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Digitalisation of Tax collection and Tax Revenue in Nigeria .

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Abstract
This study investigated the impact of digital tax collection on tax revenue in Nigeria. This study adopted a survey design with a population of 11,449 Federal Inland Revenue Service (FIRS) staff of 2022. The sample size was randomly determined by Taro Yamane to be 386. The data were collected through the administration of online questionnaire to the staff of FIRS across the six geopolitical zones of the Federal Republic of Nigeria. Descriptive statistic and Ordinary Least Square (OLS) data analysis techniques were employed at 0.05 level of significance. The results revealed that expansion of consumption tax has positive (+0.016, P = 0.0000) and significant impact on tax revenue in Nigeria, digital services tax also has positive (+0.050, P = 0.000) and significant impact on tax revenue in Nigeria, digital permanent establishment has positive (+0.137, P = 0.000) and significant impact on tax revenue in Nigeria, while (+0.059, P = 0.091) gross based withholding tax of digital services has positive but not significant impact on tax revenue in Nigeria. The R-Square indicated that about 75.6% variation of tax revenue is attributed to expansion of consumption tax, digital services tax, and digital permanent establishment. The study concluded that expansion of consumption tax, digital services tax, and digital permanent establishment as proxies of digitalisation of tax collection are the most efficient measures of collecting tax to boost tax revenue under digitalization of tax collection in Nigeria. Based on the findings of this study, it can be recommended that Nigeria government and tax authority should broaden its tax policies to include all digital economic activities.

Keywords: Digitalisation, Tax Revenue, Consumption Taxes, Digital Service Taxes.

The world is gradually moving towards digitalization as economic activities are rapidly conducted online through ICT devices. Companies now often carry out their operations without physical presence, allowing lower running costs in meeting customers' needs. In Nigeria, the existing tax framework depends on physical presence as required by older international tax laws which fail to adequately to capture tax revenue from digital businesses operating remotely. For instance, the 2021 Finance Act introduced provisions for taxing digital or nonresident companies supplying digital services, imposing a 6% tax on turnover of such services to modernise tax policy and improve compliance (Budget Highlights, 2022).

Tax revenue remains the bedrock of public finance as it funds infrastructure, education, healthcare, and other statutory responsibilities. A study by Ugherughe et al (2022) examined that, the period 1995 to 2020 had a generally positive relationships between major tax components such as VAT, company income tax, and custom duties, and Nigeria's GDP, although not all components were statistically significant at the time of carrying out the study. Digital technologies are beginning to transform Nigeria's tax revenue space. Nwolu et al. (2024) found that, digital technologies are significantly associated with increases in company income tax and capital gain tax revenue in Nigeria. Similarly, Ashafoke and Obaretin (2023) examined that digital taxation channels had a

significant relationship between revenue generation and digital advertisers however, content providers and ecommerce platforms showed positive but insignificant impacts on tax revenue.
The Federal Inland Revenue Service (FIRS) in Nigeria has also taken steps to digitalise its operations. In 2022, the Federal Inland Revenue Service (FIRS) announced the full automation of its tax administration through its TaxPro Max platform, mandating digital access for compliance monitoring (PRNigeria, 2022). In addition, a simplified tax regime was introduced, requiring nonresident digital service providers supplying digital services to Nigerian clients to collect and remit VAT on digital services and intangibles starting from January 2022 (Simplified VAT Regime, 2022).

These initiatives demonstrate that digital tax collection strategies by expanding consumption taxes like VAT in the digital services to ensure fairness between local and foreign digital service providers can improve revenue mobilization. In the same vein, digital service taxes imposed on nonresident companies' turnover can allow governments to capture income that would otherwise escape traditional tax rules. The introduction of withholding taxes on gross digital revenues and the realignment of permanent establishment to include significant digital presence further help close existing loopholes of tax evasion and strengthens compliance (**Abakpa & Dvouletý,** 2025). Despite these positive impacts, significant gaps still remain in both research and practice. The previous studies like Nwolu et al. (2024), Ashafoke and Obaretin (2023), etc. have highlighted the benefits of digital tax collection but have not provided efficient approaches of digital tax collection within Nigeria's fiscal space. To fill this knowledge gap, this study intends to examine the impact of expansion of consumption tax, digital services tax, digital permanent establishment, and gross based withholding tax as proxies of digitalization of tax collection on tax revenue in Nigeria.

Literature Review

Conceptual Clarification

(a) Digitalisation and its Characteristics

Digitalization means using digital technology to carryout business operations and create value. It automates tasks using tools like artificial intelligence, cloud, internet, etc which makes it easier for businesses to operate with speed and less mistakes. It also helps businesses to make better decisions by applying large amounts of data quickly. Digital platforms allow companies to connect with customers more personally as such improve satisfaction and loyalty. Digitalization makes organisations more flexible and able to adapt to changes easily with the use of cloud technology. Recent study by Zhang et al (2025), found that digitalization improves efficiency and financial performance, as well as positively affects economic, environmental, and social results, and making it important for long term success. However, despite the benefits it derives, digitalization has created a platform where business operations are carried out without physical presence in a market jurisdiction with the use of many intangibles through the internet, and this has made it difficult to for tax authorities to effectively collect taxes from all economic activities or businesses. The businesses used it to create economic value and increase profitability, but the older international tax law made no provision to tax these businesses thereby impacting negatively on the generation of tax revenue to the government of the market jurisdictions.

(b) Tax Revenue

Tax revenue is the money government collects from individuals and businesses through taxes. It is vital for funding public services such as education, health care, security and infrastructural development. The effectiveness of tax revenue collection depends on compliance, administration efficiency, and economic conditions. Digital technologies would transform tax collection by making it more efficient and transparent. Electronic filling and payment systems reduce errors

and minimise tax evasion, encouraging more people and businesses to comply. Digital transaction and payment systems could have improved compliance and tax revenue (Ezeani &Adebayo, 2023).

(c) Expansion of Consumption Tax in a Digital Economy

Expanding consumption tax is also known as expanding value added tax to include digital goods and services can significantly enhance tax collection and increase government tax revenue in a digital economy. As more transactions move online, taxing digital platforms such as streaming services, e-commerce, and online advertising helps capture previously untaxed income sources. This improves fairness and widens the tax base. Digital tax systems also allow for real –time monitoring of transactions, reducing tax evasion and improving transparency. According to Favourate (2022), value added tax on digital services has improved revenue mobilization and efficiency in Africa. Similarly, Abid et al. (2020) examined that, digital technologies support better tax tracking and administration.

(d) Digital Service Taxes

Digital service taxes (DSTs) are levies imposed on revenues generated by digital companies providing online services such as advertising, streaming, and e-commerce. These services aim to ensure that multinational digital firms contribute fairly to the economies where they operate even without a physical presence. Digital service taxes (DSTs) can help governments capture revenue from cross-border digital activities which traditional tax systems often miss. By taxing large digital companies like social media and technology firms, (DSTs) can expand tax base, improve equity, compliance and sustainable revenue collection in digital markets (Hernandez et al.,2020; Subramanian and Sukumar, 2021).

(e) Gross Based Withholding Tax of Digital Services

Gross based withholding tax on digital services involves taxing the total revenue earned by foreign or local digital companies from users in a country, rather than their net profits. This approach ensures that digital services providers such as online advertising, streaming, or software platforms contribute fairly to national revenue, even if they lack a physical presence. It simplifies tax collection by acquiring local payers to withhold and remit a portion of payments to the tax authority. According to OECD (2022), gross –based withholding taxes help countries address challenges in taxing cross-border digital transaction. In the same vein, Abid et al. (2020) opined that such measures improve transparency and revenue mobilization in developing economies.

(f) Digital Permanent Establishment

The digital permanent establishment (PE) redefines how countries determine a taxable presence for digital businesses. Traditionally, a company was taxed only if it had a physical presence within a country. However, digitalization allows firms to earn substantial income remotely. The digital permanent establishment addresses this by taxing companies that have significant economic activity or digital interaction within a jurisdiction, even without physical offices. This ensures fairer taxation and prevents revenue loss taxing cross-border digital operation. According to the OECD (2022), PE is vital for taxing cross-border digital activities equitably. Similarly, Hernandez et al. (2020) found that digital transformation policies including digital permanent establishment frameworks enhance government revenue mobilization and fiscal fairness.

Theoretical Framework

This study is anchored on the Benefit Theory of Tax developed by Wicksell, 1896; Lindahl, 1919. The states that individuals and organisations should pay taxes in proportion to the benefits they derive from government goods and services. This depicts fairness, suggesting that those who enjoy more public services should contribute more to the government coffers in the form of taxes.

For example, vehicle owners who enjoyed government-maintained road should pay taxes to support road infrastructure. In a digitalization of tax collection, this theory remains relevant as digital companies earn significant income within Nigeria's digital space using digital infrastructure and an enabling environment created by the government. Therefore, such companies should pay taxes that reflect the benefits received. Guided by this theory, this study proposed four digital tax approaches expansion of consumption tax, digital service tax, digital permanent establishment, and gross based withholding taxes to enhance or impact tax revenue generation in Nigeria.

Abid et al. (2020) examined that digital technology influences economic growth across 23 sub-Saharan African countries usning quantitative panel data from 2000-2016. The study employed fixed effects and instrumental variable technique to analyse the data. The result revealed a positive and significant relationship between digital adoption and GDP growth ($B>0$, $p<0.05$). This implies that digital technologies drive productivity and enhance development. the study concluded that digital transformation promotes long –term growth in sub-Saharan Africa. It is also recommended that investing in ICT infrastructure, expanding digital literacy and fostering innovation ecosystems to maximize economic benefits of digitalisation.

Hernandez et al. (2020) investigated the effect of digital transformation on economic growth using panel data from 19 Latin American and Caribbean countries from 2010 -2015. The data were analysed with multivariate regression technique. The result revealed that expnadning digital infrastructure improves productivity and competiveness. Thus, it concluded that digital transformation fosters economic advancement in the region. It is also recommended that, priotising broad expansion, strengthening innovation systems, and implementing digital inclusion policies would ensure equitable access and sustainable regional development.

Nwolu et al. (2020) investigated the impact of digital technologies on tax revenue in Nigeria. mixed research design was adopted and data were collected from management staff of the Federal Inland Revenue Service in Abuja. The study employed Pearson correlation and multiple linear regression analyses. The results revealed a significant and positive relationship between digital technologies and companies' income tax (CIT) and capital gains tax revenue. The study therefore concluded that digital technologies enhanced revenue generation efficiency in Nigeria.

Etim et al. (2020) explored the relationship between economic digitalization and tax compliance in Nigeria using a primary survey data and a quantitative design. Employing simple regression analysis to analyse the data the result showed a negative relationship between digitalization and tax compliance. Meaning that, digital platforms encourage tax evasion opportunities. Therefore, it can be concluded that digitalisation negatively affects tax compliance in Nigeria.

Subramanian and Sukumar (2021) examined the relationship between digital economy, entrepreneurship, and economic growth in India from 2010 -2019 using quantitative panel data with the aid of regression analysis. The results indicated a significant and positive association between digitalization, entrepreneurship, and GDP growth. This means, digital innovation and start -ups stimulate economic expansion. It can therefore be concluded that entrepreneurship and digital economic development are critical growth drivers. The study recommended that expanding internet access, promoting digital startups and formulating supportive policies to enhance innovation, competiveness and inclusive economic growth in India.

Audu et al. (2021) examined the effect of digitalized economy on tax administration in Nigeria using quantitative secondary data with ex-post facto design. Linear regression analysis was adopted. The result revealed that ICT had a small negative effect on tax revenue (adj.R-Square =0.68, p=0.406) and a slight positive effect on tax avoidance (adj.R-Square=0.38, p=0.061). the study concluded that digital economy has little impact on Nigeria's tax system. It is recommended to improve ICT infrastructure, enhance staff literacy, and greater integration of digital tools to strengthen tax administration efficiency.

Favourate (2022) investigated the conceptualisation of Africa's digital economy using a qualitative approach and content analysis of secondary data from books, journals, and online sources. The study found that VAT legislation improved revenue mobilization and efficiency but increased digital service costs, worsened inequality, and hindered digital inclusion. The results revealed that while VAT enhances fiscal performance, it can also obstruct digital development. It is therefore recommended that, balanced tax policies would promote inclusion, support innovation, and ensure sustainable digital and economic growth across African countries.

Ashafoke and Obaretin (2023) examined the effect of digital channels on revenue generation in Nigeria. Exploratory research design was employed and 200 copies of questionnaire were distributed to the staff of the Federal Inland Revenue Service (FIRS) as well as selected four big audit firms to obtained data. The study employed Structural Equation Modeling (SEM) to analyse the data with the aid of STATA. The revealed a positive and significant relationship between digital advertiser and revenue generation, while e-commerce and content providers showed a positive but insignificant relationship with revenue generation. The study concluded that the imposition of digital tax on digital channels is strongly linked to revenue generation, and recommended that a focused strategies for collecting digital tax from these channels.

Adejuwon and Olasunkanmi (2023) examined tax digitalization and it impact on revenue collection in Nigeria. The study pinpointed the challenges of tax evasion and the limitations of manual tax processing, advocating for the adoption of information and communication technology (ICT) to revolutionise tax processes. The study emphasised that embracing ICT could alleviate difficulties associated with manual tax processing and improve revenue collection efficiency. It was concluded that tax digitalization is essential for enhancing revenue collection. The study also recommended that tax administrators to embrace ICT to address the challenges of tax evasion and manual processing.

Maccarty and Nnah (2023) explored the impact of digital taxation on tax revenue in Nigeria. the study employed a systematic review to analysed the secondary data adopted in the study to verify the effects of digital taxation on revenue generation. The study discussed the challenges and opportunities presented by digital taxation in the context of Nigeria's economy. it is concluded that while digital taxation has the potential to enhance revenue generation, it implementation requires careful consideration of the digital landscape and the readiness of tax authorities.

Salami and Okonkwo (2023) investigated the role of e-tax portals in reducing tax evasion in Nigeria. The study adopted a cross –sectional survey of 250 taxpayers in Abuja. Regression data analysis technique was employed to analysed the data, and the result revealed that the use of e-tax significantly reduced tax evasion ($B=-0.38, p<0.05$). Thus, it can be concluded that improving user experience on digital tax plaforms is essential to minimise tax evasion.

Obialor and Chukwu (2023) examined how social media platforms affect tax knowledge and compliance among Nigerian youth of 400 university students. The study employed mixed –method design using Pearson Product Moment Correlation technique. The results showed that social media tax awareness campaigns significantly improved tax knowledge. Thus, it is recommended that leveraging social media for wider tax education campaign targeting the youth to improve tax knowledge and revenue.

Ezeani and Adebayo (2023) analysed the effect of digital payment systems on tax revnue generation in Nigeria, using a quantitative approach with secondary data from 2010 to 2020. The study employed regression analysis to analysed the data, and the result showed that digital payment adoption significantly increased tax revenue ($B = 0.45$, $P<0.05$). The study concluded that integrating digital payments into tax collection improved transparency and compliance.

Ude and Nwachukwu (2024) investigated the influence of ICT infrastructure on tax compliance behaviour of small and medium enterprises (SMEs) in Lagos State. The study adopted survey data from 350 SME owners and analysed through logistic regression. The study found that ICT

infrastructure was positively affected by voluntary tax compliance. Thus, the study concluded that improving ICT infrastructure is critical to enhancing SME tax compliance.
Bello and Hassan (2024) assessed the effects of digital tax filing systems on taxpayer satisfaction in Nigeria. The adopted survey data from 320 individual taxpayers, and the data were analyse with structural equation modeling. The results showed a positive effect of digital filing on satisfaction. Thus, it is concluded that enhancing digital tax improves taxpayers' satisfaction.

Methodology

This study adopted a cross-sectional survey to investigate the impact of digitalization proxied by expansion of consumption tax, digital services tax, digital permanent establishment, and gross based withholding tax as proxies of digitalization of tax collection on tax revenue in Nigeria. An online questionnaire was administered to collect data from the Federal Inland Revenue Service in Nigeria. The rationale for the online based data collection made the process efficient and smooth, hence making a remarkable participation rate to be 100%.

The population of this study includes 11,449 FIRS staff in 2022, with 7026 men and 4423 women. Among them, 10601 were permanent staff while 848 were contract staff. The sample size of 386 was determined using Taro Yamane's formula. A stratified sampling technique was used, dividing the respondents into six (6) groups based on the locations of FIRS zonal offices across Nigeria's six (6) geopolitical zones. The variables of the study were measured using a binary scale "Yes" = 1 and "No" = 0, allowing respondents to express their opinions on statements related to digitalization of tax collection and tax revenue in Nigeria.

The instrument was validated by an expert, and was made reliable using Cronbach's Alpha Coefficient to be 0.735. The model was specified based on the Benefit Theory of Taxation.
Tax Revenue = f(Digitalisation of Tax Collection)……1
TARi =f(EXCTi, DSTi, GBWDSi, DPE)……2
The econometric model of the study is given below;
TARi =B0 + B1EXCTi + B2DSTi + B3 GBWDSi + B4 DPE + Ui……3

Where;
TARi = Tax Revenue
EXCTi= Expansion of Consumption Tax
DSTi =digital Service Tax
GBWDSi =Gross Based Withholding Digital Service
DPEi = Digital Permanent Establishment
Ui = Error term
B0 = Constant Term or Intercept
B1-B4 = parameters estimates
i = cross-section

Apriori Expectation

Based on the Benefit Theory of tax, it is expected that everyone benefiting from government of goods and services in Nigeria is expected to comply with tax payment. Thus, it is expected that expanding VAT, digital service tax, gross-based withholding tax, and permanent establishment would positively impact tax revenue in Nigeria, with all parameters estimates (B1-B4 >0).

Results and Discussion of Findings

Descriptive Statistic

This section displayed the summary statistic of the socio-economic and demographic information of the respondents such as age, gender, marital status and FIRS staff status (permanent or contract staff).

Table1: Demographic Characteristics of Respondents

Category	Variables	Frequency (386)	percentage	Means	Std. Deviation
Age	25-31yrs	59	15.3	1.6632	1.28954
	31-35yrs	167	43.3		
	36-40yrs	51	13.2		
	41-45yrs	80	20.7		
	46-50yrs	12	3.1		
	51-55yrs	17	4.4		
Gender	Male	281	72.8	1.5389	0.49913
	Female	105	27.2		
Marital Status	Single	57	14.7	1.4611	0.51953
	Married	327	84.7		
	Divorced	1	0.3		
	Widow	1	0.3		
Staff Status	Permanent	384	99.5		
	Contract Staff	2	o.2		

The demographic data presented in Table 1 indicated that the major percentage of participants (43.3%) were aged between 31 and 35 years, followed by 20.7% who were between 41 and 45 years, with a mean age of 1.66 and a standard deviation of 1.29. The majority of the respondents were males (72.8%), while females constituted 27.2%, with a mean gender value of 1.54. In terms of marital status, most respondents were married (84.7%), 14.7% were single, and only 0.3% each were divorced or widowed, yielding a mean of 1.46. Also, almost all respondents (99.5%) were permanent staff, indicating a highly stable workforce.

Inferential Statistics

The study employed a multiple regression model with Ordinary Least Square (OLS) technique to test the hypotheses at 0.05 levels of significance, and answered the study questions of "Digitalisation of tax collection and tax revenue in Nigeria".

Table2: Regression Results of Tax Revenue in Nigeria, Expansion of Consumption Tax, Digital Service Tax, Gross Base Withholding Tax on Digital Economy, and Digital Permanent Establishment Rule.

*TAR*i=dep	Coefficients	Std. Error	T-Stat	P-value(sig)
Constant	0.757	0.0427	18.109	0.000
EXCTi	0.016	0.006	2.666	0.000
DSTi	0.050	0.026	2.006	0.000
GBWTD	0.059	0.035	1.693	0.091
DPER	0.137	0.030	4.514	0.000

R-Square = 0.756, Adj. R-Square = 0.666, F-stat = 7.824 (p-value =0.000). 1%, 5%

The regression results in Table 2 revealed that the explanatory variables such as Expansion of Consumption Tax (EXCT), Digital Service Tax (DST), Gross Base Withholding Tax on Digital Economy (GBWTD), and Digital Permanent Establishment Rule (DPER) had different impact on tax revenue in Nigeria. The coefficients showed that **EXCT** ($\beta = 0.016$, $p < 0.01$), **DST** ($\beta = 0.050$, $p < 0.01$), and **DPE** ($\beta = 0.137$, $p < 0.01$) had positive and significant impacts on tax revenue, indicating that increase in these variables would impact positively on government revenue generation. However, **GBWTD** ($\beta = 0.059$, $p = 0.091$) had a positive but insignificant impact on tax revenue in Nigeria, suggesting that gross base withholding tax has no impact on tax revenue in Nigeria during this period of study.

Additionally, the model recorded an **R-squared value of 0.756** and an **adjusted R-squared of 0.666,** implying that about 66.6% of the variation in tax revenue was explained or attributed to the independent variables. The **F-statistic (7.824, $p = 0.000$)** confirmed that the overall regression model was statistically significant at both the 1% and 5% levels, demonstrating that the combined effect of the explanatory variables significantly impact tax revenue performance in Nigeria.

Discussion of Findings

This study found that expanding consumption taxes, particularly through extending VAT to digital products and services, positively impact Nigeria's tax revenue. This is in conformity with Favourate (2022), who noted that VAT legislation improved revenue mobilization despite some negative effects on digital inclusion. The extension of VAT to digital transactions broadens the tax base by capturing the growing online economy, similar to the positive effects digital adoption has had on economic growth in Sub-Saharan Africa (Abid et al., 2020) and Latin America (Hernández et al., 2020). This supports the benefit theory of taxation, where taxpayers benefiting from public goods, including digital infrastructure, contribute fairly, thereby reducing evasion (Adejuwon & Olasunkanmi, 2023).

The results also demonstrated a significant and positive impact of digital services taxes on tax revenue in Nigeria. The finding is also in line with findings by Ashafoke and Obaretin (2023), who identified a strong link between digital advertisers and revenue generation. Taxing multinational digital firms that operate without physical presence aligns with global trends and recommendations in studies like Nwolu et al. (2020), which emphasize digital tax administration to boost revenue. The benefit theory of taxation also in conformity with this finding, indicating that companies that benefit from Nigerian digital markets should to pay taxes to the Nigerian government.

Similarly, this digital permanent establishment had a significant and positive impact on tax revenue, verifying the growing global consensus that taxing digital enterprises based on economic presence, not physical presence, is essential. This finding echoes Maccarthy and Nnah (2023), who stressed the importance of strategic planning and capacity building for effective digital taxation. It also aligns with recommendations from Subramanian and Sukumar (2021), emphasizing digital economy frameworks that enhance economic growth through appropriate taxation.

However, gross based withholding tax showed a positive but insignificant impact with tax revenue in Nigeria. This finding reflects weak enforcement and limited mechanisms within Nigerian tax authorities, as suggested by the challenges identified by Audu et al. (2021), who found ICT's impact on tax revenue to be limited due to infrastructural and administrative gaps. This is also consistent with Etim et al. (2020), who warned that digital platforms might complicate tax

compliance if regulatory frameworks are inadequate. Thus, the finding contrasts with studies that reported positive ICT impacts, highlighting the need for enhanced digital tax system capacity and clearer distinction between tax instruments.

Conclusion and Recommendations

This study verified that digital tax mechanisms like the expansion of consumption taxes, digital services taxes, and the implementation of the digital permanent establishment have positive and significant impact on tax revenue generation in Nigeria. These results depict the growing importance of adapting tax policies to the realities of a digital economy. However, the gross base withholding tax showed an insignificant impact, reflecting current enforcement challenges and stressing the need for strengthened administrative capacity. Thus, digital taxation policies aligned with global best practices can significantly enhance Nigeria's revenue mobilization efforts amid the increasing digitalization of economic activities. Thus, it is recommended that;

i. Expand VAT to cover all digital products and services.
ii. Improve digital tax enforcement and administration.
iii. Enforce the digital permanent establishment rule on multinational firms.

Contribution to Knowledge

This study contributed to knowledge by emphasising the Benefit Theory of Taxation to Nigeria's digital economy. It provided empirical evidence that digital tax instruments, especially VAT expansion, digital service taxes, and the digital permanent establishment significantly impact tax revenue, thereby guiding policymakers toward fair, efficient, and technology driven revenue generation strategies.

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