



DIGITALIZATION OF TAX SYSTEMS AND TAX REFORMS IN NIGERIA: A CONCEPTUAL DISCOURSE

Sebastine Abhus OGBAISI

Department of Accounting, Faculty of Management Sciences, Ambrose Alli University, Ekpoma, Edo State, Nigeria

sebastine.ogbaisi@aauekpoma.edu.ng

Michael IBIFUNMILOLA

Department of Accounting and Finance, College of Management and Social Sciences, Glorious Vision University, Ogwa, Edo State, Nigeria

myke4meg@gmail.com

Abstract

The sweeping revolution in the digital space has significantly altered the traditional tax system. Digitalization plays a critical role in tax reform by providing tools needed to administer tax policies effectively. Against this backdrop, this paper examines digitalization of tax systems and tax reforms in Nigeria, utilizing a conceptual and literature-based approach. Based on the review, the study opined that sound legal framework as well as institutional, regulatory and capacity building structures be put in place to strengthen the digitalization of tax systems in Nigeria. The study concludes that with the changing and growing space of technology and innovation, no country, including Nigeria should be left standing with respect to fundamental reforms in the tax collection process in a fast-changing global architecture. The study recommends that pushing for the enactment of enabling legal framework to guide the digitalization of tax administration is important because the enactment of such legislation will aid the effective implementation and collection of taxes from digital transactions among others.

Keywords: Digitalization of tax systems, Tax reforms, Tax administration and E-tax systems

JEL Classification: F21, F23, H26, K34

INTRODUCTION

The digitalization of tax systems and tax technological advancement and the ensuing digital space in the 21st century have changed the patterns and dynamics of tax collection system across the globe. Tax reform is essential for creating an efficient tax system that supports growth and development. Digitalization plays a critical role in tax reform by providing tools needed to administer tax policies effectively. Therefore, the digitalization of tax systems and tax reform are crucial for efficient tax compliance (Ogbada et al., 2023). The sweeping innovation spurred by the digital age is significantly transforming the tax administration system and space in a manner not hitherto experienced in the past decades (International Centre for Tax and Development (ICTD), 2021). The administration and collection of tax across jurisdiction have significantly changed, with technology bringing in to it new operations patterns that entails the application of capabilities, processes, structures, as well as innovative technologies in a most cost-effective and efficient manner. Without doubt, this digital tax collection approach is an integral part of the global reforms

in the tax architecture; a move that is creating greater competency and timeliness in its tax filing and collection process, greater tax payment and responsiveness (Mas'ud, et al., 2023).

Digital technology, have without doubt, considerably altered the conventional norm and brought a new normal in the business transactions and financial world. With digitalization of tax systems, the global economy and Nigeria, in particular, continues to evolve new technology, with business, finance, trade and investment, concomitantly assuming a new wave of transaction that re-enforces tax payment system. The deployment of digital systems and digital IDs has greatly expanded in Nigeria in recent times (Mas'ud, 2023). Without doubt, the adoption of technology in tax systems such as tax filings by individual and corporate entities greatly enhances efficiency, reduces cost, saves time and makes the tax collection exercise convenient and simple. For instance, the adoption and utilization of data from e-tax system platforms and digital IDs among State Internal Revenue Service (SIRS) and Federal Inland Revenue Service (FIRS) in Nigeria is stimulating tax revenue generation (Committee of Experts on International Cooperation in Tax Matters, 2019). In Nigeria, the Federal Inland Revenue Service (FIRS) and many states of the federation have adopted digital tax system (e-tax system) (Ogbada et al., 2023).

The use of digital technology in tax systems (known as e-tax systems) is now able to effectively calculate annual withholding tax credits and tax suffered, tax refunds and other tax exemptions that were hitherto done manually, thus making the tax administration system less cumbersome (Mas'ud, et al., 2023). Digitalization is also presenting greater challenges in the tax collection space as it is ensuring that majority of the population pay their taxes, a move in the broader tax reforms systems to ensure that more people and entities come under the tax net. Since digitalization continues to be an important driver of economic growth, it is therefore equally important that taxation be driven by digital technology. It is in this regard that the Nigerian Presidential Enabling Business Environment Council in 2016 averred that Nigeria should not be left behind in the emerging digitalization of tax processes in Africa. The global wave of tax reforms is sweeping across every country and embracing and utilizing digital platforms in tax systems is important to Nigeria (International Centre for Tax and Development (ICTD), 2021; 2023).

While some studies (Oriola, 2023; Ogbada et al., 2023; Mas'ud, et al, 2023; Ozekhome, 2023; Lekki, 2024) have examined the issue of digitalizing taxation in Nigeria, these studies did not however considered the issue within the context of tax reforms. In addition, none of these studies considered how the changing dynamics in the current times is significantly alternating the previously existing tax collection system in order to clearly situate the context of the study. The recognition of these gaps is the motivation and value-addition of the current study.

LITERATURE REVIEW

Conceptual Literature

Digitalization of tax, in general refers to –e-tax systems. It involves e-registration of taxpayers, e-payment of taxes and stamp duties, e-filing of returns, e- receipting and electronic issue of tax clearance certificate and other digital approaches to tax system required for official taxation process. In a nutshell, these solutions are expected to simplify and enable timeliness by automating tax administration processes in a bid to improve turnaround times for the registration, filing, payment and eventual receipt of the electronic tax certificate (ICTD, 2023). E-tax of digital tax system is predicated on smoother tax revenue collection process, efficiency and productivity of

the tax system and speedy issuance of key paper work or documentary formalities needed for administrative and business activities (Ozekhome, 2023; ICTD, 2023).

Improvements in the mobilization of tax revenue are an important policy direction for improving fiscal positions in any country. Nevertheless, structural composition and institutional capacity as well as necessary reforms that embrace technology and innovation constitute potential variables for realizing better tax revenues. For Nigeria, inadequate structural transformation, weak institutional capacity and poor governance, as well as insufficient reforms to drive the needed improvement in tax collection have militated against tax revenue generation (Adegboye et al., 2019). In line with Thomson and Rohlins (2012), huge revenue losses associated with the tax systems have been noticeable in developing countries due to the absence of the needed tax reforms. With the growing digitalization of virtually all activities around the world spurred by technology and innovations, the adoption of e-tax system will no doubt, improve tax collection and revenue generation, alongside simplicity and speedy processes of tax collection, e-registration and e-filing and returns systems (ICTD, 2023). In this regard, structural and innovative reforms in the tax system and administration are necessary to enhance the tax collection processes. These innovative and technological reforms are part of the broader 'catch-up' process as no country can afford to be left behind in the new wave of global tax reforms (ICTD, 2021). According to International Monetary Fund (IMF) (2015b), improvements that embodies innovative reforms in the tax system has the capacity to stimulate trade, productivity, investment and economies of scale through agglomeration. Digitalization of tax systems deals with the challenges of tax evasion, while minimizing non-compliance to tax and is predicated to enhance greater collection of tax revenue, efficiency and better economic growth and development.

Empirical Review

Adegboye, Arodoye and Irughe (2019) evaluate the effects of tax performance with respect to institutional reforms in domestic institutions for the period 2000-2015. The study revealed that structural weakness and absence of reforms reduce tax revenue generation. Ozekhome and Oaikhenan (2020) evaluated the potential of regional trade integration in the ECOWAS, the simplification, harmonization and coordination of fiscal policies that include tax reforms. The findings show that simplification, coordination and harmonization of tax enhances revenue generation in ECOWAS.

The institutional and political antecedents of inter-jurisdictional tax of three states within the US were examined by Hageman and Schmitt (2014). Utilizing a conceptual and theoretical approach, the study revealed that complexity and lack of coordination hamper tax systems. The United Nations Conference on Trade and Development (UNCTAD) (2018) examines the impact of the institutional development and innovative reforms in tax the ECOWAS sub-region. The study finds that regulatory fiscal frameworks lead to improved tax. Adeosun (2023) examined taxation of the digital economy within the Nigerian context. The study opined that technology and digitalization have facilitated the rise of remote work, e-commerce and digital platforms that connect individuals and businesses globally, thereby fostering economic growth and globalization. Akinwunmi (2023) examined digitalization in taxation. The study emphasized the need for innovative tax policies that can adapt to the unique challenges of the digital economy. It recommends that policy makers can foster fair and effective taxation in the evolving digital landscape by analysing international policy suggestions and their applicability in Nigeria.

Mas'ud, Mohammed and Gimba (2023) examined digitalization and sub national tax administration in Nigeria. Data was collected through qualitative interviews conducted in each of the six geo political zones in Nigeria. The data was analysed using thematic analysis. The results revealed that there is scope for improvement in the adoption and usage of data from e-tax systems and digital IDs among State Internal Revenue Services (SIRSs). It also revealed that the extent of adoption and strategic data usage from e-tax systems by SIRSs likely improves states per capita internally generated revenue.

Ogbada, Onyedika and Modebelu (2023) examined digitalization and effective tax administration in Nigeria. The study employed quantitative research method and ex-post facto research design. The study covered a period from 2010 to 2021 while linear regression was used in analysing the data. The result revealed that ICT has a negative insignificant effect on tax revenue in Nigeria. It further revealed that ICT has a positive insignificant effect on tax evasion in Nigeria. Other studies that have examined issues pertaining to reforms in tax and technology are Azuka (2015), Arodoye and Adegboye (2016), Diakit   et al. (2017), ICTD (2021), Turrado (2021), Mas'ud, et al (2023), OECD (2023), Adeosun (2023), Ogbada et al. (2023), Gough, (2023), Bello (2023), Lekki (2024) and Ogbaisi and Ukwa (2024).

From the review of the literature, there is paucity of literature examining the issue of digitalizing taxation in Nigeria. These studies did not however consider the issue within the context of tax reforms. In addition, none of these studies considered how the changing dynamics in the current times is significantly alternating the previously existing tax collection system in order to clearly situate the context of the study.

Tax Reforms in Nigeria

Revenue generation is important for proper and effective functioning of any government, which includes the Nigerian government. Therefore, the relevant tax authorities in Nigeria continue to strive to expand the tax net to include Non Resident Companies (NRCs) and companies in the digital economy generating income from Nigeria (Adeosun, 2023). This was a major challenge for the Nigerian tax system because these entities continue to carry on profitable activities in the country, generate huge revenue and pay little to no taxes simply because they have no permanent establishments in Nigeria. This has resulted in the enactment of the Finance Acts which amends the relevant tax legislations. Therefore, the Nigerian tax laws now have provisions necessary to bring NRCs and companies operating in the digital economy within the tax net (Oriola, 2023). In Nigeria, some important tax amendments and reforms have been put in place over in the last few years in a bid to enhance the tax revenue collection system within the context of digitalization or e-tax systems. These amendments were made pursuant to changing dynamics and intricacies of the domestic and international environment.

The Finance Act, 2019

This Act is labeled as 'fundamental and revolutionary' in view of the fact that it is the first effort at addressing the reality of new dimensions to business activities in the context of digitization. The Act took the peculiarities associated with the digital economy into consideration and provided a framework for the effective taxing of the digital economy. Prior to this Finance Act, 2019, businesses operating in the digital economy in Nigeria, had little or no tax liabilities, in addition

to the lack of relevant provisions, which hampered the ability of Nigeria to levy taxes on those businesses operating in the digital economy. The provisions introduced by this Act (Section 4 of the Finance Act, 2019) brought amendments to section 13 (2) of CITA, thus bringing the operation of these companies within the tax net which was hitherto not the case (Finance Act, 2019; Adeosun, 2023).

The Finance Act, 2020

This Act is a continuation of the reforms, in addition to addressing the challenges of taxing the digital economy which began under the Finance Act, 2019. The Finance Act, 2020 contains several significant amendments as well as the errors that were in section 13(2) (e) of the Finance Act 2019., taking cognizance of management, consultancy, technical and professional services The amendment brought by this Act also expanded the scope of digitalization of tax systems regarding tax filling and returns with respect to individuals, corporate entities and other unincorporated entities (Adeosun, 2019; Section 7, 25 & 43 of Finance Act, 2020).

The Finance Act, 2021

The issues created by the Finance Act, 2019 have been addressed by the subsequent amendment. The Finance Act, 2021 Act introduces a turnover-assessment as a response to the issues related to the profit attribution method in the Finance Act, 2019. Therefore, companies operating in the digital economy will now be assessed and taxed on a fair and reasonable percentage of the part of their turnover attributable to their presence in the country.¹⁶⁵ However, what constitutes fair and reasonable percentage is not defined in the Finance Act, 2021 or any other related tax law. According to the Act, and clarifications by the Minister of Finance, a fair and reasonable percentage constitutes 6%. The Act amends relevant tax, excise and duties in with macroeconomic policy reforms of the Federal Government, to amend and make further provisions in specific laws relating to public financial management of the federation with further emphasis, expansion and in digitalization of tax activities (Adeosun, 2023; Oriola, 2023).

The Finance Act 2023 (FA, 2023)

The Act, which was signed into law by the former President, Muhammadu Buhari on May 28, introduced significant changes to the existing tax laws and regulatory framework, aiming to promote economic growth, enhance fiscal stability and promote sustainable development in Nigeria. The Act strengthened and expanded the scope of tax digitization in greater dimension (Oriola, 2023).

Policy Issues in Digitalization of Tax Systems

Digitalization of tax approaches/system in Nigeria will greatly enhance e-registration, tax fillings, tax returns, create simplicity and efficiency in the tax systems, in addition to timeliness and reduction of transaction costs of tax administration. With the help of effective reforms in tax that continuously adopt and utilize digital technology platform/ services alongside supportive institutional framework, the digitalization of tax can foster greater transparency and accountability of government tax revenues and ensure the prevention of leakages of public funds. Scarce public resources efficiency can also be stimulated and improved, thereby maintaining fiscal stability and meeting the need of social development. The stimulation of domestic tax revenues should be a

critical policy focus in the digitalization of tax systemic frameworks. Through the restructuring and reforms of the tax systems, the strengthening of tax administration and elimination of unnecessary exemptions, tax collection can be enhanced. Government and tax authorities across all countries, particularly Nigeria need no underestimate the benefits realizable from tax digitalization, especially as it relates to the provision of the necessary institutional support, directives and regulations to achieve domestic resource mobilization objectives. Where necessary strong effective surveillance system to strengthened observed loopholes arising from structural weakness for greater tax drive are imperative. While the business, trade and investment environment benefit from simpler and less complicated tax administration brought about by a digitalized system, the government benefits from lower incidence of tax evasion and other subversive tendencies.

CONCLUSION AND RECOMMENDATIONS

Digitalization of tax system, without doubt, holds a lot of significant benefits to domestic resource mobilization. Apart from creating enabling greater number of people and entities to fall within the tax system (i.e captured by the tax system), it reduces time wastage in tax collection, tax registration, tax fillings and returns, and ensures compliance given the associated simplicity. Digitalization of tax system reduces tax evasion and other subversive tendencies associated with tax system, administration and collection. The study opined that sound legal framework as well as institutional, regulatory and capacity building structures be put in place to strengthen the digitalization of tax systems in Nigeria. The study further opined that individuals, businesses, investment, trade, industrial and general economic activities can only be enhanced when the approach of filing tax returns to appropriate authorities embrace new and competitive dynamics that mitigate complexity, time delays and reduce transaction cost of doing business.

The study concludes that with the changing and growing space of technology and innovation, no country, including Nigeria should be left standing with respect to fundamental reforms in the tax collection process in a fast changing global architecture. The study recommends that the enactment of enabling legal framework to guide the digitalization of tax administration is important because the enactment of such legislation will aid the effective implementation and collection of taxes from digital transactions. The study further recommends that the Nigerian government and relevant tax authorities both at the federal level, states and local should strengthen the e-tax systems for greater returns and overall revenue and fiscal stimulation and sustainability in Nigeria.

REFERENCES

- Adegboye, A. C., Arodoye, N.L. & Irughe, R.I. (2019). Tax performance, institutions and economic integration in ECOWAS. *West African Financial and Economic Review (WAFER)*, 19(1), 93-116.
- Adeosun, F.O. (2023). Taxation of the digital economy: An evaluation of the Nigerian approach in the global context. A long essay submitted to the Faculty of Law in partial fulfilment of the requirements for the award of Bachelor of Law (LL.B) Degree, Obafemi Awolowo University, Ile-Ife, Nigeria.
- Arodoye, L.N., & Adegboye, A. (2016). Tax structure, government spending and productivity growth in Nigeria. *West African Financial and Economic Review*, 15(2), 1-20.

- Ogbaisi, S. A. and Ibifunmilola, M. (2025). Digitalization of Tax Systems and Tax Reforms in Nigeria: A Conceptual Discourse. *Malete Journal of Accounting and Finance*, 5 (2), 1-8
- Azuka, A.I. (2015). Achieving sustainable development through tax harmonization: Potentials, paradoxes and policy imperatives. *Afe Babalola University J. of Sust Dev Law & Policy* 6(1), 273-296.
- Bello O. (2023). Nigeria's Finance Act 2021 and the Digital Tax Framework: Another attempt to boil the Ocean (*Afronomics Law*, 1st February, 2022), afronomicslaw.org/category/analysis/nigerias-finance-act-2021-and-digital-tax-framework-another-attempt-boil-ocean (accessed 18th March, 2023).
- Diakité M., Brun J.F., Diarra S. & Tanimoune A.N. (2017). The effects of tax coordination on the tax revenue mobilization in West African Economic and Monetary Union (WAEMU). CERDI.
- Gough, S. (2023). Digital services tax in the UK. (Bird and Bird, 20th March, 2023), <https://www.twobirds.com/en/insights/2019/global/digital-services-tax-in-theuk#:~:text=The%20thresholds%20mean%20that%20DST,be%20subject%20to%20the%20DST.> (accessed 25th March, 2023)
- International Centre for Tax and Development Institute (ICTD) (2021). Digitalizing taxation in Nigeria: Challenges and recommendations. UK.
- International Monetary Fund (2015b). Options for low-income countries' effective and efficient use of tax incentives for investment. Report to the G20 Development Working Group. <https://www.imf.org/external/np/g20/pdf/101515.pdf>.
- Lekki, A.A. (2024). Digitizing tax in Nigeria. DIGITAX Research Programme, Nigerian Tax Research Network.
- Mas'ud, A. Mohammed, S.D. & Gimba, Y.A. (2023). Digitalizations and sub-national tax administration in Nigeria, ICTD, African Tax Administration Paper, 29, 1-8. DOI:10.19088/ictd.2023.031.
- OECD (2023). Addressing the tax challenges of the digital Economy", Action 1 - 2015 Final Report, OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris page 107 para 277 available at <http://dx.doi.org/10.1787/9789264241046-en>
- OECD (2023). Addressing the tax challenges of the digital Economy", OECD/G20 Base Erosion and Profit Shifting Project, OECD Publishing, Paris available at <https://doi.org/10.1787/9789264218789-en>
- OECD (2023). Addressing the tax challenges of the digitalization of the economy, available at Addressing the Tax Challenges of the digitalisation of the Economy (oecd.org) OECD, Base Erosion and Profit Shifting Project - Addressing the Tax Challenges of the Digitalisation of the Economy – Policy Note, (2019) , available online at <https://www.oecd.org/tax/beps/policy-note-beps-inclusive-framework-addressing-tax-challengesdigitalisation.pdf>.
- OECD (2023). The challenges of taxing the digital economy. *International Tax Review* available at <https://www.internationaltaxreview.com/article/b1ky5z950v9tl6/the-challenges-of-taxing-the-digital-economy>.
- Ogbada, E.I., Onyedika, A.V. & Modebelu, M.N. (2023). Digitalization and effective tax administration in Nigeria. *Journal of Accounting and Financial Management*, 9(4), 58-68. Doi:10.56201/jafm.
- Ogbaisi, S. A., & Ukwa, J. O. (2024). Transfer pricing and profitability of multinational enterprises: A conceptual discourse. *Journal of Taxation and Economic Development*, 23(1), 57-71.

- Ogbaisi, S. A. and Ibifunmilola, M. (2025). Digitalization of Tax Systems and Tax Reforms in Nigeria: A Conceptual Discourse. *Malete Journal of Accounting and Finance*, 5 (2), 1-8
- Oriola, M. (2023). Digital taxation: an infant in Nigeria, a giant abroad (Business Day, 23rd April, 2022), <https://businessday.ng/bd-weekender/article/digital-taxation-an-infant-in-nigeria-a-giant-abroad-mobolaji-oriola/> (accessed 8th April, 2023) 166..
- Ozekhome, H.O. & Oaikhenan, H.E (2020). Export transaction costs and export performance in ECOWAS countries: Implications for regional integration. *The West African Financial and Economic Review (WAFER)*, 20(2), 60-88.
- Tax Issues Related to the Digitalization of the Economy, (The eighteenth session, Committee of Experts on International Cooperation in Tax Matters, 23 April 2019), https://www.un.org/esa/ffd/wpcontent/uploads/2019/04/18STM_CRP12-Work-on-taxationissues-digitalization.pdf.
- Thompson, J.P. & Rohlin, S.M. (2012). The effect of sales tax on employment: New evidence from cross border panel data analysis. *National Tax Journal*, 65(4), 1023-1042. Doi.dx.doi.org/10.17310/ntj.2012.2.4.15.
- Turrado, M. (2021). Digital service tax in Spain. (Bird and Bird, 18th October, 2021) <https://www.twobirds.com/insights/2019/global/digital-services-tax-inspain#:~:text=Taxpayers%3A%20those%20legal%20persons%20or,calendar%20year%20exceeds%20from%203> (accessed 25th March, 2023) 184.
- United Nations Conference on Trade and Development (UNCTAD) (2018). Regional integration and non-tariff measures in the Economic Community of West African States (ECOWAS). *Working Paper*, UNCTAD/DITC/TAB/2018/1.