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IMPACT OF CASHLESS BANKING AND CURRENCY REDESIGN ON TAX REVENUE GENERATION IN NIGERIA

Abstract: *This paper examines the impact of the cashless banking and the redesign of the currency on tax revenue generation in Nigeria. It makes use of the doctrinal research methodology to recognise the tax prospectives of the cashless banking policy and the currency redesign initiative of the Central Bank of Nigeria. The research looks at currency redesign in other selected jurisdictions like, the United Kingdom, the United States of America and India to draw lessons from them. The study finds out that under the cashless policy, it is easier for the tax authority to fish out tax evaders. This is because the more electronic cash transactions people make, the easier it becomes for the tax authority to track their income and net worth. The currency redesign exercise also has the potential to make tax enforcement easier. This paper recommends the need for measures to be put in place by the government to ensure all necessary banking and digital payment infrastructure, the enabling legal framework to help the economies' informal sector to accept the system of cashless payment, the enlightenment of members of the public to choose other available payment options, rather than a superfluous dependence on cash, and that Nigeria should put in place a long time plan for the phasing out of old bank notes. The paper concludes that the combination of the two will boost tax revenue and foster a more efficient tax system.*

Keywords: Cashless banking, Currency redesign, Impact on revenue generation, Central Bank of Nigeria, Tax.

1. Introduction

With the Central Bank of Nigeria's relaunch of the cashless policy initiative and with the new currency redesign in the year 2022, there will cease to be a place for tax evaders in Nigeria to hide. It is believed that the new cash policy, which has compelled people to do their business transactions, with the use of electronic money transfer, will have positive impacts on the economy. This research work attempts to identify the impact the latest cashless policy and the currency redesign exercise will have on tax revenue generation. Although a little work has been done on the

impact of the cashless policy on the different sectors of the economy,¹ much has not been done on the impact the cashless policy will have on revenue generation. This study is an attempt to contribute to the ongoing policy discussion on ways the cashless policy can increase revenue generation in Nigeria.

This study is necessary because, despite Nigeria being the largest economy in Africa, its tax-to-GDP ratio remains low compared to global standards². It is however hoped that the recently introduced cashless economy policy coupled with the naira redesign will help the government increase revenue generation. One of the points financial analysts have pointed out regarding the recent cash policy is that more naira is likely to move from private hands into the banking vaults. This will both help to reveal the identity of bank depositors and also to show how much they own, and the amount they are supposed to remit to government coffers as tax.³ The resultant effect of this would be that tax agents, working in synergy with banks, would find it easier to go after tax evaders.⁴ With the new cashless policy, there would therefore be no more a hiding place for tax evaders in Nigeria, because their activities will be more visible to tax authorities.

Nigeria through its Central Bank recently introduced a new cash policy which centered on over the counter withdrawal limits and withdrawal limits for Automated Teller Machine (ATM) and Point of Sale transactions (POS). This Paper examines the likely implication this new policy will have on revenue generation from tax. This study discovered that the new cash policy has forced many Nigerians who previously transacted in cash to resort to electronic payments. The study also finds out that many small-scale businesses have become more visible to tax authority thereby compelling them to be more tax compliant. With the new cash policy, it will be easier for the tax authority to fish out tax evaders. This is because the more electronic cash transactions they make, the easier it becomes for the tax authority to track their income and net worth. The newly introduced cash policy centered on over the counter withdrawal limits and the cash redesign of the N200, N500 and N1000 naira notes.

Even though other researchers have done some work on cashless policy and currency redesign, this work is different because it focuses on the combined effects of cashless banking and currency redesign on tax revenue generation in Nigeria. One of such previous research is a paper titled, “Impact of Cashless Economy in Nigeria” where the author posits that the cashless policy will increase employment, reduce cash related corruption, and bring to the country more foreign investors.⁵

¹ Otitoju, M.A., Dirisu, I.H., Ojokojo, P.P., and Abdul, F. (2023). Cashless Policy and Naira Redesign of the Central Bank of Nigeria (CBN): A Review. *Journal of Global Economics and Business*, 4(14), 45-59. DOI:10.58934/jgeb.v4i14.127

² Unlocking Nigeria's Potential: Strategies to Boost Tax Revenue. <https://nationaleconomy.com/unlocking-nigerias-potential>.

³ Akinyemi, R. Head Global Markets at Parthian Partners said this at the bi-monthly forum of the Finance Correspondents Association of Nigeria (FICAN) in Lagos reported in Leadership Newspaper, accessed 13 December 2023

⁴ Idowu, B. Using Naira Redesign, Cashless Banking to Increase Nigeria's Tax Net <https://leadership.ng/using-naira-redesign-cashless-banking-to-increase-nigerias-tax-net/> accessed 10 January 2024

⁵ Omotunde Muiyiwa, Sunday Tunmibi and John Dewole A.T, Impact of Cashless Economy in Nigeria, *Greener Journal of Internet Information and Communication Systems*, Vol 1(2) April 2013 040-043. DOI: 10.15580/GJIICS.2013.2.020713436

However, another researcher while reviewing the cash policy's effect on Micro, Small and Medium Enterprises (MSMEs) suggested that the consequent cash crunch has resulted in decreased sales volumes, economic slowdown, making it harder for MSMEs to survive.⁶

2.0 Cash Policy in Nigeria

In October 2022, the Central Bank of Nigeria (CBN), the apex bank in Nigeria, decided to simultaneously redesign three of Nigerian bank notes. They also decided to introduce new cash withdrawal limits. This move of the CBN was intended to, "kill two birds with one stone." That is, to entrench the cashless economy agenda and to minimize access to large volume of money used by terrorists and kidnappers⁷. Prior to the 2022 exercise, as part of the economic reform, on the 28 February 200, N20 was issued for the first time in polymer substrate. In addition to this, the N50, N10, and N5 banknotes with the N1 and 50k coins were reissued in new designs, and the N2 coins was introduced. On 30 September 2009 the redesigned N50, N10 and N5 banknotes were subsequently changed to polymer substrate after the successful performance of the N20 polymer banknote. As part of the CBN's contribution towards the celebration of Nigeria's 50th Independence anniversary, it issued commemorative bank notes, the N50 polymer banknote on 29th September 2010 and the N100 banknote on 19th December 2014 respectively.⁸

The CBN core mandate is derived from the 1958 Act of Parliament, as amended in 1991, 1993, 1997, 1998, 1999, and 2007. In the Federal Republic of Nigeria CBN Act, 2007, the CBN was entrusted with the total authority of the financial sector policies of the Federal Government. The main functions of the central bank include⁹

1. Control of the base rate and inflation or ensure monetary and price stability.
2. Control of the issuance and supply of money through open market operations.
3. Keep reserves with private banks to protect the international value of the legal tender currency.
4. Ensure that the Foreign Exchange Reserves are adequate.
5. Function as Bankers and render financial advice to the Federal Government.

The CBN is tasked with supervising the Banks and Other Financial Institutions Act (BOFIA), 2020. The bank is vested with the sole aim of ensuring superior levels of financial services are delivered, done through its surveillance activities. The bank is also tasked with ensuring the promotion of an efficient payment system.¹⁰ In addition, from the CBN Act, it is deduced that currency management is also a key function of CBN.¹¹ According to the CBN Governor, the

⁶ Moradeyo Adebajo Otitoju, Godbless Friday Safugba and Esther Oshofuneh Vincent and Chinasa Mary Chukwu, Eeview of the Naira Redesign and Its effect on Micro, Small and Medium Enterprises (MSMEs) *Advances in Applied Sociology*, Vol 13 (9) September 2023. Accessed on 12 August 2024.

⁷ Akintoye O.D. (2023) An Overview of Central Bank of Nigeria's Recent Cash Redesign and Cashless Economy Agenda *International Journal of Innovative Research and Development* vol 12 issue 6 June 2023. Accessed on 12 February 2024 https://www.internationaljournalcorner.com/index.php/ijird_ojs/article/download/173022/117608/416822 DOI No.:10.24940/ijird/2023/v12/i6/JUN23002

⁸ Central Bank of Nigeria <https://www.cbn.gov.ng/currency/historycur.asp> accessed January 29 2024

⁹ Statement of CBN Core Mandate- Central Bank of Nigeria <<https://www.cbn.gov.ng/aboutcbn>> accessed January 10 2024

¹⁰ Central Bank of Nigeria: The Core Mandate of the Bank, available at: <[www.cbn.gov.ng](https://www.cbn.gov.ng/aboutcbn/coremandate.asp)> accessed 12 May 2023 <https://www.cbn.gov.ng/aboutcbn/coremandate.asp> (last visited on April 11, 2023).

¹¹ as enshrined in Section 2(b) of the CBN Act 2007

efficiency of a central bank is dependent on the integrity of its local legal tender, as well as in its capabilities in the conduct of monetary policy are some of the characteristics of an efficient Central Bank.¹²

The CBN cashless policy prompts individuals and businesses to undertake financial transactions electronically and as people adopt digital payment methods, more economic agents leave the informal sector and come within the government tax net. The informal sector is depicted as an underground or black market in labour, thus constituting a great problem for policy makers and tax administrators in Nigeria.¹³ In addition, the formal sector is also involved with playing a paramount but controversial role in economic development of many nations.¹⁴ However, the increased formalisation of business activities leads to more advantageous tax compliance. This is because, with money in the banking system, tax authority can track income sources and identify potential tax evaders. It is believed that cashless banking will enhance tax administration and reduce tax evasion.¹⁵ However, this will be based on how effectively tax authorities synergise with the banking sector.

3.0 Benefits of Currency Redesign

All around the world, there are several reasons why different countries redesign and reissue their legal tender. One major reason is the prevention of counterfeit currencies. Effective currency redesign can support regulatory reform. The CBN Governor Godwin Emefiele¹⁶ reiterates that introduction of the policy by the bank was with the best interest of Nigerians at heart. He stated that the main aim of the policy was to make Nigeria's monetary policy decisions more efficacious.¹⁷

In addition, the CBN and several stakeholders such as the Deposit Money Banks, the Economic and Financial Crimes Commission (EFCC), the Nigeria Financial Intelligence Unit (NFIU), and the Independent and Corrupt Practices Commission (ICPC) are working together to ensure that the goal, which is to deliver to all Nigerians, a new currency that meets global standard is achieved.¹⁸

Emefiele, further stated that the redesign of the currency ought to have been done within a 5–8-year window. However, in Nigeria, the CBN did not launch this important currency management function for about 19 years.¹⁹ He also debunked the rumor going around that the policy was targeted at the politicians, but that it was, 'derived from CBN in-house analysis to strengthen

¹² Extract from the full text of CBN Governor Godwin Emefiele's statement on the issuance of new naira bank notes. October 26, 2022. accessed 20 April 2023

¹³ Awodun, M (2016) The informality of the Informal Sector Kwareve News, Vol 2, issue 7 (A monthly publication of KWSIRS, June 2016)

Iormbagah, J.A Informal taxation in Nigeria ; Significance, Benefits and Challenges <https://www.ictd.ac/blog/informal-taxation-nigeria-significance-benefita-challenges/> accessed 2 February 2022

¹⁴ Udoh, J.E. (2015) Taxing the Informal Economy in Nigeria: Issues, Challenges and Opportunities' International Journal of Business and Social Science, 6 (10) 164 <<https://ijbssnet.com>> accessed 2 February, 2023

¹⁵ Using Naira Redesign, Cashless Banking to increase Nigeria's Tax Net <https://leadership.ng/using-naira-redesign-cashless-banking-to-increase-nigeria-s-tax-net/>

¹⁶ Godwin Ifeanyi Emefiele was CBN Governor from 4 June 2014 until his suspension by the current Nigerian President Bola Tinubu on 9th June 2023

¹⁷ Press Statement by the Nigerian CBN Governor Godwin Emefiele on the progress of implementation of new redesigned currency by the Central Bank of Nigeria, January 29, 2023, available at: <<https://www.cbn.gov.ng>> accessed April 4, 2023).

¹⁸ Ibid

¹⁹ Ibid.

Nigeria's macroeconomic fundamentals and better Nigeria's socioeconomic conditions.' The following different reasons have been given as reasons for the redesign.

Firstly, that the policy for the redesign of the currency will aid clearing up monies outside the banking system,²⁰ estimated to be over 85% of the circulating currency. This high percentage of money outside of the banking system has contributed to rising inflation and currency speculation, and which had resulted in foreign exchange challenges in recent times.' Secondly, that the number of the 'unbanked' population is alarming and thirdly, that insecurity and ransom-taking by kidnappers in Nigeria needs to be tackled urgently and fourthly, to solve the problem of currency counterfeiting among others.²¹

According to James Emejo, the naira redesign and implementation of the cashless policy would reduce fiscal leakages, increase government revenue, and improve the financial capabilities of vulnerable Nigerians as well as benefit the country.²²

According to the CBN, the following are the expected benefits of currency redesign;²³

- i. It will increase currency security by helping nations minimize counterfeits and be better prepared for threats.
- ii. It is anticipated to boost the economy, lower cash management cost, advance financial inclusion and improve the government's ability to monitor the money supply.

Those who agree with the redesign of the naira currencies in Nigeria believe it will bring about a lot of benefits, for example it.

- a) Will decrease inflammatory pressure and suppress insecurities in Nigeria
- b) Will reduce money stock, which will slow the long-term trajectory of inflation in Nigeria by minimizing the quantity of currency held outside of banks.
- c) May result in interest rate reduction, which may help to increase economic activity.
- d) Will increase aggregate demand and improve output growth
- e) Will lessen the inclination to buy votes during the March 2023 elections
- f) Will strengthen financial institutions, lessen corruption, and improve bank functioning caused by the expanding utilization of electronic banking channels

²⁰ In 2015, currency-in-circulation was only N1.4 trillion but as at October 2022, currency-in-circulation had risen to N3.23 trillion; out of which only N500 billion was within the Banking industry and N2.7 trillion held permanently in people's homes. Ordinarily, when CBN releases currency into circulation, it is meant to be used and after effluxion of time, it returns to the CBN thereby keeping the volume of currency in circulation under the firm control of the CBN.

²¹ In announcing the Naira redesign program, the CBN Governor said the move was aimed at checking the increasing ease and risk of currency counterfeiting evidenced by several security reports, and the increased risk to financial stability as well as the worsening shortage of clean and fit currency, with the attendant negative perception of the central bank.

²² James Emejo, Many Benefits of Naira Redesign, Cashless Policy. Thisdaylive, 30Jan 2023, available online at www.thisdaylive.com

²³ Central Bank of Nigeria <https://www.cbn.gov.ng/ccd> Pdf accessed 20 April 2023

- g) Will result in more transactions taking place through bank accounts and more agents being able to access the government's tax collection system. The increase of agents in the tax net will lead to a rise in revenue generation for the Federal Government of Nigeria.²⁴

4. Arguments against Currency Redesign

In contrast, some other economic analysts have argued that redesigning Naira notes will not check rising inflation.²⁵ The experts, noted that the physical cash in circulation is just about the 6.8 per cent of the total monies in the economy, and hence cannot impact positively on inflation figures.²⁶ In the same vein, a Professor at the Lagos Business School, Bongo Adi dismissed the notion that Naira redesign will control inflation, arguing that inflation depends not only on demand and supply but also on forex volatility and insecurity. Adi points out that inflation sets in when much money is chasing fewer goods and that in Nigeria, the money outside the banking system has always hovered between 80 to 85 percent in the past 20 years. Therefore, the claim that there is too much money outside the banking system is not new, hence redesigning or printing new currency cannot address the problem.²⁷

The Chief executive officer of the Centre for the Promotion of Private Enterprise (CPPE), Dr. Muda Yusuf, believed the redesign of Naira or recalling of old notes will not have significant effect on inflation. This is because the physical cash only makes up about 6.8 per cent of the entire money in the economy. He argued, "how will a measure targeted at physical cash have an overriding impact on the remaining 93.2 per cent of other monies tied to deposits, bonds and so on."²⁸

The Dean and a Professor of Finance at American University of Nigeria (AUN), Prof Leo Ukpong also supported the argument that naira redesign will not check inflation but can only give CBN some level of control on the volume of physical cash in circulation.²⁹

Other financial analysts are of the opinion that the currency redesign exercise was ill timed as there are more pressing issues demanding the attention of the CBN. This is coupled with the fact that the redesign and the printing of new currency notes is expensive, and the money used could have been deployed to provide other beneficial amenities for the society.

Even though Section 18 (a), 18 (b) and 20 (3) of the CBN Act provide the CBN with the power to "arrange for the printing of currency notes and the minting of coins: as well as issue, re-issue and exchange currencies notes and coins at the Bank's offices and at such agencies as it may, from time to time establish or appoint." the fact that the CBN has just about three months to redesign, produce and circulate the new naira notes and only four months to call back the old notes leaves much to be desired and many analysts have asked the salient question, why the rush and why put Nigerians into hardship?

Section 20 (3) states that

²⁴ Emejo James. (2023). Merits of Naira Redesign, Cashless Initiatives. This Day February 8, 2023 available at: <https://www.thisdaylive.com> accessed March 18, 2023.

²⁵ Idowu, B., Khaliq Z., and Bello, O. Redesigning Naira won't Check Rising Inflation-Analysts. Professor Bongo Adi of the Lagos Business School speaking to Leadership News Available at: <https://leadership.ng/redesigning-naira-wont-check-rising-inflation-analysts/#> accessed March 20, 2023.

²⁶ ibid

²⁷ ibid

²⁸ ibid

²⁹ ibid

notwithstanding sub-section (1) and (2) of this section, the Bank shall have power, if directed to do so by the President and after giving reasonable notice on that behalf, to call in any of its notes or coins on payment of the face value there and any note or coin with respect to which a notice has been given under this subsection, shall, on the expiration of the notice, cease to be legal tender.

From the above sections of the CBN Act, the bank has the power to reissue currency but must give reasonable notice to the members of the public of its intention to do so. The CBN failed to give the requisite notice, one of the explanation for the exercise not recording the desired success.

Critics of the cashless policy have argued that this policy could lead to worsening financial conditions for Nigerians by creating unemployment in the financial value chain. That notwithstanding, even if Nigerians are ready to adopt a cashless society, the required infrastructure needs to be created. Nigeria's current banking and digital payment infrastructure is inadequate to provide for the expected increase in the magnitude of digital /electronic based transactions.³⁰ The currency redesign policy has been said to have negative short-term effect on industrial performance.³¹ These effects include vulnerable economic hardship, weak access to cash flow, loss of customers, inadequate marketing, and low returns on business investment.

5. Benefits of Cashless Economy Policy

In 2012, the CBN divulged its intention to begin a transition to a cashless economy, as part of the country's ambition to become one of the top 20 economies by the year 2020. The Cashless policy is an economic policy aimed at reducing the amount of produced currency in the economy, and involves more electronic-based payments.³² The new policy on cash-based transactions seeks not to abolish the use of cash but to decrease the amount of physical cash circulating in the economy, as well as motivate the use of more electronic based transactions.³³ The new policy is targeted at establishing and providing smooth and inclusive transactions for the benefit of the economy as a whole.³⁴ The cashless policy initiative of the CBN has proven to be a business enabler³⁵ due to the following identified benefits;

- It will establish a change in our payments systems in Nigeria. This is very important for economic growth and ultimately attainment of the Nigeria's vision 20 2020.
- It will reduce the huge cost of providing banking services. The saved money will be utilized to lend credit to Nigerians.

³⁰ Jaiyeola Temitayo, 'Nigeria's Digital Payment Infrastructure Inadequacy' in an Interview with Route Pay CEO Femi Adeoti, Punch Newspaper April 18, 2023.p.11

³¹ Abolaji Dada, 'Currency Redesign Policy Implementation: Implications for Industrial Performance in Nigeria' American Journal of Industrial and Business Management, Vol.13 No.9, September 2023, Accessed on 12 February 2024 [https://www.scirp.org/journal/paperinformation?paperid=127472#:~:text=The %20study%20revealed%20that%20the, low%20returns%20on%20business%20investment.](https://www.scirp.org/journal/paperinformation?paperid=127472#:~:text=The%20study%20revealed%20that%20the,low%20returns%20on%20business%20investment.) www.scirp.org DOI:10.4236/ajibm.2023.139050

³² Ejioh C, (2019). Empirical Review of the Challenges of the Cashless Policy Implementation in Nigeria: A Cross-Sectional Research. Journal of Physics: Conf. Series 1299 (2019) 012056 doi: 10.1088/1742-6596/1299/1/012056. accessed 10 May 2023.

³³ Ibid

³⁴ Central Bank of Nigeria <<https://www.cbn.gov.ng/cashless>> accessed 10 May 2023

³⁵ Emejo J, Ibid

- It will help the Central Bank and commercial banks better manage Nigeria's economy to ensure that monetary policy works.³⁶

In addition to the above, there are some projected benefits for consumers, for corporations and for the government. On the side of the consumer, the expected benefits of the cashless policy include decreased risk of cash-related crimes, increased convenience, more diverse service options, cheaper access to (out-of-branch) banking services and increased access to credit. For corporations, the expected benefits are, faster access to capital, decrease in revenue leakage, and cash handling costs. The government benefits of the policy include, increased tax collections, greater financial incorporation and increased economic development.³⁷

Because the cashless policy is projected to have myriads of economic benefits, it is important that to ensure that its implementation is properly executed. The lack of proper execution of the policy by the CBN was shown to have caused a high degree of hardship for Nigerians.

Using Nigeria as a case study, Fadiya B. conducted research on whether circulated currency can be shown to promote economic performance in developing countries. This research brought to light the fact that the cashless economy has a significant impact on the performance of Nigerian economy.³⁸ As a solution, he recommended that the Nigerian government should be tasked with providing the necessary infrastructure and the enabling legal framework to aid the informal sector of the economy to accept the cashless payment system³⁹. This proposition made more than a decade ago is still very much relevant in the present economic dispensation.

While speaking in support of the cashless policy, the former CBN governor condemned the level at which people use cash in Nigeria, especially for buying and selling. In many other countries of the world, there are several payment options which include debit cards, credit cards, direct debit, bank transfers, Automated Teller Machines (ATMs) and mobile phone money. The cashless policy seeks to among other things; increase the capacity of all available payments instruments in the country as well as increase end to end electronic payments in the country.⁴⁰

Irrespective of the fact that the procedure to ensure reduction of cash usage in the economy commenced in 2012, the implementation has been delayed and there had been five reversals in the bank's attempt to go cashless and promote financial inclusion since 2014. The reversals were borne out of the need to deepen the country's payment system infrastructure in Nigeria, and the need to educate the public to choose other available payment options, instead of the unrestrained dependence on cash for transactions.⁴¹

6. Likely Effect of the Cashless Policy on Tax

In many countries, the revenue generated is determined by the various monetary policies of the government. This is because the monetary policies usually affect all the sectors of the economy. The new cash policy, will help to improve tax collection, including income tax from

³⁶ Cash-Less FAQs_230426_171645.pdf (Last visited April 24, 2023) accessed 23 MAY 2023

³⁷ *ibid*

³⁸ Fadiya, B. B. (2013). Does Currency in Circulation Promote Economic Performance in Developing Countries? Evidence from Nigeria, September 2013. International Business Research 6(10) DOI:10.5539/IBR.v6n10p91 Researchgate <https://www.researchgate.net>2727>

³⁹ *Ibid*.

⁴⁰ Press Statement by The CBN governor Mr Godwin Emefiele.

⁴¹ Alternative cash payments options include, Point-of-sale (POS) terminals, Mobile payment systems, internet banking, Multi-functional Automated Teller Machine (ATM), Electronic Funds Transfer Systems, and Direct Debit.

those who are engaged in the informal sector.⁴² Many Nigerians evade payment of personal Income tax, thereby making what the government realize from this tax to be very minimal. There is a minimal contribution of personal income taxes to the total revenue generated in developing countries.⁴³ There is, however, no more a hiding place for small scale business owners in Nigeria,⁴⁴ because with the introduction of the new cash policy, their activities are now becoming more visible to tax authorities. Emejo reiterates that a combination of naira redesign and cashless banking provides advantageous conditions for tax inclusion, efficiency, and improved revenue generation in Nigeria.⁴⁵

6.1 The United States of America

In the US, the currency redesign and distribution exercise are both systematic⁴⁶ and systemic⁴⁷ and therefore came out with a better result.⁴⁸ Before a Federal Reserve⁴⁹ note enters circulation, four critical stages, design, order, production, and issuance are followed. The financial policies of the government are managed by the federal reserve independently and without legislative intervention. Also, they are tasked with maintaining financial stability by performing other responsibilities of a central bank such as organizing economic surveys and regulating bank activities.⁵⁰ According to the US Federal Reserve, the main aim of any redesign is security.⁵¹ Notes must be immune to rising advanced counterfeit attacks, new features in the new design, are developed to address this threat. Many years of research, followed by years of optimization and string testing of the banknote is needed to ensure the successful implementation of new features into US currency.⁵²

⁴² Olisah, C. Tax Implication of new CBN cash withdrawal limits on individuals, MSMEs- Taiwo Oyedele

<https://nairametrics.com/2022/12/07/tax-implications-of-new-cbn-cash-withdrawal-limits-on-individuals-msmes-taiwo-oyedele/> accessed on 20 December 2023

⁴³ History of Nigerian Currency, Central Bank of Nigeria cbn.gov.ng

⁴⁴ Examples of small-scale businesses are daycare centers, Laundry business, blogging, Poultry Farming, bakery business, catering, and freelance writing, phone accessories, barber shop, event planning, rental services, Restaurant business and social media marketing, transport business, car wash, cosmetic business, food processing, ice block production, POS business, Mobile Phone repairs etc.

⁴⁵ Emejo, J. Merits of Naira Redesign, cashless initiatives -THISDAYLIVE

<https://www.thisdaylive.com/index.php/2023/02/08/merits-of-naira-redesign-cashless-initiatives>

⁴⁶ Systematic means constituting or based on a system, according to a system, Webster's Universal Dictionary & Thesaurus, Geddes & Grosset, 2007, Scotland, UK p.470 ; done or acting according to a fixed plan or system, Oxford Languages and Google-English Oxford Languages, available at: <https://languages.oup.com/google-dictionary-en/> accessed March 21, 2023.

⁴⁷ Systemic means something that is affecting the whole body, Webster's Universal Dictionary & Thesaurus, Geddes & Grosset, 2007, Scotland, UK p.471; it also means relating to a system especially as opposed to a particular part, Oxford Languages and Google-English Oxford Languages. <https://languages.oup.com/google-dictionary-en/> accessed 21 March 2023

⁴⁸ Ogwu Sunday M, 'Currency Redesign: Lessons For Nigeria From Global Practices' Daily Trust Newspaper February 5, 2023 available at: <https://dailytrust.com/currency-redesign-lessons-for-nigeria-from-global-practices/> accessed March 20 2023).

⁴⁹ The Federal Reserve, more commonly referred to as "The Fed" is the Central Bank of the United States of America and is the supreme financial authority behind the world's largest free-market economy. Because of the US' influence on the global economy, 'the Fed' is considered one of the most influential financial institutions in the world. The Federal Reserve is headquartered in Washington DC.

⁵⁰ Federal Reserve (The Fed) available at: https://corporatefinanceinstitute.com/resources/economics/federal-reserve-the-fed/?gclid=CjwKCAjw9J2iBhBPEiwAerwpeT8MoEbFkgulJ5vimbWbuoH0x1xIGbFJ2dGXxNAqM3SGtBorVlv0cBoCgNYQAvD_BwE accessed April 2, 2023)

⁵¹ Ochei, A. Naira Redesign – The Law and Global Best Practices' Business Day. 18 November 2022

<https://loyalnigerianlawyer.com/naira-redesign-the-law-and-global-best-practices/> (accessed January 29, 2023).

⁵² The US Bureau of Engraving and Printing, which collaborates with the Federal Reserves as well as the Treasury Department and the US Secret Service reported that the US has ongoing plans to redesign its currencies.

The Bureau stated that the current denomination has been in development since the year 2011 and the USD denominations and the corresponding date of issuance are \$10 (2026), \$50 (2028), \$20 (2030), \$ (2032) and \$100 (2034).

One lesson from the USA is that the process of currency redesign cannot be rushed but should be done in sequence. For instance, the planning and execution of the new US currency will eventually take a period of 23 years. This is in contrast with Nigeria that announced its currency redesign policy in October 2022, and gave a window of about three months for the exercise to be concluded. The Supreme Court of Nigeria, however saved the day when it ruled, that the deadline for the abolition of the old naira note should be extended to December 31, 2023. The new government of President Ahmed Tinubu canceled the deadline on 29th May 2023.

6.2 The Republic of India

In 2016, the India government⁵³ in its bid to stop corruption, and reduce the volume of money circulating, withdrew and reintroduced the 500 and 1000 denominations of the India rupees within six months. Reports stated that the scheme caused a lot of economic disruption and caused unnecessary hardships. Agriculture and small businesses were frozen thus disrupting the supply chains and destroying the demand for everything from autos to property.⁵⁴ Also, the net savings in India were decreased by 50 per cent within one year of the policy been implemented. In addition, there was an increase rather than a decrease in the currency in circulation from 18 trillion rupees to 20 trillion rupees.

The International Monetary Fund reported that disturbance caused by the cash scarcity lowered consumer and business sentiments.⁵⁵ This same scenario is playing out in Nigeria, where the suddenness of the policy and the consequent scarcity of cash, led to the policy's poor performance.

7. Conclusion

This Paper examines the likely implication of the new cash policy on revenue generated from tax of individuals and medium scale enterprises. This study discovered that the new cash policy has compelled many people who hitherto used to transact their businesses in cash to resort to using electronic payments. The study also finds out that many small-scale businesses have become more visible to tax authority thereby compelling them to be more tax compliant. With the new tax policy, it will be easier for tax authority to fish out tax evaders, because the more electronic cash transactions people make, the easier it becomes for tax authority to track their income and net worth.

Available data at the CBN revealed that currency-in-circulation was rose to 3.23 trillion in October 2022 from only N1.4 trillion in 2015. Of this amount, CBN announced that only N500 billion was within the banking system and N2.7 trillion was held permanently in people's homes. These cash outside the banking system are not available for economic activities, thus making it difficult for the economy to attain its full potentials. The currency redesign thus aided the mopping

⁵³ Under Prime Minister Narendra Modi.

⁵⁴ Mukherjee, A. By a 99.3% Verdict, India's Cash Ban Was a Farce. Bloomberg News August 30, 2018, 202available at: <<https://www.bloomberg.com>> accessed March 14, 2023.

⁵⁵ International Monetary Fund Article IV, Consultation Report on India 2018 accessed March 15, 2023

up of monies outside the banking system, which has often contributed to rising inflation and currency speculation, resulting in recent times to foreign exchange challenges.

Even though the objective of government when they introduce policies, is to improve the social economic development of the country and to enhance the quality of life of citizens, the redesign of the N200, N500 and N1000 currency denominations in Nigeria, brought untold hardship at the initial stage. This is largely due to inadequate preparation and lack of resources and information.

Unlike the picture that was painted by the then CBN governor, the short time within which the policy lasted before the deadline for its full implementation was extended to December 2023, led to a great deal of hardship on majority of Nigerians. Many citizens however felt a sense of relieve when the new government of the present President of the Federal Republic of Nigeria, Bola Ahmed Tinubu, announced the continued use of the old currency notes alongside the new one.

The redesign of the currency had a drawback effect on Small and Medium Scale Enterprises because it brought about decrease sales but had little impact on workforce reduction⁵⁶. Understanding the effect which the new policy has on revenue generation is crucial for stakeholders or policy makers. Although the Nigerian President⁵⁷ gave his administration a pass mark on what majority of Nigerians described as poorly conceived and shoddily executed naira redesign,⁵⁸

The United Nations lend credence to the fact that the naira redesign policy and the resultant naira crunch was a failure because it crippled the Nigerian economy. The UN disclosed this in a report produced by the United Nations Conference on Trade and Development. The report stated that a shortage of cash, triggered by the replacement of the highest denomination of the country's currency hobbled the economy, especially the informal sector. Global best practices revealed that where there is an inadequacy in the provisions of the law, recourse should be made to international best practices, regulations, and policies.⁵⁹

8. Recommendations

Having examined the way a big economy like the USA succeeded in its currency redesign plans, which span a period of over two decades, it is hereby suggested that Nigeria takes a cue from the USA in any future cash redesign exercise.

There should be proper planning and execution because currency redesign should not be rushed. Nigeria should learn from the United States of America government which has in place a long-time plan for the phasing out of old bank notes. This method gives enough notice to the public before the complete withdrawal of the old notes.

⁵⁶ Aladejebi, O., Oladimeji, J.A., and Bukola, A.T (2023). Economic Impact and Coping Mechanisms of Small and Medium –Sized Enterprises. (S.M.E) in Nigeria during the Currency Redesign. Archives of Business Research, 11(9),109-128.

<https://doi.org/10.14738/abr.119.15500>

<https://journals.scholarpublishing.org/index.php/ABR/article/view/15500>

⁵⁷ President Mohamadu Buhari was the President when the Policy was introduced.

⁵⁸ Adelakun, A. Buhari Doesn't Deserve Forgiveness. In the Article, Thursdays with Abimbola Adelakun, The Punch Newspaper April 27, 2023 p.30 aadelakun@punching .com.accessed April 20 2023

⁵⁹ Ochei A. Naira redesign- the law and global best practice. Business Day Newspaper, November 18, 2022.

The Paper also recommends that the Nigerian government invests into setting up all necessary banking and digital payment infrastructure. Without which the cashless banking system cannot survive.

The government should provide the enabling legal framework that will encourage the adoption of the cashless payment system by the informal sector of the economy, in order not to stop the contribution of the informal sector to Gross Domestic Product (GDP) in Nigeria.

There should be enlightenment of members of the public on the need to choose other available payment options, instead of the high level of dependence on cash. This can be realized via the establishment of more awareness by the National Orientation Agency, through advertisement on radio and television. This in essence will bring the unbanked into the banking system.

The paper also recommends that small scale business owners should dedicate a separate account for business purposes so as not to mix business with personal transactions.

It also recommends that the government should make tax identification number a condition for excess cash withdrawals.

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