

WHAT YOU SHOULD KNOW ABOUT THE APPROPRIATIONS ACT, 2022

Parameters and Fiscal Assumptions

The 2022 “budget for Economic Growth and Sustainability” was signed into law by President Muhammadu Buhari on Friday, 31st December 2021, two weeks after the National Assembly passed the bill.

The allocations in the budget were guided by six strategic objectives of the National Development Plan of 2021 to 2025, which are: diversifying the economy, with robust MSME growth; investing in critical infrastructure; strengthening security and ensuring good governance; enabling a vibrant, educated, and healthy populace; reducing poverty, and minimizing regional, economic, and social disparities.

| | 2020 | 2021 | 2022 |
|------------------------------|-------|--------|---------|
| Crude Oil Price (Per Barrel) | \$57 | \$40 | \$62 |
| Crude Oil Production (MBPD) | 2.18 | 1.86 | 1.86 |
| GDP Growth Rate | 2.93% | 3% | 4.2% |
| Inflation rate | 10.8% | 11.95% | 13% |
| Exchange Rate (USD 1) | \$305 | \$379 | N410.15 |

Table 1: Comparison of major assumptions in Nigerian budgets from 2020 to 2022

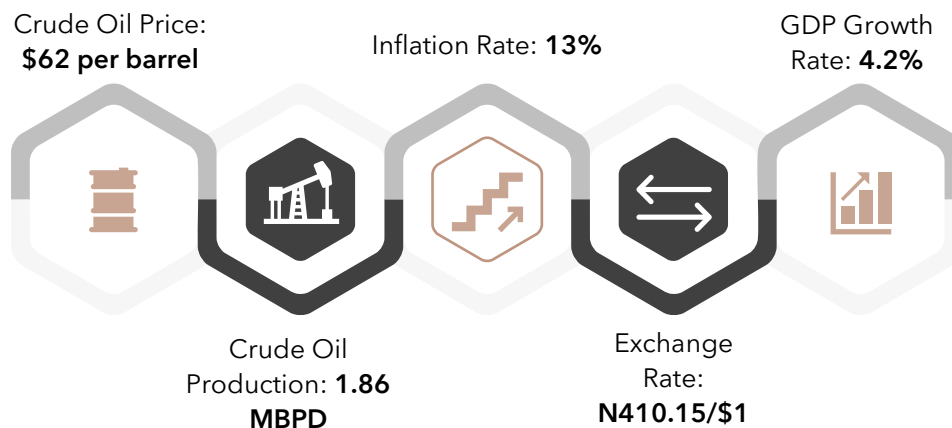


Fig 1: Key Assumptions in the 2022 budget

Key Elements of the Budget: Expenditure Summary

The total estimated aggregate expenditure is N17.13tn which is N735.85bn more than the initially proposed sum of N16.39tn and represents a 17.57% increase over N14.57tn for 2021. The increase in the proposed expenditure is attributed to the introduction of 6,576 new projects and the reduction of the allocation to 10,733 projects by law makers.

- Statutory transfer

- Recurrent (non-debt) which is the largest expenditure is estimated to amount to N6.91tn, is 40.3% of total expenditure and 17.3% higher than the 2021 Budget.
- Debt Service
- Aggregate Capital Expenditure of N5.47tn accounts for 31.9% of total expenditure.
- Sinking fund

N3.61tn is estimated for debt service and this represents 22% of total expenditure. This is a 15.7% increase from the N3.12tn allotted for debt service last year. This increase in public debt is a result of borrowings to put the economy back on track after 2 recessions.

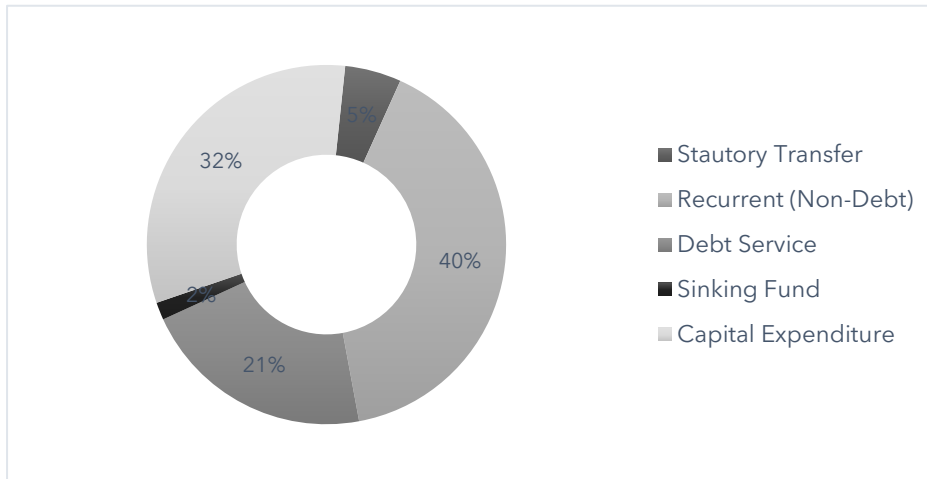


Fig 2: Percentage representation of revenue allocations under the 2022 budget

| | 2020 ₦ | 2021 ₦ | 2022 ₦ |
|-----------------------|-----------|-----------|-----------|
| Aggregate Expenditure | 10.59tn | 14.57tn | 17.13tn |
| Capital Expenditure | 2.47tn | 5.2tn | 5.47tn |
| Sinking Fund | 272.9bn | 200bn | 270.7bn |
| Recurrent (Non-Debt) | 4.49tn | 5.77tn | 6.91tn |
| Debt Service | 2.43tn | 3.12tn | 3.61tn |
| Statutory Transfer | 560.bn | 496.5bn | 869.67bn |

Table 2: Comparison of revenue allocations in the budgets from 2020 -2022

Key Elements of the Budget: Revenue Summary

The estimated aggregate revenue to fund the 2022 budget is ₦10.7tn which is 32% higher than the 2021 estimate of N8.1tn. The major revenue generation strategies are as follows:

- Enhancement of tax and excise revenues through policy reforms and tax administration measures;

- Review of the policy effectiveness of tax waivers and concessions;
- Boost of customs revenue through the e-Customs and Single Window initiatives (implementation of the African Continental Free Trade Agreement may be a major driver for this strategy); and
- Safeguard revenues from the oil and gas sector.

The government has also expressed its intention to strengthen the existing framework for concessions and Public Private Partnerships. There will also be a review of the Finance Act to input measures to aid the Strategic Revenue Growth Initiative (SGRI).

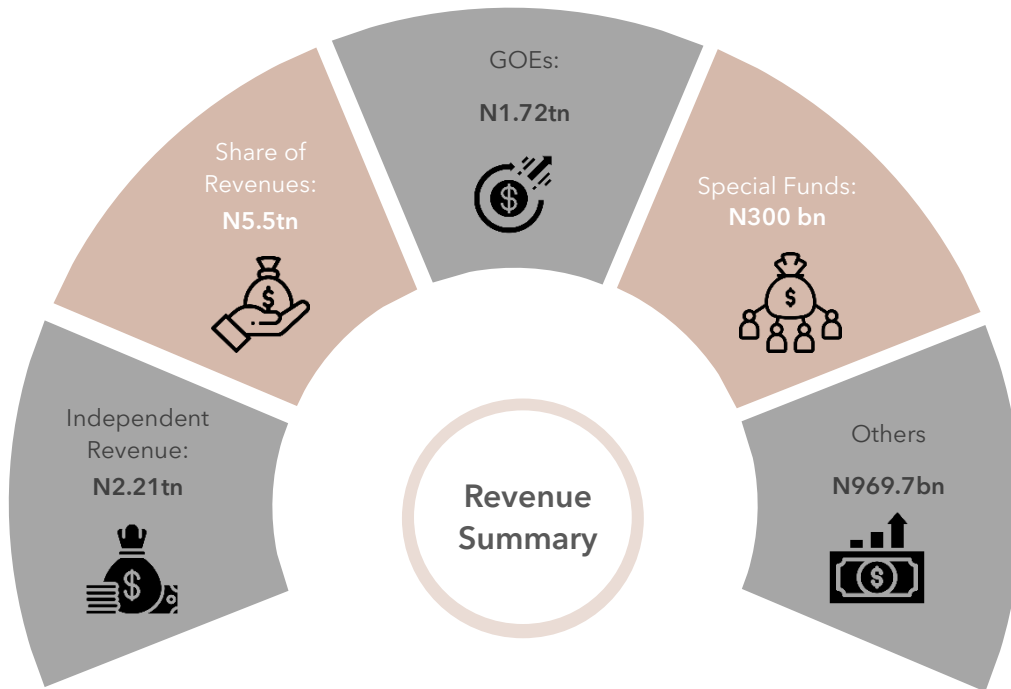


Fig 3: Summary of Revenue Allocation in the 2022 budget

Key Elements of the Budget: Deficit, Financing, and Critical Ratios

The 2022 budget has a total fiscal deficit of about N6.39tn. This represents about 3.5% of the projected GDP of N184tn (this amount was stated by the Minister of Finance at the public presentation of the budget in October, 2021), slightly above the 3% threshold set by the Fiscal Responsibility Act 2007 (FRA).

The President, however, insisted that this was necessary to tackle the security problems prevalent in the country.

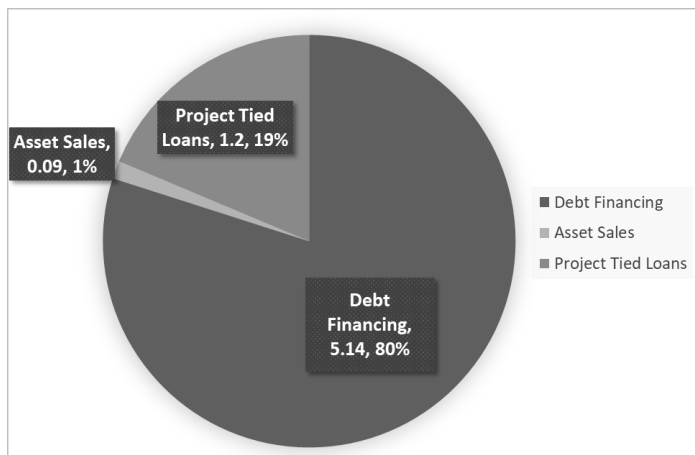


Fig. 4: Allocation for deficit funding in the 2022 budget

Finance Act 2021

In order to achieve the revenue projections in the 2022 budget, the Finance Act took effect from the 1st January 2022 and introduces amendments to some tax laws.

The Finance Act amends the: Capital Gains Tax Act (CGTA); Companies Income Tax Act (CITA); Fiscal Responsibility Act (FRA); Personal Income Tax Act (PITA); Stamp Duties Act (SDA); Federal Inland Revenue Service (Establishment) Act [FIRSEA]; Tertiary Education Trust Fund (Establishment) Act [TETFEA]; National Agency for Science and Engineering Infrastructure Act (NASENI Act); Value Added Tax Act (VATA); Nigerian Police Trust Fund (Establishment) Act [NPTFEA]; Finance (Control and Management) Act [FCMA], and Insurance Act.

| | | |
|---|--|---|
| Non-residents making taxable supplies to recipients in Nigeria will have the primary obligation to charge, collect and remit VAT to FIRS | | Introduction of Companies Income Tax for lottery and betting companies |
| Education tax has been increased from 2% to 2.5% of assessable profits | | Introduction of excise duty of N10/litre on non-alcoholic, carbonated and sweetened beverages |
| All companies engaged in petroleum operations will no longer exempt from paying income tax in respect of goods exported from Nigeria | | Companies in upstream petroleum operations are required to register and be compliant with VAT payments, regardless of annual turnover. |
| The government is enabled to borrow for "critical reforms of significant National impact" | | The FIRS will be the primary agency responsible for the administration, assessment, collection and enforcement of taxes due to the Federal Government |
| FIRS may assess foreign technology companies that have a significant economic presence in Nigeria and charge Companies Income Tax accordingly | | Third party technology will be deployed by the FIRS to automate tax administration |
| For the accounting periods between 1 st January 2019 and 31 st December 2021, reduction of minimum tax rate from 0.5% to 0.25%. | | |

Fig. 5: Key amendments introduced by the Finance Act, 2021

Conclusion

So, what do we expect to see this year?

- Early passage of the budget will aid government in achieving its objectives.
- Enforcement of amendments introduced by the Finance Act, 2021.
- Removal of petrol and electrical tariff subsidies may contribute to inflation.
- Government driving heavy revenue generation by paying particular attention to tax compliance and remittances.
- There may be a downward review on tax incentives like Pioneer Status and tax incentives for petroleum companies.
- Revenue generation from the growing investment in the Nigerian technology ecosystem by the introduction of taxes to foreign technology companies with significant economic presence in Nigeria.
- Leveraging on implementation of the African Continental Free Trade Agreement (AfCFTA) to enhance customs revenue.
- Focus on tackling insecurity.
- Introduction of major projects in the education and health sectors.

HOW TO GET STARTED

Do you need to know more about the Appropriation Act? Our Finance team is available to support you.

You may contact our team on: Email: info@dealhqpartners.com Telephone: +234 1 4536427 or +234 9087107575