/09.

THE BENCHMARK TAX SYSTEM - REFERENCE RATE



TAX EXPENDITURE ANALYSIS

- The analysis showed the mineral resources sector accounted for the largest source of VAT tax expenditures in 2021. This was followed by national legislations, international conventions and protocols, and discretionary waivers. Domestic VAT accounted for 72.50% of the total tax expenditures and import VAT contributed 27.50%. The commercial and trading sector had the highest number of beneficiaries of zero-rated supplies (37) and exempted supplies (93). The oil production sector had the highest number of beneficiaries of zero-rated supplies (38), while the professional services sector had the highest number of beneficiaries of exempted supplies (85).

Value Added Tax Expenditure by Sources

Sources	VAT Category	Amount (NGN)	% of TE
National Legislations	Domestic VAT	270,466,824,311.73	17.45%
	Import VAT	167,618,081,384.33	10.82%
International Convention and Protocol	Domestic VAT	0	0.00%
	Import VAT	258,621,776,306.94	16.69%
Mineral Resources (oil and gas, mining)	Domestic VAT	853,104,583,913.53	55.05%
	Import VAT	0	0.00%
Other Sources (e.g., discretionary waivers)	Domestic VAT	0	0.00%
	Import VAT	54,863,526,627.00	3.54%
Sub-Total	Domestic VAT	1,123,571,408,225.26	72.50%
	Import VAT	426,239,857,691.27	27.50%
Total		**1,549,811,265,916.53**	

Beneficiaries of Exempt Supplies and Zero-Rated Supplies by Sector

SECTOR	NUMBER OF EXEMPT SUPPLIES	NUMBER OF ZERO-RATED SUPPLIES
Agricultural and Plantations	37	3
Automobiles and Assemblies	1	2
Banks & Financial Institutions	8	2
Breweries, Bottling and Beverages	8	2
Building and Construction	17	4
Chemicals, Paints and Allied Industries	10	5
Commercial and Trading	93	37
Conglomerates	4	2
Gas	2	1
Hotels and Restaurants	7	4
Oil Marketing	51	
Oil Production	0	38
Other Manufacturing	92	46
Petro-Chemical and Petroleum Refineries	9	1
Pharmaceutical, Soaps and Toiletries	38	4
Professional Services Providers	85	23
Properties and Investments	2	0
Publishing,Printing, Paper Packaging	6	1
Stevedoring, Clearing and Forwarding	7	3
Textile and Garment industry	2	1
Transport and Haulage Services	13	3
	492	**182**

RATIO ANALYSES OF TAX EXPENDITURE TO TAX REVENUE, TAX EXPENDITURE TO GROSS DOMESTIC PRODUCT (GDP).

- **VAT Tax Expenditure to Total Revenues:**
- The total tax expenditures as a ratio of total VAT collection in 2021 stands at 74.77% (see Table below). This is broken down into 54.20% for Domestic VAT TE and 20.56% for Import VAT TE. Furthermore, also shows that the total tax expenditures due to Import VAT is almost 100% of the total import VAT collection at 91.14%. In addition, the total TE (domestic VAT) to total non-import VAT collection is 70%. This ratio indicates that tax expenditures from domestic sources or non-imports is more than half of the total domestic VAT collected.

Tax Expenditure to Revenue Ratio

The total tax expenditures as a ratio of total VAT collection in 2021 stands at 74.77% (see table 8). This is broken down into 54.20% for Domestic VAT TE and 20.56% for Import VAT TE.

Tax Expenditure	Amount (Naira)	TE to Rev Ratio
Total TE for domestic and import VAT	1,549,811,265,916.53	74.77%
TE on Domestic VAT	1,123,571,408,225.26	54.20%
TE on Import VAT	426,239,857,691.27	20.56%
Total VAT Revenue	2,072,850,000,000.00	
Total Domestic VAT	1,605,170,000,000.00	
Total Import VAT	467,680,000,000.00	

Tax Expenditure to GDP Ratio

TE on total VAT collection to GDP ratio was 0.90%. This means that in 2021, tax expenditures from both domestic and import VAT was equal to 0.9 percent of Nigeria's total economic output in nominal terms. Also, out of 0.9%, 0.65% was due to domestic VAT while 0.25% was due to Import VAT.

Tax Expenditure	Amount (NGN)	TE to GDP %
Total TE for domestic and import VAT	1,549,811,265,916.53	0.90%
TE on Domestic VAT	1,123,571,408,225.26	0.65%
TE on Import VAT	426,239,857,691.27	0.25%
Nominal GDP	173,527,662,344,318.00	

Import Duty Tax Expenditure

All the other derogatory measures combined was less than 13%, with the non-standard VIN diplomatic privilege which is the least amount and represent 0.003% of N435.84 billion of 2021

Description	Amount (NGN)	Percentage
Non-Standard VIN Diplomatic Privileges	12,278,326.00	0.003%
Non-Standard VIN Consular Officers	20,028,978.00	0.005%
Goods imported for the President, C-in-C of the Federal Republic of Nigeria.	27,264,960.00	0.006%
Diplomatic Privileges	15,276,388,445.00	3.505%
Goods imported for Consular Officers	19,575,002.00	0.004%
Goods obtained free as tech. assistance from international donors	203,607,190,132.00	46.716%
Personal Effects	707,503,018.00	0.162%
Life Saving appliances	84,824,997.00	0.019%
Military Hardware & uniforms	25,341,858,521.00	5.814%
Arms & ammunition imported by NPF, NCS & other para-military services	8,197,571,352.00	1.881%
Fuel, lubricants & similar products as approved by minister	83,613,005,780.00	19.184%
Health and medical supplies to abate the spread of COVID.	21,205,186.00	0.005%
Presidential initiative on COVID-19 relief supplies	1,278,886,323.00	0.293%
Exemption of Import Duty and VAT on Commercial airlines.	2,183,529,264.00	0.501%
Discretionary Import Duty Exemption	95,449,542,787.62	21.900%
Total	**435,840,653,071.62**	**100.000%**

KEY FINDINGS

The total tax expenditure computed from VAT evaluated for year 2021 was N1.54 trillion Naira, which was 0.90% of GDP.

Domestic VAT accounting for 0.65% and import VAT accounting for 2.5%

VAT TE to VAT Revenue ratio was 74.77% (with Domestic VAT accounting for 54.20%

The largest source of VAT tax expenditures in 2021 was from mineral resources, which accounted for 55.05% of the total tax expenditures, followed by tax expenditures from national legislations, which is 28.27%

International conventions and protocols accounted for 16.69% of the total tax expenditures while discretionary waivers contributed 3.54% of the total tax expenditures.

At 72.88 percent, oil production sector has the highest share of exempted and zero-rated supplies followed by commercial and trading sector with only 8.24% and Agriculture and Plantation sector with 5.22%.

The largest proportion of these measures are derogations from the national legislations and represents 74% of all derogatory measures.

65% of the derogatory measures in the national legislations was from Domestic VAT while 35% is derived from Import VAT.

RECOMMENDATIONS

Improve Tax Expenditure Reporting

- Data and evidence: Develop capacity around data and statistics among staff of TE related agencies.
- Automate the process of data collection on TEs at each relevant agency (FIRS, NCS, NIPC, NUPRC, etc)
- Develop an automated shared platform for all relevant agencies to collate and harmonise all TE related data in real time.
- Decisions to grant exemptions should only be made after the revenue to be foregone estimates have been made and communicated to decision-makers by competent authorities (FIRS and NCS).
- All Exemption decisions should be in writing, with the name of the beneficiary, terms and conditions, as well as specific duty/tax/levies treatment, as appropriate, clearly stated.
- Organise capacity building programs for staff of related agencies on issues related TEs and on effective interagency collaboration.
- Ensure that there is an effective Monitoring and Evaluation framework in place based on the objectives of the TEs with SMART indicators to measure performance.

CONCLUSION

Nigeria has made significant progress in entrenching transparency in its fiscal operations, these improvements have received global acclaim.

Incorporating tax expenditures into the budget would increase budget transparency.

The objective of this report was to evaluate tax expenditures in Nigeria. The costs of tax expenditures have a unique feature of being largely invisible to policy makers and citizens.

The TE report is intended to provide evidence for fiscal policy analysis, especially the need to appraise the costs and benefits associated with waivers and concessions.

THANK YOU