

THE JURISPRUDENCE OF CORPORATE INCOME TAXATION IN NIGERIA: A DOCTRINAL ANALYSIS OF BENEFIT AND ECONOMIC NEXUS THEORIES

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Abstract

Corporate income taxation in Nigeria has traditionally been founded on residence and source-based principles. However, evolving business models, digitalisation, and cross-border economic activity have increasingly stressed these traditional foundations. This article undertakes a doctrinal analysis of the jurisprudence of corporate income taxation in Nigeria through the lens of benefit theory and economic nexus theory, examining the extent to which the benefit theory and economic nexus theory provide a coherent justification for Nigeria's evolving corporate income tax regime, especially following the enactment of the Nigeria Tax Act 2025. Using doctrinal analysis, the paper traces the historical development of source-based taxation, critiques the limitations of traditional permanent establishment rules, and appraises the introduction of Significant Economic Presence as a modern nexus standard. The article argues that while benefit theory alone is insufficient as a tool for allocating taxing right, it stands as a compelling normative foundation for taxing income derived from sustained economic participation within Nigeria. The paper argues that economic nexus principle, as reflected in the Nigeria Tax Act 2025, represent a pragmatic response to economic digitalisation, although the success of this reform may depend on doctrinal clarity and innovative enforcement mechanism. The paper contributes to contemporary tax scholarship by creating a nexus between classical tax theories to modern digital taxation reforms in a developing economy context.

Keywords: Benefit Theory, Economic Nexus Theory, Digitisation, Globalisation, Tax Sovereignty, Source-Based Taxation

1. Introduction

The imposition of tax by a sovereign government is founded on the principle of sovereign jurisdiction. Sovereign governments have the authority to tax both natural and artificial persons based on residence and source principles of jurisdiction. The sovereign right to tax is interwoven and intertwined with the concept of state sovereignty. The power to tax is at the heart of what makes a sovereign authority a sovereign, and limitations on a sovereigns' ability to tax threatens the sovereign's very essence.¹ The taxation of corporate income in a globalized economy is a very complex issue. The challenge has been driven by the rise of highly mobile international capital, international tax competition, and aggressive international tax avoidance by multinational companies. This has led to the need for countries to find ways to defend their domestic tax bases in addressing the issues surrounding the taxation of corporate income.

Corporate income taxation is central to the fiscal sovereignty of modern states, because it is an expression of sovereignty and a crucial tool of revenue generation for governmental expenditure. In Nigeria, the legal framework governing corporate income taxation has historically been founded on the traditional principles residence and source as reflected in statutory provisions and judicial decisions. Nigeria has tried to lessen the impact of these challenges through legislative enactments.

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¹ Jennifer Bird-Pollan, 'The Sovereign Right to Tax: How Bilateral Investment Treaties Threaten Sovereignty' [2018] 32 Notre Dame J.L. Ethics & Public Policy 107, 121 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3281741 accessed 11 September 2025

The most recent legislative effort in this direction is the enactment of the Nigeria Tax Act, 2025 have sought to widen the corporate income tax net by introducing reiterating the principle of economic rather than physical presence. These reforms raise a fundamental jurisprudential question: To what extent do benefit theory and economic nexus theory provide a coherent jurisprudential foundation for corporate income taxation in Nigeria?

This paper investigates this question by examining the jurisprudence of corporate income taxation in Nigeria through two theoretical frameworks: benefit theory and economic nexus theory. The benefit theory of taxation is a classical approach in public finance which justifies taxation based on the benefits received by the taxpayer from the state. It posits that taxpayers should contribute to public revenue in proportion to the benefits they derive from government services, the economic nexus theory is a modern approach to corporate income taxes, which posits that a company should be taxed in a jurisdiction where they engage in significant economic activities, even without a physical presence. This approach is particularly relevant in the modern global economy, where digital services, e-commerce, and intellectual property can generate income without the need for a physical office or workforce in the taxing country. Although these theories are frequently invoked in international tax discourse, their doctrinal relevance to Nigerian tax law has not been systematically analysed. Hence, **the article** applies the theoretical perceptions developed to appraise the extent to which Nigeria's corporate income tax regime aligns with the benefit theory and the economic nexus theory.

The article adopts a doctrinal research methodology, analysing statutory provisions, judicial authorities, and treaty practice to investigate how these theories are reflected—explicitly or implicitly—in Nigerian corporate income tax law. It examines the pre-NTA regime and the Nigeria Tax Act 2025, and the interaction between domestic law and Nigeria's tax treaty obligations. Given the absence of judicial interpretation of the new Act, the analysis focuses on legal continuity, interpretive challenges, and emerging doctrinal tensions rather than predictive outcomes.

The paper contributes to broader debates on corporate taxing rights in developing economies. This paper bridges classical tax theory and modern digital nexus rules under the NTA 2025. Clarifying the theoretical foundations is essential to achieving doctrinal coherence and legal certainty in the evolution of Nigerian tax law.

2.1.1 The Benefit Theory as a Juridical Basis for Corporate Taxation

The benefit theory assumes that taxpayers, including corporations, benefit from state infrastructure, legal protection, and macroeconomic stability, and should therefore contribute to the financing of public goods and services proportionally. The benefit principle can be traced to classical economists such as Adam Smith, who advocated that taxes should be proportionate to the revenue enjoyed under the protection of the state. Seligman refined this view in the early 20th century, arguing that taxation should correlate with public expenditure that benefits the taxpayer. Richard Musgrave places the benefit principle within the framework of allocative efficiency in the provision of public goods, contrasting it with the ability-to-pay theory which emphasizes vertical equity.² Under the Benefit theory, taxes are regarded as the price paid for all state services by all taxpayers taken together, and countries obtain their jurisdiction to tax based on the services provided. Cooper³ suggests that taxes are to be imposed on individuals according to the benefit conferred on them. In effect, the more

² ERA Seligman, *The Shifting and Incidence of Taxation* (Columbia University Press 1910). R. A. Musgrave, *The Theory of Public Finance* (McGraw-Hill 1959).

³ Cooper, HO Bukie, T Adejumo, 'The effects of Tax Revenue on Economic Growth in Nigeria [1970-2011]' *International Journal of Humanities and Social Science Invention* (2013) 2(6) available at <https://www.researchgate.net> accessed 20 October 2025

benefits a person derives from the activities of the State, the more he should pay to the government. McLure⁴ observes that the benefit-principle accords with the view that the country where income originates should be compensated for the cost of providing public services. Thomas S Adams⁵ also expressed a similar view that a large part of the cost of government is traceable to the necessity of maintaining a suitable business environment, and that these costs may be thought of as representing the price of providing a civilized society, thereby justifying the imposition of taxes as compensation to the governments bearing them.

Some commentators have criticized the rationale of taxing international enterprises based on the benefit they provide. They argue that the benefits of limited liability and perpetual life do not justify the imposition of special corporate income taxes on international companies. They believe that companies should pay for the benefits they receive, but this does not justify the taxation of corporate income. Since a country can only provide the privileges of artificial legal personality, limited liability, and perpetual life because it has complete control over these benefits and could theoretically charge fees for them.⁶

Nevertheless, income taxes are not a reflection of the precise benefit received in terms of the tax received or in relations to the payments paid by foreign enterprises during registration of companies. More so, in the present digital era international enterprises do not incur any cost in favour of a source country before benefitting from the infrastructure in place. Because they do not need physical presence to begin interaction with the existing infrastructure. The argument that the benefits provided to resident taxpayers exceed the benefits provided to non-resident taxpayers, so, source country taxes on non-residents should be significantly lower than taxes imposed on residents of the source country cannot hold water, because taxes are not measured in terms of exact benefit received by the taxpayer as explained earlier on. As a result of the digitalisation of the global economy, multinational enterprises now have the advantage of operating on a global scale and accessing the global market.

While the Benefit theory is often criticised for indeterminacy, its revival in digital tax debates suggests a shift from precise valuation to functional justification. This article recognizes the critiques related to its operational limitations, particularly in measuring the value of benefits received. Nevertheless, in a developing country like Nigeria—where government services directly support corporate profitability (e.g., through oil licensing, security, and arbitration systems)—the benefit theory offers a useful lens for evaluating corporate tax responsibility.

In corporate taxation, the benefit principle has been invoked to justify taxing corporations for access to markets, legal enforcement, infrastructure, and other state-provided services that facilitate profit generation. Brooks argues that corporations, being separate legal persons with state-conferred privileges, ought to compensate the state through taxation.⁷ Bird and Zolt argue that the benefit theory may have limited redistributive application but retains practical relevance in corporate taxation

⁴ CE McLure Jr, 'Source-Based Taxation and Alternatives to the Concept of Permanent Establishment' World Tax Conference Report (2000)

⁵ D Pinto, 'The Theoretical Foundations and Continued Rationale for Source-Based Taxation in an Electronic Commerce Environment' *Austl. Tax Forum* (2012) 27 available at <https://heinonline.org> accessed 23 September 2025; TS Adams. "The Taxation of Business" in *Proceedings of the Eleventh Annual Conference on Taxation* National Tax Association." (1917) cited in MJ Graetz and MM O'Hear, 'The Original Intent of US International Taxation' *Duke Law Journal* (1997) 46 accessed 17 September/2025

⁶ M Kobetsky, *International Taxation of Permanent Establishments* (Cambridge 2011) https://www.researchgate.doi.10.1017/CBO97805119977855_5 accessed 20 January 2025

⁷ K Brooks, 'Taxing Businesses in the Global Economy: Is Corporate Tax a Dying Concept?' (2007) 38 *Georgetown Journal of International Law* 247.

⁸ R M Bird and E M Zolt, 'Redistribution via Taxation: The Limited Role of the Personal Income Tax in Developing Countries' (2005) 52 *UCLA Law Review* 1627.

within developing countries, where corporations benefit significantly from state-provided structures.⁸ In resource-rich economies, Boadway and Keen note that taxation of extractive industries, particularly corporate entities, aligns well with the benefit principle due to the exclusive rights granted by the state over natural resources.⁹

The application of the benefit theory in Nigeria is largely implicit. The Nigerian Tax Reform Acts prescribe tax obligations for corporate entities but are not premised on any explicit philosophical foundation. The Nigeria Tax Act, 2025 imposes source-based income taxation on foreign companies. In the context of international taxation, the source principle gives the right to tax income in the jurisdiction where the income is generated, and is generally contrasted with residence-based taxation. Source-based taxation of corporate income is a key principle in international tax law that governs the distribution of taxing rights between countries where economic activities take place. This concept ensures that income generated within a country is subject to taxation by that country, regardless of the corporation's residence. Source-based taxation allows a country to tax a non-resident company if the company earns income within that country's borders.¹⁰

The NTA recognizes both Nigerian companies and foreign companies for the purposes of taxation. Corporate income tax is imposed on the profits of any company or enterprise accruing in or derived from Nigeria.¹¹ The NTA also taxes the income, or profits of a non-resident person accruing in, or derived from Nigeria.¹² Under the NTA, non-resident companies are taxable on profits “derived from any trade, business, profession or vocation carried on in Nigeria to the extent that the profits are attributable to a permanent establishment or a significant economic presence in Nigeria.”¹³ The NTA expands by including a place in Nigeria through which business is wholly or partly carried on; operating through agents; maintaining stocks for deliveries; executing projects in Nigeria (even if some components are done outside); and furnishing services through employees, agents or subcontractors in Nigeria.¹⁴ This theory forms the rationale for source-based taxation of corporate income in Nigeria.

2.2 Economic Nexus Theory and the Transformation of Taxing Rights

Economic nexus refers to the allocation of taxing rights to jurisdictions based on factors such as sales revenue, user base, or commercial activity rather than physical presence. Under modern international tax reform discussions, “economic nexus” has emerged as a nexus standard that allocates taxing rights based on economic engagement. The economic nexus theory posits that a company should be taxed in a jurisdiction if it engages in significant economic activities there, even without a physical presence. This approach is especially pertinent in the modern global economy, where digital services, e-commerce, and intellectual property can generate income without requiring a physical office or workforce in the taxing country. This theory marks a major change in tax policy, especially regarding

⁹ R Boadway and M Keen, 'Theoretical Perspectives on Resource Taxation' in P Daniel et al (eds), *The Taxation of Petroleum and Minerals* (Routledge 2010).

¹⁰ RA Musgrave and PB Musgrave, *Public Finance in Theory and Practice* (5th edn, McGraw-Hill Book Company 1989) 211-270; WC Benjamin and MJ Nathanson, 'Conducting Business Using the internet: Gauging the Threat of Foreign Taxation' [1998] 9 *Journal of International Taxation* 29-30 available at <https://www.store.tax.thomsonreuters.com> accessed 13 September 2025

¹¹ Nigeria Tax Act, 2025, ss. 3 and 4

¹² Nigeria Tax Act, 2025, s. 17(1); Companies Income Tax Act, s. 9(1) (2007), as amended by Finance Act 2019, s. 2(a)(i). *Under the former CITA, s.13(2) & (3) had defined fixed base and exclusions. Under the NTA, these are now replaced by the PE/SEP framework of s. 17.*

¹³ Nigeria Tax Act, 2025, s.17(3)(a). The concept of significant economic presence (SEP) was introduced by sections 4 and 8 section 8 of Finance Act. Section 8 of the Finance Act is similar to section 17(9)(b) of the NTA, 2025. Where Finance Act changes are not reflected in the NTA they cease to have effect upon commencement of the NTA.

¹⁴ Nigeria Tax Act, 2025, s. 17 (9)

corporate income taxation. Traditionally, tax jurisdiction was based on physical presence or residency, but the economic nexus theory broadens this to include economic activity as a basis for taxation. This approach has gained traction with the growth of the digital economy, where companies can earn substantial revenue from a jurisdiction without maintaining a physical presence.¹⁵

The theory represents a significant evolution in corporate income taxation, particularly in the digital economy. The theory marks a major advancement in the concept of tax jurisdiction, especially in the context of the global digital economy. By shifting the focus from physical presence to economic activity as a basis for tax liability, this theory addresses the challenges posed by multinational corporations that generate substantial income without a physical presence in taxing jurisdictions. As the global economy continues to evolve, the theory will likely play a pivotal role in shaping future tax policies, offering a more comprehensive approach to taxing digital and cross-border business activities.

Historically, tax laws in most countries followed the principle of territoriality, which required a physical presence, such as a branch or office, within a jurisdiction to establish tax liability. However, with the rise of e-commerce and digital services, the importance of physical presence as a basis for tax jurisdiction has diminished. The economic nexus theory gained momentum in the late 20th and early 21st centuries as governments and international organizations sought to address the challenge of taxing multinational corporations that conduct substantial economic activities in a jurisdiction without maintaining a physical presence.¹⁶

Jurisdictions may set specific revenue thresholds that, when surpassed, establish a taxable nexus. For instance, if a company generates a certain level of revenue from sales in a jurisdiction, it may be considered to have an economic nexus there. In the digital economy, companies can significantly influence a market without having physical operations. The **Organisation for Economic Co-operation and Development (OECD)** defines the *digital economy* “**all economic activity reliant on, or significantly enhanced by the use of digital inputs, including digital technologies, digital infrastructure, digital services and data.**”¹⁷ **Significant Economic Presence (SEP)** refers to a statutory nexus that subjects a non-resident company to Nigerian tax where it derives **substantial economic benefit** from engaging in relevant activities within Nigeria, even in the absence of physical presence.

Significant Economic Presence (SEP) principle establishes a taxable nexus for non-resident entities where they generate significant economic value in a jurisdiction through digital or other sustained activities, even in the absence of physical presence.¹⁸ The economic nexus principle enables taxation based on the economic value created within a jurisdiction. This represents a shift from traditional tax

¹⁵ J Cockfield and Hellerstein, *Taxing Global Digital Commerce* (2021) 401-410 available at <https://www.wolterskluweronline.com> accessed 12 August 2025

¹⁶ *ibid*

¹⁷ Organisation for Economic Co-operation and Development (OECD), *Definition of 'Digital Economy' – all economic activity reliant on digital inputs including digital technologies, infrastructure, services and data* available at <https://www.cedefop.europa.eu/en/tools/vet-glossary/glossary/digitale-economie> accessed 17 January 2026.

¹⁸ Nigeria Tax Act, 2025, s. 17; <https://www.mondaq.com/nigeria/tax-authorities/1703872/significant-economic-presence-in-nigeria> accessed 17 January 2026.

¹⁹ *South Dakota v. Wayfair [2018] Inc. 138 S. Ct. 2080* Devereux, M. P., & Vella, J. (2018). *Debating the EU's Digital Services Tax Proposal: Policy Priorities and Implications*; OECD, *Tax Challenges Arising from Digitalisation – Report on Pillar One Blueprint* (OECD Publishing, 2020); J Cockfield and Hellerstein, *Taxing Global Digital Commerce* (2021) available at <https://www.wolterskluweronline.com> accessed 12 September 2025

rules, which emphasize physical presence, such as a fixed business location or permanent establishment, toward a more flexible view of economic activity and value creation.¹⁹

Globally, the economic nexus is gaining momentum as countries aim to tax digital and multinational companies that generate substantial income from markets without having a physical presence.²⁰ The United States has been a leader in adopting the economic nexus theory, especially following the 2018 *South Dakota v. Wayfair, Inc.* decision.²¹ This landmark ruling allowed states to impose sales tax on out-of-state sellers based on their economic activity within the state, eliminating the requirement for physical presence. This case has been a driving force behind the wider acceptance of the economic nexus theory in other tax areas, including corporate income tax. In the European Union, this theory has shaped the development of the digital services tax (DST), with several EU member states introducing or proposing DSTs that tax companies based on their digital activities, even without a physical presence. This approach focuses on where economic value is generated, rather than the company's physical location. Additionally, the Organisation for Economic Co-operation and Development (OECD) has incorporated some aspects of the economic nexus theory into the OECD's Inclusive Framework on Base Erosion and Profit Shifting (BEPS), particularly through its Pillar One proposal, which seeks to allocate more taxing rights to market jurisdictions where multinational corporations engage in substantial economic activities, even without physical presence. This reflects a global shift toward recognizing economic nexus as a valid basis for taxation.²³

The economic nexus principle has become a key factor in determining corporate income tax jurisdiction, especially with the rise of the digital economy and the growing frequency of cross-border business activities. The traditional tax framework, which primarily depended on the concept of physical presence or permanent establishment, has faced challenges in adapting to the fast-evolving global market.²⁴ The growth of e-commerce and the increasing significance of intangible assets have disrupted traditional notions of corporate tax jurisdiction.²⁵ These changes have prompted the consideration of alternative models, such as the "significant economic presence" concept, which seeks to account for the economic activities of businesses that operate without a physical presence in a specific jurisdiction.²⁶

The ease of transfer pricing for digital businesses has provided incentives for tax non-compliance, significantly heightening tax risks. Multinational corporations have emerged as central figures in the changing economic environment, with their complex interactions with states becoming progressively more complicated.²⁷ Profit-shifting tactics, including the strategic manipulation of

²⁰ G Kofler, G Mayr and C Schlager, 'Taxation of the Digital Economy: A European Perspective' (2018) 588, 590 <https://www.wolterskluweronline.com> accessed 15 August 2025; Y Brauner and J Pistone, *Adapting Current International Taxation to New Business Models: Two Proposals for the European Union* (2010) 71(12) Bulletin for International Taxation 681-687 available at <https://www.ibfd.com> accessed 19 March 2025; H J Ault and B J Arnold, 'Comparative Income Taxation: A Structural Analysis' [2010] available at <https://www.wolterskluweronline.com> accessed 20 February 2025

²¹ *South Dakota v. Wayfair, Inc* [2018] 138 SC 2080; W Hellerstein in 'The U.S. Supreme Court's Wayfair Decision: A Paradigm Shift' [2019] International VAT Monitor 30(2) 103-108 available at <https://www.vatupdate.com> accessed 20 March 2025; R D Pomp, 'Wayfair: Its Implications and Missed Opportunities' [2018] 89(9) State Tax Notes 727-739

²² MP Devereux and J Vella, 'Debating the EU's Digital Services Tax Proposal: Policy Priorities and Implications' (2018) European Tax Policy Forum available at <https://www.ifs.org.uk> accessed 26 August 2025

²³ OECD, *Tax Challenges Arising from Digitalisation – Report on Pillar One Blueprint* [2020] 50-24 BEPS 158-168, 186-187 available at <https://doi.org/10.1787/beba0634-en> accessed 23 February 2025

²⁴ Z Cheng and G Liting, 'The Impact of the Digital Economy on Corporate Taxation from the Perspective of Supply Chain' (2021) E35 Web of Conference 1-3 <https://doi.org/10.1051/e3conf/2202127501067> accessed 25 May 2025; D Twesige and F Gasheja, 'Determinants of Profit Shifting by Multinational Companies in Developing Countries: A Case of Rwanda' (2019) 11(4) Journal of Accounting and Taxation www.academicjournals.org/JAT/10.5897/JAT2019.0338 accessed 20 August 2025

²⁵ Burke T. Ward et al, 'A Comparison of United States and European Union Taxation of E-Commerce' [2006] Conference Paper of International Conference on e-commerce DBLP

²⁶ A Báez and Y Brauner, 'Policy Options Regarding Tax Challenges of the Digitalized Economy: Making a Case for Withholding Taxes' (2018) 3-4 <https://ssrn.com/abstract=3167124> accessed 10 April 2025

²⁷ D Twesige and F Gasheja, 'Determinants of Profit Shifting by Multinational Companies in Developing Countries: A Case of Rwanda' (2019) 11(4) Journal of Accounting and Taxation 67, 68-72 www.academicjournals.org/JAT/10.5897/JAT2019.0338 accessed 10 March 2025

transfer pricing, have been a major concern, with research indicating that tax evasion through transfer pricing constitutes a significant share of overall tax evasion by multinational companies.²⁸

The impact of the digital economy on corporate taxation has garnered increasing attention, with researchers emphasizing the challenges introduced by "virtual presence" in cross-border e-commerce.²⁹ In order to address the challenge of taxing non-resident companies that derive income from Nigeria without a physical presence, Nigeria has adopted the principle of significant economic presence (SEP) to determine the tax liability of non-resident companies that carry on business in Nigeria without a taxable presence, with the aim of preventing revenue loss due to base erosion and profit shifting by modern digital businesses. The NTA, 2025 provisions broaden Nigeria's ability to tax foreign companies, particularly in the digital economy, even without a physical presence in the country. The significant economic presence (SEP) rule under this Act creates tax obligations even without a physical presence.³⁰

From tax treaty perspective, the analysis in this paper reveals that Nigeria's income taxation regime operates within a dualist constitutional approach. Under section 12(1) of the Constitution, an international treaty does not have the force of law until it has been enacted by the National Assembly.³¹ Furthermore, under section 121 of the NTA, where Nigeria enters into an agreement with a treaty partner for the purpose of providing relief from double taxation, the agreement shall have effect upon ratification or domestication by the National Assembly.³² Consequently, while Nigeria has entered into several Double Tax Treaties (DTTs), their domestic enforceability depends on legislative domestication. The most important question here is whether taxpayers can rely on undomesticated DTTs as a basis for relief from double taxation or for determining taxable liability. In *Abacha v Fawehinmi*³³ the Supreme Court stressed that unincorporated treaties have no domestic effect, though they may guide interpretation. The Federal Inland Revenue Service (FIRS) generally applies such treaties administratively, treating them as binding on the grounds of international comity. Although under Nigerian law, DTTs remain non-self-executing instruments, valid only upon domestication. This creates a doctrinal tension between Nigeria's international obligations and domestic enforceability, where administrative practice often relies on undomesticated treaties.

Nigerian case law on tax treaty enforcement is very scarce, although some certain decisions have given insights into judicial attitudes. For, example in the case of *Registered Trustees of Chartered Institute of Taxation of Nigeria v FIRS*³⁴, the Court of Appeal reiterated that FIRS cannot apply international instruments not domesticated by the legislature as binding sources of law. However, the courts have acknowledged the persuasive influence of treaties in tax administration. In the case of *Abacha v Fawehinmi*³⁵ Supreme Court's dictum supports this balanced approach, of allowing treaties to inform statutory interpretation in cases where domestic law is ambiguous or where the government's action is informed by treaty obligations. By necessary implication, the Nigerian position mirrors a mixture of dualism—treaties cannot create direct taxpayer rights without domestication, hitherto they may guide tax administration and also inform judicial interpretation in determining tax liability.

²⁸ D Twesige and F Gasheja, 'Determinants of Profit Shifting by Multinational Companies in Developing Countries: A Case of Rwanda' (2019) 11(4) Journal of Accounting and Taxation 67-72 www.academicjournals.org/JAT/10.5897/JAT2019.0338 accessed 20 August 2025

²⁹ Cheng and Liting (n 24)

³⁰ Nigeria Tax Act, 2025, s. 17

³¹ Constitution of the Federal Republic of Nigeria 1999 (as amended) s 12(1).

³² Nigeria Tax Act 2025 s 121 (1).

³³ *Abacha v Fawehinmi* [2000] 6 NWLR (Pt 660) 228.

³⁴ *Registered Trustees of Chartered Institute of Taxation of Nigeria v FIRS* (2020) LPELR-50940 (CA)

³⁵ *Abacha v Fawehinmi* (n 33)

Although the economic nexus theory tackles several issues brought about by the digital economy, it has faced criticism. Critics argue that the theory can result in double taxation, with multiple jurisdictions claiming the right to tax the same income based on economic activities. Furthermore, the absence of a consistent global standard for applying economic nexus rules has created uncertainty and complexity for multinational companies.³⁶

The application of the benefit theory and the economic nexus theory in the digital age has reignited global debates on corporate tax reform. The OECD's BEPS framework and UN tax guidelines increasingly rely on a modified benefit rationale to justify taxing digital multinationals based on market jurisdiction, where users and consumers reside.³⁷ These developments underline the adaptability of the benefit theory to modern tax challenges, particularly in jurisdictions like Nigeria where digital and extractive sectors are dominant.

3. Findings

This study makes the following findings based on its doctrinal analysis of Nigerian corporate income taxation through the benefit theory and economic nexus theory:

1. The paper finds that Nigeria's traditional source-based corporate income tax framework, which relied predominantly on physical presence and permanent establishment doctrines, had become increasingly inadequate in the context of digitalisation and cross-border economic activity. The classical permanent establishment threshold failed to capture value generated through remote, digital, and virtual business models, thereby exposing the Nigerian tax base to erosion.
2. The analysis demonstrates that although the benefit theory of taxation has long been criticised for its indeterminacy and difficulties in precise valuation, it remains a persuasive normative justification for source-based corporate taxation in Nigeria. Corporations—both resident and non-resident—derive substantial benefits from Nigeria's legal system, infrastructure, market access, regulatory protection, and economic environment. These benefits provide a coherent juridical basis for imposing tax obligations on income derived from sustained economic participation within Nigeria.
3. The paper finds that the economic nexus theory provides a functional and doctrinal bridge between classical tax principles and contemporary digital business realities. By shifting the focus from physical presence to economic participation, the economic nexus theory offers a more responsive framework for allocating taxing rights in a globalised and digital economy.
4. The introduction of the Significant Economic Presence (SEP) concept under the Nigeria Tax Act 2025 reflects an implicit convergence of benefit-based reasoning and economic nexus principles within Nigeria's domestic tax law. The SEP regime redefines “source” by reference to sustained economic engagement rather than mere physical presence, thereby aligning Nigerian corporate income taxation with emerging international tax norms.
5. Finally, the study finds that notwithstanding the conceptual strengths of these reforms, unresolved issues remain. In particular, the absence of judicial interpretation of the Nigeria Tax Act 2025, potential conflicts with existing double taxation treaties, enforcement challenges, and the risk of overlapping taxing claims continue to pose doctrinal and practical uncertainties for Nigeria's evolving corporate tax regime.

³⁶ D M Weber, 'The Future of International Income Taxation: Beyond the BEPS Project' [2016] 41(3) Brooklyn Journal of International Law 825-872 available at <https://www.heinonline.org> accessed 20 March 2025; A J Cockfield 'BEPS and Global Digital Taxation' [2016] 64(4) Canadian Tax Journal 1013-1046 available at <https://www.ctf.ca> accessed 11 May 2025; A Clausen, 'Profit Shifting Before and After the Tax Cuts and Jobs Act' [2020] 73(4) National Tax Journal 1233-1266 available at <https://www.journals.uchicago.edu> accessed 10 March 2025

OECD, *Addressing Base Erosion and Profit Shifting* (OECD Publishing 2013); UN Committee of Experts on International Cooperation in Tax Matters, *Taxation of the Digital Economy* (UN 2019).

4. Recommendations

In light of the foregoing findings, the paper makes the following recommendations:

1. There is a need for clearer statutory and administrative guidance on the application of the Significant Economic Presence provisions under the Nigeria Tax Act 2025. Detailed regulations and interpretative guidelines would enhance legal certainty, reduce compliance ambiguity, and support consistent enforcement.
2. Nigeria should undertake a systematic review of its existing double taxation treaties to ensure alignment with the economic nexus and SEP framework introduced under the Nigeria Tax Act, 2025. Where necessary, treaty renegotiation or the adoption of interpretative mechanisms should be pursued to minimise conflicts between domestic law and treaty obligations.
3. The effectiveness of Nigeria's economic nexus reforms depends significantly on administrative capacity. Accordingly, tax authorities should strengthen institutional capabilities in areas such as digital audits, data analytics, transfer pricing oversight, and international information exchange to ensure effective implementation of SEP-based taxation.
4. Finally, policymakers should adopt a balanced approach that protects Nigeria's fiscal sovereignty while preserving legal certainty and investment confidence. This requires ensuring that economic nexus-based taxation is applied transparently, proportionately, and in a manner consistent with Nigeria's international obligations and broader economic development objectives.

5. Conclusion

This article has examined the jurisprudence of corporate income taxation in Nigeria through the doctrinal lenses of benefit theory and economic nexus theory. The Benefit and the Economic Nexus theories provide a normative justification for corporate taxation in Nigeria. The Benefit theory's and the Economic Nexus theory's validity is well-supported, as companies benefit from the infrastructure provided by the source country, whether in general terms or more specifically. Without such infrastructure, digital businesses would be unable to function. The paper reveals that Nigerian corporate tax law reflects a continuous transformation of the legal basis for taxing rights. The analysis reveals that the recent reform has implicitly embrace the economic nexus theory. Economic nexus theory offers a pragmatic response to the challenges of digitalised global economy, but in the absence of judicial interpretation of the Nigeria Tax Act 2025, the law is not yet settled. Furthermore, Nigeria's SEP rules under the NTA reflect an implicit benefit-based premise. The Benefit theory continues to underpin the philosophical justification for corporate taxation. This has argued that a grounded jurisprudential framework is essential for doctrinal coherence