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The Impact of E-Commerce on Value Added Tax collections in Nigeria: Evidence from FIRS, Bauchi State

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Abstract

This paper investigates the impact of e-commerce on VAT collections in Nigeria. Data was collected from FIRS tax officers, researchers, tax practitioners and e-commerce operators and clients in Bauchi state. From this population, four hundred (400) respondents were randomly selected from using convenience technique. The study employed basically primary data sourced through self-administered questionnaire which the responses in the 360 copies of questionnaire which were returned by the respondents were tabulated and frequencies, simple percentages and rankings were used to analyse the responses. The result indicates that the major challenges of implementing VAT on e-commerce lies with poor implementation of existing tax laws as well as the need to modify and update tax laws. Thus, this study recommends that, the government should intensify efforts in sensitizing the public through tax education. Furthermore, this study would assist the policy makers to map-out strategies peculiar to e-commerce through making new relevant laws, updating existing ones and ensuring proper implementation of the laws. In addition, there should be a system to compensate for those who comply with the VAT on e-commerce. Lastly, further studies should be conducted on a larger scale as well as in other region of Nigeria to test the consistency of the results.

Keywords: collections, e-commerce, tax education, value added tax.

1. Introduction

E-commerce is one examples of the changing face of business practices that has emerged as a result of recent developments. This has improved business opportunities and growth, created jobs, and improved general societal wellbeing by providing access to a wide range of goods and services. The goods and services become easily accessible through technological advancements which ensure opportunities for e-commerce and have greatly enhanced business' capacity to obtain information, source factor inputs from suppliers, and conduct business with both individual and institutional customers globally without needing to be physically present in the same location.

Though the importance of e-commerce cannot be overemphasized and has been widely acknowledged, it has been observed that most government have income challenges. This is especially true when it comes to the assessment and collection of Value Added Tax (VAT), which the final consumer of such goods and services is ultimately responsible for paying VAT that is imposed on qualifying items and services (Bassey, 2020). Nonetheless, the online format of the e-commerce poses challenges for the VAT collections which have affected the government's VAT collection (OECD, 2021).

VAT was introduced to increase the revenue base of a government that will assist in economic growth (Salman, 2011). In Nigeria, VAT was introduced in 1993 with a VAT rate of 5% and with the amendments of the Finance Act of 2019, the rate was raised to 7.5%, which became effective on 1st Febuary, 2020 (Udoma & Osagie, 2021). Furthermore, the revenue generated from VAT has a great impact to create jobs, build roads and infrastructures which will have a remarkable impact on the Nigerian economy (Izedonmi & Okunbor, 2014). However, it has been noted that huge transactions from e-commerce continue to escape VAT annually in Nigeria. It is in view of this, that the FIRS proposed that with effect from February 2020, all banks in Nigeria are mandated to charge VAT on local and foreign online transactions on behalf of government (Etim, Jeremiah & Udonsek, 2020). This reason prompted the need to enquire issues responsible for the compliance intention on VAT, especially among e-commerce.

E-commerce is the use of communication technologies for buying, selling and marketing goods and services which creates a fair playing ground in the global economy for both small and large businesses (Okoyeuzu, 2020). This is because the evolution of technology and the resulting possibilities of e-commerce has significantly increased the capability of businesses to source factor inputs from suppliers, acquire information and undertake transactions with private and institutional consumers around the world without having to be physically present in the same geographical location (OECD, 2021).

According to the Executive Vice Chairman Nigerian Communications Commission, Danbatta (2018), e-commerce is growing in Nigeria as more internet users join the online community. As at 2022, the internet users in Nigeria have grown to nearly 84 Million as at 2022 and this figure is projected to grow to 117 million in 2027 (National Bureau of Statistics, 2023). This is so encouraging that with the increased number of individual using the internet, there3 is a larger audience for e-commerce, which can potentially lead to an increase in VAT collection as well as boost the revenue generation of Nigeria (Usman, 2019). In addition, Nigeria has moved to the 39th largest market for e-commerce with a predicted revenue of US$7,627.6 million in 2023 and compound annual growth rate for revenue is projected to increase at 11.3% which would results to a market projected volume of US$11,707 million (Saliu, Otapo, Sodiq & Otunubi, 2022).

In view of the above, this study will empirically look at the impact of e-commerce on VAT collections in Nigeria through FIRS Bauchi State.

"According to INETCO (2019), 'transactions' typically refer to the exchange of money or goods between individuals, businesses, accounts, or applications. These transactions are guided by specific business protocols or contractual terms. The OECD Expert Group on Defining and

Measuring E-Commerce (2021) defines electronic transactions (e-transactions) as the buying or selling of goods or services, regardless of whether it occurs between businesses, households, individuals, governments, or other entities."

2. Objectives of the study

The main aim of this research work is to investigate the impact of e-commerce on Value Added Tax (VAT) collections in Nigeria. In an attempt to undertake this investigation, the following specific objectives are expected to be achieved:

i. To assess the effect of VAT implementation on e-commerce in Nigeria.

ii. To ascertain the challenges of implementing VAT on e-commerce in Nigeria.

3. Literature Review

3.1 An Overview of VAT in Nigeria

The implementation of VAT in Nigeria dates back to November 1991, when a committee was formed to conduct in-depth research on this new concept. This committee was tasked with providing recommendations for the successful implementation of VAT. Subsequently, the government decided to implement VAT on January 1st, 1993. However, due to unforeseen circumstances, the implementation date was later shifted to September 1st, 1993, as stated by Sanni (2012). However, Aguolu (2002) claimed that the timing for starting VAT was not appropriate due to the misperception of the Nigerian population that the implementation of VAT would result in a rise in the prices of goods and services, as seen in 1993 when the cost of gasoline was raised by 150%, causing direct inflationary consequences on transportation costs which in turn had an indirect effect on the prices of food and other essential items.

Notwithstanding on the issues raised above, in January 1994, VAT was finally introduced in Nigeria to replace the sales tax, which operated under Decree No. 7 of 1986 (Ugwoke, 2013).

The study further stated that, one of the reasons behind the replacement of sales tax to VAT is because, the sales tax was so narrow and nullifies the nature of a consumption tax, which is expected to cut across all consumable goods and services. Thus, VAT was introduced in Nigeria. Hence, FIRS (2006, p.2) defines VAT as, “an indirect tax levied on goods and services consumed. It is an indirect tax because the burden of the payment is on the final consumer of the goods and services”.

According to Udoma & Osagie (2021), Nigeria had VAT flat rate of 5% in 1993. Following changes made to the Finance Act in 2019, the rate was increased to 7.5%. This increase became effective on February 1st, 2020. The study identified other avenues for VAT collections, which include the collections on e-commerce.

A Review of e-commerce

According to El Gawady (2005), e-commerce typically involves purchasing and selling goods or services via the internet or exchanging ownership rights through a computer-based network. The term e-commerce, or electronic commerce, refers to utilizing technology for conducting financial transactions online. This can take place among three main parties: businesses, government entities, and individuals. Similarly, El Gawady (2005) depicts e-commerce as the act of buying or selling products or services using the internet or transferring ownership rights through a computer-based network. The term e-commerce, also known as electronic commerce, refers to the use of technology for conducting online financial transactions. This can occur between three primary parties: companies, government organizations, and individuals.

E-commerce facilitates the transfer of goods or services between different locations, without the need for physical contact. According to OECD (2021), an electronic transaction refers to the buying or selling of goods or services, regardless of whether it involves businesses, households, individuals, governments, or other public or private organizations. These transactions take place over computer networks, with customers ordering the goods or services through electronic means which should be subjected to VAT. However, studies have highlighted some constraints to the implementation of VAT collections on e-commerce in Nigeria which are discussed in the following subsection.

3.2 Constraints to VAT Collections on E-commerce in Nigeria

According to the study conducted by Etim, Jeremiah and Udonsek (2020), quite a number of constraints were highlighted. These include;

i. Out-of-date tax legislations: Nigeria is modernizing its stance on information and computer technology, but its laws have not yet caught up with this progress. In order to effectively tax e-transactions, the laws must not only apply to advances in e-commerce, but also be in line with legal advancements in electronic transactions and consumer protection (Ikeh, 2014). Certain transactions take place and generate income for those involved, yet tax authorities and their agencies are required to account for these. The tax provisions can be revised and improved upon to eliminate any technicalities that may exist in certain areas. This is in line with the Federal Ministry of Finance's belief that the tax legal framework must be amended or revised to better reflect modern transactions and establish a more effective basis for taxation that prevents any potential leakages.

ii. Poor Implementation of Existing Laws: Nigerian law currently enforces taxation through a three-tiered system composed of the federal, state, and local governments. Each tier has its specific scope and methods, which are defined in the relevant tax laws (Bassey, 2013). However, it has been suggested, whether intentionally or unintentionally, that these laws are not followed or put into practice, which may hinder the effectiveness of VAT on electronic transactions.

iii. Corruption: This issue affects a wide range of industries and regions in the country and has the potential to hinder the successful implementation of VAT on e-transactions. Consider revising the sentence to something like: "The prevalence of this problem across various sectors and regions in the country may impede the implementation of VAT on e-transactions."

iv. Technological Complexity of e-commerce: The emergence of new technologies has brought about a shift in commercial interactions, as both businesses and consumers are now actively involved in virtual or electronic marketplaces, reaping the associated advantages. With the advent of technology, it has become easier to make payments for goods and services online, shifting away from the traditional reliance on physical cash. However, this has brought about a whole new set of legal and socio-economic issues owing to the ambiguous geographic boundaries in the virtual trade of goods and services (Ikeh, 2014).

v. Problem of double taxation: Imposing VAT on online transactions for banks could potentially have several unintended consequences, as it would require them to monitor and track various e-commerce transactions. This additional obligation may lead to difficulties and challenges for banks, potentially affecting their operations and services. As a result, it may be beneficial for banks to explore alternative wording and phrases to accurately convey the implications and concerns of this mandate.

This may also subject the banks to potential tax audit liabilities, as the FIRS will likely want to confirm adherence and appropriate payment of the imposed VAT. Additionally, the collection of VAT on these particular transactions by banks could potentially lead to double taxation, as the provider of the good/service may have already included and paid VAT on those same transactions under the VAT Act which places the responsibility of charging and remitting VAT on the provider of taxable goods/services (Anderson, 2019).

Additionally, a pressing concern is the method in which banks are required to identify vatable transactions and the process of determining and implementing VAT on online goods and services provided. The legislation permits a provider of goods and services to make appropriate modifications between the output VAT and input VAT prior to calculating the VAT on the sold item. Therefore, it would be unreasonable to oblige banks to arbitrarily deduct based on output VAT (Anderson, 2019).

3.3 Review of Empirical Literature

The study by Makere (2018) aimed to analyze the effect of e-commerce on import taxes in Kenya. The research utilized a quarterly time series dataset ranging from 2012 to 2016. To conduct the analysis, a multiple regression model was employed. The results of the study demonstrated a negative correlation between e-commerce and import taxes in Kenya. In a similar study, Biodun (2017) examined the effect of e-commerce on Togo's economic progress using time series data from 2009 to 2015. Utilizing Ordinary Least Square Method and Co integration Models, the research aimed to investigate the impact of e-commerce on Togo's economic development. The findings also indicated a decline in domestic consumption due to the rise of e-commerce.

The study conducted by Wang, Wang, and Lee (2017) aimed to examine the effects of cross-border e-commerce on international trade in China. Their approach primarily focused on analyzing the transaction cost economics and traditional comparative advantage model, specifically looking at the key factors of information cost, negotiation cost, transportation cost, tariffs, and middlemen cost. Through this analysis, the study aimed to gain a better understanding of the overall impact of cross-border e-commerce on international trade in China. The research utilized the Generalized Model Method, as well as other Econometrics Models and theoretical models. The analysis revealed that cross-border e-commerce could potentially improve international trade if the negative effects of tariff and transportation costs are mitigated. The empirical result demonstrates that cross-border e-commerce has a beneficial impact on the growth of China's international trade annually. However, the positive effect does not display a gradual increase over time, potentially due to the inadequate enforcement of advantageous trade policies, as well as the decline in global trade. The study conducted by Agrawal in 2015 explored the impact of the Internet on tax competition and tax rates. The findings revealed that the internet has a significant effect on tax rates when consumers have the option to make purchases online, from their own town, or neighboring towns. Essentially, the internet puts downward pressure on tax rates in local jurisdictions where high tax rates were present before the internet era. Furthermore, the study suggests that this pressure is most noticeable in areas where online transactions are tax-free.

Alternatively, should online businesses pay taxes in every region, a growth in Internet usage would potentially result in an increase in tax rates as these online businesses would pay taxes based on where their goods and services are delivered, leading to a decrease in tax avoidance. Agrawal's empirical research shows that the first extreme scenario is more prevalent, with a 10 percent decrease in local tax rates for every one standard deviation increase in Internet penetration.

However, higher levels of Internet activity lead to elevated local tax rates in areas where there are a large number of online companies with connections. In some regions, these positive outcomes offer policymakers proof that the Internet can aid in tax collection, which could become increasingly important as more online businesses establish a physical presence. Alake and Olatunji (2015) conducted a research study to examine the effects of electronic taxation on tax avoidance and evasion in Nigeria. The study's sample was collected from the Ekiti State of Nigeria with a specific focus on some financial institutions and the State's Revenue Board. A set of organized surveys were conducted among the specified subjects and their data was evaluated using statistical methods and hypothesis testing. The outcome showed that the proposed idea that implements electronic taxation lacks important influence towards reducing tax evasion and avoidance in Nigeria, therefore, the alternate proposal was approved, leading to the final conclusion that integrating electronic taxation in tax administration in Niger has potential for positive impact.

Mirmiran and Shams (2014) conducted a study that aimed to assess the influence of e-commerce on significant economic indicators, such as total factor productivity (TFP), in Iran as a developing country in contrast to the US standard as a developed country. Through analysis and calculation of interconnected factors, their model utilizes both econometrics and growth accounting approach, bridging the gaps of previous studies. As the initial step, this research addresses the gap in economic growth by transforming. On the next stage, the two statistical algorithms are compared against each other. The findings revealed that the influence of electronic commerce on Iran may potentially surpass that of the United States as a developed nation, due to the significant opportunities for minimizing inefficiencies and enhancing productivity in Iran. Additionally, the results demonstrate that despite the continuous attention given to e-commerce by governmental bodies in Iran over the past decade, further policies and initiatives are necessary to further stimulate and improve the e-commerce landscape in the country.

Using seventeen (17) years of time series data, Izedonmi and Okunbor (2014) conducted a study on the impact of value added tax on Nigeria's economic growth. Through the use of simple regression analysis and descriptive statistical methods, they determined that VAT revenues and total revenues were responsible for a significant 92 percent of variations in the country's GDP. Based on their findings, it can be concluded that VAT plays a crucial role in Nigeria's economic growth. They also found a positive and insignificant correlation between VAT revenue and GDP. Onwuchekwa and Suleiman (2014), on the other hand examined the effects of value added tax on the economic growth of Nigeria. The study made use of the ordinary least square method in analyzing data for a period of 20 years. The result show that VAT significantly contributes to total revenue of government and to the economic growth of Nigeria.

4. Research Methodology

The FIRS tax officers, researchers, tax practitioners and e-commerce operators/clients in Bauchi state are those targeted for this study. Furthermore, 600 respondents were drawn from the population as the sample size. The focus of the study is on exploratory, hence, survey research design was used. This design is chosen because it allows for a faster and more organized collection of reliable primary data for an exploratory study (Usman, 2019).

The study employed basically primary data sourced through a structured five point Likert scale questionnaire which was distributed to the study respondents to elicit responses that would facilitate answers to the study research questions. The questions in the questionnaire are structured to address the issues of focus highlighted in the study objectives. The primary data was collected through self-administered questionnaire, which was treated statistically using multiple regression analysis and other statistical techniques. A total of 400 questionnaires were personally administered using cluster sampling technique, based on geographical location of the population for the study. A total of 360 questionnaires were retrieved, representing 90% response rate.

The data collected was analyzed using the descriptive statistics such as simple percentages, averages, weight and ranking. Furthermore, all the items used for this study were adapted from previous studies with modifications. For instance, the items for the effect of VAT implementation on e-commerce and the challenges of implementing VAT on e-commerce in Nigeria were adapted from Usman (2019) and Etim et al. (2020).

5. Results and Discussion

Table 1
Analysis of Respondents

	FIRS Tax Officers	Tax Researchers	Tax Practitioners	E-commerce operators/ clients	Not Specified	Total	%
Total Administered	60	140	80	120		400	
Total returned	55	127	68	104	6	360	
% Returned	15.2	35.3	18.9	28.9	1.7		100

Source: Researcher's Compilation (2024)

Table 1 indicates that out of the 400 copies of questionnaire administered for the study, 360 were completed and returned given a 90% response rate. In respect of their occupation, 15.2% of the 360 respondents were FIRS tax officers, 35.3% were tax researchers, 18.9% were tax practitioners while those operators and clients of e-commerce constituted 28.9% and the remaining 1.7 of the respondents did not indicate. The summary of responses to the statements in the questionnaire is presented and analyzed in Table 2 and Table 3.

Table 2
Responses on the effect of VAT implementation on e-commerce in Nigeria

S/N	Questionnaire Statement	Score	Average	Weight	Ranking
1.	Individuals may feel discouraged from participating in electronic transactions, which could potentially have a negative impact on the success of the Federal	1,150	3.19	0.638	1st

	Government's cashless policy, as it heavily relies on e-commerce.				
2.	VAT on e-commerce has the potential to trigger unethical behaviors within e-commerce operators, leading to a further escalation of the prevalent issue of tax fraud and avoidance.	1,139	3.16	0.632	3rd
3.	The implementation of a VAT system may lead to financial burden for citizens as the additional cost of e-commerce will ultimately be passed onto the clients.	1,139	3.16	0.632	3rd
4.	The increase in VAT on e-commerce could potentially lead to a decrease in consumption of goods and services that are subject to VAT, ultimately resulting in a decline in revenue for the businesses impacted.	1,134	3.15	0.630	4th
5.	The process of categorizing products for VAT implementation on e-commerce can be complex and challenging for business operators.	1,139	3.16	0.632	3rd
6.	Implementing VAT on e-commerce may create a sense of uncertainty for operators of e-commerce businesses regarding their future prospects	1,141	3.17	0.634	2nd

Source: Researcher's Compilation (2024)

Table 2 shows the analysis on implementing VAT in Nigeria which may indirectly hinder the government's cashless policy as people may be discouraged from engaging in e-commerce to avoid payment of VAT. This statement is ranked first, which represent 63.8%. The second ranked effect (63.4%) is that the full implementation of VAT on e-commerce may create uncertainty for operators of e-commerce businesses regarding their future prospects. This would particularly arise because of the probability of increase in the VAT rate as is indicated by Abiodun (2019). The third ranked effect which represent 63.2% identifies that, VAT on e-commerce has the potential to trigger unethical behaviors within e-commerce operators, leading to a further escalation of the prevalent issue of tax fraud and avoidance. In the same vein, 63.2% also affirmed that, implementation of a VAT system may lead to financial burden for citizens as the additional cost of e-commerce will ultimately be passed onto the clients. This is in line with the findings of Etim, Jeremiah and Udonsek (2020).

Table 3
Responses on the challenges of implementing VAT on e-commerce in Nigeria

S/N	Questionnaire Statement	Score	Average	Weight	Ranking
1.	The need for timely modifications and updates of tax laws to effectively implement VAT on e-ecommerce would present some limitations to the policy.	1,154	3.19	0.638	2nd
2.	The implementation of VAT on e-commerce may be heavily impacted by the current ineffective enforcement of laws in Nigeria.	1,154	3.21	0.642	1st
3.	Lack of proper infrastructure for effective implementation of VAT on e-commerce is a significant obstacle in Nigeria.	1,129	3.12	0.624	5th
4.	Corruption is a major issue in all sectors and could hinder the success of implementing VAT on e-commerce in Nigeria.	1,132	3.14	0.628	4th
5.	Implementing VAT on e-commerce in Nigeria poses a significant challenge due to the complex and dynamic technology involved	1,134	3.15	0.630	3rd

Source: Researcher's Compilation (2024)

The result of the analysis in Table 3 shows that, the observed trend of poor implementation of laws in Nigeria is the greatest challenge that would really affect the implementation of VAT on e-commerce in Nigeria with 62.4% in the affirmative. Next in rank with 63.8% is the fact that the need for timely modifications and updates of tax laws to effectively implement VAT on e-commerce would present some limitations to the policy. This finding is line with the views of Usman (2019) as well as Simeon, Simeon and Roberts (2017). It is also revealed that the complex and dynamic technology involved in e-commerce is the third most envisaged challenge to the implementation of VAT on e-commerce in Nigeria. This represent 63.0%. Furthermore, 62.8% believe that corruption is a major issue in all sectors and could hinder the success of implementing VAT on e-commerce in Nigeria. The least ranked challenge identified is the challenge of proper infrastructure for effective implementation of VAT on e-commerce. This is in line with the findings from Andersen (2019).

6. Implications and Conclusion

With the VAT revenue loss experienced in Nigeria, yet there are limited studies on the impact of e-commerce on VAT collections in Nigeria. This study delves into the area to test the effect of VAT implementation on e-commerce and the challenges of implementing VAT on e-commerce in Nigeria. The study was carefully chosen because of the suggestions of Usman (2019) and Etim et al. (2020). The study employed descriptive statistics such as simple percentages, averages, weight and ranking reliability test and multi regression to analyse the data collected.

The result indicates that the major challenges of implementing VAT on e-commerce lies with poor implementation of existing tax laws as well as the need to modify and update tax laws. Thus, this study recommends that, the government should intensify efforts in sensitizing the public through tax education. Furthermore, this study would assist the policy makers to map-out strategies peculiar to e-commerce through making new relevant laws, updating existing ones and ensuring proper implementation of the laws. In addition, there should be a system to compensate for those who comply with the VAT on e-commerce.

The study also reveals that, the major challenges of implementing VAT on e-commerce in Nigeria are the poor implementation of existing tax laws and the need to modify and update these laws. The technical capacity, corruption, and infrastructural requirements are also important factors to consider. Considering the potential reactionary effect of implementing this policy, it can also be concluded that the successful implementation of VAT on e-commerce is dependent on addressing these challenges.

The implementation of the cashless policy may have an impact that is not directly observable. This could also lead to heightened uncertainty in the business world and add to the financial struggles of individuals. In light of these findings, it is suggested that:

i. The government is responsible for creating new tax laws and updating existing ones in order to establish a comprehensive legal framework for the e-commerce VAT policy. Furthermore, it is crucial for the government to prioritize and improve its efforts to effectively implement these laws.

ii. In order to successfully implement VAT on e-commerce, it is important to take proactive measures that address the need for enhanced technical capacity. This can include measures such as investing in training for employees, implementing new technology and systems, and hiring specialized personnel. By taking these proactive measures, the success of the VAT implementation can be ensured.

iii. Adherence can be improved though sufficient information dissemination regarding the methods and rules of VAT collections on e-commerce as that should be charged and maintained.

iv. Improved taxpayer education on the processes and procedures of VAT collections on e-commerce. This is so crucial and would increase compliance.

v. The government should increase efforts to combat corruption with genuine commitment in order to discourage others and improve public trust in the administration's dedication to implementing this policy.

Finally, the study was focused on 400 consisting of FIRS tax officers, tax researchers, tax practitioners and operators and clients of e-commerce, hence having a larger number of respondents may give a different perception on the impact of VAT collections on e-commerce. Therefore, the study suggests having a larger sample to check the consistency of the results.

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