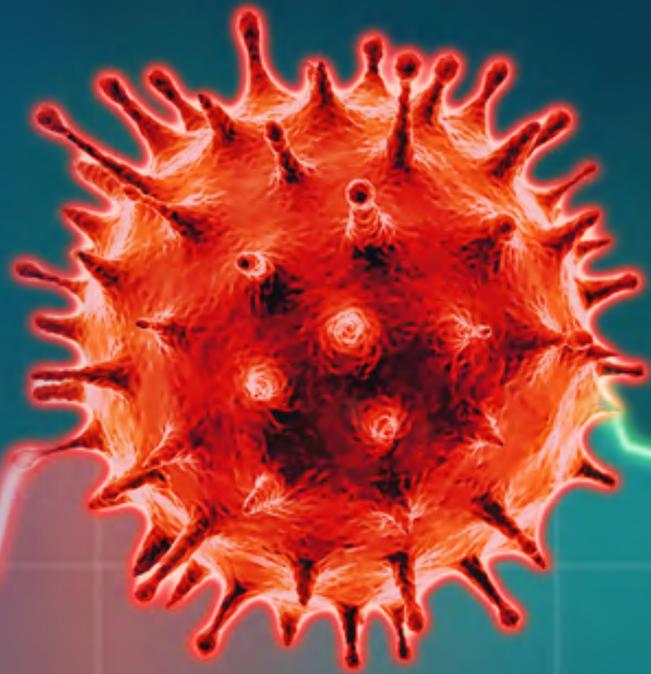


COVID-19: A Business Impact Series

Financial, Tax and Regulatory Considerations to Manage COVID-19 Disruptions

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The spread of the novel Coronavirus, COVID-19, is causing severe disruption to society, businesses in Nigeria and globally. As the country strives to cope with the uncertainties of this crisis and businesses continue to implement their pandemic response strategies, it is important that organisations stay on top of the Financial, Tax and Regulatory issues that could impact their operations in the short and long term.

Financial, Tax and Regulatory Considerations

The following are key financial, tax and regulatory considerations that should be top of mind for businesses at these disruptive times.

1. Impact of disruptions of business cash flows

For many organisations, effective cash flow management is likely to be critical during this period as revenues fall and potentially, debtors delay payments or become insolvent. It may be necessary to provide emergency funding to the most adversely affected subsidiaries in a group, and/or to repatriate cash to the center in order to service external loans or group commitments. Some key issues and questions to consider during this period are:

- Will financial difficulties mean businesses might breach loan covenants? If so, can they be renegotiated?
- For companies within a group, will it be necessary to pull all surplus cash back to the center? For example, to service third party debt. Consider issues around distributable reserves, withholding taxes and transfer pricing.
- Consider whether funds should be made available through loans, existing cash pooling arrangements or equity. How will the funding be repaid once the related party becomes cash positive?
- Consider thin capitalization rules (as recently introduced by the Finance Act, 2019), transfer pricing compliance, foreign exchange issues and withholding taxes.
- Is it possible to delay filing of tax returns or to utilize an extended period for making any payments to the tax authorities, to manage cashflows? This is noting that the Federal Inland Revenue Service (FIRS)

and some state tax authorities have extended the deadlines for filing and/or payment in response to the crisis.

- Is it possible to obtain a tax deduction for any bad debts incurred during this crisis? Is there a risk that a write-off of debt by a creditor creates taxable income in the hands of the company?

2. Ensuring strong compliance and administration during this crisis

With staff working from home and business leaders focusing on the survival of the business, organisations may struggle during this time to maintain strong daily oversight of compliance processes and, as a result, important compliance deadlines may be missed. Businesses need to keep in mind some of the issues below:

- Consider the fulfilment of corporate obligations (particularly continuous disclosure obligations for public companies) during transitional periods e.g. large-scale office closures. Disruption in normal operating conditions and team structures will pose unique challenges for business executives to effectively comply with statutory duties and obligations. Regulatory regimes applicable to specific industries (e.g. Financial Services Industry) will require strategies to be put in place to enable appropriate oversight and supervision.
- How will the business maintain company secretarial and general governance obligations in a partially or wholly remote working environment?
- How will the business maintain regulatory compliance across the value chain — for example, maintain visibility over anti-money laundering, trading supervision, cyber security and data privacy regulations, tax and other regulatory requirements, etc?

- How is the business keeping up to date with new COVID-19 related reliefs which governments and tax authorities are granting? Is the business able to keep up to date with all the tax and regulatory filings which are required, even with the extended time periods granted by the relevant tax and regulatory authority?
- Has the business considered and addressed the tax impact of contractual variations, changes to payment terms or orders, terminations and other similar events?
- Will reduced turnover cause the Company to fall under the N25million threshold for exemption from some VAT obligations recently introduced by the Finance Act, 2019?

3. Implications for employees working from a jurisdiction other than their usual place of work

During this time, it is possible that employees will need to work in a country that is not their usual place of work for a prolonged period. For example, because they are stranded by a travel ban or they are expatriates who must return to their home country during a crisis. Businesses need to consider questions such as:

- Will the employee create a taxable presence for the company under local law because they are treated as carrying on the company's business in that country or are a dependent agent?
- If a taxable presence is created, what are the local filing requirements and tax consequences? Or are there double tax credits to explore in the home country?
- Are there potential immigration requirements triggered by such circumstances, such as not being able to work for extended periods on business visas or the need to obtain or extend during of temporary work permits?

4. Implications for employees working from home

Employees are having to work remotely from home in a number of states in Nigeria. In other situations, employers are putting in place alternative working arrangements such as rotational work shifts that were not in place before this crisis. Some key questions to consider in this regard are:

- Are there relevant employment law issues relating to health and safety obligations of employers and those that address workers' compensation and liability in the event of accidents and injuries sustained while working from home?
- Where an employer provides extra payments, such as to cover extra utility expenses arising from home working, such as internet, electricity, etc., could these be taxable as benefits-in-kind?

5. Impact of travel restrictions for directors unable to attend board meetings

Travel bans may make physical attendance at board meetings impossible, such as would occur in a case where a director has travelled abroad and can no longer

return to attend board meetings. One key issue to consider is:

- Where directors cannot attend meetings in person, does the relevant legislation such as the Companies and Allied Matters Act (CAMA) and other regulations such as those issued for public companies by the Nigerian Stock Exchange (NSE) allow meetings to be held virtually? Is it necessary to have a quorum meeting physically in one place with others dialing in or can the meeting be entirely virtual?

6. Impact on supply chain disruption

In the current environment, supply chains may be disrupted for many reasons. Suppliers or vendors may lack staff due to illness or lockdowns; transport routes may be disrupted; import/export bans may apply; and insolvencies may occur. Companies may need to switch suppliers or selling channels; they may need to change the quantity or type of products and service which are bought or sold, or modify transport routes. Some issues and questions to consider include:

- Will the establishment of new supply arrangements expose businesses to additional cost?
- What are the challenges associated with implementing effective supplier due diligence from a supply chain compliance perspective?
- What will the impact of force majeure clauses be on any claim for non-performance or claims on an insurance policy?
- If any changes must be made in regard to the source of supplies, the location of exports, or transport routes across borders, what are the indirect tax consequences?
- What is the impact on a group's transfer pricing policy if profitability changes due to supply shocks and new prices for inputs, and/or changed demand and pricing on outputs?

The above is not an exhaustive set of considerations and should not be acted upon without professional advice based on each business' unique facts and circumstances. However, this provides a helpful starting point for thinking through a business' situation during this challenging time.



1. Points from President Muhammadu Buhari's speech on COVID-19

- **Order cessation of movement**

Ordered the cessation of all movements in Lagos and the FCT for an initial period of 14 days with effect from 11 pm on Monday, 30th March 2020. This restriction will also apply to Ogun State due to its close proximity to Lagos and the high traffic between the two States. The containment period will be observed to identify, trace and isolate all individuals that have come into contact with confirmed cases. Federal Government will ensure the treatment of confirmed cases while restricting further spread to other States.

- **Exempted from containment order**

This order does not apply to essential services such as hospitals and all related medical establishments as well as organisations in healthcare-related manufacturing and distribution. Workers in telecommunication companies, broadcasters, print and electronic media staff who can prove they are unable to work from home are also exempted. All seaports in Lagos shall remain operational in accordance with the issued guidelines.

- **Provision of relief materials**

For residents of satellite and commuter towns and communities around Lagos and Abuja whose livelihoods will surely be affected by some of these restrictive measures, Federal Government shall deploy relief materials to ease their pains in the coming weeks.

- **FG funded loans**

Directed that a three-month repayment moratorium for all TraderMoni, MarketMoni and FarmerMoni loans be implemented with immediate effect. He also directed that a similar moratorium be given to all Federal Government funded loans issued by the Bank of Industry, Bank of Agriculture and the Nigeria Export-Import Bank.

- **Function of the presidential task force**

Created a Presidential Task Force (PTF) to develop a workable National Response Strategy that is being reviewed on a daily basis as the requirements change. This strategy takes international best practices but adopts them to suit our unique local circumstances. The Presidential Task Force remains the central coordinating body on the COVID-19 response.

2. Covid-19: FCT-IRS extends deadline for filing tax returns

The Federal Capital Territory Internal Revenue Service (FCT-IRS) has extended the deadline for the filing of personal income tax returns by 3 months, from 31 March 2020 to 30 June 2020. This is in response to the disruptions to businesses brought by the COVID-19 pandemic.

3. Forex: Parallel market records lowest value since 2017

Naira has depreciated to its weakest level since February 2017 at the parallel market, which is also known as the black market.

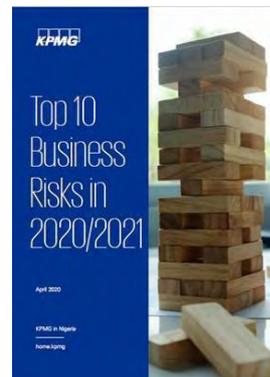
4. FG begins N20,000 relief fund disbursement per household in Abuja

The FG has started disbursing the N20,000 Condition Cash Transfer to poor households across the country, the disbursement is said to have started today.

5. COVID-19 could save naira from depreciating further

The global spread of COVID-19 and fear of another surge later in the year could limit travel plans for dollar-hungry Nigerians, easing pressure on the already troubled naira.

Our Latest Publications



Top 10 Business Risks

We are delighted to unveil the third edition of our report which focuses on the top 10 business risks in 2020/2021.

The Risk Consulting Practice of KPMG in Nigeria has been publishing the "Top 10 business risks" report since 2016 and has been highlighting in these reports the risks that are uppermost in the minds of Nigerian Business Executives. Follow this link for more details: <https://bit.ly/3dYfWWhp>



Coronavirus (COVID-19) Tax Developments

KPMG's reports of tax developments in response to the coronavirus (COVID-19).

Follow this link for more details: <https://bit.ly/3dOUHP3>

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