

**Revenue Challenges  
Online/Offline:**

**Bridging The Digital Divide In  
An Analogue Economy**

**Onwumelu Utonwa**

## Contents

- 01 OVERVIEW OF THE DIGITAL ECONOMY
- 02 RECENT TRENDS AND RELEVANT STATISTICS ON DIGITAL ECONOMY
- 03 OFFLINE REVENUE CHALLENGE.
- 04 THE DIGITAL DIVIDE.
- 05 NIGERIANS ANALOGUE SOLUTIONS.
- 06 PRACTICE IN OTHER JURISDICTIONS.
- 07 RECOMMENDATIONS
- 08 QUESTION TIME



OVERVIEW OF THE DIGITAL ECONOMY

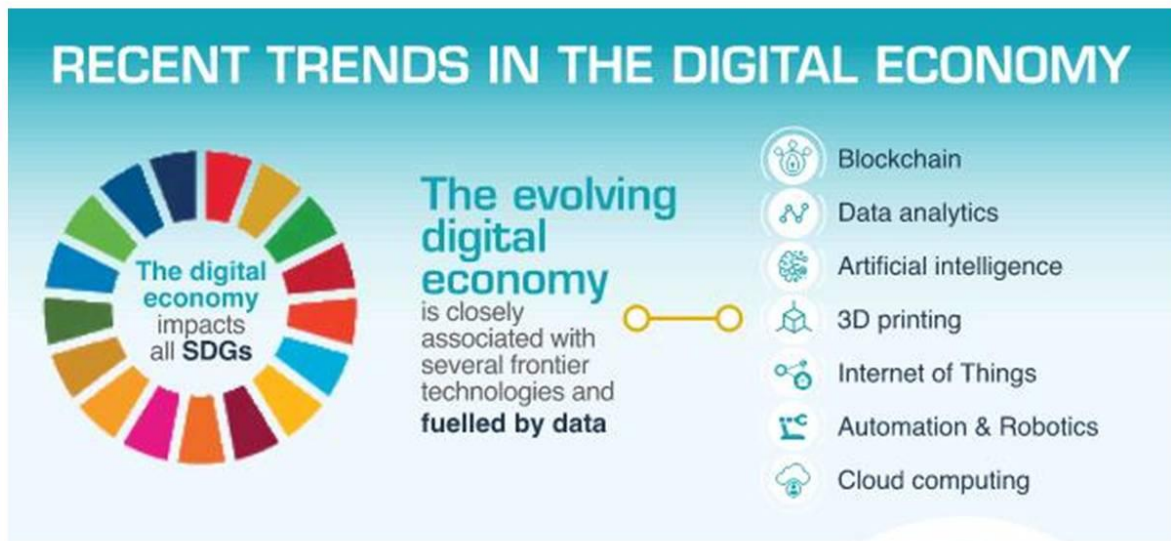
Digital economy is “A transformative process brought about by advances in information and communication, which has made technology more powerful, changing business processes and bolstering innovation across all sectors of the economy.”

Director of OECD centre for tax policy and administration

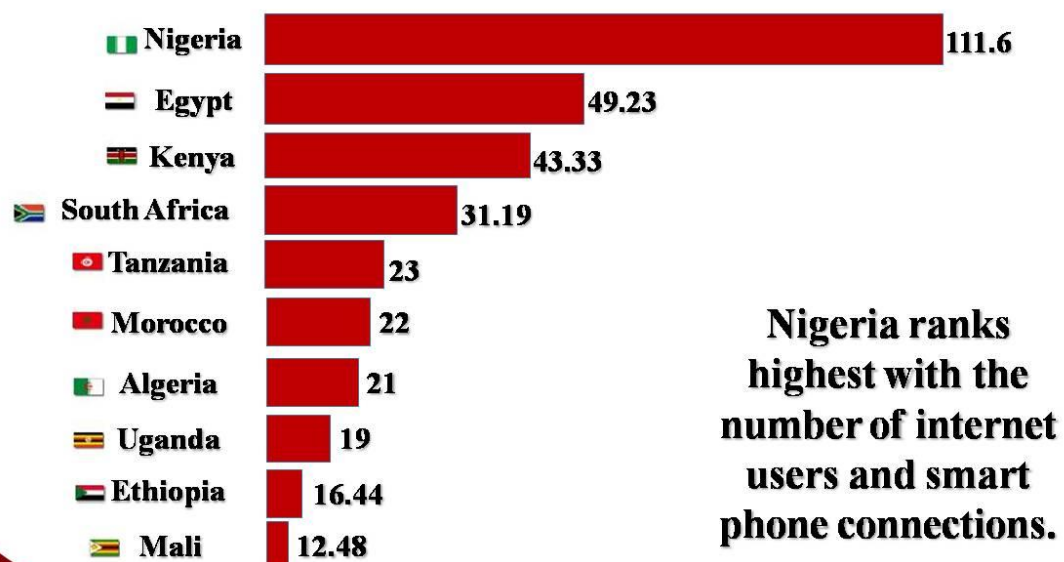


OVERVIEW OF THE DIGITAL ECONOMY

- Digital Economy revolves around conducting business through markets based on the internet and the world wide web.
- Nigeria teeming population and level of internet penetration in the country make it an attractive market for foreign actors seeking to do business in Africa.



2019 report of the United Nations Conference on Trade and Development on recent trends on the ever evolving digital economy.



**OFFLINE REVENUE CHALLENGE.**



THE DIGITAL DIVIDE.

**1. Deficiencies of Nigerian tax laws**

- Requirement of a fixed base in the Nigeria for a source to be taxed.
- Inadequacies of the Value Added Tax Act e.g taxation of intangibles
- Silence of the Electronic Transaction Bill as to taxation of the Digital Economy.

THE DIGITAL DIVIDE.

**2. Base Erosion and Profit Shifting Strategy.**

- A capital flight strategy adopted by business which have enabled non resident business to shift profits to lower tax jurisdictions.
- Caused by Mismatches existing in entities, income created at artificially low rates and use of treaty concepts to limit taxing jurisdiction.

THE DIGITAL DIVIDE.

**3. Exploitation of the weak transfer pricing system**

- An incidence of the the Base Erosion and Profit Shifting
- Companies misuse this practice by altering taxable income, shifting tax liability to low cost tax jurisdiction.



**THE DIGITAL DIVIDE.**

**4. Failure of Nigerian Government to regularize Cryptocurrency**

- Billions of dollars are traded daily on cryptocurrency exchanges.
- On February 28, 2018, the Central Bank of Nigeria released a circular, against the backdrop of Nigeria being among the top countries with the most cryptocurrency trade around the world.
- CBN has maintained that Cryptocurrencies are illegal.
- To a large extent, tax authorities are oblivious of the fact that people buy and sell goods and services over the internet using Cryptocurrencies and the income are not taxed.

**THE DIGITAL DIVIDE.**

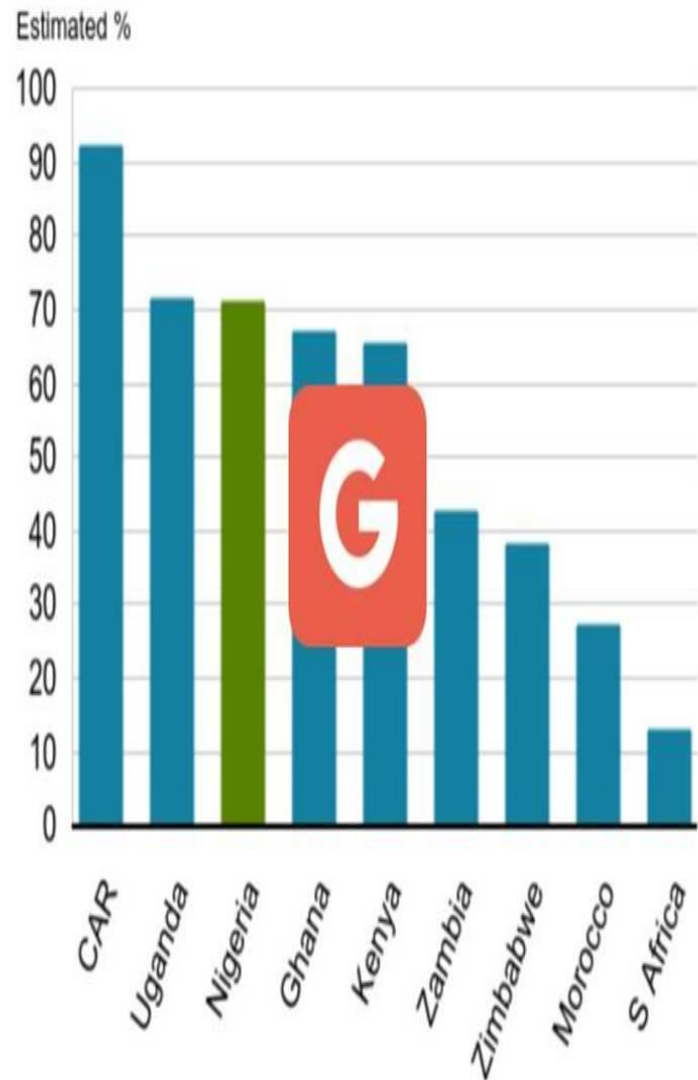
**5. Tax Enforcement Issues**

- Advent of digital economy has made income assessment more technical and demanding.
- Lack of adequate technological infrastructures.
- Difficulties in digitization of information, identifying source and destination of transactions, difficulties of carrying out audit trails.

## THE DIGITAL DIVIDE.



## VAT gap in selected African countries





## NIGERIANS ANALOGUE SOLUTIONS.

- FEC's several restriction of physical trade through continued border closure and ban importation of certain items.
- FIRS introduction of VAT on Online transactions, which has met a lot of criticisms.
- CBN's charges on withdrawals and deposits of funds in banks and stamp duties payment on individuals transactions that occur on POS.

**PRACTICE IN OTHER JURISDICTIONS.**

- **ITALY---** On 15th October 2019, a decree was approved to impose digital a web tax at a rate of 3% on revenues generated from resident and non resident companies operating in the cyber space.
- **INDIA ---** India Finance Bill introduced an equalisation levy, a surtax of 6% levied on foreign companies for online services, when those companies do not hold a permanent establishment in India.
- **KENYA----** Kenya Revenue Authority publicly acknowledged a foreign supplier who provides electronic services in Kenya would attract a 16% VAT.

**PRACTICE IN OTHER JURISDICTIONS.**

- **UNITED STATES ----** U.S Supreme Court ruled in 2018 that 24 American States were already collecting taxes on Internet transaction.
- **SAUDI ARABIA ---** Department of Zakat and Income Tax established a Virtual Service Permanent Establishment. A foreign service provider may give rise to the source state, if it provides services within that state for more than 6 months. However, the DZIT insists on registration of the Permanent Establishment in Saudi Arabia, if the total duration of contract exceeds 6 months.

## The main issues confronting the digital economy



### RECOMMENDATIONS (WABI VVR Agenda)

#### 1. Well Structured Electronic Tax Payment Platform

- In 2018, Nigerians e-payment channels recorded a growth of 32%.
- With a well structured E-taxation payment platform and with the help of Banks as VAT agents, tax authorities can now go after tax defaulters who conduct business in the cyber space and are not taxed.
- It will also help in tracking multinational offshore companies that derive income in Nigeria.
- Taiwan have adopted this and recorded massive increase.

RECOMMENDATIONS ( WABI VVR Agenda)

**2. AMENDMENT OF OUR DOMESTIC TAX LAWS.**

- The New Finance Bill 2019 is a step in the right direction.
- Amendment of Section 13 CITA and Section 3 PITA, Expanding the coverage of the Value Added Tax Act to provide for taxation of intangibles and VAT Registration.
- Adoption of international model of Virtual Place of Business e.g domestication of the OECD BEPS response introducing the concept of significant economic presence.
- Electronic Transaction Bill and National Policy for Information Technology 2014 are silent on adjudication of disputes relating to Electronic transactions.

RECOMMENDATIONS ( WABI VVR Agenda)

**3. USE OF BANKS AS AGENTS IN COLLECTION OF VAT ON ONLINE TRANSACTIONS.**

- Section 37 Cyber Crime Act 2015 has mandated financial institutions to properly document proceedings of Customers Electronic transfer payments, debit and issuance orders.
- Section 2 New Finance Bill has stated that Banks shall require tax identification numbers to be provided by all companies as a pre condition for continued operation of Bank Account.



RECOMMENDATIONS ( WABI VVR Agenda)

**4. INTERVENTION OF UNITED NATIONS**

- On 24th October , the United Nations Centre For Trade Facilitation and Electronic business introduced the use of Digital ID for trade facilitation to aid easy tracking of the income of users. It can assist to ensure nations implement this, to help in synchronizing their tax data base.
- The United Nations Committee of Experts in International Tax Co-operation can help to formulate an overriding multi-lateral instrument, the Action 15 of OECD BEPS plan, to bind the digital transactions of member nations for the purpose of taxation.

RECOMMENDATIONS ( WABI VVR Agenda)

**5. VIRTUAL TAX ENFORCEMENT AGENCY.**

- An extension of FIRS charged with tracking, assessing and taxing businesses consumated online, with the co-operation of NCC and Banks.
- This is one of the means China responded to e-commerce revenue leakage in 2010.

RECOMMENDATIONS ( WABI VVR Agenda)

**6. REGULARISATION OF CRYPTOCURRENCY.**

- An extension of FIRS charged with tracking, assessing and taxing businesses consumated online, with the co-operation of NCC and Banks.
- This is one of the means China responded to e-commerce revenue leakage in 2010.



## QUESTION TIME

