THE NIGERIA FINANCE ACT 2019

An Advisory On The Effect On The Common Nigerian

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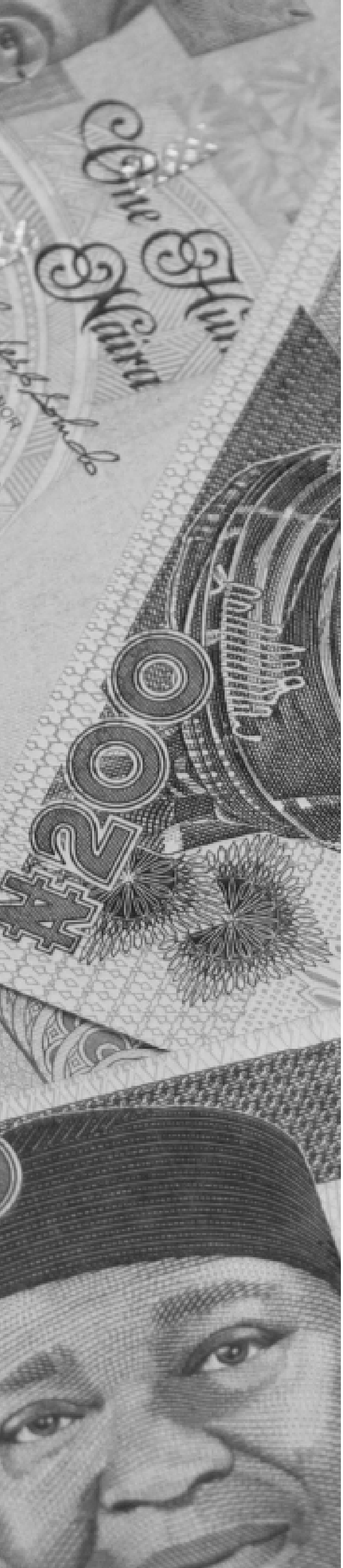

The Finance Bill, among other things, proposed an increase in the Value Added Tax (VAT) rate from 5% to 7.5%. The additional revenue from the increase in VAT rate would be used to fund healthcare, education and infrastructure. To mitigate the impact of the VAT rate increase, the Government expanded the list of VAT-exempt items to include the following:

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

The Bill was signed into law by the President, Muhammadu Buhari, on the 13th of January 2019 and will be effective from the 1st of February 2019. It is also not intended to be a 'one-off' document as the Nigerian government intends to amend the Finance Act annually along with each appropriation Bill; as a way to ensure that there exists a more integrated fiscal structure in governance, and more efficient planning as well.

In the newly signed Act, the key changes made lean towards the Federal Government's stance that the 'common man' was considered in the development and final decisions preceding the decision to introduce these measures, hence the above list of exempted items; however, we do believe these measures did not entirely consider the full width of the impact on the 'common Nigerian'.

Firstly, while it is agreed that these items are largely consumed by a large section of the population, made up of the low-income earners, it is important to understand that these items are not all consumed by themselves, but require ‘compliments’. For instance, while bread, both white and brown, are exempted from VAT increases, butter, margarine and jam are all subjected to the same VAT Increases. Also, beverages that are normally consumed as ‘accompaniments’ such as Coca Cola or Cocoa-derived beverages would be affected by the VAT increases, leading to a reduction in product quality on some brands, or manufacturers adopting some cost-cutting measures to enable them to remain sustainable.

Secondly, it must be considered that some of these listed items are simply the raw materials used in the production of other products, for example, Milk, which is exempt, is used in the production of yoghurt; this means that more people would shift to milk consumption as a way to avoid the slight cost impression.

It may also be argued that when the above points are considered together, its creates a situation where consumer tastes are highly limited to these cost-friendly options, forcing the average consumer to further limit their spending particularly in light of stagnant wages and disposable incomes, and rising inflation rates; all making it difficult to have a more diverse consumer preference spectrum.

BRINGING IT ALL TOGETHER

According to the First Schedule of the VAT Act 1993, there is a provision for some items/ goods that are exempt to VAT, this list includes;

- All Medical and Pharmaceutical Products
- Basic Food items**
- Books and educational Items
- Baby Products
- Fertilizer, Locally Produced agricultural and veterinary medicines, farming machinery and farming transportation equipment,
- All exports
- Plant and Machinery imported for use in the Export Processing Zone
- Plant, Machinery and equipment purchased for utilization of gas in downstream petroleum operations.
- Tractors, Ploughs and Agricultural equipment and Implements purchased for agricultural purposes.

It is deduced that the newly signed Finance Act only went a step further to further define what exactly these ‘basic food items’, highlighted in the list above, are by listing them expressly. This means that all ambiguity as to what these items are has been eliminated. This clarification also means that other items that may have not been subjected to VAT payments as a result of this ambiguity would now be ‘VAT-able’ increasing the possibility of consumer decline or consumer shift to alternatives.

IS THE TRADE-OFF WORTH IT?

The Nigerian governments' position is that the revenue accrued from the VAT increase would be used to bolster healthcare, education and infrastructure provision across the country.

This intervention is welcomed as these three focus areas are very strategic in building a more sustainable society; because an educated society that also has secure health sector and the adequate infrastructure, would see remarkable growth and sustained development.

To the common man, this would mean more opportunities, for work and wage, allowing for even more disposable income; thus creating a mutually beneficial circle of welfare and infrastructural provision on the one hand, and sustained revenue mobilization on the other hand.

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