

AN APPRAISAL OF VALUE ADDED TAX FISCALIZATION IN NIGERIA TAX ACT 2025: A  
COMPARATIVE VIEW

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**Abstract**

*Fiscal policy stands as a crucial pillar of economic development through its economic financing function. Since the inception of advancement in technology, internet has expanded in size, use and impact. The deficiency in Nigerian VAT system led to inability to levy VAT on E- transaction or commerce. Recently, attempt has been made to fill the lacuna on collection mechanism and in so doing incorporated VAT Fiscalization into the Nigerian Tax Act 2025 and Tax Administrative Act 2025. Digital fiscal system is introduced to automatically send every transaction to the central servers of the fiscal authority. It is open for the fiscal authority to use automated VAT collection procedures to automatically collect taxes from cash –only business, bank transactions or even both. This paper is aimed at examining the impact and or effect of VAT fiscalisation in Nigeria. This paper queried if there has been a measure put in place by government to eliminate technology assisted devices that would hinder VAT collection. The methodology adopted in this work is doctrinal wherein primary and secondary sources of materials were utilized. Upon findings, this paper revealed that challenges of VAT administration on digital services are not peculiar to Nigeria alone. The work recommended that a law should be made to criminalize or make it unlawful for one to create, repair or install automated suppressing device that hinders smooth tax administration or collection of VAT.*

**Keywords:** VAT Fiscalization, Cross Border, Digital Services, Nigerian Tax Act 2025

**1. Introduction**

Tax serves as a key instrument for revenue generation and socio-economic development. Countries with strong tax system experience increase in revenue and stabilized economy. In the world of today, digitalization of businesses and technology has been the order of the day. Digitalization of businesses through E-marketing, selling and booking of services via multiple online platforms have birthed business flexibility. This mode ordinarily should contribute to the increase in revenue generation but unfortunately not. Most business transactions done online are not brought into tax net due to poor tax system, low compliance, tax dishonesty and tax evasion. These factors and many more gave rise to fraud since the fraud technology crosses borders freely. This problem is not limited to Nigeria. Ainsworth and Richard T.<sup>4</sup>, in their work, stated that technology at heart of fraud needs to be dealt with directly and most likely with counter technology. They added that enforcement agencies need to develop and employ either

- a) technology that efficiently reconstructs digital transaction records that have been suppressed or
- b) Security software technology that encrypts and saves digital records at the time of their either creation.

In Nigeria, the tax system has been set back because of inefficiencies, complexities, lack of compliance, coherence and inadequate technology. These made the tax system to be unsmooth and ineffective. The perturbing question is if the ugly tax experience is peculiar to Nigeria alone. Beyond Nigeria's bitter experience of tax system, country like Portugal once had a bit of such situation. It has been stated that

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<sup>4</sup> Ainsworth and T. Richard, 'Sales Suppression: the international Dimension' American Law Review Vol 65 Issue 5 (June 2016) 1241.

Portuguese tax system is totally inadequate. This statement was published in an official group that consists of professors (Alan Auerbach of Berkely University, and Laurence Kotijoff of Boston University and former Portuguese Finance Minister Braga de Macedo). From the report presented by the group, it is believed that the situation is one of the extremes. To them, fiscalization is very poor. Ninety percent of tax payers do not pay. This creates a burden for the 10% that do'. According to Fangeulero, foreign companies with subsidiaries in Portugal are invariably part of this 10%. He stated thus: 'there is a deep pocket mentality to corporate taxation in Portugal, but who am I to say that it is stupid'. Bill Cunningham<sup>5</sup>, believes that big companies pay tax. This applies to domestic and foreign companies. Below this level, there is however a problem. 'Individuals, particularly entrepreneurs and small and medium-sized companies have always under reported'. The government introduced a minimum tax, to tackle the problem of self-employed under-reporting income, but quickly withdrew it in the face of political opposition. Cunningham describes the minimum tax as a 'blunt instrument'. He argued that tighter enforcement is required. In addition, he stated that lack of resources and political will have caused slack enforcement.<sup>6</sup>

To curb these problems and to address its root cause, Nigeria recently enacted laws<sup>7</sup> that codified VAT Fiscalization. The Act introduced electronic invoicing and fiscalization for VAT.<sup>8</sup> The aim is to capture tax evaders particularly the online vendor's who transact without remitting to the appropriate tax authority. This work focused on VAT fiscalization and its impact in Nigerian economy. It further queried if the government put in place mechanism to eliminate hijacking of the software for VAT fiscalisation.

## **2. Conceptual Clarification Fiscalization**

Fiscalization is the process of establishing an electronic invoice through the digitalization and modernization of invoicing for cash or bank settlement transactions.<sup>9</sup> Fiscalization involves using special cash registers or software to accurately report sales, helping prevent tax evasion. It enables real time monitoring of unpaid tax in the last one to three months or any other desired time period. It could also be said to mean a set of measures introduced to control invoicing in cash. These measures include changes in the IT environment (implementing electronic cash registers with real time connectivity to the central system), operations (new tax inspection process) and regulation (changes in the regulatory framework to support compliance).<sup>10</sup> The most recent evolution of fiscal laws is software fiscalization. It is an automated VAT collection process which supervises transaction revenues. The transaction system software that connects businesses to tax authorities works to eliminate tax evasion and combat unfair competition on the market. Countries that implemented fiscalization have experienced a significant increase in taxable deliveries starting immediately after the implementation.

### **Value Added Tax**

Value Added Tax is a consumption tax paid when goods are purchased and services rendered. It is a multi-stage tax. VAT is borne by the final consumer. All goods and services (produced within or imported into the country) are taxable except those specifically exempted by the VAT Act.<sup>11</sup> It could be said to be a consumption tax levied at every stage of production for a good or service. Value Added Tax (VAT) is an important tax for online businesses in Nigeria. VAT is a tax on the value added to goods and services. In

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<sup>6</sup> Cannon, Phillippa, 'Portugal: A system under pressure' *International Tax Review* Vol 8 Issue 9 (October 1997) 17-19 <https://heinonline.org/HOL/Contents?handle=hein.journals/intaxr8&id=1&size=2&index=&collection=journals> >accessed on 15<sup>th</sup> Sept., 2025.

<sup>7</sup> Nigeria Tax Act 2025 and Nigeria Tax Administration Act 2025

<sup>8</sup> Nigerian Tax Act 2025. s.157: R. O. Ishiguzo, 'Tax Reform Bill 2024: Alligning Legal Frameworks with Economic Realities for Maximum Benefit' *Law and Social Justice Review (LASJURE)* Vol. 5 122 (January 2024). 122-131

<sup>9</sup> Madani et al, 'Empirical Analysis of Digitaliation's Impact on the Albanian Labour Market' *Economic and Social Development, International Scientific Conference on Economic and Social Development* Vol 98 (2023) 319 -333

<sup>10</sup> Asseco, 'Fiscalization' <https://ng.asseco.com/offer/public-administration/fiscalisation/>> accessed on 15<sup>th</sup> Sept., 2025

<sup>11</sup> Nigerian Tax Act 2025. s. 186(1); FIRS, 'Value Added Tax' <https://www.firs.gov.ng/vat>>accessed on 16<sup>th</sup> Sept., 2025.

Nigeria, the VAT rate is 7.5%<sup>12</sup>. This tax applies to most products and services, including those sold online. However, when a product is sold or service is rendered through E-commerce, the business owner is mandated to add 7.5% to the price which the customer would pay<sup>13</sup> and it shall be remitted to the government. The law mandates every business owner / company, and non- resident person who supplies to Nigeria to register her business and then after be issued with Tax Identification Number (TIN). With this, he is expected to file return at the end of every year. Section 22 (1) of Tax Administration Act<sup>14</sup> provides as follows: ‘

A taxable person shall, in respect of value added tax, with or without a notice, and whether or not an economic activity has taken place, submit a return to the Service in the prescribed form, on or before the 21<sup>st</sup> day of the following month.

The regulatory role of VAT in the economy is evident in its contribution to ensuring tax compliance and preventing tax evasion, promoting transparency and fairness within the fiscal system by establishing clear guidelines and procedures that businesses must adhere to. Additionally, it significantly contributes to the efficient collection and allocation of tax revenues, which are crucial for funding public services and economic development.

### **Tax**

Britannica Dictionary defined tax as an amount of money that a government requires people to pay according to their income, the value of their property, etc., and that is used to pay for the things done by the government<sup>15</sup>. The Black’s Law Dictionary defines tax as “a charge, usually monetary imposition by the government on persons, entities and transactions to yield public revenue<sup>16</sup>. According to Ayua, tax is a compulsory exaction of money by a public authority for public purposes or raising money for the government by means of contributions from individual persons.<sup>17</sup> In *Shell Petroleum Development Co. Ltd v FBIR*, it was held that: “tax should be deemed as a debt due to the government<sup>18</sup>.”

### **3. Legal Frameworks**

The relevant laws which form basis of discuss are Nigerian Tax Act 2025 and Nigerian Tax Administration Act 2025.

**Taxable person:** Section 152 and 154 of the Act<sup>19</sup> encourages taxable person to pay VAT to supplier on the taxable supply made to the person and should as well maintain sequential invoicing numbering with specific provisions of the content on the VAT invoice<sup>20</sup>.

**Fiscalisation of supplies for VAT:** The Act<sup>21</sup> mandates taxable persons to implement the fiscal tools that may be deployed by the tax authority, which may include electronic devices, software solutions, for electronic invoicing and data transfer.

Section 158 of the Act provides thus: A taxable person making a taxable supply shall implement the fiscalisation system deployed by the Service in accordance with Nigeria Tax Administration Act, 2025.

(2) The fiscalisation system may include fiscal equipment consisting of electronic devices, software solutions or a communication system involving a secured network, or

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<sup>12</sup>ibid. s.148

<sup>13</sup>ibid s.154

<sup>14</sup>Tax Administration Act 2025

<sup>15</sup> Britannica Dictionary, ‘Tax’ <https://www.britannica.com/dictionary/tax>>accessed on 16<sup>th</sup> Sept., 2025.

<sup>16</sup> B A Garner (ed) Black’s Law Dictionary, (10<sup>th</sup> edition, USA: Thomson Reuters, St. Paul M N, 2014) 1594

<sup>17</sup> I A Ayua, *The Nigerian Tax Law* (Ibadan: Spectrum Law Publishing, 1996), p 3

<sup>18</sup> [2004] FWLR (Pt 859) 46.

<sup>19</sup> NTA (n 10)

<sup>20</sup> ibid. s.153

<sup>21</sup> ibid

any such combination of the components for electronic invoicing and data transfer as the Service may prescribe or deploy.

**E-Invoicing Implementation:** The FIRSMBS serves as a digital representation of transactions between suppliers and buyers, replacing traditional documents such as invoices, credit notes, and debit notes. Implementation is expected to generally apply to taxpayers who use accounting software or e-invoicing solutions, such as virtual cash registers, to generate electronic invoices. However, paper invoices converted into electronic formats (e.g., by copying or scanning) are not classified as e-invoices under this framework.<sup>22</sup> Each taxpayer's e-invoicing solution must comply with e-invoicing regulations and be integrated with the FIRS (now Nigerian Revenue Service) system through a licensed access point provider via the FIRSMBS portal. The access point provider will be responsible for validating and transmitting invoices, serving as a gateway between the taxpayer's invoicing system and the FIRSMBS (Service Merchant Buyer Solution). Section 23 of the Nigeria Tax Administration Act<sup>23</sup> mandates any person making taxable supplies to adopt any Electronic Fiscal System (EFS) for recording and reporting transactions when the NRS implements such a system. A notable example of the EFS that has been introduced by the NRS is the VAT automation and e-invoicing system<sup>24</sup>.

**VAT on Online Sales:** Non-Resident person is mandated to register for tax so long as he does supply to Nigeria. He is obligated to remit VAT to the appropriate tax authority. However, where taxable goods are imported into Nigeria through an online electronic or digital platform operated by a non-resident supplier and VAT has been collected by the Service or any person appointed by the Service, the goods shall not be further subjected to VAT before clearing upon provision of proof of payment of the VAT<sup>25</sup>. This provision of the law authorizes the non-resident person who does business in Nigeria via online to remit VAT to the Service.

#### **4. The Impact of Vat Fiscalisation in Economy**

The regulatory role of VAT in economy is evident in its contribution to ensuring tax compliance and preventing tax evasion. By means of mandatory electronic invoicing and real-time tracking, VAT fiscalisation has aided in increasing the tax revenue by improving transparency and compliance. It also boosted operational costs and complexity for businesses, particularly SMEs, due to system integration requirements<sup>26</sup>. It enhances tax administration efficiency by simplifying audits and creating a unified digital platform for VAT collection. For consumers, fiscalisation can lead to increased prices on goods and services. The importance of the Value Added Tax (VAT) in the tax system lies in its capacity to generate government revenue while minimizing the burden on individuals. VAT allows for the taxation of value added at each stage of production, ensuring that businesses bear a fair share of the tax burden. By taxing the value added at each production stage, VAT promotes efficiency by encouraging businesses to streamline their operations and reduce costs. This fosters productivity and innovation, leading to economic growth. Additionally, VAT's ability to generate government revenue while minimizing the burden on individuals enhances efficiency by ensuring a more equitable distribution of tax responsibility. The phenomenon of tax evasion was analyzed by a group of authors, Fulop et al<sup>27</sup>, from both economic and social perspectives, as well as the role played

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<sup>22</sup>Andersen Global, 'FIRS Implements Merchant Buyer Solution and E-Invoicing in Nigeria' <https://ng.andersen.com/firs-implements-merchant-buyer-solution-and-e-invoicing-in-nigeria/>>dated 28<sup>th</sup> March, 2025>accessed on 16<sup>th</sup> Sept., 2025.

<sup>23</sup>2025

<sup>24</sup>KPMG, 'Key Changes to Existing Tax Laws' [https://assets.kpmg.com/content/dam/kpmg/ng/pdf/2025/06/The%20Nigeria%20Tax%20Act%20\(NTA\),%202025.pdf](https://assets.kpmg.com/content/dam/kpmg/ng/pdf/2025/06/The%20Nigeria%20Tax%20Act%20(NTA),%202025.pdf)>accessed on 16<sup>th</sup> Sept., 2025.

<sup>25</sup>Nigerian Tax Act 2025. s. 186(1)

<sup>26</sup>N. Wadesango and Gift Chirebvu, 'The Impact of Value Added Tax (VAT) On Small and Medium Enterprises in A Developing Country' *Academy of Accounting and Financial Studies Journal* (Print ISSN: 1096-3685; Online ISSN: 1528-2635) Vol: 24 Issue: 2 [https://www.abacademies.org/articles/the-impact-of-value-added-tax-vat-on-small-and-medium-enterprises-in-a-developing-country-9874.html#:~:text=\\*\\*,level%20\(2%2Dtailed\).&text=VAT%20was%20significantly%20and%20positively,operati%20costs%20of%20the%20SMEs.>](https://www.abacademies.org/articles/the-impact-of-value-added-tax-vat-on-small-and-medium-enterprises-in-a-developing-country-9874.html#:~:text=**,level%20(2%2Dtailed).&text=VAT%20was%20significantly%20and%20positively,operati%20costs%20of%20the%20SMEs.>)accessed On 19<sup>th</sup> Sept., 2025.

<sup>27</sup>(2002)

by accounting and accountants in preventing and combating tax evasion in the case of entities in Romania. The authors developed a questionnaire to which 247 registered accounting professionals responded through the Body of Expert and Licensed Accountants of Romania (CECCAR). The data collected from the questionnaire were analyzed to prevent and combat tax evasion, recommending measures such as digitalization, simplification of tax procedures, and clarifying legislation (strengthening it).<sup>28</sup> Country like Zimbabwe has long adopted and or incorporated VAT fiscalisation in administration of tax in the country and it has yielded a positive goal. According to Tapiwa Dalu et al<sup>29</sup> in their work, the study conclusively revealed that fiscalisation has had a positive effect on VAT collections widening the tax base and having more revenue to the fiscus. The work further revealed that fiscalisation has increased taxpayer's compliance in relation to VAT administration by Zimbabwe Revenue Authority.

### **5. Vat Applicability To Digital Services**

The increase in the use of e-commerce platforms, digital payment systems, and online marketplaces has drastically changed the way consumers engage with businesses and access goods and services. This shift has resulted in significant changes in consumer behavior, including an increased reliance on digital channels, a preference for convenience, and a demand for personalized experiences. Digital services however, encompass a broad spectrum of activities, including online banking, streaming services, online payments, digital communication, social media engagement, cloud management, online bookings, e-commerce, and websites, along with online job platforms and business automation tools. These services are characterized by their ability to transcend traditional geographic boundaries and are typically delivered electronically over the internet with minimal physical or human interaction. They are automated, relying on a digital Information, Computing, Communication, and Automation Technology (ICCAT) system that responds to user inputs to generate the desired outcomes.<sup>30</sup> Article 11 of EU Regulation<sup>31</sup> provides for an 'Electronically Supplied Service'. It is one that:

- In the first instance is delivered over internet or an electronic network and then
- the nature of the service in question is heavily dependent on information technology for its supply.

Therefore on the basis of the two step test 'an electronically supplied service include inter alia:

- Digitalized products generally such as software and changes to or upgrades of software
- A service which provides, or supports a business or personal presence on an electronic network (eg website, webpage)
- A service automatically generated from a computer via the internet or an electronic network, in response to specific data input by the consumer.

In general, the use of the internet or other electronic networks by parties to communicate with respect to transactions or to facilitate trading does not apply to traditional service<sup>32</sup>. The Federal Inland Revenue Service (FIRS) (now NRS) issued Information Circular No. 2021/19 on 11<sup>th</sup> day of October, 2021, wherein the Guidelines on Simplified Compliance Regime for VAT for Non-Resident Suppliers (NRS) were outlined.<sup>4</sup> It requires any non-resident individual or entity making a taxable supply of goods or services to

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<sup>28</sup>Cristina Elena Badiu et al, 'Modelling the Impact of VAT Fiscality on Branch-Level Performance in the Construction Industry-Evidence from Romania'<https://doi.org/10.3390/economies12020030>>dated 27<sup>th</sup> January, 2024>accessed on 19<sup>th</sup> sept., 2025.

<sup>29</sup>Tapiwa Dalu et al, 'An Annlysis of the Impact of Ffiscalisation on Value Added Tax collection: case study of Harare Category CVAT registered operator' African Journal of Economic and Sustainable Development (AJESD) Vol 14 No3 <https://www.inderscience.com/offers.php?id=71912>>dated 23<sup>rd</sup> Sept., 2015>accessed on 19<sup>th</sup> Sept., 2025

<sup>30</sup>Simmonscooper Partners, 'Value Added Tax and Digital Services in Nigeria' <https://www.legal500.com/developments/thought-leadership/value-added-tax-and-digital-services-in-nigeria/>>dated 14<sup>th</sup> January, 2025>accessed on 15<sup>th</sup> Sept., 2025.

<sup>31</sup>1777/2005

<sup>32</sup>Marusa pozvek, 'VAT in Digital Electronic Commerce' *InterEUEast:Journal for International and European Law Economics and Market Intergrations* 37 (2017)

Nigeria to register for tax with the FIRS and obtain a Tax Identification Number (TIN). This guideline is in compliance with the Section 6 (1) of the Act<sup>33</sup>. It provides thus:

A non-resident person that supplies taxable goods or services to any person in Nigeria, or derives income from Nigeria shall register for tax purposes and obtain a Tax ID: Provided that a non-resident person who derives only passive income from investment in Nigeria may not be required to register for tax but shall provide relevant information as may be prescribed by the Service.

(2) The relevant tax authority may issue guidelines for the purpose of giving effect to the provisions of this section.

The guidelines specifically address the supply of goods, services, intangibles, and other digital products made through digital means by entities not physically located, based, or represented within Nigeria to either businesses (B2B) or consumers (B2C) in Nigeria<sup>34</sup>. It includes intermediaries who, although not the actual owners or suppliers of the goods or services, facilitate the supply, issue invoices, and handle payments.<sup>5</sup> For instance, a Chinese-based online marketplace that connects global sellers with buyers worldwide (and does not directly own the products listed on its website but is an intermediary) would need to register for VAT in Nigeria if it facilitates transactions involving Nigerian consumers.<sup>35</sup>

Furthermore, services are described in the Guidelines to include “any intangible or services delivered via electronic or digital means or similar networks, whose supply is essentially automated, involves minimal human intervention, and is impossible to ensure in the absence of information technology”. This category includes online gaming, automated online professional and consultancy services, online advertising, cloud computing services, and payment platforms. Similar to the UK Guidelines, internationally traded services or intangibles are deemed to be supplied in Nigeria where the services or intangibles are consumed or intended to be consumed in Nigeria. The guidelines stipulate several criteria to determine if a service is consumed in Nigeria:<sup>7</sup>

- The recipient has a Nigerian billing, business, residential, or postal address.
- The consumer’s usual place of residence is inferred to be Nigeria based on information provided.
- The customer is a company incorporated under Nigerian law.
- The customer’s URL, geo-location, or IP address is in Nigeria.
- The services are physically performed in Nigeria.
- Other evidence suggests that the supply is consumed or utilized in Nigeria.
- If none of the above can determine the place of consumption, it is considered to be Nigeria if the payment originates from a Nigerian bank or financial institution.

In these circumstances, the (Non-residence Suppliers) NRS is required to remit VAT, using its name and TIN to the Service. NRSs are primarily responsible for collecting VAT on cross-border supplies of goods and services. If the NRS fails to collect the VAT, the Nigerian customer must withhold or self-account for the tax as mandated by section 151(2) of the Act. It provides thus: Where a non-resident person is making taxable supplies from outside Nigeria to persons in Nigeria, the taxable person to whom the supply is made in Nigeria shall withhold the VAT due on the supply and remit it to the Service. This provision transfers the responsibility to the Nigerian resident to whom the taxable goods or services are supplied, ensuring that the tax is remitted to the Service in the transaction’s currency.

In addition, the Federal Inland Revenue Service (FIRS) has introduced a real-time portal designed to monitor VAT-eligible electronic transactions across Nigeria. The Transaction Monitoring System mandates

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<sup>33</sup> Tax Administration Act 2025

<sup>34</sup>This is in line with OECD Tax Guideline.

<sup>35</sup> *ibid.* s. 151

integration from banks, fintechs, card schemes, and payment service providers to close tax gaps in the digital economy. With encryption and AI-powered validation, the platform ensures transaction transparency and automated reconciliation. Non-compliance will attract stiff penalties, including fine<sup>36</sup>.

#### **6. Challenges of Vat Administration on Digital Services in Nigeria Viz a Viz Some Other Jurisdiction**

One of the challenges of VAT administration on digital services in Nigeria is on the nature and invisibility of digital services. It is not in issue that our law requires a non-resident persons or companies doing business in Nigeria to register with the Service and remit VAT accordingly. However, the major problem is that digital services lacks physical presence as this will make it difficult or almost impossible to identify the vendor or entity responsible for supplying of services within Nigeria. This has led to financial loss especially in an under developed country where technological infrastructure is lacked or limited. Another important challenge is lack of Uniform Global Tax Rule. The lack of uniform international rules for taxing non-resident companies on digital services has been another significant challenge<sup>37</sup>. The absence of a standardized global framework leads to inconsistencies and complexities for companies operating across multiple jurisdictions. This situation often results in double taxation, difficulties in compliance with diverse tax laws, and unintentional non-compliance, further complicating the tax landscape for digital services.

A non- Nigerian writer identified similar issue in his work. In cross -borders transactions, the determination of jurisdiction to apply VAT is problematic. VAT system presents obstacles and difficulties in international trade of goods and services because there is no harmonization. For instance, A person in jurisdiction ‘A’ may contact a company for the development of software in jurisdiction ‘B’, downloaded the newly developed software to a laptop computer in jurisdiction ‘C’ and use it at business conference in jurisdiction ‘D’. In these circumstances, a case could be made for determining that consumption takes place in whatever jurisdiction the software is accessed and used. This would be impossible to administer. In most cases it would be difficult for a business to track usage of services in this way and difficult for a tax administration to know where the service was used. Even if tracked, it would be difficult to place a monetary value on it, in order to determine an amount of tax due.<sup>38</sup> Numerous administrative obstacles are slowing international trade and preventing the flourish of many economies. VAT has strong impact on cross-border sales of physical and digital products in E-commerce. Modernization of VAT for cross-border e-commerce would provide a simple, effective, neutral VAT system for the single market.

#### **Mauritus Experience of VAT Challenges on Digital Services**

BeebeJaun Ambareen, in his work identified some challenges created by digital taxes from point of view of consumer’s telecommunication and global digital technology service providers. Report shows that the net effect of digital taxes is firstly an increase in the affordability obstacles in adopting technology on behalf of consumers especially if these taxes add up to the cost of ownership. Secondly, although the consumption tax can be passed on to consumers, the duty to pay VAT still lies on the digital service providers who may face a reduction in infrastructure investment if these taxes decrease the amount available for capital expenditure. Some other authors have also accused digital taxes of showing the adoption of new technology which may in turn hinder economic growth and development. For instance, Kearney<sup>39</sup> assessed the impact of digital tax on wireless services on the growth of 3G penetration in countries with emerging market economies. Another adverse effect of digital taxes was discussed by Domus et al<sup>40</sup> who advanced that these taxes promote double taxation in the field of international communications mainly for international mobile roaming and long

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<sup>36</sup>News Central TV, ‘FIRS Launches Real-Time VAT Tracking System for Digital Transactions’ [https://www.youtube.com/watch?v=q9bz2\\_ffHKk&t=564s](https://www.youtube.com/watch?v=q9bz2_ffHKk&t=564s)>accessed On 19<sup>th</sup> Sept., 2025

<sup>37</sup> Kabwe, Ruddy, and Stephanus van Zyl, ‘Value-added tax in the digital economy: A fresh look at the South African dispensation’ *Obiter* 42: 499–528. (2021): Simmonscooper Partners. (n 20)

<sup>38</sup> Marusa pozvek (n 31)

<sup>39</sup> (2014)

<sup>40</sup> (2017)

distance calling. Basically, double taxation occurs when the same income, asset or transaction is taxed more than once by different tax authorities.

In fact double taxation occurs when a person subscribed for international roaming calls which include the price of the home operator plus VAT in addition to the cost of international transport service, the price set by the operator the visiting country with VAT of that country included. Thus, the 2 indirect tax have to be paid by the subscriber which is VAT in both the home and visiting countries. To avoid double taxation, they have to enter bilateral roaming agreement. Amongst the various challenges that occur on the digital space is the absence of local presence of foreign suppliers of digital services in the country where the service provider is being provided.<sup>41</sup> Initially, no VAT was applied by non-resident digital business on sales made to consumers located in Mauritius. This and many other identified *lacuna* led to the amendment of VAT Act as new part was introduced on 7<sup>th</sup> August, 2020 (particularly Part IIIA). Section 14 of the VAT Act provides for the liability of VAT on digital or electronics services. It captures foreign suppliers and requires VAT to be charged on any digital or electronic service supplied by a foreign supplier to a person in Mauritius on such terms and conditions that may be prescribed.

Furthermore, another pertinent issue arising from the emergence of the digital economy is the characterization of some new forms of transaction. For instance, concerning online payment system, it becomes difficult to properly account for payments made on the basis of new business models such as cloud computing. Additionally, while the digital economy has evolved over the years, an effective international framework of VAT collection is still missing. This shortcoming creates problems for business and more specifically for small and medium enterprise to charge, collect, and remit the tax to the revenue authority of the jurisdiction of consumption in terms of uncertainties and compliance cost. Besides, from the revenue authorities' point of view, there is fear of tax revenue loss and trade distortion because of the huge amount of online transactions over the internet which makes its challenging to monitor. To address these problems, the OECD BEPS Action 1 in brief provides for the following recommendation namely: to modify the definition of permanent establishment and provide guidelines on the collection of VAT in cross-border transactions. The OECD instituted a special task force on digital economy to bring foreign and local service providers on a fair playing ground and to protect government's ability to impose VAT.

### **Ethiopian Experience on Challenges of VAT on Digital Service**

The problems of buyer's identification, difficulty of establishing location/ residence and status of party to e-commerce transactions are substantive challenges for Ethiopian VAT in the era of E-commerce. Similarly, the inadequacy of the Ethiopian VAT proclamation to define what constitutes a 'permanent establishment for e-commerce purposes, absence of guidelines on acceptable records where goods are delivered, invoices issued and payments made by electronic means, lack of proper and adequate resources within the tax authority to monitor e-commerce transactions are identified as major challenges of applying Ethiopian VAT on e-commerce transaction.<sup>42</sup> Beyond these challenges identified, the American writers, Ainsworth and Richard recognized Technology-assisted sales suppression fraud as one of the challenges. They stated that the most effective way to curb this is to involve real-time secure transmission of encrypted transactional data to a central location where artificial intelligence (AI) conduct a high quality risk analysis in a deployment that assures tax payer privacy. They added that fraud technology crosses borders freely. They recommended that to combat the problem of highly mobile technology fraud, international and domestic tax authorities must share successes and failure together. Further, government should make a provision that bring data

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<sup>41</sup> BeebeeJaun, Ambareen, 'VAT Foreign Digital Services in Mauritius: A Comparative Study with South Africa' *International Journal of Law and Management* Vol 63 Issue 2 (2021) 239-250

<sup>42</sup> Abdallah, Abdulkarim Husen, 'Challenges of Applying Ethiopian VAT on Electronic Commerce Transaction' *Amsterdam Law Forum* Vol 14 Issue 1. 1-20

security common in foreign VAT jurisdictions, into a small segment of its retail sales tax enforcement effort.<sup>43</sup>

### **Conclusion**

This research work has emphasized on the new trend of imposing VAT on digital or electronic services. In fact, the OECD BEPS Action 1 recommendation focuses on the taxation of digital services and this has inspired most states to extend the scope of indirect taxation to international sphere. To this end, Nigeria has amended its tax law by including a new provision which codified VAT fiscalisation with the aim of bringing everyone into tax net and increasing the revenue. This study has analyzed the impact and challenges of VAT administration on digital services in Nigeria and beyond. In addition, this work has set out case for the taxation of foreign digital services and adopted recommendations put forward by the OECD BEPS Action plan. Ultimately, it concluded that to curb E-VAT evasion by the online vendors, there should be a synergy amongst various countries.

### **Recommendation**

1. Apart from the fact that VAT fiscalisation has been codified, it is recommended that law should be made to criminalize or make it unlawful for anyone to create, design, repair or install any automated suppression device.
2. Unified VAT system as employed by European Council Directive No 112/ 2006 made with the aim of standardizing legislation across members states should be adopted as this will aid in eliminating evasion of tax or
3. Alternately, related countries should harmonize their laws and come up with effective international frame work on VAT collection by way of treaty which will clearly spell out the jurisdiction liable to VAT collection when electronic transaction involves two or more countries.

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<sup>43</sup> Ainsworth and T. Richard (n 3)