



**Tax Alert**

## Nigeria's 2021 Appropriation Act

His Excellency, the President of the Federal Republic of Nigeria, Muhammadu Buhari, on 31 December 2020, signed the 2021 Appropriation Bill (‘the Budget’) into law following its passage by the National Assembly.

### INTRODUCTION

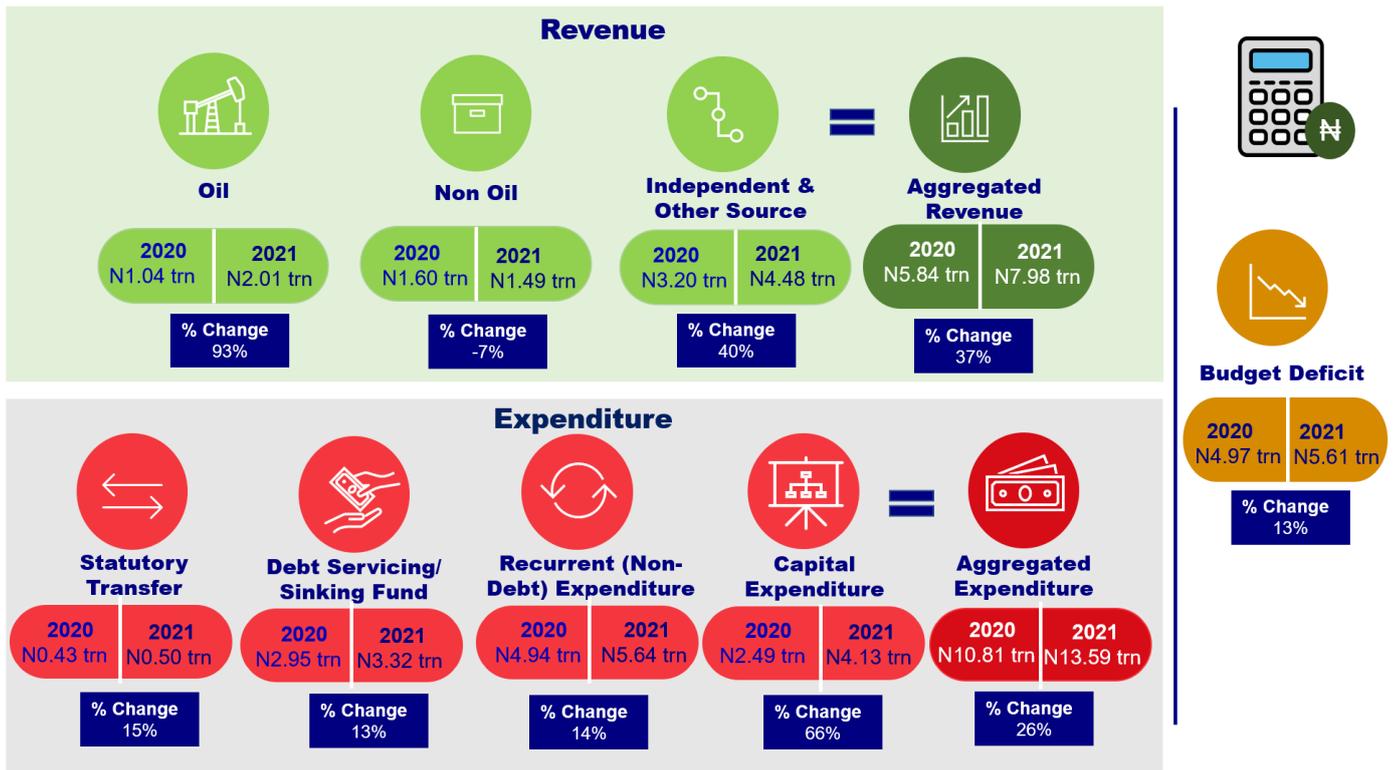
The Budget, themed “Budget of Economic Recovery and Resilience”, was prepared amidst the global Covid-19 pandemic and decline in the price of crude oil.

A review of the signed budget showed key changes were made by the National Assembly to the earlier proposed budget. These changes include an increase in aggregate revenue from NGN7.89 trillion to NGN7.99 trillion and a rise in planned expenditure previously at NGN13.08 trillion to NGN13.59 trillion, respectively.

These changes resulted in an increase in fiscal deficit of NGN405 billion, which changed from NGN5.196 trillion in the earlier proposed budget to NGN5.60 trillion in the signed budget.



## Highlights of the 2021 Appropriation Act Against 2020 Figures



### Key Observations

We have highlighted other key observations in the 2021 Appropriation Act (“the Act”) below:

- ❖ Daily crude oil production for 2021 is projected at 1.86 million barrels with an estimated variance of about 60 thousand per day. This includes condensates of about 300 to 400 thousand barrels per day;
- ❖ In addition, the Act envisages a crude oil price benchmarked at US\$40/barrel and an average exchange rate of NGN379/US\$1 for year 2021;
- ❖ Furthermore, the Act projects an aggregate expenditure of NGN13.59 trillion for the year 2021. This represents a 26% increase over year 2020 figures of NGN10.81 trillion;
- ❖ Similarly, the aggregate revenue for the year 2021 is estimated to be at NGN7.98 trillion, a 37% growth over previous year’s

figures of NGN5.84 trillion;

- ❖ The budget deficit is expected to rise by about 13% from N4.97 trillion in year 2020 to NGN5.61 trillion in year 2021;
- ❖ To finance the budget deficit, the government plans to access foreign and domestic loans, utilise proceeds from privatization, leverage private/public partnerships, amongst other efforts;
- ❖ Also, of concern is the debt service expenditure which is expected to grow by 13% from NGN 2.95 trillion to NGN3.32 trillion in year 2021. The projected debt servicing expenditure roughly equals the estimated combined revenue from Oil and Non-Oil sources for 2021;
- ❖ Recurrent expenditure is projected at NGN5.64 trillion in year 2021 as against NGN4.94 trillion for year 2020; and
- ❖ Overall, the Gross Domestic Product (GDP) for year 2021 is estimated to grow by about 3.0% and inflation rate is projected at 11.95%.

## Key Budget Drivers

### ❖ The Finance Acts 2019 and 2020

We are of the view that the Finance Acts 2019 and 2020 will be essential to achieving the government's fiscal objective of increasing its tax revenue in year 2021; following its renewed focus on transaction taxes, such as stamp duties and the increase in Value Added tax (VAT) rate from 5% to 7.5%.

### ❖ Crude Oil Price

Another factor that will determine the success of the 2021 budget will be the price of crude oil. As Nigeria remains largely an oil dependent country, the price of crude oil will be a sound indicator of government's prospect of attaining projected foreign exchange revenue.

### ❖ The Covid-19 Pandemic

The second wave of the Covid-19 pandemic has raised fears over renewed social restrictions and lockdown. This poses serious risk to the likelihood of sustained economic activities that may inhibit government's drive towards achieving its set budget goals.

### ❖ Rising Debt Servicing Expenditure

Also, the rise of the nation's debt servicing expenditure amidst a growing budget deficit remains a huge source of concern. The government is implored to adopt policies that promote fiscal responsibility to stem the worrisome tide.

## Conclusion

Given the above budget constraints, it is more likely that there will be an increased pressure on Government agencies to intensify their revenue

collection drive. Hence, Tax Payers need to pay closer attention to compliance, especially in the light of more frequent changes in the tax legislations. Also, companies need to re-evaluate tax assumptions in their economic projections, including the sustainability of any previous tax planning advice in case of a legal challenge.

We therefore, advise that companies review their businesses to ensure full compliance with all the extant tax laws and regulatory guidelines that may affect their operations, while exploring defensible tax planning opportunities available within the ambit of the law. Ascension Consulting Services will be willing to offer our professional assistance in this regard.

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