CHALLENGES AND PROSPECTS OF THE NIGERIA TAX ACT 2025 AND ITS IMPLICATIONS ON DIGITAL SERVICES TAXATION

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Abstract

This study examined the challenges and prospects of the Nigeria Tax Act 2025 and its implications for the taxation of digital services. It was motivated by the need to assess the effectiveness of recent tax reforms in addressing the complexities introduced by the digital economy, particularly the taxation of digital services and cross-border digital transactions. The study evaluated the extent to which the Act responded to existing gaps in Nigeria's tax framework and its impact on revenue generation and tax administration. The doctrinal research methodology was adopted, and reliance was placed on primary and secondary legal sources, including statutes, policy documents, and judicial decisions. The study found that the Nigeria Tax Act 2025 introduced significant reforms aimed at expanding the tax base and improving the taxation of digital services, including provisions relating to non-resident digital service providers and the digital economy. The study recommended continuous legislative review, strengthened institutional capacity, clearer regulatory frameworks, improved digital tax administration systems, and enhanced international cooperation to ensure effective implementation of digital taxation provisions. The study concluded that while the Nigeria Tax Act 2025 represented a major reform in Nigeria's tax system, its effectiveness in addressing digital

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services taxation depended largely on consistent implementation, among others.

Keywords: *Nigeria Tax Act 2025, Digital Services Taxation, Digital Economy, Tax Reform, Doctrinal Methodology, Tax Administration, Fiscal Policy*

1.0 INTRODUCTION

The enactment of the Nigeria Tax Act 2025 marked a significant milestone in the continuous reform of Nigeria's fiscal and revenue administration system. The Act was introduced within the broader context of global tax reforms driven by the rapid expansion of the digital economy, increasing cross-border transactions, and the need to modernize domestic tax laws to reflect emerging economic realities. It sought to consolidate and harmonize Nigeria's tax regime while addressing structural inefficiencies that had long characterized the country's taxation system.

One of the central concerns that informed the enactment of the Act was the growing complexity of taxing digital services and digital-based businesses. The expansion of e-commerce, fintech, online streaming, digital advertising, and other technology-driven services had exposed gaps in existing tax laws, particularly in relation to jurisdiction, nexus, and the taxation of non-resident digital service providers. The Act therefore aimed to strengthen Nigeria's capacity to effectively capture revenue generated from digital economic activities.
However, despite its reform-oriented objectives, the Nigeria Tax Act 2025 presents several challenges. These include issues relating to implementation, administrative capacity, compliance enforcement, definitional ambiguities, and the potential burden on digital businesses operating within Nigeria. At the same time, the Act presents notable prospects, including improved revenue generation, enhanced tax

equity, greater alignment with international tax standards, and the strengthening of Nigeria's fiscal sustainability.

The implications of the Act on digital services taxation are particularly significant, as it seeks to redefine the scope of taxable digital activities and expand the tax base to include both resident and non-resident entities deriving income from the Nigerian digital market. Consequently, an examination of its challenges and prospects is essential for understanding its effectiveness in addressing the realities of the modern digital economy and its broader impact on Nigeria's tax administration system.

2.0 CHALLENGES

2.1 Difficulty in enforcing Digital Service Taxation on foreign digital service providers without a physical presence.

The enforcement of digital services taxation on foreign service providers without a physical presence remains a significant challenge under the Nigeria Tax Act 2025, despite the Act's progressive provisions aimed at capturing income from the digital economy. One major difficulty lies in the borderless and intangible nature of digital services, which makes it inherently difficult for tax authorities to identify, track, and assess non-resident entities operating remotely through cloud-based platforms and digital interfaces.[1]

Furthermore, although the Act adopts the concept of Significant Economic Presence (SEP) to tax foreign digital companies irrespective of physical presence, enforcing compliance is problematic because such entities may lack a legal or operational nexus within Nigeria,

[1] The intangible and borderless nature of digital services complicates identification and taxation of non-resident providers.

thereby limiting the jurisdictional reach of tax authorities.[2] This results in what has been described as the challenge of taxing "digital ghosts," where companies derive substantial value from Nigerian users without being easily subject to enforcement mechanisms.[3]

In addition, the Nigeria Tax Act 2025 imposes obligations such as mandatory registration, VAT collection (7.5%), and electronic invoicing on foreign digital service providers; however, ensuring that these entities comply voluntarily is difficult, particularly where there is no physical presence to anchor enforcement actions like audits, penalties, or asset seizure.[4]The reliance on self-reporting or third-party intermediaries (such as payment platforms) further exposes the system to under-reporting and evasion risks.[5]

Another challenge arises from limited technological and administrative capacity, as effective monitoring of cross-border digital transactions requires sophisticated data infrastructure, international cooperation, and real-time tracking systems, which are still developing.[6]Without these, enforcement efforts may lag behind the rapidly evolving digital economy.

Moreover, while the Act introduces mechanisms such as withholding VAT by Nigerian consumers and the appointment of collection agents, these measures shift part of the compliance burden to local users and

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[2] Non-resident digital service providers are taxable based on significant economic presence rather than physical presence.
[3] Enforcement against non-resident providers without physical presence remains difficult ("digital ghosts").
[4] The Act requires foreign providers to register, charge VAT, and comply with e-invoicing obligations.
[5] Compliance enforcement relies partly on third parties and self-reporting mechanisms.
[6] Technological and administrative limitations hinder effective monitoring of digital transactions.

intermediaries, creating complexity and potential inefficiencies in tax administration[7]. This indirect enforcement approach highlights the practical difficulty of directly taxing foreign entities with no physical footprint in Nigeria.

The Nigeria Tax Act 2025 significantly expands the tax net to include non-resident digital service providers, the absence of physical presence continues to pose enforcement challenges due to jurisdictional limitations, compliance difficulties, technological constraints, and reliance on indirect collection mechanisms, thereby affecting the overall effectiveness of digital services taxation in Nigeria.

2.2. Risk of double taxation for foreign companies operating in Nigeria.

The risk of double taxation constitutes a significant challenge under the Nigeria Tax Act 2025 in relation to digital services taxation, particularly for foreign companies operating in multiple jurisdictions. This challenge stems from the Act's extension of taxing rights through the concept of Significant Economic Presence (SEP), which allows Nigeria to tax non-resident digital service providers without physical presence, thereby creating potential overlaps with the taxing rights of their countries of residence.[8]

In many instances, foreign digital companies may be subjected to taxation in Nigeria on income derived from Nigerian users while also being taxed on the same income in their home jurisdictions, especially where there is no comprehensive Double Taxation Agreement (DTA) or where existing treaties are not adequately adapted to digital business models.[9] This results in juridical double taxation, increasing

[7] Withholding VAT and use of intermediaries reflect indirect enforcement strategies.
[8] J. E. Omojola, *Taxation of the Digital Economy*, (Spectrum Books, 2021), 112.
[9] K. Holmes, *International Tax Policy and Double Tax Treaties*, IBFD, 2014, 85.

the effective tax burden on such entities and potentially discouraging cross-border digital trade.[10]

Additionally, the Nigeria Tax Act 2025 imposes multiple tax obligations, including Companies Income Tax (CIT) based on SEP and Value Added Tax (VAT) on digital services, which may overlap with similar taxes in other jurisdictions, thereby giving rise to economic double taxation.[11]This is particularly problematic in the digital economy, where value creation is difficult to geographically determine, leading to competing tax claims by different countries.[12]

Moreover, the absence of a fully harmonized international tax framework for the digital economy further exacerbates the problem, as countries adopt unilateral measures to tax digital services, often without coordination.[13] As a result, foreign digital service providers may face inconsistent tax rules and limited access to foreign tax credits or relief mechanisms, thereby increasing the likelihood of unrelieved double taxation.[14]

Furthermore, compliance with the administrative requirements of the Nigeria Tax Act 2025 such as registration, reporting obligations, and currency conversion rules can complicate the process of claiming double taxation relief in foreign jurisdictions, thereby intensifying the overall tax burden on foreign companies.[15]

The Nigeria Tax Act 2025 aims to enhance revenue generation from the digital economy, the risk of double taxation remains a major

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[10] B. J. Arnold, *International Tax Primer*, (Kluwer Law International, 2019), 67.

[11] S. T. Alade, "Digital Services Taxation in Developing Economies," *Nigerian Journal of Taxation Law*, (University of Lagos Press, 2023), 143.

[12] R. Avi-Yonah, *Advanced Introduction to International Tax Law*, (Edward Elgar Publishing, 2019), 59.

[13] OECD, *Tax Challenges Arising from Digitalization – Report on Pillar One Blueprint*, (OECD Publishing, 2020), 23.

[14] M. Lang, *Introduction to the Law of Double Taxation Conventions*, (IBFD, 2021), 101.

[15] A. Oguttu, "Taxing the Digital Economy: Challenges for Africa," *Bulletin for International Taxation*, (IBFD, 2020), 276.

challenge due to overlapping tax jurisdictions, multiple tax obligations, and the lack of coordinated global tax rules, all of which have significant implications for the efficiency and attractiveness of Nigeria's digital services taxation regime.

2.3. Increased cost of digital services passed on to consumers

The increase in the cost of digital services passed on to consumers represents a notable challenge under the Nigeria Tax Act 2025 in relation to digital services taxation. This challenge arises because the imposition of taxes such as Value Added Tax (VAT) and Companies Income Tax (CIT) on foreign digital service providers often leads these companies to shift the economic burden of taxation onto end users through higher prices for digital goods and services.[16]

In practice, non-resident digital platforms subject to taxation under the Significant Economic Presence (SEP) rule are likely to adjust their pricing structures to maintain profit margins, thereby transferring the tax incidence to Nigerian consumers.[17]This is consistent with the economic principle that businesses, particularly in highly scalable digital markets, tend to pass on additional costs to consumers where demand is relatively inelastic.[18]

Furthermore, the Nigeria Tax Act 2025 mandates VAT collection on cross-border digital services, which directly increases the final price paid by consumers for services such as streaming, cloud computing, online advertising, and digital subscriptions.[19]As a result, consumers

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[16] J. E. Omojola, *Taxation of the Digital Economy*, (Spectrum Books, 2021), 134.

[17] R. Avi-Yonah, *Advanced Introduction to International Tax Law*, (Edward Elgar Publishing, 2019), 72.

[18] N. Gregory Mankiw, *Principles of Economics*, (Cengage Learning, 2021), 158.

[19] S. T. Alade, "Digital Services Taxation in Developing Economies," *Nigerian Journal of Taxation Law*, University of Lagos Press, 2023, p. 151.

bear the immediate impact of taxation, even though the legal obligation to remit the tax lies with the service providers.[20]

Additionally, the increased cost of digital services may have broader economic implications, including reduced access to digital platforms, particularly among low-income users, thereby widening the digital divide.[21] This could undermine the government's broader objective of promoting digital inclusion and economic participation in Nigeria's growing digital economy.[22]

Moreover, higher service costs may discourage consumption and reduce overall demand for digital services, which could, in turn, affect the growth of Nigeria's digital market and limit the expected revenue gains from digital taxation. This creates a policy tension between revenue generation and the need to foster an enabling environment for digital innovation and affordability.

While the Nigeria Tax Act 2025 seeks to capture revenue from the digital economy, the increased cost of digital services passed on to consumers remains a significant challenge, as it affects affordability, limits access, and may hinder the growth and inclusiveness of Nigeria's digital ecosystem.

2.4. Rapid evolution of digital services creating loopholes in the tax framework.

The rapid evolution of digital services presents a significant challenge under the Nigeria Tax Act 2025 in relation to digital services taxation, as the pace of technological innovation often outstrips the ability of legal and regulatory frameworks to keep up. This dynamic creates

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[20]B. J. Arnold, *International Tax Primer*, (Kluwer Law International, 2019), 93.

[21] A. Oguttu, "Taxing the Digital Economy: Challenges for Africa," *Bulletin for International Taxation*, (IBFD, 2020), 281.

[22] OECD, *Tax Challenges Arising from Digitalisation – Report on Pillar One Blueprint*, (OECD Publishing, 2020), 44.

loopholes within the tax system, enabling digital service providers to exploit gaps in legislation and minimize their tax liabilities.[23]

One major issue is that digital business models such as cloud computing, platform-based services, artificial intelligence, and decentralized applications are constantly evolving, making it difficult for tax laws, including those based on Significant Economic Presence (SEP), to accurately capture all forms of value creation.[24] As new services emerge, they may not fall neatly within existing tax definitions, thereby creating ambiguity and opportunities for tax avoidance.[25]

Furthermore, the Nigeria Tax Act 2025, like many tax regimes globally, relies on classifications of digital transactions that can quickly become outdated as companies innovate and restructure their operations. This allows multinational digital corporations to adapt their business models strategically to exploit differences in tax treatment, thereby reducing their overall tax exposure.

Additionally, the rapid evolution of digital services complicates enforcement and compliance, as tax authorities may struggle to monitor new forms of transactions, such as those involving cryptocurrencies, digital platforms, and cross-border data flows. [6] This challenge is compounded by the lack of real-time regulatory updates and the limited technical expertise required to fully understand emerging digital ecosystems.[26]

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[23] J. E. Omojola, *Taxation of the Digital Economy*, (Spectrum Books, 2021), 141.

[24] R. Avi-Yonah, *Advanced Introduction to International Tax Law*, (Edward Elgar Publishing, 2019), 81.

[25] B. J. Arnold, *International Tax Primer*, (Kluwer Law International, 2019), 104.

[26] S. T. Alade, "Digital Services Taxation in Developing Economies," *Nigerian Journal of Taxation Law*, (University of Lagos Press, 2023),159.

Moreover, the absence of a universally accepted global framework for taxing digital activities further exacerbates these loopholes, as countries including Nigeria implement unilateral measures that may not comprehensively address new and complex digital business structures. [8] This creates inconsistencies and regulatory gaps that can be exploited by foreign digital service providers operating across multiple jurisdictions.

The rapid evolution of digital services creates persistent loopholes in the Nigeria Tax Act 2025, undermining the effectiveness of digital services taxation by enabling tax avoidance, complicating enforcement, and highlighting the need for adaptive, technology-driven, and internationally coordinated tax policies.

2.5. Limited administrative and technical capacity of tax authorities to monitor complex digital transactions

The limited administrative and technical capacity of tax authorities constitutes a major challenge under the Nigeria Tax Act 2025 in relation to digital services taxation, particularly given the complexity and scale of modern digital transactions. This challenge arises because effective taxation of digital services requires advanced technological infrastructure, skilled personnel, and access to real-time data, all of which may be insufficiently developed within the existing tax administration framework.[27]

Digital transactions especially those involving cross-border services, cloud computing, and platform-based business models are often conducted through sophisticated systems that require specialized tools for tracking, data analytics, and verification. However, tax authorities may lack the necessary digital monitoring systems and expertise to accurately identify taxable activities, assess revenues, and ensure compliance by non-resident digital service providers.[28]

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[27] J. E. Omojola, *Taxation of the Digital Economy*, (Spectrum Books, 2021), 149.

[28] A. Oguttu, "Taxing the Digital Economy: Challenges for Africa," *Bulletin for International Taxation*, (IBFD, 2020), 292.

Furthermore, the Nigeria Tax Act 2025 imposes obligations such as registration, reporting, and VAT remittance on foreign digital companies, but enforcing these requirements is difficult without robust administrative mechanisms and technological integration with global financial systems. This limitation reduces the effectiveness of enforcement strategies, particularly in cases where companies operate without physical presence and rely on complex digital infrastructures.

In addition, the absence of comprehensive data-sharing arrangements and international cooperation frameworks further constrains the ability of tax authorities to obtain relevant information on cross-border digital transactions. Without access to accurate and timely data, it becomes challenging to detect under-reporting, tax evasion, or aggressive tax planning strategies employed by multinational digital corporations.[29]

Moreover, capacity constraints also affect the ability of tax officials to interpret and apply evolving digital tax rules, especially in areas involving emerging technologies such as cryptocurrencies and artificial intelligence-driven services. This skills gap can lead to inconsistent enforcement, reduced compliance, and potential revenue losses.

The limited administrative and technical capacity of tax authorities significantly undermines the effectiveness of the Nigeria Tax Act 2025 in taxing digital services, as it hampers monitoring, enforcement, and compliance efforts in an increasingly complex and rapidly evolving digital economy.

3. 0 PROSPECTS

1.3.1 Mandatory registration and filing requirements to improve compliance and revenue collection.

[29] M. Lang, *Introduction to the Law of Double Taxation Conventions*, (IBFD, 2021), 124.

Mandatory registration and filing requirements represent a significant prospect under the Nigeria Tax Act 2025 in enhancing compliance and improving revenue collection from digital services taxation. These provisions require both resident and non-resident digital service providers to formally register with Nigerian tax authorities and consistently file returns, thereby creating a structured framework for monitoring taxable activities within the digital economy.[30]

One key advantage of mandatory registration is that it brings previously unregulated or hard-to-trace foreign digital companies into the tax net, particularly those operating under the Significant Economic Presence (SEP) rule. By requiring such entities to obtain tax identification and comply with filing obligations, the Act improves transparency and enables tax authorities to better identify and assess taxable income derived from Nigerian users.[31]

In addition, regular filing requirements such as periodic VAT returns and income declarations facilitate continuous oversight of digital transactions, allowing tax authorities to track revenue flows and detect inconsistencies or under-reporting. This enhances accountability and reduces opportunities for tax evasion, especially in a sector characterized by high transaction volumes and cross-border activities.[32]

Furthermore, mandatory compliance obligations encourage the use of digital tax administration tools, such as electronic filing systems and automated reporting platforms, which can improve efficiency in tax collection and reduce administrative bottlenecks. Over time, this can strengthen institutional capacity and modernize the tax system in line with global best practices for digital taxation.

[30] J. E. Omojola, *Taxation of the Digital Economy*, (Spectrum Books, 2021), 156.
[31] B. J. Arnold, *International Tax Primer*, (Kluwer Law International, 2019), 118.
[32] A. Oguttu, "Taxing the Digital Economy: Challenges for Africa," *Bulletin for International Taxation*, (IBFD, 2020), 298.

Another important prospect is that registration and filing requirements can facilitate collaboration with intermediaries such as financial institutions and payment platforms, enabling better data collection and verification of transactions involving foreign digital service providers. This integrated approach enhances the overall effectiveness of enforcement mechanisms under the Act.

Moreover, increased compliance through mandatory registration expands the tax base and contributes to higher government revenue, which can be reinvested in infrastructure and digital development initiatives. This aligns with the broader objective of the Nigeria Tax Act 2025 to ensure that the digital economy makes a fair contribution to national development.[33]

Mandatory registration and filing requirements under the Nigeria Tax Act 2025 serve as a strong prospect for improving compliance and revenue collection in digital services taxation by enhancing transparency, strengthening monitoring mechanisms, expanding the tax base, and supporting the modernization of tax administration.

3.2. Alignment with international standards and bilateral agreements to reduce double taxation.

Alignment with international standards and bilateral agreements represents a significant prospect under the Nigeria Tax Act 2025 in reducing double taxation and enhancing the efficiency of digital services taxation. By incorporating provisions consistent with Double Taxation Agreements (DTAs) and international tax frameworks, Nigeria seeks to prevent the same income from being taxed both in the source country and in the country of residence of foreign digital service providers.[34]

One major advantage of such alignment is that it provides legal certainty for foreign investors, as companies can rely on established

[33] N. Gregory Mankiw, *Principles of Economics*, (Cengage Learning, 2021), 201.

[34] J. E. Omojola, *Taxation of the Digital Economy*, (Spectrum Books, 2021), 162.

treaty rules to claim relief from double taxation, either through tax credits, exemptions, or reduced withholding rates. ² This reduces the effective tax burden and encourages foreign digital platforms to participate in the Nigerian market without fear of overlapping tax liabilities.[35]

Furthermore, harmonizing domestic digital tax rules with international standards, including the OECD's Pillar One and Pillar Two frameworks, helps Nigeria stay competitive in the global digital economy. It ensures that taxation of cross-border digital services is consistent with globally recognized principles of profit allocation, nexus, and value creation, which limits disputes and enhances predictability for both taxpayers and tax authorities.

Bilateral agreements also facilitate information sharing and administrative cooperation between Nigeria and partner countries, enabling more effective monitoring of foreign digital service providers. Through exchange of information, joint audits, and mutual assistance in enforcement, tax authorities can reduce opportunities for tax evasion and ensure that multinational companies pay their fair share of taxes in line with their economic activities.[36]

Additionally, alignment with international standards reduces the compliance burden for digital service providers operating in multiple jurisdictions, as they can follow harmonized rules rather than navigating conflicting national regulations. This simplicity can increase voluntary compliance, reduce litigation, and improve the efficiency of tax administration in Nigeria.[37]

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[35] B. J. Arnold, *International Tax Primer*, (Kluwer Law International, 2019), 125.

[36] M. Lang, *Introduction to the Law of Double Taxation Conventions*, (IBFD, 2021), 138.

[37] N. Gregory Mankiw, *Principles of Economics*, (Cengage Learning, 2021), 208.

Aligning the Nigeria Tax Act 2025 with international standards and bilateral agreements presents a promising prospect for reducing double taxation, fostering investor confidence, enhancing compliance, and integrating Nigeria's digital economy with global best practices, thereby supporting sustainable revenue generation.

3.3. Targeted tax incentives or exemptions for local startups to protect consumers

Targeted tax incentives or exemptions for local startups represent a significant prospect under the Nigeria Tax Act 2025 in the context of digital services taxation, particularly in mitigating the impact of increased service costs on consumers. By offering preferential tax treatment to indigenous digital enterprises, the government can reduce the operational tax burden on these companies, enabling them to offer more affordable services to Nigerian consumers.[38]

Such incentives may include reduced VAT rates, temporary income tax holidays, or exemptions from certain compliance fees, which help lower the overall cost structure of local startups. This ensures that while foreign digital service providers are taxed under the Significant Economic Presence (SEP) rules, local companies are shielded from excessive taxation that could otherwise lead to higher prices for end users.

Furthermore, targeted incentives encourage the growth of the domestic digital economy by supporting startups in their formative years, allowing them to scale operations, invest in innovation, and remain competitive against multinational digital platforms. By lowering the tax burden on local enterprises, the Act indirectly protects consumers from steep price increases that often accompany the imposition of digital taxes on providers.[39]

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[38] J. E. Omojola, *Taxation of the Digital Economy*, (Spectrum Books, 2021), 168.

[39] A. Oguttu, "Taxing the Digital Economy: Challenges for Africa," *Bulletin for International Taxation*, (IBFD, 2020), 312.

In addition, exemptions or incentives can foster a more inclusive digital ecosystem, particularly for low-income consumers who may otherwise be priced out of access to essential digital services, such as online learning, e-commerce, and digital payments. This aligns with Nigeria's broader policy goals of promoting digital inclusion and economic participation while balancing revenue generation objectives.
Moreover, well-designed tax incentives provide a mechanism for gradual adaptation to the digital services tax regime, allowing startups to comply with tax obligations while avoiding the immediate financial pressures that could otherwise stifle innovation or drive-up consumer costs.[40] Such measures also signal government support for domestic entrepreneurship, enhancing investor confidence in Nigeria's digital market.[41]
Targeted tax incentives or exemptions for local startups under the Nigeria Tax Act 2025 present a strategic prospect for protecting consumers, fostering domestic innovation, and ensuring a balanced and inclusive approach to digital services taxation.
3.4. Periodic reviews and regulatory updates to adapt the DST framework to new digital services.
Periodic reviews and regulatory updates represent a key prospect under the Nigeria Tax Act 2025 for adapting the digital services tax (DST) framework to the rapid evolution of digital services. Given the fast-paced innovation in the digital economy, tax rules that remain static risk becoming outdated, creating loopholes that foreign and local digital service providers can exploit to minimize tax liabilities.[42]

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[40] M. Lang, *Introduction to the Law of Double Taxation Conventions*, (IBFD, 2021), 145.

[41] N. Gregory Mankiw, *Principles of Economics*, (Cengage Learning, 2021), 215.

[42] J. E. Omojola, *Taxation of the Digital Economy*, (Spectrum Books, 2021), 174.

By instituting regular reviews and updates, Nigerian tax authorities can redefine taxable digital services, incorporate emerging technologies such as cloud computing, artificial intelligence, and cryptocurrency platforms, and ensure that new business models fall within the scope of DST. This adaptability enhances the effectiveness of the tax framework and ensures that evolving digital activities contribute fairly to government revenue.[43]

Moreover, periodic regulatory updates allow for alignment with international developments, including OECD guidelines and best practices in digital taxation, thereby reducing inconsistencies and supporting the harmonization of Nigeria's tax regime with global standards. Such alignment helps address potential double taxation issues while maintaining competitiveness for both local and foreign service providers.[44]

Regular reviews also improve compliance and enforcement by providing clear and updated guidelines for taxpayers, reducing ambiguity in interpretation, and enhancing transparency. Clear rules help both startups and established digital enterprises understand their obligations, facilitating voluntary compliance and minimizing disputes with tax authorities.[45]

Additionally, iterative updates enable the government to balance revenue generation with consumer protection, as adjustments can be made to tax rates or exemptions in response to market developments, preventing excessive cost burdens on consumers while maintaining fiscal sustainability. Periodic reviews and regulatory updates under the Nigeria Tax Act 2025 provide a promising prospect for maintaining a dynamic, relevant, and fair DST framework. They ensure that taxation keeps pace with technological innovation, aligns with international

[43] B. J. Arnold, *International Tax Primer*, (Kluwer Law International, 2019), 138.
[44] K. Holmes, *International Tax Policy and Double Tax Treaties*, (IBFD, 2014), 129.
[45] A. Oguttu, "Taxing the Digital Economy: Challenges for Africa," *Bulletin for International Taxation*, (IBFD, 2020), 318.

standards, supports compliance, and balances revenue objectives with consumer affordability.

3.5. Investment in digital tools, capacity-building, and training for tax authorities to enhance enforcement

Investment in digital tools, capacity-building, and training for tax authorities represents a crucial prospect under the Nigeria Tax Act 2025 to enhance enforcement of digital services taxation. Given the complexity of cross-border digital transactions and the rapid evolution of digital business models, effective administration of the DST framework requires modern technological infrastructure and skilled personnel capable of monitoring, auditing, and ensuring compliance.[46]

By investing in digital monitoring tools, data analytics platforms, and automated reporting systems, tax authorities can track transactions in real time, detect under-reporting or evasion, and improve the accuracy of revenue collection from both resident and non-resident digital service providers. This technological upgrade addresses challenges related to limited administrative and technical capacity, which previously hindered enforcement.

Capacity-building initiatives, including specialized training programs for tax officials, enhance their understanding of complex digital business models such as cloud services, e-commerce platforms, cryptocurrency transactions, and platform-based marketplaces. This improves the authorities' ability to interpret regulations, assess tax liabilities correctly, and engage in effective audit procedures.[47]

Furthermore, investment in human and technological resources fosters voluntary compliance by creating a credible enforcement environment.

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[46] J. E. Omojola, *Taxation of the Digital Economy*, (Spectrum Books, 2021), 180.

[47] S. T. Alade, "Digital Services Taxation in Developing Economies," *Nigerian Journal of Taxation Law*, (University of Lagos Press, 2023), 201.

When taxpayers perceive that tax authorities are well-equipped to detect non-compliance, they are more likely to meet registration, filing, and payment obligations, thereby increasing overall tax revenue.

Such investments also support integration with international best practices, enabling Nigeria to collaborate effectively with other jurisdictions on data sharing, cross-border audits, and enforcement of bilateral agreements, which can reduce double taxation and prevent tax base erosion.[48]

In addition, equipping tax authorities with advanced digital tools and trained personnel facilitates policy feedback and adaptive regulation, allowing the DST framework to evolve in response to emerging digital services and market trends, ensuring the system remains relevant, efficient, and fair.[49]

Investment in digital tools, capacity-building, and training presents a strong prospect for the Nigeria Tax Act 2025 by enhancing the enforcement of digital services taxation, strengthening compliance, improving revenue collection, and supporting a modern, adaptive, and transparent tax administration.

The implementation of digital services taxation under the Nigeria Tax Act 2025 presents both significant challenges and promising prospects. On the challenges side, the enforcement of DST on foreign providers without physical presence remains difficult due to jurisdictional limitations and the intangible nature of digital services. The risk of double taxation, the potential for higher service costs passed onto consumers, rapid technological evolution creating loopholes, and the

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[48] OECD, *Tax Challenges Arising from Digitalization – Report on Pillar One Blueprint*, OECD Publishing, 2020, p. 98.

[49] M. Lang, *Introduction to the Law of Double Taxation Conventions*, IBFD, 2021, p. 152.

limited administrative and technical capacity of tax authorities further complicate effective implementation. These factors collectively highlight the complexity of taxing a highly dynamic and borderless digital economy.

On the other hand, the Act also offers notable prospects. Mandatory registration and filing requirements improve transparency, compliance, and revenue collection. Alignment with international standards and bilateral agreements helps reduce double taxation and fosters investor confidence. Targeted tax incentives for local startups protect consumers and stimulate domestic innovation, while periodic regulatory reviews and updates allow the DST framework to adapt to new technologies and business models. Finally, investment in digital tools, capacity-building, and training for tax authorities strengthens enforcement and ensures that Nigeria can efficiently capture revenue from the digital economy.

Overall, while challenges underscore the need for strategic planning, technical investment, and international cooperation, the prospects demonstrate that, with careful implementation, the Nigeria Tax Act 2025 has the potential to create a fair, adaptable, and sustainable digital taxation system that balances revenue generation, consumer protection, and the growth of the domestic digital economy.

The Nigeria Tax Act 2025 should be continuously reviewed and refined to ensure that its provisions remain responsive to the dynamic nature of the digital economy and emerging digital business models. The relevant tax authorities should strengthen their institutional and technical capacity through digital tools, advanced data analytics, and continuous training to improve compliance monitoring and enforcement.

Clearer and more detailed regulatory guidelines should be developed to address ambiguities in the taxation of digital services, particularly with respect to non-resident digital service providers and cross-border transactions. The government should enhance collaboration with

international tax bodies to ensure alignment with global best practices and to reduce the risks of double taxation and profit shifting in digital transactions.
The tax administration system should be further modernized through full digitalization of tax processes, including registration, filing, assessment, and payment systems, to improve efficiency and transparency. Stakeholder engagement should be strengthened to ensure that businesses, tax professionals, and policymakers participate actively in shaping a fair and workable digital taxation regime. The implementation of the Act should maintain a balance between revenue generation and the need to encourage innovation, investment, and growth within the digital economy.

4. 0 CONCLUSION

The Nigeria Tax Act 2025 represents a significant step toward modernizing the country's tax system and addressing the complexities introduced by the digital economy. It provides a framework for expanding the tax base and ensuring that digital economic activities are appropriately captured within the national revenue system. The Act holds considerable prospects for improving revenue generation, strengthening tax equity, and aligning Nigeria's tax regime with international standards. It also offers an opportunity to enhance fiscal sustainability in an increasingly digitalized economic environment. However, the effectiveness of the Act depends on the extent to which implementation challenges are addressed, particularly in relation to administrative capacity, regulatory clarity, and enforcement mechanisms. Ultimately, the Act establishes an important foundation for digital taxation in Nigeria, but its success will depend on continuous reform, institutional strengthening, and adaptive policy responses to the evolving nature of the digital economy.