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Analysing FGN's Budgetary Stream and Connectors to Taxation

A Paper by

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SPP 4 CAPACITY BUILDING OF CSOS ON TAXATION @ Lagos 8th & 9th May, 2019

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Outline

- **Introduction -FGN's Revenue Stream**
- MTEF Projections**
- Complications on Oil Revenues Tracking and Fiduciary Matters**
- National and Sub-national Taxation Clusters**
- Offshore Outflows and Connectors to National Infrastructural Projects Through PPPs**
- **Taxation and Fiscal Justice**
- **Way Forward for Nigeria's Tax Justice and Platform**
- **Recommendations**

Introduction-FGN's Revenue Stream

-What are the Revenue Sources of the FG?

-Gross Oil Revenue

❖ NNPC JV Crude Oil & Gas (Profit Oil)

❖ MCA Crude Oil & Gas (Profit Oil)

❖ EF Crude Oil & Gas (Profit Oil)

❖ PSC Crude Oil & Gas (Profit Oil)

❖ PSC Crude Oil & Gas (New Terms)

❖ SC Crude Oil & Gas (Profit Oil)

❖ Forward Sale

❖ Signature Bonus

-Dividend Payment (NLNG)

-Solid Minerals

Benchmark and the Fiscal Strategy Paper

• Collective Pool (3 tiers)

Introduction...Cont'd

- NNPC JV Royalty
- JV Partner Royalty
- PSC Royalty
- SC Royalty
- Independent Producers' Royalty
- Marginal Fields Royalty
- MCA Royalty
- EF Royalty
- Repayment Arrears (Royalties) – NNPC
- Repayment Arrears (Royalties) - JV Partner
- Gas Royalties (Net of Cost Recovery)
- Concessional Rentals
- Gas Flared Penalty
- Miscellaneous (Pipeline Fees etc)
- Exchange Gain
- Incidental Oil Revenue (Royalty Recovery, Marginal Field Licences & Early Licence Renewal)
- Royalties Recovery and Renewal of Licences/Marginal Fields
- Good and Valuable Consideration of Divested Assets

Intro...Cont'd-Other Federally Funded Upstream Projects

- National Domestic Gas Development
- Gas Infrastructure Development
- Brass LNG Gas Supply Projects
- Crude Oil Pre-Export Inspection Agency Expenses (NESS)
- Frontier Exploration Services (NFES)
- EGTL Funding
- Renewable Energy Development (RED)
- Pipeline Security & Maintenance Cost
- Nigerian Crude Oil Finger Printing
- Pre-Export Financing
- PMS Under-Recovery

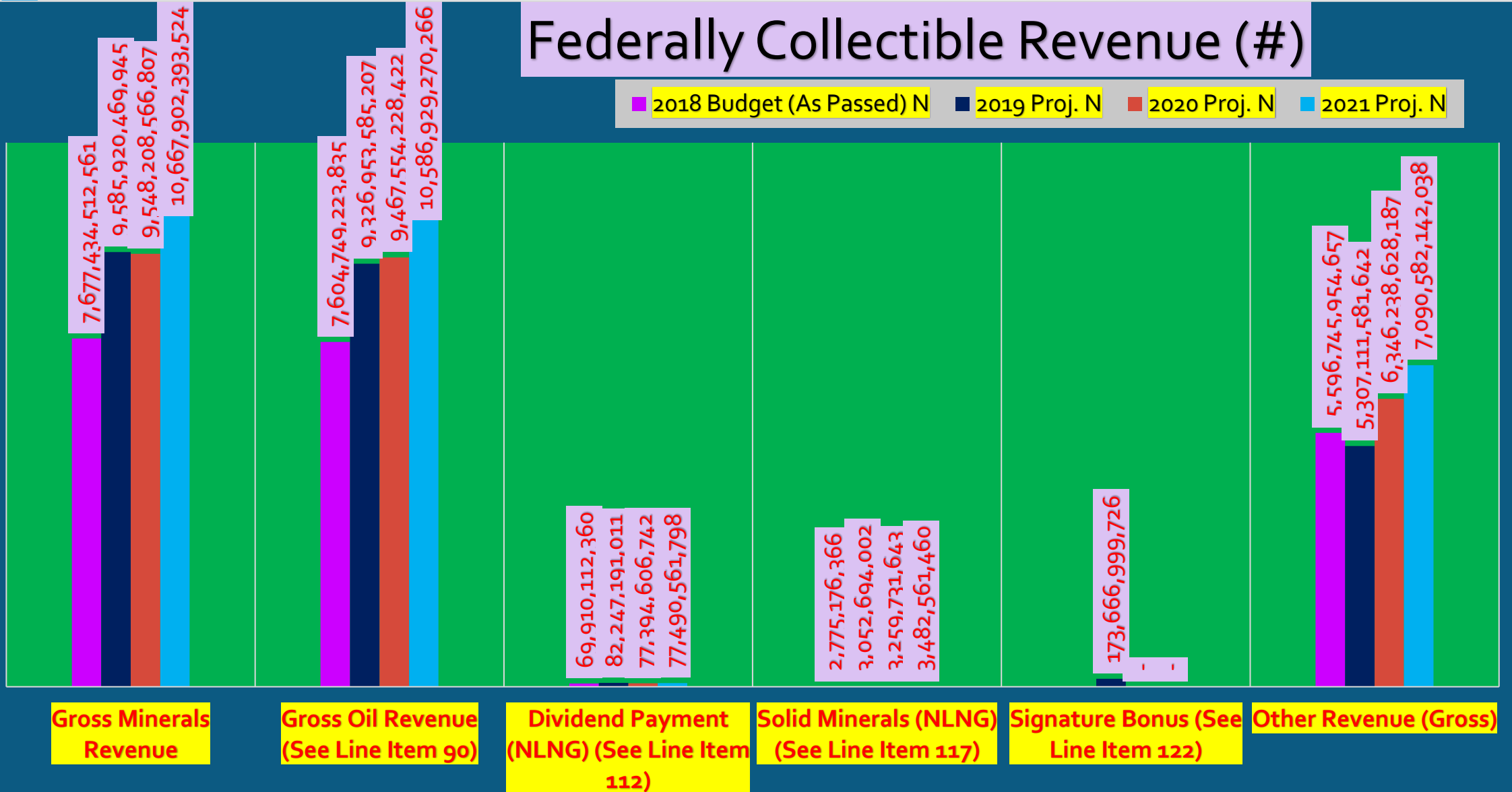
INTRO...CONT'D-DIVIDEND BY COMPANIES/INVESTMENTS FUNDED BY FAAC

- Nigeria LNG Limited
- Power Generating Companies (GENCOS)
- Transmission Companies
- Distribution Companies (DISCOS)
- ❖ NON-OIL REVENUE-Corporate Tax
 - Companies Income Tax
 - NLNG Tax
 - Stamp Duties
 - Capital Gains Tax
 - Value-Added Tax
 - Surcharge on Luxury Items
 - Customs
- ❖ Main Federation Account
 - Import-Excise-Fees
- ❖ Special levies (Federation Account)
 - Tax Amnesty - VAIDS

MTEF Projections (2018 Budget as Passed)-2019 to 2021

Federally Collectible Revenue (#)

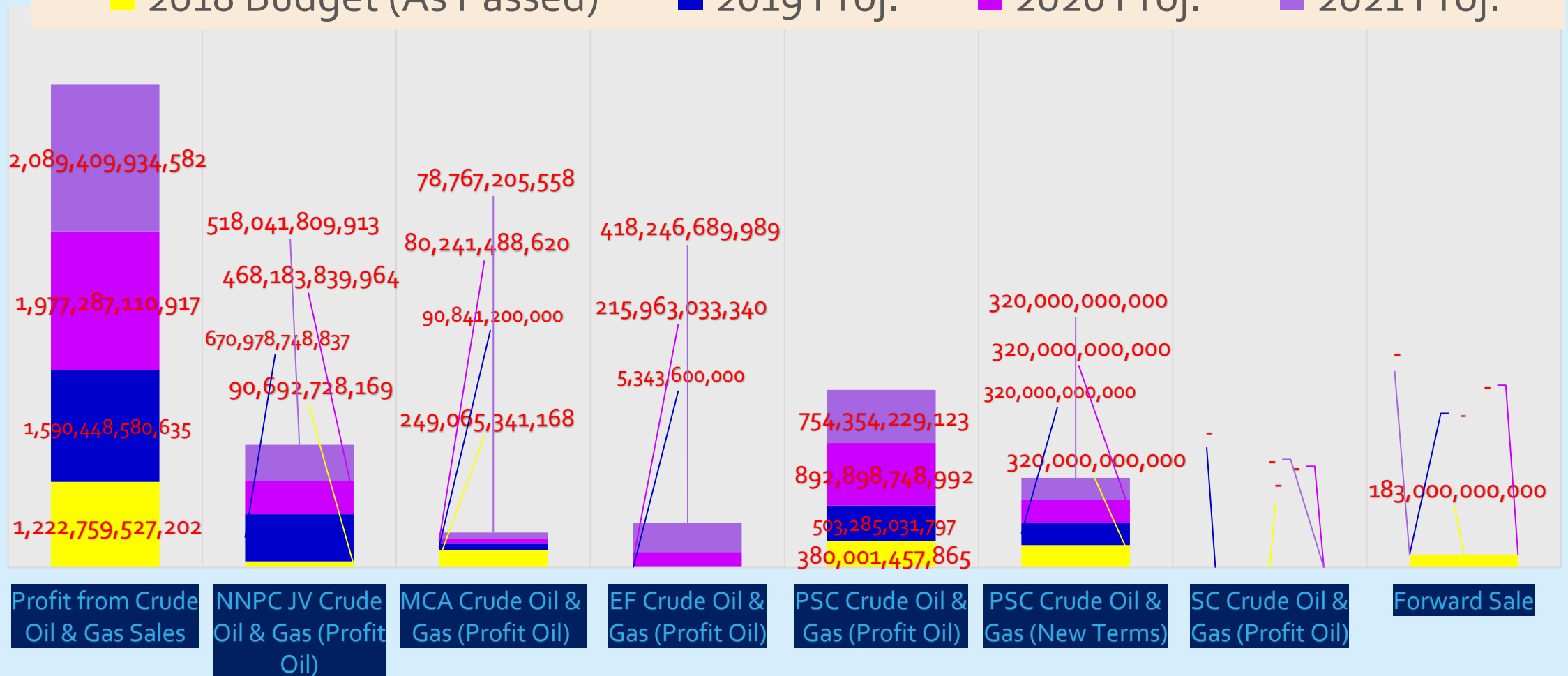
■ 2018 Budget (As Passed) N
 ■ 2019 Proj. N
 ■ 2020 Proj. N
 ■ 2021 Proj. N



MTEF Projections (2018 Budget as Passed)-2019 to 2021

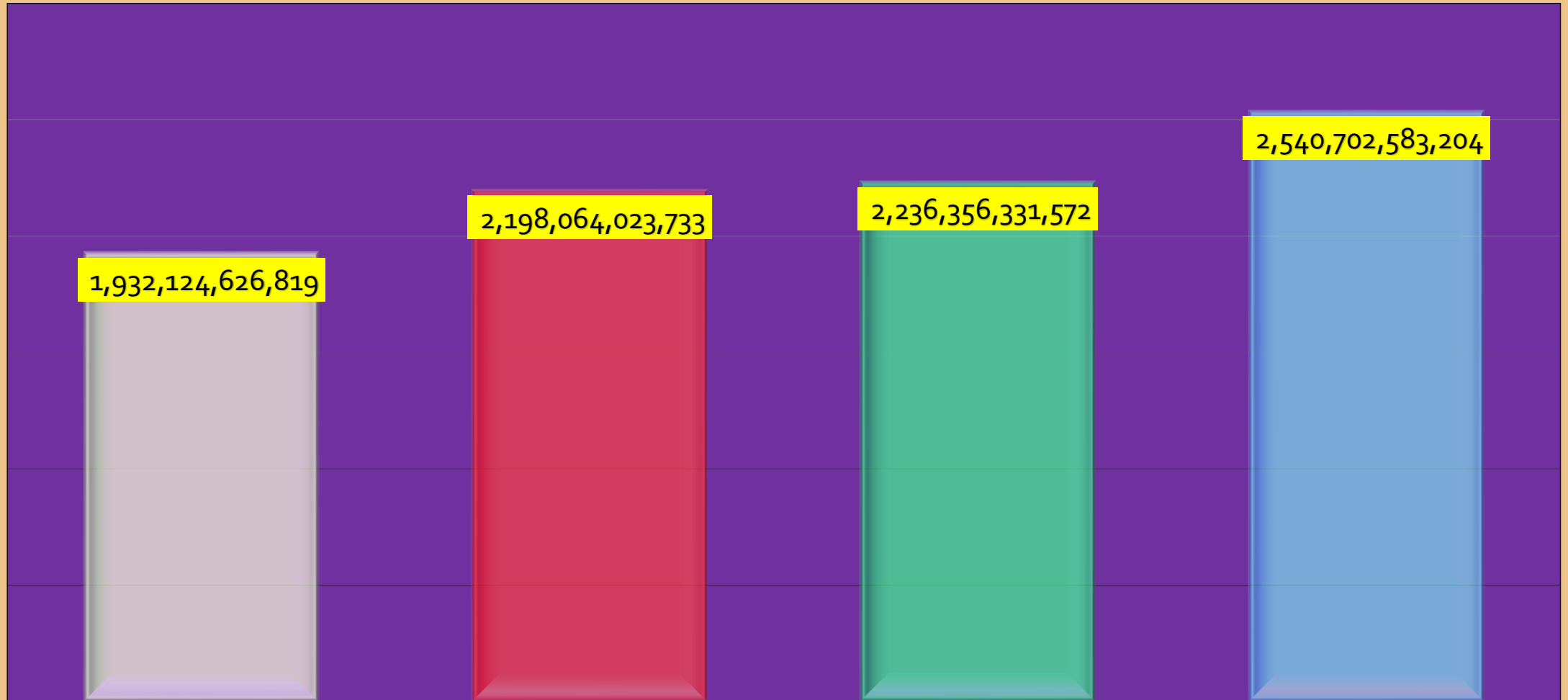
OIL REVENUE (MTEF) PROJECTION

■ 2018 Budget (As Passed)
 ■ 2019 Proj.
 ■ 2020 Proj.
 ■ 2021 Proj.



MTEF PROJECTION-CONT'D

Oil & Gas Royalties 2018 (MTEF 2019-2021)



2018 BUDGET (AS PASSED)

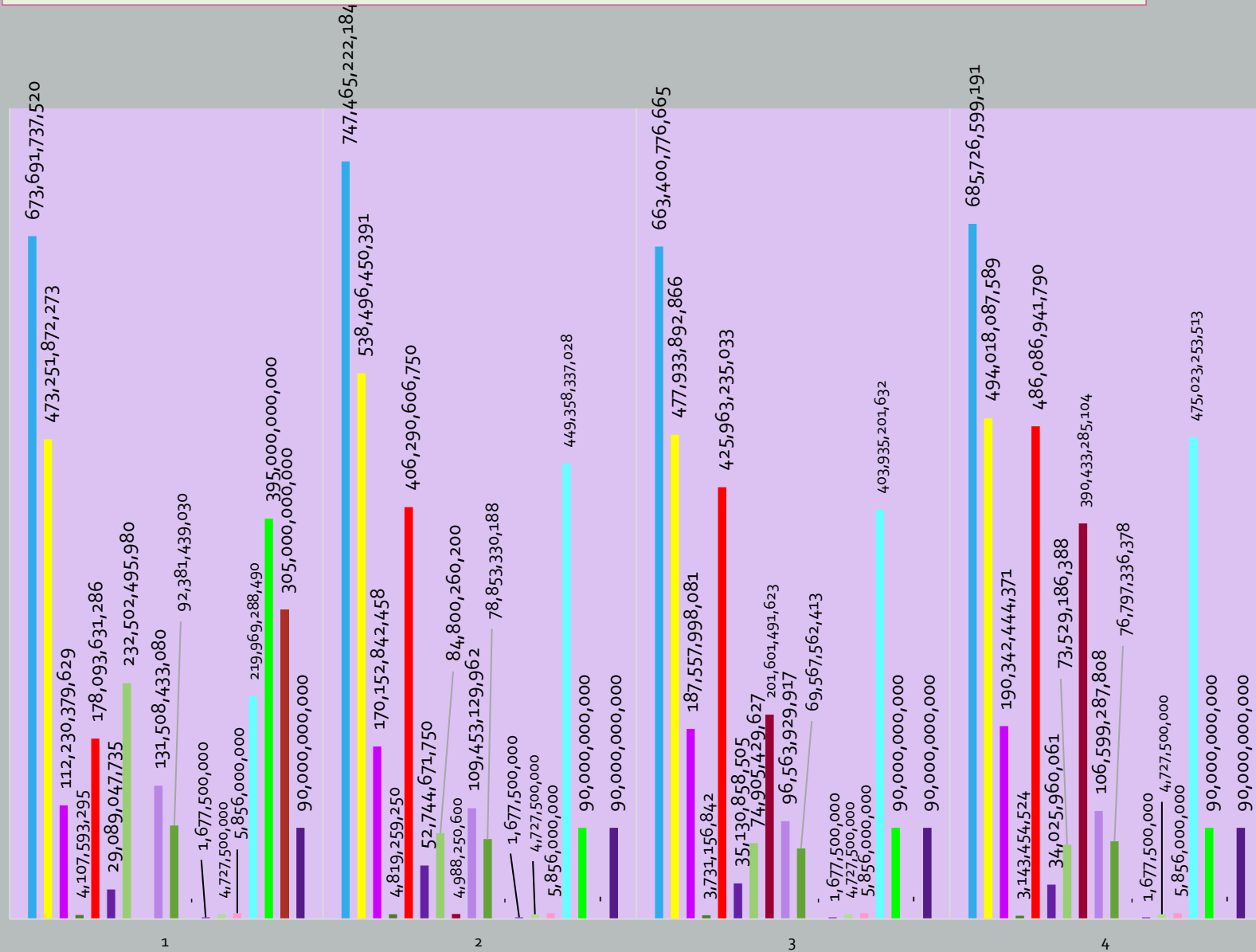
2019 PROJ.

2020 PROJ.

2021 PROJ.

MTEF Projections (2018 Budget as Passed)-2019 to 2021

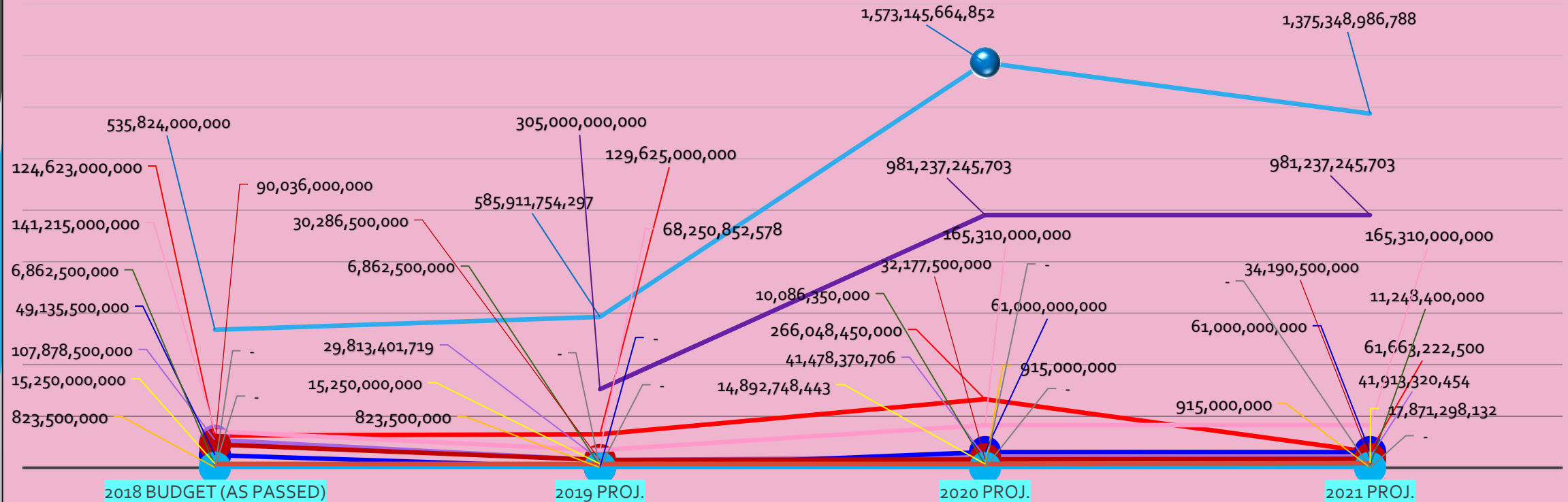
OIL & GAS ROYALTIES BREAKDOWN 2018 (MTEF 2019-2021)



- NNPC JV Royalty
- JV Partner Royalty
- PSC Royalty
- SC Royalty
- Independent Producers' Royalty
- Marginal Fields Royalty
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- EF Royalty
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- Royalties Recovery and Renewal of Licences/Royalties Recovery and Renewal of Licenses
- Good and Valuable Consideration of Diverssted Assets

MTEF Projections (2018 Budget as Passed)-2019 to 2021

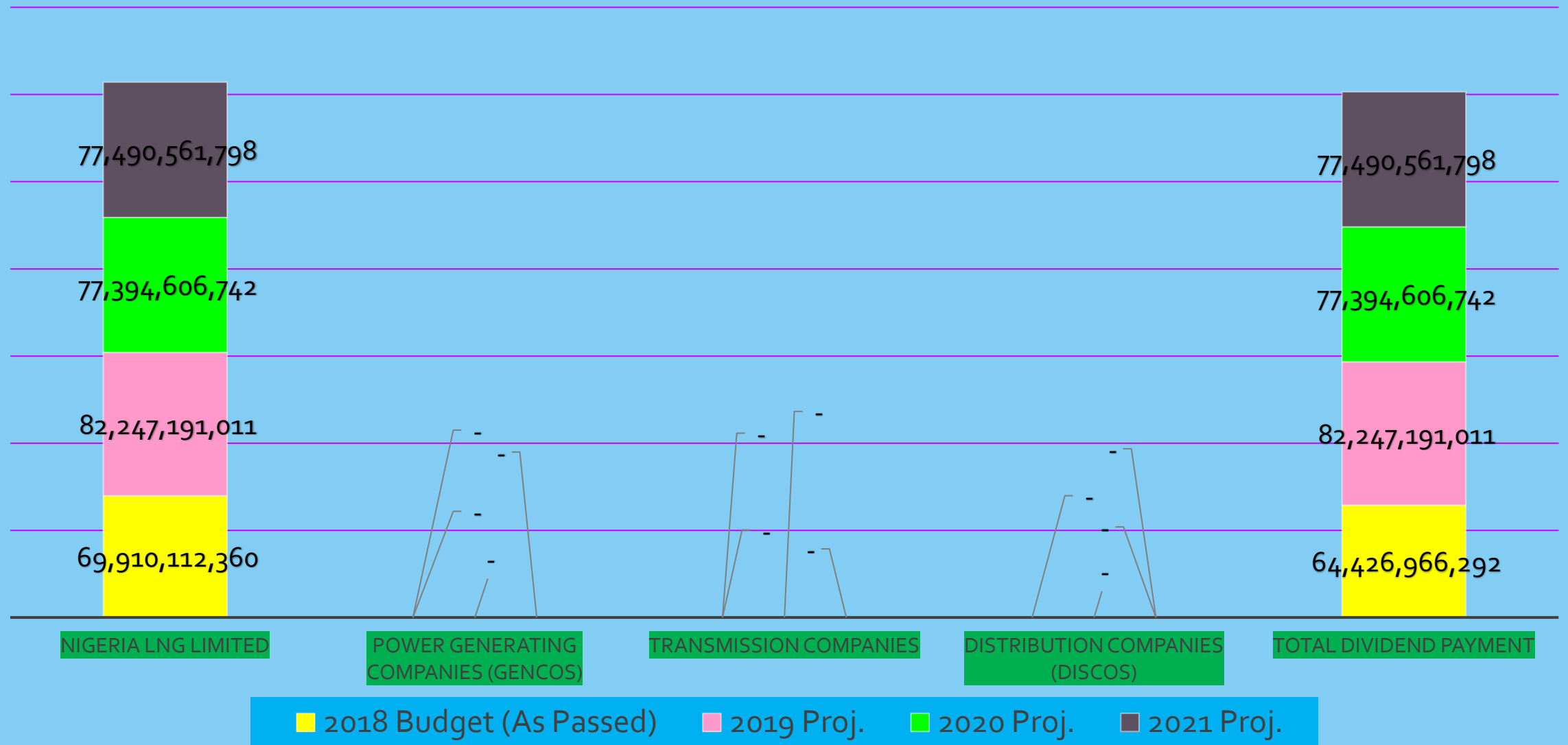
Other Federally Funded Upstream Projects



- Other Federally Funded Upstream Projects
- National Domestic Gas Development
- Gas Infrastructure Development
- Brass LNG Gas Supply Projects
- Frontier Exploration Services (NFES)
- EGTL Funding
- Renewable Energy Development (RED)
- Pipeline Security & Maintenance Cost
- Nigerian Crude Oil Finger Printing
- Pre-Export Financing
- PMS Under-Recovery
- Crude Oil Pre-Export Inspection Agency Expenses (NESS)

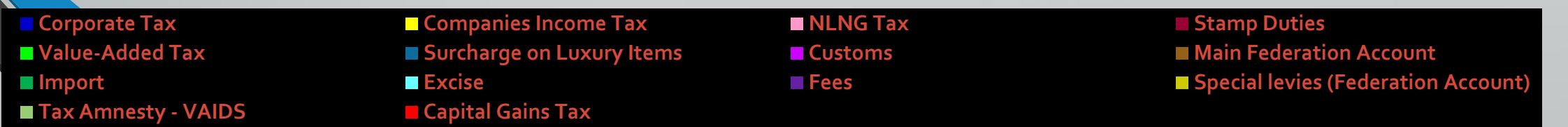
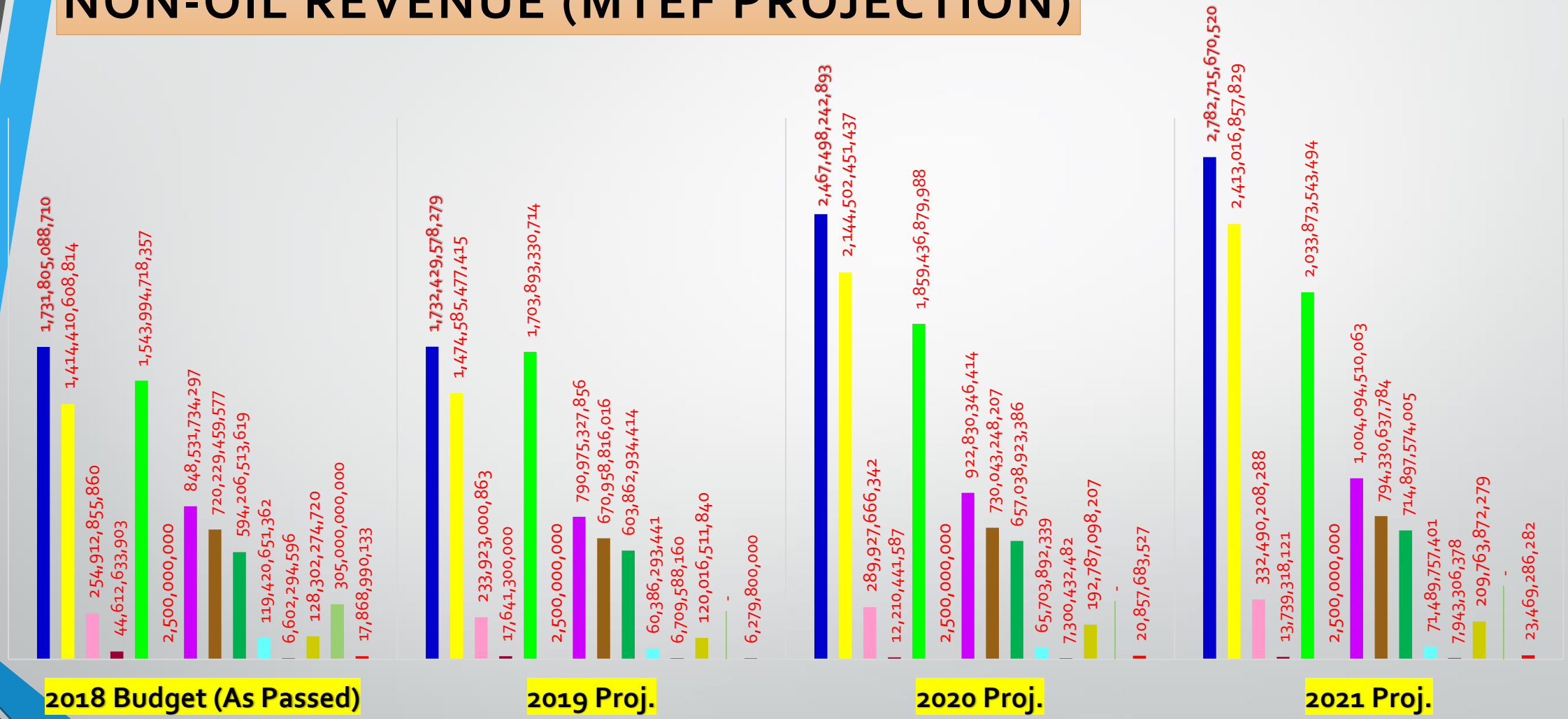
MTEF Projections (2018 Budget as Passed)-2019 to 2021

DIVIDEND BY COMPANIES/INVESTMENTS FUNDED BY FAAC



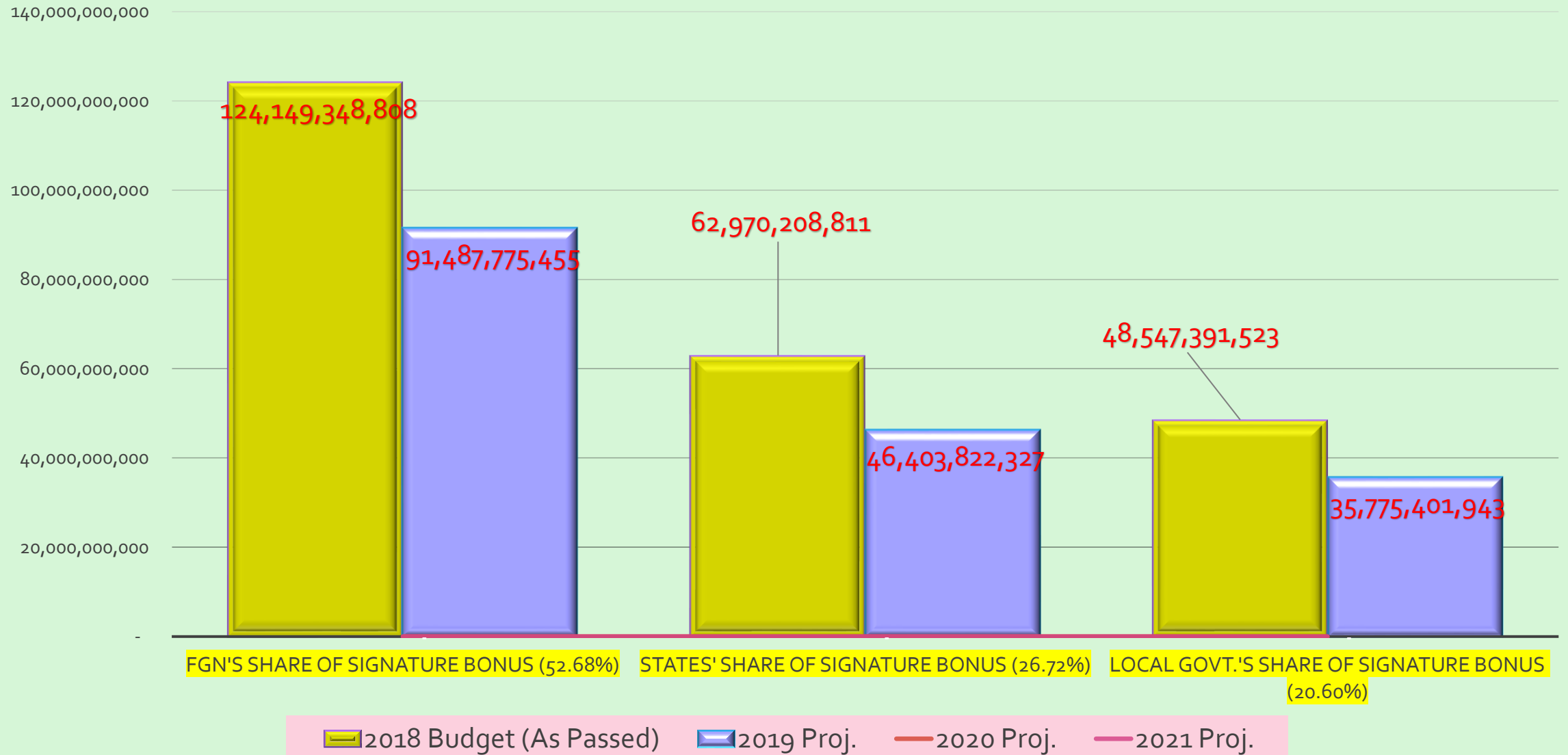
MTEF Projections (2018 Budget as Passed)-2019 to 2021

NON-OIL REVENUE (MTEF PROJECTION)



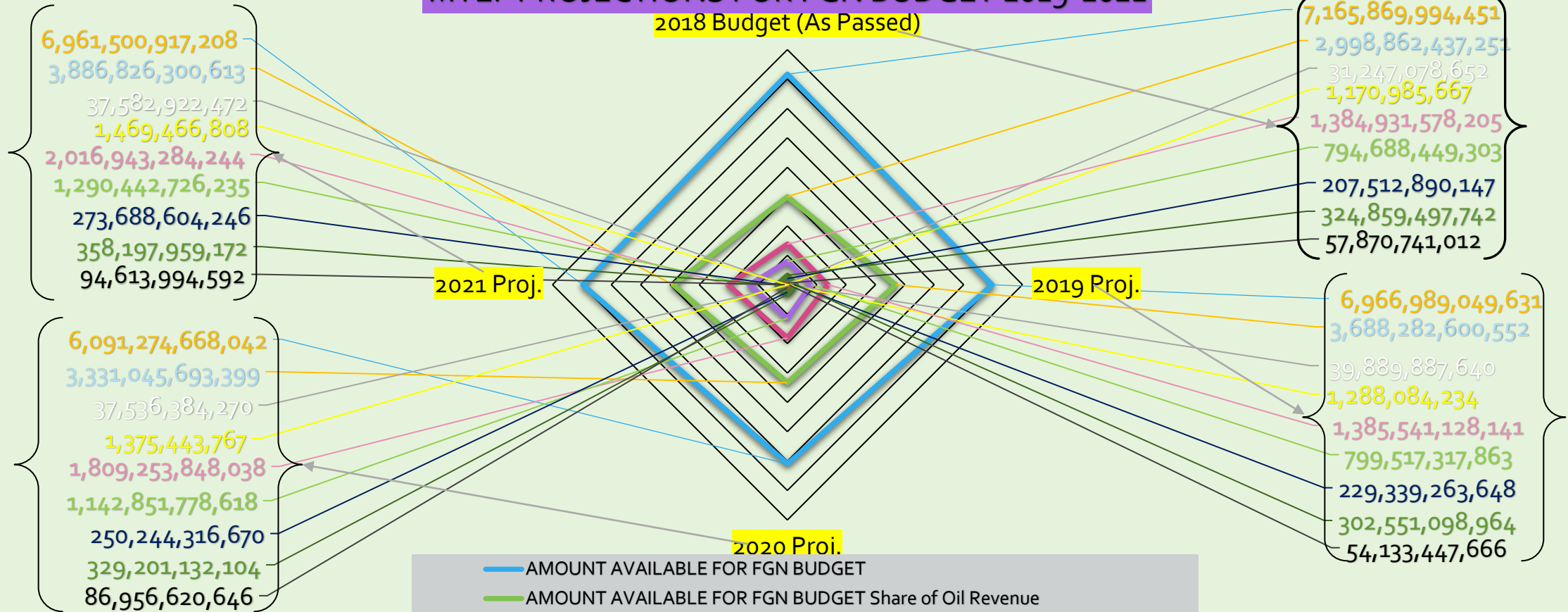
MTEF Projections (2018 Budget as Passed)-2019 to 2021

SPECIAL DISTRIBUTION (SIGNATURE BONUS MTEF PROJECTION)



MTEF Projections (2018 Budget as Passed)-2019 to 2021

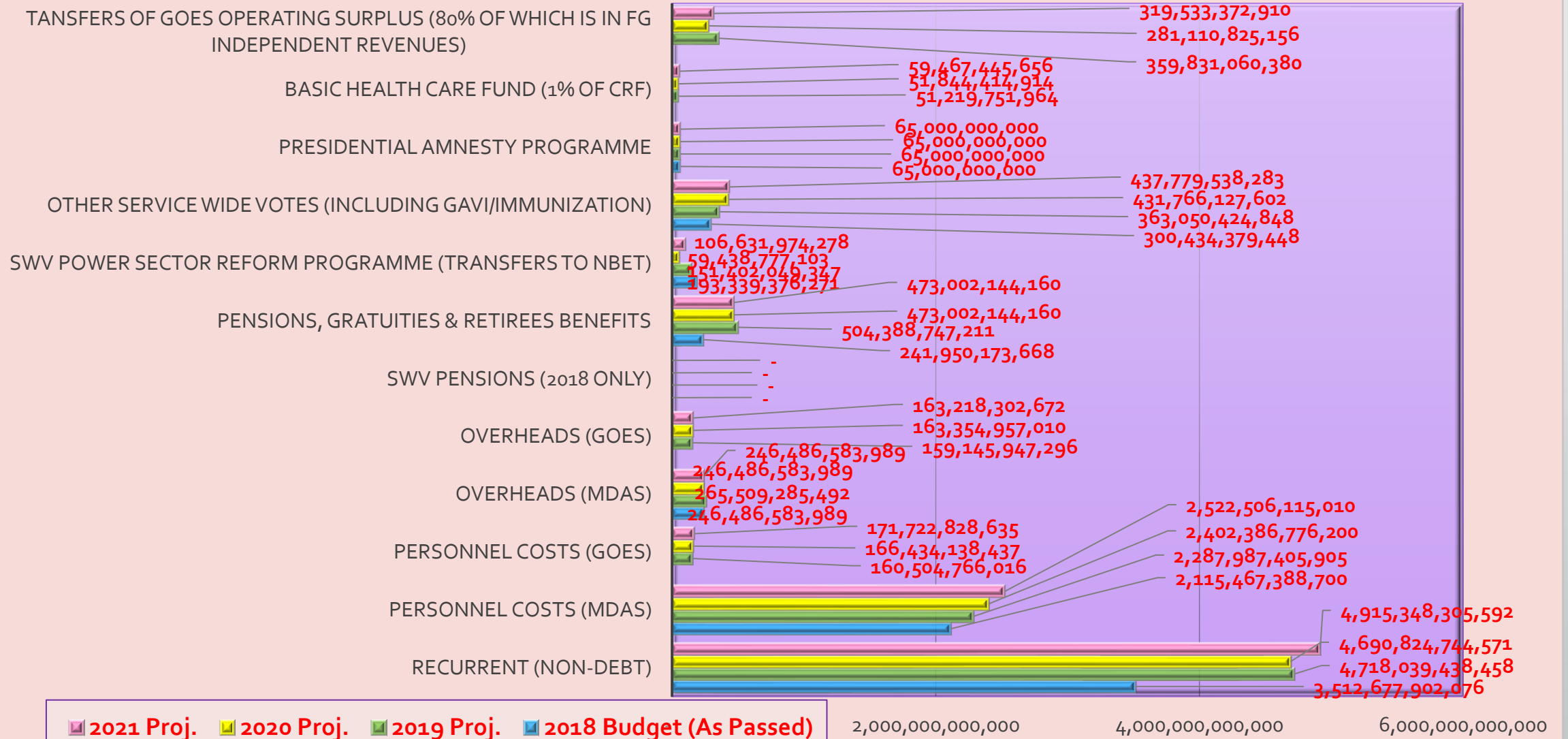
MTEF PROJECTIONS FOR FGN BUDGET 2019-2021



- AMOUNT AVAILABLE FOR FGN BUDGET
- AMOUNT AVAILABLE FOR FGN BUDGET Share of Oil Revenue
- AMOUNT AVAILABLE FOR FGN BUDGET Share of Dividend (NLNG)
- AMOUNT AVAILABLE FOR FGN BUDGET Share of Minerals & Mining
- AMOUNT AVAILABLE FOR FGN BUDGET Share of Non-Oil
- AMOUNT AVAILABLE FOR FGN BUDGET Share of CIT
- AMOUNT AVAILABLE FOR FGN BUDGET Share of VAT
- AMOUNT AVAILABLE FOR FGN BUDGET Share of Customs
- AMOUNT AVAILABLE FOR FGN BUDGET Share of Federation Acct. Levies

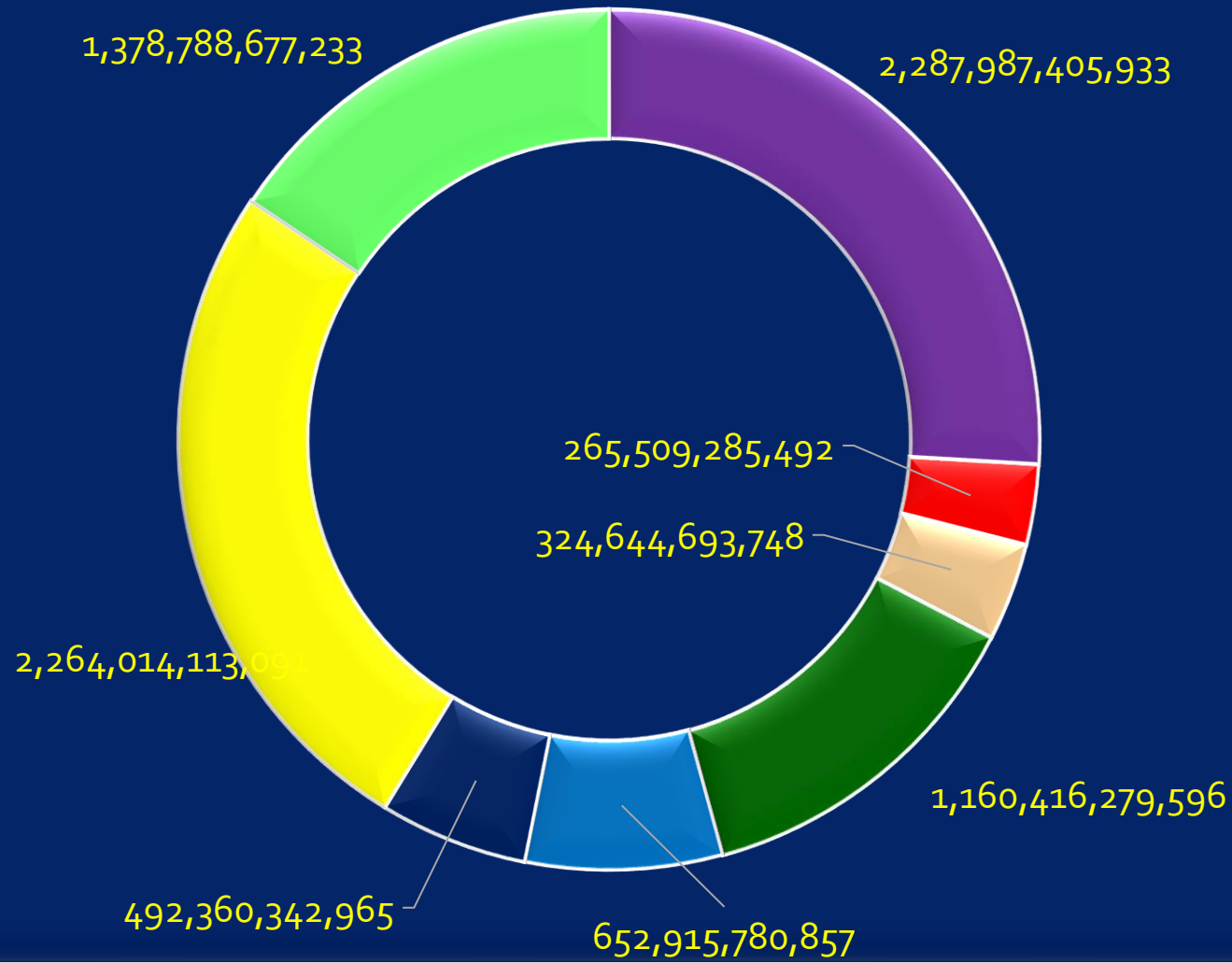
MTEF Projections (2018 Budget as Passed)-2019 to 2021

MTEF Recurrent Projection



MTEF...Cont'd-Summary of FGN's 2019 Budget

Summary of FGN's 2019 Budget Proposal



- 021 MAIN ENVELOP - PERSONNEL
- 022 MAIN ENVELOP - OVERHEAD
- 023 CRF CHARGES - PENSIONS AND GRATITUTIES
- 024 CRF CHARGES - SERVICE WIDE VOTES
- 025 CRF CHARGES - CAPITAL SUPPLEMENTATION
- 026 STATUTORY TRANSFERS
- 027 DEBT SERVICES
- 031 CAPITAL DEVELOPMENT FUND MAIN

Complications on Oil Revenues Tracking and Fiduciary Matters

- Nigeria SC, particularly, BL among the most sought after globally.
- Tracking, records and accountability around Nigeria's extractive industry is a nightmare.
- CSOs are not also doing the needful to break the cursory petroleum industry's accountability conundrum.
- Tracking petroleum lifting terms, fiduciary (ORAs) inflows/outflows are journeys the NSAs haven't started...The terms are interesting:
 - ✓ TTO, TTA, ATC , ASTMD, KTT, Q&Q, POD, et al.

Complications on Oil Revenues Tracking...Cont'd

- In its latest publication titled, "1993 PSCs: The Steep Cost of Inaction", NEITI called for an urgent review of the PSCs to stem the huge revenue losses to the Federation. Such a review, it said, is particularly important for the federation because oil production from PSCs has surpassed production from JVs. Thus, productions from PSCs now contributes the largest share to federation revenue.
- As noted in the brief: "Between 1998 and 2005, total production by PSC companies was below 100,000,000 barrels per year while JV companies produced over 650,000,000 barrels per year". By 2017, total production by PSC companies was 305,800,000 barrels, which was 44.32% of total production. Total production by JV companies was 212,850,000 barrels, representing 30.84% of total production."
- NEITI explained that the analysis was conducted for the seven producing fields of the 1993 PSCs. These are:
 - Abo (OML 125): operated by Eni;
 - Agbami-Ekoli (OML 127 & OML 128): operated by Chevron;
 - Akpo & Egina (OML 130): operated by Total and South Atlantic Petroleum;
 - Bonga (OML 118): operated by Shell;
 - Erha (OML 133): operated by ExxonMobil;
 - Okwori & Nda (OML 126): operated by Addax;
 - Usan (OML 133): operated by ExxonMobil.
- After compiling data from the seven offshore fields on oil production, oil prices, cost of development, operating costs, decommissioning costs, and the applicable fiscal regimes, NEITI explained that financial modeling, the standard methodology in the industry, was adopted to estimate revenue in the study.
- The analysis was conducted by changing the fiscal regime of the 1993 PSCs (subsisting regime) to the fiscal regime of the 2005 PSCs. Three estimates were obtained relating to revenues for the 1993 fiscal regime, and two estimates relating to revenues for the 2005 fiscal regime. Two scenarios were considered for the 2005 fiscal regime:

Complications on Oil Revenues Tracking...Cont'd

- NEITI said “the 2005 PSCs, were preferred for two reasons, the first, being the terms have better implication for government, as it disallows cost consolidation, pegs cost recovery and mandates payment of royalties on all production irrespective of water depth. This is a departure from the 1993 PSCs that provides for zero royalties at water depths from 1000 meters and above. The Second reason is that, the 2008 review, would have come three years, after the 2005 PSCs. It is, therefore, conceivable that the terms, would have been, at least, at the level of the most current PSCs at that time”.
- Though there was a 16 July 2007 letter by DPR to the companies that the govt intended to review the 1993 PSCs, the review was not carried out.
- Thus, as shown in Table 1, three revenue figures were obtained as follows:
- Total revenues using 1993 fiscal regime = \$73.78 billion;
- Total revenues using 2005 fiscal regime (scenario 1) = \$89.81 billion;
- Total revenues using 2005 fiscal regime (scenario 2) = \$102.39 billion.
- The implication is that revenue would have increased from \$73.78 billion to \$89.81 billion, if the review had simply been done using the 2005 fiscal regime. This implies a difference in revenue of \$16.03 billion. Also, revenue would have increased from \$73.78 billion to \$102.39 billion if the review had been done using the 2005 fiscal regime and government shared in profit oil in OML 127 and OML 130 (PSA). This implies a difference of \$28.61 billion.
- In summary, the results showed that between 2008 and 2017, lost revenue to the Federation owing to failure to review the PSC terms was between \$16.03 billion and \$28.61 billion depending on which scenario one adopts.
- **Source: NEITI, Presidency, State House, Abuja**

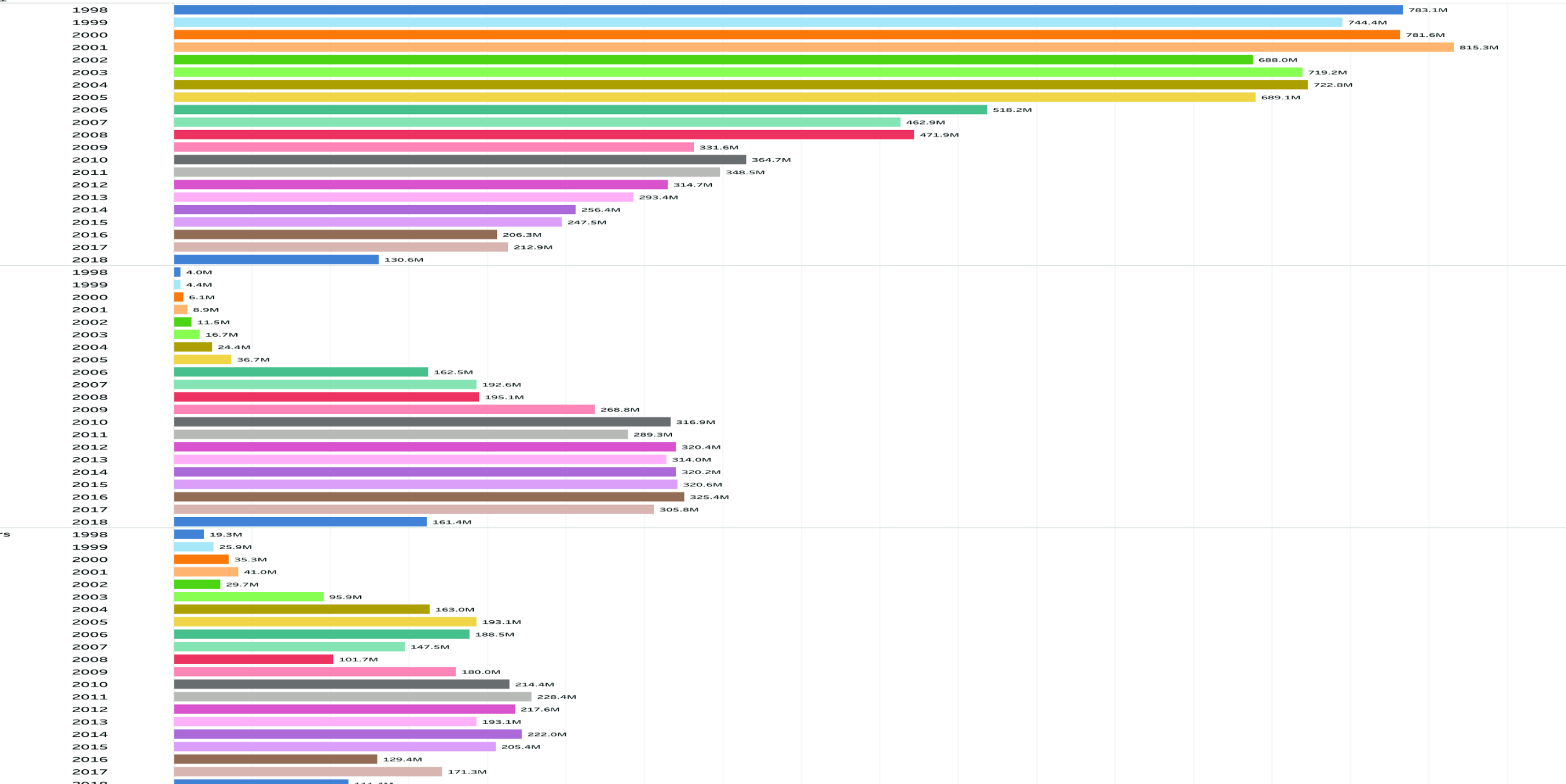
Complications on Oil Revenues Tracking...Cont'd

Table 1: Description of Fields and Estimated Revenue (2008 – 2017)-Source: NEITI

Name	OML	Operator	Participants	1993 PSC Fiscal Terms	2005 PSC Fiscal Terms SC ₁	2005 PSC Fiscal Terms SC ₂
Abo	125	Eni	Eni (100%)	2.88	4.01	4.01
Agbami-Ekoli	127	Chevron	Famfa Oil (60%), Chevron (32%), Petrobras Oil & Gas (8%)	17.72	22.15	31.51
Akpo & Egina	130	Total & South Atlantic Petroleum	OML 130 PSA: Petrobras Oil & Gas (32%), South Atlantic Petroleum (20%), Total (48%); OML 130 PSC: CNOOC Ltd (90%), South Atlantic Petroleum (10%); OML 130 Gas: NNPC (60%), Total (40%)	6.32	9.54	12.77
Bonga	118	Shell	Shell (55%), ExxonMobil (20%), Eni (12.5%), Total (12.5%)	22.22	24.78	24.78
Erha	133	ExxonMobil	ExxonMobil (56.25%), Shell (43.75%)	16.94	20.35	20.35
Okwori & Nda	126	Addax	100%	3.43	4.32	4.32
Usan	138	ExxonMobil	Chevron (30%), ExxonMobil (30%), Nexen (20%), Total (20%)	4.27	4.66	4.66

Oil Production by Production Arrangement (Barrels PD). Source: NEITI

1: Oil Production by Production Arrangement (barrels per year)



Complications on Oil Revenues Tracking...Cont'd

- ❖ According to NEITI, " putting the losses in project terms, NEITI reported that the lower threshold loss of \$16.03bn to the Federation Account would have funded the Port Harcourt - Maiduguri rail line put at between \$14bn to \$15bn. Other projects that the lost revenue could have been used to fund include the "Mambila Power Plant of 3,050 MW at \$5.72 billion, while the estimated cost of the Ibadan-Ilorin-Minna-Kano Standard Gauge Line is \$6.1 billion. The combined cost of these projects is \$11.82 billion, which is less than the lower threshold of estimated losses.... the Calabar-Lagos Railine (\$11 billion), Fourth Mainland Bridge (\$1.4 billion), Badagry Deep Water Port Complex (\$1.6 billion), and Lekki Deep Seaport (\$1.2 billion)" the Publication revealed.
- ❖ Meanwhile, the higher threshold estimate of \$28.61 billion can fund 99% of the proposed federal government budget for 2019.

National and Sub-national Taxation Clusters

- **Federal Government**

- Companies Income Tax

- Withholding Tax on companies, residents of the Federal Capital Territory and non-resident individuals

- Petroleum Profit Tax

- Value Added Tax

- Educational Tax

- Capital Gains Tax on the residents of the Federal Capital Territory, bodies corporate and non-resident individuals.

- Stamp Duties on bodies corporate and residents of the Federal Capital Territory

- Personal Income Tax in Respect of members of the Armed Forces of the Federation and members of the Nigerian Police Force;

- Residents of The Federal Capital Territory; and staff of the Ministry of Foreign Affairs and non-resident individuals

- National Information Technological Development Levy

- Others

State Government

- Personal Income Tax in respect of individuals resident in the state

- Pay- As –You –Earn (PAYE); and

- Direct taxation (self –assessment).

- Withholding Tax (Individuals Only)

- Capital Gains Tax (Individuals Only)

- Stamp Duties on instrument executed by individuals

- Pools betting, lotteries gaming and casino taxes.

- Road Taxes

- Business premises registration fee in respect of urban and rural areas which includes registration fees and per annum for the renewals as fixed by each state.

- Development Levy (individuals only) not more than N100 per annum on all taxable individuals

- Naming of street registration fees in the state capital

- Right of Occupancy fees on lands owned by the state Government in urban areas of the state

- Market Taxes and Levies where state finance is involved.

- Land use charge, where applicable;

- Hotel, Restaurant or Event Centre Consumptions Tax, where applicable;

- Entertainment Tax, where applicable;

- Environmental (Ecological) Fee or Levy;

- Mining, Milling and Quarrying fee, where applicable

- Animal Trade Tax, where applicable;

- Produce Sales Tax, where applicable

- Slaughter or Abattoir Fees, where applicable;

- Infrastructure Maintenance Charge or Levy, where applicable

- Fire Service Charge

- Property Tax, where applicable;

- Economic Development Levy, where applicable;

- Social Service Contribution Levy, where applicable; and

- Signage and Mobile Advertisement, jointly collected by States and Local Governments.

National and Sub-national Taxation Clusters...Cont'd

Local Government

- Shops and Kiosks rate
- 2. Tenement rates
- 3. On and Off Liquor License fees
- 4. Slaughter slab fees
- 5. Marriage, birth and death registration fees
- 6. Naming of street registration fees, excluding any street in the state capital
- 7. Right of Occupancy fees on lands in the rural areas, excluding those collectible by the Federal and State Governments.
- 8. Markets taxes and levies excluding any market where State finance is involved
- 9. Motor park levies
- 10. Domestic animal license fees
- 11. Bicycle, truck canoe wheelbarrow and cart fees, other than a mechanically propelled truck
- 12. Cattle tax payable by cattle farmers only
- 13. Merriment and road closure
- 14. Radio and television license fees (other than radio and television transmitter)
- 15. Vehicle radio license
- 16. Wrong parking charges
- 17. Public convenience, sewage and refuse disposal fees.
- 18. Customary burial grounds permits fees.
- 19. Religious places establishment permit fees.
- 20. signboard and Advertisement permit fees
- 21. Wharf landing Charge, where applicable.

Offshore Outflows and Connectors to National Infrastructural Projects Through PPPs

- **NNPC and Offshore (Fiduciary) Outflows**
- **Blackout of CSOs**
- **Dearth of fiscal tracking expertise by NSAs**
- **Connectors to Offshore Agreements for Funding of National Infrastructural Projects through PPPs**
- **Poor interrogative wherewithal by NSAs on the PPPs**
- **Leaving generations yet unborn with suffocative debts burden...**

Taxation and Fiscal Justice

- **Tax, Budget and Justice are fiscal varieties**
- **Fiscal Justice must connect Tax Justice and social equity**
- **Such leads to effective service delivery:**
 - **Economic Justice**
 - **Social equality**
 - **Human rights and gender equity**
 - **Social accountability**
 - **Political right, etc**

Way Forward for Nigeria's Tax Justice Platform

- **Prioritizing fair taxation**
- **Monitoring extractive revenues**
- **Tracking internally generated revenue**
- **Seeking justice for victims of human rights abuse, due to unfair taxation or uncivil means of tax collection**
- **Campaign against tax inequality, due to arbitrarily issuance of tax waivers to the rich, whilst goods of peasant traders are ceased and offices/shops low/medium income earners are locked with excessive tax assessment and imposition**
- **Mobilize international pressure, through sustained campaigns globally for responsive tax regime as a human rights obligations of state parties to United Nations Covenants and Conventions and through peer reviews**
- **Others**

Recommendations

- Mobilize more citizens (government, private and corporate bodies) into the platform
- Seek constructive approaches to tackle unfair tax practices
- Appoint Voluntary Tax Justice Monitors across several communities and clans across Nigeria
- Seek for Tax Violation and Remediation windows with all tiers of government with appropriate MDAs
- Carry out advocacy programs and campaigns to enlighten the citizenry about responsive taxation
- Demand accountability and effective service delivery to serve as a booster for voluntary tax compliance
- Reform Nigeria's Tax Justice Platform and make it sustainable beyond the life of Oxfam's SPP
- Introduce innovations into the platform
- Etc



END

THANK YOU!