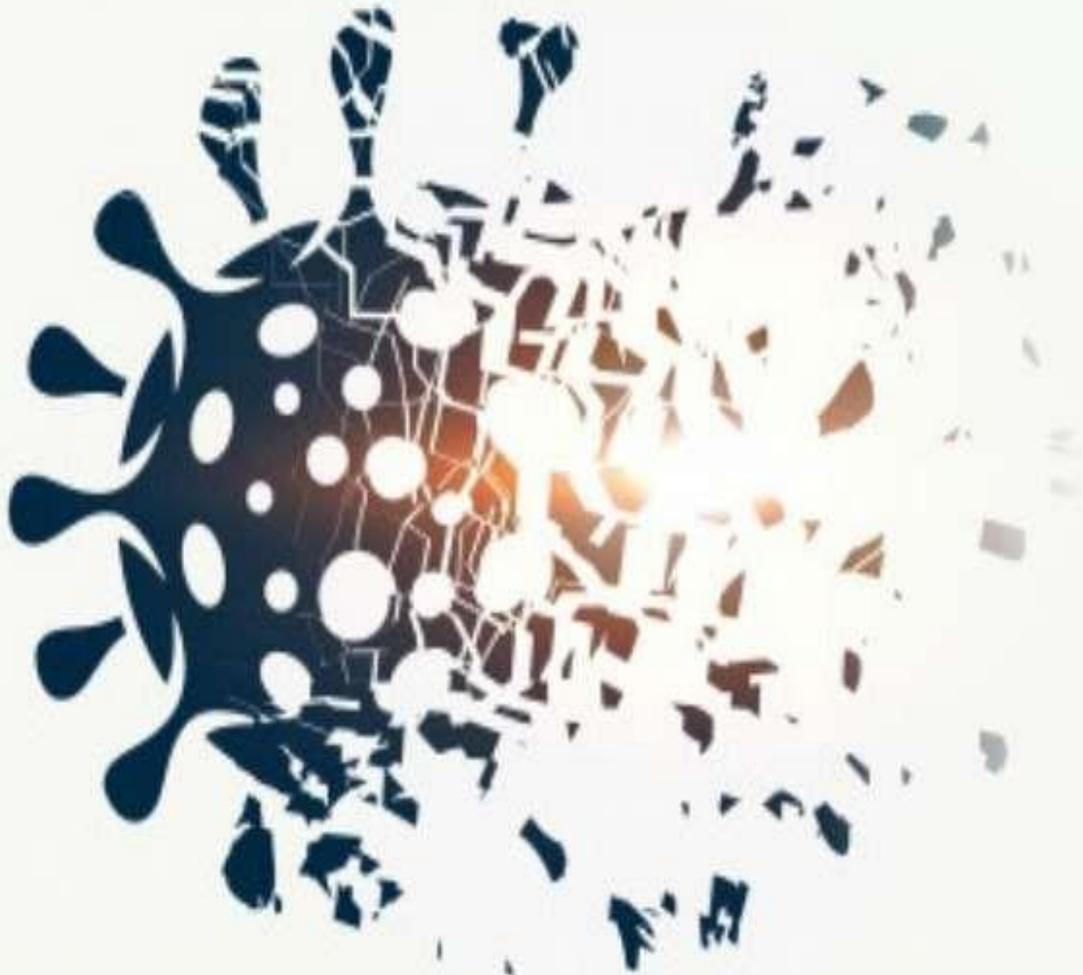




THE CHARTERED INSTITUTE OF TAXATION OF NIGERIA



# CORONAVIRUS

– GOVERNMENT ACTIONS,  
TAX IMPLICATIONS AND  
CITN'S RECOMMENDATIONS

APRIL, 2020



## 1.0 Introduction

Coronaviruses are a family of viruses known for containing strains that cause potentially deadly diseases in mammals and birds. In humans, they are typically spread via airborne droplets of fluid produced by infected individuals. Some rare but notable strains, including SARS-CoV-2 (responsible for COVID-19), and those responsible for severe acute respiratory syndrome (SARS) and Middle East respiratory syndrome (MERS), which can cause death in humans.

The World Health Organization (WHO) in her Situation Report 22 of 11<sup>th</sup> February 2020, officially named the 2019 novel coronavirus (2019-nCoV) as COVID-19. COVID-19 (SARS-CoV-2) was first identified in the Chinese city of Wuhan, Hubei Province, with the first case reported on 1<sup>st</sup> December of 2019.

The virus is thought to spread mainly from person-to-person that is between people who are in close contact with one another (within about 6 feet), through respiratory droplets produced when an infected person coughs or sneezes. These droplets can land in the mouths or nostrils of nearby persons and can easily make their ways to the lungs. The generic symptoms come in the form of initial flu-like symptoms, such as fever, coughing, breathing difficulties, fatigue, and myalgia, and have an incubation period of one to fourteen days for the full manifestation of clinical symptoms.

There is currently no vaccine to prevent the COVID- 19 disease. However, maintenance of general hygiene has proved to be a reliable control for the management of the diseases. The best way to prevent illness is to avoid being exposed to this virus. Other steps that can be taken to protect oneself is to clean one's hands often and to avoid close contact with people that are sick.



## 2.0 The Coronavirus and Global Economy

Coronavirus is continuously spreading across the globe and causing rapid and great disruptions across world economies. It has been confirmed that the virus that causes COVID-19 seems to be spreading easily and sustainably in the community ("community spread") in most affected geographic areas. Community spread occurs where individuals who have been infected with the virus in an area, including those that are unaware of their being infected, mingle with members of the community, thereby increasing the rate of spread of the virus among individuals.

By the end of March 2020, the World Health Organization asserts that COVID-19 global spread has been reported in 206 Countries and territories across the globe with a total of 750,890 cases out of which, a total number of 36,405 deaths has been reported. The statistics released by the World Health Organization in the Situation Report- 83 of April 12, 2020 confirmed that virus infection has risen to a global figure of 1,696,588 confirmed cases, with 85,679 new cases reported on 12 April 2020. The death toll arising from the pandemic stood at 105,952 deaths globally, with a total of 6,262 deaths reported on the same day.

In Nigeria, the Nigerian Centre for Disease Control (NCDC) has reported a total of 139 cases involving two deaths with 9 recoveries as of 31<sup>st</sup> March 2020. The figures have risen to a total of 323 cases by NCDC briefs for 12 April 2020, with a total of 10 deaths and 85 recoveries. With all the cases exhibiting mild to moderate symptoms and currently receiving care at designated treatment centers across the nation, the NCDC has initiated a multi-sectoral national emergency operations center (EOC), activated at level 3 to coordinate the national response activities towards the COVID-19 pandemic in Nigeria.



### **3.0 Coronavirus and the Global Containment Efforts**

The containment efforts towards the outbreak of COVID-19 has thrown international markets into turmoil as a result of restrictions on movements from governments around the world. This has led to a steep drop in global demand for crude following the Coronavirus outbreak, resulting in an oil-price war amid global health pandemic. It is noteworthy that curtailing the novel coronavirus will take global economic cooperation, and the fact that Russia and Saudi Arabia, the two-leading oil-producing nations, cannot work together to keep oil prices stable is a bad sign. Russia and Saudi Arabia risk hurting efforts to stop the spread of coronavirus if they insist on continuing an oil price war that emanated from a fight for market share between them as they slashed prices and ramped up production. Oil-dependent countries such as Algeria, Iraq and Nigeria are facing untold consequences as a result of oil price drops.

Expectedly, there is a buildup of crude oil inventory of about 13.8 million barrels for the week to March 27 as a result of non-consumption following economic halt at the midst of a global fight against COVID-19 spread. Data from the American Petroleum Institute, indicate that by the week to April 5, 2020, crude stocks have surged to 473.8 million barrels, the economic damage of this oil-price slump will go far beyond the loss of jobs in the sector, thereby creating an environment in which markets become more uncertain.

The Coronavirus affects the oil market in two ways. First, travel restrictions due to containment efforts limit the use of jet fuel, supply chains slowdown and industrial activity declines as companies send workers home- meaning less oil and oil-based products are being used and produced. This has very direct effects on oil consumption and informs near-term calculations of real oil demand. Second, the stock market reaction to the effect of the coronavirus on the global economy builds a projection of global oil demand over the long-term. As broader market sentiment about the health of the global economy declines, so do projections about



the future oil demand curve, prompting flight away from oil and energy stocks and further drawing down prices.

Efforts by individual countries thus far have focused on containing the veracious spread within national borders. This has led to a halt to manufacturing and other economic activities with their travel and transportation systems grounded.

Consequentially, the International Monetary Fund (IMF) announced that the World economy has entered into a recession, asserting that the economic fallout from coronavirus is already “way worse than the global financial crisis of 2008.” With more than half of global population—more than four billion people currently on lockdown or under some form of stay-at-home orders from national governments as at 3<sup>rd</sup> April 2020, the “stop-work-effect” on business activity globally has created an economic crisis “like no other,” according to the IMF director, Kristalina Georgieva.

Moody's Analytics asserted that during the 2008 financial crisis, the world economy lost more than \$2 trillion in value, dropping with an average of 4% off the mark before the crisis. According to the IHS Markit, a leading source of information and insight in critical areas that shape today's business landscape, with disruptions to supply chains, demand, international trade flows, and travel, along with lockdowns and collapsing stock prices, resulting from the coronavirus disease 2019 (COVID-19), the virus have dealt a heavy blow to the global economy. The IHS Markit forecast for world real GDP growth in 2020 has been revised down to 0.7% in response to the spread of the virus. Growth below 2.0% is classified as a global recession. As such, we conclude that the global economy has entered a recession.

On the other hand, Forbes insists that for the global economy to recover quickly from the economic consequences of the COVID-19, ways and means must be found to prevent a



massive collapse in demand as many businesses are directly obstructed by the measures imposed by national governments to contain the spread of the virus.

***“Cities are locked down and people are told to stay home and avoid crowds. ... And as countries closed down their borders, international travel has been drastically curtailed. Airlines are grounded and hotels are largely empty. Consumer spending has crashed because people are either too fearful or unable to go out and spend. As a consequence, all businesses in industries that entail close contact with the public are now in jeopardy. Their revenues are drying up faster than they can cut costs, and many will go bankrupt if the situation worsens. Under these conditions, a dangerous outcome is mass business closures leading to rising unemployment, creating a self-reinforcing feedback loop that locks revenue-starved companies and salary-starved households into a downward spiral.”***

To alleviate humanitarian crisis within the locked-down cities and period, together with efforts to avoid economic recession at the time of global health pandemic, many nations announced palliative measures in welfare and medical supplies to contain these effects. The detailed responses on geographical and national basis are included on the appendixes A, B and C.



## 4.0 Coronavirus and the Nigerian Economy

Nigeria confirmed its first COVID-19 case on 27th February 2020. This resulted in the wiping off of some 300 billion Naira (\$980 million) of the value of the local stock market in market reactions to the pandemic. Analysts have projected that with the widespread of the virus, resulting to workers and shoppers staying home, and businesses closed down in response, much-needed revenue from a higher VAT rate passed last year will evaporate.

China accounts for around a quarter of Nigerian imports, greasing much of the country's supply chain, and is funding and building much-needed infrastructure. So many business owners in Nigeria rely on China, the world's largest economy, from where they import their goods.

China's economic health is also crucial for oil prices, which make up more than half of government revenues for Africa's top producer and have tumbled more than 20% since January.

The Finance Minister, Mrs Zainab Ahmed, has noted that if the oil prices continue to crash then the record 10.59 trillion budget of Nigeria will become unsustainable. At close to \$22 per barrel by the end of March 2020, oil prices are far below the \$57 per barrel budget benchmark. Furthermore, OPEC has backed the biggest cut to oil supplies since the 2008 crisis, leading to the Federal Executive Council's decision to review the 2020 Nigeria budget and approve cut to 2020 approved budget on Monday, 9<sup>th</sup> March 2020. This includes the reduction of the oil price benchmark to \$31 from \$57; a cut of N1.5 trillion from the N10.59 trillion 2020 Budget; a reduction of 20% on approved capital budget expenditures and 25% on approved recurrent expenditure profiles.



## 5.0 Effects of Coronavirus on the Nigerian Economy

### The Immediate Impacts

- a. The crash of global oil prices – a shortfall in revenue to the Federal Government, States and Local Governments;
- b. Rising inflation – general increase in prices of goods;
- c. Shutting down economic activities and low productivity – shortfall in tax revenue;
- d. Difficulty in meeting obligations by Government, Organizations and Individuals; and
- e. Increase in crime rate.

### The Remote Impacts

- i. Global recession and depression – Industry bailout, bank failure, Job-loss
- ii. Freezing tax rates or tax payments
- iii. Quantitative Easing
- iv. New Business Models –sdC Financial System, Supply-Chain, Medical Services
- v. Fourth Industrial Revolution – Artificial Intelligence, Internet of things, etc.

## 6.0 Responses to the Pandemic in Nigeria

The response thus far:

- a. The Bankers' Committee and the Central Bank of Nigeria (CBN) announced a **N3.5 trillion** stimulus package to cover:
  - N1 trillion in loans to boost local manufacturing and production across critical sectors.
  - N50 billion targeted credit facility for small and medium scale enterprises and households.
  - Interest rates cut from 9% to 5% for CBN intervention facilities.
  - A grace period of one year on principal facilities for intervention loans.
  - N100 billion in loan for pharmaceutical companies and healthcare practitioners to produce vaccines and test kits in Nigeria.
  - N1.5 trillion InfraCo Project for building critical infrastructure
- b. FGN review of 2020 budget, set crude oil benchmark at \$30/bbl and a 20% reduction of the capital expenditure.



- c. House of Reps Emergency Economic Stimulus Bill – proposing tax rebate for companies, deferred payment of mortgage obligations with Federal Mortgage Bank of Nigeria (FMBN) and duty waivers for importation of medicines/medical equipment.
- d. UBA foundation announced N5billion relief support across Africa to cover:
  - i. N1 billion to Lagos State Government
  - ii. N500 million to Federal Capital Territory, Abuja
  - iii. N1 billion to 35 States in Nigeria
  - iv. N1 billion for Medical Centers with equipment and supplies
  - v. N1.5billion to African countries with UBA presence
- e. Donation of medical equipment by GTB, Access Bank, RCCG, Dangote, etc.

According to a news brief from the Central Bank of Nigeria released on 2<sup>nd</sup> April 2020, about thirty-seven Nigerians have donated as corporate and individuals to the fight against coronavirus in the country with the total amount put at N21.5 billion as of April 7, 2020.

### **Short-Term Interventions**

These are immediate interventions within the ***next few months***.

1. **Emergency Economic Stimulus Bill** – There is a need for a quick revisit to the Bill in the light of some contemporary realities. The bill is timely and requires urgent attention, and passage into law as soon as possible to provide legal backing to some of the actions by government and the organized private sector.

The proposed bill is not robust enough as it is, hence the following recommendations are germane to providing a comprehensive stimulus that addresses a wide range of interests:

- a. Food and Nutrition Assistance Fund (FNAF)** – The urgent stimulus Nigerians need now is the provision of food. One of the effective strategies of curtailing the spread of the coronavirus is the 'Stay at Home' strategy. However, it must be acknowledged that a vast majority of Nigerians live on daily subsistence. There is the need to design food



and nutrition assistance programme to cater to the daily needs of Nigerians. The FNAF should receive contributions from:

- i. The CBN intervention for household
- ii. FGN contributions from the humanitarian budget for 2020
- iii. State Governments contributions.
- iv. NGO contributions – Local and International NGO.
- v. Donations by private organizations and individuals. To encourage this, 100% of the amount donated should be tax-deductible for Companies Income tax and personal income tax purposes without prejudice to other extant tax laws.
- vi. Farmers' Association of Nigeria to organize its members to make food available at affordable prices.

#### **b. Tax Rates Reduction and Tax Payments**

In consonance with the principles of simplicity and certainty of taxation, the followings are recommended for 2020 Tax Year:

- i. A reduction of CIT rate from 30% to 20% for large companies
- ii. A reduction of CIT rate from 20% to 15% for medium companies liable under the 2020 Finance Act
- iii. Suspension of the minimum tax provision.
- iv. Extension of period of filing tax returns and due date of payment by three months. The above provides direct benefits and far-reaching impact on companies than the proposed 50% of PAYE as a rebate for CIT. Companies would be encouraged to retain their employees.



### **c. Deferral of Mortgage Obligations and Rebate for Rent and Lease Obligations.**

Commercial Banks and Mortgage Banks and Property Owners are to adjust their obligations from customers and tenants as follows:

- i. Deferred payment of principal and interest on mortgage loans for nine months effective April 1, 2020.
- ii. 50% reduction on rent and lease payment on residential and commercial properties for nine months effective April 1, 2020

The deferred payment and rent/lease rebate would be compensated for with the reduction of CIT rates in the 2020 Tax year.

### **d. Grants and loans by CBN and Commercial Banks**

To stimulate economic activities and prevent bank failure, the CBN and Commercial banks should provide the following interventions:

- i. The CBN to give subvention to Manufacturing Companies for purchase of equipment and input for productions
- ii. The CBN to provide Interest-free loans to Small, Medium and Large Companies
- iii. The CBN to facilitate "Productive Lending Programme" mandating Commercial Banks to lend a specific percentage of their deposits to Manufacturing Companies. This is a more purposeful approach to increasing deposit to the lending ratio by banks.
- iv. The CBN reduction of the interest rate for special or intervention facilities.
- v. The CBN to review the cash reserve ratio for banks.
- vi. The CBN and Commercial Banks to review existing loans to reduce the interest rates to avoid bad loans and bank failure.

### **e. Medical Equipment and Medical Goods and Services**

To support the purchase of medical equipment, goods and services:

- i. CBN should provide N100 billion in Long Term Loan for pharmaceutical companies and healthcare practitioners to produce vaccines and test kits in Nigeria



- ii. Solicit additional funding to support hospital and community health centres from International Organizations and NGOs.
- iii. Waiver of import duty on medical equipment.

## **Medium and Long-Term Interventions**

Perhaps, COVID-19 offers Nigeria the opportunity to reset her fiscal and monetary policies. Hence, we must be proactive and be bold to make fundamental changes to re-position the economy for prosperity. Here are some of the changes:

**1. Fiscal Sustainability** – the economy is in a bad shape with low revenue, low foreign reserves, huge debt burden, weak currency, weak infrastructure, weak productive industries, etc., The following measures would be helpful.

- **Crude Oil** – has been the mainstay of the country but susceptible to global price shock. With the current drastic drop in crude oil prices; it is high time we review the management of the crude oil fiscal regime and Nigeria's stakes in OPEC.

Prudent management of the fiscal regime is imperative at this time. There is a need to establish Digital Revenue Assurance Tools to optimize revenue generation and collection. Digital Revenue Assurance Tools would help to identify and plug the revenue leakages in the production and sale of crude oil in Nigeria. Also, no individual should own oil well and mineral resources. The ultimate owners of any natural resources should be the Host Community, Local Government, State Government and the Federal Government.

Lastly, it is high time Nigeria left the OPEC if her market share cannot be increased. It is not equitable for Nigeria with a population of over 200 million to be restricted to producing 2million barrel per day, while Saudi Arabia with a population of about 34million produces over 10million barrels per day.

These are hard decisions worth taking at this time.



- **Solid Minerals** – there is the need to articulate the solid mineral fiscal regime to harness the potential in every State of the Federation. Nigeria is currently losing a lot of revenue because of the illegal mining being carried out by Nigerians and foreigners.
- **Budgeting** – it is imperative to set our budget priorities right from 2021 budget. In line with Global Best Practices, Education and Health should be given top priority.
- **Debt Relief** – Debt restructuring and possible reliefs are strategies to be considered.
- **Alternative or Renewable Energy** – in no distant future, fossil fuel will become a thing of the past. Nigeria needs to leverage its environmental climate to build capacity to be an exporter of alternative or renewable energy to the world.

2. **Tax Policy Mix and Design** – Taxation remains a major and sustainable source of revenue to Government. The appropriate tax policy mix and design increase tax compliance and revenue to the government. The following need to be reviewed:

- **Multiple Taxation** – The optimal tax policy mix and design should address one tax per tax base to eliminate multiple taxations. The fewer the number of tax types, the higher the likely rate of compliance and higher tax revenue. Too many taxes, levies, statutory contributions deplete capital and profits. There should not be more than twenty tax type collectables by the three tiers of Government in Nigeria. The current list can be streamlined.
- **Tax Incentives** – Tax incentives are designed to achieve specific economic goals. There are too many tax incentives that are not promoting any economic growth but reducing the competitiveness of companies and eroding economic values. For instance, given the size of Nigeria's grey economy, it is not advisable to exempt small companies from paying income taxes, rather such companies should be taxed at a reduced tax rate.



- **Personal Income Tax** – the current personal income tax is not equitable. The applicable tax rates should be redesigned to exempt minimum wage earners from tax while imposing higher tax rates on High-Income earners.
  - **Statutory Contributions** – There are too many statutory deductions or contributions that are increasing the cost of doing business in Nigeria. For instance, contribution to the Industrial Training Fund, the Nigerian Social Insurance Trust Fund, etc., constitute a huge burden on businesses. Contributions to the pension for both employer and employee should not be more than 10% of the total earnings of an employee.
- 3. Financial Services** – There is the need to carry out broad-spectrum policies review to align monetary policies and fiscal policies. The financial services industry is fundamental in driving economic growth and prosperity of a nation. Some of the decisions for consideration are:
- **Commercial Interests** – The interest rate in Nigeria is too high. High-interest rates only create asymmetric economic growth without development in the real sector of the economy. To experience any significant development in Nigeria, commercial interest rates must be a single digit.
  - **Currency Redenomination and Asset Pricing** – at this point that the value of the naira has been eroded; redenomination of the naira would be a prudent currency management strategy to strengthen the value and increase the purchasing power of the naira. It will help to reverse the over-reliance on the US dollar and overpricing of assets. To redenominate the currency, 100 Naira would be the highest naira denomination.
- 4. Infrastructure Development** – Nigeria needs an infrastructure development policy to address the infrastructural gap. Nigeria has been playing catch-up in its current



infrastructure development drive, instead of setting the pace with novel infrastructure. To bridge the infrastructure deficit gap, it is prudent to concession critical infrastructure such as refineries, roads, sea-ports, electricity, etc. this free up required capital to enable government to meet other pressing needs. This is most expedient today with the dwindling fortunes of the government amid more expectations to meet the social objectives of governance.

**5. Learning Economy** - Learning is the foundation for productivity, and progress in a society can only be achieved through learning. To emerge stronger from the current virus disruption; now is the opportunity to reposition Nigeria as a learning economy in readiness for the fourth industrial revolution that will be characterized by technology disruption. The current educational system in Nigeria needs to be redesigned to be fit-for-purpose. Nigerians need the right knowledge and the right skills to compete in the new world order. The ability to transform raw inputs – agriculture, crude oil, solid mineral – into finished products is the major factor for cultivating and sustaining prosperity.

## **7.0 Conclusion**

COVID-19 has proven that the singular challenge of the world is interdependence - everything affects everything else – hence isolated interventions would not produce the best result. Adopting systems thinking would minimize the impacts of the COVID-19 and optimize the results of various interventions in Nigeria. This requires understanding the connectedness and identifying the leverage points to produce extra-ordinary results with speed, without dissipating energy and resources, and to avoid unintended consequences.

The response thus far appears to be linear or isolated interventions – so many activities that may not make a meaningful impact. Outlined below are some suggested short-term and medium to long-term interventions.



## 8.0 Summary of CITN's Recommendations.

- a. Review of the Emergency Economic Stimulus Bill to provide for:
  - i. The establishment of the Food and Nutrition Assistance Fund (FNAF)
  - ii. Tax Rates Reduction and extension statutory periods for tax payments
  - iii. Deferral of Mortgage Obligations and Rebate for Rent and Lease Obligations for a period of nine months from the effective date
  - iv. Grants and loans to be extended by CBN and Commercial Banks to manufacturing companies, SMEs and mandatory Productive Lending Programme by the Commercial Banks to Manufacturing Companies, in other to stimulate economic activities post COVID-19.
  - v. Support for the purchase of Medical Equipment and Medical Goods and Services
- b. Medium-term containment measures to be put in place by the Federal Government:
  - i. Review of the management of the Crude Oil fiscal regime in Nigeria
  - ii. Review of government's commitment to the development of Solid Minerals to boost the earning capacity of the Country.
  - iii. Improving Budgeting priorities in terms of health and education in line with Global Best Practices.
  - iv. Developing our capacities in Alternative or Renewable Energy
- c. Tax Policy Mix and Design to eliminate Multiple Taxation, create effective Tax Incentives and equitable Personal Income Tax regime.
- d. To put the economy back to strong performance, the need to carry out broad-spectrum policies review to align monetary policies and fiscal policies is recommended. The Financial Services reform should aim to drive down commercial interest rates, create currency redenomination and Asset Pricing to reverse the over-reliance on the US dollar and overpricing of assets.
- e. Infrastructure Development Policy to address the infrastructural gap through concession of critical infrastructure such as refineries, roads, sea-ports, electricity, etc.



this will release funds needed to finance critical sectors while allowing market forces to bring efficiency in the operations of these national assets.

- f. Repositioning of Nigeria as a Learning Economy in readiness for the fourth industrial revolution that will be characterized by technology disruption.
- g. To implement these recommendations, the Chartered Institute of Taxation of Nigeria is willing and ready to assist the government through committee arrangements to develop expedient mechanisms to achieve the desired goals. The Institute is also willing to collaborate with government agencies, national and foreign bodies and other institutions of government and the organized private sector to develop immediate solutions to the challenges posed by the health epidemic, while working on longer-term solutions to reposition our economy for growth and development. In this regard, the Institute prides itself with an array of highly experienced professionals, who have achieved remarkable successes in managing organizations and situations, who are ready to serve in such committees, arrangements, Teams, Groups and Taskforces for the purpose of implementing the recommendations proposed in this report and for driving other related strategies with a view to repositioning the economy.

#### **Other recommendations:**

- i. It is an established dictum that in such periods of needs, the ingenuity of the people is at its highest dimensions. We appreciate the ingenuity of Mr Williams Gyang and Mr Nura Jibrin, who were prompted by the dire need for ventilators and proceeded to repair some of the non-functional ventilators at the Jos University Teaching Hospital, JUTH in March 2020. This lends credence to the call on government to explore internal resources that can assist in the fight against this pandemic. Government should give desirous



Nigerians opportunity to contribute not only in cash donations, but intellectual, research, and engineering prowess to the grooming of homemade solutions to the COVID-19 pandemic in Nigeria. To achieve this, the Presidential Task Force (PTF) on COVID-19 should recommend a committee to assess our national healthcare architecture and call on Nigerians to assist in evolving solutions to healthcare delivery.

- ii. The place of research and development in evolving home-grown solutions is primary. Therefore, the National Research Fund (NRF) Grants under the TETFUND should increase the prioritized thematic areas of research assigned to healthcare from one to a minimum of three thematic areas to provide adequate research funding to critically needed research focus on this area.
- iii. We are also encouraging governments at all levels to take advantage of the high fidelity of the entrepreneurial skills of Nigerians in the
- iv. Immediate provision of alternatives to the importation of face masks and hand sanitizers. The importation of such products should be placed under the import restriction list as adequate capacity exist for their local production.

**Dame Gladys Olajumoke Simplice, FCTI**  
President/Chairman of Council  
Chartered Institute of Taxation of Nigeria

**Appendix Links – click to follow the links**

[Appendix A: Palliatives Measures Recommended By Various Institutions to Government and Tax Administrators](#)



[Appendix B: The Implications Of COVID-19 On Businesses, Government Budget, Government Expenditure, Taxation, Federal Inland Revenue Service, State Internal Revenue Services, Individual Income, Taxes and Levies](#)



[Appendix C: Potential Impacts of Covid-19 on Stakeholder](#)



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