WHAT YOU SHOULD KNOW ABOUT THE APPROPRIATION ACT 2023

PARAMETERS AND KEY ASSUMPTIONS

The 2023 "Budget of Fiscal Consolidation and Transition" was signed into law on the 3rd of January 2023; at its core, it focuses on maintaining fiscal viability and ensuring a smooth transition for the incoming administration, come May 29, 2023.

President Muhammadu Buhari in his speech at the joint session of the National Assembly on the 7th of October 2022, noted that beyond ensuring fiscal sustainability, his administration will in the new year focus on improving the country's business enabling environment, accelerate revenue-based fiscal consolidation efforts and strengthen expenditure and debt management.

The 2023 budget proposal was primarily influenced by the Federal Government's medium-term fiscal outlook which takes into cognizance current fiscal and economic realities such as the continuing global and domestic challenges sparked by recurring COVID-19 spikes, climate change and the impact of Russia-Ukraine War on global economies. It is therefore anticipated that Nigerian State will grapple the headwinds of low revenue, high inflation, exchange rate depreciation and insecurity.

	2021	2022	2023
Crude Oil Price (Per Barrel)	$40	$62	$75
Crude Oil Production (MBPD)	1.86	1.86	1.69
GDP Growth Rate	3%	4.2	3.75%
Inflation rate	11.95%	13%	17.16
Exchange Rate (USD 1)	NGN 379	NGN 410.15	NGN 435.57

Table 1: Comparison of major assumptions in Nigerian budgets from 2021 to 2023

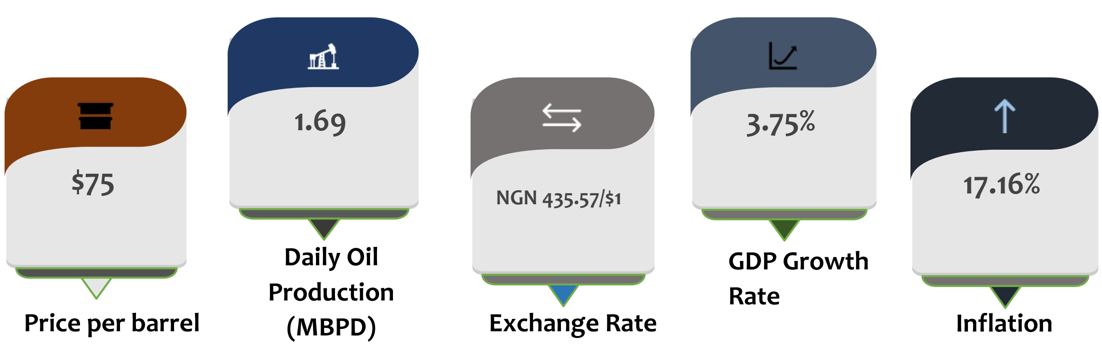

Fig 1: Key Assumptions in the 2023 budget

Key Elements of The Budget: Expenditure Summary

The expenditure policy of the Federal Government for 2023 is designed to achieve the strategic objectives of the National Development Plan (2021 – 2025), which include macroeconomic stability; human development; food security; improved business environment; energy sufficiency; improving transport infrastructure; and promoting industrialization through Small and Medium Scale Enterprises

The aggregate expenditure (inclusive of GOEs and project-tied Loans) is projected to be NGN 21.83trillion - which is 20% higher than the total expenditure for 2022 (including supplemental appropriations).

- Recurrent (non-debt) spending is estimated at NGN8.33trillion, (including NGN200 Billion to fund the Federal Governments social investment programme). Total Recurrent (non-debt) spending therefore amounts to 38.2 % of total expenditure;
- Aggregate Capital Expenditure stands at NGN6.46trillion amounting to 30% of total expenditure which is 10% higher than the total Capital Expenditure spend for 2022;
- Total Debt Service spend stands at NGN6.31trillion amounting to 29% of total expenditure. This is 71. % higher than 2022 as it includes total interest payment of NGN1.2 trillion on Ways & Means Advances from the Central Bank.

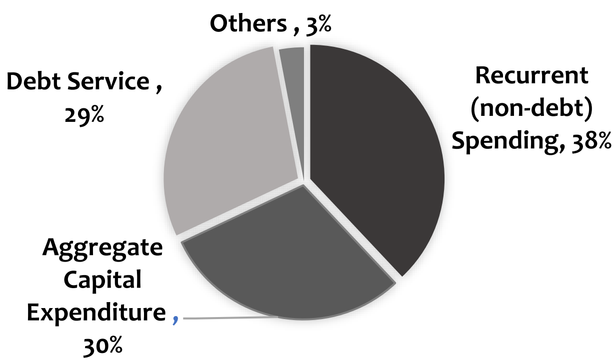

Fig 2: Percentage representation of revenue allocation under the 2023 budget

	2021	2022	2023
Aggregate Expenditure	14.57tn	17.13tn	21.83tn
Aggregate Capital Expenditure	5.2tn	5.47tn	6.46tn
Sinking Fund	200bn	270.7bn	247.7bn
Recurrent (Non-Debt)	5.77tn	6.91tn	8.33tn (inclusive of N200 billion social investment programme)
Debt Service	3.12tn	3.61tn	6.31tn
Statutory Transfer	496.5bn	869.67bn	967.49 bn

Table 2: ***Comparison of expenditure allocation in the budgets from 2021 -2023***

Key Elements Of The Budget: Revenue Summary

Total revenue available to fund the 2023 FGN Budget is estimated at NGN11.1 trillion. In aggregate, about 20% of projected revenue will come from oil-related sources, while circa 80% will come from non-oil sources primarily taxes and Government collections. The Federal Government has therefore developed a robust strategy to enhance collections and widen the tax revenue pool. This includes:

- improving non-oil revenue receipts, tax administration and sustain the effort to expand the non-oil revenue base;
- Strengthening tax systems by improving collection efficiency, enhancing compliance, and reorganizing the business practices of revenue agencies by deploying appropriate technology;
- Widening the tax net to include businesses in the informal sector;
- Introduction of frameworks for recovering duties, taxes and appropriate fees from custom related transactions conducted over electronic networks;
- Enhancing port efficiency, strengthen anti-smuggling measures, review of tariffs and waivers and issue of licenses for the development of modern terminals in existing ports, especially outside Lagos:
- Enforcing extant laws limiting cost-to-revenue ratio of GOEs to a maximum of 50 percent;
- Deploy Technology and ICT solutions needed to enhance revenue collections and compliance;
- Improve the performance of GOEs through the effective implementation of the approved Performance Management Framework.

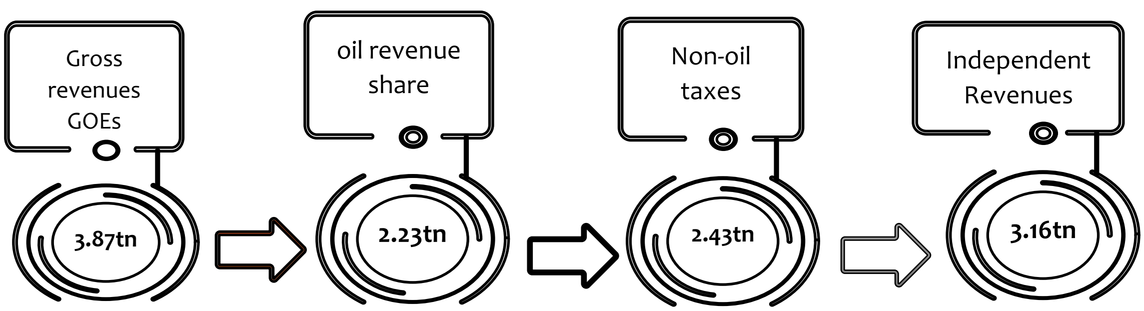

Fig 3: Summary of Revenue Allocation in the 2022 budget

Key Elements Of The Budget: Deficit and Deficit Financing

Overall budget deficit stands at NGN10.78trillion (circa 4.78% of GDP) which is to be finance financed mainly through government borrowings from local and foreign sources including multilateral/bilateral loan draw downs and privatization proceeds. Once more this exceeds the threshold set by the Fiscal Responsibility Act however considering the existential security and economic challenges plaguing the Federal Government is compelled to increase its overall fiscal expenditure.

SUMMARY OF THE FINANCE BILL 2022

The Nigerian Finance Bill 2023 has been passed by both legislative houses but is yet to be assented to by the President. At the presentation of the budget by the Minister of Finance on 4th of January 2023, the Honourable Minister stated that the delay in the passage of the bill was as a result of the ongoing vetting and approval process from key stakeholders. it is anticipated that the bill which has now completed its legislative approval cycle will get executive assent any time now.

The Finance Bill amongst other things amends the: Capital Gains Tax Act (CGTA), Companies Income Tax Act (CITA), Customs, Excise Tariff, Etc. (Consolidation) Act, Personal Income Tax Act (PITA), Petroleum Profits Tax Act (PPTA), Stamp Duties Act (SDA), Value Added Tax Act (VATA), Corrupt Practices and Other Related Offences Act and Public Procurement Act.

The table below details the key changes in law effected via the Bill.

Gains on sale of digital assets are to be subject to tax under the CGTA.		**Loss accrued on the disposition of assets can be deducted from the gains of that asset or any other asset in the same class before capital gain tax is deducted.**
S15 of the CITA is amended to subject all corporate income derived from gaming, gambling, betting, or lottery business to tax under the Companies Income Tax Act		**A company engaged in the commercial winning, capture, production, and utilization of gas will be entitled to a single, one-time investment tax credit of 50% on qualifying expenditure.**
Investment allowance of 10% previously applicable on qualifying expenditure incurred on plant and equipment is effectively repealed. This will however not affect such assets acquired on or before 31 December 2022.		**Rural investment allowance deductible on cost incurred by a company to provide facilities such as electricity, water, and tarred road where such facilities have not been provided by the government within 20kms of the location stands repealed.**
The partial tax exemption from CIT granted on income in convertible currencies derived from tourists by hotels and hospitality businesses is effectively repealed.		**In line with Nigeria's climate change commitments to reducing greenhouse gas emissions, medium and large corporations involved in gas flaring shall be subject to corporate tax at the rate of 50%.**
The Bill imposes a levy of 0.5% on eligible goods imported into Nigeria from outside Africa. All services, including but not limited to telecommunication services, provided in Nigeria are liable to excise duty at rates to be specified via a Presidential Order.		**Premium from annuity are now taxable under the Personal Income Tax Act.**
Use of the term 'commission' under S2 of the Petroleum Profit Tax Act (PPTA) shall now mean Nigerian Upstream Petroleum Regulatory Commission (NUPRC)		**Entities appointed to deduct VAT at source on invoices received from their vendors will be expected to remit such VAT to the Federal Inland Revenue Service on or before the 14th day of the following month (previously the 21st day of the following month under Finance Act 2021)**

Fig 4: Key amendments introduced by the Finance Act, 2022

Conclusion

As is typical of this administration, the Federal Government kept to its commitment to pass and commence implementation of the Appropriation Act in a timely fashion even though the complementary Finance Bill suffered a delay snag. Generally due to the change of administration anticipated at around mid-year 2023, it is expected that supplementary appropriation laws will be passed to align the Appropriation Act with the Economic and Fiscal Policy of the incoming administration. Furthermore, gleaning from the posture of the Federal Government and the spirit and letter of the budget it is expected (at least for the first half of the year) that:

i. More incentives and tax holidays for players in the renewable energy sector will be implemented in line with the Federal Government's intention to encourage domestic and industrial adoption of renewable energy alternatives.
ii. More repeals and cancellation of tax benefits and incentives;
iii. More effort to promote, incentivize and adopt technology and innovation;
iv. Fiscal instability, slow growth, food crisis, and high interest rates are likely to continue into 2023 as the underlying causes such as Russia-Ukraine war and the Covid-19 crises are yet to abate;
v. Likely removal of fuel subsidy after the expiration of the extension will potentially increase the cost of living and doing business in Nigeria;
vi. Federal Government will drive revenue generation and tax collection aggressively;
vii. Increased government borrowing may provide short-term relief but lead to negative impacts such as higher interest rates, inflation, and shrinking disposable income in the long term;
viii. Federal Government will pass and effect the enforcement of the Finance Bill.