

A Comprehensive Review of the Management of the Federation Account

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Background

Section 162(1), of the 1999 constitution states that "the Federation shall maintain a special account to be called **"the Federation Account"** otherwise known as **Distributable Pool Account** into which shall be paid all revenues collected by the government of the federation, except the proceeds from the personal income tax of the personnel of the armed forces of the federation, the Nigeria police force, the ministry or department of government charged with responsibility for foreign affairs and the residents of the Federal Capital Territory, Abuja.

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Background (Contd)

The above provision of the Constitution gave the legal backing for the establishment and operation of the Federation Account. The primary function of this Account is to warehouse and distribute the revenues belonging to the three tiers of Government, using the National Revenue Allocation formula and indices provided by Revenue Mobilization Allocation and Fiscal Commission (RMAFC).

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Background (Contd)

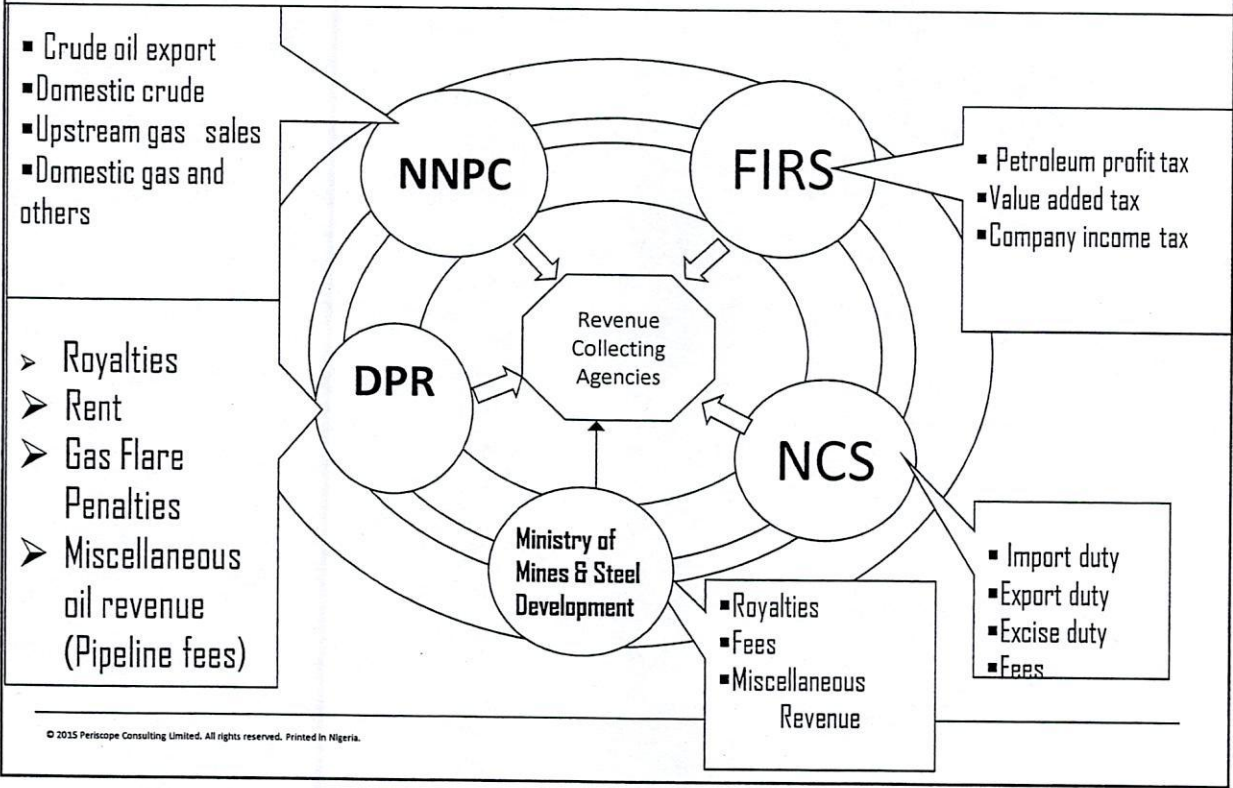
Federation Account also maintains records of Irrevocable Standing Payment Orders (ISPO), in respect of some States to service their loan obligations. Consequently, some deductions are made at source from the statutory revenue and VAT allocations of such State Governments in favour of those banks. Also, the Debt Management Office (DMO) submits a schedule of Foreign Loan deductions, which are applicable to be deducted at source.

Background (Contd)

The Revenue Mobilization Allocation and Fiscal Commission is one of the 14 Federal Commissions established by Section 153 of 1999 Constitution. As far as Revenue Generation and Allocation are concerned, Section 32, part I of the third schedule to 1999 Constitution empowered the Commission to:

- Monitor the accruals to and disbursement of revenue from the Federation Account
- Review from time to time revenue allocation formulae and principles in operation to ensure conformity with changing realities
- Advise the Federation and State Governments on Fiscal efficiency and methods that can be used to increase their revenue

Agencies and Types of Revenues Collected



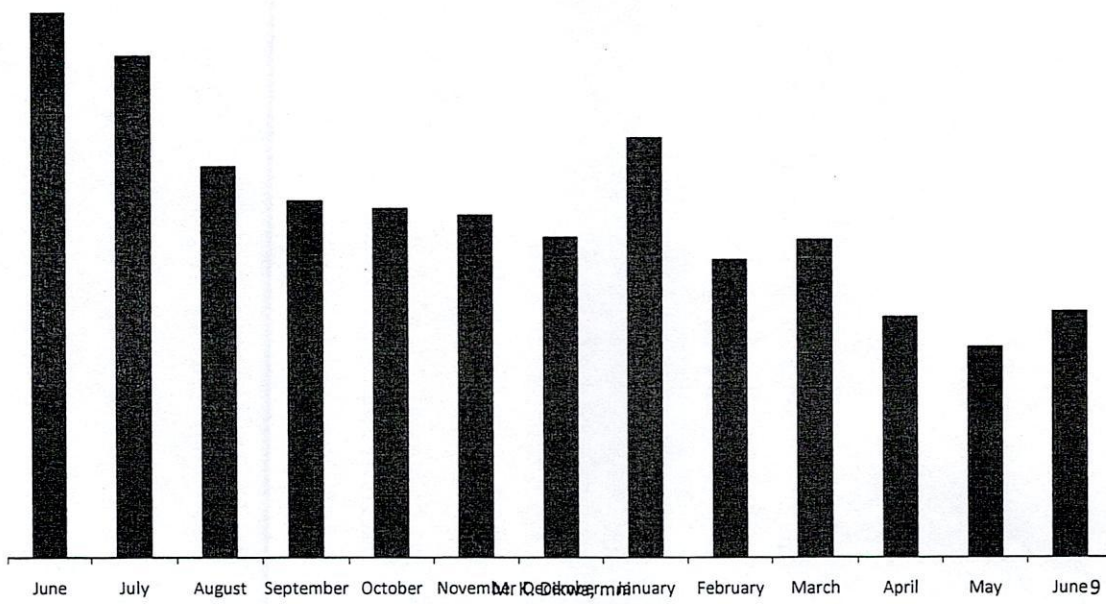
Analysis of Net Inflow into the Federation Account Jun, 2014 – Jun 2015

	NNPC	DPR	FIRS	NCS	VAT	TOTAL
June	160,573,674,593.86	61,648,127,437.74	497,934,056,269.76	54,539,826,676.52	62,798,791,689.78	837,494,476,667.66
July	200,034,375,080.06	61,587,858,203.76	400,282,960,596.11	51,051,092,316.98	63,757,471,372.44	776,713,757,569.35
August	161,249,082,045.73	61,747,671,476.13	278,820,984,045.42	51,750,786,617.83	62,848,742,071.23	616,417,266,256.34
September	128,046,647,645.82	61,587,440,553.56	266,343,728,918.63	48,727,314,213.15	59,052,381,982.24	563,757,513,313.40
October	152,317,121,415.18	58,749,043,387.62	230,866,908,529.36	51,846,935,744.28	62,498,158,493.83	556,278,167,570.27
November	152,862,283,061.72	59,434,325,501.43	217,242,958,767.37	54,781,879,528.46	64,451,774,400.63	548,773,221,259.61
December	111,403,272,708.33	61,972,526,241.11	230,237,345,564.95	50,171,591,001.56	58,213,047,331.16	511,997,782,847.11
January	246,624,753,373.38	65,029,337,744.51	233,310,702,063.39	49,815,481,375.86	70,527,173,445.62	665,307,448,002.76
February	145,033,451,433.69	46,486,277,150.19	189,495,018,757.70	41,127,998,737.72	61,378,041,077.56	483,520,787,156.86
March	146,020,027,311.91	60,482,835,256.81	205,849,581,192.20	37,466,601,229.18	55,926,324,610.20	505,745,369,600.31
April	123,997,335,577.07	40,307,535,909.44	135,440,413,730.42	41,229,104,671.38	68,349,390,409.10	409,323,780,297.41
May	83,763,260,375.13	65,049,154,667.98	110,716,116,715.15	39,160,006,638.28	72,153,919,241.41	370,842,457,637.95
June	96,661,409,211.37	36,977,076,358.43	176,567,724,594.50	38,271,143,204.21	54,548,354,078.03	403,025,707,446.54
TOTAL	1,908,586,693,833.25	741,059,209,888.71	3,173,108,499,744.96	609,939,761,955.41	816,503,570,203.24	7,249,197,735,625.57

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Analysis of Net Inflow into the Federation Account Jun, 2014 – Jun 2015



The National Revenue Formula

The Allocation of Revenue (Federation Account etc.) Modification Order 2002 provides for the establishment of the current national revenue formula

A. VERTICAL DISTRIBUTION FORMULA

	%
i. Federal Government	52.68
ii. State Governments	26.72
iii. Local Governments	20.60

B. HORIZONTAL DISTRIBUTION

In addition to Vertical Distribution, further distribution is made between the States and Local Government Councils using: Equality, Population, Land Mass Terrain, Social Development Factor and Internal Revenue Effort, which is known as Indices.

National Revenue Formula (Contd)

INDICES

Indices for distribution of Statutory Revenue Allocation is made between the States and Local Government Councils using:

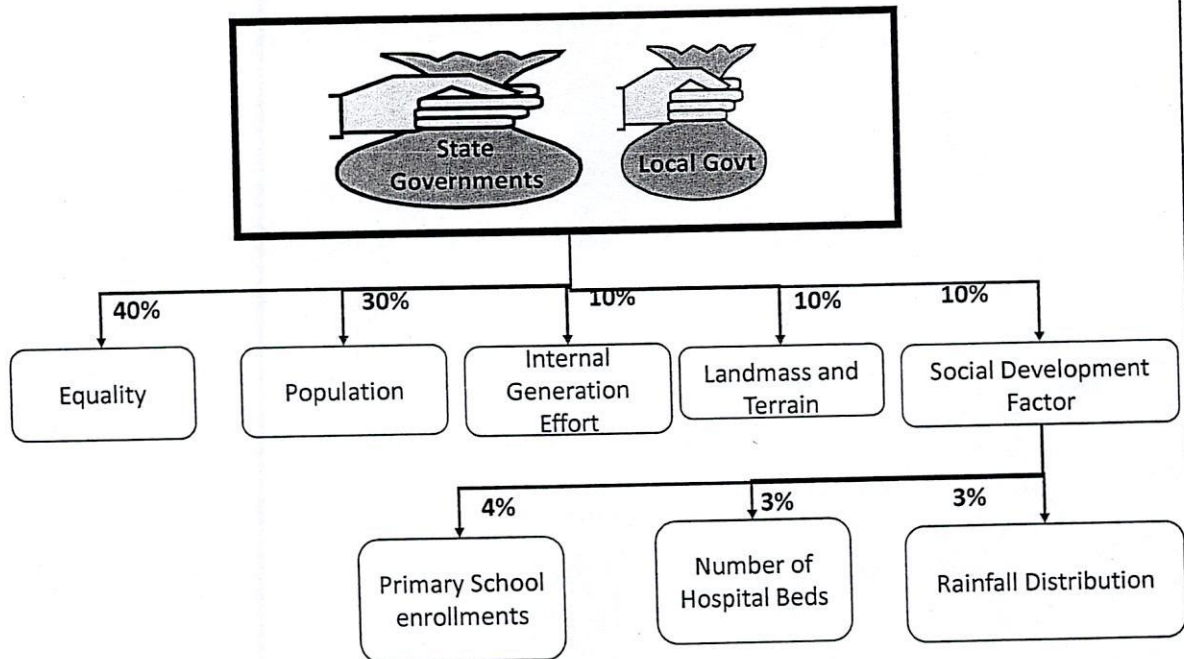
HORIZONTAL DISTRIBUTION FORMULA

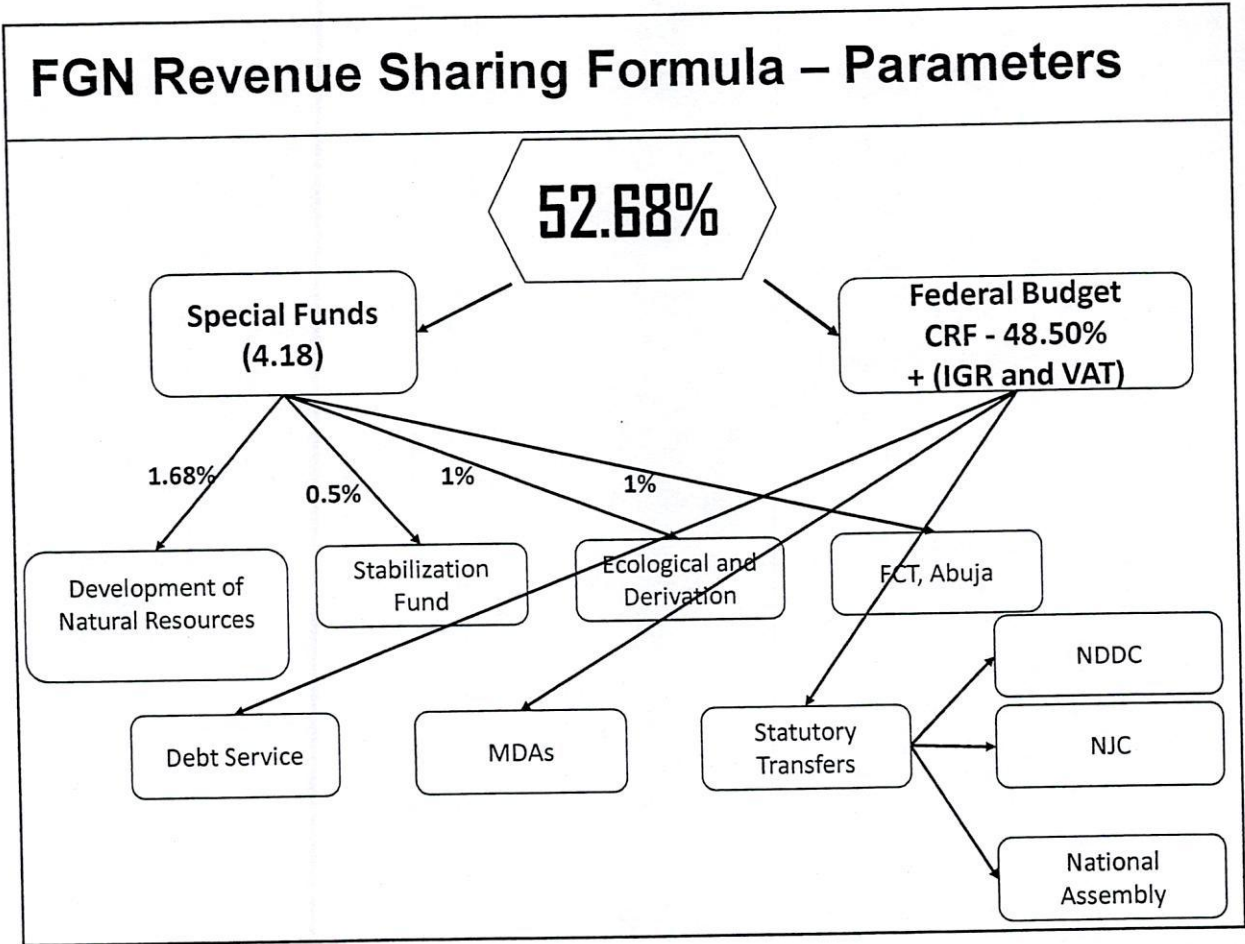
	%
i. Equality	40.00
ii. Population	30.00
iii. Land Mass and Terrain	10.00
iv. Social Dev. Factor	10.00
v. Internal Rev. Effort	10.00
TOTAL	100.00%

C. 13% Derivation to oil producing states: This is being deducted at source from oil revenue before distributing the remainder to FG, States & LGCs

Revenue Sharing Formula – Parameters

Horizontal Formula.





The Value Added Tax (VAT) Sharing Formula

i. Federal Government	15.00
ii. State Governments	50.00
iii. Local Governments	35.00
TOTAL	100.00%

NB: 1% of the FG share of VAT goes to FCT

Other Accounts Maintained for the Federation

- Foreign Excess Crude Account
- Domestic Excess Crude Account
- Value Added Tax (VAT) Pool Account

Excess Crude Account (ECA)

The Excess Crude Account (ECA) was created to warehouse excess of oil revenues over the pre-determined budgeted benchmark price of Crude oil. The policy is in line with the fiscal responsibility of Government *[chapter 2 section 16 of the 1999 constitution of the FRN]* in managing the economy as one entity.

The Excess Crude Oil Account, as legally backed by the Fiscal Responsibility Act, 2007 (*PART VII, section 35(1-3)*) is a major savings account of the Federation. It became the saving grace for years as the dwindling resources from Crude Oil sales in the International Market due to falling price was compounded by the Niger Delta Crises when Revenue available for distribution fell below projections over the years.

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Analysis Of Excess Crude Account (Foreign)

	DETAILS	2013	2014	(May, 2015)
		\$	\$	\$
	Opening Balance	8,650,036,129.35	2,282,966,092.02	2,060,554,240.82
Add:	Inflow	6,539,475,118.74	5,722,814,961.95	111,301,567.81
	Sub-total	15,189,511,248.09	8,005,781,053.97	2,171,855,808.63
Less:	Outflow	12,906,545,156.07	5,945,226,813.15	93,600,088.14
	Closing Balance	2,282,966,092.02	2,060,554,240.82	2,078,255,720.49

Analysis of Excess Crude Account (Domestic)

	DETAILS	2013	2014	(May, 2015)
		=N=	=N=	=N=
	Opening Balance	20,144,006,751.02	5,796,139,257.53	19,660,803,051.71
Add:	Transfer from foreign Excess Crude	538,683,372,278.49	817,721,478,615.50	381,275,518,788.41
	Sub-total	558,827,379,029.51	823,517,617,873.03	400,936,321,840.12
Less :	Outflow	553,031,239,771.98	803,856,814,821.32	354,633,578,385.87
	Closing Balance	5,796,139,257.53	19,660,803,051.71	46,302,743,454.25

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SUB-COMMITTEES OF THE FEDERATION ACCOUNT

- **Federation Revenue Reconciliation Sub-Committee**
- **FAAC Technical Sub-Committee**
- **FAAC Post-Mortem Sub-Committee**

Composition of the Plenary Session

- Honourable Minister of State Finance for Finance - Chairman
- Accountant-General of the Federation
- Commissioners of Finance of the Thirty-six States of the Federation and FCT
- Representative of Chairman, Revenue Mobilization Allocation and Fiscal Commission
- Director Home Finance, Federal Ministry of Finance - Secretary
- Nigerian National Petroleum Corporation (NNPC)
- Federal Inland Revenue Service (FIRS)
- Nigeria Customs Service (NCS)
- Department of Petroleum Resources (DPR)
- Ministry of Mines & Steel Development
- Nigeria Extractive Industries Transparency Initiative (NEITI)
- Budget Office of the Federation
- Central Bank of Nigeria (CBN)
- Representative of the Following Federal Government Agencies
 - Economic and Financial Crime Commission (EFCC)
 - Petroleum Product Pricing Regulatory Authority (PPPRA)

Composition of the Technical Sub-committee

- Accountant-General of the Federation - Chairman
- Accountant-General of the Thirty-six States of the Federation and FCT
- Representative of Chairman Revenue Mobilisation Allocation and Fiscal Commission
- Director Funds, Office of the Accountant-General of the Federation - Secretary
- Nigerian National Petroleum Corporation (NNPC)
- Federal Inland Revenue Service (FIRS)
- Nigeria Customs Service (NCS)
- Department of Petroleum Resources (DPR)
- Ministry of Mines & Steel Development
- Representative of the Following Federal Government Agencies
- Budget Office of the Federation
 - Economic and Financial Crime Commission (EFCC)
 - Petroleum Product Pricing Regulatory Authority (PPPRA)
 - Nigeria Extractive Industries Transparency Initiative (NEITI)

Composition of Federation Revenue Reconciliation Committee

Federation Revenue Reconciliation Committee (FRRC) meeting held monthly at DAGF.

The Aim of the Committee is to Reconcile the Federation Revenue before the FAAC Meeting.

The membership of the Federation Revenue Reconciliation Committee (FRRC) is as follows:

- i. Accountant-General of the Federation - Chairman
- ii. Director Revenue and Investment - Vice Chairman
- iii. 10 Representative from DAGF
- iv. 4 Representatives form NNPC
- v. 4 Representatives from CBN
- vi. 2 Representative from FMF
- vii. 2 Representatives from NCS
- viii. 2 Representatives from DPR
- ix. 2 Representatives from BOF
- x. 2 Representatives from PPPRA
- xi. 2 Representatives from DMO
- xii. 2 Representatives from MSMD
- xiii. 2 Representatives from NEITI
- xiv. 2 Representatives from NBS

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FAAC Post-Mortem Sub Committee

This Committee was set up primarily to examine accruals into the Federation Account as presented by Revenue Generating Agencies as well as to make detailed analysis of issues in respect of the management of the Federation Account

COMPOSITION

The membership of the Post-Mortem Sub-Committee was amended based on the recommendation contained in the report of FAAC Post-Mortem retreat held in Kaduna in 2010. The current membership structure is as follows:

Composition of FAAC Post-Mortem Sub Committee

- | | | | |
|------|--|-------|------------------------------|
| i. | Chairman RMAFC or his representative - Chairman | vi. | 2 Representatives from NNPC |
| ii. | Chairman and vice-Chairman of the Commissioners of Finance Forum and six Commissioners of Finance from six geo political zones | vii. | 2 Representatives from FIRS |
| | | viii. | 2 Representatives from DPR |
| | | ix. | 2 Representatives from CBN |
| iii. | Chairman and vice-Chairman of the Accountant-General Forum and six Accountant-General from six geo political zones | x. | 2 Representatives from BOF |
| | | xi. | 2 Representatives from PPPRA |
| iv. | 3 Representatives from FMF | xii. | 2 Representatives from DMO |
| v. | 2 Representatives from OAGF | xiii. | 2 Representatives from MSMD |
| | | xiv. | 2 Representatives from NEITI |
| | | xv. | Director RMAFC |
| | | xvi. | Secretariat RMAFC |

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**Amount Withheld by NNPC for Domestic Crude Cost
May, 2012 – June, 2015**

Years	Crude cost (=N=)	Amount Paid into Federation Account (=N=)	Amount Withheld (=N=)
2012	1,844,764,591,968.59	927,312,350,868.70	774,382,841,099.89
2013	2,727,834,796,083.46	1,466,951,625,000.00	1,179,883,171,083.46
2014	2,541,454,301,641.34	1,341,545,651,272.22	1,114,306,750,369.12
2015	1,031,691,963,043.82	591,681,318,358.06	426,102,269,703.76
TOTAL	8,145,745,652,737.21	4,327,490,945,498.98	3,494,675,032,256.23

REASONS FOR THE AMOUNT WITHHELD BY NNPC

- Petroleum Subsidy payment
- Crude and product loses
- Holding cost of strategic reserve
- Pipeline Repairs and maintenance cost

Summary Subsidy Payment to Independent Marketers 2011 - 2015

YEAR	AMOUNT
	=N=
2011	907,183,703,843.53
2012	550,449,324,851.97
2013	526,498,004,229.24
2014	404,626,926,401.13
AS AT 20TH MAY'2015	338,439,121,067.22
TOTAL	2,727,197,080,393.09

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Possible Leakages from the Federation Revenue

- Petroleum Subsidy Payment
- Losses of Revenue due to illegal bunkering of crude oil
- Losses of revenue due to pipeline vandalization and oil theft
- Gas Flaring
- Huge remittances to Joint Venture Partners
- Indiscriminate tax holidays and waivers to Investors and Importers
- High expenses on pipeline maintenance
- Tax Evasion (Company Income Tax, Petroleum Profit Tax etc.)
- NNPC priority projects funding
- Delays in remittances of crude oil sale proceeds (takes 3 months to remit federation revenue)
- High holding cost of Strategic Reserve

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Suggested Ways to Block Possible Leakages

- Total compliance with the provisions of the 1999 constitution section 162 (1-5) on the administration of the Federal Revenue
- Review of the JVC agreements to conform to actual production and sharing terms
- Quick passage of the Petroleum Industry Bill
- Introduction of Cost of Collection for NNPC should be arbitrary deduction at source for such purpose by NNPC
- Introduction of Cost of Collection for NNPC
- Removal of the Petroleum Subsidy
- Review of waivers and tax holidays
- Empower and strengthen RMAFC to monitor the crude oil production lifting and sales

Suggested Ways to Enhance the Federation Revenue

Diversification of the economy in the following areas:-

- Agriculture
- Solid Mineral Sectors
- Marine Resource
- Tourism
- Expansion of the gas sector
- Hospitality and service industries
- Complete overhaul and review of the oil sector.
- Empower RMAFC to monitor the crude oil production lifting
- Increase Value Added Tax (VAT)
- Review upward in custom tariffs, export, import and excise duties rates
- Rapid expansion of ICT sector for the purpose of generating revenue for the Federation Accounts as obtained in developed countries
- Introduction of new sources of taxes as obtained in the developed countries (Quick Wins)

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Quick Win Sources Of Taxes for Enhancement of the Federation Revenue

- ✓ Taxes on net wealth
- ✓ Estate, inheritance and gift taxes
- ✓ Taxes on financial and capital transactions
- ✓ Taxes on property
- ✓ Single-stage taxes and cumulative multistage taxes where "stage" refers to stage of production or distribution
- ✓ Taxes levied on the use of motor vehicles or other goods
- ✓ Taxes levied on permission to use goods or perform certain activities
- ✓ Taxes on the extraction, processing, or production of minerals and other products

Quick Win Sources Of Taxes for Enhancement of the Federation Revenue (Contd)

- ✓ Excises
- ✓ Taxes on specific services
- ✓ Taxes on use of goods and on permission to use goods or perform activities
- ✓ Exchange taxes
- ✓ Licenses and occupational taxes
- ✓ Alcohol and Tobacco tax and Trade Bureau
- ✓ Securities transaction tax
- ✓ Perquisite tax
- ✓ Corporate tax
- ✓ Sales tax

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Quick Win Sources Of Taxes for Enhancement of the Federation Revenue (Contd)

- ✓ Service tax
- ✓ Anti Dumping tax
- ✓ Professional tax
- ✓ Dividend distribution tax
- ✓ Municipal tax
- ✓ Entertainment tax
- ✓ Luxury goods tax
- ✓ Wealth tax
- ✓ Toll tax

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Conclusion

Management of Federation Revenue can be greatly enhanced through the application of good Fiscal Practice. The Identified sources of Revenue into the Federation can be enhanced through diversification of the economy into new areas such as Solid Minerals, ICT, etc. Meanwhile leakages from the Federation Revenue can also be substantially blocked through enactment of new laws e.g. Petroleum Industry Bill (PIB), NEITI Findings etc.

It is therefore apt and timely to immediately review the whole process of Federation Revenue Administration for enhanced revenue base and better

Thank you for your rapt attention

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