



DYNAMICS OF TAXATION AND NIGERIAN ECONOMY

A publication of the Publicity and Publications Committee
The Chartered Institute of Taxation of Nigeria

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4 TAX DIGITALIZATION AND ECONOMIC GROWTH IN SUB-SAHARAN AFRICAN COUNTRIES

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ABSTRACT

Digital economy is the global network of economic activities, business transactions and professional services that are enhanced by information and communication technology (ICT). Tax digitalization plays a big role in the stimulation of tax evasion. The main problem of this study is the issue of taxing digital transactions across the globe because of no significant economic presence and tax compliance on the modern market. This study examines the connection between the digitalization of tax systems and economic growth in sub-Saharan African countries. The population is made up of forty-five (45) different nations in sub-Saharan Africa. It was carried out using an ex-post facto research design, it also made use of data and materials from the National accounts statistics from the World Bank and the OECD. The study used multiple regression as a tool for examination, and it looks for both regular and unpredictable effects.

The findings of the study revealed that Value Added Tax and Companies Income Tax have significant effect on Gross Domestic Product. Based on the findings of the study, it recommended that tax authorities should provide digital platform and automation of tax system and training in order to create jobs in the country.

Keywords: Taxation, Digitalization, Digital Economy, Economic Growth, Nigeria

1.0 INTRODUCTION

The digital economy is the outcome of billions of daily connections made online between individuals, organizations, devices, data, and processes. It is predicated on the connections that mobile devices and internet of things have made possible between people and groups. Information and communication technology has grown in importance in both business and society. High levels of dependability in

data, internet communication services, data, hardware, and software are used as proof. (Adigbole & Olaoye, 2013).

Digital economy is seen as the global web of interconnected activities done economically, trades, and specialized dealings that are enabled by information and communications technologies (ICT). To provide a clearer picture, the economy that is supported by digital technology is referred to as the digital economy. This economy brings with it a new set of advantages, one of which is the potential to narrow the gap that exists between wealthy and developing countries. It is an economy based on conducting commerce using digital platforms, such as the ones offered by Google, Amazon, and other companies.

Popular digital devices connections, and smart technology are bringing notable effects on policy implementation and the Internet is fast and affordable implementation of business ideas. This then allows a mixture of small and large businesses in the global market and increases the entrepreneurship that has no limitations and respond to changes and adaptation demands of the economy, this then leads to economic growth. We now have an upsurge in entrepreneurship that has no bounds and is much more capable of responding to changes and adjusting to customer demands instead of a small number of huge corporations capable of reaching the global market. (Rukundo, 2020)

Based on review of articles, certain benefits of tax digitization in the economy were discovered. They are; (i) Tax compliance process is easier (ii) Paperless audit will be effective (iii) It is cost and time saving (iv) Digital business models are not only revolutionary but also common place. Due to the Internet's ability to spread across international markets without a major physical presence, small businesses are now exporting at an unprecedented rate. Additionally, the importance of intangible assets, such as intellectual property and data, is frequently increasing alongside digitalization. (Ihnatišínová, 2021; International Monetary Fund, 2021). When adjusted for the rate of inflation, economic growth can be defined as the

gradual rise or improvement in the market value of an economy's goods and services over time. To gauge this growth, statisticians frequently use the real GDP percentage rate (also known as the real GDP growth rate). It is critical to provide more information about tax digitalization because it is uncommon in the world, which is why most taxpayers in African countries are unfamiliar with the knowledge and are afraid of high implementation costs. As a result of advancement in the global market, taxpayers need to be thoroughly informed about tax digitization and some of its aspects such as Tax-pro-max, an example of which is the e-payment and e-filing system, in order to eliminate these concerns and assure tax compliance, which contributes to economic growth. If taxpayers are unfamiliar with e-filing, it might be challenging (Etim et al., 2020).

The information and communication technologies that are used to enhance economic activity, commercial transactions, and professional services collectively create the "digital economy." The problem of taxing digital transactions across the nations is a major challenge for tax authorities because of no significance economy presence or physical presence of the parties involved in the business transaction. Despite this challenge of not taxing digital activities, for tax purposes, the European Union (EU) and the Organization for Economic Cooperation and Development (OECD) proposed and implemented the Digital Service Tax and Virtual Permanent Establishment, respectively, (Adejuwon & Kareem, 2021). Nevertheless, African countries are yet to made significant progress in this direction.

The main objective of the study is to examine the tax digitalization and its effects on Economic Growth in Sub-Saharan African countries. While the specific objective is to assess the impact of Direct, Indirect taxes and Information Communication Technology on economic expansion in sub-Saharan African nations.

What are the impact of Company Income Tax, Value Added Tax and information and communication technology have on the rate of economic growth in the countries that are located in the sub-Saharan region of Africa?

The hypothesis of this study is stated in a null form: *H0: There is no significant impact of digitalization of Companies Income Tax, Value Added Tax on economic growth of Sub-Sahara African countries.*

2.0 LITERATURE REVIEW

2.1 Tax

Digitalization

In terms of taxation, digitalization has a wide range of implications that affect both domestic and international tax administration, offer new tools, and raise new problems. (Etim et al 2020.). There is no denying that the globe is modernizing, and for a nation to grow in many different ways, it must keep up with this trend. Due to the swiftly growing population and changing business environment, technological development is compulsory, without technological development, productivity cannot enlarge and economic growth would be impossible. Digitalization is currently altering customer and corporate connections, necessitating new organizational and business model innovations. It is the primary driver behind the current industrial revolution.

Tax reform will be impossible to achieve without a solid tax administration, information system, and professionalization of staff. The tax policy change should guarantee that digital businesses are taxed in a rational, long-term, and growth-oriented fashion. Digital economy has made our society and economy to grow because of the expansion, integration, and complexity of information technology and communications. Businesses are using networks to perform and re-engineer manufacturing processes, expedite procurement procedures, reach new consumers, and manage internal operations even more comprehensively. However, Adejuwon and Kareem (2021) identified the following challenges of digital economy in Africa:

- i. There are leakages of revenue from the digital economy;
- ii. Continuous growth of information and communication technology has changed business operations from physical transactions to invisible business activities;
- iii. Issue of taxing non-resident companies because of the existing mode of corporate taxation on significant physical presence;
- iv. Tracking business transactions for tax purposes.
- v. Low proficiency with computers;
- vi. Internet connectivity issue and infrastructural facilities;
- vii. Potential online danger (Cybercrime);
- viii. Expensive implementation cost.

In many African nations, the fast rise of the digital economy has raised worries about whether their tax systems are prepared to deal with this new trend (Rukundo, 2020). Digital multinational enterprises (MNEs) are swiftly gaining a foothold in emerging markets in poor nations, where millions of individuals are discovering the internet for the first time. Smartphone penetration in Sub-Saharan Africa climbed from 10% to 30% between 2014 and 2018, while data traffic in Africa is expanding at a pace of 41% per year, indicating more access to digital MNE services on the region (UNCTAD, Digital Economy Report, 2019). Taxing digital MNEs remains a big difficulty, despite their spectacular growth (Rukundo, 2020). The effect of technology on modern tax system and administration will enhance E-registration (TaxProMax Software), E-payment (Point of sale, internet banking), E-filing (Electronic filing), E-TCC (issue of tax clearance certificate) and E-Report (generation of performance report on periodic basis). It may, thus be claimed that having the digital knowledge and aptitude to properly communicate with tax authorities in the digital world may help taxpayers as well (Bornman & Wassermann, 2020).

2.1 Economic Growth

One of the most significant and interesting features of economics is economic growth. Economic growth is still a key issue for humanity as a whole and

economics as a discipline, the ramifications of a change of 1% in a nation's growth rate can have a significant impact on its population and level of living, (Macek, 2014). The gross domestic product (GDP) is used as a proxy for this increase in economic growth. As a result, a country's economic expansion is unlikely to result in long-term, medium-term, or long-term economic progress (Macek, 2014).

Economic growth, as opposed to development, entails an investigation of this process, notably in quantitative terms, with a focus on the functional relationships between the endogenous factors; Economic growth is, in a limited sense, a rise in national income per capita. Greater national wealth, including production capacity expressed in both absolute and relative size, per capita, is implied by a growth in GDP, GNP, and NI, (Ogwuru et al. 2017). Africa sub-Saharan is projected to grow at a rate of 3.7 percent in 2021 and 3.8 percent in 2022 annually. This resurgence is quite welcome, and it is mostly due to a significant increase in global trade and commodity prices. Favorable harvests have also contributed to an increase in agricultural output.

However, the recovery is anticipated to be slower than in advanced nations, resulting in a widening wealth disparity. This disparity is projected to remain in the medium term, reflecting inequalities in vaccination access as well as dramatic differences in policy support available (International Monetary Fund 2021).

2.2 Tax System in Africa

In the last two decades, African tax administrations have undergone tremendous modernization. This strategy has involved the digitalization of tax records as well as the widespread adoption of other forms of information and communication technology. The majority of countries today have computerized systems for financial administration and customs, and out of the 193 member states of the United Nations, 159 of them also have computerized tax systems. Technology can help African countries to generate adequate revenue in the area of Value Added Tax, Trade and Customs taxes, which accounts for a reasonable share of total tax revenue of 14 percent. (Okunogbe & Santoro, 2022).

In Africa, taxes are categorized into direct and indirect taxes. The direct taxes comprises of Personal income tax, Companies income tax, Petroleum Profit tax, Capital Gains tax etc. The indirect tax comprises of Value Added Tax, Customs and Excise duties tax. Africa's tax structure is also fairly comparable to that of nations with comparable revenue levels. Evidence on the application of various tax instruments, such as taxes on consumption, personal income, businesses, payroll, commerce, and property. In Sub-Saharan Africa, as in virtually every other region, consumption taxes, which comprise sales tax, value-added tax, and excise tax, account for the bulk of taxes (49 percent). Despite having low tax revenues, Africa has an income distribution that is comparable to that of other continents. The most recent year with full data coverage, 2018, saw Sub-Saharan African countries collect 14% of GDP in taxes, (Okunogbe & Santoro, 2022).

More than one-third of the GDP of OECD nations comes from tax collections. However, in developing countries, especially in sub-Saharan Africa, where they account for less than a fifth of GDP, they are much less significant. OECD nations' tax receipts account for more than a third of their GDP. However, in developing nations, particularly in Sub-Saharan Africa, where they contribute to less than a fifth of GDP, they play a significantly minimal role, (OECD, Revenue Statistic in Africa, 2022). More tax money would facilitate additional market and state positive changes that would advance these regions' economic, social, and environmental development in addition to aiding their authorities in running their respective governments. In African countries, computerized tax systems have been adopted in Uganda, Nigeria, Rwanda, and Kenya. (Muturi & Kiarie, 2015). Muturi and Kiarie (2015), an automated tax system offers tax authorities a modern way to interact with citizens who pay taxes in the ever-changing global tax environment.

Tax authorities must work on boosting the use of computerized tax systems while also ensuring that taxpayers receive further training on the necessity of filing taxes. Proprietors and executives of SBEs may need to assure compliance with tax

rules, which is attainable provided the appropriate infrastructure, such as computers and competent employees, is in place (Night & Bananuka, 2020). Oladipo et al. (2019), Voluntary tax compliance is seen by taxpayer, when tax system and policy is fair, trustworthy, just and improve government revenue generation positively.

2.3 Tax Digitalization and Economic Growth in Sub-Saharan African Countries

Across the continent, there has been a significant increase in the usage of information technology. Africa has made impressive strides in some areas of technological innovation, particularly when it comes to the use of mobile money. This is because businesses like M-Pesa are able to forge ahead of the curve in terms of technology, allowing customers to avoid using conventional financial service providers. Considering that more than half of adults have a mobile money account, Kenya has been a pioneer in this area (Okunogbe & Santoro, 2022). In the same vein, mobile transactions are widely used in other nations as well, including Ghana, Gabon, Namibia, Zimbabwe, Uganda, and Zimbabwe. Although sending remittances is the most popular application of mobile money, commercial uses like getting paid and paying for utilities are beginning to develop.

It was estimated that Africa loses around 40 to 80 billion United States Dollars every year in tax evasion. Tax evasion can be prevented by using digital tax filing, collection and payment. The usage of information technology is expanding throughout Africa's various governmental sectors. Compared to other government agencies, tax administrations frequently set the pace for technology adoption and digitization in many nations (World Bank, 2016). Strong technology adoption is intended to replace manual tax administration methods, which are distinguished by tax official discretion over taxpayers, time-consuming and error-prone data entry, and case-by-case identification of evasion, to a dependence on computerized systems. Oladipo et al. (2022) opined that adequate and formal education and knowledge directed at possible opportunities to evade tax. Consumption taxes include taxes on sales, goods and services (VAT), and excise.

Like the rest of the globe, Africa is adopting VAT more frequently, and it now accounts for around 40% of all tax revenue (ATAF, 2019).

E-business (online shopping, internet banking, auction site, etc.) and E-commerce are fast growing in the world today as most economic transformation and business activities are today conducted online real time basis. Adejuwon and Kareem (2021) analyzed the impact of tax digitalization on tax administration and practice; it enhance customer satisfaction; Improvement on voluntary tax compliance; Data error minimization; Accuracy of data entries and time saving; and Increased in capacity level to serve multiple clients.

2.3 Theoretical Review

Technology Acceptance Model (TAM)

The TAM (Technology Adoption Model) is a conceptual model that was established by Davis, Bagozzi, and Warshaw (1989) to represent users' intentions or degrees of acceptance of new technology or information systems. TAM is predicated on the ideas of perceived value and usability as its guiding principles. The term "perceived usefulness" refers to those who believe that their job performance will increase because of their use of new technologies and information.

The TAM perceived usefulness is the subjective perspective of users who feel that utilizing particular technologies would increase their work performance. This perspective is based on the belief that these users would be more productive if they utilized these technologies. This viewpoint is founded on the conviction that making use of these technologies will result in an increase in their level of productivity at work. In Indonesia, TAM has been put to extensive use for researching various aspects of consumer behavior. These aspects include, but are not limited to studies of information systems, acceptance of the use of audit techniques in the case of e-procurement, consumer views, interest in e-learning,

usage of information technology, use of online banking, and use of mobile internet, (Mascagni et al. 2021).

Based on the findings of a number of previously conducted behavioral research, trust is an essential component in online purchasing. When conducting business online, establishing trust is essential, regardless of whether payments are being made with a debit, credit, or PayPal card. The majority of these issues are associated with either interpersonal connections, trust in economics and strategy, or interactions between different organizations. This theory under pinned this study based on the usefulness of information and communication technology.

2.4 Empirical Review

Authors	Title	Country	Methodology	Findings	Gaps in the Study
Ihnatišínová, (2021)	Digitalization of tax administration communication under the effect of global megatrends of the digital age	Slovakia	A mix of methods combining quantitative and qualitative analysis	The key discoveries have made it possible for us to draw attention to both new, useful ways to use real-time digital engagement as well as general trends in automation around the world.	The study is only limited to Slovakia, this study's findings can be extrapolated to developing nations with conditions similar to Slovakia

Etim et al., (2020)	Tax Compliance and Digitalization of Nigerian Economy	Nigeria	The data were analyzed using simple percentages, descriptive statistics, simple linear regression, and correlation.	According to the study, Nigeria's economy transition to digitization has a detrimental effect on the	The researcher did not analysis the GDP growth rate of Nigeria's Economy to determine its effects.
(Amin & Ibrahim, (2020)	Point of View Research Accounting and Auditing Taxpayer Compliance: Aspects of Tax Digitalization and Tax Sanctions	Indonesia	With the use of the SPSS statistical package, multiple linear regression is the sort of analysis done.	The results of this study show that taxpayer enforcement at KPP South Makassa is greatly impacted by electronic filing, electronic payments, electronic SPTs, and tax penalties.	The study shows that tax penalties has a major effect on taxpayer enforcement.

Night & Bannuka, (2020)	The link between attitudes about electronic tax systems and tax compliance: The mediating function of adoption of an electronic tax system	Uganda	Closed-ended questionnaires with a quantitative research methodology were employed in this study.	The relationship between attitude toward the electronic tax system and tax compliance is somewhat mediated by adoption of the electronic tax system.	The research was carried out in Uganda. and restricted to the country alone
James & Sawyer,(2018)	Digitalization of Tax: Comparing New Zealand and United Kingdom Approaches	United kingdom and New Zealand	The comparative exploratory case study approach	This paper finds out that that there will be taxpayers facing significant challenges and obstacles to utilize the new digital framework.	Assessment has been made on incomplete projects.

Authors Compilation (2022)

3.0 METHODOLOGY AND RESULTS

This study make use of an ex-post facto investigation strategy, which aims to connect a few already existent effects of a few factors on another variable after the study has taken place and the data is already available. This study examined the relationship between information and communication technology (ICT) and economic development in Sub-Saharan African nations. Because the data in this study needed the use of historical records to analyze the present connection and develop a predictive model for forecasting future correlations between the variables. This study will use annual time series data from 1998 to 2021. Descriptive statistics and panel regression analysis were used to analyze the data, using E-views statistical software. The E-views statistical analysis will assist in the area of running the regression analysis and to test the relationship that exists among the dependent variable (Economic Growth) and independent variables (Company Income Tax, Value Added Tax, and Information and Communication Technology) to answer the research question.

The countries of Sub-Saharan Africa serve as the sample population. They are Angola, Benin, Togo, Botswana, Mozambique, Burundi, Cabo Verde, Cameroon, Republic, Chad, Congo, Zimbabwe, Cote d'Ivoire, Equatorial Guinea, Eswatini, Gabon, Ghana, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Namibia, Niger, Ethiopia, Nigeria, Rwanda, Senegal, Gambia, Seychelles, Congo Dem. Rep, Sierra Leone, Somalia, Central African, South Africa, Eritrea, South Sudan, Burkina Faso, Sudan, Tanzania, Uganda, Zambia and Benin

The information for this study were gathered from Organization for Economic Co-operation and Development (OECD) and World Bank national accounts data files. GDP at market prices based on constant local currency, expressed as an annual percentage growth rate cover the period from 1998 to 2021.

Table 1.1: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.525 ^a	.675	.673	.507

a. Predictors: (Constant), CIT, VAT

The model summary of the study from 1998 to 2021 are shown in Table 1.1. The R squared value is 0.675, meaning that 67.5% of the study's independent variables (CIT, VAT) can explain the dependent variable (GDP) while 32.5% can be explained by other variable outside the model.

Table 1.2: ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	101.180	4	25.295	98.070	.000 ^b
	Residual	266.181	1032	.258		
	Total	367.360	1036			

a. Dependent Variable: GDP

b. Predictors: (Constant), CIT, VAT

The distribution's ANOVA table is displayed in Table 1.2. The significance level is 0.000 and the F value is 98.070. This indicates that there is a correlation between the independent variables (Company Income Tax and Value Added Tax) and the dependent variable (Gross Domestic Product) in the study; that there is a direct relationship between the two variables;

Table 1.3: Coefficients ^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.654	.025		265.068	.000
	VAT	.002	.000	.245	4.318	.000
	CIT	.025	.002	.355	13.097	.000

a. Dependent Variable: GDP

Table 1.3 displays the Panel Regression Analysis coefficient table for the 46 sub-Saharan nations from 1998 to 2021. GDP (Gross Domestic Product) was the dependent variable, and VAT, CIT (Company Income Tax), were the independent variables. The VAT coefficient value of 0.002, an increase in VAT of 1% will have a positive impact of 0.002. According to the value of the t statistic, which is 4.318 and which is bigger than 2 and has a probability value of 0.000, Value Added Tax (VAT) appears to have a moderating influence on Gross Domestic Product (GDP) in nations located in Sub-Saharan Africa. This lends credence to the findings of Ogwuru et al. (2017), who concluded that there is a beneficial relationship between VAT and GDP.

CIT's (Company Income Tax) beta coefficient has a value of 0.025. in line with this, a tax rise will result in a 2.5 increase in the gross domestic product of Sub-Saharan countries. The t statistic demonstrates that company income tax has a positive impact on the gross domestic product of Sub-Saharan countries with a value of 13.097 and a p-value of 0.000. According to research done by Oladipo et al. (2019), "Do government taxes have implications on manufacturing sector output? Evidence from Nigeria," this is in line with the government's plans.

4.0 CONCLUSION AND RECOMMENDATIONS

This study analyzed the relationship between tax digitalization and economic growth in the countries of sub-Saharan Africa, and it concluded that tax digitalization has an effect on the economic growth of the countries of sub-Saharan Africa. According to the findings of the study, there is a considerable connection between ICT and taxation, namely GDP economic growth, corporate income tax and value-added tax.

Empirical findings from this study are now a part of the relatively niche discipline of information and communication technology research that focuses on taxation and economic growth. To illustrate tax digitization and its effects on economic growth, this analysis gives a complementary theoretical approach to the Technology Acceptance Model. Increasing tax digitalization in enhancing government revenue generation is a crucial policy objective in many African countries. Therefore, government has a responsibility to educate the general population regarding the tax system in the area of tax knowledge and electronic tax system.

The study recommends as follows:

1. Tax laws play significant role in tax matters, therefore, review of the existing economic significance presence to recognize and accommodate taxable digital presence;
2. Automation of tax system in the area of administration, filing, collection, payment and electronic data generation analyses to monitor tax compliance;
3. There should be provision for digital platform and collaborating with digital economy service providers in enhancing tax revenue generation to promote economic growth.
4. African countries should review and ratify multilateral agreements and digital transformation across borders.
5. The ability of taxpayers to employ a technology is invariably impacted by

the infrastructure constraints and connection issues inside a specific tax administration. In order to prevent intentional misuse of an IT solution to evade taxes, it is necessary to provide solid infrastructure and connectivity, as well as proper awareness of and information about tax e-services.

This study contribute to knowledge in the aspect of electronic tax system and government would be more aware of the value of implementing an E- tax system and improves knowledge of the digital economy in promoting economic growth. The government might utilize this information as a strategy when introducing new policy to the economy. The readiness and incentives of revenue authority workers who engage with new technologies are another crucial precondition for tax digitalization.

This study suggested adult literacy development for further study which can also be used as a variable to measure the number of adults who are highly educated enough to grasp tax digitalization.

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