



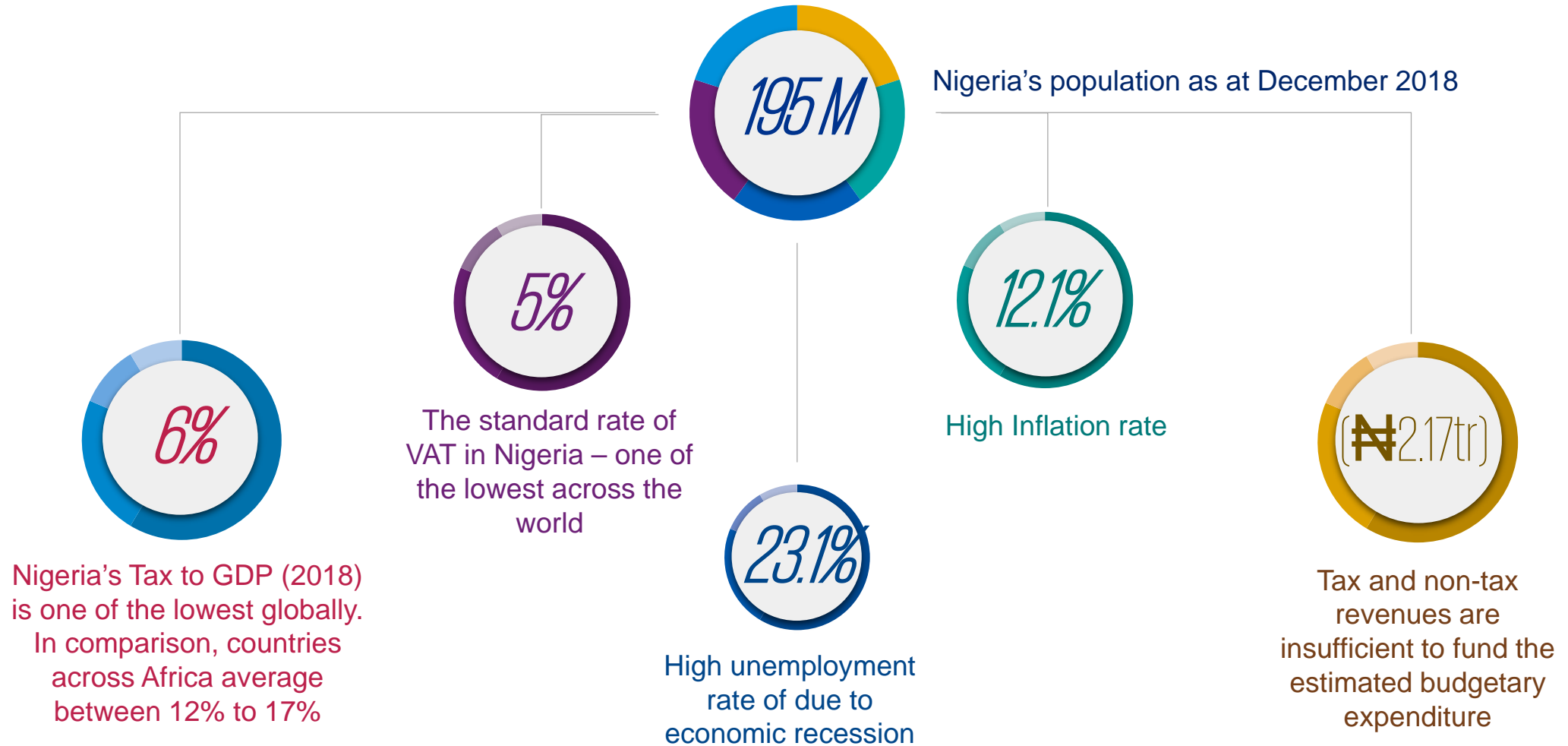
# The Finance Act, 2019



Focus on the Investment Management Industry

March 2020

# Key Statistics prior to the Finance Act



# Overview of the Finance Act - Thematic Areas



## Raising tax revenues

- ✓ VAT rate increase to 7.5%
- ✓ Excise Duties on imported goods
- ✓ Thin capitalization rules

## Global tax reforms

- ✓ Introduction of Digital and Service Rules
- ✓ Place of supply rules for VAT

## Targeted Incentives

- ✓ Real Estate Investment Trust (REITS) and Securities Lending rules
- ✓ Reduced tax rates for SME
- ✓ Minimum tax exemption for Medium sized companies
- ✓ Early tax payment bonus

## Promoting fiscal equity

- ✓ Better insurance tax rules
- ✓ Limit Excess Dividend tax risk
- ✓ Simplification of Minimum tax rules

## Ease of doing business

- ✓ VAT threshold
- ✓ Electronic correspondence with tax authorities

# Biggest Wins - Securities Lending

Under the erstwhile provisions of the law, securities lending transactions were charged on their legal form not economic substance. The Finance Act has introduced a framework that eliminates the multiple taxation risks that arose from the previous tax laws.

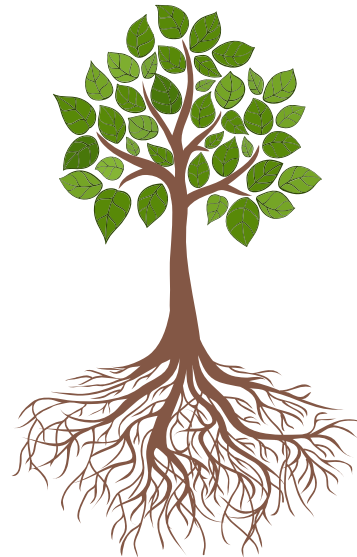
## Tax Issues on Security Lending Transactions

Transfer of loan stock/collateral is treated as outright disposals rather than loan agreements

Re-characterization of the real dividend/coupon to 'manufactured' affect their tax exempt status

Manufactured payments are regarded as separate streams of income and suffer multiple layers of WHT

Manufactured payments may be deemed as fees for VAT purposes



## Changes Introduced by the Finance Act

Extension of the definition of "interest" and "dividends" under the charging section of CITA

Clarification of allowable deductions for compensating payments

Deduction of withholding tax (WHT) on interest/dividend only at the point of payment to the Borrower/Lender.

Recognition that the return of previously exchanged securities and shares do not constitute disposal of an asset.

Exemption of documents, shares and securities relating to a RSLT from stamp duty

# High-Level Analysis of Tax Impact on Securities Lending (1)

Prior to the Finance Act, 2019			
	₦'000	CIT @ 30% (₦'000)	WHT @ 10% (₦'000)
Transfer of Stock and collateral between lender and borrower	1,000	-	-
Dividend payment by issuer of stock to borrower	100	-	(10)
Payment of manufactured dividends from borrower to SLA	100	-	-
Payment of manufactured dividends from SLA to lender	100	(30)	(10)
Interest payment on collateral to lender	200	(60)	(20)
Payment of manufactured interest from lender to SLA	200	-	-
Payment of manufactured interest from SLA to borrower	200	(60)	(20)
Payment of SEC lending fees from borrower to SLA	50	(15)	(5)
Payment of SEC lending fees from SLA to lender	50	(15)	(5)
<b>Total tax payments</b>		<b>(180)</b>	<b>(70)</b>

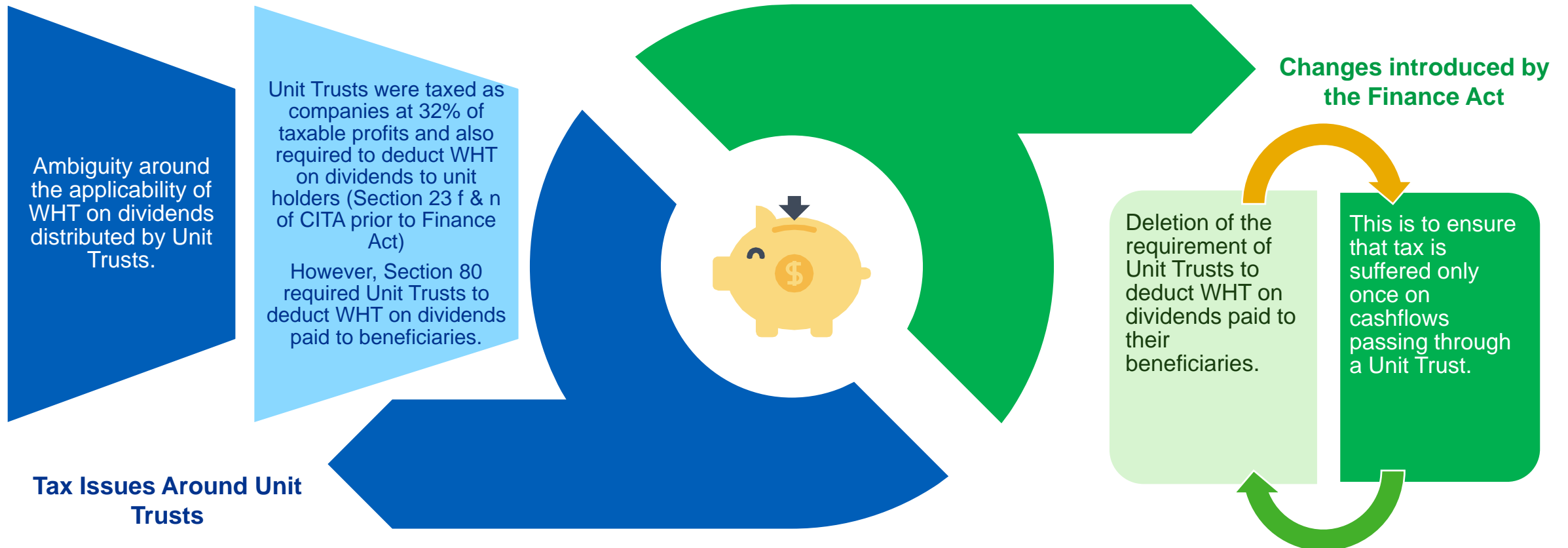
Based on the Finance Act, 2019			
	₦'000	CIT @ 30% (₦'000)	WHT @ 10% (₦'000)
Transfer of Stock and collateral between lender and borrower	1,000	-	-
Dividend payment by issuer of stock to borrower	100	-	(10)
Payment of dividends and manufactured dividends from borrower to SLA	100	-	-
Payment of dividends and manufactured dividends from SLA to lender	100	-	-
Interest payment on collateral to lender	200	-	-
Payment of interest and manufactured interest from lender to SLA	200	-	-
Payment of interest and manufactured interest from SLA to borrower	200	(60)	(20)
Payment of SEC lending fees from borrower to SLA	50	-	(5)
Payment of SEC lending fees from SLA to lender	50	(15)	-
<b>Total tax payments</b>		<b>(75)</b>	<b>(35)</b>

# High-Level Analysis of Tax Impact on Securities Lending (2)

	Parties	Amount (₦'000)	Prior to the Finance Act, 2019		Based on the Finance Act, 2019	
			Taxes		Taxes	
			CIT @ 30% (₦'000)	WHT @ 10% (₦'000)	CIT @ 30% (₦'000)	WHT @ 10% (₦'000)
Transfer of stock and collateral	Lender	1000	0	0	0	0
	SLA		0	0	0	0
	Borrower		0	0	0	0
Dividend Payment by issuer of stock	Lender	100	0	10	0	0
	SLA		0	0	0	0
	Borrower		0	0	0	10
Interest payment on collateral	Lender	200	60	20	0	20
	SLA		0	0	0	0
	Borrower		0	0	0	0
Payment of SEC lending fees	Lender	50	15	5	15	0
	SLA		15	5	0	5
	Borrower		0	0	0	0
Payment of manufactured interest from collateral	Lender	200	0	0	0	0
	SLA		0	0	0	0
	Borrower		60	20	60	0
Payment of manufactured dividend	Lender	100	30	10	0	0
	SLA		0	0	0	0
	Borrower		0	0	0	0
<b>Total Tax Payments</b>			<b>180</b>	<b>70</b>	<b>75</b>	<b>35</b>

# Biggest Wins - Unit Trusts

Unit Trusts are collective vehicles which allows investors with similar investment objectives to pool their funds together for the investment purposes. According to CITA, the trustees of an authorized unit trust scheme are treated as a company and the unit holders treated as shareholders.



# High-Level Analysis of Tax Impact on Unit Trusts

Prior to the Finance Act, 2019	
	₦'000
Gross income	200,000
Operation expense	(40,000)
<b>Profit before tax</b>	<b>160,000</b>
<b>CIT &amp; TET (32%)</b>	<b>(51,200)</b>
Profit after tax	108,800
<b>Dividend Distributed</b>	<b>108,800</b>
WHT on Dividend Distribution	10,880
<b>Net Distribution</b>	<b>(97,920)</b>

Based on the Finance Act, 2019	
	₦'000
Gross income	200,000
Operation expense	(40,000)
<b>Profit before tax</b>	<b>160,000</b>
<b>CIT &amp; TET (32%)</b>	<b>(51,200)</b>
Profit after tax	108,800
<b>Dividend Distributed</b>	<b>108,800</b>
WHT on Dividend Distribution	-
<b>Net Distribution</b>	<b>108,800</b>
<i>Tax Savings</i>	<i>10,880 (10%)</i>



# Biggest Wins - Real Estate Investment Companies (REICOs)

Rule 510 of the SEC rules provides that a Real Estate Investment Scheme (REIS) may be operated as a company (REICO) or a Trust (REIT). However, operating a REICO created regulatory and tax leakages that made investments in the vehicle unattractive.

## Tax Issues around investments in REICOs

Multiple layers of taxation arising from receipt and subsequent redistribution of dividends and rental income to investors

Excess Dividend Tax, upon further redistribution of dividend earned to its beneficiaries.



## Changes Introduced by the Finance Act

Tax exemption of dividends and rental income from primary investments

Tax exemption from EDT

WHT exemption for dividends paid to investors

**Each investor accounts for tax at its own marginal rate**

# High-Level Analysis of Tax Impact on REICOs

Prior to the Finance Act, 2019		
Upon Receipt	₦'000	₦'000
<b>Dividend and rental income Earned by REICO</b>	<b>200,000</b>	
WHT deducted upon receipt of income @ 10%*	(20,000)	
<b>Net dividend and rental income received by REICO</b>	<b>180,000</b>	
75% of distributable profits	135,000	
25% withheld upfront by REICO	45,000	
Operating expense	(40,000)	
<b>Distributable profits</b>	<b>145,000</b>	
CIT & TET (32%)	(46,400)	
<b>Final distributable profits to unitholders</b>	<b>98,600</b>	
<b>Unitholders</b>	<b>Individual</b>	<b>Company</b>
Income from REICO	49,300	49,300
CIT & TET @ 32%	-	15,776
PIT @ 19%	9,367	-
<b>Tax Payable</b>	<b>9,367</b>	<b>15,776</b>
WHT Credit*	(10,000)	(10,000)
Net Tax Payable	-	<b>5,776</b>
<b>Net Income Received</b>	<b>49,300</b>	<b>43,524</b>

Based on the Finance Act, 2019		
Upon Receipt	₦'000	₦'000
<b>Dividends and rental income Received by REICO</b>	<b>200,000</b>	
WHT deducted upon receipt of income @ 10%	-	
75% of distributable profits	150,000	
25% withheld upfront by REICO	50,000	
Operating expenses (including management fees to REICO)	(40,000)	
<b>Final Distributable profits to unitholders</b>	<b>160,000</b>	
<b>Unitholders</b>	<b>Individual</b>	<b>Company</b>
Income from REICO	80,000	80,000
CIT & TET @ 32%	-	24,000
PIT @ 19%	15,200	-
<b>Tax Payable</b>	<b>15,200</b>	<b>24,000</b>
WHT Credit	-	-
Net Tax Payable	15,200	24,000
<b>Net Income Received</b>	<b>64,800</b>	<b>56,000</b>

# Other Notable Wins - General

The Finance Act introduced key changes applicable to companies irrespective of their industry. The Act modified the commencement and cessation rules, provided clarification on Excess Dividend Tax and harmonized the various exemptions / conditions under which concessions can be enjoyed during business reorganization.

## Commencement and Cessation Rule

- Elimination of double tax risk associated with application of the previous provisions
- Filing of tax returns on Preceding Year Basis (PYB) only



## Business Reorganization

- Definition of group of companies
- Introduction of Minimum Holding Period
- Exemption of assets transferred from CGT and VAT



## Excess Dividends Tax

- Elimination of double taxation arising from dividend redistribution
- Exclusion of profits (such as franked investment income, after-tax profits, tax-exempt income, etc.) from EDT



## Minimum Tax

- Simplified base rate of 0.5% of the company's turnover less franked investment income
- Revenue-based approach
- Restriction of companies with turnover less than ₦25 million from minimum tax



# Other Notable Wins - Insurance Business

## 01 Indefinite carry forward of tax losses

Full tax deduction for unexpired risk provisions

02

1

Prior to the enactment of the Finance Act, the provisions of the CITA taxed insurance businesses on a different pedestal as other companies.

The Finance Act therefore repeals such provisions of the CITA and replaces them with similar provisions applicable to other companies taxable under the CITA.

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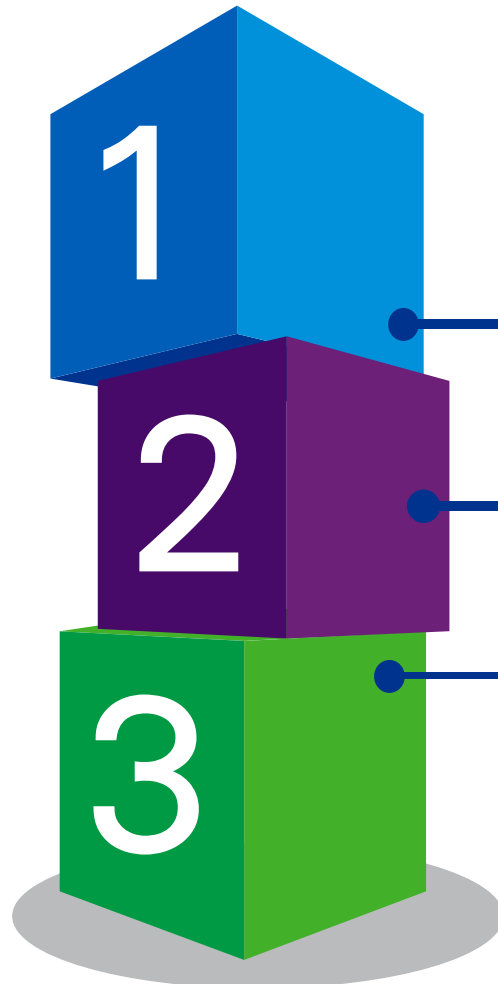
Full tax deductions for tax deductible claims for general and life insurance businesses

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04 New basis for calculating minimum tax

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# Other Notable Wins – Micro, Small and Medium Scale Enterprises



## Changes to the CIT Regime

Income tax exemption for small companies

Reduced CIT rate for medium companies

Discount for early payment of CIT

Minimum tax amendment

Simplification of commencement and cessation rules

## Changes to the VAT Regime

Exemption from VAT compliance requirements for small companies.

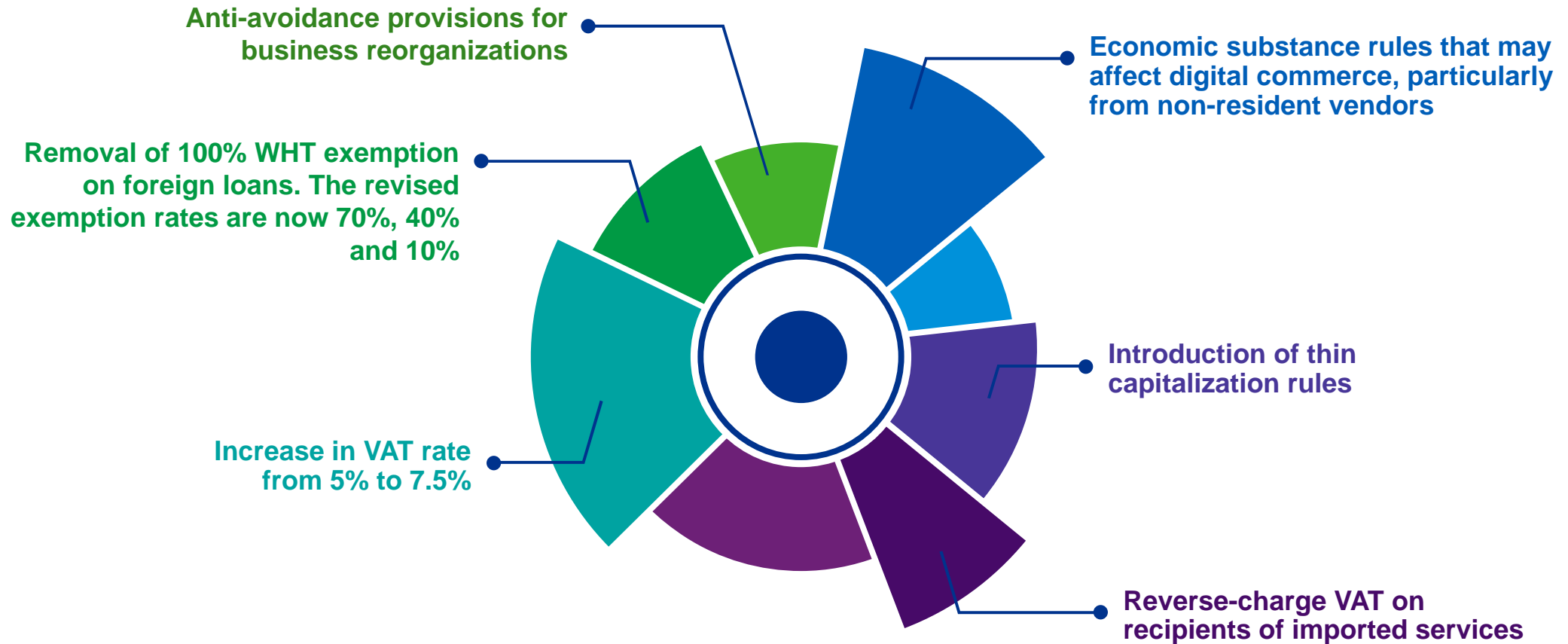
Cash basis for accounting for VAT

Expansion of the scope of goods and services, and exempt items

## Stamp Duties

Introduction of a Stamp duty of ₦50 on every electronic receipts/transfers above ₦1,000

# Biggest Losses - General



# Questions and Comments



# How KPMG can help you

“ A trusted solution provider helping you fit the pieces together ”

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Inspire  
Confidence  
Empower  
Change

At KPMG, we inspire confidence and empower change in all we do for clients, our people and society at large.

Whether we are addressing complex business challenges or detailed market issues, or focusing on driving life long learning in our communities or setting the bar for our profession, we do that knowing we want to make a difference today while also keeping future generations in mind

What does inspiring confidence and empowering change look like through the work we do? Through our **Audit** work, we aim to inspire the confidence of clients and their investors, strengthening the capital markets and economies in which they operate. Through our **Tax** work, we strive to help maintain balance between individuals, institutions and governments, essential for a fair and thriving society. Through our **Advisory** work we help clients to transform, using our skills and experience to empower them to make positive change in their business and in the world at large.

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- Other audit related services and Agreed upon Procedures

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- Regulatory Compliance & Advisory Services
- Tax System Reform & Transformation
- Immigration Services
- Payroll Advisory
- Compensation & Benefit
- Transfer Pricing
- Deal Advisory Tax Services

## Advisory

- Management Consulting
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- Accounting Advisory Services
- Deal Advisory
- Financial Risk Management
- Technology Advisory
- Forensic

In a world of disruption, rapid change and technological evolution these principles have never been as important as they are today. They enable a culture that brings out the best in our people. One where innovation, deep expertise and a global mindset, combine with passion and working shoulder-to-shoulder to deliver real results that build trust.

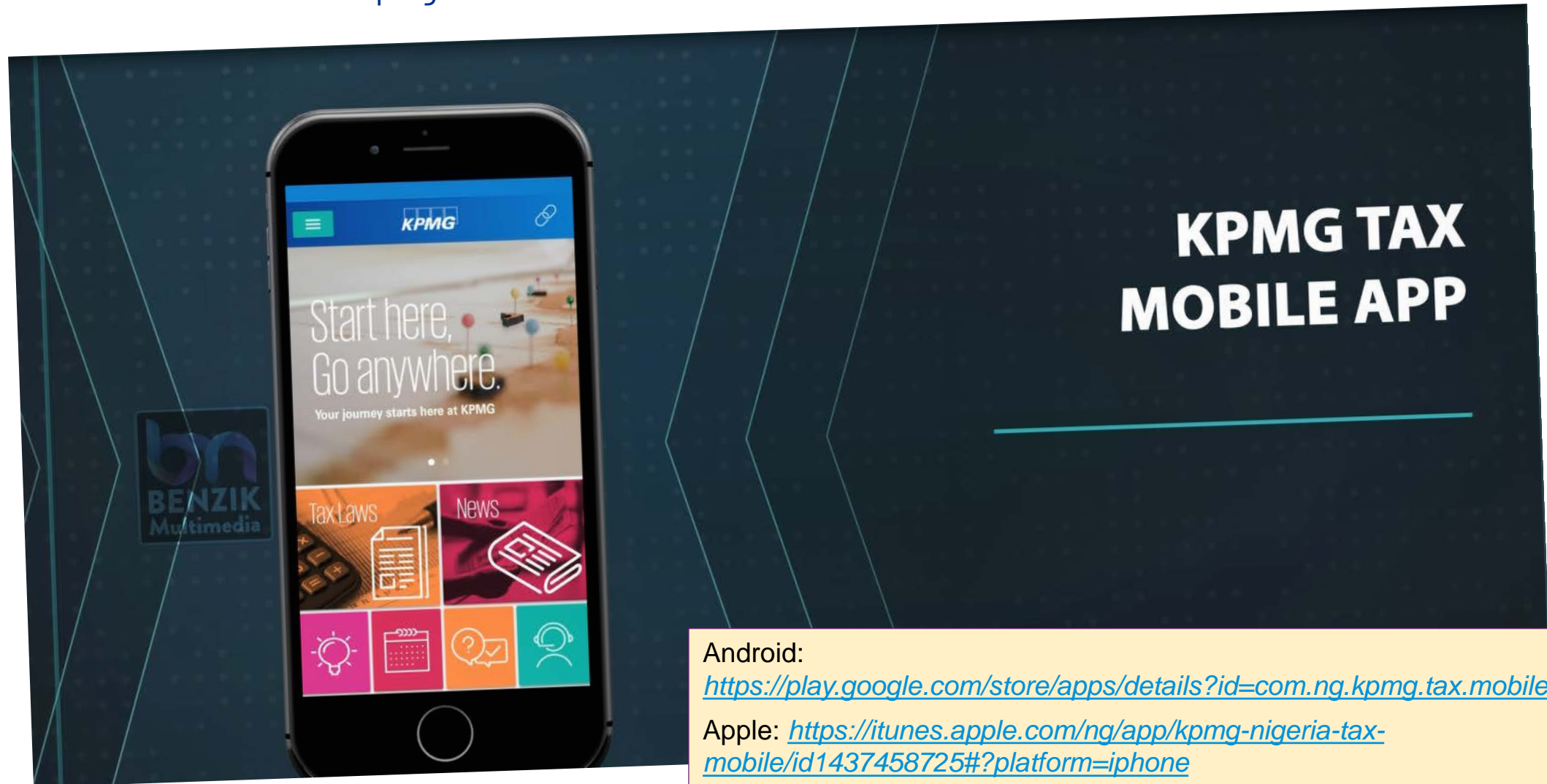
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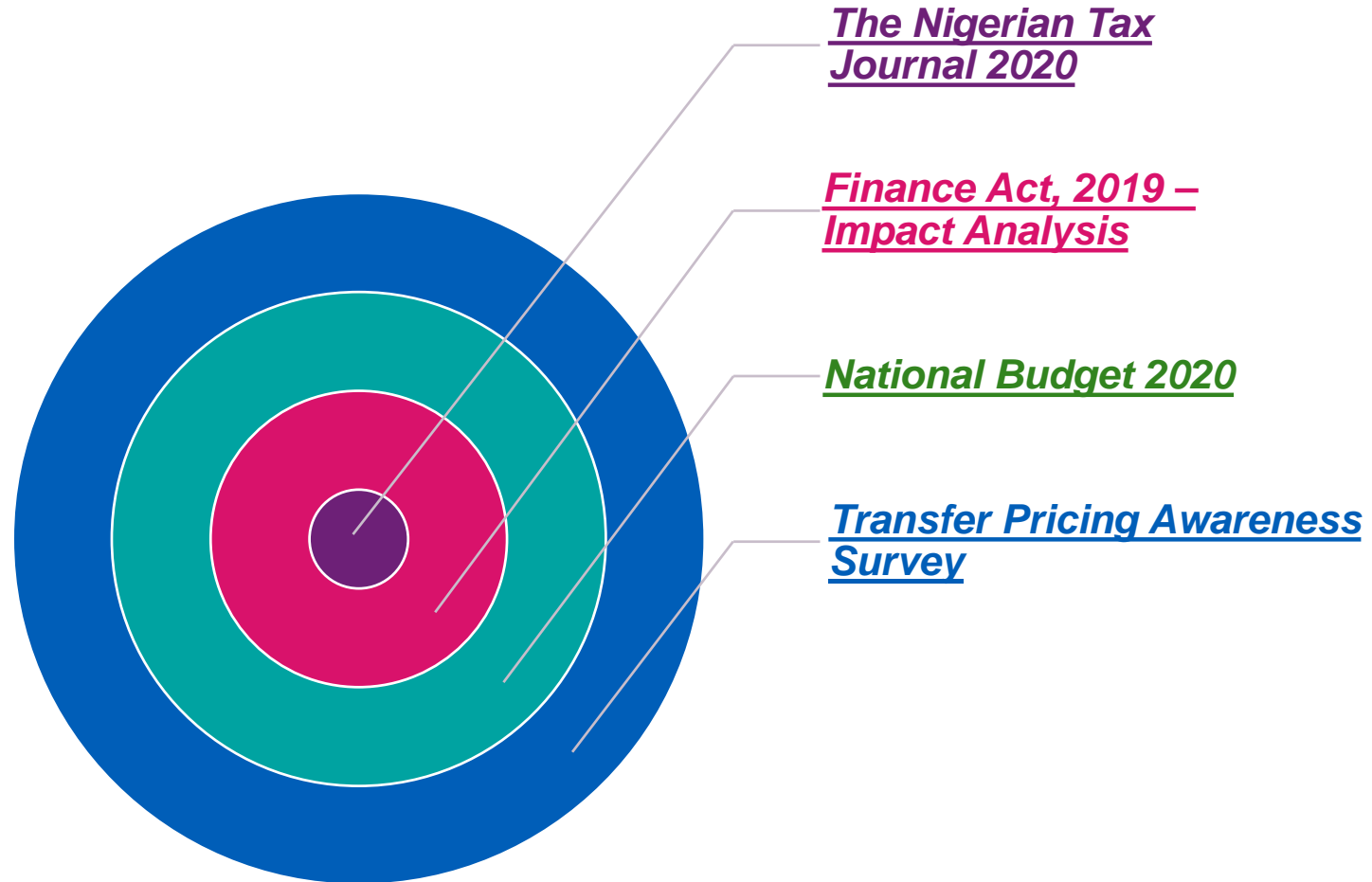


## KPMG TAX MOBILE APP

Android: <https://play.google.com/store/apps/details?id=com.ng.kpmg.tax.mobile>

Apple: <https://itunes.apple.com/ng/app/kpmg-nigeria-tax-mobile/id1437458725/?platform=iphone>

# How KPMG can help you - Resource Materials





**Ajibola Olomola**

*Partner*

*Tax, Regulatory & People Services*

*KPMG in Nigeria*

T: +234 803 402 1039

E: [AOlomola@kpmg.com](mailto:AOlomola@kpmg.com)



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