



## Federal Government's One-time Windfall Tax on Realized Foreign Exchange Profits by Nigerian Banks



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**The Federal Government of Nigeria introduced a one-time Windfall Tax on Realized Foreign Exchange (FX) Profits by Nigerian banks. This tax targets the unexpected gains banks made from foreign exchange revaluation, especially due to the unification of Nigeria's multiple exchange rates. The government aims to use this measure to boost revenue and reduce the fiscal deficit. The policy applies specifically to banks that recorded significant FX revaluation gains and is part of broader fiscal reforms under the current administration.**

The Senate Arm of the National Assembly has on 18th July 2024 approved an executive bill passed to it by the President of the President of the Federal Republic of Nigeria to impose a onetime tax of 50% on all realized exchange gains made during the year 2023 by commercial banks operating in Nigeria.

This was due to the huge profit generated by eight commercial banks that reported N754.8 billion from foreign exchange revaluation gains in 2023 as a result of the liberalisation of the Foreign

Exchange by the Federal Government. This was a 472.3 percent increase from N131.9 billion FX gains reported in 2022.

The objective of the tax according to the government is to generate revenue to among other things fund "the Renewed Hope Projects on Infrastructure, Education and Healthcare". The Federal Inland Revenue Service has been authorized to assess collect, account and enforce payment of the tax in accordance with the powers allocate to the Service under section 30 of the Federal Inland Revenue Service (Establishment) Act 2007;"

According to Investopedia, a windfall tax is a tax levied by governments against certain industries when economic conditions allow those industries to experience significantly above-average profits. In the past years, Oil and gas companies were common targets of windfall taxes. However, due to the government's drive to increase the tax from non-oil sectors, the banking industry has been targeted.

The likely effect of this tax on the operations of commercial banks are as follows:

i. Commercial banks are at risk of facing profits and capital adequacy declines. This step may impact negatively their profitability and capital adequacy if they had anticipated using these gains as a counter-cyclical buffer against foreign exchange fluctuation.

ii. This could hurt investors' confidence and send a wrong signal about Nigeria's investment climate, especially in the banking sector.

Commercial banks that fails to comply with this amendment upon conviction would be required to pay the tax withheld along with a penalty of 10% on the amount withheld plus interest at CBN minimum discount rate or the imprisonment of principal officers. The Federal Government has therefore amended the Finance Act 2023 to ratify this amendment.