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Finance Act, 2020: A Panacea for Improved Performance of Public Capital Expenditure in Nigeria

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Abstract
This paper examined the finance Act, 2020 and improved public capital expenditure in Nigeria. It sought to highlight the implications of finance Act, 2020 on improvement of public capital expenditure in Nigeria. Specifically, the paper examined the implications of VAT rate increment, companies' segmentation in relation to CIT rate, provisions of VAT compliance threshold, and miscellaneous provisions on improved funding of capital projects in Nigeria that could pave way for inclusive economic growth and development in the country. This is hinged on the evidence that most developed and developing nations of the world depend on revenue generated from tax in financing public expenditure. Nigeria has been reforming her tax laws and tax system over the years in a bid to reposition her economic drivers, yet there is no evidence that the reforms have reflected on capital expenditure implementation in the country. This paper though, theoretical, adopted descriptive approach and reviewed relevant literature. It concluded that the finance Act would reform domestic tax law to align global best practices; introduce tax incentives for investment in infrastructure and capital markets; support small businesses in line with the ease of doing business reforms; and improve revenue for government at all levels for financing capital projects, subject to provisions of favourable framework and capacity. The paper recommended demonstration of strong political will by government, strengthening government institutions, stamping out corruption, and embarking on continuous training and retraining of staff and management of agencies involved in the implementation of the new Act.
Keyword*: Finance Act, improved Public, Capital Expenditure*

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I. Introduction

It is a common knowledge that availability of both human and non human resources drives public expenditure of any country of the world. These resources could be natural or man-made resources but where those natural resources are not readily available; or available but cannot be commercially converted into financial resources, government of the country seeks alternative sources of funding its public expenditure. In most cases, what always available and reliable alternative sources of financing public expenditure are adjudged taxation? (Asue, 2015)

Most developed and developing nations of the world no doubt depend on revenue generated from taxes in financing public expenditures. For instance, United Kingdom and United States of America over the years finance their public expenditures from the tax proceeds (Kalaš, Mirović, and Andrašić, 2017). Of course, this suggests that improved tax policies and system are imperative for the realization of the tax revenue. Most of these countries over the years kept on changing and reforming their tax policies and systems to reflect their specifics and economic realities in their domain and by extension, in the world.

Nigeria, as one of the developing countries in the community of nations has been on this trend and picture of devising best possible alternative means of funding her public expenditure and of course, one of such alternatives includes tax revenue. It (Nigeria) has been reforming her tax Act and by extension, tax system over the years (even prior to her independence) in a bid to reposition her economic drivers. For instance, there had been array of tax reforms which among others include: tax reforms of: 1956, 1959, 1995, 1996, 1998, 2001, 2004, 2007, 2011, and the 2019 that gave rise to finance Act, 2020 (Nkwagu, Okwo, Nancy, and Obasi, 2019). The essence of these reforms no doubt was to improve on the tax system that would lead to better economic

development of the country and provide more financial resources for financing government programmes and projects.

The finance Act, 2020 has come with a lot and high expectation from the citizenry, especially on the likely implications on public capital expenditure financing, improved standard of living and the general economic development in Nigeria. In her defense and sensitization, Nigerian government has maintained that the current/latest tax reform (Finance Act of 2020) has a lot more to drive economic development through among others, provision of needed financial resources for funding public expenditure (Deloitte, 2020). Of course, it is on account of this premise that the Value Added Tax (VAT) rate was increased from 5% to 7.5%. Although, there were seemingly tax burden consideration such as company segmentation and revenue threshold that provides that companies with a turnover of less or equal to 25 million naira per annum should be exempted from company income tax, just as it provided that companies with annual turnover of above N25 million naira but less than 100 million naira would be charged company income tax of 20% and then provided 30% of CIT on companies with annual turnover of more than 100 million naira.

As stated earlier however, Nigeria is not new to tax reforms but the question that always occupies the minds of every average Nigerian is would it translate to improved economic indices in Nigeria? Unless the above question is answered, it would appear to be exercise in futility coming up with new tax regime from time to time yet Nigeria government still having poor budget implementation, especially, the capital expenditure components, always blamed on lack of fund. This paper is much more concerned on this premise as it is always observed year in year out that public infrastructure in Nigeria are in very poor condition. For instance, it is not hidden that there are a lot of bad roads all over the country, poor health facilities, poor security art facilities that led to increased security challenges in the country; poor infrastructure in education sub-sector, poor electricity transmission and distribution in the country and a lot more that requires funding. These near lack and poor infrastructure and amenities have been blamed on lack or paucity of financial resources. Then, would this Finance Act, 2020 bring to an end these challenges confronting the country, Nigeria.

This paper concerns more on the above unresolved debate, in view of the fact that a number of such tax Act amendments (reforms) have been made in the past, yet public capital expenditure financing appears not to have improved over the years. It is evidential that Nigeria's yearly budgets have consistently suffered poor implementation especially, the components of capital expenditure in amidst of the tax reforms as can be seen in the last five years where only 17.76%, 57.66%, 68%, 65.06%, and 64.31% for 2019, 2018, 2017, 2016 and 2015 respectively were implemented. Thus, it becomes more disturbing as most average Nigerians are not quite comfortable with some of the provisions of the Finance Act, 2020 such as the increase of VAT rate to 7.5%.
Considering the contents and provisions of the finance Act in line with the policy trust of government, however, this paper sets out to examine the implications of:

1. VAT increase from 5% to 7.5% on improved funding of capital projects and programmes in Nigeria that could pave way for inclusive economic growth and development in the country.
2. Companies' segmentation that provides for CIT exemption, 20% CIT and 30% CIT of incomes of entities based on annual turnover on stimulation of Nigeria's economy that could guarantee improved internally generated revenue for financing of capital expenditure.
3. The provisions of VAT compliance threshold which exempts companies with annual turnover of not more than 25 million naira from paying VAT on improved financing of capital expenditure in Nigeria.
4. Other miscellaneous provisions of the new Act on improved funding of capital expenditure with a view to stimulating economic growth and enhancing inclusive development in Nigeria.

Concepts and Literature Review

Tax Reforms and Funding of Expenditure in Nigeria

Tax reform is the process of changing the way taxes are collected or managed by the government and is usually undertaken to improve tax administration or provide economic or social benefits (Ali, 2009). It is mostly undertaken to correct the shortcomings and enhance tax efficiency in the existing tax system as well as bridging the gap between the national development needs and the funding of the needs (Ali, 2009). Tax reform could be in form of new rate, a new tax, a new legal clause, a new assessment system such as self-assessment system or a new collection system of 2004 (Teju, 2010). Although, the effect of tax reforms might not be immediate, it is expected to be actualized in the long run (Kanghua, (2013). In the recent past, consequent upon the constitution of a presidential committee charged with the review of tax laws in Nigeria, four tax bills were passed and signed into law. They include: Federal Inland Revenue Service (Establishment) Act, 2007, Companies Income Tax (Amendment) Act, 2007, Value Added Tax (Amendment) Act, 2007 and National Automotive council (Amendment) Act, 2007. Personal Income Tax Act (PITA) was also amended in the year, 2011 to make the tax policies of Government more responsive and enhance the implementation and effectiveness of PITA in Nigeria (Aguolu, 2014).

As part of the tax reforms, the Joint Tax Board (JTB) in collaboration with Federal Inland Revenue Service (FIRS) and the 36 State Board of Internal Revenue (SBIR) came up with 'Tax Identification Number (TIN) (Nwezeaku, 2013). The TIN is a platform for harmonizing taxpayers' identification and registration in Ngeria.TIN is aimed at creating a database of all taxpayers. Electronic tax filing and payments (e-tax) are among the most recent tax reforms in Nigeria. Electronic filing has the twin benefits of easing compliance burden and optimizing revenue generation for government.

The objectives of most tax reforms are to encourage tax compliance and reduce tax evasion and avoidance in Nigeria (Nwezeaku, 2013). There are empirical evidence that tax reforms aim at preventing capital flight, improve revenue generation for government projects and programmes; eradicating all manner of distortions and enhancing taxpayers willingness to pay (Asaolu, Dopemu and Monday, 2015). A well structured tax reforms in a country has the capacity of promoting efficient tax system that investors would always want to invest in. Countries with low tax regime are bound to have fair allocation of savings to investment opportunities and attract investors than countries with high tax regime (Omesi and Nzor, 2015 and Odusola, 2006). Thus, taxes provide necessary support to the capacity of government to discharge its basic duties to the citizens (Omesi and Nzor, 2015). Taxation, of course, has been generally perceived as one of the major avenue of revenue generation by any government to meet the needs of both the government and citizens.

Supporting the above general view, Ifurueze and Ekezie (2014) see tax as a compulsory levy imposed by the government against the income, profits, property, wealth, and consumption of individuals and corporate organizations for the common use which could serve a good number of purposes. It further asserts that enabling environment created by government would encourage establishment of new businesses, survival of existing once, and above all enhance infrastructure. To this end, a good tax policy is a key determinant to political, economical and social well structured system that provides government with the needed fund for capital and recurrent expenditure. A good tax system contains the tax law, tax policy and tax administration (Aguolu, 2014). The Nigeria tax system is a good portfolio comprising of direct and indirect tax bodies which regulate the various types of taxes and their administration.

From the above view, it is generally believed that the Nigerian tax system is still lopsided, dominated by oil revenue, lacks efficiency, and poses a formidable challenge to its usage as a macroeconomic regulatory tool. Thus, the Nigeria tax base is very narrow while the tax rate was very high (Omesi and Nzor, 2015). For countries (Nigeria inclusive) that are endowed with natural resources which generate revenue from sales of the natural resources exploitation, taxation is the most reliable and sustainable revenue stream. Evidence suggests strongly that a good tax system aids economic growth and development (Aguolu, 2014 and Ifurueze and Ekezie, 2014). Many countries including Nigeria have not been able to effectively harness their tax potentials for number of reasons. Oriakhi and Ahuru (2014) confirm that a long run meaningful relationship exists between tax reforms and federally collected revenue and by extension, economic growth in Nigeria. One important indication of the monumental achievements produced by the reforms since 2004, is that, in the fourth year of the reform alone (that is, in 2008) the actual collection of (N2, 972 trillion) in taxes was over and above the cumulative collection of the eight year period (1996-2003) preceding the reforms which amounted to only 2.682 trillion naira (N2.682 trillion) (FIRS, 2009).

The Nigeria tax system has been generally considered to be inadequate and less impactful on public expenditure implementation. The Revenue Statistics in Africa evidenced that Nigeria's tax-to-Gross Domestic Product (GDP) in 2017 was 5.7% (Economic Co-operation and Development (OECD), 2019). This of course, appeared to be a moderate increase from the figures reported in 2016 that stood at 5.3%. From table 1 below, it is evident that implementation of capital expenditure in the last five years in the country has suffered a setback. For instance, out of 2,094.95 trillion naira, 2,869.60 trillion naira, 2,174.50 trillion naira, 1,587.40 trillion naira and 557.0 billion naira budgeted for the years: 2019, 2018, 2017, 2016 and 2015 respectively, only a paltry sums of 372.04 billion naira, 1,862.22 trillion naira, 1,563.15 trillion naira, 1,219.47 trillion naira and 358.21 billion naira were claimed to have been implemented for those years. Of course, the poor budget performance had been blamed on paucity of revenue generation.

Table1: Five Year Summary of Budget Component Performance

Year	Total annual budget	Capital expenditure		
		Budgeted	Actual	%
2019	8,916.96	2,094.95	372.04	17.70
2018	9,120.33	2,869.60	1,862.22	57.66
2017	7,441.18	2,174.50	1,563.15	72.00

2016	6,060.43	1,587.40	1,219.47	65.06
2015	4,493.36	557.0	358.21	64.31

Source: OAGF and BOF, 2019, 2018, 2017, 2016, and 2015

Nevertheless, when the above figures are compared with the same index across other African countries over the same period, it was evident that Nigeria's tax revenue generation was considerably low for the level of social and economic activities in the country. According to KPMG (2020), the 26 African countries (including Ghana and Botswana) reviewed in the OECD's study reported an average tax to GDP ratio of 17.2% (11.5 basis points higher than Nigeria's ratio). Even the Federal Government implemented tax amnesty initiatives between 2016 and 2018 to drive up tax revenue and expand the tax base have proven insufficient to stimulate the type of revenue growth required in Nigeria. The nation's tax to GDP ratio was estimated at roughly 6% in 2018 which shows a sluggish and unimpressive growth from 2016.

Objectives of Finance Act, 2020

The assenting and gazette of the Finance Act is a momentous for Nigeria as it signifies a return to an era of active fiscal supervision which expectedly would motivate regular review of the macroeconomic indices in addition to stimulation of the economy. One of the major objective of the amendments made by the Finance Act are to enhance necessary revenue required to implement public expenditure, support sustainable increase in public revenue and ensure that tax law provisions are consistent with the national tax policy objectives of the Federal Government of Nigeria (Obayomi, 2020). It is intended to promote fiscal equity by mitigating instances of regressive taxation; reform domestic tax law to align with global best practice; introduce tax incentives for investment in infrastructure and capital markets; support small businesses in line with the ease of doing business reforms; and improve revenue for government (Finance Act, 2020).

These changes are intended to improve taxpayer compliance, ease tax administration and enforce prompt payment of taxes. The VAT compliance threshold is expected to reduce cost of tax administration since the FIRS can now focus its compliance monitoring efforts on large businesses only. It therefore, intends to create a wider opportunity for growth and development of micro, small and medium enterprises in Nigeria. The Act also wants to resolve the controversy of VAT-ability (in Nigeria) of services provided outside Nigeria by a nonresident company (NRC) to a Nigerian company. It is also expected that the reform would help manage taxpayers' cash flows so as to reduce the risk that a business ultimately bears the VAT burden for its customers, particularly in cases of bad debt.

Major Provisions of Finance Act, 2020

The Finance Act brings in alterations to the Companies Income Tax Act, Petroleum Profits Tax Act, Value Added Tax Act, Personal Income Tax Act, Customs and Excise Tariff, Capital Gains Tax Act, and Stamp Duties Act (Finance Act, 2020). The Finance Act is the first of its kind in the recent time and strives to support the implementation of the 2020 budget. It provides a good number of changes to the tax framework which among other things seeks to address issues of low tax revenue growth. Considering the global economic realities, the Act also seeks to update the Nigeria tax system by integrating recommendations made by the OECD on taxation of the modern economy and profits earned by non-resident companies.

The Finance Act also seeks to provide enabling environments towards enhancing small and medium scale enterprises by reducing their tax burden. Thus, it replaces existing tax incentives with more targeted incentives to encourage economic activities in the capital market and infrastructure implementation. The finance Act amends several difficult tax provisions that have hindered investments in Nigeria, such as the multifaceted insurance tax rules and the excess and interim dividend tax rules that limit the dividend available for distribution to shareholders as contained in the Companies Income Tax Act.

Consequently, on imposition of tax at 10% on any capital sum received as compensation for loss of office, the Finance Act limits the impact of the imposition by exempting any capital sum of N10 million or less received as compensation for loss of office. In the same vein, the Finance Act introduces tax concessions for business reorganizations to exempt chargeable gains on assets transferred due to a related party business reorganisation from CGT, subject to meeting certain conditions as provided by the Act. Again, the Act amends the provisions of Section 13 of the CITA to create avenue for the taxation of income earned by foreign companies from technical, management, consultancy or professional services that are remotely provided to a person resident in Nigeria. However, the tax payable by such foreign companies will be limited to the Withholding Tax deducted from them on such payments. It further provides for taxing any foreign company that "transmits, emits or receives signals, sounds, messages, images or data of any kind from cable, radio, electromagnetic systems or any other electronic or wireless apparatus to Nigeria in respect of any activity.

The Act now provides that all companies liable to tax under the CITA to make an advance payment of its CIT prior to payment of interim dividends. In a bid to ensure effective implementation, the Finance Act provides expense deductibility rules. It therefore, provides that companies are permitted to only take a tax deduction for expenses incurred in the generation of non-exempt income. Thus, expenses incurred in the generating tax-exempt income would no longer be allowed as a tax deduction. It is now compulsory for companies to effectively track and apportion the costs relating to their tax-exempt business segments and revenue streams to ensure that such expenses are disallowed for tax purposes. The Act also provides for interest deductibility rules with regards to restriction of deductible interest to 30% of Earnings before Interest, Tax, Depreciation, and Amortization (EBITDA). This provision is based on Action 4 of the OECD/G20 Base Erosion and Profit Shifting (BEPS) report.

In a bid to entrench simplification of commencement and cessation rules in the Nigeria tax system, the Finance Act adjusts the commencement and cessation rules such that companies pay taxes based on their accounting periods. This implies that companies henceforth will be allowed to prepare and file tax returns in their first, second and third years of assessment based on their first, second and third sets of financial statements to avoid risk of double taxation. Likewise, the Finance Act has provided for downward review of the WHT exemption relating to interest income on foreign loans to70%, 40% and 10% as against the hitherto which allowed (100%) or partial (10%, 40% or 70%) WHT exemption where the terms of a loan provided to a Nigerian person meet the specific grace period and loan tenor requirements under the CITA.

The Finance Act replaces the cumbersome procedure for computing minimum tax, under the CITA; with a simplified base rate of 0.5% of the qualifying company's gross turnover less franked investment income thereby, shifting the impact of minimum tax from capital basis to a purely revenue-based approach. It also made a remarkable provision by the deletion of the previously available exemption for companies with at least 25% imported equity capital and the addition of a new class of companies exempted from minimum tax, being small companies with an annual gross turnover of less than N25 million. Thus, every non-resident company and foreign owned companies operating in Nigeria, which were hitherto exempted from paying minimum tax, will now fall within the minimum tax net (unless they meet the other criteria for minimum tax exemption).

Emphatically, start-ups and small enterprises with annual gross turnover of not more than N25 million would be completely exempted from paying CIT subject to timely filing of CIT returns while, Medium and Small companies whose turnover exceeds N25 million but is less than N100 million will be subject to CIT at 20%. Consequently, every other company with annual gross turnover of N100 million and above will pay tax at the standard CIT rate of 30%. Besides, companies are required to be filing self assessment to pay their taxes in full on or before the due date of filing. The Act also made provisions for tax credit equal to 1% (2% for medium-sized companies) of the amount of tax paid, if the company pays its taxes 90 days before the due date for filing.

Provision is also made for VAT compliance threshold which exempts companies with an annual turnover of N25,000,000 or less from registering for the tax, charging the tax, rendering a monthly return of its sales and purchases; and from the penalties prescribed by the Act for non-compliance with the administrative provisions. It also provides for exemption of services rendered by microfinance banks (unit, state and national) from VAT. Clarification is also made by the Finance Act that VAT should be accounted for on cash instead of accrual basis. Thus, taxpayer can only recover input VAT that has been paid against output VAT that has been collected. Where, the taxpayer does not have input VAT to claim, output VAT collected should be remitted to the FIRS. It widens the scope of VAT exempt items to include locally manufactured sanitary towels, pads and tampons, tuitions relating to nursery, primary, secondary, and tertiary education in addition to the following categories of Basic Food Items (BFIs): Brown and white bread; Cereals including maize, rice, wheat, millet, barley and sorghum; fish of all kinds, other than ornamental; Flour and starch meals; fruits, nuts, pulses and vegetables; Roots such as yam, cocoyam, sweet and Irish potatoes; Meat and poultry products including eggs; Milk; Salt and herbs of various kinds; and Natural water and table water.

Meanwhile, by the express submission of the finance Act, imported goods are now subjected to exercise duty, just as it made modifications to the Stamp duty Act that permits the charge of stamp duties on electronic receipts and also appoints the FIRS and State Internal Revenue Service as the relevant competent authorities responsible for collection of the stamp duty on behalf of the Federal Government and the State Governments, respectively. In the same vein, the Finance Act made express alteration on WHT rate payable in construction industry by introducing a cap on the withholding tax rate applicable to road, bridges, building and power construction contracts up to a maximum of 2.5%.

The Finance Act modifies the Withholding Tax exemption on income or dividends paid out of after-tax petroleum profits under section 60 of the PPTA and then provided that exemption of dividend distributed by Unit Trust from WHT Dividends is only subject to 10% WHT as the final tax under CITA. It also removed the requirements of obtaining approval from the Minister of Finance prior to claiming interest expense as a deductible expense. It further entrenched restriction on the number of tax incentives that can be claimed on the

qualifying capital expenditure. Thus, companies that enjoy gas utilization incentives in respect of their qualifying capital expenditure shall not enjoy any other tax incentive including the pioneer status incentive on the same project/assets.

The Finance Act introduces a "minimum holding requirement" test for related party group restructuring. Under the revised provisions of the CITA, VATA, CGTA, a company would be recognized as part of a group if such company has been a member of such group for a minimum of 365 days prior to the date of the reorganization. It also specifies that any exemption provided shall be withdrawn where the acquiring company fails to hold the underlying assets transferred for less than 365 days after the date of the transaction.

Conceptual framework and theories of taxation

A number of theories have been used by theorists to deepen the essence of taxation with emphasis on how best to achieve the lofty objectives of imposing various taxes in a given tax system. Some of the theories adjudged and considered relevant for this paper include: Benefits theory, Cost of Service theory and Ability to Pay Principles. What is common among these theories is the support for imposition of taxes but, advocates for necessary palliatives that would ensure comprehensive and inclusive growth and development that could guarantee general achievement of the objectives of taxation in a given tax system. It is also evident that most of the theories advocate for quality in the imposition of the taxes on the eligible taxpayers. No doubt that these theories have been criticized at one point or the other which supports the incessant tax reforms in the tax systems all over the world. Just as it has been broadly criticized that the determinant of ability of each taxpayer to pay is rather vague, J.S Mill and other classical economists have made suggestion for principles of proportionate in taxation. The proponents of this theory are of the conviction that where taxes are levied in proportion to the incomes of the individual it would have equal tax burden on the taxpayers. Conversely, the modern economists opposed this view on the exertion that the marginal utility of income deceases with increase in income and as such, support progressive system of taxation.

However, the above theories were supported with some degree of modification by the theories of Haig-Simon's definition of income, Samuelson Depreciation and the Cary Brown model. Although, the three theories dwell more on income-base tax system, Cary Brown mode reflects more on pure consumption based income taxes. Consequently, a good income tax system has been generally argued by most authors to be that which agrees with the contents of Haig-Simon's definition of income. The Haig-Simon's definition focused on the point in time when the power to satisfy one's wants increase, not necessarily the point in time when the wants are actually satisfied. It must be noted that Haig's definition was modified by Henry Simon in 1938 which sees income as the algebraic sum of the market value of right exercised in consumption and the change in the value of the store of property rights between the beginning and end of the period in question. In perspective, putting the Nigerian new tax amendment side by side with the Haig-Simon's definition, it can be observed that there is seemingly deviation considering that the tax system does not impose taxes on enhanced property until when realized or disposed off by the entity.

However, Cary Brown model also known as the MIT model contends that when lost of assets are immediately deducted, it would amount to excluding the income from the future annual return of the asset. This Cary Brown model of 1948 did not attract dominance in literature until 1960s and 1970s and subsequently, in the 1980s when its dominance in literature becomes quite voluminous. The Cary Brown theory provides for depreciation (capital allowance) on qualifying capital assets which is meant to reduce tax burden on tax payers. Although, in Nigeria currently, the tax system provides for granting capital allowance only to qualifying capital expenditure but it does not appear proportionate to tax liability or tax paid by the taxpayers. Where the deduction (capital allowance) is in proportionate to tax, investment incentives are restored to the pretax level and as such, reduce cost of business operations in the country. Of course, the theory suggests that where costs of assets are spread over a shorter period of life span or deducted immediately from operating income of an entity, the present value of the tax savings would increase. This goes to suggest that if the cost of an asset can be deducted immediately, the amount of tax saved would be equal to the tax rate multiplied by the cost of the asset. In Nigeria therefore, if the above assumption applies, the taxpayer would invest the tax savings and as such would have multiplier effects on the macro-economy of the ration.

The underlying assumptions of Cary Brown model suggest that the tax rate applicable must remain constant within a foreseeable future; that the deduction must produce an immediate tax savings equal to the deduction multiplied by the taxpayers' marginal tax rate; that the deduction must offset income from other sources and is not lost or delayed and as such, results in an immediate tax benefits to the taxpayers; that the tax savings is assumed to be invested at a rate of return equal to the marginal investment; and the opportunities to invest at the assumed rate of return are unlimited.

In the same category, Samuelson Depreciation theory as developed in 1964 has been viewed quite appropriate in consideration of any tax policy or reform. The theory postulates that the proper amount of depreciation deduction each year is equal to the decline in value of the asset each year. This implies that as each

year of useful life expires, the expected stream of payment becomes shorter and the present value of the sum of all remaining payments necessarily declines. The above assumption, of course, is consistent with the contents of Haig-Simon's definition of income theory. Unfortunately, the Samuelson depreciation theory has been generally argued that it is difficult to predict the income stream that the equipment is expected to generate except to some assets such as leases, preferred stock, and fixed rate bonds that its future payments can easily be determined. Notwithstanding the difficulty in application, however, Samuelson depreciation is the most suitable method of apportioning the taxpayer's capital investment in accordance with the economic cost of use.

Challenges and Reservations

There is no doubt that Nigeria is good in developing and coming up good policies and laws but implementation is always a daunting one. For instance, a number of tax reforms in Nigeria over the years were quite apt but there was no clear evidence that they were actually fully implemented in the country. This challenge sometimes is not outside the fact that the institutions and agencies of government charged with the responsibility of carrying out the tasks are mostly found weak with no parity of authority (power) and responsibility in discharging the duties. In some cases, the institutions are non-independent and as such, suffer external influences which adversely affect their performance (Obodo, 2017). Corruption among the political class and other stakeholders sometimes, appeared to be one of the daunting challenges in Nigeria. The tax administration system in Nigeria is not always free from corrupt practices as the tax proceeds may end up being diverted to a private accounts there by leaving little or nothing for funding of government projects and programmes. More so, the Federal Inland Revenue Service (FIRS) needs to update skills and increase capacity of her staff to shore up with current trend and realities in taxation. Meanwhile, micro and macroeconomic as well as global economic factors could affect the level of success of the new tax Act. There is no doubt that the current global pandemic (COVID -19) would greatly affect the success of the Act at the short run, especially as most economic activities in the country were under lockdown both locally and internationally. Also of great concern are the policy inconsistency, somersault, and the possible confliction of some constitutional provisions such that the Nigerian judicial system always exploits the loopholes to the detriment of tax revenue accruing to government for public capital expenditure.

Consequently, there is no doubt that the value added tax compliance threshold of N25 million for taxable persons in Nigeria appeared to be in line with the global best practice, but it would adversely affect the cash flow of small manufacturing or trading entities in the country unless it sale with VAT to customers. Considering that such companies would not be allowed to deduct their allowable input VAT from output VAT, it would result to an additional business cost to the organization, since there is no longer room for input-output mechanism. In the same vein, government would be losing revenue at a stage(s) of product development and as such, affect available fund for projects and programmes execution in the country.

Again, company segmentation requires honest, sincere, and trusted organization and her management team in addition to a workable parameter to really ascertain with certainty those companies with annual turnover of less than 25 million naira, between 25 million naira and 100 million naira and above 100 million naira. Unless relevant agencies of government roll out formidable platform and strategies to outsmart possible corrupt minded companies operating in the country, the new provisions would pave way for financial leakages.

II. Discussion and Conclusion

It is evident from the extant literature that the Finance Act signifies a return to an era of active fiscal supervision which expectedly would motivate regular review of the macroeconomic indices in addition to stimulation of the Nigeria economy. The amendment is targeted at improving revenue required to implement public expenditure, support sustainable increase in public revenue and ensure that tax law provisions are consistent with the national tax policy objectives of the Federal Government of Nigeria (Obayomi, 2020). This would promote fiscal equity by mitigating instances of regressive taxation; reform domestic tax law to align with global best practice; introduce tax incentives for investment in infrastructure and capital markets; widens opportunity for growth and development of micro, small, and medium enterprises in line with the ease of doing business reforms; and improve revenue for government at all levels.

This would of course improve taxpayer compliance, ease tax administration, enforce prompt payment of taxes, and reduce cost of tax administration since the FIRS can now focus its compliance monitoring efforts on large businesses only. There is evidence that the controversy of VAT-ability (in Nigeria) of services provided outside Nigeria by a nonresident company (NRC) would be resolved, manage taxpayers' cash flows, reduce risk of VAT burden for customers, particularly in cases of bad debt. Henceforth, the services rendered by microfinance banks are to be exempted from VAT just as the Act provided that VAT should be accounted for on cash instead of accrual basis such that taxpayers can only recover input VAT paid against output VAT collected.

The amendment covers Companies Income Tax Act, Petroleum Profits Tax Act, Value Added Tax Act, Personal Income Tax Act, Customs and Excise Tariff, Capital Gains Tax Act, and Stamp Duties Act.

Considering the global economic realities, the Finance Act also seeks to update the Nigerian tax system by integrating recommendations made by the OECD on taxation of the modern economy and profits earned by non-resident companies. Thus, it replaces existing tax incentives with more targeted incentives to encourage economic activities in the capital market and infrastructure implementation. The Act removed multifaceted insurance tax rules and the excess and interim dividend tax rules that limit the dividend available for distribution to shareholders as contained in the Companies Income Tax Act. Again, the Act introduces tax concessions for business reorganizations such that chargeable gains on assets transferred due to related party business reorganization are exempted from CGT, subject to certain conditions as provided by the Act. In a bid to ensure effective implementation, the Act provides expense deductibility rules such that companies are permitted to only take a tax deduction for expenses incurred in the generation of non-exempt income. The adjustment of the commencement and cessation rules is targeted at stimulating economic activities in Nigeria as it would stamp out the risk of double taxation.

At present, it is still premature to ascertain with certainty the implications but, inference from literature suggests that the Act is capable of improving public capital expenditure performance subject to proper implementation and institution of necessary framework in the country. Theoretical and empirical review unfolds evidence that VAT increase (from 5% to 7.5%); Companies segmentation (CIT exemption, 20% CIT, and 30% CIT of incomes); VAT compliance threshold (annual turnover of not more than 25 million naira); and other miscellaneous provisions of the new Act could stimulate Nigeria's economy and guarantee improved internally generated revenue for financing of capital expenditure. Thus, it could improve funding of capital expenditure in Nigeria which could pave way for inclusive economic growth and development in the country. Meanwhile, the above reservation is on account that Nigeria is near perfection in policy formulation but, implementation is always a challenge.

III. Recommendations

It is evident that the VAT increase from 5% to 7.5% would make appreciable influence towards improved funding of capital projects and programmes in Nigeria but, there must be a strong political will of government to stamp out corrupt practices in the country. Likewise, for companies segmentation to stimulate Nigeria economy that could guarantee improved internally generated revenue for funding of capital expenditure in Nigeria, government must develop formidable and automated tax system devoid of manipulation and capable of checking fowl play among stakeholders.

This suggests that government should as a matter of necessity embarks on awareness creation and sensitization among the stakeholders in the Nigerian tax system if the provisions of VAT compliance threshold (annual turnover of not more than 25 million naira) would improve funding of capital expenditure in the country. Nigeria government should also ensure that institutions in charge of tax administration are straightened, empowered, not made rubber stamp and toothless boo dog that dances at the whims and caprices of her master, for other miscellaneous provisions of the new Act to improve funding of capital expenditure, stimulate economic growth, and enhance inclusive development. Of course, the achievement and sustainability of the act's promising provisions depends on among other things, the Nigeria government's ability to continue training and retraining of staff and management of agencies involved in the implementation of the new Act.

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