

THE EFFECTS OF DIGITAL ECONOMY ON TAX COLLECTION

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**BEING A PROJECT WRITTEN IN THE DEPARTMENT OF ACCOUNTING,
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DECLARATION

I, EKOMA SHARON OSAKPOLOR, do hereby declare the following:

1. This project work with the title “THE EFFECTS OF DIGITAL ECONOMY ON TAX COLLECTION” is carried out by me in the department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, Edo State under the supervision of Dr Obazee Uyioghosa.
2. This work has not been submitted by any other person or group under any degree or diploma in any institute.
3. All ideas and views are products of my personal research and that of others have been duly referenced, appreciated and acknowledged.
4. Any litigation or liability arising from the work is to be wholly borne by me.

Sign: _____

Date: _____

CERTIFICATION

We, the undersigned, hereby certify that this research project was carried out by EKOMA SHARON OSAKPOLOR in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, and do approve that it is adequate in scope and quality in partial fulfillment of the award of Bachelor of science (B.Sc.) degree in Accounting.

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DEDICATION

I dedicate this work to God almighty who gave me his grace, wisdom, mercy, understanding, courage, strength and provision to finally accomplish this task.

ACKNOWLEDGEMENTS

My sincere gratitude goes to Almighty God for his mercy, favour and encouragement towards the successful accomplishment of this work.

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I will not fail to mention my lovely parents Mr and Mrs Ekoma for her words of encouragement and love throughout my studies. Finally I would love to thank my friends and course mates for their love and support throughout this project. May God almighty keep and bless us all. Amen

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ABSTRACT

The objective of the study is the effects of digital economy on tax collection. In generating data, the primary source of data was employed through the administration of questionnaires.

We found out that enforcing tax compliance affects digital economy, Cross border transactions affects digital economy and size and growth of the digital economy, including e-commerce, digital services, and online advertising affects the collection of taxes.

The study makes the following recommendations that government should strengthen to foster collaboration with other tax jurisdictions in database management. Government should reconsider the option of taxing digital economic activities on revenue base tax instead of profit base tax to avoid tax evasion strategies. In addition, sustaining and encouraging the use of digital platforms through the creation of an enabling environment among the industry players could also be imperative.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study.

The digital economy has revolutionized the way businesses operate, and tax authorities have had to adapt to these changes to ensure that they can continue to collect tax revenues. The digital economy refers to economic activity that is driven by digital technologies such as the internet, mobile devices, and cloud computing.

According to a report by the Organisation for Economic Co-operation and Development (OECD) in 2016, the digital economy has created challenges for tax authorities as it has made it easier for businesses to operate across borders and to shift profits to low-tax jurisdictions (OECD, 2016). This has led to concerns that tax revenue could be eroded as a result of these new business models. However, the report also notes that the digital economy has also provided new opportunities for tax authorities to improve their tax collection systems by making use of digital technologies.

One of the main ways in which digital technologies have influenced tax collections is through the automation of tax compliance processes. For example, businesses can now use accounting software that automatically calculates tax liabilities and prepares tax returns. This has made it easier for businesses to comply with tax obligations, and has also made it easier for tax authorities to monitor compliance. According to a study by

PwC in 2016, digital technologies have reduced the cost of tax compliance by up to 30% (PwC, 2016).

In addition to automation, digital technologies have also enabled tax authorities to collect data more efficiently and effectively. For example, tax authorities can now use data analytics tools to analyze large amounts of data to identify potential tax compliance issues. This has enabled tax authorities to target their enforcement efforts more effectively and to identify areas where tax revenue may be at risk. According to a report by the International Monetary Fund (IMF) in 2016, the use of data analytics has led to a 30% increase in the detection of tax evasion (IMF, 2016).

The digital economy has had a significant influence on tax collections. Digital technologies have made it easier for businesses to comply with tax obligations and have enabled tax authorities to collect data more efficiently and effectively. However, the globalized nature of the digital economy has also created new challenges for tax authorities, and international cooperation is required to ensure that tax revenues are not eroded. The use of digital technologies in tax collections is likely to continue to evolve in the coming years, and tax authorities will need to continue to adapt to these changes to ensure that they can continue to collect tax revenues effectively.

1.2 Statement of research problem

However, the use of digital technologies has also created new challenges for tax authorities. One of the main challenges is the difficulty in enforcing tax compliance in a globalized digital economy. According to the OECD report, businesses can now operate across borders without a physical presence in a particular jurisdiction, which makes it difficult for tax authorities to identify where taxable profits are being generated (OECD, 2016). This has led to the development of new international tax rules, such as the Base Erosion and Profit Shifting (BEPS) initiative, which aims to ensure that businesses pay tax where they create value. With the growth of digital economies, there has been an increase in the volume and complexity of digital transactions, making it difficult for tax authorities to track and monitor all the activities that are subject to taxation. With the digital economy, there is no uniform tax regime across different jurisdictions, which makes it difficult for tax authorities to apply a consistent taxation policy across all digital transactions. Digital transactions can be difficult to trace, making it easier for businesses to underreport their income and avoid paying taxes. This lack of transparency creates a challenge for tax authorities when trying to determine the appropriate tax liability for digital businesses. The digital economy is still a relatively new and rapidly evolving sector, which presents legal and regulatory challenges for tax authorities. Tax authorities need to keep up with new developments in the digital economy and update their regulations accordingly to ensure that they can effectively collect taxes.

In the light of the above the following questions were streamlined.

1. Does difficulty in enforcing tax compliance affects digital economy?
2. Does cross border transactions affects digital economy?
3. Does the size and growth of the digital economy, including e-commerce, digital services, and online advertising affects the collection of taxes?

1.3 Objective of the study

The broad of objective of the study is the effects of digital economy on tax collection.

The specifics are:

1. to find out how enforcing tax compliance affects digital economy.
2. to find out how cross border transactions affects digital economy.
3. to examines the size and growth of the digital economy, including e-commerce, digital services, and online advertising affects the collection of taxes.

1.4 Hypotheses

The following hypothesis were tested in Null forms.

1. There is no way enforcing tax compliance affects digital economy.
2. There is no relationship between cross border transactions affects digital economy.

3. There is no way the size and growth of the digital economy, including e-commerce, digital services, and online advertising affects the collection of taxes.

1.5 Scope of the study

The scope of the study will be on the effects of digital economy on tax collection. The focus will be based on data from respondent within Edo State.

1.6 Significance of the study

This study will help businesses to know the importance of digital technologies on how it will enable businesses to streamline their operations and reduce the time and resources needed to complete tasks. The study will help tax authorities to have expanded global reach in the collection of taxes.

CHAPTER TWO

2.1 Introduction

This chapter entails conceptual framework, review of literature and theoretical framework

2.2 Conceptual framework

Digital tax is: “A tax applied to digital business activities, this includes both digital only brands which deal with virtual commodities and the services traditional market players use while transforming their businesses with digital technologies (Payspacemagazine 2019).

What is Digital Economy: The Base Erosion and Profit Shifting (BEPS) Action defines digital economy as: “one characterized by an unparalleled reliance on intangible assets, the massive use of data (notably personal data), the widespread adoption of multisided business models capturing value from externalities generated by free products, and the difficulty of determining the jurisdiction in which value creation occurs (OECD 2014).”

Classification of digital economy digitally ordered services: involves transactions that are digitally ordered, which includes the transactions of good and services, that reflect e-commerce (OECD 2014). Platform enabled services: involves peer to peer services that aids the transacting of goods and services (OECD 2014). Digitally delivered transactions: involves the capturing of services and data flows which are then delivered either as web streaming products or digital downloads (OECD 2014). Features of digital economy Mobility of intangibles which is relied upon by the digital economy, users and business

functions. - Reliance on data, especially “big data.” - Network effects. - Usage of multisided business models. - Tendency in relation to monopoly or oligopoly in certain businesses who rely solely on network effects. - Volatility as a result of rapid entry of evolving technologies (OECD 2014). Challenges faced by digital economy in Nigeria

The spread of digital economy has introduced benefits, such as employment, and human wellbeing etc. At the same time, it has made room for more challenges for policy makers. The major challenge policy makers are facing is the possible risk for Multinational enterprises (MNEs) to move their profits from the jurisdiction (country) where the economic activity took place. This erodes the values created in such jurisdiction. The global scope of digital businesses raises the question on how taxing right on income gotten from cross-border trade, should be allocated among participating jurisdiction to address under/over taxation (Obayomi, Idowu and Adegite 2019). At the mandate of G20, the organization for economic co-operation and development (OECD) published an Action Plan on base erosion and profit shifting (BEPS) in July. The Action Pan identifies fifteen (15) actions to address BEPS and sets deadlines for those actions (OECD 2014, 24). It is worthy of note that the challenges faced by digital economy is not peculiar to Nigeria. However, several countries have taken steps to fix the challenges facing digital economy: Israel introduced a significant economic presence (SEP) test that is only applicable to foreign companies which reside in countries that have no double tax agreements with Israel (Obayomi, Idowu and Adegite 2019). United Kingdom introduced

25 percent Diverted Profits Tax on profits that are said to be diverted away from the UK (Obayomi, Idowu and Adegite 2019). An estimation of 1.5 billion pounds will be generated from taxation in the UK (Imosemi and Okwu 2019). Way forward The Nigerian government needs to ensure the effectiveness of digital economy for the purpose of income tax. This can be achieved if the scope of fixed base is expanded in section 13 of the corporate income tax act (CITA). When done, the Nigerian government revenue will be increased (Isiadinso and Omoju Emmanuel, 2019). - Adopting the best practices internationally in relation to taxing the digital economy (Imosemi and Okwu 2019). - The inclusion for the taxability of players in the existing laws of the Nigerian economy (Imosemi and Okwu 2019). - Introducing a simplified registration process for companies in the digital economy (Imosemi and Okwu 2019).

The digital economy has been rapidly growing over the past few years, changing the way we live, work, and interact with each other. The digital economy refers to economic activities that are based on digital technologies, including e-commerce, online advertising, digital media, and cloud computing (OECD, 2019).

The digital economy is characterized by several key features, including the use of digital technologies, the prevalence of network effects, the importance of data, and the emergence of platform-based business models (UN, 2019). Firstly, the digital economy is driven by digital technologies, including the internet, mobile devices, and cloud computing, which enable the creation, storage, and sharing of digital content. Secondly,

network effects are a key feature of the digital economy, where the value of a digital platform or service increases as more users join the network. For example, social media platforms such as Facebook and Twitter become more valuable to users as more people join the platform. Thirdly, data is a critical resource in the digital economy, and companies that can collect, analyze, and utilize data effectively have a competitive advantage. Data can be used to improve products and services, develop new business models, and inform decision-making. Finally, platform-based business models have emerged as a dominant form of organization in the digital economy. These platforms facilitate interactions between different parties, such as buyers and sellers or service providers and customers, and generate value by connecting these parties (PWC, 2019).

The digital economy has had a profound impact on different sectors of the economy, including retail, finance, and healthcare. In the retail sector, the rise of e-commerce has transformed the way consumers shop, enabling them to purchase products online and have them delivered directly to their doorstep. According to Statista (2020), global e-commerce sales are projected to reach \$4.9 trillion by 2021, up from \$2.3 trillion in 2017. In the financial sector, digital technologies have enabled the development of new business models, such as peer-to-peer lending and mobile payments. These new models are disrupting traditional banking models and providing consumers with more convenient and affordable financial services (Accenture, 2018). In healthcare, digital technologies are being used to improve patient outcomes and increase efficiency. For example,

telemedicine enables patients to consult with healthcare professionals remotely, reducing the need for in-person visits and improving access to care (Deloitte, 2019).

The digital economy is a term used to describe economic activities that are based on digital technologies. This can include a range of different activities, from online retail to social media, from cloud computing to digital advertising

The digital economy is a broad term that encompasses a range of economic activities that rely on digital technologies. According to the Organisation for Economic Co-operation and Development (OECD), the digital economy can be defined as "the economic and social activities that are enabled by platforms and networks that use information and communication technologies (ICTs)" (OECD, 2019, p. 5).

2.3 Overview of tax in Nigeria

Taxation is a crucial aspect of any economy, as it provides the government with the necessary funds to finance public services and infrastructure. In Nigeria, taxation has been a major source of revenue for the government, accounting for over 70% of the government's revenue in recent years (World Bank, 2020). In this paper, we will provide an overview of tax in Nigeria, including the types of taxes levied, the tax system, and the challenges facing the Nigerian tax system.

2.4 Types of Taxes in Nigeria

The Nigerian tax system is made up of various taxes levied on individuals and businesses. These taxes include:

1. **Personal Income Tax:** This tax is levied on the income of individuals, including salaries, wages, commissions, and other sources of income.
2. **Corporate Income Tax:** This tax is levied on the income of companies and other corporate entities.
3. **Value Added Tax (VAT):** This tax is levied on the value added to goods and services at each stage of production and distribution.
4. **Withholding Tax:** This tax is levied on payments made to individuals or companies for goods and services rendered.
5. **Capital Gains Tax:** This tax is levied on the profit made from the sale of an asset, such as property or shares.
6. **Stamp Duty:** This tax is levied on various transactions, including sales agreements, leases, and other legal documents.

2.5 Tax System in Nigeria

The tax system in Nigeria is managed by the Federal Inland Revenue Service (FIRS), which is responsible for the assessment and collection of taxes on behalf of the government. The tax system is based on the self-assessment principle, which means that taxpayers are required to assess and pay their taxes based on their own assessment of their tax liability.

Taxation is an important aspect of the Nigerian economy, providing the government with the necessary funds to finance public services and infrastructure. The Nigerian tax system is made up of various taxes levied on individuals and businesses, including personal income tax, corporate income tax, value-added tax, withholding tax, capital gains tax, and stamp duty. Despite the importance of taxation to the Nigerian economy, there are a number of challenges facing the Nigerian tax system, including low tax compliance, a limited tax base, and inefficient tax administration.

2.6 Challenges Facing the Nigerian Tax System

Despite the importance of taxation to the Nigerian economy, there are a number of challenges facing the Nigerian tax system. These challenges include:

1. **Low Tax Compliance:** Tax compliance in Nigeria is relatively low, with many individuals and businesses failing to register for or pay their taxes.

2. Limited Tax Base: The tax base in Nigeria is relatively small, with a large proportion of the population engaged in the informal sector, which is difficult to tax.
3. Inefficient Tax Administration: The tax administration system in Nigeria is often inefficient and bureaucratic, which can deter taxpayers from complying with their tax obligations.

2.7 Tax Administration in Nigeria

Tax administration refers to the process of managing and collecting taxes on behalf of the government. In Nigeria, tax administration is managed by the Federal Inland Revenue Service (FIRS), which is responsible for the assessment and collection of taxes. In this paper, we will provide an overview of tax administration in Nigeria, including the structure of the tax administration system, the role of the FIRS, and the challenges facing tax administration in Nigeria.

2.8 Structure of Tax Administration System in Nigeria

The tax administration system in Nigeria is divided into two levels: federal and state. At the federal level, the FIRS is responsible for the administration of federal taxes, including corporate income tax, personal income tax, value-added tax, and capital gains tax. At the state level, the various state revenue agencies are responsible for the administration of

state taxes, including personal income tax, consumption tax, and other state-specific taxes.

2.9 Role of the FIRS in Tax Administration in Nigeria

The FIRS is the main agency responsible for the administration of federal taxes in Nigeria. The agency is responsible for assessing and collecting taxes, as well as enforcing tax laws and regulations. The FIRS is also responsible for providing tax education and awareness programs to promote compliance with tax laws and regulations.

Tax administration is a crucial aspect of any economy, as it provides the government with the necessary funds to finance public services and infrastructure. In Nigeria, tax administration is managed by the FIRS, which is responsible for the assessment and collection of federal taxes. Despite efforts to improve tax administration in Nigeria, there are still a number of challenges facing the system, including a limited tax base, tax evasion, inefficient tax administration, and corruption.

2.10 Enforcing tax compliance affects digital economy

The digital economy has rapidly transformed the business landscape, presenting new opportunities and challenges for tax administration. One of the main challenges facing tax administration in the digital economy is the difficulty in enforcing tax compliance. The digital economy has changed the way businesses operate, with many companies now operating across borders, selling goods and services online, and utilizing new

technologies to reduce costs and increase efficiency. However, this has also presented challenges for tax administration, particularly in developing countries where tax systems are often less sophisticated.

One of the main challenges facing tax administration in the digital economy is the difficulty in enforcing tax compliance. In many cases, companies operating in the digital economy are based in other countries, making it difficult for tax authorities to monitor and enforce compliance. Additionally, many digital transactions occur outside the traditional tax system, such as through cryptocurrencies and online marketplaces, making it difficult to track and tax these transactions.

The difficulty in enforcing tax compliance can have a significant impact on the digital economy. When companies are able to avoid taxes, they have a competitive advantage over companies that are complying with tax regulations. This can lead to market distortions, as companies that are not paying their fair share of taxes are able to offer lower prices and undercut competitors.

In addition, the lack of tax revenue can impact government budgets, reducing the ability of governments to invest in public goods and services, such as infrastructure, education, and healthcare. This can have negative implications for economic growth and development, particularly in developing countries where governments may have limited resources.

To address the challenge of enforcing tax compliance in the digital economy, governments and tax authorities are exploring new approaches to tax administration. One approach is to increase international cooperation and coordination, such as through the implementation of the Base Erosion and Profit Shifting (BEPS) initiative by the OECD. This initiative aims to address tax avoidance by multinational companies by promoting greater transparency and cooperation between tax authorities.

Another approach is to develop new technologies and tools to improve tax administration, such as through the use of block-chain and other distributed ledger technologies to track transactions and improve transparency. Additionally, governments can work with companies and stakeholders in the digital economy to develop voluntary compliance programs and initiatives to promote tax compliance.

The difficulty in enforcing tax compliance is a significant challenge facing tax administration in the digital economy, particularly in developing countries. This challenge can have negative implications for the digital economy, including market distortions and reduced government revenue. However, governments and tax authorities are exploring new approaches to address this challenge, such as through international cooperation, technology, and voluntary compliance programs.

2.11 Cross border transactions and digital economy

Cross-border transactions have become increasingly common in the digital economy, with businesses able to operate globally and sell goods and services to customers in different countries with relative ease. While cross-border transactions can offer many benefits for businesses, such as increased market access and revenue, they also present a number of challenges and risks that can affect the digital economy.

One of the main challenges of cross-border transactions is the issue of taxation. Different countries have different tax laws and regulations, and this can create confusion and uncertainty for businesses that operate across borders. In some cases, businesses may be subject to double taxation, where they are required to pay taxes in both their home country and the country where they are conducting business. This can create a significant burden for businesses, particularly small and medium-sized enterprises (SMEs) that may have limited resources to navigate complex tax regulations. Another challenge of cross-border transactions is the issue of data protection and privacy. When businesses operate across borders, they may be subject to different data protection laws and regulations, which can create uncertainty and risk for both businesses and consumers. In addition, businesses may face challenges in complying with different data protection regulations, particularly if they are operating in multiple jurisdictions.

The risks of cross-border transactions can also affect the digital economy more broadly. For example, the risk of fraud and cybercrime may increase as businesses operate across borders, particularly if they are not familiar with the regulatory environment in different

countries. This can lead to a loss of consumer trust and confidence in the digital economy, which can have a negative impact on overall economic growth and development.

To address the challenges and risks of cross-border transactions, governments and policymakers are exploring a range of approaches. One approach is to promote greater international cooperation and coordination, particularly in the areas of taxation and data protection. For example, the European Union's General Data Protection Regulation (GDPR) seeks to create a harmonized framework for data protection across the EU, while the OECD's BEPS initiative aims to promote greater cooperation between tax authorities to address tax avoidance by multinational companies.

Another approach is to develop new technologies and tools to improve cross-border transactions, such as through the use of block-chain and other distributed ledger technologies to facilitate secure and transparent transactions. Additionally, governments and international organizations can work to develop voluntary standards and best practices for businesses operating across borders, to help promote greater compliance and reduce risk.

Cross-border transactions can have both positive and negative effects on the digital economy. While they offer many benefits for businesses, they also present a range of challenges and risks that can affect economic growth and development. To address these challenges, governments and policymakers are exploring a range of approaches to

promote greater international cooperation, develop new technologies, and establish voluntary standards and best practices for businesses operating across borders.

2.13 The size and growth of the digital economy, including e-commerce, digital services, and online advertising and the collection of taxes.

The digital economy, which includes e-commerce, digital services, and online advertising, has grown rapidly over the past few decades. This growth has led to significant changes in the way that businesses operate and has created new challenges for tax authorities around the world. In this essay, we will explore the ways in which the size and growth of the digital economy affect the collection of taxes.

One of the main challenges of the digital economy is the issue of tax collection. With the rise of e-commerce and digital services, many businesses operate across borders, which can make it difficult for tax authorities to identify and collect taxes from these businesses. In addition, the digital economy has led to the emergence of new business models, such as the sharing economy, which can be difficult to tax using traditional methods.

Another challenge of the digital economy is the issue of tax avoidance. Many multinational companies use complex tax structures to minimize their tax liability, which can have a significant impact on the amount of revenue that governments are able to collect. This is particularly true in the digital economy, where it can be difficult to determine where economic activity is taking place and where taxes should be paid.

Despite these challenges, there are a number of ways in which the digital economy can actually help to improve tax collection. One way is through the use of technology. Many tax authorities are investing in new technologies, such as data analytics and machine learning, to help them identify and target tax evasion more effectively. In addition, some countries have introduced digital tax systems, which make it easier for businesses to comply with tax regulations and for tax authorities to collect taxes.

Another way in which the digital economy can improve tax collection is through greater international cooperation. Many countries are working together to develop new tax rules and regulations that are better suited to the digital economy. For example, the OECD's Base Erosion and Profit Shifting (BEPS) project aims to ensure that multinational companies pay their fair share of taxes by closing loopholes in international tax laws.

However, there are also some concerns that the growth of the digital economy could make it more difficult to collect taxes in the future. For example, the rise of the sharing economy and the gig economy means that more people are working as self-employed contractors or freelancers, which can make it harder to track income and ensure that taxes are paid.

In addition, the growth of e-commerce and digital services has led to the emergence of new business models that can be difficult to tax. For example, many digital companies

use complex transfer pricing arrangements to minimize their tax liability, which can be difficult for tax authorities to detect and challenge.

The size and growth of the digital economy, including e-commerce, digital services, and online advertising, can have both positive and negative effects on tax collection. While the digital economy has created new challenges for tax authorities, it has also led to the development of new technologies and approaches that can improve tax collection. In order to ensure that taxes are collected fairly and efficiently in the digital economy, it is important for governments and tax authorities to work together to develop new rules and regulations that are suited to the digital age.

Theoretical Review

Theory of Benefit principle

The theory of tax is a branch of economics that deals with the study of the role and effects of taxation on the economy. The theory of tax examines the various types of taxes, the reasons why they are imposed, and their impact on economic activity.

One of the main theories of tax is the benefit principle, which suggests that individuals should pay taxes in proportion to the benefits they receive from government services. For example, those who use public transportation more frequently may be required to pay higher taxes to support the maintenance and improvement of the transportation system.

The benefit principle is often used to justify the imposition of user fee, such as tolls or charges for government services.

Another theory of tax is the ability-to-pay principle, which suggests that individuals should pay taxes based on their ability to pay, rather than on the benefits they receive. This theory is often used to justify progressive taxation, where those with higher incomes are required to pay a greater share of their income in taxes. Proponents of the ability-to-pay principle argue that it is fairer to tax those who have more resources, as they are better able to bear the burden of taxation.

The theory of tax also examines the impact of taxes on economic activity. One of the key ways in which taxes can affect economic activity is through their impact on incentives. For example, taxes on goods and services can increase their price, which may reduce demand for those goods and services. Similarly, taxes on income can reduce the incentives for individuals to work or invest, as they may have less money to spend or invest after taxes.

In addition to their impact on incentives, taxes can also have a redistributive effect on income and wealth. For example, progressive taxation can help to reduce income inequality by taking a larger share of income from those with higher incomes. However, some economists argue that high tax rates can discourage work and investment, which can reduce economic growth and lead to a reduction in overall economic welfare.

In conclusion, the theory of tax is an important area of study in economics that examines the role and effects of taxation on the economy. The theory of tax examines the various types of taxes, the reasons why they are imposed, and their impact on economic activity, incentives, and income distribution. By understanding the theory of tax, policymakers can design tax systems that are fair, efficient, and effective in achieving their desired objectives.

Theory of tax planned behavior

The theory of planned behavior is a psychological theory that can be applied to the study of tax compliance. According to this theory, an individual's intention to comply with tax regulations is determined by three key factors: attitudes towards tax compliance, subjective norms, and perceived behavioral control.

Attitudes towards tax compliance refer to an individual's beliefs about the desirability or undesirability of paying taxes. If an individual believes that paying taxes is important for the common good and for maintaining social order, they are more likely to have a positive attitude towards tax compliance. Conversely, if an individual believes that paying taxes is unfair or unnecessary, they may have a negative attitude towards tax compliance.

Subjective norms refer to an individual's perception of social pressure to comply with tax regulations. For example, an individual may feel pressure to comply with tax regulations

because they believe that it is important to follow the law, or because they believe that their friends or family members would disapprove of non-compliance.

Perceived behavioral control refers to an individual's belief about their ability to comply with tax regulations. This includes factors such as their understanding of tax regulations, their access to financial resources, and their ability to manage their finances effectively.

According to the theory of planned behavior, an individual's intention to comply with tax regulations is influenced by these three factors. For example, if an individual has a positive attitude towards tax compliance, perceives social pressure to comply, and believes that they have the ability to comply, they are more likely to intend to comply with tax regulations.

However, the theory of planned behavior also recognizes that intentions do not always translate into behavior. This may be due to factors such as lack of knowledge or resources, conflicting priorities, or external influences that undermine an individual's ability or motivation to comply with tax regulations.

Overall, the theory of planned behavior provides a useful framework for understanding the factors that influence tax compliance. By identifying the attitudes, norms, and control factors that affect compliance intentions, policymakers can design strategies to promote greater compliance with tax regulations. For example, campaigns that emphasize the

social benefits of tax compliance or provide clear and simple guidance on tax regulations may help to increase compliance intentions and reduce tax evasion.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter entails the procedures and methods adopted in the study. It consists of the research design population of the study, sample and sampling techniques, the sources of data collection, the administration of questionnaire and techniques for data analysis.

3.2 Research Design

According to Izedonmi (2005) a research design specifies the methods and procedures used to acquire the information needed for the research. The research design adopted in this study is survey design in order to give insight into the effects of digital economy on tax collection. It is opted for because it uncovers data, integrate and brings out inter relationship among variables.

3.3 Population and Sample of the Study

Parastatals in Edo State constitute the population of the study. A total of one hundred respondents shall randomly be sampled from UBTH in Edo state. The sample procedure adopted in the study was convenience sampling method, reason for that is because of the ease and accessibility of the research to obtain information from respondents.

3.4 Sources of Data

In generating data, the primary source of data is employed through the administration of questionnaires and in this study the questionnaire is the instrument used in obtaining data from respondent.

The questionnaire will be streamlined into two part A and B. The part A of the questionnaire will deal with respondent social characteristics, part B of the questionnaire will be based on the variables in the research objectives of the study.

3.5. Z-Test

The Z-test is a statistical tool that enables the researcher estimate the proportion possessing a particular trait of interest. It is used where the sample size of the study is very large. In testing the hypotheses of a study, the Z-test for population proportion would be adopted because of the large sample size used as stated earlier in the study.

The formula for Z-test is shown below:

$$Z = \frac{p - P_0}{\sqrt{\frac{\bar{p} \cdot \bar{q}}{n}}}$$

Where P_0 = hypothesized proportion $P_0 = 0.5$

P = Proportion of respondents with affirmative response

$$\bar{P} = \frac{x}{n}$$

n = Sample size

x = Respondents with affirmative response

Decision Rule

The null hypothesis would be accepted if the calculated Z -value is less than the table Z -value but if the calculated Z -value is greater than the table Z -value, the null hypothesis would be rejected while the alternative hypothesis would be accepted.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESULT

4.1 Introduction

This chapter contains the presentation, analysis and interpretation of the data collected for the purpose of this research work. Consequently, it entails the application of statistical technique to provide the basis for the testing of the research hypotheses raised earlier at the introductory section of the study. It is a vital part of any research work since it forms the basis for recommendations and conclusion at the end of the research. The preliminary analysis of the data is evaluated using responses from questionnaires analyses.

Table 4.1: Analysis of responses to question 1; Enforcing tax compliance in digital economy are very costly and there is no guarantee of the detection and prevention of fraud.

	Frequency	Percent	Percent	Cumulative Percent
STRONGLY DISAGREE	27	76.5	76.5	76.5
DISAGREE	14	21	21	97.5
UNDECIDED	7	9.09	9.09	106.59
AGREE	16	18	18	124.59
STRONGLY AGREE	13	35	35	100.0
Total	77	100.0	100.0	

Source: Field Survey (2023)

The table above shows that about 35% strongly agree that enforcing tax compliance in digital economy are very costly and there is no guarantee of the detection and prevention of fraud while about 76.5% strongly disagree.

Table 4.2: Analysis of responses to question 2; enforcing tax compliance in digital economy is a sign to stakeholders that people do not comply

	Frequency	Percent	Percent	Cumulative Percent
STRONGLY DISAGREE	11	14.3	14.3	14.3
DISAGREE	11	14.3	14.3	28.6
UNDECIDED	9	12	12	40.6
AGREE	31	40.2	40.2	60.1
STRONGLY AGREE	15	19.5	19.5	100.0
Total	77	100.0	100.0	

Source: Field Survey (2023)

The table above shows that about 19.5 % strongly agree that enforcing tax compliance in digital economy is a sign to stakeholders that people do not comply while about 14.3% strongly disagree.

Table 4.3: Analysis of responses to question 3; It is difficult to evaluate the effectiveness of enforcing tax compliance in digital economy

	Frequency	Percent	Percent	Cumulative Percent
STRONGLY DISAGREE	7	9.09	9.09	9.09
DISAGREE	4	5.19	5.19	14.28
UNDECIDED	9	12	12	40.6
AGREE	17	22	22	60.1
STRONGLY AGREE	40	52	52	100.0
Total	77	100.0	100.0	

Source: Field Survey (2023)

The table above shows that about 52% strongly agree that it is difficult to evaluate the effectiveness of enforcing tax compliance in digital economy while about 9.09% strongly disagree.

Table 4.4: Analysis of responses to question 4; Enforcing tax compliance in digital economy will generate more revenue for the govt.

	Frequency	Percent	Percent	Cumulative Percent
STRONGLY DISAGREE	13	17	17	14.3
DISAGREE	8	10.3	10.3	28.6
UNDECIDED	4	5	5	40.6
AGREE	19	25	25	60.1
STRONGLY AGREE	33	43	43	100.0
Total	77	100.0	100.0	

Source: Field Survey (2023)

The table above shows that about 43% strongly agree that enforcing tax compliance in digital economy will generate more revenue for the government while about 17% strongly disagree.

Table 4.5: Analysis of responses to question 5
Cross-border transactions enable businesses to expand their reach beyond domestic borders and access a global customer base.

	Frequency	Percent	Percent	Cumulative Percent
STRONGLY DISAGREE	3	3.8	3.8	14.3
DISAGREE	5	8	8	28.6
UNDECIDED	2	2.6	2.6	40.6
AGREE	12	16	16	60.1
STRONGLY AGREE	55	71.4	71.4	100.0
Total	77	100.0	100.0	

Source: Field Survey (2023)

The table above shows that about 71.4% strongly agree that cross-border transactions enable businesses to expand their reach beyond domestic borders and access a global customer base. while about 3.8% strongly disagree.

Table 4.6: Analysis of responses to question 6; Cross-border transactions facilitate international e-commerce by enabling online retailers to sell their products or services to customers in different countries.

	Frequency	Percent	Percent	Cumulative Percent
STRONGLY DISAGREE	6	7.8	7.8	14.3
DISAGREE	13	16.8	16.8	28.6
UNDECIDED	12	15.5	15.5	40.6
AGREE	29	37.5	37.5	60.1
STRONGLY AGREE	17	22	22	100.0
Total	77	100.0	100.0	

Source: Field Survey (2023)

The table above shows that about 22% strongly agree that cross-border transactions facilitate international e-commerce by enabling online retailers to sell their products or services to customers in different countries while about 7.8% strongly disagree.

Table 4.7: Analysis of responses to question 7; Cross-border transactions require efficient and secure payment systems to facilitate the transfer of funds across different countries and currencies.

	Frequency	Percent	Percent	Cumulative Percent
STRONGLY DISAGREE	14	18	18	14.3
DISAGREE	12	15.5	15.5	28.6
UNDECIDED	11	14.3	14.3	40.6
AGREE	15	19.4	19.4	60.1
STRONGLY AGREE	25	32.4	32.4	100.0
Total	77	100.0	100.0	

Source: Field Survey (2023)

The table above shows that about 32.4% strongly agree that cross-border transactions require efficient and secure payment systems to facilitate the transfer of funds across different countries and currencies while about 18% strongly disagree.

Table 4.8: Analysis of responses to question 8; Cross-border transactions facilitate international collaboration and knowledge sharing among businesses, researchers and innovators.

	Frequency	Percent	Percent	Cumulative Percent
STRONGLY DISAGREE	15	19.4	19.4	14.3
DISAGREE	10	13	13	28.6
UNDECIDED	11	14.3	14.3	40.6
AGREE	31	40.2	40.2	60.1
STRONGLY AGREE	10	13	13	100.0
Total	77	100.0	100.0	

Source: Field Survey (2023)

The table above shows that about 13% strongly agree that cross-border transactions facilitate international collaboration and knowledge sharing among businesses, researchers and innovators while about 19.4% strongly disagree.

Table 4.9: Analysis of responses to question 9; The digital economy often involves innovative business models that may not fit traditional tax frameworks

	Frequency	Percent	Percent	Cumulative Percent
STRONGLY DISAGREE	15	19.4	19.4	14.3
DISAGREE	10	13	13	28.6
UNDECIDED	11	14.3	14.3	40.6
AGREE	31	40.2	40.2	60.1
STRONGLY AGREE	10	13	13	100.0
Total	77	100.0	100.0	

The table above shows that about 13% strongly agree that the digital economy often involves innovative business models that may not fit traditional tax frameworks while about 19.4% strongly disagree.

Table 4.10: Analysis of responses to question 10; Digital companies may operate globally without a physical presence in a particular jurisdiction, making it difficult to determine their tax liabilities.

	Frequency	Percent	Percent	Cumulative Percent
STRONGLY DISAGREE	3	4.5	4.5	14.3
DISAGREE	4	4.6	4.6	28.6
UNDECIDED	13	16.8	16.8	40.6
AGREE	17	22	22	60.1
STRONGLY AGREE	40	52	52	100.0
Total	77	100.0	100.0	

Source: Field Survey (2023)

The table above shows that about 52% strongly agree that digital companies may operate globally without a physical presence in a particular jurisdiction, making it difficult to determine their tax liabilities while about 4.5% strongly disagree.

Table 4.11: Analysis of responses to question 11; Due to the global nature of the digital economy, international cooperation and standardization efforts are crucial.

	Frequency	Percent	Percent	Cumulative Percent
STRONGLY DISAGREE	1	1.29	1.29	14.3
DISAGREE	3	3.89	3.89	28.6
UNDECIDED	2	2.59	2.59	40.6
AGREE	22	28.5	28.5	60.1
STRONGLY AGREE	47	61	61	100.0
Total	77	100.0	100.0	

Source: Field Survey (2023)

The table above shows that about 61% strongly agree due to the global nature of the digital economy, international cooperation and standardization efforts are crucial while about 1.29% strongly disagree.

Table 4.12: Analysis of responses to question 12; Tax authorities require access to data and information from digital platforms to enforce tax compliance effectively.

	Frequency	Percent	Percent	Cumulative Percent
STRONGLY DISAGREE	16	20.7+	20.7	14.3
DISAGREE	12	15.5	15.5	28.6
UNDECIDED	12	15.5	15.5	40.6
AGREE	17	22	22	60.1
STRONGLY AGREE	20	26	26	100.0
Total	77	100.0	100.0	

Source: Field Survey (2023)

The table above shows that about 26% strongly agree that tax authorities require access to data and information from digital platforms to enforce tax compliance effectively while about 20.7% strongly disagree.

On the basis of the overall statistical significance of the model as indicated by the Z-statistics, it was observed that the overall model was statistically significant since the calculated Z- value of 55.9 was greater than the critical T-value at 5% level of significance. This shows that there exist a significant linear relationship between the dependent variable and all the explanatory variables taken together.

4.2 TEST OF HYPOTHESES

The hypotheses of the study were tested using data generated from the field work. The z-test was used in testing the hypotheses at 5% level of significance under the two-tailed test.

Hypothesis 1 There is no way enforcing tax compliance affects digital economy.

The result showed that enforcing tax compliance with a calculated z-value of 7.93 is greater than the critical t-value of 2.0 at 5% level of significance. Therefore, we reject the null hypothesis and accept the alternative hypothesis which states that there is relationship between enforcing tax compliance.

Hypothesis 2

H₀: There is no relationship between cross border transactions and digital economy.

The result showed that there is no relationship between cross border transactions and digital economy with a calculated z-value of 3.87 is greater than the critical t-value of 2.0 at 5% level of significance. Therefore, we reject the null hypothesis and accept the alternative hypothesis which states that there is a positive relationship between cross border transactions and digital economy.

Hypothesis 3

H₀₃. There is no way the size and growth of the digital economy, including e-commerce, digital services, and online advertising affects the collection of taxes.

The result showed that the size and growth of the digital economy, including e-commerce, digital services, and online advertising affects the collection of taxes with a calculated z-value of 7.93 is greater than the critical t-value of 2.0 at 5% level of significance. Therefore, we reject the null hypothesis and accept the alternative hypothesis which states that there is relationship between them.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This study examined the effects of digital economy on tax collection. There is no doubt the survival of every organisation in the corporate world depends largely on the quality of the measures put in place to ensure the collection of tax. This will in turn improve the ease of doing business in the nation and serve as a catalyst in reinvigorating the economy towards addressing fiscal deficits experienced in the country by increasing inflows of foreign exchange

5.2 Summary of Findings

The specific focus of this study is to examine the effects of digital economy on tax collection, the estimation provided the following results:

1. Enforcing tax compliance affects digital economy.
2. Cross border transactions affects digital economy.
3. Size and growth of the digital economy, including e-commerce, digital services, and online advertising affects the collection of taxes.

5.3 Conclusion

Digitalization of the economy drives innovations and creates employment opportunities which in turn leads to economic growth. It has also been defined as a diverse range of economic activities such as the digital elements that used digital content as key factors of production. Through digital content, data is collected, analyzed, stored and retrieved via the internet for commercial reasons by foreign entities and their clients, cloud computing, big data, and Fintech among another technological hub.

5.4 Recommendation

From the above findings, the study makes the following recommendations: a) Government should strengthen to foster collaboration with other tax jurisdictions in database management. b) Government should reconsider the option of taxing digital economic activities on revenue base tax instead of profit base tax to avoid tax evasion strategies. In addition, sustaining and encouraging the use of digital platforms through the creation of an enabling environment among the industry players could also be imperative.

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APPENDICES
QUESTIONNAIRE

Department of Accounting
University of Benin,
Benin Study Centre

Dear Respondent,

REQUEST FOR YOUR COOPERATION IN COMPLETING A QUESTIONNAIRE.

I am an undergraduate student undergoing B.Sc Taxation programme, undertaking a research work on ‘the effects of digital economy on tax collection’. I wish to appeal to you to assist this study by taking a few minutes to fill this questionnaire.

Yours faithfully,

EKOMA SHARON OSAKPOLOR
Researcher

SECTION A: Please tick (✓) or fill where appropriate.

Sex: Male (), Female ().

Age: 25 - 35 (), 36 - 45 (), 46 - 55 (), 56 and above ().

Marital Status: Married () Single ()

Educational Qualification: B.Sc/HND () M.Sc () PhD

SECTION B: PLEASE TICK (✓) AS APPROPRIATE USING THE FOLLOWING KEY

SA =STRONGLY AGREE, A =AGREE, U =UNDECIDED, D =DISAGREE,

SD =STRONGLY DISAGREE

S/N		SD	D	U	A	SA
Section A	Enforcing tax compliance in digital economy.					
1	Enforcing tax compliance in digital economy are very costly and there is no guarantee of the detection and prevention of fraud.					
2	Enforcing tax compliance in digital economy is a sign to stakeholders that people do not comply					
3	It is difficult to evaluate the effectiveness of enforcing tax compliance in digital economy					
4	Enforcing tax compliance in digital economy will generate more revenue for the govt.					
Section B	Cross border transactions in digital economy					
1	Cross-border transactions enable businesses to expand their reach beyond domestic borders and access a global customer base.					
2	Cross-border transactions facilitate international e-commerce by enabling online retailers to sell their products or services to customers in different countries.					

3	Cross-border transactions require efficient and secure payment systems to facilitate the transfer of funds across different countries and currencies.					
4	Cross-border transactions facilitate international collaboration and knowledge sharing among businesses, researchers, and innovators.					
Section C	Size and growth of the digital economy in the collection of taxes					
1	The digital economy often involves innovative business models that may not fit traditional tax frameworks.					
2	Digital companies may operate globally without a physical presence in a particular jurisdiction, making it difficult to determine their tax liabilities.					
3	Due to the global nature of the digital economy, international cooperation and standardization efforts are crucial					
4	Tax authorities require access to data and information from digital platforms to enforce tax compliance effectively.					