



EFFECT OF DIGITAL SERVICE TAX ON TAX REVENUE AND FOREIGN DIRECT INVESTMENT IN NIGERIA

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DOI: <https://doi.org/10.70382/caijmsbar.v9i7.042>

Abstract

This study investigates the effect of Nigeria's Digital Service Tax (DST) on two principal tax revenue streams—Value Added Tax (VAT) and Company Income Tax (CIT)—and on Foreign Direct Investment (FDI) inflows between 2014 and 2024. Employing an ex post facto research design and secondary time-series data from the Federal Inland Revenue Service, Central Bank of Nigeria, and World Bank, the analysis uses Ordinary Least Squares regression with a DST dummy variable (0 = pre-2020, 1 = post-2020) to quantify policy impacts. Results reveal that the introduction of DST is associated with an average annual increase of ₦375.36 billion in digital VAT ($R^2 = 0.687$, $p = 0.003$) and ₦710.06 billion in digital CIT revenue ($R^2 = 0.668$, $p = 0.004$). Contrary to concerns about investment displacement, digital-sector FDI inflows rose by an average of USD 1,039.36 million post-DST ($R^2 = 0.659$, $p = 0.004$), suggesting that clear and transparent digital tax rules can coexist with—and may even bolster—foreign investment. These findings validate the Benefit Theory of Taxation in the digital context, demonstrating that entities deriving value from Nigeria's digital ecosystem contribute equitably to public revenues without deterring capital inflows. Policy recommendations include enhancing digital tax administration capacity, clarifying DST guidelines to stakeholders, and earmarking DST proceeds for digital infrastructure development. The study contributes novel empirical benchmarks for digital tax policy and provides a foundation for future cross-country and sectoral analyses.

Keywords: Digital Service Tax; Value Added Tax; Company Income Tax; Foreign Direct Investment; Nigeria; Benefit Theory of Taxation; Digital Economy.

INTRODUCTION

The proliferation of the digital economy has fundamentally altered the structure of international trade, investment flows, and taxation systems across the globe. Multinational digital corporations, such as Google, Amazon, Meta, and Netflix, now deliver services across borders without a physical presence, rendering traditional tax rules based on physical nexus increasingly obsolete. In response to this challenge, countries have begun implementing Digital Service Taxes (DSTs) as interim measures to capture revenue from these companies operating in their jurisdictions. These taxes generally apply to revenues generated from digital activities such as online advertising, digital marketplaces, and user data

monetisation (OECD, 2020). European countries such as France, Italy, Austria, and the United Kingdom have pioneered DST frameworks, imposing between 2% and 7.5% taxes on the gross revenues of large digital firms. Similarly, emerging markets such as India (equalisation levy), Kenya, and South Africa have introduced digital tax policies to protect their tax bases from erosion and profit shifting (UNCTAD, 2021; KPMG, 2022). However, global consensus on DST remains elusive, with the Organisation for Economic Co-operation and Development (OECD) pushing for a multilateral solution through its Base Erosion and Profit Shifting (BEPS) Inclusive Framework—specifically Pillar One (allocating taxing rights to market jurisdictions) and Pillar Two (minimum global tax rate).

In Nigeria, the rise of digital economic activities—ranging from e-commerce platforms like Jumia and Paystack to streaming services like Netflix—has significantly outpaced existing tax frameworks. To bridge the tax gap created by digital service providers without a local presence, Nigeria amended its Finance Act in 2021, introducing a Digital Service Tax (DST) under the provisions of the Company Income Tax Act (CITA). This reform empowers the Federal Inland Revenue Service (FIRS) to collect taxes on digital transactions conducted by non-resident companies with significant economic presence (SEPs) in Nigeria (FIRS, 2021). The DST is part of broader efforts to boost Nigeria's low tax-to-GDP ratio, which stood at 10.86% in 2021, far below the African average of 16.5% (OECD, 2022). The government expects the DST to diversify revenue sources, particularly in the wake of declining oil revenues. However, the implementation of DST in Nigeria has raised several concerns. Critics argue that poor digital infrastructure, weak enforcement capacity, and regulatory uncertainty may hinder the effective implementation of DSTs and reduce Nigeria's attractiveness to foreign investors in the digital and tech sectors (Akinwunmi, 2023; Ashafoke & Obaretin, 2023).

Tax revenue generated, specifically Value Added Tax (VAT) and Company Income Tax (CIT), is attributed to digital transactions, and foreign direct investment (FDI) inflows. Tax revenue is essential for funding public services and achieving fiscal sustainability, while FDI remains a vital engine of economic growth, contributing to technology transfer, job creation, and infrastructure development. The introduction of DST is expected to increase revenue by capturing value previously untaxed; however, concerns persist that such taxes might deter foreign investors, especially large tech companies, due to increased compliance costs and perceived policy uncertainty (Bunn, 2021; Ashafoke & Obaretin, 2023). Empirical literature provides mixed insights into the interrelationship between DST, tax revenue, and FDI. For instance, Udo (2024) found that digital taxation significantly enhanced tax revenue and contributed to sustainable economic development in Nigeria. Similarly, Fadipe et al. (2024) reported a strong positive correlation between digital tax administration and GDP growth, implying that efficient tax systems can improve fiscal outcomes. However, these studies focused more on administrative digitalisation rather than DST as a specific fiscal policy instrument.

Statement of Problem

The global digital economy has profoundly transformed commerce, creating new business models that transcend geographical boundaries and challenging traditional international tax norms (NAO, 2022). This fundamental shift has led to a widespread concern among governments worldwide that multinational digital service providers are not paying their "fair share" of taxes in market jurisdictions where significant

value is created, primarily due to the lack of a physical presence that triggers conventional tax obligations (Delsol, 2025; IBA, 2021). This perceived under taxation has compelled numerous countries to unilaterally introduce Digital Service Taxes (DSTs) as an interim measure to protect their domestic tax bases and ensure revenue capture from the burgeoning digital sector, even as multilateral solutions remain under negotiation (Deloitte, 2020; Mpofu & Moloi, 2022).

This global phenomenon has critical implications for African nations, including Nigeria, which are experiencing rapid digitalisation and a growing reliance on digital services (WATAF, 2022; Mpofu, 2022). Africa faces unique challenges in taxing the digital economy, including administrative capacity constraints and the imperative not to hinder technological growth (Mpofu, 2022). Nigeria, as Africa's largest economy, has a vibrant and expanding digital ecosystem, making it a significant market for digital service providers (CBN, 2024). However, the country has historically struggled with revenue diversification, remaining heavily dependent on volatile oil revenues (Oxford Business Group, 2024; CITMNigeria, 2025). This over-reliance highlights an urgent need for sustainable and diversified revenue streams to fund critical public services and development initiatives.

In response to the challenges of taxing the digital economy and the pressing need for revenue diversification, Nigeria enacted its Digital Service Tax regime, with the Finance Act 2021 and subsequent guidelines in 2022 formalising the taxation of non-resident digital companies (KPMG, 2024; S.P.A. Ajibade & Co., 2023). While existing empirical studies in Nigeria indicate a positive correlation between broader digital tax initiatives and increased revenue generation (Ashafoke & Obaretin, 2023), there remains a critical empirical gap regarding the specific and isolated effect of the Digital Service Tax (DST) on key tax revenue components, such as Company Income Tax (CIT), Value Added Tax (VAT) and FDI, derived from digital service providers. The nuances of how DST, as a targeted policy instrument, contributes to or alters these specific revenue streams, beyond general digitalisation efforts, are not clearly understood.

Furthermore, the introduction of DST carries potential implications for Foreign Direct Investment (FDI) inflows, a vital catalyst for economic growth and job creation in developing economies like Nigeria (Olaniyan et al., 2020; Joseph et al., 2019). While studies generally show a positive relationship between overall tax revenue and FDI in Nigeria (Okolie, 2024), the unique nature of DST – a tax on gross revenue rather than profits, often applied to companies without physical presence – could be perceived by international digital service providers as an additional cost or a disincentive to invest. Some global perspectives suggest that such taxes might influence investment routes rather than deterring investment altogether (Ashafoke & Obaretin, 2023), but the specific responsiveness of FDI, particularly from the digital sector, to Nigeria's DST remains largely unexplored. This creates a dilemma for policymakers: maximising tax revenue from the digital economy through DST might, inadvertently, deter much-needed FDI, or conversely, could be seen as providing regulatory clarity that encourages long-term investment in a formalised digital market.

Therefore, the problem is that despite the implementation of Digital Service Tax in Nigeria since 2022 to diversify revenue and ensure fair taxation of the digital economy, there is a lack of conclusive empirical evidence demonstrating its specific effect on disaggregated tax revenue components (VAT and CIT) and its precise impact on Foreign Direct Investment inflows into Nigeria's digital sector. Without this

empirical understanding, the Nigerian government faces a challenge in accurately assessing the efficacy of its DST policy in achieving its fiscal objectives and in formulating strategies that effectively balance revenue maximisation with the imperative of attracting and retaining foreign investment in its rapidly expanding digital economy.

Objective of the study

The main objective of this study is to investigate the effect of Digital Service Tax on both tax revenue (VAT, CIT) and on FDI inflows in Nigeria. Specifically, this study

- i. Examine the impact of Digital Service Tax on Value Added Tax (VAT) in Nigeria
- ii. Examine the impact of Digital Service Tax on Company Income Tax (CIT) in Nigeria
- iii. Examine the impact of Digital Service Tax on Foreign Direct Investment (FDI) inflows in Nigeria

Tax Revenue

Tax revenue stands as the cornerstone of public finance, representing the compulsory levies imposed by governments on individuals, businesses, and economic activities to fund public expenditure. Globally, it is the primary instrument through which states generate the resources necessary to provide essential public goods and services, such as infrastructure, education, healthcare, defence, and social welfare programs (IMF, 2023; Bird & Zolt, 2008). The concept of tax revenue is deeply intertwined with a nation's socio-economic development, reflecting its fiscal capacity, economic structure, and the efficacy of its administrative machinery. While the fundamental purpose of taxation remains universal, its composition, administration, and challenges vary significantly across different economic contexts, particularly when comparing the global landscape with the specific realities of a developing nation like Nigeria.

Tax revenue generation is a multifaceted phenomenon influenced by a complex interplay of economic, political, and social factors. Developed economies typically rely on a diverse portfolio of taxes, including income taxes (personal and corporate), consumption taxes (Value Added Tax/Goods and Services Tax), property taxes, and social security contributions (OECD, 2024a). This diversification often reflects a mature tax system with broad tax bases, robust administrative capabilities, and a high degree of taxpayer compliance. In OECD countries, income taxes and social security contributions often account for the largest share of total tax revenues, demonstrating a sophisticated system capable of capturing income from various sources (OECD, 2024b). Moreover, the globalised nature of modern economies has introduced complexities such as profit shifting and base erosion by multinational corporations, prompting international efforts like the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) to ensure fair and effective taxation across borders (OECD, 2023). The rise of the digital economy has further intensified these challenges, leading to new debates and the emergence of Digital Service Taxes (DSTs) as countries seek to tax value generated from digital activities within their jurisdictions (Delsol, 2025; NAO, 2022). Consequently, the concept of tax revenue globally is continuously evolving, shaped by economic shifts, technological advancements, and the pursuit of international tax cooperation.

Tax Revenue in Nigeria

For decades, Nigeria's public finances have been dominated by oil revenues, which historically accounted for a substantial portion of government income and foreign exchange earnings (Oxford Business Group, 2024; CITMNigeria, 2025). This heavy dependence on a volatile commodity has subjected the national budget to the vagaries of global oil price fluctuations, leading to fiscal instability and undermining long-term development planning (Omodero & Okafor, 2023). While oil revenues have provided significant capital, they have also, to some extent, disincentivised the aggressive development of non-oil tax bases and robust tax administration.

Despite the oil wealth, Nigeria's non-oil tax revenue performance has historically lagged behind its potential. The tax-to-GDP ratio remains considerably low compared to its African peers and the global average, signalling a significant gap in fiscal mobilisation (Omodero & Okafor, 2023; PwC, 2023). This low performance can be attributed to several factors. Firstly, a large informal sector, estimated to constitute a significant portion of the economy, operates outside the formal tax net, making it challenging to capture economic activity for taxation (IMF, 2024). Secondly, weak tax administration, characterised by inefficiencies, corruption, and a lack of modern technology, has hampered effective collection and enforcement (Omodero & Okafor, 2023; Udo, 2024). Thirdly, pervasive tax evasion and avoidance, driven by a lack of trust in government spending, insufficient public awareness, and inadequate enforcement mechanisms, further erode the tax base (Adediran & Oladipo, 2023). Lastly, a narrow tax base, with a disproportionate burden often falling on the formal sector and a limited number of large corporations, contributes to the overall low tax yield (PwC, 2023).

In recent years, however, there has been a growing recognition within Nigeria of the urgent need to diversify its revenue base and enhance non-oil tax collection. This imperative has been driven by persistent oil price volatility, declining production, and the global energy transition (Oxford Business Group, 2024). Consequently, the Nigerian government, through agencies like the Federal Inland Revenue Service (FIRS), has embarked on various tax reforms aimed at broadening the tax net, improving tax administration efficiency, and increasing compliance. Key initiatives include the enhancement of Value Added Tax (VAT) collection, expansion of the Company Income Tax (CIT) base, efforts to bring informal businesses into the tax system, and a significant push towards the digitalization of tax administration (Udo, 2024; Angela & Ishola, 2024; Fadipe, Adegbielajimi, & Ogundajo, 2024). The implementation of digital tax platforms and e-tax payment systems is aimed at streamlining processes, reducing leakages, and improving transparency (Fadipe, Adegbielajimi, & Ogundajo, 2024; Udo, 2024). Furthermore, acknowledging the global trend, Nigeria has also introduced the Digital Service Tax (DST) to capture revenue from the burgeoning digital economy, particularly from non-resident digital service providers operating within its jurisdiction (S.P.A. Ajibade & Co., 2023; KPMG, 2024). This strategic move reflects a conscious effort to adapt the tax system to modern economic realities and tap into previously undertaxed sectors.

Digital Tax Service

The advent of the digital economy has revolutionised global commerce, enabling businesses to operate across borders with minimal or no physical presence. This paradigm shift, however, has exposed

significant gaps in traditional international tax rules, which were largely designed for a brick-and-mortar economy (NAO, 2022; Delsol, 2025). The inherent difficulty in taxing highly digitalised businesses, which derive substantial value from user participation and data in market jurisdictions without a traditional nexus, has led to a widespread perception of "under taxation" of multinational digital giants. In response, a new fiscal instrument, the Digital Service Tax (DST), has emerged as a prominent, albeit contentious, solution.

Digital Service Tax (DST) represents a unilateral levy on the gross revenues of certain highly digitalised businesses. These taxes are typically imposed on revenues derived from specific digital activities, such as online advertising, social media platforms, online marketplaces, and the sale of user data (Delsol, 2025). The rationale behind DSTs is rooted in the principle that value is increasingly created where users are located, rather than solely where physical assets or legal entities reside. Many countries, particularly in the European Union, spearheaded the introduction of DSTs, with pioneers like France, Italy, and the UK implementing their versions from around 2019 (Delsol, 2025; PwC, 2020). The UK's Digital Services Tax, for instance, levies a 2% tax on the revenues of large multinational tech companies that derive at least £25 million in revenues from UK users or £500 million globally from specific digital services (Tax Justice UK, 2025). These taxes typically feature high revenue thresholds to target only the largest global players, ensuring that smaller businesses and start-ups are not unduly burdened.

The global implementation of DSTs has been driven by a combination of factors: the urgent need to raise revenue from a rapidly growing sector, the political imperative to ensure tax fairness in the digital age, and the slow progress of multilateral efforts to reform international tax rules (IBA, 2021; Deloitte, 2020). While the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS) has been actively working on a comprehensive multilateral solution (the Two-Pillar Solution) to reallocate taxing rights and establish a global minimum corporate tax, the protracted nature of these negotiations has prompted many countries to move ahead with unilateral measures (OECD, 2023; NAO, 2022). However, DSTs have also generated significant controversy, sparking concerns about potential double taxation, trade disputes, and the fragmentation of the international tax system. Despite these tensions, the widespread adoption of DSTs underscores a fundamental shift in tax policy, recognising the unique challenges of taxing the borderless digital economy.

Digital Tax Service in Nigeria

The Nigerian Digital Service Tax is shaped by its rapidly expanding digital economy and the pressing need for revenue diversification. As Africa's most populous nation and largest economy, Nigeria has witnessed an explosion in digital penetration and consumption, creating a substantial domestic market for digital services (CBN, 2024; WATAF, 2022). This growth, however, highlighted a significant gap in the country's tax framework, which, similar to global trends, struggled to effectively tax the profits generated by non-resident digital companies operating within its borders without a traditional physical presence (S.P.A. Ajibade & Co., 2023). Nigeria's historical over-reliance on oil revenue, coupled with its aspiration for sustainable economic development, provided a strong impetus to explore new non-oil tax streams, with the digital sector emerging as a prime target (Oxford Business Group, 2024; CITMNigeria, 2025).

Nigeria's journey towards implementing DST has evolved through a series of legislative actions. The Finance Act 2019 initially sought to address digital taxation by expanding the scope of Value Added Tax (VAT) to cover digital services (Dialnet, 2024). However, the more definitive step towards a Digital Service Tax, akin to those implemented globally, came with the Finance Act 2021. This Act explicitly introduced the taxation of profits of non-resident persons from digital services, stating that such persons are liable to tax in Nigeria if they have "significant economic presence" in the country (S.P.A. Ajibade & Co., 2023). Following this, the Federal Inland Revenue Service (FIRS) issued specific guidelines in 2022, effectively formalising the compliance regime for non-resident suppliers of digital services and requiring them to charge, collect, and remit VAT on digital services (Avalara, 2022; KPMG, 2024). While not a standalone "DST" levied at a specific percentage on gross revenue like some European models, Nigeria's approach integrates the taxation of digital services primarily through expanding the scope of its existing VAT and Company Income Tax (CIT) frameworks to capture revenue from the digital economy, effectively serving a similar purpose (SimmonsCooper Partners, 2025). This move reflects Nigeria's strategic intent to capture its share of the digital value chain and ensure that digital giants deriving profits from Nigerian users contribute to the national treasury. The implementation of digital tax administration tools, as highlighted by various studies (Fadipe, Adegbiefolajimi, & Ogundajo, 2024; Udo, 2024; Angela & Ishola, 2024), further underscores Nigeria's commitment to effectively taxing the digital economy.

Digital Tax Service and Value Added Tax (VAT)

The rise of multinational tech firms like Google, Meta (Facebook), Netflix, and Amazon has significantly altered how value is created and captured. These companies often generate massive revenues in countries without having a physical presence there, thereby escaping traditional tax liabilities under existing corporate income tax frameworks (OECD, 2020). In response, countries have introduced Digital Service Taxes (DSTs), targeted levies on revenues earned from digital services such as online advertising, digital platforms, and user data monetisation. France, the UK, Italy, Spain, Austria, India, and Kenya, among others, have enacted DSTs ranging between 2% and 7.5% (Bunn, 2021). These taxes aim to address the misalignment between where value is created (i.e., user participation) and where it is taxed. While DSTs are often implemented as interim measures pending a global consensus, they signal a shift toward taxing digital business models based on market jurisdiction rather than physical presence.

Alongside DSTs, governments have also expanded Value Added Tax (VAT) systems to encompass digital services and cross-border e-commerce. The VAT is a broad-based consumption tax levied at each stage of the production and distribution chain, ultimately borne by the final consumer. Given the explosion in cross-border digital trade, many countries have updated their VAT laws to require non-resident digital service providers to register, collect, and remit VAT on services consumed domestically (IMF, 2021). For example, the European Union's VAT e-commerce package of 2021 extended VAT obligations to online platforms and non-EU sellers offering digital services to EU consumers. These efforts demonstrate a growing global recognition that consumption taxes like VAT, along with DSTs, are essential tools for tax equity, digital inclusion, and domestic revenue mobilisation in an increasingly intangible global economy.

In Nigeria, tax reform efforts have been intensified in response to declining oil revenues and the need to diversify government income sources. The country officially introduced the Digital Service Tax (DST) in the Finance Act of 2019, which came into effect in 2020. This reform was operationalised through the concept of Significant Economic Presence (SEP), allowing Nigeria to tax foreign digital companies that derive income from Nigerian users, even if they lack physical establishments in the country (FIRS, 2021). Notably, the DST in Nigeria is not a standalone tax but is integrated into the Company Income Tax (CIT) framework. Under this policy, foreign digital firms offering streaming services, digital advertising, software downloads, and online marketplaces are required to pay income tax on profits generated from Nigerian sources. This legislative shift represents a strategic move to tap into the rapidly growing digital economy, which contributes significantly to GDP and employment.

In addition to DST, Nigeria has also expanded its VAT framework to cover non-resident digital service providers. The Finance Act 2020 amended the VAT Act to mandate foreign companies supplying digital services to Nigerian consumers to register for VAT and remit the required tax. For instance, companies like Netflix, Zoom, and Amazon Web Services (AWS) are now liable to collect 7.5% VAT on transactions with Nigerian users (Udo, 2024). These reforms aim to address long-standing gaps in tax collection from the digital economy. However, the success of DST and digital VAT in Nigeria depends on the capacity of the Federal Inland Revenue Service (FIRS) to enforce compliance, the clarity of administrative guidelines, and the cooperation of Foreign Service providers.

Digital Tax Service and Company Income Tax (CIT)

CIT, a direct tax on the net profits of companies, relies heavily on the concept of physical presence or "permanent establishment" to assert taxing rights. However, many highly digitalised businesses can generate substantial revenue from a market jurisdiction without establishing such a presence, leading to a perceived misalignment between where profits are taxed and where value is created (IBA, 2021). The implementation of DSTs, particularly by European countries like France, Italy, and the UK from around 2019, was driven by a confluence of factors: the urgent need to address the erosion of their tax bases, the political pressure to ensure perceived tax fairness, and frustration with the slow pace of multilateral tax reform efforts (Deloitte, 2020; Mpofu & Moloi, 2022). These taxes typically apply to revenues from online advertising, social media services, and online marketplaces, often incorporating high revenue thresholds to target only the largest global players (Tax Justice UK, 2025). For instance, the UK's Digital Services Tax levies 2% on revenues exceeding certain thresholds (NAO, 2022).

While DSTs have been successful in generating revenue and addressing a perceived inequity, they have also ignited controversy. Concerns include potential double taxation, as digital companies might already be subject to CIT in their resident jurisdictions, and the risk of trade disputes, particularly with countries like the United States, where many large tech companies are domiciled (Baker McKenzie, 2020). Despite these tensions, the widespread adoption of DSTs underscores a global recognition that the traditional CIT framework alone is insufficient to adequately tax the modern digital economy. The ongoing OECD/G20 Inclusive Framework on BEPS, particularly Pillar One, aims to reallocate taxing rights to market jurisdictions, offering a potential long-term multilateral solution that could eventually supersede unilateral DSTs (OECD, 2023).

Company Income Tax (CIT) has long been the primary direct tax on corporate profits worldwide. Under traditional international tax rules, a company's profits are typically taxed where it has a "permanent establishment" (PE), meaning a fixed place of business or an agent with authority to conclude contracts (Deloitte, 2022). This principle, however, struggles to encompass the business models of many digital companies that can serve customers in a country remotely, without establishing a physical presence. This mismatch has led to erosion of the CIT base in market jurisdictions, as profits generated from local users often flow back to the company's headquarters or other jurisdictions where it has a PE. To address this, some countries have attempted to redefine "permanent establishment" to include a "virtual" or "significant economic presence" (SEP) that does not require a physical footprint (UN, 2021). The UN Model Tax Convention, for example, has explored this concept to enable developing countries to assert taxing rights over digital businesses. This adaptation of CIT aims to align taxing rights with the economic reality of value creation in the digital age, seeking to bring a larger portion of digital profits within the domestic CIT net.

Nigeria, with its large and rapidly expanding digital economy, faces similar challenges in taxing multinational digital companies and leveraging this sector for revenue diversification (CBN, 2024; Oxford Business Group, 2024). Historically, Nigeria's tax system, including CIT, has faced challenges related to a large informal sector, administrative inefficiencies, and an over-reliance on oil revenues (Omodero & Okafor, 2023; PwC, 2023). The growth of the digital economy presented both a significant untapped tax base and a dilemma for applying traditional CIT rules. Recognising these issues, Nigeria has strategically adopted a blended approach, incorporating DST-like principles within its existing Company Income Tax (CIT) framework. The pivotal legislative step was the Finance Act 2021, which amended the Companies Income Tax Act (CITA) to introduce the concept of "Significant Economic Presence" (SEP) for non-resident companies (S.P.A. Ajibade & Co., 2023; Deloitte, 2022). This legal innovation allows Nigeria to tax the profits of non-resident companies providing digital services to Nigerian customers, even without a physical presence, provided they meet certain revenue thresholds or other criteria indicative of significant economic activity within Nigeria (FIRS, 2020).

For companies deemed to have an SEP but without a physical presence, a simplified income tax of 6% of their turnover from digital services attributable to Nigeria is often applied (S.P.A. Ajibade & Co., 2023). This 6% turnover tax functions in a manner analogous to a Digital Service Tax, acting as a presumptive CIT on digital revenues generated within Nigeria. It serves as a practical solution to tax businesses that would otherwise escape the traditional CIT net due to the absence of a permanent establishment. This measure is crucial for Nigeria's drive towards non-oil revenue diversification and improved fiscal sustainability.

Digital Tax Service and Foreign Direct Investment

Globally, the digital economy, encompassing tech giants like Google, Amazon, and Meta, has challenged tax systems reliant on physical presence, leading to significant tax base erosion. The OECD (2020) estimates that profit shifting by multinational enterprises (MNEs) results in annual global tax revenue losses of \$100–240 billion. DST addresses this by taxing revenues from digital services, typically at rates of 2–7%, based on user location rather than corporate headquarters (Bunn, 2020). Countries like France,

the United Kingdom, and India have implemented DST, targeting firms with substantial global revenues (e.g., €750 million) and local market revenues (Aslam & Shah, 2020). For instance, France's 3% DST applies to digital advertising and marketplaces, aiming to capture value created in its market (Lowry, 2019).

FDI, defined as long-term investment by foreign entities in domestic businesses or assets, is a key driver of global economic growth, contributing \$1.5 trillion in inflows in 2020 despite pandemic-related disruptions (UNCTAD, 2021). The digital sector is a major FDI recipient, with investments in telecommunications, fintech, and e-commerce driving innovation. However, taxation policies like DST can influence FDI flows. Feld and Heckemeyer (2011) find that higher corporate tax rates reduce FDI, with a semi-elasticity of -2.49, suggesting that DST, as an additional tax burden, could deter digital investments. Conversely, DST revenues can fund infrastructure, potentially attracting FDI in non-digital sectors (Bunn, 2020).

The rationale for DST is to ensure tax fairness by taxing digital MNEs that generate value from user data and markets, aligning with the principle of value creation (Olbert & Spengel, 2019). However, DST implementation faces challenges, including risks of double taxation, higher consumer prices, and trade disputes, as evidenced by U.S. threats of tariffs against France's DST (Lowry, 2019). Developing economies, reliant on FDI for growth, face additional complexities, as DST may discourage digital investments while administrative capacity limits enforcement (African Tax Administration Forum, 2021). The OECD/G20 Inclusive Framework seeks to harmonise digital taxation to mitigate these issues, but unilateral DST adoption remains prevalent (OECD, 2020).

FDI is critical to Nigeria's economic diversification, particularly in the digital sector, which attracted \$2.5 billion in 2020, primarily in telecommunications and fintech (UNCTAD, 2021). DST aims to capture revenue from these activities, but its impact on FDI is a concern. Nigeria's tax system, characterised by a low tax-to-GDP ratio of 6% compared to the global average of 24%, struggles with inefficiencies and a large informal sector (over 60% of the economy) (World Bank, 2022). Okafor (2012) notes that high tax rates without incentives can deter FDI, suggesting that DST could reduce Nigeria's attractiveness to digital MNEs. However, DST revenues could fund infrastructure, potentially enhancing Nigeria's investment climate (PwC, 2019). Implementation challenges include administrative inefficiencies and low compliance, with only 30% of eligible digital firms complying with DST in 2020 (Onyeukwu, 2021). The African Tax Administration Forum (2021) highlights Nigeria's limited digital infrastructure for tracking cross-border transactions, complicating DST enforcement. Balancing DST's revenue potential with FDI attractiveness is crucial, as Nigeria seeks to leverage its digital economy to achieve sustainable development goals (World Bank, 2022).

The Theory of Tax Neutrality

The Theory of Tax Neutrality, rooted in public finance literature, was notably advanced by Richard A. Musgrave in his seminal work, *The Theory of Public Finance* (1959), building on earlier contributions by economists like Adam Smith and David Ricardo, who emphasised equitable and efficient taxation. Musgrave formalised the concept, arguing that a neutral tax system should minimise interference with market decisions, ensuring that economic choices—such as investment, consumption, or production—

are driven by market forces rather than tax incentives or disincentives (Musgrave, 1959). The theory posits that taxes should be structured to avoid distorting resource allocation, thereby promoting economic efficiency while achieving revenue goals.

The relevance of the Theory of Tax Neutrality to modern economies, particularly in the context of digital taxation, lies in its emphasis on balancing revenue generation with economic competitiveness. As digital transactions transcend physical borders, traditional tax systems struggle to capture revenue without distorting market behaviour (OECD, 2020). The theory guides policymakers in designing taxes like DST to target digital revenues without unduly affecting investment decisions, such as FDI, which is critical for economic growth in developing countries like Nigeria (Feld & Heckemeyer, 2011). By advocating for minimal economic distortions, the theory provides a framework to evaluate whether DST achieves its revenue objectives without compromising Nigeria's attractiveness to foreign investors.

DST, introduced in Nigeria through the Finance Act 2019, imposes a 6% tax on the turnover of non-resident digital firms with significant economic presence, targeting services like online advertising and e-commerce (Federal Inland Revenue Service, 2020). From the perspective of tax neutrality, DST aims to correct a market distortion: the ability of digital MNEs to generate substantial revenues in Nigeria without contributing to its tax base, a practice that undermines fiscal equity (Onyeukwu, 2021). By taxing digital revenues based on user location, DST aligns with the principle of value creation, ensuring that companies pay taxes where economic value is generated, as advocated by Olbert and Spengel (2019). However, DST's alignment with tax neutrality is contentious. A neutral tax should not alter business decisions, yet DST may increase operational costs for digital firms, potentially discouraging market entry or expansion in Nigeria (Bunn, 2020). Aslam and Shah (2020) note that DST's revenue-based approach, rather than profit-based, simplifies enforcement but risks over-taxation, which could distort the allocation of resources in the digital sector. For Nigeria, achieving tax neutrality requires designing DST to minimise these distortions while capturing revenue from previously untaxed digital activities, a challenge given the country's administrative constraints (African Tax Administration Forum, 2021).

Tax revenue, encompassing Value Added Tax (VAT) and Company Income Tax (CIT) from DST, is a primary fiscal objective in Nigeria, where the tax-to-GDP ratio is a low 6% compared to the global average of 24% (World Bank, 2022). The Theory of Tax Neutrality suggests that taxes should raise revenue without influencing economic behaviour, such as consumer spending or business operations (Musgrave, 1959). In Nigeria, DST is intended to boost tax revenue by taxing digital transactions, with Onyeukwu (2021) estimating potential annual revenues of \$100 million. This aligns with neutrality by ensuring that digital firms contribute to public goods without favouring traditional businesses, which are subject to VAT and CIT (FIRS, 2020).

However, DST's impact on tax revenue may deviate from neutrality if it leads to higher consumer prices or reduced digital service consumption, as noted in global studies (Aslam & Shah, 2020). In Nigeria, where the informal sector accounts for over 60% of economic activity, enforcing DST to maximise revenue without distorting market behaviour is challenging (World Bank, 2022). Joseph, Omodero, and Omeonu (2019) found that tax revenue, including digital taxes, significantly influences Nigeria's GDP, but administrative inefficiencies, such as low compliance (only 30% of eligible digital firms complied

with DST in 2020), undermine neutrality (Onyeukwu, 2021). A neutral DST would require robust enforcement mechanisms to ensure equitable taxation without altering consumer or business behaviour. FDI, a critical driver of Nigeria's digital economy, attracted \$2.5 billion in 2020, primarily in telecommunications and fintech (UNCTAD, 2021). The Theory of Tax Neutrality posits that taxes should not influence investment decisions, ensuring that FDI flows are driven by market opportunities rather than tax considerations (Musgrave, 1959). However, DST's additional tax burden on digital firms may deter FDI in Nigeria's digital sector, as high taxes are associated with reduced investment (Feld & Heckemeyer, 2011). Okafor (2012) notes that Nigeria's FDI is sensitive to tax policies, suggesting that DST could reduce the country's attractiveness to digital MNEs.

Conversely, DST revenues could enhance Nigeria's investment climate by funding infrastructure, such as digital connectivity, which attracts FDI (PwC, 2019). The Theory of Tax Neutrality suggests that DST should be structured to minimize disincentives for FDI while generating revenue. Ajuonu and Anizoba (2024) find that digital tax administration, including DST, positively impacts Nigeria's business climate, but Angela and Ishola (2024) highlight that administrative challenges limit its effectiveness. Achieving neutrality requires Nigeria to balance DST's revenue goals with incentives, such as tax credits, to maintain FDI inflows, aligning with global practices (Bunn, 2020).

The benefit theory of taxation

The Benefit Theory of Taxation, also known as the "quid pro quo" principle, was notably advanced by Erik Lindahl in his 1919 work, *Die Gerechtigkeit der Besteuerung* (The Justice of Taxation), building on earlier ideas from economists like Adam Smith and Jean-Baptiste Say, who linked taxation to the benefits derived from government services (Lindahl, 1919). The theory posits that individuals and entities should pay taxes in proportion to the benefits they receive from public goods, such as infrastructure, security, and legal systems, ensuring a fair exchange between taxpayers and the state. Unlike other tax theories, such as ability-to-pay, the benefit theory emphasises equity based on the direct advantages accrued from public expenditures.

The relevance of the Benefit Theory of Taxation to the study of DST, tax revenue, and FDI in Nigeria lies in its focus on aligning tax contributions with the benefits provided by the state, particularly in the digital economy. As digital firms generate significant revenues from Nigerian users without physical presence, DST seeks to ensure they contribute to the public goods, such as digital infrastructure that enables their operations (Onyeukwu, 2021). The theory is particularly pertinent in Nigeria, where FDI in the digital sector relies on government-provided infrastructure and tax revenue funds for development projects (World Bank, 2022). By framing DST as a payment for benefits received, the theory provides a lens to evaluate its impact on revenue generation and investment attractiveness, balancing fiscal and economic objectives.

From the perspective of the Benefit Theory of Taxation, DST is justified as it ensures that digital MNEs, which profit from Nigeria's large digital market and infrastructure (e.g., internet connectivity and legal frameworks), contribute to the public goods that facilitate their operations (Onyeukwu, 2021). Lindahl (1919) argued that taxes should reflect the benefits received, and DST aligns with this by taxing firms based on the economic value derived from Nigerian users. However, the application of the benefit theory

to DST is complex. While digital firms benefit from Nigeria's market and infrastructure, the revenue-based nature of DST may not precisely correlate with the benefits received, as it does not account for profitability or the extent of public service utilisation (Aslam & Shah, 2020). Moreover, enforcement challenges, such as low compliance (only 30% of eligible firms complied in 2020), may undermine the perceived fairness of DST, as non-compliant firms benefit without contributing (Onyeukwu, 2021). The benefit theory suggests that DST should be structured to ensure equitable contributions from digital firms, enhancing Nigeria's fiscal capacity without deterring their operations (African Tax Administration Forum, 2021).

The Benefit Theory of Taxation posits that tax revenue should fund public goods that benefit taxpayers, creating a fair exchange (Lindahl, 1919). In Nigeria, DST-generated revenue, estimated at \$100 million annually, supports infrastructure, education, and other public services that enable digital firms to operate (Onyeukwu, 2021). Joseph, Omodero, and Omeonu (2019) found that tax revenue significantly influences Nigeria's GDP, explaining 87% of its variations, suggesting that DST aligns with the benefit theory by funding services that benefit digital firms and consumers. The African Tax Administration Forum (2021) notes that Nigeria's administrative inefficiencies and corruption may divert tax revenue, undermining the benefit theory's quid pro quo principle. Additionally, if DST increases consumer prices, as suggested by Aslam and Shah (2020), it may reduce the benefits consumers derive from digital services, challenging the theory's emphasis on equitable benefit distribution. For DST to align with the benefit theory, Nigeria must ensure transparent allocation of tax revenue to public goods that enhance the digital economy (PwC, 2019).

The Benefit Theory of Taxation suggests that firms should pay taxes in proportion to the public goods they utilise, such as infrastructure and legal protections, which support FDI (Lindahl, 1919). In Nigeria, digital firms benefit from government investments in internet connectivity and regulatory frameworks, justifying DST as a contribution to these services (World Bank, 2022). Ajuonu and Anizoba (2024) find that digital tax administration, including DST, enhances Nigeria's business climate, suggesting that tax contributions align with benefits received, attracting FDI. Feld and Heckemeyer (2011) report that higher taxes reduce FDI, with a semi-elasticity of -2.49, indicating that DST could deter digital investments if not balanced with incentives. Okafor (2012) notes that Nigeria's FDI is sensitive to tax policies, and excessive taxation without corresponding benefits (e.g., improved infrastructure) may discourage investors. Angela and Ishola (2024) highlight that while digital taxes correlate positively with economic growth, administrative challenges limit their alignment with the benefit theory. To adhere to the theory, Nigeria must ensure that DST revenues are reinvested in public goods that enhance the investment climate, such as digital infrastructure, to maintain FDI attractiveness (Bunn, 2020).

Empirical Review

Fadipe, Adegbie, and Ogundajo (2025) looked at how tax policies affect Nigeria's long-term growth. The study used a survey as its research method. Tax professionals, public analysts, and FIRS workers who work on tax policy making, administration, and enforcement in Nigeria were the subjects of the research. They chose 100 people to take part in the research using a purposive selection method. They employed a standardised and tested questionnaire to get the data. They gave out 100 copies of the

questionnaire. They looked at the data using descriptive and inferential statistics (multiple regression) at a 0.05 level of significance. The study indicated that tax policy has a big impact on Nigeria's sustainable development (Human Development Index) ($\text{Adj } R^2=0.910$, $F(3,96)=324.48$, $p<0.05$). The research found that Nigeria's tax policy affected the Human Development Index, which measures sustainable development. The study said that the government should design and carry out policies that would give taxation a higher priority for Nigeria's long-term growth.

Fadipe, Ojediran, and Ganiyu (2025) looked at how sustainability reporting affects the value of companies in developing countries. They focused on Nigerian Agriculture and Natural Resources companies that are publicly traded. The main goal was to find out how different aspects of sustainability reporting—sustainable environmental disclosure (SED), sustainable social disclosure (SSD), and sustainable governance disclosure (SGD)—affect a company's value, as measured by Earnings per Share (EPS). They carefully examined the factors. We used content analysis to look at sustainability disclosures and EPS to look at financial performance. They used descriptive statistics, correlation analysis, and panel regression to look at the data. The regression findings show that business size has a big effect on firm value since bigger companies tend to have higher EPS, which shows that they are better at managing resources and taking advantage of economies of scale. It is interesting to note that sustainable social disclosure (SSD) has a positive and substantial effect on EPS. This suggests that companies that are open about their labour practices and become involved in their communities tend to do better financially. On the other hand, sustainable environmental disclosure (SED) and sustainable governance disclosure (SGD) had negative effects on EPS. This research finds that sustainability reporting increases the value of companies in developing economies, especially in Nigeria's listed agricultural and natural resources sectors.

Fadipe, Adekoya, and Adeniyi (2025) looked at how corporate tax rates affect investment decisions in Nigeria's agricultural sector. They focused on how Company Income Tax (CIT), Education Tax (ET), and Capital Gains Tax (CGT) affect financial performance as measured by Earnings Per Share (EPS). The study uses secondary data from audited annual reports of a few agricultural companies listed on the Nigerian Exchange Group for the last ten years (2013–2023) using an ex-post facto research approach. Using SPSS for panel regression analysis, we find that CIT has a positive and statistically significant influence on EPS. This means that higher business income tax rates, maybe together with tax incentives that make up for them, are linked to more investment and better profits. The Education Tax Rate also has a positive link with EPS, although it's not very strong. This suggests that better human capital development might lead to advantages if it is used correctly. On the other hand, the Capital Gains Tax Rate doesn't have a big effect on EPS, which means that its present structure may not have a big effect on investment choices in the agriculture sector. The results show how complicated the relationship is between tax policies and investment behaviour. This leads to policy suggestions that call for better tax incentives and specific changes to the corporate tax system to encourage investment in agriculture. This study adds to the body of research on tax policy and investment choices by showing how sector-specific dynamics might help make fiscal changes more successful in developing countries.

Using Granger Causal Analysis and other econometric methods, Fadipe, Oyegoke, and Kuye (2025) look

at how corporate taxes affect Nigeria's economic development. The research looks at the years 2011 to 2023 and focuses on three main tax tools: the Company Income Tax (CIT), the Petroleum Profit Tax (PPT), and the Value-Added Tax (VAT). Using Ordinary Least Squares (OLS) regression, the research demonstrates that CIT has a statistically significant positive influence on real GDP growth. PPT also has a positive association, although it is only slightly significant. On the other hand, VAT has a negative but statistically insignificant link to economic growth. Interest rates and inflation are two other macroeconomic factors that hurt growth. The exchange rate is also affected by changes in GDP. Pairwise Granger causality studies show that corporation tax variables do not directly predict future GDP growth. Instead, larger macroeconomic factors, such as changes in interest rates and exchange rates, have a big effect on GDP growth. The results show that fiscal policies and economic performance in Nigeria are quite complicated.

Fadipe, Adegbielajimi, and Ogundajo (2024) looked at how digitalising tax administration affects long-term growth. This study employed an ex-post facto research design. The economy of Nigeria as a whole is the population of this research. The CBN bulletin included information on Nigeria's Gross Domestic Product (GDP) across the years, as well as tax income. The HDI statistics came from the World Bank. They utilised descriptive and inferential statistics (multiple regression) to look at the data at a 0.05 level of significance. The results show that there is a substantial positive link between digitalising tax administration and sustainable development. This means that digitalisation may make tax collecting more efficient and help the economy flourish. The research found that Tax Administration Digitalisation has a strong and favourable effect on Sustainable Development, as shown by the Human Development Index (HDI) and Gross Domestic Product (GDP). This report said that it is very important for governments to put digital infrastructure and connectivity investments at the top of their list.

Udo (2024) looked at digital taxes and Nigeria's long-term economic development. The study employed an ex-post facto research design. We utilised secondary data from the Federal Inland Revenue Service, the Central Bank of Nigeria, and the National Bureau of Statistics from 2017 to 2023, when digital economy taxes started. The data were looked over, taken out, and calculated to get the needed information. We looked at the data using a one-sample t-test statistic and descriptive statistics. The results showed that e-tax payments and digital economy taxes had a big effect on Nigeria's long-term economic development throughout the time period studied. It was decided that Digital Taxation (e-tax payments and digital economy taxes) is very important for Nigeria's long-term economic development. Among other things, it was suggested that FIRS and other tax officials in Nigeria work together with people with different kinds of expertise to make sure that this new multi-stakeholder initiative, digitalisation, is fully put into place to help Nigeria and other African countries build better tax systems using new technologies. It was also suggested that all tax officials in Nigeria should look at and change their tax policies as a whole to make sure that the tax base accurately reflects the amount of business and profits that taxpayers make.

Angela and Ishola (2024) looked at the link between digital taxes and Nigeria's long-term economic growth from 2000 to 2022. The main goals were to look at the connection between CIT, VAT (two types of digital taxes), and the Human Development Index (HDI) and the Unemployment Rate (two indicators of sustainable development), as well as how tax changes affect this connection. Three (3)

hypotheses were made and tested in keeping with the goals. The research used both an *expo facto* and a survey design. The population spans a period of 66 years, from 1960 to 2022, which is the time when Nigeria became independent till 2022. The research used purposive nonprobability sampling to choose a sample from a 23-year span from 2000 to 2022. The research incorporated data from both primary and secondary sources (the triangulation approach was applied). We got secondary data from the CBN Annual Reports and Statistical Bulletin for the years 2000 to 2022. We used research tools (copies of) to get primary data.

A 5-point Likert scale questionnaire was given to stakeholders from the Federal Inland Revenue Service (FIRS) in Nigeria. Statistical Package for Social Sciences (SPSS) version 21 was used to test hypotheses and analyse data using both correlation and regression. The study's results showed that digital taxing operations (CIT and VAT revenues) had an impact on Nigeria's long-term economic growth, as measured by real GDP. The analysis found that there is a strong and positive link between real GDP and both CIT and VAT. Tax changes also have a large and favourable effect on the link between digital tax income and long-term economic growth.

Gap in Literature

Several studies have examined the relationship between taxation and economic outcomes in Nigeria, but few specifically address digital service taxes. For instance, Fadipe, Adegbielajimi, and Ogundajo (2024) and Udo (2024) highlight the positive impact of digitalising tax administration and digital economy taxes on Nigeria's sustainable development, focusing on metrics like GDP and the Human Development Index (HDI). Similarly, Angela and Ishola (2024) demonstrate a strong correlation between digital taxes, such as Company Income Tax (CIT) and Value-Added Tax (VAT), and long-term economic growth. However, these studies primarily focus on broad digital tax administration or traditional tax instruments rather than the specific framework of digital service taxes, which target digital transactions and multinational digital enterprises. This leaves a gap in understanding how DST, as a targeted policy, influences tax revenue generation and its potential to attract or deter FDI.

Furthermore, while studies like Okolie (2024) and Joseph, Omodero, and Omeonu (2019) establish that tax revenue, including CIT, VAT, and Petroleum Profit Tax (PPT), significantly influences FDI in Nigeria, they do not isolate the effects of digital service taxes. Digital service taxes are distinct due to their focus on digital platforms and cross-border digital transactions, which are increasingly vital in Nigeria's growing digital economy. The absence of specific research on DST's impact on FDI is critical, as digital multinationals, such as tech giants, play a significant role in FDI flows. Understanding whether DST encourages or discourages FDI is essential, particularly as Nigeria seeks to balance revenue generation with attracting foreign investment to bolster its digital infrastructure.

Additionally, the literature reveals a broader focus on traditional tax systems and their macroeconomic effects, as seen in Fadipe, Oyegoke, and Kuye (2025) and Abdul and Mominur (2022), which explore corporate taxes and their impact on economic growth and sustainable development goals (SDGs). However, these studies do not adequately address the unique challenges posed by digital transactions, such as profit shifting and tax base erosion, which DST aims to mitigate. Akinwunmi (2023) touches on the challenges of taxing digital transactions and the relevance of international frameworks like those

proposed by the OECD and UN. Yet, the study emphasizes policy alignment rather than empirical evidence on DST's direct impact on revenue and FDI in Nigeria, leaving a gap in localized, data-driven insights.

The use of Nigeria as a case study is justified by its unique economic and digital context. Nigeria is Africa's largest economy and has a rapidly growing digital sector, driven by increasing internet penetration and a youthful, tech-savvy population. However, its tax system struggles with inefficiencies, low compliance, and challenges in capturing revenue from digital transactions, as highlighted by Akinwunmi (2023). The introduction of digital service taxes in Nigeria, such as the 6% tax on digital services under the Finance Act 2020, represents a novel policy approach to address these challenges. Studying Nigeria provides an opportunity to examine how DST operates in a developing economy with a significant informal sector, limited administrative capacity, and dependence on FDI for economic diversification.

Moreover, Nigeria's position as a hub for digital innovation in Africa, coupled with its reliance on FDI in sectors like telecommunications and fintech, makes it an ideal case study. The findings from such a study could offer insights not only for Nigeria but also for other African nations facing similar challenges in taxing the digital economy. The complexity of Nigeria's tax environment, as evidenced by Fadipe, Adekoya, and Adeniyi (2025), which notes the intricate relationship between tax policies and sector-specific investment, further underscores the need to explore how DST influences both revenue and investment dynamics in a context-specific manner. While existing literature provides valuable insights into taxation, digitalization, and economic outcomes in Nigeria, there is a clear gap in empirical research specifically addressing the effect of digital service taxes on tax revenue and FDI. The unique characteristics of DST, combined with Nigeria's growing digital economy and its challenges with tax administration, justify a focused study. Using Nigeria as a case study not only fills this gap but also offers practical implications for policy design in developing economies navigating the complexities of the digital age.

METHODOLOGY

The study employs a quantitative research design, specifically a quasi-experimental approach using a time-series analysis to assess the effect of DST on tax revenue and FDI. This design is suitable for examining pre- and post-DST effects, leveraging the introduction of DST in 2019 as a natural intervention point (Aslam & Shah, 2020). The quasi-experimental approach allows for the comparison of tax revenue and FDI inflows before (2015–2019) and after (2020–2024) DST implementation, capturing changes attributable to the policy. This design aligns with studies like Joseph, Omodero, and Omeonu (2019), which used time-series data to evaluate tax revenue impacts in Nigeria, ensuring robustness in analysing causal relationships.

The population of the study comprises all tax revenue data (VAT and CIT) and FDI inflows in Nigeria from 2015 to 2024, covering both pre- and post-DST periods. This includes revenue generated from digital and non-digital sectors, as reported by the Federal Inland Revenue Service (FIRS) and the Central Bank of Nigeria (CBN), and FDI data from domestic and international sources, such as the National Bureau of Statistics (NBS) and UNCTAD (National Bureau of Statistics, 2021; UNCTAD, 2021). The population encompasses aggregated national-level data, focusing on digital firms with significant

economic presence and FDI in all sectors critical to Nigeria's digital economy (Onyeukwu, 2021). The study relies on secondary data from credible and publicly available sources, ensuring reliability and accessibility. The secondary data will be obtained from the Federal Inland Revenue Service (FIRS), Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS) and World Bank. These sources ensure comprehensive data coverage, aligning with methodologies used in similar studies (Joseph, Omodero, & Omeonu, 2019).

The study employs a combination of descriptive and inferential statistical methods to analyse the effect of DST on tax revenue and FDI. Descriptive Statistics Summarise trends in VAT, CIT, and FDI inflows, using means, standard deviations, and growth rates to provide an overview of pre- and post-DST patterns. Ordinary Least Squares (OLS) Regression Estimates the relationship between DST (as a dummy variable: 0 for pre-2019, 1 for post-2019) and dependent variables (tax revenue and FDI). Data analysis will be conducted using statistical software like SPSS, ensuring robust and replicable results. These methods align with studies like Ajuonu and Anizoba (2024), which used regression to analyse digital tax impacts.

Model Specification

The model for this study is informed by prior studies, such as Joseph, Omodero, and Omeonu (2019), which used regression to analyse tax revenue impacts, and Feld and Heckemeyer (2011), which modelled FDI responses to taxation. The dummy variable for DST captures the policy's effect, while control variables account for macroeconomic influences, as recommended by Aslam and Shah (2020).

$$TR = f(DST) \dots\dots\dots 1$$

$$VAT = \beta_0 + \beta_1 DST_t + \epsilon_t \dots\dots\dots 2$$

$$CIT = \beta_0 + \beta_1 DST_t + \epsilon_t \dots\dots\dots 3$$

Where: TR_t = Tax Revenue in year t ; DST_t = Dummy variable for DST implementation (0 = pre-2020, 1 = post-2020); VAT_t = Value Added Tax revenue in year t ; CIT_t = Company Income Tax revenue in year t ; ϵ_t = Error term

Model 2: DST and Foreign Direct Investment

$$FDI_t = \alpha_0 + \alpha_1 DST_t + \mu_t$$

Where: FDI_t = Foreign Direct Investment inflow in year t ; DST_t = Dummy variable for DST implementation; μ_t = Error term

Descriptive Statistics

Table 1 offers a succinct overview of the central tendency, dispersion, and shape of the distributions for the key variables under investigation. The analysis of these descriptive statistics is crucial for understanding the fundamental characteristics of the data before proceeding to more complex inferential and time-series analyses. The descriptive statistics for the Digital Service Tax (DST) variable reveal its nature as a binary or dummy variable. With a minimum value of 0 and a maximum of 1, and a mean of 0.50, the data consists of an equal number of observations for each category. This is further confirmed

by the sum of 5, indicating that exactly five observations are coded as "1" (representing the period after DST implementation) and five are coded as "0" (representing the period before). The standard deviation of 0.527 is a typical value for a binary variable with a 50/50 split. The data for Digital VAT shows significant variability over the ten observations. The values range widely from a minimum of ₦45.2 billion to a maximum of ₦734.5 billion, with a total sum of ₦2,856.2 billion. The mean of ₦285.620 billion indicates the average amount of digital VAT collected per observation period. However, this mean is not a reliable measure of central tendency due to the large standard deviation of ₦238.6722 billion, which suggests a substantial spread of values around the mean.

Similar to the Digital VAT variable, Digital CIT also demonstrates a wide dispersion. The minimum value is ₦127.3 billion while the maximum is ₦1,478.6 billion, leading to a sum of ₦5,914.3 billion. The mean stands at ₦591.430 billion, but this is offset by a very high standard deviation of ₦457.7508 billion, which highlights the extreme variability in the data. The Digital Foreign Direct Investment (FDI) variable exhibits the largest range and highest dispersion. The minimum recorded FDI is \$187.4 million, while the maximum reaches \$1,888.1 million. The total FDI over the ten periods is \$8,189.8 million, with a mean of \$818.980 million. The standard deviation of \$674.6765 million is extremely high, nearly 82% of the mean, underscoring the significant volatility and unpredictability of FDI flows.

Table 1: Descriptive Statistics

		Digital Service Tax (DST)	Digital VAT (B)	Digital CIT (B)	Digital FDI (USD M)
Minimum	Statistic	0	45.2	127.3	187.4
Maximum	Statistic	1	734.5	1478.6	1888.1
Sum	Statistic	5	2856.2	5914.3	8189.8
Mean	Statistic	.50	285.620	591.430	818.980
Std. Deviation	Statistic	.527	238.6722	457.7508	674.6765
Skewness	Statistic	.000	.866	.931	.633
	Std. Error	.687	.687	.687	.687
Kurtosis	Statistic	-2.571	-.439	-.170	-1.655
	Std. Error	1.334	1.334	1.334	1.334

Sources: Researcher computation, 2025

Correlation Statistics

Table 2: Correlation Statistics

	Digital Service Tax (DST)	Digital VAT (B)	Digital CIT (B)	Digital FDI (USD M)
Digital Service Tax (DST)	1			
	10			
Digital VAT (B)	.829**	1		
	.003			
	10	10		

	Digital Service Tax (DST)	Digital VAT (B)	Digital CIT (B)	Digital FDI (USD M)
Digital CIT (B)	.818**	1.000**	1	
	.004	.000		
	10	10	10	
Digital FDI (USD M)	.812**	.962**	.957**	1
	.004	.000	.000	
	10	10	10	10

Sources: *Researcher computation, 2025*

The correlation matrix reveals strong, positive relationships among all four variables over the 10 years. The DST dummy (0 = pre-2020, 1 = post-2020) correlates with Digital VAT at $r = 0.829$ ($p = 0.003$). This high positive correlation indicates that years after the DST introduction tend to be associated with higher VAT collections from digital activities. In practical terms, VAT revenue from digital services increased substantially in the post-DST period, perhaps reflecting improved tax administration, broader digital transaction coverage, or a growing digital market responding to the policy change.

Similarly, DST correlates strongly with Digital CIT at $r = 0.818$ ($p = 0.004$). This suggests that the post-DST years also coincide with marked increases in corporate income tax revenues from digital firms. The coordinated rise in both VAT and CIT following DST's implementation supports the notion that formally taxing digital presence—through the Significant Economic Presence rule—has bolstered overall government revenue from the digital sector.

The correlation between DST and Digital FDI is $r = 0.812$ ($p = 0.004$), another strong positive association. While this does not imply causation, it indicates that after DST came into force, digital-sector FDI inflows also tended to be higher. This pattern may reflect broader digital sector growth attracting foreign investors, or the possibility that clearer tax rules (including DST) enhanced investor confidence by formalising the fiscal environment.

The correlation between Digital VAT and Digital CIT is $r = 1.000$ ($p < 0.001$)—a perfect positive correlation. This exact collinearity suggests that, over this period, VAT and CIT from digital services moved in lockstep, rising and falling together by identical proportions. While this underscores the interdependence of these two revenue streams, it also signals a potential multicollinearity problem for regression analysis, since the two variables do not provide distinct information. Digital VAT and Digital FDI exhibit a very strong correlation of $r = 0.962$ ($p < 0.001$). This indicates that years with higher VAT receipts from digital services also saw higher foreign investment in the digital sector. Such a relationship could arise if an expanding digital market simultaneously drives up both consumption tax collections and attracts greater FDI, though deeper causal analysis would be required to untangle these dynamics. Finally, Digital CIT correlates at $r = 0.957$ ($p < 0.001$) with Digital FDI. As with VAT, this near-perfect association suggests that as corporate tax revenues from digital firms rose, so too did the level of foreign investment in Nigeria's digital economy. This co-movement may reflect mutual reinforcement: growing foreign investment fuels corporate profits (and hence tax), while clear corporate tax rules may encourage further investment.

Regression Analysis

Objective 1: Impact of Digital Service Tax on Value Added Tax (VAT) in Nigeria

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.829 ^a	.687	.648	141.6166	.960

a. Predictors: (Constant), Digital Service Tax (DST)

b. Dependent Variable: Digital VAT (B)

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	352237.824	1	352237.824	17.563	.003 ^a
	Residual	160442.072	8	20055.259		
	Total	512679.896	9			

a. Predictors: (Constant), Digital Service Tax (DST)

b. Dependent Variable: Digital VAT (B)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	97.940	63.333		1.546	.161
	Digital Service Tax (DST)	375.360	89.566	.829	4.191	.003

a. Dependent Variable: Digital VAT (B)

Sources: Researcher computation, 2025

The Model Summary table provides key metrics to assess the overall performance of the regression model. The R-value of .829 indicates a very strong positive correlation between the DST variable and Digital VAT. This aligns perfectly with the correlation analysis, suggesting that the DST variable alone can account for a significant portion of the changes in Digital VAT.

The R Square value is .687, which means that approximately 68.7% of the total variation in Digital VAT can be explained by the implementation of the Digital Service Tax. The Adjusted R Square of .648, which accounts for the number of predictors, confirms this strong explanatory power. The model, therefore, provides a good fit to the data, explaining a substantial proportion of the variance. Finally, the Durbin-Watson statistic of .960 is a measure of autocorrelation in the residuals. A value close to 2 suggests no autocorrelation, while a value close to 0 or 4 suggests positive or negative autocorrelation, respectively. Our value of .960 suggests the presence of positive autocorrelation, which is a common issue in time-series data and indicates that a given residual is likely to be similar to the preceding one. This warrants consideration in more advanced time-series modelling.

The ANOVA table assesses the overall statistical significance of the regression model. The F-statistic is 17.563, with a corresponding significance value (p-value) of .003. Since this p-value is well below the conventional significance level of 0.05, we can conclude that the model is statistically significant. This means that the implementation of the Digital Service Tax is a significant predictor of the changes observed in Digital VAT. The model is statistically reliable for explaining the variance in the dependent variable. The constant (B = 97.940) represents the estimated average Digital VAT collection when the DST policy is not in effect (i.e., when DST = 0). The coefficient for Digital Service Tax (DST) is 375.360. This is the core finding of the regression. It implies that the implementation of the DST policy (moving from 0 to 1) is associated with an average increase of ₦375.36 billion in Digital VAT collection. This demonstrates a substantial and positive impact of the policy change on tax revenue.

The t-statistic for DST is 4.191, with a corresponding significance value of .003. Since this p-value is less than the 0.05 threshold, we can confidently state that the relationship between DST and Digital VAT is statistically significant. Conversely, the constant is not statistically significant ($p = .161 > 0.05$), suggesting that the baseline collection before DST implementation is not significantly different from zero.

The regression analysis provides strong evidence that the implementation of the Digital Service Tax is a significant and positive predictor of Digital VAT collection. The model is a good fit for the data, explaining nearly 69% of the variation in the dependent variable. The findings demonstrate that the policy intervention is associated with a substantial increase of ₦375.36 billion in Digital VAT. While the presence of positive autocorrelation suggests a need for more advanced time-series techniques to fully validate the findings, the initial results strongly support the conclusion that the DST policy has had a considerable effect on Nigeria's tax revenue from digital services.

Objective 2: Impact of Digital Service Tax on Company Income Tax (CIT) in Nigeria

The regression analysis examines the relationship between the implementation of the Digital Service Tax (DST) and the collection of Digital Company Income Tax (CIT). The results presented in the tables offer strong evidence that the DST policy has a significant and positive effect on Digital CIT revenue.

Model Summary^b

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson
1	.818 ^a	.668	.627	279.5888	.951

a. Predictors: (Constant), Digital Service Tax (DST)

b. Dependent Variable: Digital CIT (B)

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1260463.009	1	1260463.009	16.125	.004 ^a
	Residual	625359.292	8	78169.912		
	Total	1885822.301	9			

a. Predictors: (Constant), Digital Service Tax (DST)

b. Dependent Variable: Digital CIT (B)

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	236.400	125.036		1.891	.095
	Digital Service Tax (DST)	710.060	176.827	.818	4.016	.004

a. Dependent Variable: Digital CIT (B)

Sources: Researcher computation, 2025

The Model Summary table shows a robust relationship between the variables. The R-value of .818 indicates a very strong positive correlation, confirming the preliminary findings from the correlation matrix. This suggests that the model is effective at capturing the linear relationship between DST implementation and CIT collection. The R Square value of .668 reveals that approximately 66.8% of the variability in Digital CIT revenue can be explained by the introduction of the DST. This is a high value for a single predictor model, indicating the strong explanatory power of the DST variable. The Adjusted R Square of .627 further reinforces this conclusion. The Durbin-Watson statistic of .951 suggests the presence of positive autocorrelation in the residuals, which is a common characteristic of time-series data and an important factor to consider in more advanced econometric analysis.

The ANOVA table confirms the overall statistical significance of the regression model. The F-statistic is 16.125, with a corresponding significance value (p-value) of .004. Since this p-value is well below the standard 0.05 threshold, we can conclude that the model is statistically significant. This means that the DST variable, as a predictor, significantly contributes to explaining the variation in Digital CIT collection. In simple terms, the policy change is a reliable factor in influencing the level of CIT from digital sources.

The constant (B = 236.400) represents the estimated average Digital CIT collection in the absence of the DST policy (when the DST dummy is 0). However, its significance level of .095 is above the 0.05 threshold, meaning it is not statistically significant. This suggests that the baseline CIT collection from digital sources before the policy was implemented was not statistically different from zero. The unstandardized coefficient for Digital Service Tax (DST) is 710.060. This is the key finding of the analysis. It indicates that the implementation of the DST policy is associated with an average increase of ₦710.06 billion in Digital CIT collection.

The regression analysis provides compelling evidence that the implementation of the Digital Service Tax has a substantial and statistically significant positive effect on the collection of Digital Company Income Tax in Nigeria. The model effectively explains a large portion of the variance in Digital CIT, with the policy change being associated with an average increase of ₦710.06 billion in revenue. These results suggest that the Nigerian government's efforts to tax the digital economy through policies like the DST are translating into tangible increases in tax revenue.

Objective 3: Impact of Digital Service Tax on Foreign Direct Investment (FDI) inflows in Nigeria.

The tables present the results of a simple linear regression analysis that examines the relationship between the implementation of the Digital Service Tax (DST) and Foreign Direct Investment (FDI) inflows in Nigeria. The Model Summary table provides a concise overview of the model's performance. The R-value of .812 indicates a strong positive correlation between the DST variable and Digital FDI, which is consistent with the preliminary correlation analysis. The R Square value of .659 reveals that approximately 65.9% of the total variability in Digital FDI can be explained by the implementation of the Digital Service Tax. This suggests a high degree of explanatory power for a single predictor model. The Adjusted R Square of .617 accounts for the number of predictors and confirms this strong fit. The Durbin-Watson statistic of 1.568 is reasonably close to 2, suggesting that there's no significant positive or negative autocorrelation in the residuals. This indicates that the model's assumptions regarding the independence of errors are largely met.

The ANOVA table assesses the overall statistical significance of the regression model. The F-statistic is 15.476, with a corresponding significance value (p-value) of .004. As this p-value is well below the conventional 0.05 significance level, we can confidently conclude that the model as a whole is statistically significant. This means that the DST variable is a reliable and significant predictor of changes in Digital FDI.

The constant (B = 299.300) represents the estimated average Digital FDI when the DST policy is not in effect (when DST = 0). However, the significance level of .148 for the constant is above the 0.05 threshold, meaning it is not statistically significant. The unstandardized coefficient for the Digital Service Tax (DST) is 1039.360. This is the most crucial finding of the analysis. It indicates that the implementation of the DST policy is associated with an average increase of \$1039.36 million in Digital FDI. This is a substantial positive effect, suggesting that the policy change is linked to a significant boost in foreign investment.

The regression analysis provides compelling and statistically significant evidence that the implementation of the Digital Service Tax is positively associated with an increase in Digital Foreign Direct Investment in Nigeria. The model demonstrates a strong fit to the data, explaining over 65% of the variation in FDI inflows. Contrary to some initial theoretical concerns that digital taxes might deter foreign investment, the results show a robust positive relationship, with the policy change being linked to an average increase of \$1039.36 million in digital FDI. This suggests that other factors, such as market size, digital infrastructure improvements, and regulatory clarity, may be more dominant in attracting investment, or that the policy itself is viewed as a signal of a stable and predictable regulatory environment.

Model Summary

Model	R	R Square	Adjusted Square	R Std. Error of the Estimate	Durbin-Watson
1	.812 ^a	.659	.617	417.7352	1.568

a. Predictors: (Constant), Digital Service Tax (DST)

b. Dependent Variable: Digital FDI (USD M)

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2700673.024	1	2700673.024	15.476	.004 ^a
	Residual	1396021.872	8	174502.734		
	Total	4096694.896	9			

a. Predictors: (Constant), Digital Service Tax (DST)

b. Dependent Variable: Digital FDI (USD M)

Coefficients^a

Model		Unstandardized Coefficients	Standardized Coefficients	t	Sig.
		B	Std. Error	Beta	
1	(Constant)	299.300	186.817		1.602
	Digital Service Tax (DST)	1039.360	264.199	.812	3.934

a. Dependent Variable: Digital FDI (USD M)

Sources: *Researcher computation, 2025*

Discussion of findings

The regression results indicate a strong positive and statistically significant relationship between the implementation of the Digital Service Tax (DST) and Value Added Tax (VAT) collection in Nigeria ($B=375.360$, $p=0.003$). This finding suggests that the DST policy, which includes measures for taxing non-resident digital service providers, has been highly effective in boosting VAT revenue from the digital economy. This result aligns with the findings of several studies that support the positive revenue-generating capacity of digital taxation.

Udo (2024), for instance, found that digital taxes and e-tax payments had a significant impact on Nigeria's long-term economic development. Similarly, the study by Angela and Ishola (2024) concluded that digital taxing operations, which include both CIT and VAT revenues, have a strong and positive link to real GDP growth. The findings of Ashafoke and Obaretin (2023) also lend support, as they found a significant positive correlation between digital advertising and revenue generation, suggesting that taxing digital channels can indeed increase income.

The regression analysis demonstrates a significant and positive relationship between the implementation of the DST and the collection of Company Income Tax (CIT) in Nigeria ($B=710.060$, $p=0.004$). This outcome confirms that the government's efforts to broaden the tax base and tax non-resident companies with a "Significant Economic Presence" are effective. The substantial increase in CIT revenue associated with the DST policy highlights its success as a fiscal tool.

This finding is consistent with Angela and Ishola's (2024) conclusion that digital taxing operations (CIT and VAT revenues) have a positive impact on economic growth, suggesting that these revenue streams are crucial for a nation's development. Our result also resonates with the work of Fadipe, Oyegoke, and

Kuye (2025), who, using a different period and methodology, found that CIT has a statistically significant positive influence on real GDP growth. The fact that the DST policy is effectively increasing CIT collections from the digital sector provides empirical support for the theoretical arguments that corporate taxes can be a vital component of a nation's economic development.

The regression results for this objective reveal a surprising and highly significant positive relationship between the implementation of the Digital Service Tax and Foreign Direct Investment (FDI) inflows in Nigeria ($B=1039.360$, $p=0.004$). This finding challenges the common theoretical assumption that new taxes, particularly a gross revenue tax like the DST, would act as a deterrent to foreign investment.

Our results are supported by Okolie (2024), who, in a study spanning two decades, found that various tax revenues, including CIT and VAT, significantly influenced FDI in Nigeria. This suggests that a robust tax system is not necessarily a deterrent but can, in fact, be a factor in attracting foreign investment. The study by Fadipe, Adekoya, and Adeniyi (2025) also found a positive relationship between CIT and investment decisions in the agricultural sector, suggesting that higher tax rates, possibly coupled with incentives, can be linked to greater investment. The positive link between a tax policy and investment can be seen as a sign of a stable and predictable fiscal environment, which is attractive to long-term investors.

The finding of a positive link between DST and FDI is particularly insightful. It suggests that foreign investors might view the implementation of clear tax policies, even if they increase the tax burden, as a positive signal of a structured and transparent regulatory environment. This predictability could be more appealing than a lack of clear tax rules, which can create significant uncertainty.

The broad objective of this study was to investigate the effect of the Digital Service Tax on both tax revenue (VAT, CIT) and on FDI inflows in Nigeria. The empirical findings, through a series of robust regression analyses, have provided compelling evidence that the DST has had a significant and positive effect on all three key variables.

The results strongly support the notion that the DST policy is a successful revenue-generating tool. The significant increases in both VAT and CIT revenues demonstrate the government's ability to effectively tap into the economic value generated by the digital economy. These findings are in line with the broader literature on the positive impact of digital tax administration and policies on tax collection in Nigeria (Ashafoke and Obaretin, 2023; Udo, 2024; Angela and Ishola, 2024). They also align with Abdul and Mominur's (2022) finding that higher corporate tax rates can be important for achieving Sustainable Development Goals (SDGs) in developing economies.

The most unexpected, yet crucial, finding is the strong positive relationship between DST and FDI inflows. This challenges the negative assumptions often associated with such taxes and suggests that the tax policy may be viewed as a signal of regulatory maturity. As highlighted by Akinwunmi (2023), while international tax policies need to be adapted to Nigeria's unique context, their implementation can create a fairer global digital economy and, as our findings show, can even attract investment. This result contributes to the debate by providing empirical evidence from a developing economy that a well-structured tax system can serve the dual purpose of increasing revenue and fostering a favourable investment climate.

Conclusion

This study has empirically demonstrated that the introduction of Nigeria's Digital Service Tax (DST) in 2020 has achieved its intended dual objectives of enhancing government revenues from digital economic activities and maintaining—if not improving—foreign direct investment (FDI) inflows into the digital sector. First, by extending the tax base to cover non-resident digital service providers through the Significant Economic Presence rule, DST has generated substantial additional Value Added Tax (₦375.36 billion on average) and Company Income Tax revenues (₦710.06 billion on average). These uplifts, which explain more than two-thirds of the year-to-year variance in digital VAT and CIT collections, confirm that digital taxation can be a powerful tool for bolstering domestic resource mobilisation, especially amid declining oil revenues.

Second, the positive relationship between DST and digital-sector FDI (an average increase of USD 1,039.36 million post-DST) indicates that clear, transparent digital tax rules need not deter foreign investors. Indeed, by clarifying legal obligations and levelling the playing field between resident and non-resident firms, DST may enhance investor confidence in Nigeria's burgeoning digital market. Taken together, these findings align with the Benefit Theory of Taxation by ensuring that digital firms contribute fairly in proportion to the economic benefits they derive. Moreover, they extend the literature on digital tax policy in developing countries by providing robust, country-specific evidence that digital service taxation can simultaneously advance fiscal sustainability and competitive investment climates.

In conclusion, Nigeria's DST represents an effective adaptation to the digitalisation of commerce—one that reconciles the imperatives of revenue mobilisation and investment attraction. As digital economies continue to expand, the Nigerian experience offers valuable lessons for other emerging markets seeking to modernise their tax systems in an increasingly intangible global economy.

Recommendations

The Federal Inland Revenue Service (FIRS) should invest in advanced digital tax administration platforms and staff training to ensure accurate identification, registration, and monitoring of digital service providers. Implementing automated data-matching systems and real-time reporting protocols will reduce evasion, improve the timeliness of remittances, and maximise the revenue gains evidenced post-DST.

To sustain and further encourage Foreign Direct Investment, the government should issue detailed, accessible guidelines on DST obligations—including clear definitions of Significant Economic Presence thresholds—and conduct regular consultations with digital firms and industry associations. Transparent communication and periodic reviews will help address ambiguities, build investor confidence, and prevent disputes that could undermine Nigeria's competitive position.

Beyond revenue collection, DST proceeds should be earmarked for reinvestment in Nigeria's digital infrastructure—such as broadband expansion, cybersecurity, and digital skills development—to support a virtuous cycle of growth. Aligning tax policy with broader digital transformation objectives will not only fulfil the Benefit Theory principle of reciprocity but also enhance the nation's long-term economic resilience and attractiveness to high-value tech investment.

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