©IDOSR PUBLICATIONS
International Digital Organization for Scientific Research ISSN: 2550-7966
IDOSR JOURNAL OF HUMANITIES AND SOCIAL SCIENCES 4(2): 50-57, 2019.

The Implications of E-Commerce and the Challenges of Tax Evasion in Nigeria.

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ABSTRACT

This study assesses the problems of tax evasion in the e-commerce transactions in Nigeria. The steps in information and communication technology (ICT) make ecommerce a critical and unstoppable feature of the global economy. In modern trend, significant numbers of transactions are consummated online. This paper seeks to examine the tax framework to reflect the realities of modern transactions, establish a basis of taxation that arrests leakages and enables tax authorities to capture revenue that would otherwise have continued to leak. Ordinary Least Square (OLS) Regression Techniques is used to analyze the data-set for a five-year period of 2013 to 2017. The results of the findings reveal that there is a positive relationship between the NIBSS instant Payment (NIP), Point on Sale (POS), WEB Transaction and the dependent variable; Tax Revenue, except for the NIBSS Electronic Fund Transfer that was found not to have a relationship with the dependent variable (Tax Revenue). The researcher recommends that the legal frame work of e-commerce taxationhas to be amended to reflect the global taxation principles of e-tax in our tax laws as a sovereign state so that investors and business carried on online should be taxed. Also, that our tax policy and compliances to the regulatory authorities such as FIRS(Federal Inland Revenue Services)should be enforced on defaulting businesses, individuals and corporate entities as wells government agencies and departments to minimize tax evasion and avoidance.

Keywords: Tax evasion, e-commerce and Revenue generation.

INTRODUCTION

Over 101 million of the Nigerian Population have been noted to register as internet users within the country, [1], this has raised the stake further that Nigeria is part of that world that is a global village. This has resulted into a scenario where economic activities are now done through the use of the internet. According to [2] "Businesses that are established and conducted online usually do not follow the traditional business models; many don't as a necessity require a license or registration to operate, thus effectively excluding them from the tax database (meaning they will not be taxed). Including them will cost the government a lot of time, and money, contrary to Adam Smiths' principle of effectiveness for taxation which posits that taxes be collected with the least amount of effort possible"

Since the process of taxation is mostly based on the presence of or residence, it is safe to say that many businesses that are done online who do not have a presence is not usually taxed. [3] noted that 'There is thus difficulty in identifying the countries with tax jurisdiction over electronically generated income. The resultant effect is the additional difficulty of the possibility of double taxation. In the event that liability is to be imposed on online businesses for tax avoidance, and/or evasion, many of these businesses lack physical offices to be served notice of said liability, as they conduct business through virtual stores. It would thus be easy for online businesses to close-up-

shop in order to avoid liability. If tax authorities attempted to still track such defaulters down, that would result in even more expenditure by government"

Traditionally, [4] assets that "Taxation of goods and services were done with a view of a market - designated location in mind and taxation of these market activities has been a source of government revenue. But Industrialization of the globe (Internet) has significantly altered the primitive perception of a market from being a designated location for exchange of goods and services to boundless geographical location underpinned by daily human interactions in search for ways to meet the basic needs. The speedy development in information and communications technology in Nigeria has brought with its boundless opportunities and changes in the way we do business. Significant numbers of business transactions in Nigeria today i.e. sale and purchase of goods and services are consummated using mobile devices and online payment platforms. This process refers to as e-commerce. E-commerce is the act of using communications technology mechanism mainly the internet to buy, sell and market goods and services to customers or end-users [5]. This mechanism has brought about a fundamental shift in national economies that are isolated from each other by barriers to cross-border trade and investment, isolated by distance, time zones"

In a research conducted by [6] "the internet is a significant way of revenue leakages (tax evasion) in Nigeria. This leakage is at the assessment stage where the tax payers are either not assessed at all or they are improperly assessed. The tax laws in Nigeria have fallen prey to the mutability of such transactions making it apt to give the subject a critical examination through the lenses of relevant statutes".

Statement of the Problem

This paper is in line with [7] that asserted that "Evasion of tax revenue through e-commerce transactions in Nigeria has raise a serious concerned among the stakeholders. This is so because Nigeria government is losing billions of tax revenue due to the difficulty that internet selling and purchasing of goods and services poses for the Nigerian tax system. The tax laws that govern direct taxes (income taxes) and indirect taxes (VAT) are presently premised on the concept of permanent establishment, and how to track internet transactions for purposes of collection".

The objective of this study is to examine the components of e-commerce transactions on evasion of tax revenue in Nigeria. Revenue generation in Nigeria from crude oil is gradually falling from the Global market, the government need to formulate policies that will strengthen the taxation of e-commerce transactions and thus reduce tax evasion in the economy. In this study, a null hypothesis was postulated to guide the study;

H_{01}: NIBSS Electronic Fund Transfer (NEFT) have no significant influence on evasion of Tax Revenue in Nigeria.

$H_{02:}$ NIBSS Instant Payment (NIP) have no significant influence on evasion of Tax Revenue in Nigeria.

$H_{03:}$ Web Transactions (WEB) have no significant influence on evasion of Tax Revenue in Nigeria.

$H_{04:}$ Point of Sales (POS) have no significant influence on evasion of Tax Revenue in Nigeria.

The study is an investigation on the evasion of taxes by on-line transactions in Nigeria with emphasis on Amazon.

Significance of the Study

This research would be of assistance in the following ways:

"The outcome of this study will assist government to formulate policies that will strengthen the taxation of e-commerce transactions and therefore reduce tax evasion in the economy.

It is also expected that this study will evaluate the challenges and prospects facing government with regard to taxation of e-commerce transactions in Nigeria.

Finally, it will add to the improvement of literature on the components of e-commerce transactions, and throw more light to scholars and students on the

taxation of e-commerce transactions and revenue generation in Nigeria".

Conceptual Review

Tax evasion: According to [5]"Tax evasion is a situation whereby a taxpayer out rightly refuses to pay tax, or tries illegally to minimize his tax liability. Tax evasion is fraud and deceit, by deliberately refusing to declare all sources of income when filing returns or understate income in tax returns". Incomes are supposed to be declared even if they are tax exempt. [7] state that "tax evasion is either full or partial; it's full when a citizen who qualifies to pay tax refuses to get registered for the purpose of paying tax while it's said to be partial when a tax payer manipulates his income in other to reduce his tax burden". Tax evasion can be achieved through:

- Understating income
- Overstating expenditure
- Making false claims for allowances and relief; and
- Omission from tax returns of chargeable income.

Good tax systems should be efficient, neutral, flexible and simple. According to [3] "An efficient tax may not necessary be considered fair and the one that is considered equitable may not be efficient. Tax is a burden to some but to others it is a civic responsibility to pay tax, so people abhor tax payment and as such a few are enthusiastic when it comes to paying tax. In other to avoid these sharp practices by some companies, the Company Income Tax Act contains general provisions on anti avoidance rules.

Companies are enjoined to comply with arm's length principle when dealing with related parties. To encourage tax defaulters to pay their taxes that made the Federal Republic of Nigeria to introduce Voluntary Assets and Income Declaration Scheme (VAIDS)".

VAIDS: VAIDS is an acronym for Voluntary Assets and Incomes Declaration Scheme. As noted by [2] "It is a scheme of the federal Republic of Nigeria which gives once-in-a-life-time opportunity to tax payers to fully and honestly declare all their assets and incomes from all sources which had previously not been exposed to the tax authorities and to pay tax on the assets and the incomes. The then Acting President, Yemi Osinbajo, signed an Executive Order to back the Voluntary Asset and Income Declaration Scheme. This executive order is an amnesty which covers the period of nine months, from 1st July, 2017 to March 31, 2018. Since it is a voluntary disclosure programme, the noncompliant taxpayers can regularize their tax position without being penalized or prosecuted during the amnesty window". The Minister of Finance, Kemi Adeosun says "Many Nigerians have lost assets in the course of trying to conceal them from the authorities. Such losses typically occur in the event of death or an urgent need to liquidate assets when required documentation and proof of ownership cannot be provided. The global focus on illicit financial flows is such that global regulations will only become tighter with time, thus this opportunity to regularize ownership of assets should be seized as proper declaration allows assets to be legally and formally held by the true owner". The implementation of VAIDS is done by tax administration of different tiers of government.

Fundamental Issues

Although Nigeria government has woken up to the reality of mobile payment systems, but tax authorities are still play catch up. The question is, "Is it possible to tax e-Commerce in Nigeria?"the answered is 'Yes'. It begins with the tax authorities. "Many perceive the tax authorities as demons to be avoided at all costs. They would rather go online and be anonymous instead of even embracing amnesty like VAIDS. All over the world, tax authorities are modifying models to plug tax leakages in cross-border transactions. This is because administrating value added taxes (VAT) across different tax jurisdictions gets very difficult".

Taiwo Oyedele, head of tax and regulatory services at PwC Nigeria, explains the dilemma involved when someone buys goods from Amazon, in an interview published in the Nation. "They (Amazon) are supposed to charge VAT but do not even know that there is VAT in Nigeria

and they are not even interested. Twenty-five year old Joseph shop on Amazon and so the phone is $80 for instance and VAT is not added on it. So even if you look at origination and destination principles of tax compliance, which means the VAT, should be collected at destination which is Nigeria but who should collect it?The Nigerian tax authorities said Amazon should have charged it and they say go and collect from Amazon. But if you are lucky to even go to where Amazon is, you will be lucky if you come back. This is because; you have crossed your jurisdiction. What power do the Nigerian tax authorities have over an American company in America? No one can ever enforce that law," said Oyedele. "Yet these kinds of transactions are now mainstream. Global online payment systems company, PayPal, last year ranked Nigeria as the 3rd highest mobile shopper worldwide with estimated 55 per cent of all overseas online purchases in the past 12 months coming from Nigeria. EfiDahan, general manager, PayPal Africa and Israel, said mobile shoppers in Africa's largest economy spent $610 million in 2015 using the payment system, and PayPal has a target of $819 million ahead of 2016 transactions data release".

According to figures from the National Bureau of Statistics (NBS), "a government agency that publishes data for Nigeria, the total value of electronic payment transactions in the banking system stood at N65 trillion in 2016, eight times the value of the national budget. The chart below depicts data on some of the largest electronic channels, sourced from the Central Bank of Nigeria (CBN). NIBSS Instant Payment (NIP) and Nigeria Electronic Funds Transfer (NEFT), are on the rise while cheque transactions see a decline. NIP and NEFT are products used by corporate organizations to make payments for huge transactions electronically, in line with the cashless policy".

NIBSS Instant Payment:

According to [3] "NIBSS Instant Payments (NIP) is an account-number based, online-real-time Inter-Bank payment solution developed in the year 2011 by NIBSS. It is the Nigerian financial industry's preferred funds transfer platform that guarantees instant value to the beneficiary. The NIP service commenced with only two (2) commercial banks as participants. However, today, the number of participants has grown to include all commercial banks, Micro-Finance banks (MFBs), and Mobile Money Operators (MMOs).Over the years, Nigerian banks have exposed NIP through their various channels i.e. internet banking, bank branch, Kiosks, mobile apps, Unstructured Supplementary Service Data (USSD), POS, ATM, etc. to their customers"

Point on Sales: Also known as the point of service or POS, "the point of sale is the exact point in a transaction when goods or services are provided to the customer and payment is rendered for those products. While the specifics of a point of sale system will vary somewhat from one situation to another, the final outcome is always the same", noted [1]. "Point of sales (POS) software is a type of software that retail store use to calculate their sales and operate the cash drawer; it is a computerized cash drawer. Point of sales add up the sales total and calculate the change. When customer buy items from retail store, point of sales will minus or debit the amount of item sold in the inventory system. At minimum, POS should be able to handle sales and manage your inventory database", [2].

NEFT: [6] noted that "NIBSS Electronic Funds Transfer (NEFT) is one of the most prominent electronic funds transfer system of Nigeria. NEFT is a facility provided to bank customers to enable them to transfer funds easily and securely on a one-to-one basis. It is done via electronic messages. This is not on Realtime basis like RTGS (Real Time Gross Settlement). This is a "net" transfer facility which is executed in hourly batches resulting in a time lag. NEFT facilities are available in 30,000 bank branches all over the country and work on a batch mode. RBI explains this scheme as "National Electronic Funds Transfer (NEFT) is a nationwide payment system facilitating one-to-one funds transfer. Under this

Scheme, individuals, firms and corporate can electronically transfer funds from any bank branch to any individual, firm or corporate having an account with any other bank branch in the country participating in the Scheme. NEFT has gained popularity due to its saving on time and the ease with which the transactions can be concluded, this reflects from the fact that 42% of all electronic transactions in the 2018 financial year were NEFT transactions"

WEB: It refers to electronic transfers which can be affected via the internet on (Personal Computers) PCs, laptops and other devices. Bank customers who have subscribed to internet banking can do basic banking transactions via the web.

METHODOLOGY

Research Design

Ex-post facto research design was adopted in carrying out this study. This approach involved the use of secondary data reported by Central Bank of Nigeria (CBN). The data set used as proxies for the e-commerce variables and the regression analysis in this study were derived from these sources for a Five years period covering 2013 to 2017

Model specification

Electronic commerce model was developed by the researchers for the study.

The linear model for regression is expressed as follows:

Tax Rev = f(NIP, NEFT, POS, WEB)

The model becomes:

Tax Rev = b0 + b1NIP + b2NEFT + b3POS + b4WEB + e_i

Where:

Tax Rev = Tax Revenue

NEFT = NIBSS Electronic Fund Transfer

NIP = NIBSS Instant Payment

POS = Point of Sale (POS)

WEB = Web Transactions

e_i=error term

RESULTS

Descriptive Statistics.

From the table 1 below, it is observed that the average Tax Revenue over the five years period is 3,259,806.00. The standard Deviation is 373,883.445.

Descriptive Statistics

	Mean	Std. Deviation	N
TR	3259806.00	373883.445	5
NEFT	29850.00	754.051	5
POS	54787.60	55009.960	5
WEB	11905.40	10408.589	5
NIP	130730.40	143808.043	5

Similarly, "the Nigerian Electronic Fund Transfer (NEFT) Shows an average of 29,850 over the five years period and 754.051 is recorded as the standard deviation. Point of Sale (POS) from the five-year period also have an average of 54,787.60 while the standard deviation of 55,009.960. Web transactions (WEB) has an average of 11,905.40 and 10,408.589 was recorded as the standard deviation. Finally, the NIBSS Instant Payment (NIP) on the average over the five-year period was 130,730.40 and a standard deviation of 143,808.043".

Table 2 Correlation Results

Correlations		TR	NEFT	POS	WEB	NIP
Pearson Correlation	TR	1.000	-.532	-.082	-.079	-.102
	NEFT	-.532	1.000	.801	.789	.814
	POS	-.082	.801	1.000	.999	1.000
	WEB	-.079	.789	.999	1.000	.999
	NIP	-.102	.814	1.000	.999	1.000
Sig. (1-tailed)	TR	.	.178	.448	.450	.435
	NEFT	.178	.	.052	.056	.047
	POS	.448	.052	.	.000	.000
	WEB	.450	.056	.000	.	.000
	NIP	.435	.047	.000	.000	.
N	TR	5	5	5	5	5
	NEFT	5	5	5	5	5
	POS	5	5	5	5	5
	WEB	5	5	5	5	5
	NIP	5	5	5	5	5

From the table above, it is observed that the correlation coefficient between Tax revenue and NIBSS Electronic Fund Transfer (NEFT) is -.532. "This means that there is a negative but insignificant relationship between NEFT and Tax Revenue in Nigeria. the p-value of this is .178, suggesting that 18% change in the tax revenue is caused by NEFT. Also, the correlation coefficient between Point of sale (POS) and Tax Revenue shows -.082, this also suggest a negative but really insignificant relationship between Tax Revenue and POS and with a p-value of .448, there is a 45% chance that a change in TR is caused by POS. Similarly, for Web Transactions (WEB), there is an insignificant negative relationship between Tax Revenue and WEB as the table shows -.079 as the correlation coefficient. The p-value of .450 also suggest 45% change in TR is caused by WEB. NIBSS Instant Payment (NIP) shows -.102 as the correlation coefficient". This means that there is a negative and significant relationship between NIP and TR.

Table 3 Regression Results

Model Summary[b]						
Model	Change Statistics					Durbin-Watson
	R Square Change	F Change	df1	df2	Sig. F Change	
1	.673[a]	.687	3	1	.686	2.547
a. Predictors: (Constant), NIP, NEFT, WEB						
b. Dependent Variable: TR						

The result of the regression analysis in the table above reveals that the functional relationship between the independentvariables (NEFT, NIP, POS and WEB) explains about 67.3% changes in dependent variable (Tax Revenue) withreference to the Five Year-period. This means that the independent variables have an effect on Tax Revenue in Nigeria; in such away that the more as long as there is an increase in the independent variables, there is a corresponding increase in the Dependent variable and Vice Versa.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.125E7	2.390E7		1.307	.416
	NEFT	-930.294	773.984	-1.876	-1.202	.442
	WEB	-286.329	633.145	-7.971	-.452	.730
	NIP	24.400	48.398	9.385	.504	.703

a. Dependent Variable: TR

Excluded Variables[b]

Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	POS	61.662[a]	.	.	1.000	8.590E-5

a. Predictors in the Model: (Constant), NIP, NEFT, WEB
b. Dependent Variable: TR

From the table above, with a t-value of -1.202 and a significant value of .0416, we can say that there is no relationship between NEFT and Tax Revenue as this is less than the confidence level of 5%. Also, WEB has a t-value of -.452 and significant at .730. This shows that there is a positive relationship between WEB and Tax Revenue. As this figure (0.730) is greater than 0.05. NIP has a t-Value of .504 and significant at .703, this illustrates a positive and significant relationship between NIP and Tax Revenue.

DISCUSSION

Overall, there is a positive relationship between the independent variables and the dependent variable except for the NEFT that was found to not have a relationship with the dependent variable (Tax Revenue). This implies that the Null hypothesis which states that 'NIBSS Electronic Fund Transfer (NEFT) have no significant influence on evasion of Tax Revenue in Nigeria." is rejected and the alternate hypothesis is accepted. WEB was found to have a positive relationship with Tax Revenue and so the null hypothesis which states that "Web Transactions (WEB) have no significant influence on evasion of Tax Revenue in Nigeria" is rejected and the alternate hypothesis is accepted. Also, with a significant level of 0.703, a positive and significant relationship was found to exist between NIP and Tax Revenue, Subsequently, the null Hypothesis, "NIBSS Instant Payment (NIP) have no significant influence on evasion of Tax Revenue in Nigeria" is rejected and the alternate hypothesis is accepted.

CONCLUSION

The question is,is "it possible to tax E-Commerce in Nigeria?'.The answered is 'Yes'.It begins with the tax authorities. Many perceive the tax authorities as blood-sucking demons to be avoided at all costs. They would rather go online and be anonymous instead of even embracing amnesty like VAIDS. The revenue-driven tax authorities repel more than attract. Rigid judicial decisions like Gazprom also seem to give the demon wings. There appears to be no respite for taxpayers in the tax net, because of this, those outside the tax net see it as bad energy that needs to stay far away. This shouldn't be so.

From the findings of this study, that there is a positive relationship between the independent variables and the dependent

variable except for the NEFT that was found to not have a relationship with the dependent variable (Tax Revenue). This implies that the Null hypothesis which states that 'The components of e-commerce transactions have no significant influence on evasion of tax revenue in Nigeria' is rejected and the alternate hypothesis is accepted. We can conclude that e-commerce transactions have significant influence on evasion of tax revenue in Nigeria.

This is in line with the study of [7] who belief that "A leaf can also be borrowed from countries like India which adopted the OECD Significant Economic Presence (SEP) recommendation based on Action 1 of the OECD BEPS Actions addressing the Tax challenges of the digital economy. The fixed base requirement is substituted by SEP such that once revenue generated by a foreign company without a fixed base in another country passes a given threshold, or the number of registered users per month/year or volume of digital contracts concluded exceeds a given threshold, the foreign enterprise becomes tax liable to the country from which such revenue is generated".

It has already been established that our "tax statutes need to undergo a software upgrade to thrive in the digital economy. The saying also goes 'to catch a monkey, you have to act like a monkey' aka our tax authorities need to up their ante. Tax administration has never before been required to be as efficient. Rapid and effective action backed up by advanced laws that envisage all possible occurrences and peculiarities must be undertaken to detect E-commerce companies and transactions and to ensure that requisite taxes are collected and remitted"

RECOMMENDATIONS

From the foregoing, based on the findings of this study, it is recommended that the legal frame work of e-commerce taxation which has to be amended to reflect the global taxation principles of e-tax in our tax laws as a sovereign state so that investors and business carried on online should be taxed. Also, that our tax policy and compliances to the regulatory authorities such as FIRS (Federal Inland Revenue Services) should be enforced on defaulting businesses, individuals and corporate entities as wells government agencies and departments to minimize tax evasion and avoidance.

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