

# Taxation of Digital Services in a Globalized Economy: Implications for Nigeria and Africa

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*Abstract- The pace of digitalization of the world's economy has exposed the flaw of traditional international tax systems, particularly digital services. Multinational technology companies more and more make huge revenues across borders without physical presence, which creates severe challenges for states to exert taxing powers. This paper critically examines taxation of digital services in a global economy, notably Nigeria and Africa. Based on comparative and doctrinal analysis, the study canvasses international tax principles, OECD/G20 Inclusive Framework proposals, United Nations negotiations, and African national tax reforms. Evidence highlights that while unilateral measures such as Digital Services Taxes (DSTs) and Significant Economic Presence (SEP) regulations are lucrative in terms of short-term budgetary gains, they may also carry the risk of administrative inefficiency, double taxation, and potential disagreement in trade. Nigeria's new reforms, including the VAT imposition on non-resident digital providers and SEP actions, are important policy developments that are in the course of implementation but are hampered by the shortcoming of weak administrative capacity and deficit in compliance. Across Africa, similar experiences demonstrate a delicate balance between generating revenue and promoting digital innovation. Tenuously structured levies, such as mobile money, have in some cases jettisoned financial inclusion, demonstrating the risk of unilateral dependence. The report explains that solutions in the long term lie in enhancing domestic enforcement capacity, cooperating more robustly at the regional level through bodies like ECOWAS and the African Union, and engaging more intensively in multilateral tax talks. Lastly, the article argues that a balanced strategy—based on VAT reforms, collection at the platform level, harmonization of regional policy, and positive participation in global arrangements—has the best potential avenue for*

*African countries. These initiatives can bring more equitable revenue sharing, protect digital inclusion, and more seamlessly integrate Africa into the new international tax architecture.*

*Index Terms- Digital Services Tax, Globalization, International Taxation, Africa, OECD*

## I. INTRODUCTION

The emergence of the digital economy has to a significant extent disrupted traditional models of international taxation. Digitalization has enabled multinational corporations (MNEs) to span across borders and conduct business, deliver services, and bring profits in countries with no physical presence. Digital advertisement, cloud computing, e-business, and streaming services produce huge sums of revenue in user markets without satisfying traditional conditions for tax liability. This change brings into focus the inadequacies of tax legislation constructed on a physical, commodities economy and raises the debates around fiscal sovereignty, fairness, and efficiency in international taxation (Mpofu, 2022; Mpofu & Moloi, 2022).

Historically, international taxation relies on the concept of permanent establishment, which bridges the taxing authority of a state with the physical presence of an immovable place of business. Despite its effectiveness in the real economic activities, this framework has difficulty in capturing value in an age of a borderless, digitalized economy. The Organization for Economic Co-operation and Development (OECD), in its Base Erosion and Profit Shifting (BEPS) project initiated in 2013, recognized these weaknesses, especially under Action 1 of the BEPS Action Plan (OECD & G20, 2013). The OECD's latest efforts led to the Two-Pillar Solution of 2021, which attempts to modernize nexus and allocation of profits rules.

Pillar One tries to reallocate taxing rights by assigning market jurisdictions—the nations of users and consumers—a share of the residual profits of the largest and most profitable MNEs, even without physical presence. Conversely, Pillar Two introduces a global minimum corporate tax rate of 15% to curb tax competition and profit shifting to low-tax jurisdictions (Stollsteiner, 2024). Both are the most ambitious attempt to overhaul the international tax architecture in the age of globalization. Despite broad backing from more than 130 countries, its implementation has been bogged down by political differences, technical issues, and divergent national interests. For instance, while European and emerging economies see the Two-Pillar Solution as the future of equity, the United States has remained reluctant, slowing down agreement on Pillar One (Stollsteiner, 2024).

Unless quick global reform occurs, several countries have implemented Digital Services Taxes (DSTs) as a going-it-alone solution. DSTs commonly impose a percentage tax on the gross revenues of digital companies deriving value from user participation within a certain jurisdiction. France, the United Kingdom, Spain, and Italy all have DSTs in place, typically between 2% and 3% (Stollsteiner, 2024). DSTs are appealing to developing economies because they are a simple way of mobilizing short-term revenues. Experts recommend, however, that unilateral DSTs could bring about international tax fragmentation, encourage double taxation, and trigger retaliatory trade policies (Mpofu, 2022).

The tax challenges of the digital are particularly alarming in Africa. Shock digitalization, driven by mobile technologies and financial innovations, has entrenched the taxable digital economy in Africa. But weak administrative capacity, limited transparency, and incomplete policy responses constrain effective taxation (Mpofu & Moloi, 2022). African countries are faced with the double imperative of generating much-needed revenues without suffocating economic growth and finance-inclusion-reliant digital industries. The levying of mobile money taxes in Uganda and Ghana shows how poorly designed digital taxation policies can cause public outcry and undermine financial inclusion (Mpofu, 2022).

Nigeria, the biggest economy in Africa, offers a crucial case study to this discussion. Through its Finance Acts of 2019, 2020, and 2021, Nigeria legislated provisions to tax digital services, for example, taxing Value Added Tax (VAT) on non-resident companies selling digital services and charging Significant Economic Presence (SEP) regulations for corporate tax for income (Nwankwo, 2025). Foreign companies would be deemed to have a taxable presence under these regulations if they exceed specific levels of revenues or engage with Nigerian users online. Nigeria has, in turn, tried out DSTs as a means of extracting revenue from multinationals in the tech industry, albeit with a lingering enforcement issue (Oto & Wayas, 2024).

In any case, Nigeria's approach speaks to underlying structural challenges for emerging economies. For one, it is difficult to put in place compliance by multinationals without strong international cooperation. Second, going solo risks deterring investment and stifling innovation on digital platforms. Thirdly, administrative capacity constraints, including inadequate digital monitoring and enforcement, detract from the effectiveness of tax policy (Oto & Wayas, 2024). As viewed by scholars, while unilateral measures like DSTs may bridge short-term revenue deficiencies, effective remedies must happen through greater international coordination and regionally aligned actions (Mpofu & Moloi, 2022).

Scholarship on taxation of the digital economy thus reflects a policy tension between unilateral sovereignty and multilateral coordination. On the one side, countries try to maintain fiscal sovereignty by means of national measures such as DSTs or VAT on digital services. On the other side, multilateral approaches such as the OECD's Two-Pillar Solution are necessary to achieve long-term stability of the world tax system. This controversy raises the following topics of the current research: How tax digital services in a global economy? Which institutions ensure equality of opportunity between developed and developing economies? How do Nigeria and other developing nations enhance administrative and legal capacity while engaging in international negotiations?

This paper contributes towards answering these questions by critically analyzing taxation of digital services in an economy that is globalizing with a particular focus on Nigeria and Africa. It explores the theoretical limits of existing tax rules, compares unilateral DSTs and their implications, compares multilateral measures such as the OECD's Two-Pillar Solution, and addresses developing countries' opportunities to surmount these challenges. Last but not least, the paper demands a balanced solution reconciling effective participation in international tax reforms with internationally flexible domestic policies in order not to abandon developing economies in the digital age.

## 1.2 Literature Review

Digital service taxation in a globalized economy has attracted rising academic attention owing to the disruptive effects of the digital economy and the weaknesses of traditional taxation regimes. Among the ideas central to contemporary debates on tax policy, enforcement, and equity are the digital economy, digital services, Digital Services Taxes (DSTs), Significant Economic Presence (SEP), and permanent establishment (PE), which constitute the basis of this debate. This concept provides a foundation for investigating both international and African experiences in digital taxation.

The digital economy is economic activity conducted primarily through digital technologies such as the internet, mobile applications, and cloud-based services. Unlike traditional economies, where value creation takes place founded on tangible assets or physical presence, the digital economy relies heavily on intangible assets such as computer software, algorithms, and data networks (Stollsteiner, 2024). This intangible and cross-border nature renders it complicated to tax because value addition and profit reporting occur in a different jurisdiction. Scholars note this decoupling causes a "taxation gap" where profits are typically accounted for in low-tax jurisdictions despite generating significant revenue from consumer countries (Mpofu, 2022). For developing economies in Africa, this gap represents a massive loss in potential revenue, especially with the rapid expansion of digital consumption and mobile internet penetration.

Digital services form a critical component of the digital economy, and they encompass a wide array of online services such as streaming services, e-commerce platforms, social media advertising, cloud computing, online payment systems, and participative network platforms. Mpofu and Moloi (2022) note that these services are not only value-derived from commercial activities but also from user engagement and data accumulation. For instance, social media firms earn revenue through targeted advertising from user activities, yet such revenues are normally recorded in headquarters' jurisdictions rather than being accounted for in countries where users reside. Similarly, e-commerce platforms such as Amazon and payment processors such as PayPal carry out substantial business across borders without a physical presence in the majority of markets, which poses specific challenges for national taxing authorities in seeking to assert taxing rights (Oto & Wayas, 2024).

In response, Digital Services Taxes (DSTs) have emerged as unilateral attempts to ring-fence revenue from non-resident digital service providers. DSTs are typically levied on gross revenues from intended digital activities, including online advertising, intermediation services, and content streaming. Evidence indicates that European countries such as France, Italy, and the United Kingdom have been capable of mobilizing short-term revenues by implementing DSTs, charging between 2% and 3% on selected digital transactions (Stollsteiner, 2024). African countries have also implemented DSTs that are tailored to local conditions. Nigeria has enacted Significant Economic Presence (SEP) law under the Finance Acts of 2019–2021, taxing non-resident businesses over revenue thresholds from Nigerian users (Nwankwo, 2025). Kenya, Zimbabwe, and Tunisia have also implemented DSTs or taxes on digital advertising and digital transactions (Mpofu, 2022). While DSTs provide fiscal respite, literature suggests potential drawbacks, including trade retaliation, regulatory fragmentation, compliance costs, and the potential to discourage foreign investment. Scholars emphasize that one-sided DSTs, as necessary as they might be in the short run, are insufficient to attain long-run sustainability due to these structural limitations (Stollsteiner, 2024; Oto & Wayas, 2024).

The concept of Significant Economic Presence (SEP) is a legal innovation that aims at coordinating tax systems with the realities of the digital economy. SEP rules allow for taxation of foreign businesses based on the level of their digital activities in a jurisdiction rather than physical presence. In Nigeria, foreign companies with income exceeding ₦25 million from digital transactions with Nigerian consumers are deemed to have a significant economic presence, and therefore, they are taxable regardless of office or personnel presence in Nigeria (Oto & Wayas, 2024). This Pillar is aligned with a principle that more directly connects taxation to value creation, allowing developing countries to make a more significant contribution to unlocking revenue from digital global markets. Empirical evidence, however, shows that enforcement remains challenging due to insufficient administrative capacity, technological constraints, and excessive reliance on self-reporting by multinational enterprises (Mpofu, 2022).

Permanent establishment (PE) is still the premier notion of international tax law, setting the threshold of taxation based on physical presence, i.e., offices, branches, or immovable property. Traditional PE concepts, as embedded in bilateral tax treaties, are increasingly detached from the digitalized economy. Scholars argue that PE's failure to account for intangible assets, remote services, and user-generated value creation leads to a significant portion of profits remaining untaxed in the jurisdictions where consumption occurs (Mpofu & Moloi, 2022). The OECD has recognized this mismatch, and proposed reforms have included the attribution of taxing rights in line with user contribution and digital marketplace presence, particularly under Pillar One of the Inclusive Framework. Yet, there are shortcomings in the application of these reforms in developing countries that lack the domestic capacity to enforce compliance or engage in international negotiations to their fullest potential.

Multilateral initiatives have been launched to harmonize digital taxation globally. The OECD/G20 Inclusive Framework's Two-Pillar Solution seeks to prevent fragmentation and profit shifting. Pillar One assigns a portion of residual profits of large multinational enterprises to market jurisdictions based on consumer activity, while Pillar Two introduces a

15% global minimum tax to avoid harmful tax competition (Stollsteiner, 2024; OECD/G20 Inclusive Framework, 2025). Literature indicates that while these measures may stem global tax inequalities, developing countries stand the risk of being shut out by high thresholds, low enforcement capacity, and low representation at the negotiating table (Ndajiwo, 2020; Mpofu & Moloi, 2022; Nwankwo, 2025).

A more particular concern for African nations is highlighted in several studies. Enforcement is hindered by administrative weaknesses, including inadequate IT infrastructure, insufficient specialized personnel, and the absence of digital surveillance mechanisms (Oto & Wayas, 2024). Unilateral DSTs, while useful for short-term revenue collection, can trigger trade tensions and may be insufficient without underlying multilateral structures. Scholars think that African countries must combine domestic innovations with proactive participation in global tax governance for equitable outcomes and to prevent fiscal marginalization (Mpofu, 2022; Nwankwo, 2025).

Overall, the literature identifies three key findings: first, digital taxation requires legal and policy adaptation to the intangible and cross-border nature of digital services; second, unilateral actions such as DSTs are necessary but insufficient for long-term viability; and third, developing countries must invest in national administrative capacity and engage in multilateral reform in tandem in order to realize their full revenue potential. Despite increasing scholarly attention, gaps remain, particularly in empirical studies examining enforcement outcomes, compliance levels, and revenue implications of digital taxation in African contexts, making further research focusing on Nigeria and the continent justified.

### 1.3 Theoretical Framework

#### 1.3.1 Benefit Theory

Benefit theory of taxation, as advocated by Richard Musgrave and Peggy Musgrave (1989), supports the idea that people are to be taxed based on the benefit accrued from publicly provided goods and services. In a sense, taxation is justified when there is a visible quid pro quo between taxpayer payments and public services. In the digital services context, benefit theory provides an argument for taxing foreign digital service

providers on the grounds of consumption of their services within a jurisdiction.

Digital multinationals like Netflix, Amazon, and Google generate significant income from Nigerian consumers with no physical presence. Traditional tax laws based on permanent establishment are not able to capture these transactions, resulting in lost fiscal opportunities. By connecting taxation with the location of benefit realization, the Significant Economic Presence (SEP) laws in Nigeria render firms deriving economic value from local users taxable (Nwankwo, 2025).

Benefit theory also justifies taxation of user data and participation intensive services such as e-commerce websites and social media. By doing so, the state derives revenue from value created within its borders, which is employed in the provision of public goods and infrastructure development. Benefit-based taxation in Africa ensures fair revenue sharing from the digital economy while acknowledging consumer input in value creation.

### 1.3.2 Ability-to-Pay Theory

The ability-to-pay theory, which was introduced in Adam Smith's writings (1776) and developed by Richard Musgrave (1959), emphasizes that taxation has to be a function of the ability of a taxpayer to pay. Tax authorities based on this axiom pursue equity, and the wealthier individuals or more prosperous firms pay relatively more. In e-economies, MNEs have a tendency to earn substantial profits in markets like Nigeria without having a local office. This creates a disconnect between their capacity to pay and where tax is being levied. In implementing Digital Services Taxes (DSTs) or SEP policies, Nigeria aligns tax policy with ability-to-pay ideals, targeting highly profitable foreign digital firms that sell in the local market (Mpofu, 2022).

This theory encourages equity as it demands that companies with high tax capacities make contributions to public treasuries. In the case of African countries, ability-to-pay provides a framework for accessing revenue from digital corporations that exploit massive consumer markets but evade taxation at the local level. In this manner, it addresses concerns of equity, increases fiscal capacity, and enables public

investment in infrastructure, education, and health that benefits the general public.

### 1.3.3 Optimal Taxation Theory

Optimal taxation theory, designed by James Mirrlees (1971) and later expanded by Joseph Stiglitz (2000), seeks to design tax regimes that ensure maximum social welfare and the minimization of economic distortions. It balances efficiency, equity, and sufficiency of revenue in a way that taxes do not suppress productive activity or innovation. Its implementation in the digital economy is necessary. Excessive DST rates or poorly designed regulations could deter foreign investment, restrict competition, and stifle innovation in developing economies. Best taxation practice recommends calibrating DSTs and SEP thresholds to a point where revenue mobilization would not bias the growth of domestic digital ecosystems (Stollsteiner, 2024).

It also emphasizes institutional capacity: efficient taxation is dependent on skilled people, digital infrastructure, and enforcement systems. Under principles of optimal taxation, policymakers can access revenue from international digital firms without reducing incentives for technological innovation and market growth. Optimal taxation lastly provides a roadmap to sustainable digital service taxation, balancing fiscal needs with long-term economic growth in developing economies.

### 1.4 Conceptual Challenges in Taxing Digital Services

The taxing of digital services remains theoretically difficult as traditional tax structures were designed for a physical economy where business location was tied to geography. The permanent establishment principle, under which taxing rights are apportioned based on physical presence, has become more and more irrelevant in the digital age. Multinational enterprises (MNEs) can engage with users, provide services, and earn significant revenue in the jurisdiction where customers are present without establishing local offices or subsidiaries (Mpofu, 2022). This creates what authors describe as a "taxation gap" between value creation and where profits are ultimately declared (Stollsteiner, 2024).

The intangibility of digital services makes it even more challenging. Value in the online economy often results from user interactions, data collection, and online networks—elements easily not quantifiable under the standard tax regimes. For instance, social media platforms generate tremendous income from niche advertising on the basis of users' data but profitability is usually recorded in low-tax environments rather than in the user residence countries (Mpofu & Moloi, 2022). Developing countries, which provide large consumer markets to multinational technology companies, are particularly disadvantaged in that they forgo potential revenues while still having limited budgetary resources for infrastructure and social development.

These theoretical impediments are not peculiar to Nigeria but of international character. Nigeria, nevertheless, illustrates the way such impediments are acutely felt in developing economies. The country's attempts at reforming its tax system via the Finance Acts of 2019, 2020, and 2021, and the Companies Income Tax (Significant Economic Presence) Order 2020 are a sign of an attempt to bridge the gap between conventional rules and the needs of the digital economy. As laudable as these attempts are, Nigerian tax authorities still grapple with enforcing compliance and reconciling international taxation principles with local fiscal imperatives. The subsequent subtopics expound on three interrelated challenges in more detail: lack of proper taxpayer information, identifying difficulties for non-resident corporations, and deficiency in a complete legal framework for digital taxation.

#### 1.4.1 Lack of Proper Digital Taxpayer Information

One of the most fundamental conceptual difficulties of taxing digital services is that there is no trustworthy and truthful information on taxpayers. Traditional tax systems rely on physical books and registries, through which governments are able to trace taxpayers, estimate their revenues, and enforce compliance. With the digital economy, however, most non-resident businesses make significant revenues in Nigeria without local registration or even maintaining a local office.

Under the Companies and Allied Matters Act (CAMA) 2020, foreign companies that intend to

operate in Nigeria are supposed to incorporate a local company before they can operate. They are also supposed to be registered under the Federal Inland Revenue Service (FIRS), obtain a Tax Identification Number (TIN), and make annual returns (Okoye, 2021). In reality, however, there is poor enforcement. Most non-resident digital companies, including global technology multinationals, operate in Nigeria but are not legally registered. Therefore, their turnover is not recorded systematically by tax authorities, and the country loses access to a large portion of its potential tax base.

Such incomplete information for taxpayers poses two conceptual difficulties. First, it subverts the idea of tax equity since local establishments with a physical presence pay taxes more frequently than foreign virtual platforms that generate equal or greater streams of income. Second, it highlights the broader failing of information exchange regimes in the digital era. In contrast to physical businesses, virtual firms can structure their operations so as to conceal streams of income across borders. Scholars argue that this is particularly an issue for developing countries, who might not possess the advanced digital audit software to be employed in monitoring cross-border online transactions (Akindayomi & Oladipupo, 2023).

Efforts to span this divide through local law, such as insisting that non-resident digital companies register for a TIN, have met with mixed success. Without good taxpayer information, FIRS has no choice but to grapple with the near-impossible challenge of stimulating compliance. This is a manifestation of a deeper conceptual challenge: in an internet economy, the very notion of "who is taxable" unravels, since companies can sell to Nigerian consumers without a physical presence that can be tracked within conventional tax administration.

#### 1.4.2 Identification of Digital Non-Resident Persons and Companies

This is also closely related to the problem of taxpayers' incorrect information. Also a close friend with this problem is the issue of identifying non-resident entities and individuals with online transactions. Taxation regimes mostly base their work on physical presence as a point of reference for identification and taxation. In the digital economy, however, MNEs can

provide services, process payment, and move data without having a physical presence in Nigeria (Asongu & Odhiambo, 2021).

Online businesses like online commerce websites, streaming platforms, and digital advertisement firms operate without any glitch across borders. It is a basic conceptual challenge to the traditional nexus rule, which hitherto fixed liability for taxation on the basis of the presence or absence of a "permanent establishment." In Nigeria, most digital corporations continue to transact with local consumers without registering with FIRS or with the Corporate Affairs Commission (CAC). Consequently, such firms continue to be untaxed outside the tax net despite generating sizeable revenues in the country.

The rapid growth of mobile internet and e-commerce across Nigeria makes this problem worse. Millions of consumers subscribe to digital goods, make purchases online, and access platforms that record their economic activity abroad rather than onshore. Tax authorities are faced with the problem of not just detecting the existence of these entities, but also linking them to taxable activities in Nigeria. This results in massive revenue losses and disadvantages Nigeria compared to residence jurisdictions where these corporations account for their profits (Kangave, 2020).

Conceptually, this problem calls for the inadequacy of the "permanent establishment" paradigm, one that is ill-fit for the cross-border context of online services. Despite the 2020 Significant Economic Presence (SEP) Order's attempt to reimagine nexus in the inclusion of digital activities such as streaming, intermediation, and targeted advertising, enforcement remains in its infancy. Many businesses evade detection by simply failing to register or by routing their services through third-party intermediaries, rendering it impossible for Nigerian tax authorities to enforce compliance.

#### 1.4.2.1 Identification of the Digital Activities of Non-Resident Persons and Companies

The identification of digital activities performed by non-resident persons and companies is a fundamental challenge confronting the taxation of the digital economy in Nigeria. The digital economy is an

economic system that relies heavily on digital technologies and the internet as the platform through which goods, services, and value are exchanged. In contrast to the physical economy, which is structured around physical presence, tangible goods, and identifiable premises, the digital economy is characterized by decentralized, intangible, and borderless transactions. It is not a simple matter for tax authorities to trace, capture, and tax activities of non-resident digital companies.

Economic activities online are diverse, ranging from such services as e-commerce platforms (Amazon, Jumia), app stores (Apple App Store, Google Play), ride-hailing platforms (Uber, Bolt), online advertisements (Meta Ads, Google Ads), online payment systems (PayPal, Stripe), cloud computing platforms (Amazon Web Services, Microsoft Azure), participative network websites (Twitter/X, TikTok, Facebook), and streaming platforms (Netflix, Spotify). These sites generate billions of naira in Nigeria annually, although the greater part of that is not taxed as providers often have no fixed presence in Nigeria.

Take, for instance, Netflix, an American streaming behemoth, providing thousands of Nigerian consumers with access to films and documentaries. The company earns revenue directly from subscription fees but incurs profit in foreign jurisdictions, thereby complicating the ability of the Federal Inland Revenue Service (FIRS) to determine and tax liabilities. Similarly, Amazon operates a huge chain of e-commerce, cloud computing, and artificial intelligence services from its Washington, U.S.A., headquarters without any operational headquarters in Nigeria. Nigerians shop on Amazon regularly to purchase items, and businesses utilize its cloud services, but most of the tax money used is reported abroad.

Payment structures worsen the challenge of identifying the sources. PayPal, for example, helps facilitate cross-border payments sent and received by Nigerians online, bypassing local banks in some instances and restricting traceability over sources of income. For advertising space, Twitter (now X) and Meta (Facebook/Instagram) allow Nigerian people and companies to purchase online ads in naira but pay using international systems, sometimes routed outside Nigeria. This structural disconnect from consumption

of the market in Nigeria to declaring income elsewhere creates a big tax gap. While traditional businesses are readily identifiable by physical infrastructure—offices, warehouses, and factories—virtual businesses may generate enormous profits without ever setting foot in Nigeria. As Mpofu (2022) points out, the lack of physical nexus erodes the efficiency of tax regimes designed for an industrial, territorial economy.

The Nigerian government attempted to plug this loophole with the Companies Income Tax (Significant Economic Presence) Order, 2020, which put thresholds on non-resident businesses providing digital services to be taxed. But enforcement is challenging. Non-resident businesses exploit the invisibility of digital activities to under-report revenues. Also, the sheer number of micro-transactions—e.g., small payments for in-app purchases or ride-hailing fares—makes tracing effectively impossible without sophisticated digital infrastructure.

Essentially, it requires Nigeria to not only respecify its legal regimes but also spend money on advanced digital monitoring systems, improve international cooperation, and enter into data-sharing agreements with the foreign countries. Otherwise, Nigeria's ability to apprehend value created in its jurisdiction will remain woefully weak.

#### 1.4.3 Lack of a Properly Defined Legal Framework for Digital Taxation

The second major conceptual barrier is the inadequacy of existing legal frameworks. With the pre-Finance Act 2019 taxation laws, Nigerian taxation laws were largely founded on traditional thinking under the Companies Income Tax Act that was premised on physicality to identify taxable activities. The digital economy disrupted this regime, as companies could operate in Nigeria without a concrete base or permanent establishment.

The 2019, 2020, and 2021 Finance Acts and the SEP Order were monumental reforms. They extended Nigeria's taxing rights to foreign companies deriving revenue from Nigerian users digitally. For instance, the SEP Order provides that services such as streaming platforms, digital advertising, and intermediation platforms are taxable once they pass a turnover

threshold of ₦25 million. Besides, the Finance Act 2021 accorded FIRS with the mandate to utilize technology-enabled solutions, e.g., automated data collection, to enable digital tax compliance (Federal Inland Revenue Service, 2021).

Notwithstanding these reforms, Nigeria now lacks a fully articulated legal framework for digital taxation. There is still uncertainty regarding definitions of taxable activities, thresholds, and enforcement mechanisms. The repetitive regulations in the Finance Acts and the SEP Order sometimes cause confusion among taxpayers and tax administrators (Okauru, 2022). In addition, unilateral measures risk leaving Nigeria out of sync with global best practice, particularly given that global efforts under the OECD/G20 Inclusive Framework are already trending towards consensus-based schemes such as Pillar One and Pillar Two (Baistrocchi & Brauner, 2020).

This highlights the intellectual hurdle: while Nigeria seeks to grab revenue through unilaterally imposed digital taxes, its absence of harmonized global regulations makes it susceptible to double taxation risks, retaliatory trade, and investor flight. To developing economies, the lack of a precise legal framework not only hinders tax enforcement but also undermines confidence in the stability and predictability of the tax system.

#### 1.4.4 Shortage of Specialized Court

Another no less urgent problem in the taxation of the digital economy is the absence of specialized judicial institutions to address tax disputes. Nigeria currently employs the Tax Appeal Tribunal (TAT) as created under the Federal Inland Revenue (Establishment) Act, 2007 (amended in 2011). The Tribunal can decide and determine tax disputes between taxpayers and the Federal Inland Revenue Service (FIRS), and even disputes over non-resident taxpayers. Its procedure of operation is governed by the Tax Appeal Tribunal (Procedure) Rules, 2010.

Structural deficiencies afflict the TAT even with its stated mandate. It is an administrative arrangement tribunal and not a superior court of record and therefore its decisions are not binding to the extent that those of the Federal High Court are. Hence, TAT appeals must first appeal to the Federal High Court and



then proceed to the Court of Appeal and finally the Supreme Court. This structured process results in undue delays and increases the cost of litigation for taxpayers and the government as well (Adegoke, 2021).

The absence of a specialized tribunal undermines two core aims of tax adjudication: certainty and efficiency. The TAT was established to reduce blockages in taxation disputes, drive early resolution of disputes, and increase taxpayers' confidence in Nigeria's taxation system. Rather, the limited jurisdiction of the tribunal has worked to accomplish the opposite. Multinational entities engaged in digital business, such as Google or Amazon, can absorb prolonged litigation and therefore discourage FIRS from vigorously pursuing claims.

Comparative practice shows that other countries like India have established specialist tax courts and tribunals with judges trained in tax law and cross-border taxation that facilitate speedy hearing of complex cases involving digital transactions (Singh & Roy, 2022). Nigeria's employment of the generalist system not only delays justice but also erodes investor confidence and deters compliance by non-resident digital service providers.

To effectively address instances of controversial digital transactions—e.g., transfer pricing of intangibles, cross-border advertising income, or matters of "significant economic presence"—Nigeria must restructure its judiciary by either strengthening the TAT or establishing a specialist tax court. The latter would speed up determination, build judicial specialization in digital taxation, and improve Nigeria's standing in international tax matters.

#### 1.4.5 Inadequate IT Experts

Digitalization of taxation requires not just legal and accounting know-how but also extremely technicalized specialization. In the Federal Inland Revenue Service (FIRS), most staff are accountants, auditors, or tax practitioners that have been trained in traditional taxation methods. While these competencies are valuable, they are insufficient for the digital economy realities. Effective taxation of non-resident digital companies requires data scientists, information technology experts, and cybersecurity

experts who will be able to create tools for tracking digital transactions, processing user data, and tracing cross-border movement of income (Mpofu & Moloi, 2022). The identification of the Nigerian customer base of a company such as Spotify or TikTok, for instance, would require advanced data analysis with the capacity to track user action to taxable events.

Shortage of such specialized capacities limits Nigeria's ability to apply in force existing legal instruments like the Significant Economic Presence Order. Law can legally expose non-resident firms to taxation, but implementation is dependent upon the state's ability to detect, trace, and quantify digital activity. Without enforcement by data analytics, compliance by non-resident firms remains voluntary. On the other hand, countries such as Estonia, South Korea, and India have spent significant sums of money on digital tax infrastructure, engaging IT experts in the design of real-time monitoring systems, e-invoicing, and big data analytics solutions (Asongu & Odhiambo, 2021). Such countries have achieved significant gains in revenue mobilization, compliance levels, and administrative effectiveness. Nigeria, however, continues to trail because it has not made any investment in IT expertise in its tax authority.

Additionally, the problem is not so much technical as institutional. Recruiting IT experts necessitates competitive salary and long-term career incentives. The current public service arrangement does not provide for high-paying packages to retain top-notch digital talent, most of whom would rather remain in the private sector. Unless FIRS overhauls its human resource policies and proactively recruits and trains IT professionals, Nigeria's ambition to tax the digital economy will amount to cosmetics.

#### 1.4.6 Allocation of taxing rights between source and resident jurisdictions

Central to the global debate over taxing digital business is the division of taxing rights between residence jurisdictions (hence of the business) and source jurisdictions (where consumers and markets are located). Digital transactions inevitably blur the traditional distinction between source and residence. This has led to intense conflicts over which countries can tax the profits of multinational companies.

Today, international taxation guidelines—embraced in the OECD and UN Model Tax Conventions—favor residence-based jurisdictions. This enables world corporations such as Google, Amazon, and Meta to account for profits primarily within their resident jurisdictions (typically the United States or Europe) while earning substantial revenue from users in countries such as Nigeria. As Owens and Plekhanova (2021) note, this creates a fundamental mismatch between taxation and value creation. For developing economies, the implications are profound. Nigeria, which has a wide and growing number of internet users, is a substantial driver of the top lines of multinational technology companies but captures little value from the same through taxation. The result is tax loss and fiscal dependence, which weakens Nigeria's capacity to finance development priorities.

The global response to addressing this imbalance is the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS). Its Pillar One proposition seeks to redistribute a share of largest multinationals' profits to market jurisdictions, but Pillar Two offers a 15% global minimum corporate tax rate intended to deter profit shifting to low-tax destinations (Akindayomi & Oladipupo, 2023). Nigeria has objected to full backing of these changes on the basis that the procedures for calculating proceeds may not serve African economies well (Akinyemi, 2022).

Until sweeping changes are implemented, Nigeria is at risk of two threats: (1) under-taxation, where profits made in Nigerian markets are taxed in residence countries only, and (2) double taxation, where there is double claiming between source and residence countries resulting in differences that discourage foreign investment. The question of taxing rights pending therefore ranks as one of the most pressing structural issues of digital taxation, both for Nigeria and the entire world.

### 1.5 Policy Innovations Across Jurisdictions

Given the continued challenges in taxing digital services, states have implemented different new mechanisms designed to bridge the divide between traditional tax concepts and the realities of the digital economy. Among the most prevalent of these is the Digital Services Tax (DST), a tax on gross revenues derived from some digital activities such as targeted

advertising, e-commerce transactions, online marketplace facilitation, and streaming of content. Compared to permanent establishment measures underlying profit-based corporation tax on income, DSTs concentrate on turnover, and this makes their management and taxing easier.

The European countries have been at the forefront in introducing DSTs. France, Italy, Austria, Spain, and the UK have imposed between 2% and 3% levies on revenues from digital services within their territories (Stollsteimer, 2024). France's 3% DST, for instance, targets revenues derived by multi-national tech firms from user activity, advertising, and marketplace intermediation. The policies assume that global digital behemoths such as Google, Amazon, Meta, and Apple derive colossal revenues from European residents without sending a "fair share" of taxes. Such one-sided policies have, however, caused a stir. The United States, where most major digital firms are based, has resisted these measures with threats of retaliatory tariffs and triggered trade tensions (OECD, 2023). DSTs also entail the risk of double taxation and administrative burden, since it can be tricky to allocate revenues to a given jurisdiction and to ensure compliance against non-resident businesses.

African nations have adopted differentiated unilateral actions. Nigeria, through Finance Act reforms (2019–2021), implemented SEP rules, allowing taxation of foreign digital enterprises when revenue levels from Nigerian customers are attained (Nwankwo, 2025). Nigeria also provided coverage for Value Added Tax (VAT) to foreign digital service providers, expanding the tax base. Kenya also introduced a 1.5% DST, while Zimbabwe, Tunisia, and Ghana provided coverage for taxes on e-commerce, digital ads, and cross-border services (Mpofu, 2022). These measures recognize the potential tax revenues from taxation in the digital economy but highlight enforcement challenges. The majority of tax administrations lack the IT infrastructure, monitoring tools, and trained personnel to track non-resident providers, and enforcement is voluntary in nature (Oto & Wayas, 2024).

The African experience confirms a policy trade-off. Despite DSTs and VAT reforms providing valuable fiscal revenues to governments, ill-designed taxes can deter foreign investment, stifle innovation, and raise

consumer costs, jeopardizing digital inclusion (Mpofu & Moloi, 2022). Researchers recommend international cooperation for sustainability. The OECD/G20 Inclusive Framework has proposed Pillar One, reallocating taxing rights to jurisdictions of market participation based on user engagement, and Pillar Two, a global minimum tax of 15% to avoid profit shifting (OECD, 2021).

For African nations, there must be a balance between harmonization with international systems and maintaining local revenues. The critique is that OECD-recommended changes will serve developed nations at the cost of the Global South, resulting in calls for the United Nations Tax Committee to play an inclusive role (Nwankwo, 2025). Ultimately, policy innovations beyond borders demonstrate the disjunctive and fluidity of taxation in the digital era, challenging the need to balance fiscal necessities, technological determinism, and justice in global tax governance.

#### 1.6 Discussion of Findings

The study identifies several significant viewpoints on taxing digital services in a more globalized world, highlighting the potential and the danger of current measures. Quite possibly most notably, the study finds the place of unilateral Digital Services Taxes (DSTs) as an expedient but temporary fix to the limitations of traditional tax frameworks. In Europe, France, Italy, and the United Kingdom have succeeded in mobilizing revenues through the imposition of DSTs on activities like advertising, e-commerce, and online streaming services (Stollsteiner, 2024). Such tests in Africa, for example, the SEP regulation adoption in Nigeria and the 1.5 percent DST in Kenya, illustrate the diffusion of these innovations across regions and heightened awareness of the revenue generation capacity of digital taxation (Nwankwo, 2025). These developments confirm that unilateral action itself has now become a necessary instrument to bridge temporary budget shortfalls in the collapse of a binding multilateral approach.

Such measures are, however, undercut by a diversity of risks. Primarily among these is the danger of trade tensions, with the United States publicly criticizing European DSTs as discriminatory towards US technology firms and threatening retaliatory tariffs

(OECD, 2022). This serves to demonstrate that unilateral taxes, as appealing in the short term, have the potential to cause conflicts that can ultimately undermine economic relations overall. Furthermore, DSTs have the risk of double taxation and regulatory complexity because multi-nationals must navigate a patchwork of different rules among jurisdictions. This complicates compliance, raises operational costs, and has the ability to discourage digital innovation and investment. The experience thus shows that single-way DSTs are effective in the short run but can never form the foundation of a long-run taxation system in the digital economy era.

There is still a higher level of complexity brought about by the African experience. Nigeria, Kenya, Zimbabwe, and Tunisia are among the nations that have recorded good progress in taxing digital services, but enforcement remains a sensitive area. In Nigeria, for example, the Federal Inland Revenue Service relies heavily on self-declaration by multinationals, with loopholes in compliance and much scope for under declaration (Oto & Wayas, 2024). Tax authorities across the continent face severe administrative limitations, such as shortages of IT specialists, inefficient digital monitoring systems, and limited capacity to track sophisticated transactions online (Mpofu, 2022). These institutional weaknesses hamper enforcement, rendering revenue collection from DSTs irregular and often below estimates. Moreover, weak institutional frameworks reduce taxpayer confidence in the system. Lack of special tax courts, such as in Nigeria, contributes to the length of disputes and inefficiency, thus discouraging compliance and weakening legitimacy in the taxation process.

The study further indicates that while unilateral action describes current practice, multilateral solutions are a more viable path. The OECD/G20 Inclusive Framework Two-Pillar Solution is particularly relevant in this respect. Pillar One seeks to reallocate remaining profits of the most profitable and largest multinational businesses to market jurisdictions, recognizing user participation as a legitimate tax base (OECD/G20 Inclusive Framework, 2025). Pillar Two institutes a 15 percent global minimum corporate tax that is designed to prevent profit shifting to low-taxed jurisdictions and that is set to end harmful tax

competition (Stollsteiner, 2024). Collectively, the pillars place a bold attempt to modernize international tax norms and limit the fragmentation that characterizes digital taxation today.

Despite this, there are issues of legitimacy and fairness. The scope of Pillar One is very limited, covering only corporations with revenues above €20 billion, thereby excluding the majority of digital companies operating in African markets (Mpofu & Moloi, 2022). Pillar Two, in its potential for the mitigation of base erosion, disproportionately favors advanced economies with more enforcement authority, opening up developing economies to marginalization (Nwankwo, 2025). The evidence suggests an unbalance of structure in global talks where African and other developing country interests remain underrepresented, thereby reinforcing historical patterns of global inequality in global taxation. While multilateralism provides a means of avoiding fragmentation and double taxation, its current structure risks advantaging developed nations unless developing countries become more aggressively engaged in the negotiation and implementation process.

In the meantime, the evidence highlights the tremendous revenue mobilization potential of digital taxation if designed and implemented well. European Commission (2022) estimates show that DSTs in Europe would bring billions of euros annually, whereas African countries such as Nigeria expect huge fiscal gains from the imposition of Value Added Tax (VAT) on digital services. In resource-poor environments, the revenues would be transformational and can contribute to financing critical development priorities such as infrastructure development, health system strengthening, and education. The evidence therefore underscores the point that digital taxation, when supported by strong administrative capacity and trans-regional coordination, can play an important role in supporting financing for sustainable development.

But the search for revenue must be carefully balanced against the desire to foster innovation and foster foreign investment. Taxation that is ill-conceived or overly burdensome can deter foreign investors, drive up prices for consumers, and stifle native digital ecosystems. This is particularly pertinent to African

economies, which are eager to position themselves as fintech and digital entrepreneurship hotspots. The findings make it unequivocal that digital taxes, if not carefully crafted, can undermine competitiveness in precisely those areas that have the potential to drive long-term economic transformation.

The overall aggregate results point to the fact that digital taxation presents a paradox. It offers a tempting prospect for generating revenue in a globalized economy where traditional tax axioms are being made increasingly obsolete. Conversely, it is extremely perilous when applied unilaterally, ineffectively applied, or viewed with no concern for justice between developed and emerging economies. The optimal path forward would be the hybrid path: combining the short-term benefits of local innovations like DSTs with active engagement in multilateral reforms, while also investing in administrative capacity and regional cooperation. It is only on these conditions that digital taxation will be able to fulfill its double dividend of providing sustainable revenue and inclusive economic growth.

## CONCLUSION

The taxation of digital services in the era of globalization portrays the complex dynamics of bridging the notion of national sovereignty, raising revenues, and multilateral coordination. The traditional tax systems based on physical presence and permanent establishments are becoming less relevant for capturing value generated from digital activities, and there are huge revenue gaps for both developed and emerging economies. In response, nations have attempted to use unilateral measures such as Digital Services Taxes (DSTs) and Significant Economic Presence (SEP) rules, which provide temporary fiscal benefit but are inclined to pose compliance issues, risks of double taxation, and potential trade wars.

Multilateral measures, particularly the OECD/G20 Inclusive Framework Two-Pillar Solution, offer a more permanent solution by reallocating profits in line with user participation and implementing a global minimum tax. However, the report determines that the risks of marginalization for developing nations, and specifically Africa, are poor representation, weak administrative capacity, and absence of representation of smaller digital enterprises in these frameworks.

Success in implementation will only occur under such conditions by strengthening domestic tax administration, investment in digital surveillance infrastructure, and enhancing regional cooperation to facilitate compliance and revenue mobilization.

Lastly, efficient taxation of digital services should strike a balance between multilateral harmonization and context-specific policy measures. While joining global processes, African countries must also formulate policies that connect with local economic contexts, rendering taxation fair, feasible, and conducive to digital innovation. By combining global standards with domestic capacity building, governments can make digital taxation a tool for sustainable development, fiscal equity, and inclusive economic growth. The digital economy, when well regulated, thus represents a danger and a potential opportunity for the state to grow its revenues in addition to more universal socio-economic objectives.

#### RECOMMENDATIONS

In order to effectively tax digital services under a globalized economy, Nigeria and other African countries must implement a multi-dimensional strategy. First, tax laws must be empowered to specifically capture digital transactions through sophisticated Significant Economic Presence (SEP) regulations, VAT extensions, and harmonized definitions of digital services. Increased legal firmness will minimize loopholes and make it enforceable.

Second, building tax administration capacity is very important. Investment in digital infrastructure, data analysis, and training of personnel will help revenue agencies monitor cross-border digital activity and fight evasion. Leverage technology such as e-invoicing and fintech collaboration can further enhance compliance arrangements. Third, regional cooperation has to be the focus. Harmonized tax policies on digital taxation in ECOWAS, the African Union, and other regional groupings would act against deleterious tax competition, reduce business compliance costs, and enhance Africa's bargaining power in global tax negotiations.

Fourthly, policies must balance revenue mobilization and digital inclusion. Appropriate levels of taxation and selective exemptions for SMEs and essential

services will stimulate innovation while protecting consumers from excessive prices. Finally, African countries should remain active on multilateral forums like the OECD/G20 Inclusive Framework and the UN Tax Committee so that their interests shape new multilateral approaches to tax problems.

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