Federal Government of Nigeria’s 2020 Budget proposal

President Muhammadu Buhari on Tuesday, 8 October 2019, presented the proposed 2020 budget (the Budget) of the Federal Government of Nigeria (FGN) to the joint session of the National Assembly (NASS), wherein he also itemised the policy thrust of FGN.

The Budget is expected to consolidate the fiscal policy of FGN which is to strengthen the macroeconomic environment, improve investment in critical infrastructure and human capital development, incentivise private sector participation and increase social investment programmes. Thus, the Economic Recovery and Growth Plan (ERGP) remains the foundation on which Nigeria’s actions towards economic development are built. It forms the basis of the medium-term fiscal strategy for 2020 to 2022 upon which the Budget was prepared.

The Budget shows projected aggregate expenditure of ₦10.33 trillion with expected revenue of ₦8.155 trillion resulting in a deficit of ₦2.18 trillion, for the 2020 fiscal year.
This represents a 16% increase over the approved expenditure and revenue budgets for 2019. The budget deficit also increased, albeit by 13% and will be financed by new foreign and domestic borrowings, privatization proceeds, signature bonuses and drawdowns on the loans secured for specific development projects.

**Key Assumptions**

The 2020 Budget is based on estimated crude oil production of 2.18 million barrels per day (2019: 2.3 million barrels per day) and an exchange rate of ₦305/ $1. However, the benchmark oil price is fixed at a conservative price of $57 per barrel, down from $60 per barrel, approved for 2019. GDP growth is projected at 2.9%, compared to the proposed budgeted growth of 3.01% in the 2019 budget, while inflation rate is projected at 10.81%.

With the escalating trade disputes between the US and China, imposition of new sanctions on Iran and the multiplier effect of volatility of commodity prices, the estimated crude oil price may be realised. However, the estimated daily oil production of 2.18 million barrels per day (mbpd) appears to be a tough task, considering the fact that the daily oil production as at July 2019 is 1.91 mbpd.

**Significant takeaways**

1. **Submission of a Finance Bill to the NASS along with the Appropriation Bill**

The Appropriation Bill submitted to the NASS was accompanied by a Finance Bill. Recall that in the past, especially during military regimes, FGN during budget pronouncements amends various Acts and legislation to achieve certain goals set for the fiscal year. However, this practice was discontinued under the democratic dispensation. Thus, the introduction of the Finance Bill aimed at amending provisions of certain Acts (especially obsolete and contentious provisions relating to taxes, incentives, duties etc.) to achieve desired goals, is a welcome development. The Finance Bill is also aimed at:

   a. Promoting fiscal equity by mitigating instances of regressive taxation;

   b. Reforming domestic tax laws to align with global best practices;

   c. Introducing tax incentives for investments in infrastructure and capital markets;

   d. Supporting Micro, Small and Medium-sized businesses in line with Ease of Doing Business Reforms; and

   e. Raising revenues for the government

It is expected that the Finance Bill if approved by the NASS, would assist FGN in meeting revenue projections from non-oil revenues and other economic goals.
As a way of managing government expenditure to ensure transparency, the Treasury Single Account (TSA) would be expanded to cover domiciliary accounts of foreign missions.

2. Reduced dependence on oil revenue

The Budget shows oil revenue accounting for about 32% of the projected revenue while non-oil revenue, including revenue from independent sources, accounts for about 68% of the Budget. This is commendable considering that in the approved 2019 budget, oil revenue accounted for about 53% of the total budgeted revenue.

Notwithstanding the above, the general volatility associated with commodity prices portends great concerns for FGN’s aim of meeting oil revenue targets.

3. Recurrent expenditure still the largest chunk of the expenditure budget

Non-debt recurrent expenditure continues to gulp a large portion of government expenditure as salaries, overheads and other recurrent expenditure accounts for 47% of the total expenditure, with an increase of 20% over 2019 budget.

Although capital expenditure budget increased by 2% compared to the prior year, FGN plans to focus on completing ongoing capital projects in 2020 and commence new ones with the aid of private sector investment.


The Deep Offshore and Inland Basin Production Sharing Contract (Amendment) Bill 2018 was submitted to the 8th National Assembly in June 2018. However, this was not passed by the NASS. FGN intends to re-submit this bill and two other Petroleum Industry Executive Bills to the NASS for review and passage. It is believed that the bills will assist FGN in generating additional oil revenues for the country if passed by the NASS.

5. Improvement of social security schemes

As part of the social safety net, the National social investment programme would be used to provide funding for artisans, youths, traders etc. on various areas including education and mentoring.

6. Improvement of transparency across government agencies

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FGN is also taking steps – including an October 2019 deadline for all Ministries, Departments and Agencies (MDAs) to implement the Integrated Payroll and Personnel Information System (IPPIS) – to contain the rising personnel costs.
Analysis of key tax policy proposals

1. Increment of value-added tax (VAT) rate by 50%

One of the ways in which FGN intends to meet the proposed revenue budget is by increasing the VAT rate from 5% to 7.5% as earlier approved by the Federal Executive Council (FEC). Therefore, the Budget is based on the proposed VAT rate of 7.5% which represents a 50% increase over the current VAT rate. The additional revenues from this increase will be used to fund health, education and infrastructure programmes. According to the President, this will however be subject to the NASS’ approval of the new rate in the Finance Bill which was submitted along with the 2020 Appropriation Bill.

It would be recalled that FGN attempted to increase the VAT rate to 10% in 2007, but this was faced with stiff opposition resulting in the suspension of the proposed increase. However, FGN’s preparation of the 2020 revenue budget based on the increased VAT rate is an indication that the government intends to see this through this time around.

It is however uncertain if the NASS will approve the new rate given the adverse effect it may have on the populace. Nigeria has one of the lowest VAT rates in the world, but it still practices a modified VAT system where taxpayers can claim only limited portion of input VAT against output VAT charged. Consequently, without a corresponding adjustment to the VAT system, the increment may turn out to have a higher impact than envisaged. This is more so as entities will ultimately seek to pass the cost to end-users. This may result in increased inflation.

On the other hand, a rejection of the proposed VAT rate increase by the NASS may negatively affect the proposed budget and further increase the budget deficit. It would be interesting to see how this plays out as events unfold.

2. Introduction of a threshold for VAT registration

The proposed amendments to the VAT Act also include the introduction of a threshold of ₦25 million turnover per annum, for VAT registration. According to the FGN, this is to allow the tax authorities focus compliance monitoring efforts on larger businesses and also relieve micro, small and medium-sized businesses of VAT obligations. This implies that any company/enterprise with turnover lower than ₦25million in a particular year will not be required to register with the tax authorities for VAT purposes and will not be required to charge and collect VAT, and file returns with the tax authorities.

While this is a good development, it raises a number of concerns such as:

a. Whether the threshold is high enough to cater for a large portion of the small and medium scale enterprises (SMEs) as it appears a significant number of SME businesses have turnover higher than ₦25million
b. How will the threshold be determined for such businesses? Will this be based on results per calendar year or financial year of the entity? And will this be based on audited financial results of prior year or estimated turnover budgets for the current year?
c. What will happen to input VAT paid by these SMEs, where they are manufacturing or trading companies?
d. How will penalties for late registration and late filings be determined?

These are some of the practical considerations which we expect to be incorporated in the Finance Bill.

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3. **Expansion of the list of VAT exempt items**

FGN also plans to clarify/expand the list of VAT exempt items to include the following:

a. Brown and white bread;
b. Cereals including maize, rice, wheat, millet, barley and sorghum;
c. Fish of all kinds;
d. Flour and starch meals;
e. Fruits, nuts, pulses and vegetables of various kinds;
f. Roots such as yam, cocoyam, sweet and Irish potatoes;
g. Meat and poultry products including eggs;
h. Milk;
i. Salt and herbs of various kinds; and
j. Natural water and table water.

This is intended to reduce the burden of the proposed increase in the VAT rate on the populace.

4. **Leveraging private sector funding of capital projects through a tax credit scheme**

In 2020, FGN will give preference to on-going capital projects. Thus, new projects may not be undertaken until the ongoing projects are completed. One of the ways in which government plans to fund capital projects would be by encouraging funding of such projects by the private sector in exchange for tax credits and incentives. An example of this is the Road Infrastructure Tax Credit (RITC) Scheme which has attracted private investment since its introduction.

5. **Implementation of a single customs window and expansion of port activities**

Precedence would be given to the single customs window as well as building more port terminals outside of Lagos in 2020. While the single customs window presents tremendous opportunities to streamline the current rigorous importation process, we hope that its implementation would be hitch-free and properly managed to achieve the desired results.

Overall, notwithstanding the laudable aspirations of FGN, the major concern for the public has not been with the Budget but with implementation of the Budget. While the National Assembly has promised to swiftly consider the budget proposals of the FGN, we expect that FGN will take necessary steps that will ensure full implementation of the current 2019 budget and proposed budget for 2020 to facilitate the achievement of FGN’s set goals for the years.

As further details become available on the Budget, we will provide further analysis on the outlook for 2020. If you require clarification on the subject or are interested in discussing how the budget may impact your business, please reach out to us on NGTaxPartners@deloitte.com.
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