

NESG Position on the Central Bank of Nigeria's Cybersecurity Levy

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Background

- 1** Effective May 20, 2024, the Central Bank of Nigeria (CBN) directed banks to begin charging 0.5 percent (equivalent to 0.005) cybersecurity levy on all electronic transactions value as specified in the Cybercrime Act, section 44(2) (a) - as contained in the CBN circular titled "Cybercrimes Act 2024 – Implementation guidance on the collection and remittance of the national cybersecurity levy," released on May 6, 2024. The levy was introduced to curtail heightened cyber threats and boost cybersecurity infrastructure to protect Nigerians against cyber threats.
- 2** The CBN circular also details the consequences of non-compliance, which include a fine of not less than 2 percent of the defaulting business's annual turnover upon conviction. This stern measure underscores the CBN's commitment to enforcing the cybersecurity levy, which could significantly bolster government revenue and enhance effective corporate tax.
- 3** In Nigeria, the corporate tax rate varies based on the company's size. Small Businesses with a turnover below NGN25 million are exempt from Corporate Income Tax (CIT). However, Medium-sized and large companies are subject to a CIT rate of 20 percent and 30 percent, respectively.
- 4** Notably, the effective tax rate paid by businesses could exceed the actual CIT rate when we take into account some additional taxes/levies, including the Tertiary Education Tax (2.5% of profit), the National Information Technology Development Agency Levy (1% of profit), the National Agency for Science and Engineering Infrastructure Levy (0.25% of profit), and the Police Trust Fund Levy (0.005% of profit).

Macroeconomic Impact of Taxes on Household Welfare and Firm Efficiency

- 5** Economically, levies could strain the aggregate demand and limit growth. Since increases in government revenue do not compensate for decreases in household income, especially in the face of increased product prices and income falls, the Gross Domestic Product (GDP) could decline during the immediate policy implementation period.
- 6** An increase in tax could stimulate an upward trend in other prices in the economy, further elevating inflationary pressure as businesses immediately factor such a levy as an additional cost into the price of goods and services which could aggravate social restiveness among the populace. Furthermore, amidst limited buffer for health, education and food security, the policy will exert adverse impact on household whose disposable income has been squeezed by persist inflationary pressure.
- 7** Though levies are efficient revenue-generating instruments for the government, they negatively impact the national economy's efficiency if their intent is solely revenue-generating without correspondent increased spending or household transfer.
- 8** All households experience adverse factors in employment and, hence, income diversity. Introducing a new levy may be slightly detrimental to household welfare and increase the disparity between the rural and the urban divide. Increased capital spending and household transfer from the government are effective policy strategies to cushion such adverse effects on economic actors.

NESG Position

- 9** Amidst the cost of living crisis exacerbated by rising inflation, the cybersecurity levy is mistimed, considering CBN's concern about the high rate of financial exclusion and increased currency in circulation. The NESG posits that the levy should be targeted at high-net-worth individuals and a specific amount transferred electronically to allay the fears of the populace, who are still battling skyrocketing food and non-food prices. However, if this policy remains, several Nigerians will boycott electronic funds transfers, which does not even bode well for the government due to revenue loss from electronic transfer levy.
- 10** The NESG, however, feels this is a critical time to implement such a policy. The impacts of the fuel subsidy removal, exchange rate reform, and, most recently, the removal of electricity subsidies still permeate the operating costs of businesses and citizens' welfare. The government must be cautious of the numerous strenuous policies that stiffen the purchasing power and welfare of corporations and individuals. Therefore, the government needs to properly sequence reforms for efficient socioeconomic outcomes, especially those that strain the people.
- 11** This policy is coming when the Presidential Committee on Fiscal Policy and Tax Reforms is yet to finalise its mandate. One of the terms of reference of the Committee is that the number of taxes should be streamlined. Introducing a cybersecurity levy could thwart this essential mandate. To avoid conflict of interests and ensure no policy misalignment, the NESG strongly believes that the levy should be deferred and proper consultation until the Fiscal Policy Committee deems it necessary to implement it.

12 The NESG recognises the exemptions highlighted by the CBN. However, the CBN needs to be proactive in monitoring banks' implementation to curb citizen exploitation. With the exemption provided, we anticipate that there will still be overlapping transactions. Therefore, it is imperative for the monetary authority to develop an effective and practical framework to limit the levy to liable transactions.

13 It is noteworthy that the policy is intended to fight cybercrimes and raise revenue for the government. However, higher revenue should be achieved without imposing severe burden on poor and vulnerable Nigerians. Meanwhile, the policy could also create loopholes for cybercriminals to devise alternative routes to perpetrate the heinous acts. To narrow the alternative ways of committing cybercrimes, the NESG posits an integrated approach in the fight against cybercrimes involving the collaborative efforts of financial institutions, security agents, the EFCC and other key stakeholders. Hence, introducing a cybersecurity levy penalises the populace for the failure of the system to uproot the sources of cybercrimes.

14 The cybersecurity levy needs to be reconsidered, considering the CBN's concern about the high rate of financial exclusion and increased currency in circulation. At the NESG, we are concerned that implementing this policy at this critical time will decelerate the pace of achieving the 95 percent financial inclusion target of 2025. The mere news of charges on bank transactions will demotivate many Nigerians from accessing financial services, potentially propelling a surge in the demand for cash.

15 The cybersecurity levy adds to the list of levies and taxes collected by financial institutions on behalf of the government, including stamp duty, electronic transfer levy, and VAT. This embodiment of taxes increases the transaction costs of using a bank and could disrupt the financial intermediation role of banks. Furthermore, given the current strains that citizen face, perceived unfairness, lack of transparency and accountability would heighten distrust in the financial system. The NESG, therefore, suggests the need to reduce banks' transaction costs, signal clarity to improve trust in the financial system and to entice people to become financially included. For instance, the high transfer costs charged by the official channel (banks) have prompted many Nigerian migrants to route remittances via informal channels.

Conclusion

In conclusion, while acknowledging the imperative of enhancing cybersecurity resilience, the NESG urges prudent consideration of the cybersecurity levy's timing and implementation modalities. By fostering dialogue, targeted application, and comprehensive cybersecurity strategies, Nigeria can navigate the evolving cyber threat landscape while safeguarding economic stability and promoting inclusive growth.