Youth PARTY
Shape the Future

A Bold Revenue Plan for Nigeria

Youth Party

The Youth Party is made up of individuals and groups that seek to serve and unite Nigerians. The Youth Party was created as a solution to the conundrum that the Youth, the biggest voting mass in Nigeria, have no voice in the governance of Nigeria. 'Youth' is an umbrella term that not only represents a generational change in Nigerian politics but new ideas and approaches to politics in Nigeria and the persons who recognize the importance of these ideals. If ever we intend to take charge of Nigeria and build the country and the future we want, this is our opportunity to do so.

Currently, political parties have sacrificed objective discourse on important socio-economic issues at the altar of politics, negative propaganda and violence. We believe in the value of objective discourse, and aim to extend the bounds of political involvement to include well-meaning citizens of the country and not just professional politicians.

The Youth Party strongly believe that political organizations goes beyond just canvassing for votes and winning elections - we must build political consciousness, active citizenship and serve as an alternate government when not in power. In a political system where everyone criticism is largely based on personalities, the Youth Party believes in the institutional role of political opposition in a healthy democracy. We are focused on the real issues and how Government policies affect our lives. We believe Nigerians deserve an informed choice and by doing so, we state our positions on important policy questions, especially to provide an alternative to the current position of whichever party is in power and what we would do if elected, which is the aim of this document.

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Our Government is Broke

There is no gainsaying that our public service and infrastructure are not working. Currently, Nigeria ranks 1st in out of school children[1], infant mortality is also alarming –1 in 10 Nigerians die under the age of five (5)[2], our healthcare is inadequate and cannot address ongoing challenges and, our Police is unequipped, untrained, underfunded and unfit for the 21st Century. We need to raise government revenue capacity in order to address these urgent critical spending needs, without raising tax rates. Nigeria has a huge revenue problem as we are not generating enough to cover our spending. Recurrent expenditure is high, and our debt is piling up.

Our revenue to GDP ratio is disturbingly low. In the last decade, Nigeria's Tax to GDP ratio has recorded its highest and lowest ratios at 9.6% in 2011 and 5.3% in 2016, currently at 8%. It is the second lowest in Africa and fourth lowest in the world.[3] South Africa is 29%, Ghana 18%, Egypt 15% and Kenya 18%[4]. The average Tax to GDP ratio for OECD countries is 34%.[5] According to the International Monetary Fund (IMF), evidence shows that at 3%-4% GDP ratio, Nigeria's non-oil revenue have been one of the weakest worldwide, reflecting, weakness in revenue administration system and systemic non-compliance.

For example, with regards to corporate income tax, less than 6% of registered tax payers are active. Revenue generated from VAT is less than 1% and tax exemptions and incentives are narrowing the base.

The tax compliance rate is poor, and even the compliant taxpayers are taxed heavily to make up for the low tax base and the non-compliance. According to the IMF, out of the Nigerian labour force of 77 million persons, only 10 million persons are registered for tax purposes.[6] This situation has adversely affected government's revenue generation through taxes. A major reason for the low rate of compliance is the lack of trust and accountability between the government and the tax payers.

Our ever rising debt service is consistently crowding out expenditure in critical infrastructure and human capital development. **We cannot adequately fund our priorities - our police, our schools, our military and health.** Of the total N9.45tn budgeted for 2020 by the Federal Government, only N427.3bn (4.5%) was allocated to health, while education sat at N652.94bn (6.9%). With this, our nation cannot adequately compete globally.

Almost a third of our budget is borrowed, which in turn means that over N2tn of our annual budget is for debt servicing, recurrent expenditure is high and we cannot comfortably pay salaries from the revenue we generate. Our budget deficits have averaged N4.4 tn. The Government should not be borrowing for day-to-day spending and salaries payment. The reliance on revenue from oil has made our revenue generation vulnerable and volatile, this in recent times, have partly caused us to go into a recession

Similarly, the approach of Nigeria's government to increase tax rates and to aggressively tax the existing minimal tax base instead of expanding the tax base is counter-productive. We believe that the priority for the government is to increase the tax base.

The government must build trust and accountability between government and citizens. For example, public officials living lavishly on the account of taxpayers must stop as it breaks the trust with tax payers.

Tax still remains the most stable form of income generation, and we must fix our tax system.

[1] Unicef | Nigeria, available https://www.unicef.org/nigeria/education 2019

[2] UN Inter-agency Group for Child Mortality Estimation Report, available http://www.childmortality.org/files_v22/download/UN%20IGME%20Child%20Mortality%20Report%202018.pdf 2018.

[3] See: World Bank: Bernard Haven, Raul Junquera-Varela Getting to 15 percent: Addressing the Largest Tax Gaps, available at blogs.worldbank.org/governance/getting-15-percent-addressing-largest-tax-gaps 2018. See also: BBC "Nigeria: Why is it Struggling to Meet its Tax Targets? available at https://www.bbc.co.uk/news/world-africa-49566927 2019.

[4] OECD: Revenue Statistics in Africa available at https://www.oecd.org/tax/tax-policy/brochure-revenue-statistics-africa.pdf 2019.

[5] OECD Revenue Statistics available https://www.oecd.org/tax/tax-policy/revenue-statistics-highlights-brochure.pdf 2019.

[6] Nigeria | International Monetary Fund available at https://www.imf.org/~/media/Files/Publications/CR/2018/cr1864.ashx 2018.

For the Youth Party, our Plan for fixing Nigeria's revenue problem is premised on:

- Increase in Revenue Generation.
- Partial Divestment of FGN's equity in specific companies
- Replacement of Universal Petrol Subsidy with Targeted Public Transport & LNG Subsidy
- Stopping Electricity Subsidy
- Reduce Cost of Governance
- Public Trust & Accountability

Increased Revenue Generation - We intend to generate more revenue through the following:

1. Increase the revenue to GDP ratio of 8% to 14%;
2. Reduce consolidated corporate tax from 34.5% to 22.5% and increase registered corporate tax payers from 6% to 15%;
3. Enact Petroleum Industry Bill (PIB) and reduce the average oil tax to 70% onshore, 80% deep water, 25% frontier basin, 25% transitional;
4. Divest 20% of the 49% FGN equity in NLNG to raise $16bn
5. Divest 20% of FGN equity in Nigerian Petroleum Development Company Ltd (NPDC) to raise $US2.5-3.5bn[7]
6. Replicate the success of the Public-Private ownership structure and management at NLNG in Nigerian Petroleum Development Company (NPDC) to generate at least $US1bn per year
7. Tax the informal economy in a business-friendly manner;
8. Increase VAT on luxury goods to 20%;
9. Make our sea and air ports the regional transport hub to generate significant income;
10. Improve tax administration at both federal and subnational level
11. Prohibit opaque privatization of tax collection

Reduce Consolidated Corporate Tax to 22.5%

Our high tax rate for companies is killing businesses and discouraging foreign direct investments. Our consolidated corporate tax is 34.5%: Companies Income Tax 30%; Education Tax 2%; Employees Compensation Fund 1%; Industrial Training Fund 1% Compensation Act and Police Trust Levy 0.5%. The global average for company income tax is 23.03%.[8] Whilst, we recognise the tax exemption and incentives granted to small and medium income scale businesses under the Finance Act 2019, to 0% and 20% tax rate, respectively. The 35% consolidated rate for large companies is too high and creates collection issues including tax evasion and avoidance. However, we will reduce corporate tax for both large and medium scale business to 22.5% to encourage more businesses, create employment opportunities and increase revenue generation through improved tax compliance. However, we would maintain a minimum tax rate of 5% for small businesses. With company income tax reduced, the incentive for tax evasion and avoidance would be reduced and companies would be discouraged from keeping two accounting books. This should also attract more foreign direct investment to the nation.

Specifically, we would maintain Education tax at 2% and the Police Trust Fund Levy at 0.5% and further extend the duration of the PTF to 10 years. We would also eliminate the Industrial Training Fund Act payment of 1% as the fund is needless, if our education is properly funded. The Employee Compensation fund would also be eliminated as insurance schemes already cater for this area.

Reduce Oil Taxes to Attract Investment and Increase Production

We cannot be serious about raising revenue if the fiscal policy on the oil sector remains unclear and unattractive to investments. No investment decision can be made by oil majors if the Petroleum Industry Bill (PIB) is not passed. Our crude oil production is stuck at 1.9m barrels per day for years as oil majors move their investments to more attractive Countries. Total Oil recently invested $US17bn in Guyana and Mozambique. Our oil taxes are one of the highest in the world at 90%. Whilst, the global average is 60%,

[7] FGN's 49% equity was valued at $US23bn in 2014. See: https://businessday.ng/business-economy/article/tripling-the-nse-how-to-reach-a-250-billion-market-cap-by-2020/

[8] Tax Foundation, Corporate Tax around the World, available at https://taxfoundation.org/corporate-tax-rates-around-world-2018/ 2018.

OECD countries 49%, G7 Countries 50%[9] Mozambique is 70%, Guyana is 60% and Morocco is 25%. We will change the oil tax rate to 70% onshore, 25% frontier, 25% for the transition fields and reverse deep-water tax from 90% to 80% as the new rate is unattractive for new investment.

Privatize and Raise Money from NPDC and NLNG

We will divest 20% equity in NPDC to private ownership to raise $US2.5-3.5bn within a year of gaining power. We will replicate the Nigerian Liquefied Natural Gas Limited (NLNG) type of management and ownership structure to ensure revenue of at least USD 1bn per year. Ultimately, we will model the company after Statoil of Norway and Total of France.

We will divest 20% of the 49% FGN equity in NLNG currently valued at about $US40bn to raise $US16bn to tackle broken critical public infrastructure and services. We note that this will reduce FGN equity and the value of its yearly dividend, which is a small price to pay for tackling broken critical public infrastructure and service that is causing insecurity, lack of quality public education and health care.

Tax the Huge Informal Economy in a Business-Friendly Way

The informal sector remains Nigeria's potential biggest revenue base. The IMF posits that the sector contributes 65% to our GDP[10], however the tax receipts from this area is predominantly low. This is primarily because it is not effectively captured in the tax net. To adequately tax the informal sector, we must simplify tax to the common man, and eliminate the series of minor local taxes taking up different names. We will publish a compendium of all legal taxes/fees payable by citizens to clarify what payment that needs to be made to the government, who has the power to collect and where the money is going to. To boost voluntary compliance in this sector, we would ensure transparency in government by showing monthly balance of government and publishing the federation account, which would be accessible to the public online. We also recognise that a major reason for the inadequate taxation of this sector is the lack of capacity within our tax administration**.** To this end, we will engage in continuous training of our tax administrators and we will strategically recruit more hands and also ensure that our schools are building the next generation of tax officials.

We recognise the tax amnesty programme introduced by the federal government, but this was not adequately and more specifically targeted at players in the informal sector.

To further increase the tax base in this sector, we would further tie access to government services and social benefits to tax payment. This include enrolment in schools, purchasing land, obtaining government permits, licences, procurement contracts, etc. This way, more people would be caught within the tax bracket. We will ensure that the proceeds of the sale is dedicated to capital projects and not recurrent expenditure.

Increase VAT for Luxury Goods and Services

The Government raises less than 1% of GDP in VAT revenue, compared to almost 4 percent of GDP in our neighbouring Economic Community of West African States (ECOWAS) countries. The introduction of the Finance Act 2019, increased Value Added Tax (VAT) to 7.5%. While we support an increase in VAT, we recognise that this is still far from our revenue target, if we are serious about running a liquid government. We would redistribute wealth through an increase in VAT from 7.5% to 20% specifically for luxury goods and services. Such goods will include expensive cars, private jets, yachts, jewellery and other similar items. It is pertinent to emphasize that the increase would be on luxury items and, we would further mitigate the effects on low income households by expanding the list of zero-rated items to cater for more basic items.

Raise Revenue as Regional Transport Hub

We have the potential of generating significant revenue if our air and sea ports can take their rightful place as the regional hub for transportation. We can derive huge revenue from an efficient air and sea

[9] OPEC, Taxes on Oil available at https://www.opec.org/opec_web/en/data_graphs/333.htm 2019.
[10] Nigeria | IMF available https://www.imf.org/~/media/Files/Publications/CR/2019/1NGAEA2019001.ashx 2019.

ports. We intend to triple revenue from the air and seaports within 2 years of gaining power. We will concession the management of our ports to private sector and concentrate on regulation through customs, immigration and the police.

Remove 5% tax on Online purchases/Interbank transfers to encourage Digital Economy

The 5% tax on online purchases/interbank transfers would be removed. This will encourage the drive towards a digital economy and ease of tax administration. More so, it is counter-productive to the CBN cashless policy. We must encourage the free flow of money digitally, encourage our fintech start-ups and not incentivize the use of physical cash, which have the tendency to increase the unbanked population and make efficient assessment more difficult.

Data. Data. Data.

To increase the tax base, we must create a comprehensive data base of our citizens to include existing tax payers and potential tax payers. We cannot adequately plan our revenue projections and adequately tax our informal sector without a sufficient amount of data. Our tax administration must be data driven. We must harness data from both the public and private sectors.

Cut Out Multiplicity of Taxes

Judicial authorities are in no short supply in describing the extent of taxing powers to be exercised by the federating units. However, more often than not, conflict situations always arise in determining who has powers to collect what tax; it is a common occurrence to find instances where the state government arrogates to itself the power to administer and collect taxes which are within the constitutional rights of the local governments.

In addition to that, we have instances of double taxation where the states re-administer taxes which have already been administered and collected by the Federal government. There is therefore a need to review and properly articulate the extent and nature of taxes to be collected by federating units within clearly and strictly defined boundaries under existing law.

A subsidiary legislation, a legal document or an outright legislative enactment that spells out these powers in full and clear details will deal with this matter efficiently and effectively. The decisions of our Courts have compounded this problem, alternately we would seek an advisory opinion from our courts to clarify their decisions on the categories of taxes collected by the various levels of Government.

Combat Tax Evasion

In combating tax evasion, we would prioritize non-custodial punishments to tax crimes and actively encourage plea bargain and out of court settlement, that is supervised by the judiciary rather than aggressively pursuing litigation to save cost in tax administration, because most tax dispute arise not from the unwillingness of tax payers to pay but also on the lack of a clear procedure for assessing and enforcement.

We would review our tax law to ensure that any tax offence must be stated with sufficient clarity and precision, and ensure the imposition of fines are not so onerous that can financially decapitate individuals and businesses especially because we are indirectly killing our revenue base.

We would also strengthen the investigative and enforcement powers of our economic and financial institutions to thoroughly perform their duties and break barriers that enable them have access to relevant data and intelligence. We would also retrain them to respect suspect's rights.

Subsidize Public Transport

A report by PwC[11] revealed that a total of N2.32 tn has been spent on subsidising the consumption of fuel and electricity within a period of 3-4 years. With N1.2 tn as petroleum subsidy over the past four years (2015-2018) and electricity subsidy payable by the federal government stood at N1.12tn. It was reportedly

[11] See PWC: Solving the Liquidity Crunch, available https://www.pwc.com/ng/en/assets/pdf/solving-liquidity-crunch-nigerian-power.pdf 2019.

N450bn ($US1.5bn) in 2020, and, N648billon ($1.8bn) spent in 2018.

We cannot justify spending less than N500bn on education and health in a year but over a trillion on fuel subsidy. Admittedly, most countries subsidize public transport to assist the poor and vulnerable. However, Nigeria's fuel subsidy regime favours the rich more than the poor. More so, it reduces the amount of funds available for critical sustainable developmental goals.

Nigeria cannot grow if fuel subsidy continues to crowd out other development spending. The removal will free up a lot more funds for developmental projects and enable the Government to strategically channel spending towards growth-enhancing investment in infrastructure, education, and healthcare, while cutting wasteful spending, such as inefficient energy subsidies.

At Youth Party, we believe that subsidy on fuel should be gradually removed within a space of 6 months to 1 year and subsidy on power should be removed immediately.

During the removal period, we would subsidize public transport to reduce the effect on low income earners and the vulnerable. This will be carried out by allowing public transporters to continue to buy fuel at subsidized rate either through a weekly voucher system or exemption from certain statutory fees with an agreement to maintain transport fare at the same rates. We will partner with the public transport interest groups like Nigerian Labour Congress (NLC) and National Union of Road Transport Workers (NURTW) to ensure that the removal of fuel subsidy does not affect the poor.

Shift to Compressed Natural Gas (CNG) from Petrol to Reduce Subsidy

Also, we will encourage the shift to compressed natural gas (CNG). CNG currently costs N100-110 per unit. This is below N145 a litre cost of subsidised petrol. Using CNG as an alternative fuel will assist in reducing pressure on subsidy paid out by FGN. It is also a cleaner and cheaper fuel. Some companies are already successfully using CNG to power their fleet. Specifically, we will do the following immediately upon election:

i. Enact legal framework that incentivises gas development
ii. Subsidize the conversion cost of the 10,000 petrol or diesel engines to CNG
iii. Facilitate the availability of CNG at filling stations.

Reduce Cost of Governance

A large percentage of our annual budget is directed towards recurrent expenditure, this is premised on the payment of salaries for a government that is unnecessarily large. More plainly, our government is expensive. Apart from the numerous salaries that need to be paid, there is also the issue of 'over bloated' salaries especially for our parliament which gulps N128 bn from our budget, enough to cover budget for capital expenditure in education - N48bn, health - N59bn and the whole budget for justice at N33b. It was also reported in 2019 that the National Assembly was to receive a welcome package of over N4.68bn.[12] Apart from the monthly salary, the real issue lies in the numerous allowances. For instance, the National Assembly spends over N8.64b on clothes, N2.650b on furniture, on car loans, senators receive over N867m and House of Representatives members N.8b in car loans.

The introduction of the new minimum wage, has the potential to raise the cost of governance. Even without its implementation, the Federal Government's personnel costs rose from N1.8tn in 2017 to N2.1 tn in 2018, Actual recurrent non-debt expenditure was N2.51tn in 2016; N2.76 tn in 2017; and N3.103tn in 2018. For the half year in 2019, it has reached N2.05tn, which is 21% more than the pro-rated value of recurrent non-debt expenditure in the 2019 budget.

Currently, it has been increased to N4.88tn in 2020. If we are serious about funding our priorities, we must reconsider the size and running cost of our government. A large percentage of our budget should be directed at funding capital projects and be injected into the real economy. To save more, spend strategically, and encourage more investment both locally and internationally.

[12] Guardian NG, Nigerians want court to stop N4.68b welcome pay for NASS available https://guardian.ng/news/nigerians-want-court-to-stop-n4-68b-welcome-pay-for-nass/ 2019.

We have Ministries, Departments and Agencies (MDAs) that do not work or have outlived their usefulness. In doing so, we recall that the Goodluck Jonathan administration set up the Presidential Committee on the Rationalisation and Restructuring of Federal Government Parastatals, Commissions and Agencies, led by Stephen Oronsaye. The final report proposed the reduction of the size of government particularly, MDAs to a practicable level and restructuring of the processes of its various organs for cost reduction and efficient service delivery. The final report recommended that 220 out the existing 541 government agencies be either merged or scrapped. Unfortunately, the report was never implemented.

The Youth Party will prioritize the implementation of the Oronsaye report and ensure compliance that suit the peculiarities of today's government structure. The money that will be saved from the scrapping and merging of the MDA's could rather be used to fund the real economy – fund human capital and provide seed funding for start-ups.

Our cost of governance must reflect our revenue realities. Our lawmakers are the second highest-paid in the world with each senator earning around US$520,000 (N187, 200, 000) per year in salaries and allowances. Among the top 20 countries, Nigeria is the only developing country on the list.

In doing this, we would heavily push for reduction in salaries and the undue luxurious allowances in our national assembly budget in a way that will be unattractive to rent-seekers.

Due to our revenue realities, we would dissolve our Bi-cameral parliamentary system and shift to a unicameral system, the relevance of the two legislative houses have not truly reflected original intent of its creation, this could save us over N50bn annually.

Also, one major excuse for the bloated salaries and allowances is the fact that, currently, our national legislators are prohibited from engaging in business save agriculture. This is unlike their counterparts in other developed climes. It should be noted that our National Assembly only sits for less than half a year. Thus, we would push for a part-time National Assembly and focus remuneration on just salaries and sitting allowance. With this in mind, our legislators can keep a day job but must disclose their business interest in a public register to prevent conflict of interests.

Reduce Discretionary Tax Incentives

Our numerous tax incentives have been counterproductive and is depriving us of crucial revenue for government. Billions of dollars in public revenue can be saved if the government stopped the granting of multiple harmful tax incentives especially to foreign investors. A report[13] revealed that Nigeria gave away an estimated $US3.3bn to Shell, Total and ENI through generous tax breaks over a seven-year period beyond the usual 5year tax break to the Nigeria Liquefied Natural Gas (NLNG) Company Limited. In essence, the Company did not pay any tax for the initial 12years period of business.[14] We cannot continually give out generous tax incentives when over N110 million people live in extreme poverty.

The multifarious ill harmonised tax incentives, and "triple tax breaks" creates a conundrum of uncertainty and amplifies leakages within our revenue system. We would as a matter of urgency eliminate and reduce tax incentives granted to corporations in Nigeria as this leads to increase in Government revenue generated through taxation. We would only give incentives on a streamlined basis with preference given to potential job creating corporations and agriculture.

Revenue Generation at the Subnational Level

Nearly 70 per cent of state revenue comes from the federal government, only a few state are economically viable and can generate enough revenue internally to take care of its basic needs or even pay public employees the new federal monthly minimum wage of N30,000. Subnational governments are not raising enough tax because most State Inland Revenue Authorities lack the administrative capacity to collect taxes within their jurisdiction and we need to build the capacity they lack. This has led to the numerous tax consultants collecting taxes.

[13] Action Aid: Leaking Revenue, available at https://www.actionaid.org.uk/sites/default/files/publications/leakingrevenue.pdf 2016.

[14] https://www.somo.nl/wp-content/uploads/2016/02/How-Shell-Total-and-Eni-benefit-from-tax-breaks-in-Nigerias-gas-industry.pdf

Most of our policies at the federal level would ultimately trickle down to the states and would eventually boast state revenue however, states too must generate enough to boast their internally generated revenue.

We will carry out the following

i. Build the capacity of tax administrators at the state level through training and retraining of tax personnel and employing information technology in tax administration.
ii. We would amend the legal arrangement to vest states power to explore mineral resources within their state where the federal government have failed to explore them.
iii. Ensure the passage of legislation and policies that reflect the principles of open government to build trust and increase voluntary tax compliance
iv. Ensure that 30% of Revenue generated from rural communities remain in those communities and are used for their benefit
v. Actively eliminate collection of taxes by consultants in return for a percentage of the tax but maintain them in their role as tax data collectors and tax planners

Conclusion

Our Revenue Plan will increase Federal Government revenue by at least $US 30bn within 3 years through the following means:

1. 100% rise in corporate tax receipts due to planned reduction in consolidated rate from 34.5% to 22.5% particularly expansion of the base of registered corporate tax payers from 6% to 14%, within 2 years;
2. Increased crude oil production from 1.9mbd to 3mbd within 2 years due to new investments for production due to attractive, competitive and clear fiscal regim;
3. $US16bn from the sale of 20% of FGN's 49% equity in NLNG;
4. $US3.5bn from the sale of 25% of FGN's equity in NPDC;
5. The $US19.5bn will be ring fenced and dedicated to capital projects to rescue our broken critical public infrastructure and services through the Nigeria Sovereign Wealth Fund in the following manner:
   i. Recruit, re-train and re-tool the Nigerian Police with at least $US 3bn;
   ii. Build high speed rail lines connecting the 6 geo-political zones with $US 9bn;
   iii. Recruit, retrain and re-tool basic education Sector to the tune of $US 5bn
   iv. Revamp our public health sector with $US 2.5bn;
6. $US1bn annual dividend from efficient private sector management of NPDC;
7. Savings of $US1bn per year from change in universal fuel subsidy to targeted public transport subsidy; and,
8. The reduction in size of our government would save us over N100bn annually.