

IMPLICATION OF COVID-19 PANDEMIC ON TAXATION IN NIGERIA

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ABSTRACT

This paper takes into consideration the variations in the Nigerian tax system as occasioned by the COVID-19 pandemic. COVID-19 is a pandemic that has caused a global financial crisis; as a result, all nations' economies and fiscal system are forced to respond to the changes either adversely or favourably. Thus, Nigeria is not an exemption; hence this study tries to evaluate the nature of the tax responses to the present economic situation by highlighting the affected areas in the tax structure. The negative and positive implications of the improvement on the tax system in Nigeria are mentioned, especially as they would change the government, taxpayers and the entire economic structure of the country. Thus, this study recommends proper implementation and monitoring by the relevant authority to achieve the intended objective of the tax reliefs and exemptions allowed by the administration to support the smooth running of the organizations in the country.

Keywords: Taxation, COVID-19 Pandemic, Tax Exemptions, Tax Reliefs, Global Financial Crisis.

JEL Code Classifications: H20, I1, H21, H29, GO1

INTRODUCTION

The arduous task on the government to meet the demands of its citizens through the provision of necessary infrastructures and other public services makes it essential for the government to look for funds from all available sources. Initially, Nigeria was practicing a one-track economy whereby revenue from oil dominates the government treasury and determines its public expenditure budget. However, with the emergence of the global economic crisis of a diverse nature, it became apparent that a single source of income can no longer sustain the economic growth of the country. Subsequently, economic diversification became the focus of the government. Taxation became the primary target despite the neglect of this vital government source of income in the past. According to Gupta (2016), the economic challenge was such that the government found the need to sustain taxation income sources. Thus, few states in Nigeria Lagos, Akwa Ibom and Rivers also took advantage of this golden opportunity to boost their internally generated revenue to meet their social, economic obligations and reduce the excessive reliance on the monthly apportionment from the federation account (Omodero, 2019).

Taxation is a significant source of government revenue which for public service delivery (Omodero & Dandago, 2019) such as the provision of health facilities, road construction and maintenance, among others. Famoyin (2016) opines that taxation is a fiscal policy mechanism necessary and vital for revenue generation required to fund government undertakings, reallocate resources, enhance economic growth and keep the economy at equilibrium. Nigeria has benefited so much from tax revenue until the emergence of COVID-19 pandemic in 2020. COVID-19 pandemic started in Wuhan China but on February 2, 2020, through an Italian worker in Nigeria. Due to COVID-19 pandemic, the Nigerian economy has witnessed a significant downturn followed by the global crash of oil prices and subsequent budget adjustment by the Federal Government of Nigeria.

Usually, national tax reform is associated with broad economic policy issues, tax administration and tax structure design challenges, especially in the developing countries (Karimi et al., 2016). Change in tax policy can occur as deemed necessary by the government. Tax policy denotes the government's decision to impose a certain amount of tax on selected categories of individuals, companies and businesses. It connotes government choice as to what amounts of tax to levy and on whom to impose a tax on (Egbunike et al., 2018). However, palliative measures put in place by the Federal Government to alleviate the burden of taxpayers; taking into consideration all taxpayers in Nigeria (both individuals and companies). Although the implication of these tax incentives will further diminish government revenue, it is a measure by the government to encourage organizations and to prevent businesses in Nigeria from collapsing. Therefore, this study aims at determining and analyzing the various tax palliatives or incentives prompted by COVID-19 pandemic in Nigeria. In a nutshell, this study examines the reaction of the Nigerian tax system to COVID-19 pandemic.

LITERATURE REVIEW

Theoretical Review

The theories of taxation underpinning this study and justifying the response of the Nigerian tax system to COVID-19 pandemic include The Ability-to-pay Theory by Kendrick (1939) and Canon of Productivity postulated by Smith (1776).

Kendrick (1939) explains the ability to pay tax with the term "*sacrifice*". Taxes have economic consequences which result in social effects. Thus, individuals and companies make the sacrifice of paying taxes, and it is expected that these sacrifices should be based on their financial ability. This theory accepts the principle of equity or justice in taxation. The approach allows the citizens of a nation to pay taxes to the government following their ability to pay. This theory is in line with this study following the present economic realities and challenges induced by COVID-19 pandemic and the government decision to relax certain conditions in the Nigerian tax system to encourage businesses to remain in operation.

On the other hand, Smith (1776) canon of productivity is also very relevant to this study. This principle states that tax is levied on the citizen to produce sufficient revenue to the government, and collection of such charges should be less expensive and economical. Due to COVID-19 pandemic, the Nigerian government considers that cost of reducing the tax burden on taxpayers is cheaper than imposing taxes that might eventually close down businesses which is more expensive to the country. By encouraging companies to remain in operation, the government generates revenue, although it might not be as initially estimated. Whereas, if businesses are allowed to go into extinction due to an unbearable and unaffordable tax burden,

the government stands to lose all benefits accruing to it. Thus, this principle of taxation propounded by Smith (1776) is in harmony with this study.

Empirical Studies

Selected studies confirming the usefulness of tax revenue in economic expansion

Bangura (2020) surveyed the impact of tax revenue on the economic growth of Sierra Leone from 1987 to 2017. The study established that tax revenue impacted significantly on the economic growth of Sierra Leone. In like manner, Omodero & Dandago (2019) assessed tax revenue impact on public service delivery in Nigeria from 1981 to 2017, and the result indicated that tax revenue positively and significantly impacted on education and health care services.

Egbunike et al. (2018) evaluated the contribution of tax revenue to the economic growth of Nigeria and Ghana. The study found a significant positive impact of tax revenue on the Gross Domestic Product of Nigeria and Ghana. Ibadin & Oladipupo (2015) assessed the effect of Value Added Tax (VAT), Petroleum Profit Tax (PPT) and Custom and Excise Duties (CED) on the economic growth of Nigeria represented by Real GDP. The study employed the Error Correction Model and found that VAT and PPT significantly enhanced economic growth.

Selected studies validating the positive impact of tax structure adjustment on an economy

Karimi et al. (2016) investigated the effect of trade liberalization on the tax structure of 97 developing countries from 1993 to 2012 using panel data and fixed-effect estimator. The study found evidence that trade liberalization in the form of trade openness impacted significantly on the significant tax revenue sources of the evolving nations. However, trade liberalization in the form of tariff reduction contributed positively and effectively to the emerging nations' tax structure. Stoilova (2017) considered the impact of tax structure on the economic growth in the EU-28 member states from 1996 to 2013. The study employed descriptive analysis and pooled panel data; thus, the findings revealed that tax structure based on selective consumption taxes, income, and property encouraged economic expansion. The tax structure of EU-28 member states depended on specific consumption taxes, income and wealth, and it led to economic growth.

Gashi et al. (2018) analyzed the effect of tax structure on the economic growth of Kosovo from 2007-2015 with emphasis on the impact of specific types of taxes on GDP. The study found that most of the charges had a significant positive effect on GDP. McNabb (2018) investigated the impact of the tax structure of 100 countries on their economic growth using sample-based on 20 years of consecutive observations. The study also employed a panel data of government revenue, and it established that the increases in the revenue generated from income taxes could be linked with the long-run GDP growth. In contrast, the decrease in the income generated from trade taxes did not have a favourable effect on the GDP.

Lapatinas et al. (2019) examined taxation and economic refinement with particular reference to OECD countries. In their study, they developed a theoretical model which considered elements from economic growth standard models. This model indicated a nation's productive structure as explained by suitable fiscal policy required for the development of refined products. The study revealed that capital taxes of developed countries had a more intensive negative impact on economic sophistication.

Insights from the Empirical Studies and Focus of the Present Study

Based on the review of Karimi et al. (2016), the positive contribution of tariff reduction to the developing countries' tax structure could serve as a shred of evidence that the adjustments to Nigeria's tax structure due to COVID-19 pandemic would likely result to the positive economic response. Furthermore, the study of Stoilova (2017) focused on the impact of tax structure on the economic growth of the EU-28 member states from 1996 to 2013 and found that selective consumption taxes, income and property encouraged economic expansion. What this implies is that government adjustment of the tax system on selected tax types as necessitated by COVID-19 pandemic, the resultant effect on the economy could be favourable. The government wishes to avoid the detrimental consequences if companies should be allowed to close down, and many workers to return to the labour market to increase the unemployed population. However, from all the studies reviewed, taxation enhances economic growth and enables the government to generate income to shoulder its responsibilities to the state.

The study assesses the changes that occurred in the Nigerian tax structure due to COVID-19 pandemic, the implication on the taxpayers and the general economy. As a response to the ravaging economic crises caused by COVID-19 pandemic, the government grants some tax incentives to minimize these effects and to encourage organizations to remain in business and also to retain their workers—chapter four below highlights these changes and the implications.

METHODOLOGY

This study is exploratory and relies on the prevailing economic veracities of the present time. The survey probes the implication of the adjustments to the Nigerian tax system in response to COVID-19 pandemic. The government has considered several taxation amendments as well as tax reliefs as a means of providing palliatives to the taxpayers in Nigeria. However, this investigation probes numerous ethical, economic and revenue implications as envisaged in the process of implementation of the adjusted tax system. Thus, this study assumes a stance by postulating several possible ethical, economic and financial outcomes that would likely result from the original good intention of the administration exhibited in the form of tax reliefs to reduce the negative consequences of COVID-19 pandemic. The study provides proposed solution to the probable implications in chapter four of this paper.

RESEARCH FINDINGS AND DISCUSSION

The research findings in this study represent the responses of taxation to COVID-19 pandemic and their probable implications considered by the researchers with regards to Nigeria's peculiar situation, economic environment and fiscal certainties.

Emergency Economic Stimulus Bill 2020

The House of Representatives of the Federal Republic of Nigeria, on March 25 2020, passed the "*Emergency Economic Stimulus Bill 2020*", in an attempt to mitigate the effect of the COVID-19 plague. The Bill offers 1. Postponement of import duty on certain medical goods and deferment of residential mortgage obligations. 2. Tax relief for employers who retain their employees from March 1, 2020, till December 31 2020. This offer does not include companies that are partly or wholly taxable under the Petroleum Profit Tax Act. Deferral of the mortgage

payment will apply to mortgages under the National Housing Fund. In contrast, import duty waiver will apply to medical equipment, medicines, personal protection equipment and other medical necessities required for the treatment and management of the COVID-19 pandemic in Nigeria (Emergency Economic Stimulus, 2020).

In a more simplified form, “*Emergency Economic Stimulus Bill (2020)*” passed by the House of Representatives (HoR) is going to: i. grant a tax allowance of 50% of the actual amount due or paid as pay-as-you-earn tax, to Nigerian companies which retain all their employees from March 1, 2020, to December 31 2020, ii. Suspend import duties on medical equipment, medicines and personal protective gears required for treatment and management of COVID-19 for six months, effective March 1 2020, iii. Introduce a new moratorium on mortgage obligations of Nigerians under the National Housing Fund” (KPMG, 2020).

Economic implication recognized

The tax rebate itemized above if implemented will encourage companies to retain their workers and prevent impending excess poverty of Nigerian households. It will also improve the health sector, boosts the morale of the Nigerian workforce and prevents overpopulation of the labour market. To a considerable extent, the rate of crime will reduce as organizations are supported to sustain their existing workforce despite the COVID-19 pandemic.

Other affected tax areas and the relevant implications

Tax residency in personal income tax

Residence of an individual in taxation is very vital and helps in the determination of the competent tax authority where an individual is liable to pay his tax (ICAN PACK, 2014). COVID-19 pandemic affected tax residency by altering an individual's place of living during the period of lockdown and stay at home. Many individuals who travelled for one business venture or another were trapped and could not reach their designated tax authority to remit their tax.

Implication

The significant effect is that this scenario leads to loss of revenue on the part of the government initially named to collect taxes from such individuals trapped in another place of residence different from the recognized place of residence. The individual concerned is also liable to double taxation if it appears impossible to convince the tax authority at the original place of residence. Nigeria is more vulnerable to this dilemma since there is the existence of complex tax laws which allow corrupt tax officials to exploit unsuspecting and uninformed taxpayers.

Tax Reliefs Announced by Federal Inland Revenue Services (FIRS)

The following tax relief measures were announced by the FIRS on March 23, 2020, as part of government's effort to minimize the effect of COVID-19 pandemic on taxpayers (KPMG, 2020).

Extension of Due Date for Value Added Tax (VAT) and Withholding Tax Returns

The due date of VAT returns extends from 21st day to the end of the month which immediately follows the month of deduction.

Implication

The implication is that companies will have more time to assemble their sales activities and accurately calculate VAT for submission. However, the problem of procrastination may defeat the primary aim and lead to tax default which will subsequently attract a penalty.

Extension of the Due Date for Companies' Income Tax (CIT) Return Filing by One (1) Month

The due date of CIT return filing of companies in Nigeria has been elongated by one month due to COVID-19 pandemic.

Implication

In this case, companies will have more time to prepare tax returns but must be careful not to postpone activities until the prescribed deadline. If companies do not make good use of the time provided and allow late filing, it will give room for corruption (illegal financial demands) and unnecessary workload on the tax officials charged with the responsibility of receiving the returns.

Tax Returns E-filing, Tax Clearance Certificates (TCC) Processing and Payment of Taxes

The FIRS also provides for the use of electronic platforms for paying taxes, processing of TCC and electronic filing of tax returns by taxpayers. This is necessitated by the compulsory 'social distancing', 'stay at home' and 'work from your home'.

Implication

Due to network challenges in Nigeria, most databases appear to be inactive when logged into, including the FIRS database. The effect is that most taxpayers will find it challenging to perform this function. Due to corruption in the system, some officials of the tax authority may disable some critical areas in the e-filing platform, such that document upload becomes very difficult and inaccessible. Based on this, they may demand patronage from the ignorant and taxpayers who desperately want to file tax returns to avoid late filing and fines. Thus, as a taxpayer responds to their illegitimate financial demands, the e-filing is done on their behalf. This good intention of the government to enable tax filing convenient becomes another exploitation avenue for corrupt officers in the system.

Filing of Tax Returns without Audited Financial Statements

The provision by the FIRS also includes filing of tax returns by taxpayers without audited financial statements which must be submitted within two months of the revised due date of filing.

Implication

The importance of the audited financial statement is to provide the tax authority with the relevant revenue and expenditure information details that give rise to the self-assessed tax amount remitted to the government by a taxpayer. If the audited financial statement is to be submitted after the filing of tax returns, it will lead to multiple complex reconciliations during desk review and tax audit of the taxpayer. The financial implication is that the taxpayer may be required to pay additional taxes resulting from the understatement of revenue if confirmed, or overstatement of expenditures if identified. Along the line, if the company/individual taxpayer's budget does not cover the additional tax expense, it leads to external sourcing of fund to be able to settle it.

Waiving of Interest and Penalties on Outstanding Tax Liabilities

The FIRS has also announced that due to COVID-19 pandemic, all interests and fines ensuing from unsettled tax obligations due to previous desk reviews, tax audits and investigations will be subsequently ignored.

Implication

The issue of tax penalties and interests imposed on taxpayers as a result of desk reviews and tax audits causes some financial setbacks and concerns for organizations. Relinquishing of outstanding interests and sanctions by the FIRS will be a relief. It would enable organizations enjoying these benefits to reinvest the resources recovered. At the same time, the government stands to benefit from the future proceeds of the reinvestment while the government takes advantage of the tax arising from it.

Tax exemption for donations to COVID-19 Fund

FIRS have considered a donation to COVID-19 Fund as part of allowable tax expenses in Nigeria. The Minister of Finance encourages organizations' contributions to COVID-19 Fund by including it as one of the permissible deductions in tax computation in Nigeria.

Implication

This development will support organizations to be more involved in charity and other humanitarian services that could benefit the entire nation. By so doing, the organizations that render such services will be better positioned in the market and will win the confidence and patronage of the host community where they operate.

Exemption of medical supplies from VAT and Import Duty

The reliefs granted include exemption of medical supplies from VAT and import duty. The Honourable Minister of Finance announced on April 30, 2020 the exception of specified medical supplies and essential food items from VAT and import duties.

Implication

This form of tax exemption will improve the health sector for better health care services.

CONCLUSION AND RECOMMENDATION

This study examines the significant areas in tax that responds to COVID-19 pandemic following the administration consideration to keep the economy running despite the present global economic challenges. In this study, the tax exemptions and reliefs allowed by the government to encourage taxpayers are in chapter four 4. However, the implication aspect is the position of this paper. Although, some of the reliefs are still in the form of Bills which are yet to be adopted. But the effects if finally approved and implemented have been postulated. Therefore this study suggests that the government should hasten actions on the Emergency Economic Stimulus Bill 2020 passing and also ensure that implementation and effective monitoring of all the reliefs allowed for the good of the government and all taxpayers.

This study suffers some drawbacks, which include lack of empirical studies and unavailability of statistical data to corroborate the research findings and implications. Thus, further research works in the future are encouraged to exploit the opportunity by quantifying the Nigerian taxation responses to COVID-19 pandemic and their social-economic consequences. Future researches should also incorporate statistically, the costs and benefits of these implications, both to the government and taxpayers.

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