# SECURITIES AND EXCHANGE COMMISSION, NIGERIA

# TAX: AN OLD WAVE ON A NEW SHORE

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**PROTOCOL**

Distinguished guests, ladies and gentlemen.

1. I feel greatly honoured to be invited as a Special Guest to this occasion of Industry Stakeholders Roundtable. This event is a laudable initiative by the GTL Trustees, which would enhance robust collaboration and improve professionalism within the financial industry.
2. The Securities and Exchange Commission is proud to be identified with this initiative given its conviction that a viable and efficient tax system would attract local and foreign investors to the market as well as enhance Nigeria's economic growth.
3. I therefore congratulate GTL Trustees and urge that this commendable effort be sustained.
4. The choice of the theme for this year's Conference, **"Tax: An Old Wave on a New Shore",** is apt and germane to the current efforts of the government to reform tax administration and enable the country meet up with her current realities. It is also important as tax policy could be used to incentivize market participants towards the development of the capital market.
5. Let me use this opportunity to give an overview of transaction costs in the Nigerian capital market and taxes charged on capital market transactions as well as highlight some of our recent efforts and concerns.
6. As you all are aware, the Securities and Exchange Commission (SEC) is the apex regulator of the Nigerian capital market as enshrined in the Investments and Securities Act (ISA) No. 25 of 2007. The Act gives the Commission the dual mandate of regulating and developing the Nigerian capital market.
7. Major activities of the Commission include: registration of securities and operators, inspection and surveillance, investigation and enforcement, rulemaking and market development.

8. As part of its developmental role, the Commission pays keen attention to the transaction costs that may affect activities in the Nigerian capital market. In the light of this, efforts have been made to reduce fees chargeable on the market transactions.

9. Some of us here may recall that the Commission has consistently collaborated with the capital market community on how transaction costs could be reduced. In addition, this was done in 2007/2008 and 2010/2011.

10. Currently also, we are piloting a new reduced fee structure for the primary market issuances and we are taking feedbacks to evaluate the effect of such reduction on our market.

11. In addition, the Commission has improved on some of its processes to aid time-to-market and compete effectively, especially as the government works towards improving the business environment in the country.

12. While working relentlessly towards achieving the foregoing, it is important to note that parts of the costs of transactions are taxes in the forms of Value Added Tax (VAT), Withholding Tax, Stamp Duty, among others.

13. Taxes are compulsory payments to generate revenue for the government, but they can also be used for developmental purposes.

14. For instance, capital market investors and operators are subject to 5%Value Added Tax (VAT) on cost relating to their buy and sell transactions, comprising brokerage, commission as well as the CSCS and NSE fees.

15. Meanwhile, the Commission worked with key stakeholders to obtain VAT exemption for stock market transactions to encourage more trading in securities. The exemption order, which commenced in July 25, 2014 is available for a period of five years and would expire in July 2, 2019.

16. Also on Withholding Tax (WHT), the current rate charged on dividend is 10% of the amount paid to shareholders. However, we obtained exemption from income tax on all bond interest via the *Exemption of*

*Bonds and Short Term Government Securities Order of 2011*. All issuers paying bond interest during this period do not deduct any Withholding Tax. The exemption is for a period of 10 years, ending in the year 2021

17. Stamp duty is equally chargeable on capital market activities, comprising a rate of 0.75%on authorized share capital at incorporation of a company or on registration of new shares. Anad valorem tax of 0.375% is charged on transaction documents based on the value of bond issue and securities being pledged while an ad valorem tax of 1% is charged on vending and underwriting agreements.

18. However, there is currently a divergent application of the Stamp Duties Act between the Nigerian Postal Service (NIPOST) and Federal Inland Revenue Service (FIRS)

19. While the Nigerian Postal Service (NIPOST) asserted that it has the mandate to collect stamp duties through the sale of postage stamps to be affixed on Contract Notes, FIRS has contested that it is its statutory power to collect and administer stamp duties under the FIRS Establishment Act, 2007.

20. Another area of concern is the taxation of collective investments schemes (CIS), specifically unit trust schemes, as provided under the Companies Income Tax Act (CITA). For instance, CITA provides that the income of a Unit Trust be taxed in the hands of the Trustee as if it were a company. This is double taxation, since the same income is also taxed in the hands of investors.

21. Closely connected is the treatment of Real Estate Investment Schemes (REITS), which are sometimes taxed either as companies or as Unit Trust Schemes. However, the best practice is to give REITs a pass-through status and exempt them from paying taxes.

22. Generally, our tax laws need to be reviewed and those that are specific to the capital market require special consideration.

23. Therefore, the Commission currently engages in various tax initiatives, geared towards making our market more competitive. We are in support of clarity in tax regulations to encourage growth of businesses and facilitate a vibrant capital market where long-term capital can be easily assessed for the development of our economy.

24. For instance, using the platform of the Capital Market Master Plan Implementation Council (CAMMIC), the Commission, in collaboration with the Federal Ministry of Finance, is engaging with FIRS and NIPOST to address the conflict of interpretation surrounding application of the Stamp Duty.

25. Further, discussions are ongoing between CAMMIC and the FIRS to ensure that tax outcomes for investors in a CIS are broadly consistent with tax outcomes of direct investment. This is to achieve tax neutrality/pass through for Unit Trust Schemes. It however requires an amendment to CITA.

26. A REIT Regulation has also been drafted by the FIRS, which essentially provides for a pass-through status for REITS as long as they satisfy the SEC regulatory requirements. We are equally awaiting the approval and passage of this regulation.

27. As earlier stated, the exemption from VAT payment on commissions earned on traded values of shares payable to SEC, NSE and CSCS will expire by June next year, while that of Withholding tax on bonds will expire by 2021. We therefore look forward to engaging the relevant authorities on how these exemptions could be extended, especially now that the market is just recovering.

28. We are also seeking ways in which tax regimes can be designed to favour listed public companies. Listed companies have been found to be better governed, more transparent and constitute less burden during tax collection. Tax incentives to such companies can then serve as encouragements to other to be listed, thereby deepening our capital

market and making it possible for citizens to invest, own and partake in the wealth of companies.

29. It is my candid wish that this roundtable will deliberate extensively on some of these concerns, and many more, with a view to achieving capital market growth and broad macroeconomic development of our dear nation.
30. Once again, I want to thank you for this special invitation and wish you a fruitful and eventful programme.

Thank you and God bless.

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