

What's your 2020 Tax Strategy?



TAX ALERT

It is no news that the Federal Government's version of the finance Act has now become law following an assent from the President of the Federal Republic of Nigeria. This is expected to be effective from 1 February 2020 in accordance with the Finance Minister's pronouncement.

The new changes are projected to have either positive or negative impacts on businesses and individuals, depending on the kind of enterprises as well as the sectors they operate in.

The Finance Act aims to, amongst others:

- ❖ Increase incentives to Micro, Small and Medium Enterprises (MSMEs);
- ❖ Introduce targeted anti-avoidance measures for Multinational Enterprises;
- ❖ Reduce incentives to Oil and Gas sector;
- ❖ Remove redundant provisions in the tax laws;
- ❖ Amend some regressive provisions in the tax laws- for instance commencement rules and dividend tax; and
- ❖ Most importantly, raise more tax revenue for the Government.

Businesses that will be negatively impacted by the changes have expressed their concerns that their shareholders value may be further eroded by the introduction of increased tax burden, in addition to the existing multiple taxes and levies.

More often than not, most businesses react by exploring counter-measures that may ensure they do not fully absorb any significant additional tax burden. These measures may include, for instance, passing the additional tax costs to their customers, leading to higher prices for goods and services. Where this is not possible or desirable, internal costs adjustments are considered leading, for instance to reduced wages or incentives, cap on outsourcing costs and so on. These will eventually mean that a major part of the tax burden will be borne by the private household. However,

they are short-term measures that may directly or indirectly lead to long-term negative outcomes for the business.

The proactive measure that we recommend is legitimate tax planning in compliance with tax morality. This is a strategic way for businesses to respond to the changes in tax legislations by reviewing their corporate, business and financing structures, for the purposes of exploring potential tax planning ideas, permissible within the new extant tax laws. According to Richard Carlson:

“Many people believe that where taxes are concerned, they are victims, held hostage by an inevitable process that allows them no input, no control. This passive approach becomes something of a self-fulfilling prophecy; where people believe that they lack control, they seldom try to assert control.”

These tax planning measures can be adopted to neutralize the adverse impact of the changes in the tax laws; take maximum advantage of tax benefits; and minimize, as far as possible, tax liability without breaching the tax laws. The objective is to secure shareholders' value and ensure a sustainable business; as opposed to a passive approach to a company's tax affairs which may inadvertently erode these values.

Hence, your tax strategy for the new year should involve a holistic and diagnostic review of the Company's Corporate and Business structure, Contracting terms, Financing options, Acquisition & Disposal strategies, Group arrangements, Invoicing & Payment structure, Documentation strategy, Accounting disclosures, amongst others.

We advise businesses to contact our proven Tax planning and Strategy Team to discuss their specific challenges.

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