NIGERIA GOVERNORS' FORUM

The IMPACT of COVID-19 ON STATE TAXES

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ABSTRACT

The COVID-19 pandemic is transforming the role of government in Nigeria. Unlike the 2008/09 and 2014/16 crises which were triggered by the financial and oil sector shocks respectively, the 2020 pandemic came with a human cost. The pandemic gave way for greater concerns about the stability of the economy and the country's sociopolitical structure.

The pandemic did not only underscore the economy's fragility from the reliance on the global demand for oil; lockdown and social distancing measures brought devastating impact on State budgets.

As the world changes and as economies adapt, governments will require better capacity to use available information to steer recovery for households who continue to face loss of livelihoods, businesses that are recording losses, and financial networks that have collapsed. The recent crisis has provided another opportunity for collective action on previously underutilised fiscal reforms. These actions now recognise the risk of data deprivation, long term resilience for the health sector and business continuity.

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1.0 INTRODUCTION

The COVID-19 pandemic has given way for greater economic and social concerns for countries all over the world. For a majority of Africa's youths, the health risks brought by the COVID-19 pandemic ranks behind multiple, complex and larger structural concerns such as economic insecurity, democratic threat and the need to change the current political economy model. The economic and social impacts of the COVID-19 crisis ranked among the key concerns of 237 young and mid-level career Africans in 43 countries in the continent, with almost all respondents citing unemployment, food insecurity, increased criminality and gender-based violence as their biggest concerns (Mo Ibrahim Foundation, 2020).

For Nigeria, which is ostensibly diversified but resource-revenue dependent, the crisis is a tipping point. Before the pandemic, the country's unemployed population was over 20 million with an expected annual increase of about 2 million poor people owing to low labour productivity and rising population. The World Bank's Nigeria Development Update: Laying Foundations for a Strong Recovery warns that without a strong response, the implications of the crisis in 2020 and 2021 could include loss of life and the possibility of 5 million Nigerians pushed into poverty (Cortes, M et al., 2020). In May 2020, majority of Nigerians reported that although they were concerned about the health threat to their households, they were more worried about the impact on their financial future (Lain, J. W, et al., 2020). The pandemic has disrupted employment, income-generating activities, access to food, healthcare, and education – with wider impact on human capital development in the country.

Recent literature provides ample evidence on the impact of the COVID-19 pandemic across countries in the world, including Africa; however, there is limited research on the quantification of the impact of the pandemic on sub-national governments. This paper tries to fill this gap by examining the experience of state governments in Nigeria through tax data which provide more responsive information on the impact of the pandemic and the response of governments.

2.0 REVIEW OF RECENT ECONOMIC TRENDS

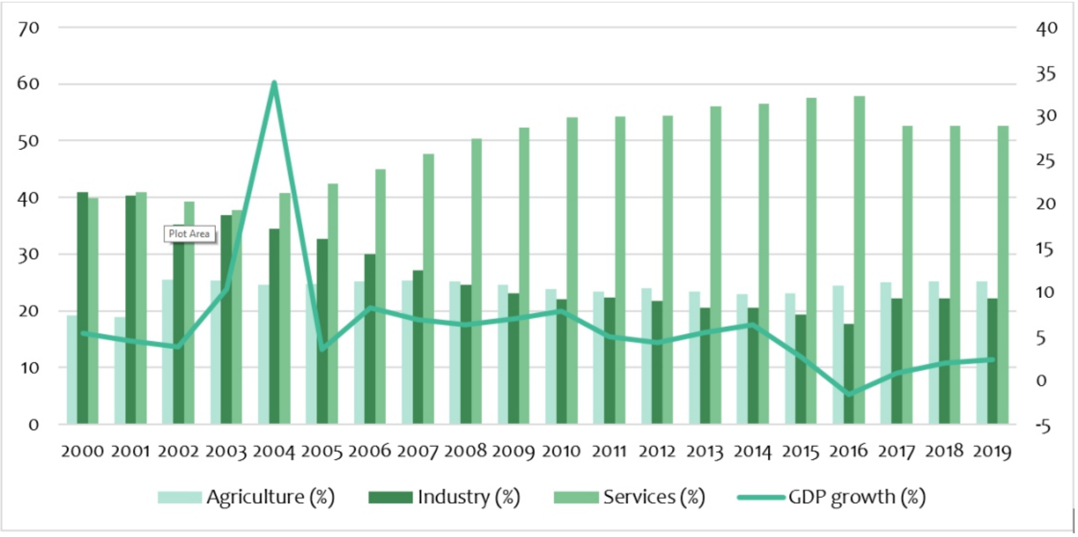
2.1 Pre-existing vulnerabilities have limited governments' capacity for an effective policy response

Before the COVID-19 pandemic, Nigeria was recovering from a combination of adverse fiscal and macroeconomic conditions that had exerted strong pressures on the fiscal sustainability of its national and sub-national governments. Between 2014 and 2016, the cost of crude fell to its lowest levels in nearly a decade and a half. The fiscal crisis at the time was largely driven by headwinds generated by slow growth in advanced economies, several years of large upward swings in oil supply (including OPEC 's refusal to cut production, oil exports from Iran, and the rise of US shale production); China's slowing demand; unwinding of geopolitical risks that had threatened production; structural changes in the global economy and the appreciation of the U.S. dollar (Baffes et al., 2015).

2.2 With over-dependence on oil exports, growth in industry lagged and labour productivity declined.

The economy had been transforming from an agrarian to a service-oriented economy, without going through the intermediate stage of industrialization (Ajaikaye et al, 2015). The share of both the agriculture and services sectors (% of GDP) rose by over 1.4% annually between 2000 and 2019, compared to the industrial sector which declined by 3.1% over the period. By 2019, the size of industry (% of GDP) had declined from over 40% in the early 2000s to 22% (figure 1). The changes in economic livelihoods had a major impact on unemployment, given that industry is the leading high-productivity sector and a high value-added sector for labour.

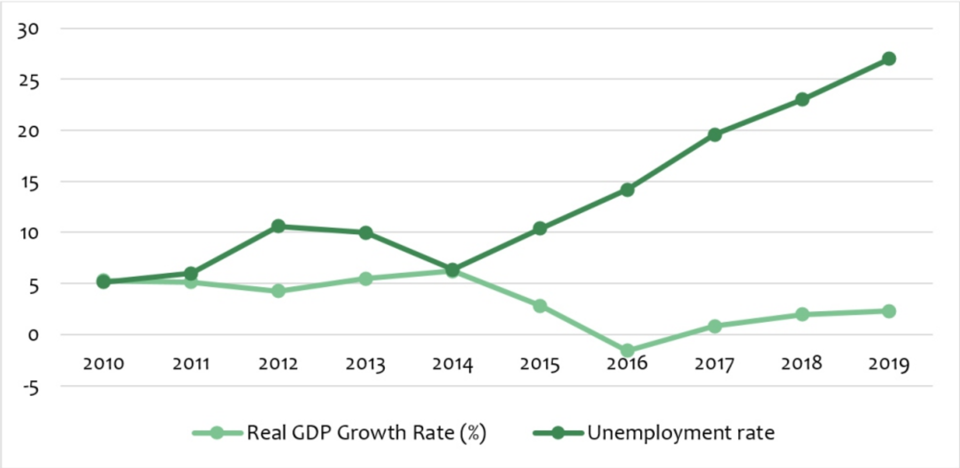
Figure 1: Reallocation of economic activities, 2000 – 19



National Bureau of Statistics, 2020

The atypical growth pattern has seen the bulk of excess labour absorbed in non-tradable services and very low levels of productivity such as retail trade and housework. This has sparked the debate on whether a services-led growth model can deliver good jobs the way manufacturing did for the Asia Tiger economies. The country's experience so far has shown that services can hardly deliver inclusive growth and good jobs since the majority of those with jobs are operating at low margins and low levels of productivity.

Figure 2: Economic growth accompanied by rising unemployment, 2010 – 19



National Bureau of Statistics, 2020

The structure of State economies also reflects a predominance of the services sector which accounts for nearly 60% of economic activities. The poor employment record reflects low productivity and the absence of a strong manufacturing base to accommodate the youthful bulge in the country. Only three out of the twenty-two States that report data on gross domestic product have a manufacturing base that accounts for up to 20% of economic activities (NBS 2019a).

2.3 Economic vulnerabilities have been linked to fiscal vulnerabilities

As the impact of the pandemic prolongs, State governments have been hit by a double whammy from the fall in oil price and contraction in the tax base owing to lockdown and social distancing measures estimated by the Nigeria Governors' Forum Secretariat (NGFS) to reach N800 billion in 2020. Additionally, governments have been compelled to increase public spending to mitigate the impact of the pandemic, by setting-up testing and treatment centres from scratch and implementing targeted responses in public health, security, public works, social safety and other stimulus-targeted interventions such as tax relief programmes.

Governments were already vulnerable to the volatility effect of oil and the unsustainable rise in permanent expenditures including government overheads, wages and salaries. This was worsened by the absence of fiscal buffers and a debt overhang. Many States in the country had in fact previously 'borrowed' from their staff, their pensioners and suppliers by accumulating arrears which reached over N4 trillion in 2019 (DMO, 2020) – over three times higher than their total internally generated revenues (IGR). Although domestic revenue mobilisation improved over time from N687 billion in 2015 to N1.3 trillion in 2019. For many States, IGR growth has not been enough to cushion the rise in permanent expenditures, especially since the signing of a new minimum wage in the country in April 2019.

3.0 GOVERNMENTS REACHED A CONSENSUS ON A SET OF ACTIONS

Following the country's first recorded case of the virus in February 2020, the Nigeria Centre for Disease Control (NCDC) released an advisory that showed that if nothing was done, 80% of the country's population could be infected, with over 17 million people requiring hospitalization by September 2020. With implementation at 50%, 4 million people were estimated to be infected, with 50,000 deaths. Following the advisory, both the federal and State governments responded by putting in place public health measures to stop the spread of the virus and increase care for those infected, as well as phased lockdown measures which began in March 30.

Box 1: Phased lockdown implemented by the Nigerian government

- March 30: Nigeria implements a two-week quarantine in three major states - Lagos, Abuja and Ogun
- April 13: Nigeria extends lockdown in the three States for two weeks
- April 27: Nigeria announces a phased and gradual easing of lockdown measures in Abuja, Ogun and Lagos states. New measures include a ban on "non-essential" interstate travel, mandatory use of face masks and a curfew from 8pm to 6am. Lockdown was also placed on Kano for two weeks.
- May 4: Phased and gradual easing of lockdown in the three major states
- May 18: Gradual easing of lockdown in the three major states for two weeks to June 1.
- June 2: Phase two easing of lockdown and nationwide curfew relaxed to 10pm – 4am daily.
- June 30: Extension of phase two of the eased lockdown by 4 weeks. Resumption of interstate and domestic air travel.
- July 27: Extension of phase two of eased lockdown by one week from July 29 to August 6.
- Sep 4: Re-opening of the international air space within established parameters and adjustment of the nationwide curfew to start from 12am to 4am. Continued restriction on mass gatherings outside the workplace.
- Oct 19: Third Phase of the National Response to COVID-19 maintained for a period of four weeks in line with amendments to address economic, socio-political and health. considerations. Nationwide curfew from 12am to 4am maintained with the opening of National Youth Service Corps orientation camps

Lockdown measures also brought the need for counteractive measures to cushion the impact of the restriction on livelihoods, with additional economic, public finance, social investment and other sectoral and cross-cutting priorities drawn from various ad-hoc government advisory committees created during the period, including the National Economic Council (NEC) Ad-Hoc Committee on COVID-19, the Nigeria Governors' Forum (NGF) Committee on COVID-19 set up by State governors, the Presidential Task Force (PTF) on COVID-19 and the Economic Sustainability Committee (ESC) headed by the country's Vice President, Prof Yemi Osinbajo SAN, GCON. The N2.3 trillion Economic Sustainability Plan eventually became the conglomeration of the plans of the national government (Box 2).

Box 2: Bouncing Back – Priorities of Nigeria's Economic Sustainability Plan

1. Immediate Fiscal Measures to mobilise resources to stimulate the economy and fund projects in the Economic Sustainability Plan.
2. Fiscal Measures to Safeguard Oil Revenues
3. Fiscal Measures to Mobilise and Preserve Non-Oil Revenues
4. Fiscal Measures to Reduce Non-Essential Spending
5. Monetary Policy Measures to Support the Economy
6. Measures to Mobilise External Support and Funding
7. Measures to collaborate with and support States
   - i. Negotiate suspension of payments on Irrevocable Standing Payment Orders (ISPOs).
   - ii. Provide moratorium on deductions in respect of bailout loans.
   - iii. Develop guidelines to protect inter-state commerce.
   - iv. Encourage States to achieve the States' Fiscal Transparency Accountability and Sustainability (SFTAS) programme and other World Bank programmes in order to access external support.
   - v. Issuance of promissory notes to pay States' construction debts.
   - vi. Collaborate with State Governments on Affordable Mass Housing, Agriculture and Off-grid Power Projects and other projects in the ESP.
8. Measures requiring Legislative Support, including a Fiscal Stimulus Act and provisions to backstop the Economic Sustainability Plan.
9. Cross Cutting Imperatives for a post-COVID Economic Recovery, including collaboration between governments, the telecoms ecosystem and banking sector to provide a National Identification Number (NIN) for every Nigerian.
10. Food for All: Agriculture and Food Security
11. Jobs through Homes: Mass Housing Strategy
12. Energy for All: Solar Power Strategy
13. Jobs for Youths and Women Post COVID-19
14. The Future of Work – Strategy for Jobs in Technology
15. National Gas Expansion Programme (NGEP)
16. Supporting Small Businesses: Guaranteed Offtake Scheme for MSMEs; SME Survival Fund; SME Intervention Funds; MSME Regulatory Support
17. Moving People and Goods: Road Construction and Rehabilitation
18. Building A Resilient Health Sector with the capacity to withstand shocks.
19. WASH Emergency Response to COVID-19
20. Social Investment Programme
21. Aviation
22. Ensuring Continuous Learning – Education
23. Science and Technology
24. Internal Security
25. Solid Minerals
26. Digital Switch Over Programme

3.1 The pandemic is rapidly expanding the scope of governments' action.

Since 27th February 2020 when the first case of COVID-19 was reported in Nigeria, governments at both the federal and State level have taken several actions – including a series of lockdown measures which forced businesses and households to give up work, school, trade and events. According to an April-May 2020 survey conducted by the National Bureau of Statistics, 42% of Nigerians stopped working during the period mainly for reasons related to COVID-19, particularly those in farming and family businesses (Lain, et al. 2020).. Coupled with the shutdown in business activities and value chains, there were general increases in the price of inputs and goods and services. By June 2020, inflation had reached 12.8% from 12% during the start of the year while unemployment reached 27.1% in the first quarter of 2020 according to the National Bureau of Statistics.

Governments at the national and sub-national level have responded by expanding the scope of social investment programmes, tax relief, loans, grants and subsidies to mitigate the economic impact on citizens and businesses, including food supply to vulnerable households. At the federal level, the government designed a N2.3 trillion stimulus plan while the Central Bank released an unprecedented level of financing to businesses including a N15 trillion CBN-led Infrastructure Development Company to leverage and build critical infrastructure across the country over an initial 5-year period. The entity, which will be wholly focused on Nigeria will be co-owned by the CBN, the Africa Finance Corporation (AFC) and the Nigeria Sovereign Investment Authority (NSIA), but exclusively managed by an Independent Infrastructure Fund Manager (IIFM) that will mobilize local and foreign capital to support the federal government in building the transport infrastructure required to move agriculture and other products to processors, raw materials to factories, and finished goods to markets (CBN, 2020). The pandemic is transforming the role of government in the economy. Unlike the 2008/09 and 2014/16 crises which were triggered by the financial and oil sector shocks respectively, the 2020 crisis came with a human cost.

3.2 The sustainability of States remains central to mitigating widespread impact of the crisis

Although State governments spend less than the federal government, they remain central to mitigating vulnerabilities that are arising from the COVID-19 pandemic, especially given their constitutional role and expenditure responsibilities in health, education, agriculture, light industries, as well as workers' compensation. State governments are also largely responsible for their markets and competition policy.

In the second quarter of 2020, State governments kickstarted a move to revise their 2020 plans to be more responsive to the new fiscal environment with the need to rationalise non-essential spending and reprioritise essential spending. Instead of recording vast deficits, they were compelled to make significant spending cuts in the face of a subdued macroeconomic forecast for the country. The total budget of States were consequently reduced by 36% from N9.4 trillion to N6 trillion in t020, while monies allocated for the COID-19 response reached N1.3 trillion, over 21% of their total spending for the year. The demand for revenue increase through tax was also moderate given that it was not economically and politically feasible to raise taxes during the period.

To compensate for the shortfall in revenues, State governments relied on the federal government to provide additional financing to close the revenue gap created by the crisis. Some of the support instruments included a moratorium on debts owed to the federal government and the Central Bank of Nigeria (CBN), refunds on infrastructure projects carried out on behalf of the federal government, as well as loans and grants from bilateral and multilateral partners. State governments welcomed a multi-pronged World Bank package of about US$1.6 billion covering an expansion of on ongoing States' Fiscal Transparency Accountability (SFTAS) programme (US$750 million), support for COVID-19 Action Recovery and Economic Stimulus (CARES) (US$750 million) and an additional US$100 million to finance health mitigation measures.

4.0 IMPACT ON TAXES

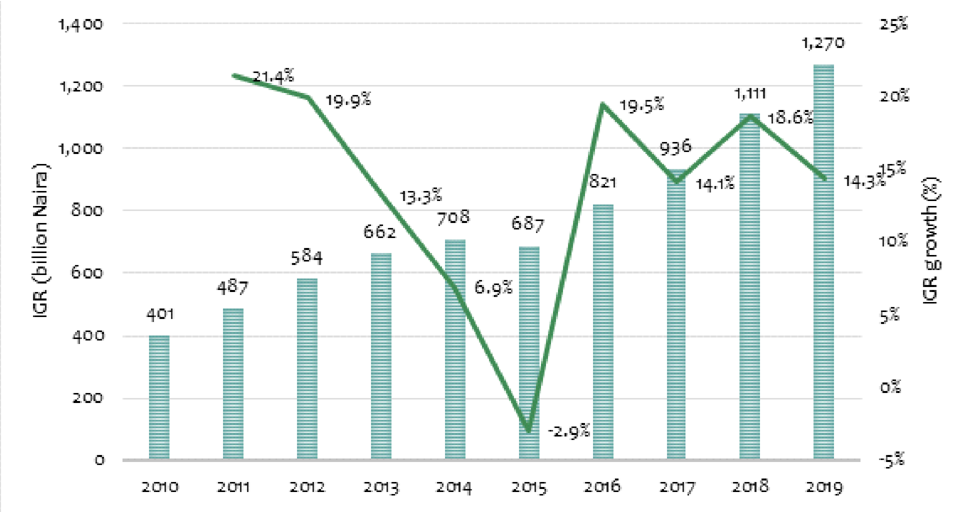
4.1 The tax environment was undergoing significant transformation before COVID-19

Tax revenues are essential for State governments to maintain fiscal sustainability given the boom and bust cycles the Nigerian economy experiences (Nabena, 2019). Unlike the federal government, most States do not have fiscal buffers to help smoothen the impact of volatility cycles on their budgets. The phenomenon has been more pronounced in governments that previously responded to temporary windfalls by expanding their permanent expenditures, including the scope of public employment and infrastructure spending which they were unable to complete before the "good" years ended.

The tax environment at the State level has recorded a significant level of transformation over the last decade. Total internally generated revenue (IGR) for the 36 States grew three-fold from N401 billion in 2010 to N1.27 trillion in 2019 (figure 3). Except in 2015 when the country faced an oil-led fiscal crisis which eventually set off a recession, growth in IGR averaged 14% annually. Behind the steady growth were reforms to consolidate revenue accounts, expand informal sector tax collection, increase the use of technology in tax collection, revise outdated tax laws and professionalise tax authorities.

Data shows that much of this growth was accounted for by about 14 States annually, with mixed performances in other States due to the varied level of reform implementation. Longer term success has been dependent on such as the capacity of tax administrations, governments' choices in adapting and adopting tax laws, tax education, tax morale, the implicit social contract between the government and citizens, and the quality of institutions in the State (including bureaucracy and corruption).

Figure 3: Growth in internally generated revenues for the 36 States of Nigeria, 2010 - 19



Source: Data based on Joint Tax Board reports, 2020

4.2 Tax reform before the pandemic

The Lagos State tax case is generally cited as the symbol of urban disorder transformed into the representation of effective tax governance. But unlike Lagos that was triggered by political and electoral pressures as well as elite ambitions to build a prosperous megacity (De Gramont, 2015), for many other States, tax reform has been triggered by the boom and bust oil cycles recorded in recent years, especially following the aftermath of the mid-2014 fiscal crisis which saw government revenues (% of GDP) fall by nearly half from 11% in 2013 to 6% in 2016. The crisis triggered a set of changes in government policy and action, including the emergence of the 2016 resolutions of the National Economic Council (NEC), the Fiscal Sustainability Plan (2016), the Economic Recovery and Growth Plan (2017 – 2020), the new National Tax Policy (2017), and the Voluntary Assets and Income Declaration Scheme (2017).

The Finance Act 2019 was also passed with amendments in key tax legislations, including the Company Income Tax (CIT) Act (as amended) CAP C21 2004, Value Added Tax (VAT) Act Cap VI LFN 2007, Customs and Exercise Duty etc. (Consolidation Act, Cap C49, 2004), Personal Income Tax (PIT) Cap P8 LFN 2007 (as amended), Capital Gains Tax (CGT) Act Cap CI LFN 2007, Stamp Duties (STD) Act Cap S8 LFN and the PPT Tax Act with implications for revenues due to the federal and State governments. One of the biggest changes of the Finance Act 2019 was the increase in the VAT rate by 50% from 5% to 7.5% and the inclusion of electronic and online transactions as liable tax items.

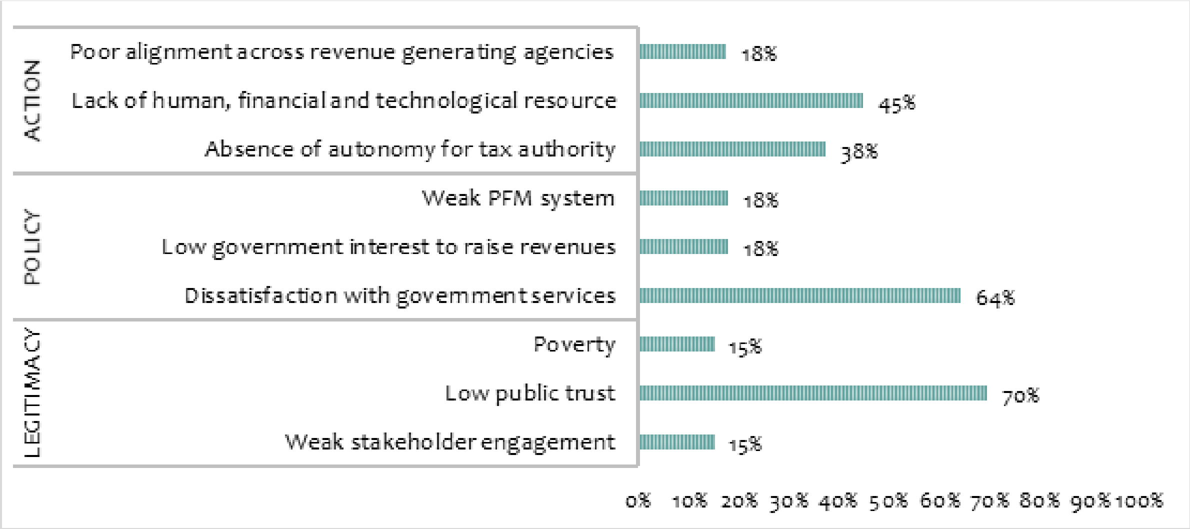
A stronger collaboration also emerged since 2016 between the Federal Inland Revenue Service (FIRS) and State Internal Revenue Services (SIRS) through the Joint Tax Board (JTB). JTB steered a set of reforms which led to the revitalisation of the Taxpayer Identification Number (TIN) system; the introduction of a system to allow for the immediate issuance of value added tax/withholding tax certificates on payment of invoices for government contracts; collaboration on joint audits to share information on unremitted taxes in States; and additional training programmes for tax officers.

In 2017, an IGR Dashboard and a HelpDesk technical programme for States were also instituted at the Nigeria Governors' Forum with the support of the Bill and Melinda Gates Foundation to increase the use of evidence in policy making, decision maker engagement and the capacity of tax authorities through training sessions, technical advisory and peer learning. Growing knowledge in the tax space since 2017 helped bridge the gap in political commitment, capacity and reform implementation across States in the country.

Tax authorities were also granted administrative and financial autonomy as the gateway to professionalise their workforce and sustain reforms. This administrative transition which took place in Adamawa, Bauchi, Cross River, Edo, Kaduna, Kano, Kwara, Plateau and Zamfara among others became a necessary condition to raise tax revenues sustainably and it featured among the top features of the top performing States. In Kwara and Delta State, initiatives also emerged to reward taxpayers with better social services with the aim of improving taxpayer compliance in the informal sector. Kaduna, Kogi and Plateau States on the other hand, were among those that established a consolidated revenue code (CRC) to exhaustively cover the system of their tax laws. Today, the CRC has become an important legislation to end the proliferation of arbitrary and duplicative taxes which put the business environment at risk.

Amidst these reforms, the fiscal social contract between governments and citizens still remained the key challenge to effective taxation in the country. Separate studies conducted by the Nigeria Economic Summit Group (NESG) (McCulloch and Moerenhout, 2019) and the NGF Secretariat (NGF, 2019) showed that low public trust and dissatisfaction with government services are the biggest risks to taxation in the country. Public dissatisfaction with government services outweigh other challenges such as lack of human, financial and technological resources for tax authorities (figure 4). These risks continue to weaken governments' legitimacy and capacity to collect additional taxes. Over time, the vicious cycle of poor government services and the public's willingness to evade taxes has depressed tax revenues and in turn limited governments' capacity to provide quality services.

Figure 4: Risks of Taxation



Source: Survey conducted by the Nigeria Governors' Forum Secretariat, 2019

In October 2019, a State Revenue Action Plan (SRAP) (NGF and JTB, 2019) was signed between State governments under the auspices of the Nigeria Governors' Forum (NGF) and tax authorities. The plan was aimed at promoting a structured approach for tax reform implementation in all 36 States given the lessons from frontier States. The plan covered five (5) broad objectives and twelve (12) detailed actions to raise domestic revenues sustainably. The objectives of the plan include the following:

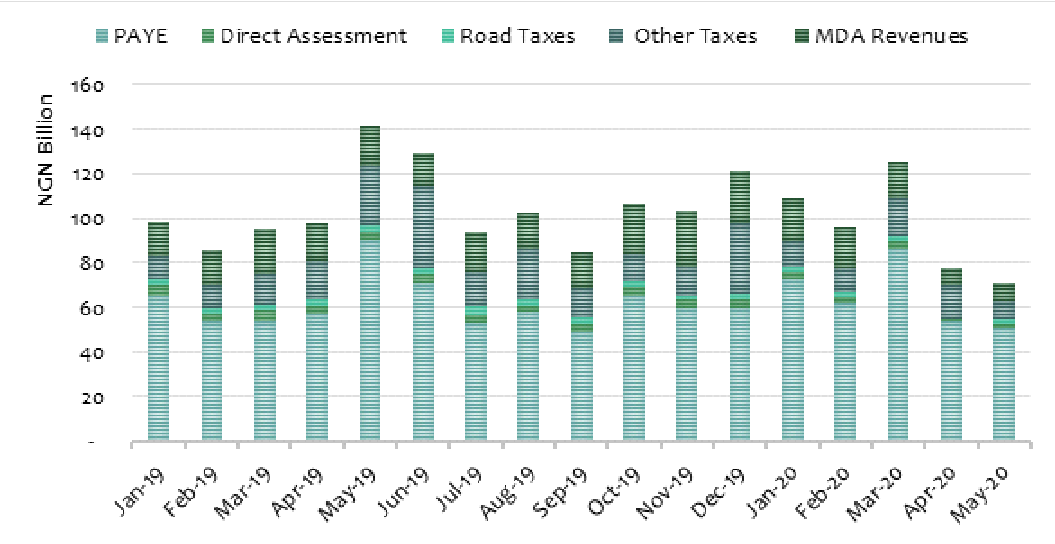
i. Making the most of State Internal Revenue Services (SIRS);
ii. Ending double/multiple taxation;
iii. Improving tax compliance;
iv. Blocking revenue leakages; and
v. Unlocking new revenue sources.

While the SRAP kickstarted a uniform tax reform strategy in all States, the emergence of the COVID-19 pandemic presented new challenges with the need for relief for businesses and taxpayers who were facing serious liquidity contrains.

4.3 Impact of COVID-19 on the Internally Generated Revenue of States

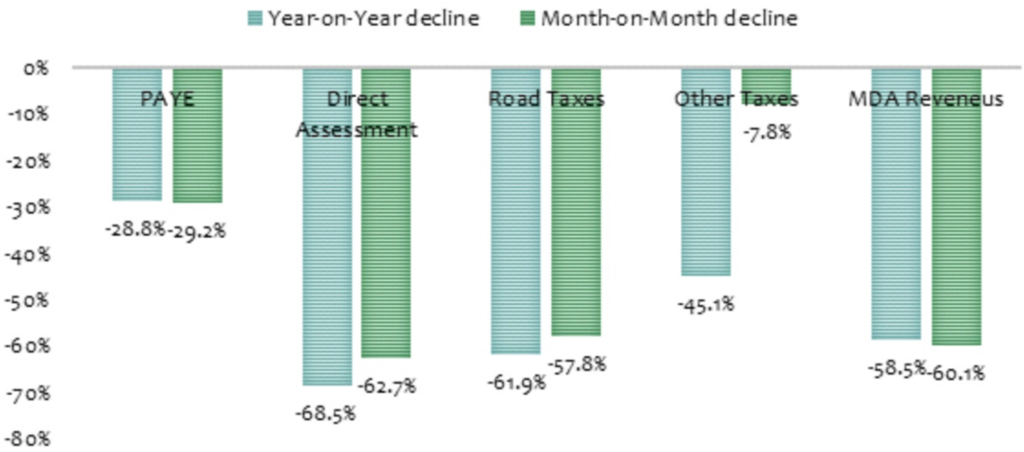
Lockdown and social distancing measures enforced since March 2020 impacted significantly on taxation, as business activities were halted and tax administration and enforcement systems brought to a standstill especially for contact intensive tax areas. Between the start of the year and April – May 2020 when lockdown measures where strictly in place, States' tax revenues declined by 40% from pre-pandemic collections (figure 5). Road taxes, taxes paid by self-employed persons and service charges from government ministries, departments and agencies fell even higher by up to 60% (figure 6). In Lagos and Ogun where lockdown measures were centrally enforced, and where tax authorities and taxpayers operated under stricter guidelines, taxes paid by self-employed persons declined by over 70% and 85% respectively. Coincidentally, the States where lockdown measures were federally enforced were also the frontier States in revenue generation.

Figure 5: Decline in State government internally generated revenue due to COVID-19



Source: State Internal Revenue Services, provisional, July 2020

Figure 6: Highest decline recorded for taxes paid by self-employed persons

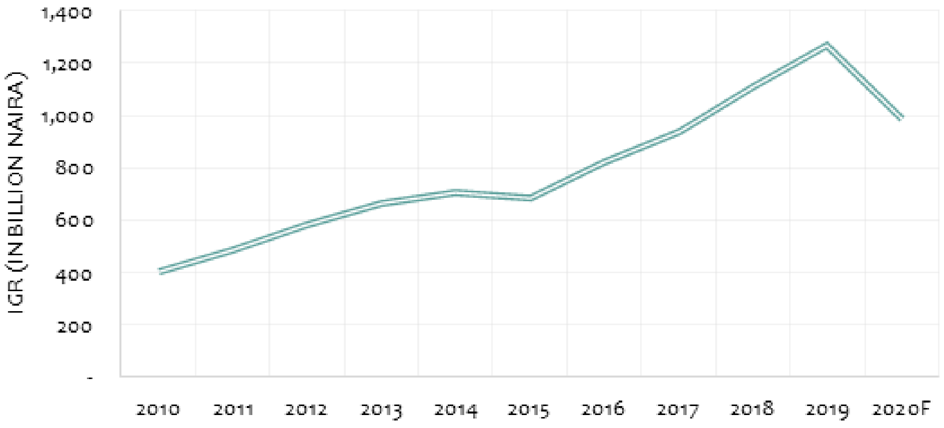


Source: State Internal Revenue Services, provisional, July 2020

Note: Yearly change compares April – May 2019 vs April – May 2020; monthly change compares February – March 2020 and April – May 2020

The COVID-19 pandemic is expected to lead to a decline in domestic revenues for the 36 States by 20% to N1 trillion in 2020 from N1.27 trillion recorded in 2019 (figure 7). Although a rebound is expected post 2020, projections up to 2025 and 2030 are estimated at N2.7 trillion and N5.1 trillion respectively. The low tax to GDP across States averaging below 3% except in Lagos, Ogun and Rivers State, indicates an outsized gap between the tax potential and tax effort of States.

Figure 7: IGR of States 2010 - 20F



Source: Underlying data from JTB and SIRS, July 2020

4.4 State governments are implementing tax relief programmes to mitigate the impact of the pandemic on businesses and individual taxpayers

Tax relief programmes are optional but they have become an essential part of governments' responses for businesses that are facing a liquidity crisis. Many businesses will need a combination of incentives to stabilise and mobilise back to work. Given that State governments are facing a serious liquidity crisis, and concerns about a rising debt overhang, tax, trade and regulatory incentives have been the most feasible responses to support business continuity.

In April 2020, the NGF Secretariat developed an advisory (NGF, 2020) for tax authorities to help State governments' maintain some level of revenue sustainably, improve business confidence, and protect businesses and the tax community during the COVID-19 period. State governments had to quickly formulate response plans that took account of the negative impact of the pandemic on taxes while at the same time securing the tax environment.

State governments have scaled down their revenue projections for 2020 on account of the pandemic. They have also taken an interventionist approach to mitigate the impact of the pandemic on businesses and individual taxpayers. By July 2020, all tax authorities across the 36 States and the Federal Capital Territory had published a tax relief package, focusing on 4 (four) main areas:

i. Extension of the date of filing for 2019 annual returns;

ii. Waiver or reduction on penalties and interests on tax liabilities;

iii. Rebate/discount on taxes paid by new taxpayers;

iv. Installmental payment of taxes; and

v. Online issuance of tax clearance certificates to minimise human interaction.

These responses have been aimed at providing targeted support especially to small and medium scale enterprises in the hospitality and agriculture sectors who are among those worst hit by the pandemic. In addition to other policy responses, these short-term tax measures will influence corporate and financial behaviour and the recovery of State economies.

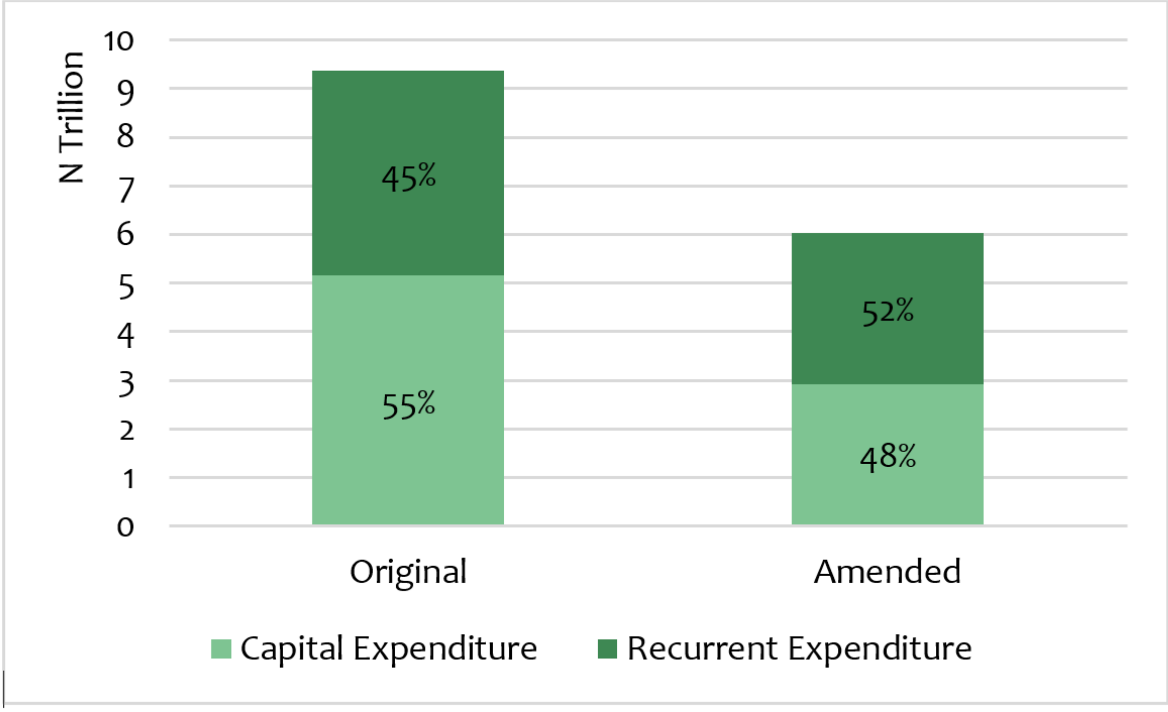
Some States have provided very generous tax relief programmes such as in Jigawa where the government issued a one-year tax holiday for all existing small and medium enterprises in the State effective 1st July 2020 to 30th June 2021, and an 18-months tax holiday for all new enterprises and individual business that come up after the COVID-19 pandemic from 1st July 2020 to December 2021. In Katsina State, a 20% rebate will be issued to new taxpayers from 1st October 2020 to 31st March 2021 while a 10% rebate on personal income taxes will be granted to businesses in Anambra State until year end 2020. Some States have played an active role in the public health response – in Ondo State, the IRS donated N1.36 million to the COVID-19 response and 1,800 units of personal protective equipment (PPE) to all revenue generating MDAs in the State.

5.0 IMPACT ON BUDGETS

5.1 Reforms on fiscal consolidation and budget realism have recorded the most significant progress

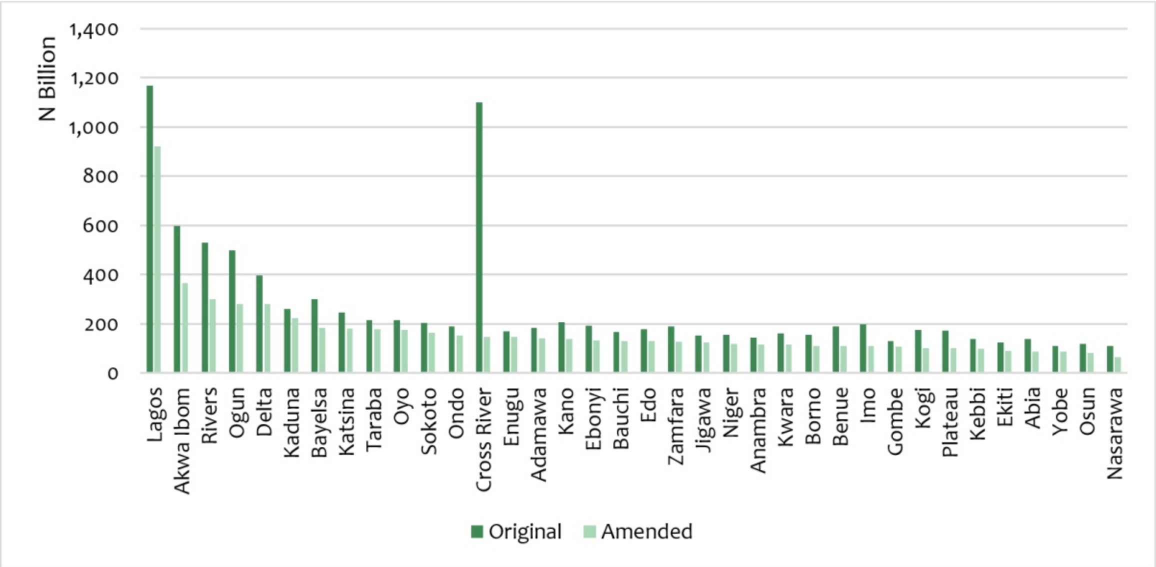
Although the pandemic led to a set of fiscal shocks for governments, it also presented another opportunity for more fundamental long-term fiscal consolidation which has largely been ignored in the past. In fact, the inadequacy of governments' policy response during the mid-2014 oil crisis meant that the impact of the shock on Nigeria was more negative than would have been expected on the basis of its fundamentals (IMF, 2017). In the wake of the recent crisis, the World Bank SFTAS programme-for-results provided the apposite incentive for States to revise their revenue estimates for both federation transfers and domestic revenues to more realistic levels. State governments also took steps to rationalise non-essential spending, reprioritise essential spending and achieve a zero-financing gap for their amended 2020 budgets. This revision exercise in mid-2020 led to a reduction of the consolidated budgets of the 36 states by 35%, from N9.4 trillion to N6 trillion (figures 8 and 9). Instead of recording vast deficits, States had to make spending cuts in the face of a subdued macroeconomic forecast for the country. The 36 State governments also allocated N1.3 trillion, roughly 21% of their total expenditure as COVID-19 spending in 2020.

Figure 8: Fiscal consolidation at the State level, 2020



Source: Underlying data from budgets of States, 2020

Figure 9: Budget revision by State, 2020



Source: Budgets of States, 2020

6.0 CONCLUSIONS

6.1 Amidst the collective action, governments must focus on the risk of data deprivation, long term resilience for the health sector and business continuity

Since the lockdown in March 2020, Nigeria has been operating at less than full capacity as a result of social distancing guidelines and the consequent disruption in value chains and economic activities. The rapidly changing environment reinforces the need for a dashboard of previously neglected data and new information given that much of what should be known is untracked. Data deprivation is a rising risk that is easily overlooked but it reveals governments' incapacity to allocate resources to mitigate the impact of the pandemic effectively and efficiently. Data analytics will help governments monitor trends, disruptions and progress; guide strategic interventions; assess how effective interventions are; and guide the implementation of localised actions across communities. Fortunately, the pandemic comes at a time when much of the world has been digitalised.

Governments can start by collecting the scope of private data already available. Forward looking, data integration of public and private data will provide useful insights on real time trends, for example, transaction data may show how consumption or jobs are changing across income groups and locations. Phone surveys on the other hand may be easily administered to measure job losses and risks created by the pandemic.

Records across countries have shown that the hardest hit economies are those with weak health systems and heavy reliance on trade, tourism and commodity exports. While broader measures are structural and long term, responding to the pandemic requires an unprecedented upgrade of health sector capacity through State and national policy cooperation, including an insurance programme that covers both formal and informal sector workers. As governments continue to provide palliatives (many of which are short term and ad-hoc) for the vulnerable population, there are many Nigerians who are invisible who live in informal settlements. A tax-for-service programme using the country's presumptive tax regime may be used to secure health sector financing and scale up informal sector taxpayer compliance.

Finally, as governments face a contracting fiscal space, many businesses are also recording closures due to the liquidity crisis. The situation requires that governments' response to the pandemic should be complemented with support for business continuity to provide immediate relief to enable businesses get back on steam. These are currently being implemented through tax relief programmes for taxpayers and businesses, but should be complemented by easing of regulations and the provision of targeted public services.

6.2 Tax environments that are highly digitalised stand to cope better during the pandemic

Digital access varies greatly by State, with clear disparities across gender and rural-urban areas. As the COVID-19 crisis weighs on the country, payment of taxes will be harder to administer. But it presents new opportunities that tax authorities can be part of – the pandemic has made digitalization more relevant to services and businesses. Many businesses are transitioning from physical transactions to online services – and as far as compliance strategies go, priority should be given to this transition. The expansion in the number and scope of electronic tax payment channels have accounted for a large percentage of the revenue growth in States like Kwara, Sokoto and Zamfara. Most States have a central platform for collecting taxes but many of the taxable public are not integrated in the electronic tax system.

To close the tax gap created by social distancing guidelines, tax authorities may have to leverage partnerships with digital platforms and retail and distribution networks to maintain tax compliance during the pandemic. This includes equipping and training local retailer networks to go digital, collaborating with digital payment platforms to waive fees on transactions and building USSD-based platforms. Paga, a mobile phone-based payment platform for remittance, bill payment and ecommerce services took steps to make its services more accessible during the COVID-19 period by adjusting its fees so that merchants can accept payments for zero fees while customers send money for free if they use the recipient's phone number or email address versus a bank account. Mobile payments company PalmPay also waived transfer charges from its e-wallet to other PalmPay users and Nigerian banks. Banks such as FCMB have a USSD banking service to perform all transactions without data. The bank is encouraging customers to use this service during the pandemic.

6.3 The impact of tax relief programmes will depend on enforcement guidelines and the size of the State's tax base

Tax relief programmes should typically be developed based on a reliable taxpayer management system. The impact of these relief programmes on businesses, including the 41.5 million micro, small and medium entreprises (MSMEs) in Nigeria is not yet clear, but their survival will depend on how well these programmes are implemented, especially in States like Lagos and Oyo that together account for nearly 20% of MSMEs in the country (NBS, 2019b). The effectiveness of these incentives depends on the enforcement guidelines issued to tax officers and collecting agents and the size of the taxable population in the State's tax base.

New administrative measures required include the development and issuance of COVID-19 operational guidelines and advisories to staff and taxpayers, creation of feedback and redress systems via calls, emails and social media platforms, reduction of the frequency of in person meetings and large gatherings, and regular updates to taxpayers. Measuring the impact on State revenues is also vital, given that tax relief programmes are essentially a form of expenditure that will reduce government revenues.

6.4 Tax data provides a measure of the economic and social cost of the COVID-19 pandemic

As the world changes and as economies adapt, governments will require real-time data and high-level capacity to use available information to guide recovery for many individuals who continue to face loss of livelihoods, businesses that are recording losses, and financial networks that have collapsed. Unlike economic data which experience lags, tax data provide real time insights into the impact of the pandemic that can be analysed daily. Ultimately, digitalization will help relax information constraints by providing opportunities to verify the economic opportunities and outcomes of individuals and firms.

The impact of the government's new interventionist approach may not be easily measured in the short run, but available tax data provides important insights into the cost on the society. Evidence has shown that total tax revenues declined by 40% in the two-month period post lockdown. While taxes paid by self-employed persons declined by 60% generally, in lockdown States it reached over 80%. Combined with value added and corporate income taxes collected centrally, sub-national tax data can inform broad-based initiatives to sustain the impact of current tax relief programmes post pandemic.

6.5 Sustaining reforms on tax administration remain key

Ongoing reforms on tax administration and policy remain key to achieving a sustainable revenue environment for State governments. 16 additional States[1] have passed a consolidated revenue code in 2020 from 2 States[2] in 2019. The consolidated revenue code ensures that the focus of increasing IGR does not lead to proliferation of arbitrary and duplicative taxes, which impact negatively on the tax environment. Other measures include the deployment of geographic information systems (GIS) to support effective land administration and property taxation, the adoption of tax-for-service initiatives to build government trust and taxpayer compliance; and the scale-up of cashless payments. Benue State provides a case study of tax payments through POS terminals in both remote and urban areas. The move serves to assure taxpayers that taxes are legitimate, and it guarantees full collection for the tax authority.

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[1] Abia, Adamawa, Bauchi, Benue, Cross River, Delta, Ebonyi, Edo, Ekiti, Jigawa, Ondo, Osun, Oyo, Plateau, Sokoto and Taraba

[2] Kaduna and Kogi

7.0 References

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