

**3<sup>RD</sup> WATAF HIGH LEVEL POLICY DIALOGUE**  
**THEME: TAXATION OF THE DIGITAL ECONOMY: EXPLORING UNTAPPED**  
**REVENUE SOURCES IN AFRICA**  
**21-22 SEPTEMBER 2021**

**INTRODUCTION**

1. Participants from the Economic Community of West African States (ECOWAS) from tax administrations, tax experts from the academia, Ministries of Finance, Civil Society Organisations, development agencies among others, gathered in Abuja and virtually, between September 21 and 22 to share thoughts on the taxation of the digital economy. Indeed, the exponential growth of the digital economy have transformed the way businesses are carried out, no doubt, this requires new thinking, reformulation of economic policy frameworks especially tax policy, to enable African nations to maximise the potential economic benefits available therein.

2. With the world tilting towards e-economy, a trend aided by the COVID-19 pandemic, the High-level Policy Dialogue interrogated issues surrounding taxation in the new economic order, which is often referred to as the Fourth Industrial Revolution. The six panels dwelt extensively on how African nations can tap from the vast economic potentials of e-commerce through taxation; examined prospects alongside challenges in taxing the digital economy; defined role(s) of International Organisations in capacity building; and formulation of policies both locally and regionally, to meet the needs of the emerging new economic order.

3. The event, which held at the Transcorp Hilton Hotel, Abuja, Nigeria was facilitated by the West African Tax Administration Forum (WATAF) with the support of the Federal Inland Revenue Service (FIRS), Nigeria, the ECOWAS Commission, ECOWAS Bank for Investment and Development (EBID), International Bureau for Fiscal Documentation (IBFD), Organisation for Economic Cooperation and Development (OECD), Open Society Initiative for West Africa (OSIWA), the Network of Tax Organisations (NTO), WU Global Policy Centre, Vienna, Austria, International Centre for Tax and Development (ICTD), PwC, Africa AP Moller MAERSK, Tax Justice Network Africa (TJNA) and the Ford Foundation

4. Nigeria's Secretary to the Government of the Federation (SGF), Boss Mustapha, declared open the 3<sup>rd</sup> WATAF High Level Policy Dialogue and 10th year Anniversary

of WATAF, after the Executive Secretary of WATAF, Mr. Babatunde Oladapo had given his opening remarks. Oladapo noted that taxation in West Africa is realising its potential as engine for fueling economic development of West African countries. He said from the initial five countries that started the Forum, it was gladdening to note that it has grown to 15 countries. Chairperson of the Forum, Mr. Yankuba Darboe, said in his remarks that countries of the world are focusing on how to move along with developments driven by the digital economy and noted that West Africa should not be left behind in the quest for the search for a fit for purpose solution to tax the digital economy. There were goodwill messages from the ECOWAS President, Jean Claude Brou, represented by the Director of Customs and Domestic Taxes, ECOWAS Commission, Mr. Salifou Tientore and Country Director, World Bank Group, Nigeria, Shubham Chaudhuri. Nigeria's Minister of Finance, Budget and National Planning, Dr. Zainab Shamsuna Ahmed and Executive Chairman of the Federal Inland Revenue Service (FIRS), Muhammad Nami presented addresses at the occasion.

5. After deliberations on the various sub-themes of the High-Level Policy Dialogue under the title: The Taxation of the Digital Economy: Exploring Untapped Revenue Sources in Africa, there were recommendations on how African nations can fit in and leverage on the opportunities provided by the digital economy to increase domestic revenue in their jurisdictions.

## OUTCOMES/RESOLUTIONS

6. Speakers noted that working from home was no longer an option but a necessity because of the COVID-19 pandemic, which has brought about a major economic shift. This demands that African countries develop technology based 'Fit-For-Purpose Approaches' to track digital transactions of unregistered businesses in order to facilitate optimal domestic revenue mobilisation. Therefore, participants at the High-Level Policy Dialogue, having identified the need for huge financial investments in developing structures to leverage on digital economy, called on African governments to channel resources to tackle challenges associated with the e-economy.

7. The HLPD also advocated for a global approach to find a way to tax E-Preneurs in order to bridge the attendant challenge of non-registration of their businesses with the Registrar of Business in their various jurisdictions.

8. Furthermore, in an attempt to mobilise untapped resources in digital economies, participants tasked African nations to upgrade needed infrastructure to meet-up with the current trend, and develop purpose driven strategies to embrace modern tax administration. Also, they were advised to be proactive rather than reactive; and always engage in impact assessment of policies, processes and prevailing economic situation. This should be done through seeking relevant expertise and best practices as drivers of efficiency in tax administrations.

9. In addition, the HLPD resolved that the ability to develop vibrant laws to manage e-economy, upgrade old systems, spend more on local revenue mobilisation rather than looking up to foreign donors, are all essentials for building robust tax administrations and fostering sustainable economic growth on the African continent.

10. Thereafter, the Panel highlighted the need for African Governments to invest heavily in the acquisition of necessary technological infrastructure by engaging experts to develop softwares to track E-Preneurs in order to make them pay their due taxes to grow economies of West African countries.

11. Also, the HLPD agreed that ECOWAS countries were lacking in needed infrastructural development to leverage on the new economic order, and therefore urged them to develop technologies that will enhance tax collection both in country and in the region as a whole. This according to speakers at the HLPD, is the way to cope and leverage on the opportunities embedded in the economy that is changing and adapting to technological growth.

12. To address challenges occasioned by the rise of transnational and novel technologies such as Blockchain technology, the HLPD advised that though these new technologies may pose certain challenges for tax administrators especially, where they are decentralised and used to mask identities of users despite these, tax authorities may nevertheless deploy same to boost efficiency in tax administration.

13. In addition, double taxation alongside overtaxing e-businesses, speakers agreed could be an over kill and emphasised that this should be avoided in order not to stifle the needed spurts of entrepreneurship needed for economic growth in Africa while harming small-scale enterprises struggling to survive.

14. Though, it was noted that the Inclusive Framework (IF) and the Organisation for Economic Co-operation and Development (OECD) has for some time been discussing and trying to find a global consensus-based solution to the tax challenges arising from the digitalisation of the economy, it has not done enough. In addition, the panel acknowledged ATAF's role in providing technical analysis and support to its members to ensure that whenever there is a global solution that is fit for purpose in Africa, it would be considered.

15. The HLPD recommended that to get the best for African nations, Tax Policy makers should advocate for new tax administration modules that will take cognisance of the threat income tax faces at the onslaught of the digital economy and that there is a vast tax revenue opportunity Africa is yet to benefit from. To forestal further revenue losses, countries in Africa were advised to implement effective tax revenue collection mechanisms; leverage on the power of digital platforms to enhance VAT collection bearing in mind the necessity of creating efficient basis for the right to tax inbound international online sales while at the same time facilitating compliance by strengthening tax debt enforcement models; implementing data driven tax administrations; imbibing enterprise wide risk management practices; and encouraging global administrative cooperation on tax matters to maximise benefits inherent in the digital economy.

16. Panelists highlighted that digitalisation of the global economy has created new challenges as many African countries have been unable to tax highly digitalised businesses based on the current international tax rules. Accordingly, rapid digitalisation of African economies was identified as an enabler for Multinational Enterprises (MNEs) to carry out business in African countries with no or very limited physical presence in these countries. The panel noted, that the current nexus and profits allocation rules are heavily in favour of the residence jurisdiction to the detriment of the source (African) jurisdiction and advised that greater effort should be put in to ensuring a favourable outcome of the Inclusive Framework (IF) as it pertains to the taxation of the digital economy that will safeguard the tax bases of

African countries. WATAF members were therefore encouraged to ensure that the current nexus and profits allocation rules which weighed too heavily in favour of the residence jurisdiction to the detriment of the source (African) jurisdiction, should be reversed

17. Additionally, the panel identified three key factors prevalent in certain highly digitalised businesses that include: Cross Jurisdictional Local Scale without Local Mass; reliance on intangible assets including Intellectual Property (IP), and Data, User Participation and their synergies with IP. Thus, the HLPD emphasised the role of the user participation as a unique and important driver of value creation and source of revenue for Highly Digitalised Businesses (HDBs) which should be of interest to African countries because of the potential economic benefits through taxation.

18. As a way forward, Ministries of Finance and Tax Administrations were invited to become vital parts of the development of African governments' Tax policy in order to enhance Domestic Resource Mobilisation (DRM). It was also, affirmed that collaboration between African Tax Administration Forum (ATAF), the West African Tax Administration Forum (WATAF) and other regional organisations would provide needed support for African countries to achieve set objectives of better, equitable and fair global taxing rules.

19. The HLPD recognised the significant global support on the imposition of the Value Added Tax (VAT) or Goods and Services Tax (GST) on digital transactions and therefore, encouraged African countries to harmonise their VAT rules in line with international standards to pave way for ease of compliance and encourage solution to VAT collection in a digitised economy. For instance, a non-resident supplier of services to member states may be more willing to collect VAT for member states where the rules are simpler and reasonably consistent amongst member states. These measures, the Panel suggested needs to be implemented urgently to enhance domestic resource mobilisation on the African continent.

20. Tax administrations in West Africa and in Africa, were urged to leverage on new technologies to digitalise their tax administration as responses to challenges imposed by the COVID-19 pandemic in order to block tax loopholes. Also, through the development of robust legislative frameworks and building of strong synergies across tax administrations on the continent with the knowledge that digitalisation

of taxation systems could help in tracking and investigating illicit financial flows and online tax dodgers. Also, recognising the fact that corporate income tax accounts for a high share of their tax revenue to GDP, West African Tax Administrations were tasked to up their games by introducing new technological innovations to address new challenges posed by e-commerce, which has hitherto made it difficult for tax administrations to tax highly digitalised business based on the current international tax rules.

21. The HLPD encouraged Tax Administrations to acknowledge that there are going to be challenges but they should rather focus on tax policy considerations for each intervention designed, adding that the major objective of the measure should be on how to tax the income or profits of non-residents derived from the provision of digital services.

24. The panel advised tax administrations to automate their systems to be able to fully integrate with other government agencies as well as multinational companies in view of potential benefits while stressing the importance of a whole of government approach to tackling challenges associated with mobilising revenue domestically.

25. The need to begin to make Facebook, Google and other social media providers pay tax in all African countries was emphasised. To this extent, African countries should be proactive by adjusting their local legislation to be effective. Also, to provide needed insights and understanding, the HLPD urged Tax Administrations to understudy existing local and most importantly global digital platforms in order to fashion out effective strategies to tax them notwithstanding the nature of their virtual presence.

25. Furthermore, the HLPD called for a level playing ground that will promote a win-win situation between companies and countries without being a dis-incentive to investment.

26. Also, the HLPD noted that Africa has to open up by accepting crypto currency technology or block chain payment to meet the challenges in the digitalised economy for easy domestic tax revenue mobilisation and collection.

27. On emerging global issues in the taxation of the digital economy and the signing-on to the Inclusive Framework/OECD work on taxation of the digital

economy by some African countries, the HLPD reiterated the need for WATAF member states to among other initiatives cut down on unnecessary use of tax incentives; block tax loopholes in their existing tax laws through policy realignment; legislative amendments and necessary engagement with key stakeholders. Furthermore, WATAF member states were encouraged to note the distinction between Effective Tax Rate (ETR), which, is usually small in most member states and the Headline or Nominal Tax Rate which is usually high in member states and note that Income Inclusion Rule (IIR) tax threshold is based on ETR.

28. The HLPD while noting the challenges posed by multiplicity of revenue collecting authorities in some jurisdictions nationally advocated for the adoption of unified revenue agencies as a viable model to enhance the performance of the Tax Revenue Authorities and Customs agencies with the attendant benefit of addressing perennial revenue leakages.

29. Finally, participants commended WATAF for organising the High-Level Policy Dialogue and urged WATAF to sustain the organisation of the event annually so as to afford relevant stakeholders the opportunity to debate salient tax issues while building a nexus between tax policy and tax administrations.