African Journal of Legal Research [AJLR] (2025) Vol. 3, No. 3
https://africanjournaloflegalresearch.com [ISSN: 1595 – 5966]

LEGAL IMPLICATIONS OF VALUE ADDED TAX ON ELECTRONIC COMMERCE TRANSACTIONS IN NIGERIA

Majebi Samuel Amune*

Abstract

The fast-growing e-commerce sector in Nigeria has significantly changed how businesses operate, offering new chances for digital trade while also presenting challenges to the traditional tax system. As more transactions move online, the process of applying and enforcing Value Added Tax (VAT) in this digital environment has become more complicated and subject to legal debate. The paper adopts the doctrinal methodology by examining the existing statutes, case laws and relevant scholarly literature on the topic. The paper highlights legal questions such as limits on tax jurisdiction, unclear definitions of digital services, the burden of compliance for non-resident suppliers, among other issues. The article made some recommendations, including clearer laws, consistent tax rules for digital transactions, and others. The article states that, though, Nigeria has made notable progress in updating its VAT system to align with the digital economy, additional changes are necessary. Creating a fair system that encourages economic growth while ensuring tax revenues are protected

* LL.B. (Hons) (University of Benin); LL.M., M.Phil., PhD (OAU) Senior Lecturer, College of Law, Joseph Ayo Babalola University, Ilesa, Osun State, Nigeria & Principal Partner, LawDigital Consult. Email: nobleheirs@yahoo.com

is vital for effectively managing e-commerce activities in Nigeria.

Keywords: E-commerce, Federal Inland Revenue Service (FIRS), Finance Act, Value Added Tax (VAT)

1.0 INTRODUCTION

The adoption of internet in Nigeria has tremendously instigated significant changes in the way people carry on their daily activities. This continuous adoption serves as a monumental factor causing a rapid shift in the people's attention to the use of electronic market otherwise known as Electronic Commerce.[1] E-commerce platforms like Jumia, Konga, and and Flutterwave have refashioned the marketing and payment system, facilitating ease, convenience and faster way of getting things done.[2] The COVID-19 pandemic has further forced the global paradigm to the digital commerce.[3] However, despite the benefits and ease proposed by the electronic commerce, it has caused negative impacts on traditional commerce, similarly challenging the existing tax regulations.

Taxation is a critical aspect of revenue generation by the government. It stands as a central tool for the government in ensuring fiscal sustainability and economic development within the digital system. The applicability of

[1] Winny M. "The History Of Ecommerce In Nigeria: What To Know". Available at https://www.truehost.com.ng/history-of-ecommerce-in-nigeria/ accessed 12 November, 2025.
[2] Ibid.
[3] OECD (2020), "E-commerce in the time of COVID-19", OECD Policy Responses to Coronavirus (COVID-19), OECD Publishing, Paris, available at https://doi.org/10.1787/3a2b78e8-en. Accessed 12 November, 2025.

existing taxation laws on the digital landscape. As the migration towards electronic commerce takes on a frenetic pace, the government is left with the reality of grappling with taxing virtual infrastructures.

After the commencement of its operation in 1993, Value Added Tax is one of the indirect taxes which the government of Nigeria levies on the supply, purchase and consumption of goods and services by citizens.[4] While there are different taxes levied in Nigeria, the Value Added Tax remains distinctive, often recurring in judicial proceedings with many seeking to grasp the rationale behind a value added tax, its collection and administration.[5]

Against this backdrop, this paper begins with the evaluation of what a value added tax is, penetrating into its legal basis, while further analyzing the legal frameworks responsible for the overview and regulation of Value Added Tax in Nigeria. In the same vein, it proceeds to look into the critical legal issues potentially encountered in the taxation of the digital landscape. In light of the foregoing, the paper therefore draws to the end by making suggestions to foster a proper and structure mode of taxation in Nigeria, and methods proven to put Nigeria's tax collection and economy in line to pair with its peer in the global industry.

[4] Simmons Cooper Partners, 'Value Added Tax And Digital Services In Nigeria' 13 August 2024
[5] The Investopedia Team, 'Understanding Value-Added Tax (VAT): An Essential Guide' (2025) available at https://www.investopedia.com/terms/v/valueaddedtax.asp accessed 13 November, 2025.

2.0 CONCEPTUAL FRAMEWORK

While the purpose and scope of this work is to bring to light, the deficiencies in taxation in the modern digital facet, it transcends beyond an option to an essentiality to access the definitions and meaning of key terms that form the pinnacle of the discourse made herein this paper. For this reason, this part of the paper delves into the conceptual framework of key terms.

2.1 **Understanding VAT**

Value Added Tax, (hereinafter referred to as VAT) is a consumption tax levied by the government on goods and services for every value added from the point of production to the supply to the end user.[6] Ultimately, VAT is borne by the final consumer because they in turn pay everything in total to the seller who has added a VAT on every purchase by the consumer.[7]

The introduction of VAT in Nigeria came up from the study group which was established by the Federal Government to review the entire tax system. VAT came up as a proposal and the feasibility of its implementation was subjected to scrutiny by a committee established to look into it. The Federal Government resultantly decided to introduce VAT in the middle of 1993, which was later shifted to the 1st of September, 1993, pending which the relevant legislation would be in place and proper ground works would have been laid down.[8]

---

[6] The Investopedia Team, (n 5).

[7] FIRS, 'Value Added Tax' available at https://www.firs.gov.ng/vat accessed 13 November, 2025.

[8] FIRS, 'Information Circular: Value Added Tax' (1993) available at https://old.firs.gov.ng/wp-content/uploads/2021/06/VALUE-ADDED-TAX-VAT-9304.pdf accessed 13 November, 2025.

Since the implementation of VAT in Nigeria to replace the former Sales Tax, the Value Added Tax Act[9] serves as the primary legislation regulating the collection and accounting of VAT in Nigeria, which is regulated by the FIRS.[10] In view of the foregoing, the specific enactment of the VAT Act provides a solid legal ground for VAT in Nigeria.

In the collection and remittance of VAT, all businesses are to register and be allocated a VAT number, identifying them as a collector on the State's behalf. On sales of taxable goods[11]or services an output tax in VAT is added to it which is clearly provided in the invoice given to the purchaser giving them the knowledge of how much VAT is paid. This VAT is collected by the business, however, in trust.[12] Periodically, businesses file tax returns and transfer the VAT to the relevant tax authority. In light of the foregoing, it is however pertinent to bear in mind that each business pays tax on the value it adds, and the burden of VAT is borne by the final user who has no input tax to offset.

2.2 E-Commerce Transactions

Electronic commerce ***(hereinafter referred to as e-commerce, ecommerce)*** transactions identify as virtual transactions that take place on a digital space premised on the exchange of goods and services involving the electronic

---

[9] Value-Added Tax Act, Cap V1, LFN 2004.

[10] The Federal Inland Revenue Service is the body established by the Federal Inland Revenue Service(establishment) Act 2007 to oversee the assessment, collection and accounting of revenue accruing to the Nigerian Federation, and the administration of relevant tax laws.

[11] Taxable goods include the specific goods upon which taxes may be collected and have not expressly exempted from being taxed by the relevant tax law.

[12] Holding an item in trust refers to the possession or control of such item on behalf of another party who is subsequently entitled to the benefits over the item.

exchange of funds or data.[13] To properly define electronic commerce, it is important to put to attention that any exchange of information or value in the transaction is done on the internet space without the direct meeting between the supplier and buyer.[14] In contrast to the conventional mode of commerce that is based on the physical meetings between the parties, e-commerce is solely confined on the digital space, enabling speed, ease, efficiency and cross-border transaction.[15]

2.2.1 Types of E-commerce

There are different types of E-commerce and some of them are succinctly explained below.

2.2.2 Business-to-Business

B2B is basically the exchange of goods and services on a digital platform, website or app between two parties who are exclusively businesses.[16] The transaction may occur between manufacturer and wholesaler, or wholesaler and retailer. This type of commerce is distinctively conducted between companies, rather than between companies and individuals[17] and it occurs

[13] Dhirendra Pandey, Vishal Agarwal, 'E-commerce Transactions: An Empirical Study' (2014) available at https://www.researchgate.net/publication/291903546_E-commerce_Transactions_An_Empirical_Study accessed 14 November, 2025.
[14] Satyarth Dwivedi, 'What is E Commerce Transaction? Meaning, Benefits, and Process' available at https://plutuseducation.com/blog/what-is-e-commerce-transaction/ accessed 14 November, 2025.
[15] Ibid.
[16] SAP, 'What is B2B e-commerce? A practical guide for modern business' (2025) available at https://www.sap.com/resources/b2b-ecommerce accessed on 14 November, 2025.
[17] James Chen, Julius Mansa, Suzanne Kvilhaug, 'Business-to-Business (B2B): What It Is and How It's Used' available at https://www.investopedia.com/terms/b/btob.asp accessed 14 November, 2025.

mostly in auto-industry companies, property management, housekeeping and industrial cleanup.[18]

2.2.3 Business to Consumer

In cognizance of the rapidly growing e-commerce, businesses are turning to take advantage of the platform to provide wide range of goods to consumers. In light of this, the consumer take it up to make purchase from these businesses. This, in turn, is identified as ***Business to Consumer.***[19] This type of transaction basically occurs between businesses and consumers, as companies sell directly to the end user.[20]

2.2.4 Consumer to Consumer (C2C)

Here, two parties who are necessarily individuals typically engage in a direct exchange of products or services between each other on a designated digital platform or digital marketplace.[21] As opposed to B2B[22], or B2C[23], this type is exclusively between individuals.

---

[18] Ibid.
[19] Stephen Beer, 'B2C eCommerce Development: Benefits, Challenges, and Types' (2024) available at https://www.clarity-ventures.com/ecommerce/b2c-ecommerce-development-benefits accessed 14 November, 2025.
[20] Will Kenton, Thomas Brock, Yarilet Perez, 'Business-to-Consumer (B2C) Sales: Understanding Models and Examples' (2025) available at https://www.investopedia.com/terms/b/btoc.asp accessed 14 November, 2025.
[21] Snehith Pradeep, 'What is C2C eCommerce? Benefits, Example & How it Works' available at https://razorpay.com/learn/what-is-c2c-ecommerce/ accessed 14 November, 2025.
[22] Business-to-Business.
[23] Business-to-Consumer.

2.3 Nature of Digital Goods and Services

Digital goods are goods with distinct characteristics due to their not being physical, infinite reproducible and delivery over network.[24] Essentially, they are items which are stored, exchanged and used electronically. These goods are as opposed to physical goods exist in digital form and as a result, are often less expensive compared to the physical form.[25] Goods like this include books, music, films, games, audiobooks, digital courses etc.[26]

Owing to the replicability of digital goods, they are seen to be public goods and durable goods. The consumption of each consumer of digital good does not decrease the quantity available in the economy, and since it is a good capable of replicability, anybody owing it is a potential supplier. In view of this, once a digital good is produced, the producer starts to lose control over it, and its power to exclude consumers from accessing the good.[27] Further, a digital good encompasses that inherent infinite durability. While the medium used for storing a digital good might have a finite durability, the digital good itself has an infinite durability provided that the good is transferred to a new medium because the outdating of the current storage.

[24] Vangie Beal, 'Digital Goods' (2021) available at https://www.webopedia.com/definitions/digital-goods/ accessed 14 November, 2025.
[25] Mighty Team, 'What Are Digital Goods? Beginners Guide + Examples' (2025) available at https://www.mightynetworks.com/resources/digital-goods accessed 14 November, 2025.
[26] Ibid.
[27] Thierry Rayna, 'Understanding the Challenges of the Digital Economy: The Nature of Digital Goods' (2008) *Communications & Strategies, No. 71, pp. 13-16, 3rd Quarter* available at https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1353583 accessed 14 November, 2025.

As consequence, digital good can last infinitely as opposed to non-digital product with durability not exceeding two generations at most.[28]

2.4 Challenges in Regulating Cross-Border Online Transactions

Intriguingly discerning e-commerce to the conventional commerce is the feasibility of cross-border transaction on digital platforms. This is a significant development as opposed to the traditional commerce as this nature of e-commerce makes it possible for parties in different localities to engage in transactions with ease without bulging eye or having to move down to another locality to get such item.

However, in reversal, despite the advancement of technology, cross-border transaction still remains slow, costly and complex in comparison to domestic transactions. This transaction faces significant challenges involving compliance costs, fees charged by intermediary banks, settlement time before the completion of a cross-border transaction, fragmented regulations across jurisdictions featuring the transaction, exchange and conversion of currency. All not limited to this in conjunction serve as challenges clogging the rapid growth and development of cross-border transaction in ecommerce.[29]

3.0 Legal Framework Governing VAT in Nigeria

Nigeria as a developing country leaping in the adoption of the digital reality, finds its regulatory frameworks on VAT trying to evolve from the traditional

---

[28] Ibid.

[29] Tom Mendelson, 'Top 8 Challenges in Cross-Border Payments and How to Overcome Them' (2025) available at https://www.rapyd.net/blog/challenges-in-cross-border-payments/ accessed 14 November, 2025.

system in order to the digital economy. This regulation is not traced to a single document, but to set of documents, amendments and structured and organized guidelines from dedicated authorities.

3.1 The Value Added Tax Act (VATA) Cap V1 LFN 2004

The Value Added Tax Act (VATA) primarily laid the groundwork and foundation for VAT in Nigeria, with the act being responsible for the imposition of 7.5% VAT on all goods and services supplied in Nigeria which do not fall under the non-exempt.[30] flowing from this, the 7.5% rate was itself actually an amendment which was increased from 5% by the Finance Act 2020.[31]The VATA establishes key legal basis in relations to charging, collecting, and administering VAT, further defining who taxable persons are and the scope of taxable supplies.

Notably, While VATA remains the key principal act regulating VAT in Nigeria, it has subjected itself to series of modifications by a series of annual Finance Acts. That not being enough, the Act further being slated to be repealed and consolidated into the new Nigeria Tax Act (NTA) 2025, which takes effect from January 1, 2026.[32]

[30] PWC, 'VAT in Africa' (2023), available at https://www.pwc.co.za/en/publications/vat-in-africa-ess/nigeria-overview.html accessed 14 November, 2025.
[31] FIRS, 'Guidelines on Simplified Compliance Regime for Value Added Tax (VAT) for Non-Resident Suppliers' (2021), available at https://old.firs.gov.ng/wp-content/uploads/2021/11/Guidelines-on-VAT-Simplified-Compliance-Regime-11.09.2021.pdf accessed 14 November, 2025.
[32] Koleade Adeoye & Mofolajesusewa Oyelami, 'Nigeria's 2025 Tax Reform Acts Explained: Key Changes, Business Impacts, and Compliance Strategies, (2025) available at https://www.bakertilly.ng/insights/nigerias-2025-tax-reform-acts-explained accessed 14 November, 2025.

3.2 Finance Act 2019 and 2020 Amendments Introducing VAT on Digital Services

The 2019 and 2020 Finance Acts are worthy of the credit by seeking to extending Nigeria's VAT system to fit into the digital economy. Series of amendments made by these Acts sought to fundamentally review the VATA and change its scope to address the challenges of taxing non-resident companies (NRCs) and non-resident suppliers (NRS).[33]

These Acts made significant changes which are examined in the following. Firstly, the Acts broadened the definition of "goods" and "services" to explicitly include intangible items, digital products, and services provided electronically[34] while mandating that a non-resident supplier providing goods or services to Nigeria must register for VAT and remit taxes.[35] This is a significant change which eliminated the previous requirement which was to the effect of a person of physical presence in Nigeria may be charged for VAT.[36]

Further, another gap which the Finance Act 2020 addressed was in relations to the registration threshold of suppliers. This was addressed by the Act which provided a VAT registration threshold for non-resident suppliers, mandating registration for those with an annual turnover of $25,000 (or its equivalent) from taxable supplies to Nigeria.[37]

---

[33] PWC, 'Key facts about proposed e-invoicing in Nigeria', available at https://www.pwc.com/ng/en/assets/pdf/key-facts-about-proposed-e-invoicing-in-nigeria.pdf accessed 14 November, 2025.
[34] s 44, Finance Act, 2020.
[35] Ibid. s 43.
[36] Koleade Adeoye & Mofolajesusewa Oyelami, (n 32).
[37] Section 38, Finance Act, 2019.

Another amendment is on the appointment of Agents. The Acts conferred the power on the FIRS to appoint any person, which is not to the exclusion of digital platforms, intermediaries, or the Nigerian customer, who may act as a collection agent to withhold, self-charge, or remit the VAT on behalf of the NRS.[38]

3.3 Role of the Federal Inland Revenue Service (FIRS)

The Federal Inland Revenue Service (FIRS) is the federal agency established by law to assess, collect, and administer VAT and other federal taxes. Under the VATA and its amendments, the role of the FIRS transcends beyond just to collect the tax but extends to the interpretation and implementation of the law.

The key roles of the FIRS include firstly, to Issue guidelines. The FIRS has been empowered to issue circulars and guidelines to clarify the administrative and procedural aspects of the law, such as the "Simplified Compliance Regime" for non-residents.[39]

Another role of the FIRS is to ensure the enforcement of tax regulations and appointments of agency. The FIRS actively enforce the law by appointing collection agents.[40] Its power to do so under the VATA was decisively

[38] Tax News, 'Nigeria's Court of Appeal upholds judgment of Federal High Court regarding imposition of VAT on services provided by nonresident companies' available at https://taxnews.ey.com/news/2019-1391-nigerias-court-of-appeal-upholds-judgment-of-federal-high-court-regarding-imposition-of-vat-on-services-provided-by-nonresident-companies accessed 14 November, 2025.
[39] Ibid.
[40] Allwell Okpi, 'FACTSHEET: From VAT to income tax: how Nigeria's new tax rules affect you' available at https://africacheck.org/fact-checks/factsheets/factsheet-vat-income-tax-how-nigerias-new-tax-rules-affect-you accessed 14 November, 2025.

affirmed by the Federal High Court in the 2025 case of Bolt v. FIRS. The court ruled that the FIRS acted within its legal authority to compel the digital platform (Bolt) to act as its VAT agent for transactions processed through its app.[41]

Further, the FIRS is responsible for deploying the technological infrastructure for modern tax administration, such as the mandatory "Merchant-Buyer Solution" (MBS) e-invoicing platform, to gain real-time visibility into transactions.[42]

While the assessment into the FIRS has been attempted in the foregoing, It is quite important to bring to notice that under the new Nigeria Tax Act 2025, the FIRS will be replaced by a new body, the "Nigeria Revenue Service" (NRS), which comes into force from January 1, 2026.

4.0 VAT and E-Commerce Transactions

As ecommerce continues to develop, presenting the sales of both digital and tangible products on the internet, VAT stands a lucrative source of revenue for countries around the world. As jurisdictions seek to expand the implementation of their tax policies, identifying and collections of VAT remains a complexity.[43] In view of this, this paper in this section seeks to

---

[41] Available at https://tat.gov.ng/judgement/details.php?id=224 accessed 14 November, 2025.

[42] Kelechi Okparaocha, 'Nigeria: VAT obligations of non-resident digital service providers' (2022) available at https://wts.com/global/publishing-article/20220726-nigeria-vat-nl~publishing-article accessed 14 November, 2025.

[43] Benno Tamminga, 'VAT in E-Commerce' (2025) available at https://andersen.com/resources/vat-in-e-commerce accessed 15 November, 2025.

access the line connecting the conduct of electronic transactions viz-a-viz the collection of VAT.

4.1 Taxable Persons and Goods/Services

Taxes are part of the sovereign rights which an authority has over people within its jurisdictions. The conduct of transaction through the internet established the inception of digital economy, which is not so distinct to the traditional economy. However, the conception of the digital economy proposed more challenges, while bringing more opportunities for tax authorities.

In transactions of goods facilitated through digital market, the parties may either be residents or non-residents in Nigeria, and the delivery of goods may either be physical or digital, depending on the nature of the subject matter. When the seller of service provider is a resident of Nigeria, the domestic tax law is applicable. However, based on the existing tax laws in Nigeria, taxes are levied on domestic online transactions, while loads are lost in transactions cutting across borders.[44]

4.2 Scope of Taxable Digital Services

The traditional marketplace has evolved into a virtual space which is characterized by the ability to be conducted beyond geographical

[44] Proshare, 'Taxation Of On-Line Transactions – Implications On Domestic Revenue Mobilisation' (2019) available at https://www.proshare.co/articles/taxation-of-on-line-transactions-implications-on-domestic-revenue-mobilisation?menu=Economy&classification=Read&category=Taxes%20%26%20Tariffs accessed 15 November, 2025.

boundaries and delivery over network with little to no physical human interactions.[45]

With the above serving a foundation, it is imperative to know that this digital space encompasses wide spectrum of products made available by the supplier to the buyer. The VAT Act[46] specifies what goods are, and when VAT applies to the supply of goods and services. While the Act lacks a specific provision for digital services, it is interpreted that the Act applies to digital services. As long as these services are rendered and supplied, they are VATable, unless they have been specifically exempted by the ACT.[47]

Flowing from above, although the VAT Act has not expressly mentioned digital services like downloading, streaming and software, they have been taken to fall within the scope of the application of the Act, and therefore may be deemed taxable.

4.3 VAT Requirements for Foreign Digital Service Providers

In line with the global standard of tax collection, many jurisdictions have taken up the task to implement and strengthen tax policies in order to cover foreign digital providers. This, particularly, is a new development in Nigeria, with the new tax law in Nigeria[48] mandating digital service

---

[45] Cameron Hashemi-Pour, Ben Lutkevich, 'E-commerce' (2023) available at https://www.techtarget.com/searchcio/definition/e-commerce accessed 15 November, 2025.
[46] Value-Added Tax Act, Cap V1, LFN 2004.
[47] Simmons Cooper Partners, 'Value Added Tax and Digital Services in Nigeria' (2025) available at https://www.legal500.com/developments/thought-leadership/value-added-tax-and-digital-services-in-nigeria/ accessed 15 November, 2025.
[48] Nigeria Tax Act 2025,

providers to register for VAT in Nigeria, charge 7.5% VAT on supplies, and remit it to the local tax authority.

Under this new tax law, regardless of where a provider is based, as long as the services provided by the provider is consumed in Nigeria, the tax law will apply. Further, in cases where foreign suppliers do not collect VAT, Nigerian recipients are obligated to withhold VAT from their payments and remit directly to the NRS[49].

In order to ensure compliance, the NRS was empowered to appoint collection agents, which includes non-resident suppliers, digital platforms, and payment processors. This, aiming to streamline the collection of VAT from cross-border services and strengthen measures put in place to prevent frequent tax evasion.

4.4 Place and Time of Supply

The development of ecommerce is moving at a very rapid pace. As a result, it becomes increasingly easy for businesses to engage in cross-border transactions. While these are accompanied with opportunities, they are not without challenges. The liability of VAT in cross-border transactions is predominantly based on a specifically sole idea, which is basically the place of consumption. Cross-border transactions incorporate complexities into the compliance of VAT owing to the fact that businesses must comply with different tax laws across jurisdictions. Typically, when goods and services are exported, Nigerian businesses do not charge on them. However, in such

[49] The Nigeria Revenue Service is the centralised body established by the NRS (Establishment) Act,2025 to rebrand the Federal Inland Revenue Service as the centralised body for tax administration in Nigeria.

situations, the businesses must maintain proper documentation to indicate that the goods have indeed been exported out of Nigeria.[50]

Flowing from the above, it is expedient to bring to the limelight that determining the place of supply in a cross-border transactions is crucial, because it is critical in determining on whom does VAT liability lie and who is responsible for its account.

5.0 Legal and Practical Implications

5.1 For Business

Intriguingly, VAT stands as a tax that affects all aspects of a business' activities – pricing, accounting, interactions with customers etc. As a result, understanding VAT's impact and its compliance is not merely a matter of good practice, it is a legal obligation.

To begin with, it has been mandated on any business that has an annual turnover that is up to, and exceeds ₦25 Million to register for VAT with the FIRS. Further, it is made voluntary and advised for businesses with an annual turnover below ₦25 Million to register with FIRS in order to claim input tax records.[51]

Worthy of note, VAT affects how businesses manage their cash flow, as companies are mandated to charge taxes on their sales (output VAT), and

[50] Lawson Lawson, 'Border VAT Considerations for Nigerian Businesses' available at https://sunmoladavid.com/cross-border-vat-considerations-for-nigerian-businesses/ accessed 15 November, 2025.

[51] Firmus Advisory, 'Value Added Tax (VAT) Filing For Businesses In Nigeria' (2025) available at https://www.mondaq.com/nigeria/sales-taxes-vat-gst/1609108/value-added-tax-vat-filing-for-businesses-in-nigeria accessed 15 November, 2025.

purchases (input VAT). This imposes the burden on companies to adjust prices in order to reflect VAT and not end up incurring losses. In the same vein, through VAT, companies are mandated to issue tax-compliant invoices for every taxable transaction which would reflect the tax amount, and its rate, as well as the business's Tax Registration Number (TRN). Without a proper recourse to this, poor and improper documentation may lead to compliance issues and fines. [52]

In addition, VAT has significant impacts on business processes and IT systems, essentially its procurement, sales and accounting. In light of the foregoing, it becomes necessary for the business to upgrade their software in line to generate VAT-compliant reports, educate and train staff-based VAT - related procedures, as well monitor transactions and ensure their proper records and reports.[53]

In line of the above established, errors like inaccurate filing of VAT, not registering for VAT despite meeting the requirements may be costly. In essence, the failure to comply with VAT regulations can lead to penalties, interest on unpaid taxes, and may even go as far as a causation for legal action.[54]

---

[52] Sonali Pugaokar, 'How Does VAT Impact Businesses Operating?' (2025) available at https://dataprimesolutions.com/how-does-vat-impact-businesses-operating/ accessed 15 November, 2025.
[53] Ibid.
[54] Ibid.

5.2 For Consumers: Impact on Prices and Consumer Protection Concerns

VAT is a tax which is ultimately borne by the final consumer. This, particularly, imposes large amount of challenges on pricing of goods, and the welfare of consumers. The structure of this tax resultantly impose significant challenges on a country like Nigeria, where up to 90 Millions of people live in poverty.[55]

As a tax levied on consumptions, VAT is inherently regressive. It significantly removes a significantly large sum from low-income earners, in comparison to high income earners earn way higher. With recourse to the millions of Nigerians that live in poverty, the 7.5% levy on goods and services directly permeates and penetrate devastatingly into their already-low purchasing power, further amplifying economic hardship on them.

In view of the above, while the government has exempted certain essential items like foodstuffs, medical and pharmaceutical supplies etc. from being taxed, significant consumer protection issues persist, the zero-rating policy only offers partial protection. These low-income earners still consume goods and services which have not been included as parts of the exempted goods. As a result of this, they are still liable to the 7.5% VAT.[56]

---

[55] Paul Owolabi, 'How 96 million Nigerians living in extreme poverty will be affected by 7.5% VAT' (2025) available at https://www.icirnigeria.org/how-96-million-nigerians-living-in-extreme-poverty-will-be-affected-by-7-5-vat/?hl=en-US accessed 15 November, 2025.

[56] Dr. YS Uthman, 'A critique to the non-compliance with the provisions of Vat Act in Nigeria' (2025) *International Journal of Law* pg 48-52 available at https://www.lawjournals.org/assets/archives/2025/vol11issue9/11204.pdf?hl=en-US accessed 15 November, 2025.

Further, In some circumstances, particularly in the informal sector, price transparency is a thing vaguely existential. It presents a difficult for a consumer to verify if VAT is being charged correctly, if it is being applied to an item which has been exempted, or if a business is charging the tax but failing to remit it to the government.[57]

5.3 For Government: Revenue Generation vs. Enforcement Challenges

For the Nigerian government, VAT is a critical and increasingly successful tool for revenue generation, central to its strategy of diversifying income away from volatile oil revenue.[58]

The collection of VAT is on a continued rise. According to the National Bureau of Statistics (NBS), up to N1.43 trillion was collected in the first quarter (Q1) of 2024.[59] This represents a staggering 101.65% year-on-year increase from Q1 2023. This revenue is highly concentrated in a few formal, high-visibility sectors. In the first half of 2024, just three sectors; Manufacturing, Information & Communication, and Mining & Quarrying; accounted for 58.8% of all VAT revenue.[60]

---

[57] Ibid.

[58] Ubali Chinatu., Ihendinihu John Uzoma., Okezie Stella Ogechukwu., Alpheaus, Eberechi Ogechi, 'Sectorial Analysis of Value-Added Tax Contribution to Economic Growth of Nigeria' (2025) *RSIS International Journal* available at https://dx.doi.org/10.47772/IJRISS.2025.909000634 accessed 15 November, 2025.

[59] National Bureau of Statistics, 'Reports; Value Added Tax (VAT) Q1 2024' available at https://www.nigerianstat.gov.ng/elibrary/read/1241512?hl=en-US accessed 15 November, 2025.

[60] Intelpoint, 'Three sectors accounted for a combined 59% of the total VAT collected in the first half of 2024' available at https://intelpoint.co/insights/three-sectors-accounted-for-a-combined-59-of-the-total-vat-collected-in-the-first-half-of-2024/?hl=en-US accessed 16 November, 2025.

Flowing from the above, this headline success in the formal economy presents significant challenges in the domestic, informal economy.[61] A significant challenge is bridging the compliance.

Non-compliance issues are not minimal owing to that a significant number of eligible businesses, particularly in the informal sector, are not registered for VAT and operate completely outside the tax net, the common practice of businesses charging the 7.5% VAT to consumers but then fail to remit the collected funds to the local tax authority, which is the Federal Inland Revenue Service (FIRS).[62]These challenges are merely relevant, they are underlying in the structure of the informal economy, which is largely focused on cash-based transactions, poor record-keeping, and a lack of data visibility. These issues are compounded by institutional weaknesses, including weak enforcement capacity and corruption.

6.0 Key Legal Issues and Challenges

The application of Value Added Tax (VAT) to Nigeria's e-commerce sector presents a complex series of legal and practical challenges. As the digital economy moves at a faster pace than traditional tax frameworks, the government faces significant challenges in enforcement, supplier identification, and constitutional authority, creating a confusing environment for businesses.

---

[61] Dr Y.S Uthman, (n 58).
[62] Madison Brooks, Marcus Bennett, Margaret Sanders, Mark Foster, Mary Ross, Mayowa Emmanuel, 'Tax evasion and avoidance in Nigeria's informal economy: ICT-driven solutions' (2021) available at https://www.researchgate.net/publication/396180486_Tax_evasion_and_avoidance_in_Nigeria's_informal_economy_ICT-driven_solutions?hl=en-US accessed 16 November, 2025.

6.1 Enforcement difficulties in the digital space

The primary enforcement challenge traces to the "borderless and intangible nature of digital services".[63] Unlike physical goods, digital products such as software subscriptions, streaming services, and cloud computing are "invisible" to traditional tax enforcement mechanisms. This intangibility makes it difficult for tax authorities to track decentralized and often encrypted online transactions, leading to significant revenue leakage.[64]

In order to counter this, the Federal Inland Revenue Service (FIRS) is deploying a new, technology-driven solution: the "Merchant-Buyer Solution" (MBS).[65] This is a mandatory e-invoicing system that requires businesses to transmit invoices in a standardized digital format (XML or JSON) to the FIRS portal for validation before the invoice is delivered to the buyer.[66] This "clearance model" is designed to enable FIRS to have real-time visibility into all B2B, B2C, and B2G transactions, creating an immutable audit trail and moving enforcement from post-transaction audits to real-time monitoring.[67]

---

[63] Lateefat Omotomilola Hakeem-Bakare, 'Digital Economy and Taxation in Nigeria: Addressing the Challenges of Taxing Online Businesses' available at https://rosewoodlegal.com/digital-economy-and-taxation-in-nigeria-addressing-the-challenges-of-taxing-online-businesses/?hl=en-US accessed 16 November, 2025.
[64] Ibid.
[65] FIRS, 'Simplifying Tax, Maximizing Revenue' available at https://www.firs.gov.ng/?hl=en-US accessed 16 November, 2025.
[66] FIRS, 'Merchant Buyer Solution (eInvoice)' available at https://www.firs.gov.ng/merchant-buyer-solution?hl=en-US accessed 17 November, 2025.
[67] PWC, 'Key facts about proposed e-invoicing in Nigeria' available at https://www.pwc.com/ng/en/assets/pdf/key-facts-about-proposed-e-invoicing-in-nigeria.pdf?hl=en-US accessed 17 November, 2025.

6.2. Identification of Non-Resident Suppliers

Another critical challenge is identifying which non-resident suppliers (NRS) are liable for VAT. This has from time been a major hurdle. The FIRS has adopted two key strategies to address this:

Simplified Compliance Regime, which mandates that any NRS supplying goods or services to Nigeria must register for VAT if its annual turnover exceeds $25,000.[68] Once registered, the NRS is required to charge the 7.5% VAT, issue an electronic invoice, and remit the tax to the FIRS in the currency of the transaction.[69] While this creates a legal obligation, enforcing it against companies with no physical presence remains a matter with large difficulties.

Also, appointment of platforms as agents: A more aggressive and effective strategy has been to use Section 10(3) of the VAT Act, which allows the FIRS to "appoint any person" to collect VAT on its behalf. This was affirmed in the landmark 2025 Bolt Operations OU v. FIRS case where the Federal High Court upheld the FIRS's power to compel digital platforms like Bolt (a non-resident company) to act as its VAT agent, collecting and remitting VAT on behalf of all the third-party food vendors and drivers using its platform.[70] This ruling effectively shifts the burden of

---

[68] Kelechi Okparocha, 'Nigeria: VAT obligations of non-resident digital service providers' available at https://wts.com/global/publishing-article/20220726-nigeria-vat-nl~publishing-article?hl=en-US accessed 17 November, 2025.
[69] Ibid.
[70] Emmanuel Agbo, 'Court affirms Bolt as FIRS agent for collecting VAT from its platform's food vendors' available at https://www.premiumtimesng.com/news/headlines/809448-court-affirms-bolt-as-firs-agent-for-collecting-vat-from-its-platforms-food-vendors.html?hl=en-US accessed 17 November, 2025.

identification and collection from the FIRS to the platform operators themselves.

6.3. Data Privacy and Jurisdictional Limitations

This is yet another significant challenge. To even state, this issue is two-edged as it involves external and internal legal conflicts:

Firstly, on jurisdictional limitations, the traditional tax principle of "physical presence" is a thing of the past in the digital economy. Enforcing a Nigerian tax judgment against a foreign company with no employees or assets in Nigeria is a practical impossibility with practical challenges. While Nigerian courts have affirmed that VAT applies to services from non-residents (as it was affirmed in the Vodacom case concerning satellite bandwidth) , collecting the debt relies on slow international cooperation or domestic mechanisms like appointing collection agents. [71]

In relation to data privacy conflict on the other hand, new challenge arises from Nigeria's own Nigeria Data Protection Act (NDPA) 2023. [72] The FIRS's MBS e-invoicing system is, by design, a tool for mass data collection, which captures comprehensive, line-item information on all B2C transactions in real-time. This creates a direct legal tension with the NDPA's core principles of "data minimization" (collecting only what is necessary) and "purpose limitation" (using data only for its stated

[71] Simmons Cooper Partners, (n 47).
[72] KPMG, 'President signs the Nigerian Data Protection Bill, 2023 into…' available at https://kpmg.com/ng/en/home/insights/2023/06/president-signs-the-nigerian-data-protection-bill--2023-into-law.html?hl=en-US accessed 17 November, 2025.

purpose)[73]. While FIRS officials have assured stakeholders that the system is "guided by the NDPA" and all data will remain confidential, the fundamental legal question of whether this level of surveillance is necessary, proportional and lawful remains untested.

6.4. Constitutional Considerations

The most notable legal challenge revolving around the entire VAT system is an ongoing constitutional battle over who has the right to collect it, whether it the Federal Government or the State governments.[74] In August 2021, the Federal High Court, in Attorney General of Rivers State v. FIRS, ruled that the Federal Government (and by extension, the FIRS) lacks the constitutional power to impose and collect VAT. The court held that VAT is a form of consumption tax, which is not on the "Exclusive Legislative List," and therefore the power to collect it resides with the State governments.[75]
Flowing from the foregoing, the FIRS appealed this decision. The Court of Appeal subsequently issued an order for all parties to "maintain status quo ante bellum". This order effectively pauses the Federal High Court's ruling and compels businesses to continue remitting VAT to the FIRS until the

---

[73] Tunde Adisa, 'Essential Data Privacy Considerations for Nigerian Businesses in Today's Digital Economy' available at https://tundeadisa.com/media_insights/essential-data-privacy-considerations-for-nigerian-businesses-in-todays-digital-economy/?hl=en-US accessed 17 November, 2025.
[74] Goldsmithllp, 'Pay You are Damned, Don't Pay You are Damned: The Nigerian VAT Conundrum' available at https://www.goldsmithsllp.com/pay-you-are-damned-dont-pay-you-are-damned-the-nigerian-vat-conundrum/?hl=en-US accessed 17 November, 2025.
[75] Banwo & Ighodalo, 'Does The Federal Government Have The Constitutional Powers To Legislate On VAT?' available at https://www.banwo-ighodalo.com/grey-matter/does-the-federal-government-have-the-constitutional-powers-to-legislate-on-vat/?hl=en-US accessed 17 November, 2025.

Supreme Court makes a final decision. As of late 2025, the case is pending at the Supreme Court.

This legal challenge creates an extreme uncertainty. If the Supreme Court rules in favor of the States, the unified federal VAT system will be threatened. E-commerce platforms would face an administrative nightmare, potentially having to register, file, and remit VAT under 36 different state-level VAT laws, each with different rates, rules, and reporting requirements.

7.0 Conclusion

In respect to the digitalisation of things, it transcends beyond a choice, but a necessity for Nigeria to restructure VAT to accommodate ecommerce. As the conduct of transactions shifts to digital, taxation must follow suit. The existing legal framework regulating VAT in Nigeria now extends to capture digital supplies, digital products and even as far as cross-border transactions. While these are well structured, the issue lies with the enforcement.

The tax regimes present pressures like putting businesses to face multi-layered regulations, putting the burden on consumers to bear through increased prices, giving government a revenue frontier however failing to monitor foreign supplies.

In view of this, the path is to enable clarity and organisation. Place of supply should be specifically and precisely defined. Reduce ambiguity between VAT and other taxes with tighter statutory definitions. Align enforcement with constitutional limits so as to avoid the recurring federal–state conflict.