VALUE ADDED TAX ON DIGITAL SERVICES: AN ANALYSIS OF NIGERIA'S APPROACH TOWARDS GLOBAL STANDARDS

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Abstract

The emergence of digital services has presented significant challenges for tax authorities worldwide, particularly in implementing Value-Added Tax (VAT) on cross-border digital transactions. Nigeria implemented VAT on digital services by amending its Finance Act to align with global trends. Compliance and enforcement remain challenging, especially for digital service companies based outside the country. This study compares best practices from various global industries, including the European Union, South Africa, India, and Kenya, with Nigeria's VAT policy regarding digital commerce. This study employs a doctrinal method and comparative legal analysis to examine the research and evaluate the effectiveness of Nigeria's legal system, highlighting areas for improvement. The findings indicate that while Nigeria's strategy has enhanced revenue from digital transactions, inefficiencies arise from shortcomings in enforcement policies, noncompliance by multinational technology firms, and issues related to double taxation. The paper concludes with policy recommendations for the immediate implementation of a stricter enforcement regime and enhanced global cooperation to improve digital tax compliance.

Keywords: Taxation, Compliance, Digital, Enforcement, Globalization, VAT.

1. Introduction

The swift proliferation of digital services has fundamentally altered global trade, generating new opportunities for enterprises while simultaneously posing considerable hurdles for tax authorities globally. The increase in cross-border transactions involving digital products and services has rendered tax compliance and enforcement critical concerns for governments[1]. According to Muyiwa[2], the borderless characteristics of the digital economy hinder conventional tax systems, necessitating revisions to effectively capture these revenue sources[3]. A growing number of countries have recognized the need for a revised framework to effectively navigate the complexities associated with taxing digital services. In this context, Value Added Tax (VAT) has emerged as a prominent standard for addressing these challenges.

Nigeria introduced VAT on digital services in line with global trends and recommendations from entities such as the Organization for Economic Co-operation and Development (OECD) by amending its Finance Act. This initiative aims to enhance the nation's revenue from digital transactions and align with international best practices, particularly those established in regions such as the European Union (EU) and the United Kingdom (UK), where regulations for Value Added Tax (VAT) on digital sales have been implemented[4]. However, despite Nigeria's plan being a significant step forward, the execution and enforcement of this policy face considerable challenges. Many foreign

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[1] "The New WHT Regulation and What Businesses Should Know" https://www.dentonsacaslaw.com/en/insights/articles/2024/july/5/the-new-wht-regulation-and-what-businesses-should-know Accessed 2 January 2025

[2] Muyiwa, A. (2021). *Navigating the digital economy: Tax Policy in a borderless world*. International Tax Review, 34(2), 89-102; EU-UK Trade and Cooperation Agreement: An analytical overview – European Sources Online. https://www.europeansources.info/record/eu-uk-trade-and-cooperation-agreement-an-analytical-overview/

[3] ibid

[4] Revolutionizing the Digital Landscape: Unleashing the Power of Online Digital Services – frankdevuyst.com. https://frankdevuyst.com/uncategorized/online-digital-services/

digital service providers often evade compliance, resulting in shortcomings that impede effective tax collection[5].

This article critically examines Nigeria's value-added tax (VAT) policy regarding digital products by exploring international best practices and employing a doctrinal approach complemented by comparative legal analysis. It identifies significant shortcomings in Nigeria's framework for taxing digital goods, including inadequate enforcement mechanisms and the risk of double taxation, which undermine the system's effectiveness. The findings aim to contribute to ongoing dialogues on enhancing tax compliance and consistency within the digital economy[6]. The report emphasises the urgent need for timely reforms in enforcement strategies and advocates for increased international collaboration.

2. **Definition and Importance of VAT on Digital Services**

At every level of manufacturing and distribution, value-added tax (VAT) is a consumption tax paid on the value added to products and services. VAT has historically covered tangible items; however, the growth of the digital economy has made it necessary to broaden this definition to encompass digital services. Digital services encompass a wide range of offerings delivered electronically, including software, streaming services, online advertising, and e-commerce transactions. The definition of VAT on digital services, therefore, involves identifying and taxing these services to ensure that they contribute to a nation's tax revenue, like traditional goods and services.[7]

Within the framework of digital services, VAT is typically paid by the end customer; the tax liability rests with the service provider. This model demonstrates a shift towards charging for the use of digital products and services, regardless of the supplier's location, thereby resolving the issues presented by globalization and digitization.

The European Union (EU) and several countries, including Australia and the United Kingdom, have implemented VAT frameworks that specifically target digital services, mandating foreign-based providers to register for VAT and charge tax on sales to domestic consumers.[8] The Finance Act was revised in Nigeria to formalize the adoption of VAT on digital services, which included provisions for taxing digital transactions in line with international practices.[9] This legislative initiative aimed to ensure that foreign technology companies supporting Nigeria's digital economy also participate in the tax system and address revenue-collecting loopholes. Although this progressive approach is commendable[10], enforcement still presents a significant obstacle, as many international suppliers fail to follow registration and remittance policies, thereby compromising the VAT system's efficiency.

The Value Added Tax on digital services in Nigeria is crucial for generating revenue for the government and ensuring fair competition among digital sector firms. The rapid proliferation of digital services in the country necessitates that these services be subject to the same VAT as traditional businesses. This not only enhances governmental revenue but also promotes fairness and transparency within the digital economy. The government collects a portion of the money from digital services through VAT, which can then be allocated to public services and infrastructure development.

Furthermore, VAT ensures that every company, regardless of its operating style, pays its due

[5] Adebayo, S. (2022). Challenges of taxing digital services: Case study of Nigeria. *Journal of Taxation*, 15(3),45-60.
[6] ibid
[7] OECD. (2021). Tax Challenges Arising from Digitalization – Report on Pillar One Blueprint. Organization for Economic Co-operation and Development. Retrieved from https://www.oecd.org/tax/beps/tax-challenges-arising-from-digitalisation-report-on-pillar-one-blueprint.pdf Accessed 2 January 2025
[8] European Commission. (2022). VAT rates applied in the EU Member States. Retrieved from https://ec.europa.eu/taxation_customs/business/vat/vat-rates-eu-countries_en Accessed 2 January 2025
[9] Finance Act, 2020. Retrieved from https://www.finance.gov.ng/documents/2020-Finance-Act.pdf. Accessed 2 January 2025
[10] Oecd, *Building Tax Culture, Compliance and Citizenship A Global Source Book on Taxpayer Education, Second Edition* (OECD Publishing 2021).

amount to the national tax base and helps prevent tax evasion.[11] A unified VAT policy for digital services is essential for Nigeria's economic growth and digital sustainability. That all businesses in the digital economy pay their fair share into the government coffers is a guarantee of this measure. In addition to helping traditional businesses compete, this also contributes to Nigeria's growing IT industry. The implementation of a value-added tax on digital services is an essential stepping stone towards a more equitable and prosperous economic future for Nigeria[12].

The government can boost income sources and support significant public services and infrastructure initiatives by ensuring that all companies, regardless of their operating platform, pay their fair share of taxes. [13]This will then attract more businesses and investors to the digital sphere, thereby promoting more significant job creation and economic growth. In general, imposing tax responsibility in the digital economy would enable Nigeria to ensure a sustainable future for its people and enhance its competitiveness in the global market.[14] Vigorous tax enforcement enables the government also to combat tax avoidance and promote corporate compliance through targeted policies. This would not only level the playing field for every company but also produce a more consistent and predictable commercial climate[15]. Strong enforcement tools and penalties for tax evaders will help the government to make it abundantly apparent that non-compliance is unacceptable.[16] This will boost government revenue, which can then be allocated to healthcare, education, and infrastructure, thereby supporting even more economic development. Furthermore, by encouraging tax compliance, Nigeria can attract more foreign capital and improve its business climate, making it more attractive for both domestic and international businesses seeking to operate in the country.

2.1 Value-Added Tax (VAT) and its Application in Nigeria

Value Added Tax (VAT) is a consumption tax added to the value of goods and services at each stage of production and distribution[17]. In Nigeria, VAT is governed by the Value Added Tax Act 2004[18] (VATA), which has undergone various amendments to reflect economic realities and align with international standards. In Nigeria, VAT was introduced in 1993 as a way to diversify the government's revenue sources and reduce dependence on oil.[19] The tax currently stands at 7.5% and is applied to a wide range of taxable goods and services consumed within Nigeria. [20]It is administered by the Federal Inland Revenue Service (FIRS), which is responsible for registration, collection, and enforcement of taxes. Businesses with an annual turnover exceeding ₦25 million are mandated to register for VAT, file monthly returns, and remit collected VAT to the FIRS.[21]VAT operates as a multi-stage tax system, where tax is collected at every point of sale but ultimately borne by the final consumer. Businesses act as intermediaries in collecting VAT from consumers and remitting it to the

[11] Adebisi, J. F., & Olaoye, O. J. (2018). The impact of tax evasion on government revenue in Nigeria. International *Journal of Economics and Financial Issues*, 8(1), 114-123.
[12] Alexandra.pardou@trialys.com – Trialys. https://trialys.com/author/alexandra-pardoutrialys-com/ Accessed 12 March 2025
[13] Adebisi, J. F., & Akinwumi, J. (2019). The impact of value-added tax on the growth of the Nigerian economy. *International Journal of Poverty, Investment and Development*, 46, 1-10.
[14] Agyemang, G., & Appiah, K. (2021). VAT implementation on digital services in Nigeria: Implications for businesses and economic growth. *International Journal of Tax Research*, 25(1), 45-61.
[15] VAT and the Construction Industry in Nigeria: , – Sunmola David & CO. https://sunmoladavid.com/vat-and-the-construction-industry-in-nigeria/ Accesssed 12 March 2025
[16] 2020 Finance Act.
[17] VAT and the Construction Industry in Nigeria: , – Sunmola David & CO. https://sunmoladavid.com/vat-and-the-construction-industry-in-nigeria/ Accessed 13 March 2025
[18]Value Added Tax Act, Cap. V1, Laws of the Federation of Nigeria 2004 (as amended).
[19] Value Added Tax Decree No. 102 of 1993 (later incorporated as the Value Added Tax Act, Cap. V1, Laws of the Federation of Nigeria 2004).
[20] Federal Inland Revenue Service (FIRS), 'Value Added Tax Guidelines' https://www.firs.gov.ng accessed 13 March 2025
[21] ibid

government. [22]The tax base encompasses both imported goods and locally produced goods and services, with specific exemptions applied to essential items, including basic foodstuffs, medical supplies, and educational materials.[23]

The application of VAT in Nigeria extends to various sectors, including manufacturing, retail, and services. However, recent economic developments have necessitated its expansion into the digital economy. The introduction of the Finance Act 2019 marked a significant shift by incorporating provisions for taxing digital transactions. [24]Under these provisions, non-resident companies providing digital services to Nigerian consumers are required to register for VAT under a Simplified Compliance Regime (SCR). This regime mandates such companies to appoint local agents or intermediaries who collect and remit VAT on their behalf[25]. Digital services subject to VAT include streaming platforms (e.g., Netflix), software subscriptions, online advertising, and e-commerce transactions[26]. The basis for determining whether a service is taxable in Nigeria hinges on the principle of "place of consumption." If a service is consumed within Nigeria, as determined by indicators such as billing address or IP location, it becomes subject to VAT. [27]This approach aligns with global trends in taxing digital services that cross borders[28]. Despite these advancements, several challenges hinder effective implementation. Firstly, many non-resident suppliers remain unaware of their obligations under Nigerian law or deliberately avoid registration due to weak enforcement mechanisms. [29]Secondly, the lack of clear definitions for "digital services" creates loopholes that can be exploited by multinational enterprises (MNEs). Finally, the FIRS faces resource constraints in monitoring compliance and enforcing penalties on entities that default[30]. Nigeria's approach to taxing digital services reflects recommendations by the Organization for Economic Co-operation and Development (OECD) under its Base Erosion and Profit Shifting (BEPS) Action Plan 1[31]. The OECD advocates for destination-based taxation principles that ensure taxes are paid where economic activities occur. However, while Nigeria's 7.5% VAT rate is competitive regionally, it lags behind countries such as South Africa (15%) and Kenya (16%), which may affect revenue generation[32]. Moreover, global efforts such as the European Union's Digital Services Tax (DST) provide valuable lessons for Nigeria in addressing cross-border complexities. For instance, automated compliance systems used in the EU could enhance Nigeria's capacity to track transactions effectively.[33]

2.2 Growth of digital services in Nigeria

The expansion of digital services has not only created new job opportunities but also enhanced efficiency

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[22] Bomes Resources Consulting, Understanding Nigerian VAT (2024)<https://www.bomesresourcesconsulting.com/wp-content/uploads/2024/12/BRC-Article-Beginner-Guide-VAT-in-Nigeria.pdf?x70424> Accessed 4 January 2025

[23] Grant Thornton, 'Indirect Tax Guide - Nigeria' <https://www.grantthornton.global> accessed 1 March 2025.

[24] Finance Act 2019 (Nigeria) s 4(1).

[25] FIRS Circular No. 2020/03: Simplified Compliance Regime for Non-Resident Suppliers Offering Digital Services in Nigeria. https://old.firs.gov.ng/wp-content/uploads/2021/11/Guidelines-on-VAT-Simplified-Compliance-Regime-11.09.2021.pdf Accessed 4 March 2025

[26] Ibid para 5.2(b)

[27] Ibid para 3.2(a)

[28] Substance Requirements for Registering and Operating in Offshore Jurisdictions. https://blog.ultimatefintech.com/substance-requirements-for-registering-and-operating-a-company-in-offshore-jurisdictions/ Accessed 4 March 2025; The Panama Papers Revelation - Panama Papers. https://panamapapers.org/impact-on-public-services Accessed 4 March 2025.

[29] Richard Oghuma, 'Challenges of VAT Collection on Digital Services in Developing Economies' (2022) 15 *Journal of African Taxation* 45.

[30] Ibid para 6(c).

[31] OECD (n 10)

[32] South Africa: VAT Act No. 89 of 1991; Kenya: VAT Act No. 35 of 2013.

[33] European Commission Report on Digital Services Taxation (2020). https://www.europarl.europa.eu/RegData/etudes/ATAG/2020/659414/EPRS_ATA%282020%29659414_EN.pdf Accessed 4 March 2025

in various sectors, leading to overall economic growth.[34] With the right policies and investments in place, Nigeria can continue to harness the power of technology to drive innovation and sustainable development, further contributing to the country's progress and prosperity. The increased connectivity and access to information through digital services have also empowered individuals and communities to participate more actively in the economy and society[35]. This has led to a more inclusive and dynamic environment where ideas can flourish and solutions can be developed to address pressing challenges. As Nigeria continues to embrace digital transformation, it is paving the way for a brighter future where technology catalysis positive change and sustainable development[36]. By leveraging digital tools and platforms, Nigerian businesses can expand their reach to a broader market, enhance efficiency, and drive innovation. This not only benefits the economy but also creates opportunities for job creation and skill development. As more innovative startups and tech companies emerge in Nigeria, the country is poised to make significant strides in various industries, including fintech, e-commerce, and telecommunications[37]. This influx of digital solutions and services will not only drive economic growth but also improve the overall quality of life for Nigerian citizens.

3. Current taxation policies on digital services in Nigeria

The rapid growth of Nigeria's digital economy has necessitated significant reforms to its taxation framework. The taxation of digital services, introduced through the Finance Act 2019 and subsequent amendments, represents a considerable effort to capture revenue from this rapidly growing sector. Nigeria's approach to taxing digital services is based on the Finance Act 2019, the Finance Act 2020, and the Finance Act 2021. These legislative instruments introduced key provisions for taxing non-resident companies (NRCs) providing digital services to Nigerian consumers. The cornerstone of these reforms is the concept of Significant Economic Presence (SEP), which enables Nigeria to tax Non-Resident Companies (NRCs) without requiring a physical presence in the country. Under the SEP framework, NRCs are deemed taxable if they generate annual revenue exceeding ₦25 million from digital transactions with Nigerian residents[38]. These companies are required to remit 6% of their turnover as income tax under the Companies Income Tax Act (CITA)[39]. Additionally, NRCs must register for Value Added Tax (VAT) and charge 7.5% VAT on all taxable supplies consumed by Nigerian customers. [40]The Federal Inland Revenue Service (FIRS) enforces these provisions, utilizing tools such as the Digital Economic Compliance (DEC) Tool to onboard Non-Resident Companies (NRCs) into Nigeria's tax system[41]. This tool enables the FIRS to monitor compliance and penalize defaulters who fail to register or remit taxes.

3.1. The implementation of VAT on digital services in Nigeria

The introduction of VAT on digital services has been a significant milestone in Nigeria's efforts to modernize its tax regime. The VAT framework applies to various business-to-consumer (B2C)

[34] Federal Ministry of Communications and Digital Economy, National Digital Economy Policy and Strategy (NDEPS) 2020-2030
https://nitda.gov.ng/wp-content/uploads/2023/07/Policy-National_Digital_Economy_Policy_and_Strategy.pdf?utm_source=chatgpt.com Accessed 4 March 2025
[35] Remi Tinubu pushes for women empowerment on ICT – State Press NG. https://www.statepress.ng/2023/08/remi-tinubu-pushes-for-women.html> Accessed 4 March 2025.
[36] World Bank, Nigeria Digital Economy Diagnostic Report (World Bank Group 2021) https://documents.worldbank.org/en/publication/documentsreports/documentdetail/387871574812599817/nigeria-digital-economy-diagnostic-report?utm_source=chatgpt.com > Accesssed 4 March 2025
[37] National Bureau of Statistics, ICT Sector Report: Contribution to Nigeria's GDP (NBS 2023) Accessed 4 March 2025
[38] Finance Act 2021 (Nigeria) s 4(1).
[39] Companies Income Tax (Significant Economic Presence) Order 2020 art 2(1)
[40] Federal Inland Revenue Service (FIRS), 'Guidelines on Simplified Compliance Regime for Non-Resident Suppliers' (2021).
[41] Mondaq, 'Implications of the Digital Service Tax Regime for Nigeria' https://www.mondaq.com accessed 13 March 2025

transactions, including streaming services (e.g., Netflix), online advertising platforms (e.g., Google Ads), and software subscriptions (e.g., Microsoft Office 365)[42]. One of the most significant elements of Nigeria's VAT policy on digital services is the registration requirement for non-resident companies (NRCs). Under this provision, foreign digital service providers operating in the Nigerian market are mandated to register with the Federal Inland Revenue Service (FIRS). To comply with this requirement, NRCs must obtain a Taxpayers Identification Number (TIN)[43]. This registration process is crucial as it ensures that non-resident companies contribute to Nigeria's revenue base in a transparent and accountable manner, regardless of their physical presence in the country[44].

The collection mechanism is another critical feature of VAT on digital services in Nigeria. Non-resident companies are required to collect VAT at the point of sale. This means that the VAT is included in the price of the digital services and is charged to the consumer at the time of purchase. Following this, the collected VAT must be remitted to the FIRS monthly[45]. This mechanism streamlines the taxation process, ensuring that the government receives its due revenue from digital transactions in a timely and consistent manner. Moreover, this monthly remittance cycle reinforces compliance and facilitates better fiscal planning[46].

The scope of VAT on digital services in Nigeria is comprehensive, reflecting the country's broad adoption of digital consumption. VAT applies to all paid digital services consumed within Nigeria, irrespective of the provider's location. The determination of whether a service is consumed in Nigeria is guided by specific indicators such as the billing address of the consumer or their IP location[47]. These parameters help to establish the location of the transaction and ensure that the tax is levied appropriately. This approach aligns with international best practices, which are based on the principle of consumption rather than production, thereby addressing the challenges posed by the global nature of digital services. The implementation of VAT on digital services in Nigeria highlights the country's proactive approach to modernizing its tax policies in line with international standards. By mandating registration for non-resident companies, ensuring an efficient collection mechanism, and defining a broad scope for digital services taxation, Nigeria has laid the foundation for a more inclusive and equitable tax regime. As the digital economy continues to grow, these measures will boost government revenue and promote fairness in the taxation of domestic and foreign businesses operating in Nigeria. Such initiatives underscore Nigeria's readiness to embrace the opportunities and challenges of the digital age. Despite these advancements, compliance remains uneven. While major multinational corporations, such as Google and Meta, have complied with these requirements, many smaller entities evade registration due to weak enforcement mechanisms[48].

3.2 Feasibility of Implementing VAT on Digital Services in Nigeria

The implementation of Value Added Tax (VAT) on digital services in Nigeria represents a commendable effort to modernize the country's taxation system in the digital era. The VAT Act 2004 (as amended by Finance Acts 2019–2023) implicitly subjects digital services to VAT under its broad definition of taxable "goods and services". The Act adopts the destination principle, exempting exported digital services while imposing VAT on imported digital services consumed within Nigeria.

[42] Georgetown Law Blog, 'Digital Economy & Taxation: Challenges and Opportunities in Nigeria' https://www.law.georgetown.edu accessed 13 March 2025.
[43] LawPavilion Blog, 'Taxation of Digital Economy in Nigeria: Challenges and Prospects' https://lawpavilion.com accessed 13 March 2025.
[44] Fieschi, C., & Heywood, P. (2004). Trust, cynicism and populist anti- politics. Journal of Political Ideologies. https://doi.org/10.1080/1356931042000263537Accessed 13 March 2025.
[45] Finance Act 2021 Ibid para 4(c)
[46] Maimbo SM and Ratha D, *Remittances: Development Impact and Future Prospects* (World Bank Publications 2005)
[47] FIRS Circular No. 2020/03: Simplified Compliance Regime for Non-Resident Suppliers Offering Digital Services in Nigeria.
[48] ICTD Blog, 'Digitizing Taxation in Nigeria: Challenges and Recommendations' https://www.ictd.ac accessed 13 March 2025.

Non-resident suppliers (NRS) are required to register with the Federal Inland Revenue Service (FIRS) and remit VAT in transaction currency. Judicial precedents, such as *Vodacom Business Nigeria Limited v FIRS*[49], reinforced this obligation by requiring Nigerian entities to withhold VAT on cross-border transactions where NRSs fail to comply. However, the feasibility of this approach is fraught with significant challenges, ranging from legislative ambiguities to technological barriers and international trade conflicts. These issues, coupled with disparities in global tax frameworks and the need for strategic improvements, demand a critical assessment of Nigeria's VAT regime on digital services[50].

a. Legislative Ambiguities: One of the primary challenges to the feasibility of VAT on digital services in Nigeria lies in the legislative framework. The Value Added Tax Act lacks precise definitions for "digital services," creating loopholes that enable tax avoidance through jurisdictional arbitrage[51]. This vagueness undermines the effectiveness of the tax regime, as multinational enterprises (MNEs) can exploit ambiguities to minimize their tax obligations. Clear and specific definitions are crucial in curbing tax evasion and ensuring that all taxable entities comply with the law[52].

b. Technological Barriers: The Federal Inland Revenue Service's (FIRS) ability to monitor and enforce VAT collection on digital services is constrained by technological limitations. Decentralized platforms, such as those operating on blockchain technology, pose significant challenges for transaction tracking and revenue collection. The absence of advanced technological tools impairs FIRS's capacity to detect and address non-compliance, resulting in substantial revenue leakage[53].

c. Compliance Costs: For multinational tech companies, the administrative burden of complying with Nigeria's VAT requirements is considerable. These companies must navigate complex reporting and remittance obligations, which may increase operational costs. Consequently, these costs are often passed on to Nigerian consumers, thereby inflating the prices of digital services and potentially reducing their accessibility[54].

d. **Unilateral Framework and Global Misalignment:** Nigeria's Significant Economic Presence (SEP) rules present conflicts with the Organization for Economic Co-operation and Development (OECD)'s Two-Pillar Solution, raising concerns about double taxation and potential international trade disputes. While Nigeria's Simplified Compliance Regime (SCR) adheres to the OECD's Base Erosion and Profit Shifting (BEPS) Action 1 recommendations, its unilateral approach diverges from the multilateral consensus embodied in the Pillar One framework. This misalignment may exacerbate trade tensions and complicate cross-border tax compliance[55].

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[49] [2020] FHC/ABJ/TA/1/2020.

[50] Mattoo A, Stern RM and Zanini G, *A Handbook of International Trade in Services* (Oxford University Press 2008)

[51] Georgetown Law Blog, 'Digital Economy & Taxation: Challenges in Nigeria' (2024) https://www.law.georgetown.edu/denny-center/blog/digital-economy-taxation-challenges-and-opportunities-in-nigeria/ Accessed 13 March 2025

[52]Aslam A and Coelho MD, *A Firm Lower Bound: Characteristics and Impact of Corporate Minimum Taxation* (International Monetary Fund 2021)

[53] Rosewood legal, W. (2024) Digital Economy and Taxation in Nigeria: Addressing the Challenges of Taxing Online Businesses, Rosewood Legal. Available at: https://rosewoodlegal.com/digital-economy-and-taxation-in-nigeria-addressing-the-challenges-of-taxing-online-businesses/ Accessed: March 13, 2025.

[54]PWC (no date) Nigeria: Diversity of VAT Laws Make Compliance Difficult for Multinationals, Tax Law Experts. Available at: https://www.tax-lawexperts.com/news-publication/nigeria-diversity-of-vat-laws-make-compliance-difficult-for-multinationals/ Accessed: March 13, 2025

[55]Oecd, *Tax Challenges Arising from Digitalization - Interim Report 2018: Inclusive Framework on BEPS.* (Org for Economic Cooperation & Development 2018).

3.3 Comparison of Nigeria's approach to global best practices

Nigeria operates a destination-based VAT system, where VAT is paid on the consumption of goods or services. Foreign suppliers must register with the FIRS using the address of the person they contract. Nigeria lacks a simplified registration and compliance system for cross-border suppliers. To address this challenge, the country has introduced the Significant Economic Presence (SEP) regime[56]. The Significant Economic Presence rule requires foreign suppliers to register for VAT if their sales to Nigerian customers exceed a certain threshold. This rule aims to ensure that foreign suppliers pay their fair share of taxes on goods and services consumed in Nigeria. By implementing this rule, Nigeria hopes to create a more level playing field for both domestic and foreign suppliers operating in the country. However, requiring foreign suppliers to register with the Federal Inland Revenue Service (FIRS) without a streamlined process creates administrative inefficiencies[57]. This lack of simplification discourages compliance and limits the government's ability to effectively tax digital services.

Other countries have implemented various systems to address the challenges associated with taxing digital services. For example, the European Union (EU) introduced the Mini One-Stop Shop (MOSS), allowing foreign suppliers to register and report VAT in a single EU member state[58]. This streamlined approach reduces administrative burdens and improves compliance rates[59]. South Africa has also simplified VAT registration by enabling foreign suppliers to complete the process online[60]. This system ensures that the supply of digital services remains taxed without placing excessive strain on foreign businesses. Kenya has implemented a Digital Services Tax (DST) at a rate of 1.5% of the gross transaction value, targeting significant digital economy players[61]. This tax applies to income derived from a wide range of digital services provided to Kenyan consumers, such as e-commerce, online advertising, and subscription-based platforms. The Kenyan government has published comprehensive guidelines on how businesses can register for and comply with the DST. In Nigeria, the introduction of Nigeria's Digital Services Tax (DST) was formalized in the Finance Act 2021. This tax imposes a 6% levy on the turnover of non-resident companies providing digital services to Nigerian customers[62]. Similarly, India employs an Equalization Levy that applies to specific digital transactions, such as online advertising, in addition to its VAT framework[63]. The scope of this levy was expanded in 2020 to include a 2% tax on e-commerce operators providing digital services to Indian users. This levy is separate from the Goods and Services Tax (GST) and explicitly targets online platforms that derive significant economic benefits from the Indian market. The lack of a simplified system in Nigeria contrasts sharply with the approaches taken by countries like the EU and South Africa, which prioritise ease of compliance. While Nigeria's SEP rule aligns with efforts to capture significant players in the digital economy, it lacks the infrastructure and clarity seen in Kenya's DST or India's Equalization Levy. Investment in digital infrastructure and international collaboration would help Nigeria position itself as a competitive player in the global economy.

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[56] Ndajiwo, and Mustapha. "Guidelines-on-VAT-Simplified-Compliance-Regime-11.09.2021.pdf." *Figshare,* 2020, 2020, https://opendocs.ids.ac.uk/articles/report/the_taxation_of_the_digitalised_economy_an_african_study/26430241 Accessed 18 Mar. 2025.

[57] Oecd, *Building Tax Culture, Compliance and Citizenship A Global Source Book on Taxpayer Education, Second Edition* (OECD Publishing 2021).

[58] *Europa.eu*. Available at: https://taxation-customs.ec.europa.eu/system/files/2016-09/one-stop-shop-guidelines_en.pdf (Accessed: March 18, 2025).

[59] John Brondolo, *Administering the Value-Added Tax on Imported Digital Services and Low-Value Imported Goods* (International Monetary Fund 2021).

[60] "Guidelines-on-VAT-Simplified-Compliance-Regime-11.09.2021.pdf." n.d., https://www.sars.gov.za/latest-news/vat-registration-supply-of-electronic-services-by-foreign-suppliers-and-foreign-intermediaries/. Accessed 18 Mar. 2025.

[61] "Guidelines-on-VAT-Simplified-Compliance-Regime-11.09.2021.pdf."n.d., https://www.kra.go.ke/images/publications/brochure-digital-service-tax-website.pdf. Accessed 18 Mar. 2025.

[62] Arisenews."Guidelines-on-VAT-Simplified-Compliance-Regime-11.09.2021.pdf."*Arise News,* 2022, https://www.arise.tv/nigeria-introduces-6-tax-on-digital-services-non-resident-companies/. Accessed 18 Mar. 2025.

[63] Rajeev. "Guidelines-on-VAT-Simplified-Compliance-Regime-11. 09.20 *TaxGuru*, 2025, https://taxguru.in/income-tax/indias-digital-service-taxation-issues-solutions.html. Accessed 18 Mar. 2025.

4. Conclusion and Recommendations

Enhancing Digital Service Taxation in Nigeria: Insights from Global Practices

The emergence of the digital economy has transformed global commerce, unlocked immense economic potential, while presenting unique challenges to traditional taxation frameworks[64]. For developing economies like Nigeria, these challenges are particularly pronounced, given the increasing demand for digital services and the reliance on foreign suppliers. While Nigeria has taken preliminary steps to address these challenges through the introduction of the Significant Economic Presence (SEP) rule, as noted above, its existing system lacks the sophistication and efficiency seen in other jurisdictions. The absence of a simplified registration and compliance system imposes significant administrative burdens on foreign suppliers. This inefficiency not only discourages compliance but also risks revenue losses for the government[65]. Drawing insights from these global practices, Nigeria can implement a streamlined system that leverages technology, focuses on high-value transactions, and aligns with international best practices. Nigeria can implement the following strategies to enhance its framework for taxing digital services:

Simplified Registration and Compliance Mechanisms: Implementing a comprehensive online registration and reporting system similar to the one currently used in South Africa could significantly alleviate the administrative pressures faced by foreign suppliers. This proposed platform should encompass integrated features that facilitate not only the registration process but also enable seamless reporting and payment functionalities[66]. By doing so, we can streamline various procedures that these suppliers must navigate, ultimately fostering an environment that encourages compliance with regulatory standards. Furthermore, such a system would enhance transparency, making it easier for all stakeholders to track transactions and monitor adherence to legal requirements, thereby promoting a more efficient and accountable marketplace.

Capacity Building and Public Awareness: A critical component of a successful taxation system is public awareness and stakeholder engagement. Educating businesses and consumers about digital service taxation can foster a culture of compliance[67]. Additionally, equipping tax authorities. Foreign companies and Nigerian consumers alike often remain unaware of their obligations, leading to inconsistent compliance[68]. To resolve this, Nigeria should:

- Publish comprehensive and accessible guidelines that explain the scope of the tax, applicable services, and compliance procedures.
- Launch public awareness campaigns through webinars, brochures, and partnerships with international business associations to educate stakeholders on their tax obligations and responsibilities.

Clear communication fosters greater understanding and compliance, thereby reducing disputes and delays in tax remittance.

Introduction of Turnover-Based Thresholds: Nigeria's current system applies the 6% levy uniformly to all non-resident digital service providers, irrespective of their turnover. This blanket approach may impose undue burdens on small businesses with limited transactions in Nigeria. Introducing turnover-based thresholds would exempt smaller companies while focusing tax efforts

[64] Fraud Detection Services | Work with a top-class specialists | Netguru. https://www.netguru.com/services/fraud-detection > Accessed 18 March 2025
[65] N.44
[66] N52
[67] Oecd, *Building Tax Culture, Compliance and Citizenship A Global Source Book on Taxpayer Education, Second Edition* (OECD Publishing 2021).
[68] ibid

on significant revenue contributors[69]. For example, Kenya's Digital Services Tax (DST) framework includes a turnover threshold, ensuring that only more prominent players are subject to the tax. Nigeria could adopt a similar approach to strike a balance between fairness and revenue[70].

Broader Scope of Taxable Services: Nigeria's current taxation framework for digital services, as established under the Finance Act 2021, primarily targets specific categories of digital services, including online advertising, electronic data storage, and apps. [71] However, the scope does not yet explicitly cover specific emerging sectors[72] such as cloud computing services, streaming platforms, online education services, and digital marketplaces for goods and services[73]. While the framework is a significant step forward, expanding the scope to include these additional sectors would align Nigeria's tax policies with international trends and ensure that all critical revenue streams within the digital economy are effectively captured[74]. This expansion could also help Nigeria maximize its revenue potential from the rapidly evolving digital landscape.

Policy Alignment with Global Standards: Nigeria should actively engage with international organizations, such as the OECD, to align its policies with global best practices[75]. Participation in multilateral frameworks for taxing the digital economy will ensure that Nigeria remains competitive and fair in its approach to taxation. With the necessary tools and training, this will improve enforcement capabilities. Nigeria has not yet aligned itself with the OECD's Pillar One and Pillar Two frameworks. While these frameworks aim to address global tax challenges, including equitable allocation of taxing rights and the establishment of a global minimum corporate tax rate, Nigeria has opted for unilateral measures instead[76]. Precisely, Nigeria introduced its Significant Economic Presence (SEP) rule and a 6% Digital Services Tax (DST) under the Finance Act 2021 to tax multinational enterprises (MNEs) that provide digital services to Nigerian consumers.[77] While these measures address immediate revenue needs, aligning with global standards could provide long-term benefits, such as preventing double taxation and fostering international collaboration.

Strengthened Enforcement Mechanisms: Nigeria has made some progress in enforcing digital service taxation, but the existing mechanisms are not yet fully robust or comprehensive. The Federal Inland Revenue Service (FIRS) has implemented measures, including requiring non-resident companies to remit taxes directly and utilizing the Significant Economic Presence (SEP) rule to identify taxable entities. However, the following gaps remain:

[69] Emile Van Der Does De Willebois and others, *The Puppet Masters: How the Corrupt Use Legal Structures to Hide Stolen Assets and What to Do About It* (World Bank Publications 2011).

[70] International Monetary Fund Fiscal Affairs Dept and International Monetary Fund Legal Dept, *Corporate Taxation in the Global Economy* (International Monetary Fund 2019).

[71] Asquith, R. "Guidelines-on-VAT-Simplified-Compliance-Regime-11. 09.2021.pdf." *Vatcalc.com*, 2022, https://www.vatcalc.com/nigeria/nigeria-6-digital-services-tax/ Accessed 18 Mar. 2025.

[72] Blockchain Regulation In India: Complete Guide. https://thecryptonewzhub.com/blockchain-regulation-in-india/> Accessed 18 March 2025

[73] Yogesh K Dwivedi and others, "Artificial Intelligence (AI): Multidisciplinary Perspectives on Emerging Challenges, Opportunities, and Agenda for Research, Practice and Policy" (2019) 57 International Journal of Information Management 101994 <https://doi.org/10.1016/j.ijinfomgt.2019.08.002>.Accessed 18 March 2025

[74] Blockchain Regulation In India: Complete Guide. https://thecryptonewzhub.com/blockchain-regulation-in-india/ >Accessed 18 March 2025

[75] OECD Investment Policy Reviews: China 2008 (2008) <https://doi.org/10.1787/9789264053717-en>.Accessed 18 March 2025

[76] Jooji, I., Oyekan, M., Momoh, Z., & Onuh, S. (2023). The Federal Inland Revenue Service (FIRS), Tax Compliance and the Fight Against Corruption in Nigeria. https://doi.org/10.26668/businessreview/2023.v8i9.3359> Accessed 18 March 2025

[77] "Guidelines-on-VAT-Simplified-Compliance-Regime-11. 09.2021.pdf." n.d., https://oecdpillars.com/the-impact-of-nigerias-rejection-of-both-pillar-1-and-2/. Accessed 18 March. 2025.

1. Limited Use of Digital Analytics Tools: Nigeria has not yet invested significantly in advanced digital analytics tools to effectively monitor and detect cross-border transactions. This limits the FIRS's ability to track digital transactions involving Nigerian consumers in real-time[78].
2. Insufficient Collaboration with International Tax Bodies: While Nigeria participates in some international tax discussions, it has not fully established partnerships with global tax authorities or digital platforms to share data and improve oversight. This lack of collaboration hinders the ability to track and tax multinational enterprises effectively.
3. Weak Penalty Enforcement: Although penalties for non-compliance exist, enforcement mechanisms are not consistently applied. Strengthening these mechanisms would encourage timely remittance of taxes by foreign suppliers and improve overall compliance.

To address these gaps, Nigeria could adopt the following measures:

- Invest in Technology: Develop and deploy digital tools that can analyse and track cross-border transactions.
- Enhance International Collaboration: Partner with international tax bodies and digital platforms to share data and improve enforcement.
- Strengthen Penalty Systems: Implement stricter penalties for non-compliance and ensure consistent enforcement.

These steps would significantly enhance Nigeria's capacity to enforce its digital service taxation framework and ensure compliance among non-resident service providers. In conclusion, while Nigeria’s strategy marks a pivotal shift towards integrating VAT for digital services, the country must proactively address enforcement challenges, prevent double taxation, educate various stakeholders, and remain adaptable to changes in the global landscape. The recommendations presented in this article provide a foundational roadmap for enhancing Nigeria's VAT system for digital services, thereby fostering a more compliant and equitable tax environment that aligns with international best practices. Policymakers are urged to prioritize these areas, as the future of digital taxation will play a critical role in shaping the Nigerian economy in the years to come.

[78] Nripendra P Rana and others, *Digital and Social Media Marketing: Emerging Applications and Theoretical Development* (Springer Nature 2019).