

## LEGAL ASSESSMENT OF ELECTRONIC TAX PAYMENT SYSTEMS: NIGERIA, KENYA AND TANZANIA AND IN PERSPECTIVES\*\*\*

### **Abstract**

*Electronic Tax Payment system has spread from developed to developing countries. Nigeria has made steps in adopting Electronic Taxation due to the necessity to establish a more efficient taxation system that would meet the current demand of contemporary taxation. Electronic Taxation is a mechanism by which taxes are calculated and administered in electronic media. It involves the use of Information Communication Technology to run the taxation process of a country. This paper aims at assessing the nature of E-tax payment systems, evaluating the prospects and challenges of electronic tax payments in Nigeria and examining its legal basis as well as the progress recorded so far. An analysis was also made on the practice of E-tax payment systems in Kenya and Tanzania with the view of eliciting lessons from there. It was found that some of the major Challenges affecting e-tax payments includes but are not limited to the following; that the level of computer literacy in these countries is low as most taxpayer shy away from the system causing them to stick more to the manual system of tax payment. Also, the unsteady and unreliable state of internet connection can lead to frustration of taxpayer. Finally, there are no legislative frameworks that fully provide for the process and procedures of electronic tax payments in Nigeria, Kenya and Tanzania. Thus, the paper recommends among others, that there should be an enactment regulating the operation of electronic tax payments in Nigeria, as was done for the manual system, provision should be made for increase in awareness of taxpayers stressing on the importance of being a computer literate.*

**Keywords:** Taxation, Electronic Tax Payment, Tax Payer, Nigeria, Kenya, Tanzania

### **1. Introduction**

The tax structure in Nigeria is imbalanced, heavily reliant on income from the oil sector. Nevertheless, it's evident that the country's developmental goals can no longer be sufficiently sustained by oil revenue, mainly due to the significant drop in oil prices in recent years. This has resulted in price fluctuations and a notable decrease in the overall government revenue generated. According to the Presidential Committee on National Tax Policy (2008), the central objective of the Nigerian tax system is to contribute to the wellbeing of all Nigerians directly through improved policy formulation and indirectly through appropriate utilization of tax revenue generated for the benefit of the people. Therefore, the need for government to generate adequate revenue from internal sources through tax has become a matter of extreme urgency and importance.<sup>1</sup>

Electronic taxation is one of the ways through which governments around the world utilize information and communication technologies to improve the delivery of public services and the dissemination of public administration information to the public.<sup>2</sup> E-Taxation is a novel concept in Nigeria and its implementation is strenuous. The attitude of the public towards tax payment and tax administration, the ignorance of use of ICT, the active evasion of Taxation, the inadequacy of legislative frame work for electronic tax payments and lack of infrastructure in Nigeria are obstacles to overcome. Also, although the use of electronic tax systems has produced higher efficiency in tax administration, it has also raised new concerns for taxpayers and tax administrators. Some of the concerns include issues of cyber

\* **NWABACHILI Chioma O., PhD**, Department of International Law & Jurisprudence, Faculty of Law, Nnamdi Azikiwe University, Awka, Anambra State, Email: co.nwachili@unizik.edu.ng,

\*\* **NWANKWO Chioma B., PhD**, Department of Customary Law, Faculty of Law, Nnamdi Azikiwe University, Awka, Anambra State, Email: cbe.nwankwo@unizik.edu.ng and

\*\*\* **UGWU Maureen O., LL.M.**, Department of Human Rights, Faculty of Law, Nnamdi Azikiwe University, Awka, Anambra State, Email: om.ugwu@unizik.edu.ng

<sup>1</sup>A Osita, Taxation And Tax Management In Nigeria (6<sup>th</sup> Edition, Enugu: Ezu Books Ltd, 2014.) p581.

<sup>2</sup>M N Umeweke & E S Ifediora, 'The Law And Practice Of Electronic Taxation In Nigeria: The Gains And Challenges' (NAUJILJ2016)P101<<https://www.ajol.info/index.php/naujilj/article/view/136245>> accessed 3/10/23.

security, cybercrime and internet fraud. Most countries in the world with effective electronic tax systems are exposed to the challenges of cybercrime and are constantly confronted with the activities of cybercriminals.<sup>3</sup> The primary objective of any tax administration anywhere in the world is to maximize revenue collections by improving tax compliance. However, before the emergence of electronic taxation, tax administrators have been hindered in the efficient and effective discharge of their primary assignments.

Since the advancement of Information Communication and Technology (ICT), the operation of tax system in Nigeria has been seriously challenged and one of the ways tax authorities had improved interactions with taxpayers is through electronic tax system. E-tax system increases the quality and quantity of information available to tax officers, enabling them to complete transactions faster and more accurately<sup>4</sup>. The benefits of introducing electronic services to tax administration are enormous thus the need to appreciate how e-tax payment system works and analyse the legal framework created for e-tax payments system in Nigeria.

The paper thus, sought to examine the functioning of e-tax payments in Nigeria, pinpointing obstacles hindering its advancement. It also considered the practice of e-tax systems in Kenya and Tanzania and possible lessons to be gleaned from there, while, providing corresponding recommendations.

## **2. Overview of Concepts of Taxation and E-Tax System**

### **2.1. Concept of Tax and Taxation**

Taxation is the process by which a government or authority levies charges on individuals, businesses, or other entities in order to generate revenue for government expenditure. This revenue is used to fund public services and infrastructure, such as education, healthcare, defence, and various government programs. Taxes can be imposed on income, property, goods and services, capital gains, and other forms of economic activity. The specific types and rates of taxes vary widely from country to country and can be influenced by economic policies, social objectives, and political considerations. Taxes are distinct from other income sources because they are obligatory charges and are unrequited that is they generally not paid in exchange for some specific thing. Taxes are typically gathered for the collective welfare of taxpayers, but an individual taxpayer's obligation is generally not contingent on receiving specific benefits.

Tax in a lay man understanding means a strain, burden or heavy demand. It is a pecuniary burden laid upon individuals or property for the support of the government and it is a payment exerted by legislative. Tax is a compulsory contribution towards a country's expenses raised by the government from people's salaries, properties and supply of goods and services.<sup>5</sup>

It has been defined in *United States V. Butter*<sup>6</sup> to mean:

A tax in the general understanding of the term, and used in the constitution signifies an exaction for the support of the government.

It also been defined by the court in *Matthews V. Chicory Marketing Board*<sup>7</sup> as a compulsory exaction of money by a public authority for public purposes or tax is the raising money for the purpose of government by means of contributions from individuals persons. The most important thing to note in defining tax is that it is a pecuniary burden laid upon individuals or persons or property to support the

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<sup>3</sup>U R Newman and O E Eghosa 'Electronic taxation in Nigeria: Challenges and Prospects' <https://www.researchgate.net/publication/330422913> accessed 05/10/2023.

<sup>4</sup>O P Nwangbebu et al, 'Electronic Tax System As A Panacea For Tax Revenue Leakages In Nigeria' African Journal Of Political and Administrative Studies (2019) vol12(1) P40 <https://www.ajol.info/index.php/ajpas/article/view/247153/233774> accessed 28/09/2023.

<sup>5</sup>M Robinson, Chambers, 21<sup>st</sup> Century Dictionary (New Delhi, Allied Chambers (India) Ltd, 1999) p.32.

<sup>6</sup>2276 Us. 1 (1936) at pg. 61 Justice Roberts.

<sup>7</sup>(1938) 60 C.L.R. 263 at 276; *Eti-Osa Local Government v Jegede* 10 NWLR (Pt.1043).

government and it is a payment exacted by legislative authority. That is they are levied by public body and thus intended for public purposes.

Not all compulsory levies are tax, in determining tax there some essential qualities it must possess they include; it must be a compulsory levy that is certain and shows the basis for calculating the payment, the payment must be collected by a public authority or tax authority with jurisdiction, there must be penalty for non-compliance with payment, payment could be in money or money's worth such as good or free labour and most importantly, there must be a legislation backing the demands for such payment. The Constitution of the federal Republic of Nigeria<sup>8</sup> authorises the collection of taxes from individuals when it provided that 'It shall be the duty of every citizen to declare his income honestly to appropriate and lawful agencies and pay his tax promptly. In the same vein, every tax collected from citizens in Nigeria has an enactment empowering such

## 2.2 Concept of Electronic Payment System

The electronic payment system is the electronic transfer of cash via online transactions from business-to-business, business-to-consumer, person-to-person, and most recently, administration-to-consumer. The administration-to-customer charge is for paying taxes to governments, E-payment in credit card information, or any other electronic means, as opposed to cash and cheque payments.<sup>9</sup> It refers to cash and related transactions carried out using electronic tools. This usually includes the use of computer networks such as the internet and the distributed digital value system.<sup>10</sup> This method makes payment of bills directly from the online, without the use of cheques for writing and mailing. It has been argued that electronic payment is a mode of financial exchange between the buyer and the seller which is facilitated by electronic communication.<sup>11</sup>

Furthermore, it has also been argued that the importance of electronic payment goes beyond the immediate convenience and protection of cards to a broader domain of contributing to overall economic growth. The term electronic payment to be closely related to e-commerce payment for the purchase and selling of goods and services provided through the internet, or loosely related to any kind of electronic funds transfer.<sup>12</sup> It is an easy, safe and efficient way to pay bills and other transactions by electronic means such as card, telephone and internet. The key aim is to eliminate transactions in cash and cheques. The introduction and increased use of e-payment systems holds the promise of broad benefits to both consumers and businesses in the form of greater convenience and more secure or reliable means of payment and settlement for a potentially vast range of goods and services offered worldwide over the internet.<sup>13</sup> Its solutions include tickets, mobile payments through the internet, Kiosks for financial services, biometric Payments, and electronic payment networks.

Nigeria has two types of e-payment namely: an End-to-End processing and Manual E-payment. The end-to-end processing is where all transactions are performed electronically, from approvals to the beneficiary's receipt of the benefit. Manual e-payment on the other hand, is a mixture of manual and electronic processes where the available infrastructures cannot accommodate end-to-end processing.<sup>14</sup>

<sup>8</sup>S. 24(f) Constitution of The Federal Republic of Nigeria 1999 (CFRN) CAP C23 LFN 2004.

<sup>9</sup>R Guttman, *Cybercash: The Coming Era of Electronic Money* (London: Palgrave Macmillan, 2003).

<sup>10</sup>D B Humphrey et al, 'Realising The Gains From Electronic Payments, Cost, Pricing Choice' *Journal of Money, Credit and Banking*. 2001216-234. <https://www.jstor.org/stable/2673882> accessed 14/10/23.

<sup>11</sup>K Delali, *The Challenges Of Implementing Electronic Payment System: The Case Study of Ghana's E-zwich Payment System* (MBA Theses in Business Administration 2010) <https://www.academia.edu/8869573/> accessed 14/10/22.

<sup>12</sup>M Ciraceno & J A Gracia, 'Measuring payment system development' *The World Bank Review* 2008 <https://documents1.worldbank.org/curated/en/790981468147564125/pdf/490030WP0Measu10Box338937B01PUBLIC1.pdf> accessed 14/10/23.

<sup>13</sup>I G Bagudu and U C Okolie, 'Analysis of Prospects and Challenges of E-Payment System in Nigeria' *Journal of Business* vol. 11 2022 38 <https://jb.ibsu.edu.ge/jms/index.php/jb/article/view/199/186> accessed 14/10/23.

<sup>14</sup>J Okifo, & R Igbunu, 'Electronic payment system in Nigeria: Its Economic Benefits and Challenges' *Journal of Education and practice*, vol. 6 2015 56 <https://files.eric.ed.gov/fulltext/EJ1079942.pdf> accessed 14/10/23.

The electronic tax scheme in Nigeria remains a manual e-payment. Perhaps Nigeria's electronic tax system lacks the infrastructure and expertise to enforce these programs, or maybe taxpayers were hesitant to make full use of online capabilities.<sup>15</sup>

### **2.3. Concept of Electronic Taxation**

Electronic taxation is the mechanism by which taxes are calculated, collected and administered in an electronic media.<sup>16</sup> It has been defined as an electronic service that supports increasing service quality by eliminating cost for tax payers and increasing value for tax authorities.<sup>17</sup> It has also been defined as an online system or channel where taxpayers are able to have access or permit to the platform through the use of internet in order to have access to all the services provided by the tax authority such as the registration for a tax identification number, electronic tax filing of tax returns and application for compliance certificate.<sup>18</sup> E-tax payments is one of the ways through which governments globally make use of information and communication technologies to enhance the provision of public services and the circulation of public administration information to the society.<sup>19</sup>

Electronic Tax system was introduced by Nigeria Tax Authority to increase revenue collection, tax administration, grant services to the tax payers, reduce costs of compliance and improve tax compliance. It is increasingly replacing paper-based tax system. These systems brought about advantages through faster process, lower costs and increased efficiency. FIRS have a centralized Information Communication Technology (ICT) department that provides support services to try and achieve its goals for achieving increased revenue collection and bring about voluntary compliance by taxpayers.<sup>20</sup> In Nigeria, the Federal Inland Revenue Service (FIRS) adopted the tax automation process in 2013 with the introduction of the Integrated Tax Administration system (ITAS). The system comprises of a set of programs that would enhance simplification of tax administration and encourage voluntary compliance while ensuring linkages with other stakeholders through the use of IT. The software is generally designed to meet the needs of developing countries who wish to increase their control over State revenue by equipping themselves with computerized systems. In summary of the FIRS press releases through Vanguard 2015, This Day Live 2013 and Punch 2015, the system operates in three different languages which make it possible for tax agents to perform operations in the language of their choice and facilitate correspondence with taxpayers. The type of taxes supported by ITAS include income tax, VAT, sales tax, licenses and permit (Alcohols, etc), pay as you earn, excise duty, driving license and other motor vehicle registration, general income, property taxes, withholding taxes and others. With this reform, the government aims at capturing more companies and individuals into the tax net so as to increase revenue derived from taxes and also curb leakages in the Nigerian tax system.<sup>21</sup>

The TaxPro Max platform is the FIRS' latest effort at digitalising tax administration in Nigeria. The platform, deployed fully in 2021, gives taxpayers the ability to file tax returns (Value Added Tax, Tertiary Education Tax and Companies' Income Tax) electronically, pay the applicable taxes

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<sup>15</sup>E S Awai & T Oboh, 'Ease of Paying Taxes: The Electronic Tax System In Nigeria' *Accounting and Taxation Review*, vol.4(1) 63-73.[https://www.atreview.org/admin/12389900798187/ATR%204\\_1\\_%2063-73.pdf](https://www.atreview.org/admin/12389900798187/ATR%204_1_%2063-73.pdf) accessed 19/09/23.

<sup>16</sup>Ibid.

<sup>17</sup>N Mohamed et al, 'Measuring user's satisfaction with Malaysia's electronic Government system Electron' *ResearchGate* 2009 283-294 <https://www.researchgate.net/publication/255634766> accessed 23/10/2023.

<sup>18</sup>D Wasao, *The effect of online tax system on tax compliance among small taxpayers.* (Msc, Department of Finance and Accounting, University of Nairobi 2014) <http://erepository.uonbi.ac.ke/bitstream/handle/11295/74865/> accessed 23/10/2023.

<sup>19</sup>A Che-Azmi & Y Kamarulzaman, 'Adoption of tax E-filing: A conceptual paper' *African Journal of Business Management*, 201010(1), 599-603.<https://www.researchgate.net/publication/265907925> accessed 23/10/2023.

<sup>20</sup>B J Alade, 'E-Taxation Adoption and Revenue Generation in Nigeria' *Research Journal of Finance and Accounting*, 9(2), 2018 p4-10 <https://www.iiste.org/Journals/index.php/RJFA/article/download/45867/47352> accessed 23/10/2023.

<sup>21</sup>O P Nwamgbebu et al, 'Electronic Tax System as a Panacea for Tax Revenue Leakages in Nigeria' *African Journal Of Political and Administrative Studies* (2019) vol 12(1) P40-50 <https://www.ajol.info/index.php/ajpas/article/view/247153/233774> accessed 28/09/2023.

electronically/online, enjoy instant credit of withholding tax as well as other credits to the taxpayer's accounts, ascertain capital allowance carried forward and obtain tax clearance certificates. Globally, the tax environment is changing rapidly. Electronic taxation is the modern

System and not adopting the innovation the exact way it was proposed. In the case of this study the innovation at hand is e-tax payment system, while the actor is the Federal Inland Revenue Service, it is expected that FIRS adopt e-tax in Nigeria not in the way it was adopted in other nations of the world rather it should be adopted in a way that suit the level of economic and technological development in the country<sup>22</sup>

### 3. Legal Assessment of E-Tax Payments System in Nigeria

#### 3.1. E-Tax Payments in Nigeria

An electronic tax payment (E-tax payments) has to do with the use of electronic means in the collection and payment of tax. It refers to collection and administration of tax through electronic means. The collection of revenue through electronic medium has gained much prominence recently in developing countries of the world.

In Nigeria, electronic tax payments were introduced in 2015 by the Federal Inland Revenue Service (FIRS) in conjunction with the Nigerian Inter-Bank Settlement System (NIBSS). The Service is one of the revenue authorities in the world that carries out E-tax payment through the Business Processes Improvement (BPI) and increases scope of electronic interface with various taxpayers with a view to maximizing staff and service efficiency and effectiveness. The FIRS has an Information Communication Technology (ICT) department which provides support and customer care services to taxpayers, and also with the intent to increasing revenue generation and enabling acceptance of the system by taxpayers.<sup>23</sup>

#### 3.2 Objectives of E-Tax Payments System

E-taxation, which replaces the manual tax system by simplifying tax compliance, facilitating access to tax services, and enhancing the tax payment process, was introduced and widely publicized by FIRS through its press releases. According to several press releases by the Federal Inland Revenue Service, the main objective of the ITAS is to change the current manual system of filling tax returns there by simplifying tax compliance, ease of access to tax services and payment processes.<sup>24</sup> Thus, e-taxation was implemented to accomplish the following goals:

- a. To address and provide solutions to the issues with Nigeria's outdated manual taxation system.
- b. To offer and provide streamlined, effective procedures that make it simpler for taxpayers and other stakeholders to interact with the service and, as a result, increase the FIRS's responsiveness to the needs of taxpayers.<sup>25</sup>
- c. To increase taxpayers' willingness to pay taxes voluntarily and to make the tax-paying community in Nigeria more welcoming.
- d. To ensure better transparency in the actions and practice of tax authorities for the sake of accountability and good stewardship

<sup>22</sup>C O Olaoye & O OAtilola, Op cit p58.

<sup>23</sup> Ibid.

<sup>24</sup>'E-Tax a Solution to Traditional Tax System in Nigeria' <<http://oer.abuad.edu.ng/wp-content/uploads/2018/02/1.pdf>>accessed 2/11/23.

<sup>25</sup>O M Atoyebi & O Ifediora, 'Legal Analysis Of E-Tax Payment System In Nigeria' <https://omaplex.com.ng/legal-analysis-of-the-e-tax-payment-system-in-nigeria/#:~:text=OBJECTIVES%20OF%20E%20TAXATION%20SYSTEM&text=To%20address%20the%20issues%20with%20Nigeria's%20outdated%20manual%20taxation%20system.&text=c.,community%20in%20Nigeria%20more%20welcoming>>accessed 2/11/23.

### 3.3 Procedures for E-tax Utilisation in Nigeria

There are basically six (6) stages or steps in the utilisation of E-Tax in Nigeria. These stages include;<sup>26</sup>

- a. **Electronic Registration:** To access e-taxation, the taxpayer logs into the tax authority's website to get registered through filling the Tax Payer Identification Form. In this form, the taxpayer provides certain relevant personal data about himself like his name, place of origin, age, business or employment details, marital status and several other relevant details. The form is to be submitted electronically.
- b. **Verification and Issuance of Tax Identification Number:** This is the stage where the relevant tax authority verifies the information supplied by the tax payer. Upon verification and validation of the information supplied, the relevant tax authority issues a Tax Identification Number to the taxpayer. The tax identification number is unique and personal to the taxpayer or his business.
- c. **Electronic filing of Tax Return:** At this stage, with his unique tax identification number, the taxpayer logs on to the tax authority's website to directly fill the electronic tax return form properly and submit same electronically. Where the relevant tax authority receives the tax return, it acknowledges receipt by sending the taxpayer an email to that effect. The tax software of the tax authority thereafter assesses the return filed by the tax payer, and determines the amount of money payable as tax.
- d. **Payment of Tax:** At this point, when the amount of money to be paid as tax is ascertained, the taxpayer either goes to the designated bank of the revenue authority to pay manually or pays electronically by transferring the amount due from his account to the designated bank account through his mobile banking app, the internet, or master/credit card. Where the bank confirms payment, an alert is sent to the tax authority which subsequently generates an electronic invoice.
- e. **Issuance of Electronic Validation:** Having been notified of the tax payer's payment of tax by the designated collecting bank, the tax authority generates and issues an electronic invoice to the tax payer, as evidence of tax payment.
- f. **Tax Refund:** Where upon the complaint of a taxpayer, the tax authority verifies that the taxpayer paid more than the amount due as tax, he gets an electronic refund through his bank or the amount paid in excess is retained by the designated collecting bank, on the instruction of tax authority, to be deducted for the next due tax to be paid.<sup>27</sup>

### 3.4 Prospects of Electronic Tax Payments

The adoption of electronic solutions in tax administration brings the Nigerian tax system into alignment with the global trends in tax administration of shifting from manual tax processes to an automated tax administrative system which is in conformity with the global digitalisation drive. This shift is informed by the advantages and prospects of electronic taxation, amongst which are:<sup>28</sup>

- I. **Accessibility:** E-taxation grants the option to communicate with tax authorities, taxpayers now have quick and undisrupted access to the tax authority to make enquiries and to pay their taxes anywhere they are. A taxpayer outside the country can pay his taxes with little or no stress at all where he has internet access and the tax authority's website or server is functioning properly. Also, many taxpayers with internet access can have access to the tax authority's website at the same time.<sup>29</sup> In other words it increases accessibility to tax services.
- II. **Time Saving and Convenience:** Prior to the introduction of e-taxation, taxpayers crowd the offices of the tax authorities that are generally short-staffed most times to file returns. Getting assessed is another hurdle altogether that could last for days or weeks. With the e-taxation system, taxpayers can now pay taxes even from the convenience of their homes and save the bulk of time that would have been wasted at hounding tax officers in their offices for tax

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<sup>26</sup>M N Umeweke & E S Ifediora, 'The Law And Practice Of Electronic Taxation In Nigeria: The Gains And Challenges' Nnamdi Azikiwe University Journal of International Law 2016 P101 <https://www.ajol.info/index.php/naujilj/article/view/136245> accessed 3/10/23.

<sup>27</sup>Ibid P103.

<sup>28</sup>U R Newman & O E Eghosa, 'Electronic taxation in Nigeria: challenges and prospects' International Company and Commercial Law Review 2019 <https://www.researchgate.net/publication/330422913> accessed 30/10/23.

<sup>29</sup>M N Umeweke & E S Ifediora Op cit p104.

assessment and even tax refund where the need arises.<sup>30</sup>The problem of machinery and lack of manpower to administer taxes has reduced to its minimum.<sup>31</sup>Thus it obviates the need for cumbersome manual paperwork in the filing of tax returns and reparation of tax assessments, which leads to administrative efficiency, in conformity with the canons of a good tax system of simplicity, equity and efficiency.<sup>32</sup>

- III. Early Detection of Errors: The tax software and applications used by most tax authorities utilising e-taxation are developed such that problems in filing of returns are detected and can be fixed quickly. Hence, without the resolution of such diagnosed errors, a taxpayer doing his taxes cannot progress in the e-taxation process.
- IV. Corrupt Practices of Tax Authorities are Appreciably Curbed: it helps to reduce sharp practices of corrupt tax officials who may have a tendency to manipulate information to aid evasion and avoidance.<sup>33</sup>That is, those tax officers in the habit of corruptly negotiating with taxpayers for the latter to pay less tax, collecting bribes from individual and non-individual taxpayers, is taken care of to a large extent. With the way the e-taxation procedures are, the tax histories of taxpayers known to the tax authorities and taxpayers alike are already permanently available in the database of the tax authorities. Hence, where a taxpayer does not pay his taxes as at when due, it reflects in the tax authority's website such that the payment of penalty or lesser amount cannot be negotiated by the taxpayer with corrupt tax officers.
- V. Safe and better data storage for Taxpayers' information and availability of Taxpayers' Tax History: it provides a database management system for taxpayers, improving the quality and quantity of information available to the government making it faster and easier to process, building taxpayers' trust in the system.<sup>34</sup>It makes access to the tax history of taxpayers easier as, with the click of a button, all relevant information of a taxpayer can be accessed up to when the taxpayer first registered with the tax authority for documentation and other purposes. A consequence of this is that it will be easier and cheaper to resolve disputes arising from tax assessments.<sup>35</sup>
- VI. Data Privacy: With e-taxation, numerous taxpayers in different locations can enjoy access to the tax authority through their website at the same time whilst the privacy of the taxpayers is protected. This is different from manual tax administration system wherein tax officials of the tax authority in accessing more than one taxpayer at a time may misplace their information and such information may fall at the wrong hands. However with e-taxation taxpayers can have multiple access to the tax authority's website independently, whilst their privacy is also guaranteed.
- VII. Tax Evasion by Taxpayers is curbed to some Reasonable Extent: E-taxation reduces the incidences of tax avoidance and tax evasion as it helps tax authorities to easily ascertain the authenticity of tax returns filed. Also, the availability of taxpayers' tax history makes it easy for tax authorities to track and prosecute tax evaders. This helps to reduce tax evasion.
- VIII. Enhancement of the enforcement of tax laws: with taxpayers' tax histories at their disposal through the adoption of e-taxation, tax authorities can effectively enforce the provisions of the various tax legislations that the taxpayers are likely to have breached against such taxpayers.
- IX. Improvement of Tax Compliance amongst Taxpayers: When taxpayers appreciate how e-taxation works and its attendant benefits, it increases tax compliance immensely. It reduces the burden of compliance and compliance costs as the taxpayer does not need to travel to the tax office to pay tax.

<sup>30</sup>Ibid.

<sup>31</sup>E S Awai & T Oboh, 'Ease of Paying Taxes: The Electronic Tax System In Nigeria' Accounting and Taxation Review, vol.4(1) pg.63-73. [https://www.atreview.org/admin/12389900798187/ATR%204\\_1\\_%2063-73.pdf](https://www.atreview.org/admin/12389900798187/ATR%204_1_%2063-73.pdf) accessed 19/09/23.

<sup>32</sup> U R Newman & O E Eghosa Op cit.

<sup>33</sup>Ibid.

<sup>34</sup>E S Awai & T Oboh Op cit.

<sup>35</sup>Ibid.

- X. The Economy of Tax Collection: The e-tax system provides a less costly way of collecting taxes. It reduces running and overhead cost that is operational cost of tax administration. It allows taxpayers to spend little or nothing in remitting taxes and filing returns, unlike the manual tax system where taxpayers incur some cost and delay by standing in queues and at any time, even after working hours and at weekends going into the tax office for payment, clarification, and compliances.<sup>36</sup>
- XI. Effective Tax Administration: The e-tax system due to its simplicity, certainty and ease has brought about compliance by taxpayers thereby increase government revenue and breeding an effective tax administration.

### **3.5 Challenges of E-tax Payment System in Nigeria**

The e-tax system like every other system has its problems attributed to its adoption and implementation. Some of which are:

- a) Lack of Internet Service: Effectiveness of e-taxation is dependent on the availability of an efficient internet service. At the moment, several places in Nigeria still do not enjoy an effective internet service, especially in rural areas. It is estimated that, between 2015 and 2018, the number of internet users in Nigeria rose from 63.2 million<sup>37</sup> to about 103.6 million.<sup>38</sup> Although there is a steady rise in the number of people with access to the internet and improved internet connectivity, a lot still needs to be done as the percentage of people without access to the internet in Nigeria is approximately 50% of its population, considering that its estimated population is put at about 198 million in 2018. This is further compounded by the unreliable electricity power supply in Nigeria.<sup>39</sup>
- b) High Cost of Initiation: The cost of implementing e-taxation is very high and can postpone or prevent its introduction, for example, by purchasing an e-tax from the Japanese government, in which taxpayers pay their taxes electronically spent the amount of ¥50 billion yen.
- c) Data Privacy and Security: Since the tax authorities are in control of matters published on their website or portal there is a possibility that they can manipulate every or certain information they publish on their website. Quest to access information on taxable persons by tax authorities cannot be ruled out.
- d) Low Computer Literacy Level amongst Taxpayers: Where taxpayers are not very computer literate, it can affect their tax compliance in utilising e-taxation to pay their taxes. Nigeria has low number of persons that are knowledgeable on how to operate computer or smart phone. Because of this, most taxpayers who are not technologically exposed shy away from the system causing them to stick more to the existing primitive method.
- e) Non-provision of Computer Centres with Constant Internet Access to be Freely Accessed by taxpayer scan affects the effective use of e-taxation by taxpayers to pay their taxes.
- f) Perception to Change: one of the critical issues with the implementation of a new system is the response to change. Although the manual system has proved difficult and tedious in the past, taxpayers still showed resistance to change with the introduction of e-taxation. The FIRS has introduced different forums and public enlightenment for taxpayers about e-taxation and the benefits it proposes.
- g) Failure to adopt E-tax payment System in several States in Nigeria: The FIRS, which is the tax authority at the federal level, has fully automated its processes. Many tax authorities at the state level are still using manual tax processes, except for a few states such as Lagos State, which has introduced e-filing, e-tax payments and e-tax clearance certificate systems.<sup>40</sup> This situation inhibits effective collaboration between tax authorities at the federal and state levels to prevent

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<sup>36</sup>Ibid.

<sup>37</sup>Nigeria: Number of Internet Users 2013–2019'

<https://www.statista.com/statistics/183849/internet-users-nigeria/> accessed 3/11/23.

<sup>38</sup>Premium Times, 'Internet Users in Nigeria hit 103.6 million in July-NCC' 2018

<https://www.premiumtimesng.com/business/business-news/282616-internet-users-in-nigeria-hit-103-6-million-in-july-ncc.html> Accessed 3/11/23

<sup>39</sup> U R Newman & O E Eghosa Op cit P6

<sup>40</sup>Lagos Internal Revenue Service, <http://www.lirs.gov.ng> accessed 04/04/24.



double taxation. There is a need for state revenue authorities to automate their processes to provide the necessary synergy with the FIRS.

- h) **Electronic Tax Fraud:** In Nigeria, cyber tax crimes will include making false statement and income declaration while e-filing tax returns or making e-payments. It will also include any act capable of obstructing the effective operations of the electronic tax systems and networks. With the digitalisation of government activities and the preference for deploying technology in tax assessment, filing of tax returns and payment of taxes globally, taxation has become exposed to the activities of cyber criminals who try to compromise websites and manipulate data in the sites of tax authorities, by exploiting the loopholes in the cyber security system.<sup>41</sup>The greatest threat to electronic taxation in Nigeria is the activities of cyber criminals, who try to compromise the integrity of the tax revenue service portals. It is a major challenge to the development and sustainability of electronic tax systems.<sup>42</sup>
- i) **Non- inclusion of some sectors:** The E-tax system in Nigeria is yet to accommodate all sectors and businesses in Nigeria and also update the platform in line with Finance Act, 2021. In addition, E-tax system in Nigeria is yet to incorporate the foreign currency-dominated tax returns.

#### 4. Assessment of Electronic Taxation in Kenya and Tanzania

##### 4.1 Electronic Taxation in Kenya

Kenya Revenue Authority (KRA) which is the general tax authority in Kenya is charged with tax administration and was established in 1995. Electronic taxation in Kenya was introduced in the year 2007, initially on a voluntary usage basis for all categories of income tax payers, through an online system called Kenya Revenue Authority Online. But in the year 2013, a new online system called iTax which does automatic reconciliation and validation of the returns was introduced with improved qualities and features to make it simpler for taxpayers to e-file their tax returns and remit taxes as they fall due.

Through this system, a taxpayer is able to register as a taxpayer, file tax returns, make payments (through tax e-slip), view ones ledger record, apply for and receive tax refunds, apply for and obtain through e,-mail Tax Compliance Certificate (TCC), and even make follow-up on KRA audit queries. Electronic filing of taxes has been mandatory since 2016 to collect taxes on employment, business and rental incomes. The system supports a wide range of tasks, from registrations to refunds. Taxpayers can still pay taxes using cash, however, by visiting authorised banks or Kenya Revenue Authority service centres. Universal e-payment of taxes is expected to change all that.<sup>43</sup>

The Kenya Revenue Authority (KRA) enhanced the iTax system in readiness for high traffic in the 2020 annual income tax return deadline. The Authority promoted the use of digital channels including the KRA M-Service App in light of the then prevailing Covid-19 pandemic, which occasioned minimal visits to public places as a safety measure. KRA has also put in place the necessary measures to support taxpayers who may need assistance during the filing season virtually. As at June 20, 2021, over 3.8 million Kenyans had filed their returns successfully, translating to over 20 per cent growth compared to the 3.1 million who had filed their returns by the same period the previous year.

KRA Marketing and Communication Deputy Commissioner Ms Grace Wandera attributed the increase in the number of returns filed to the current stability of the iTax system, adding that more taxpayers are

<sup>41</sup>KPMG, 'How Vulnerable are Governments to Cybercrime?' 2016 <https://home.kpmg.com/xx/en/home/insights/2016/05/how-vulnerable-are-governments-to-cyber-crime.html> assessed 04/04/24.

<sup>42</sup> U R Newman & O E Eghosa Op cit p6.

<sup>43</sup> 'Kenya is going digital to boost tax revenue – there are lessons to learn from other African countries' International Centre for Tax and Development2023 <https://www.ictd.ac/blog/kenya-going-digital-tax-lessons/> Accessed 04/04/24.

expected to file their returns. The iTax system is currently very efficient, enabling taxpayers to file their returns 24 hours a day, without hitches.<sup>44</sup>

In recognition of the need to undertake coherent and comprehensive reforms, some years back, the KRA adopted a Tax Administration Reform and modernisation Programme whose primary objective was to modernise and integrate its operations in line with international best practice of tax collection. Under this ongoing programme, KRA has implemented the following key measures aimed at enhancing revenue collection and service delivery to taxpayers: Deployment of the SIMBA 2005 System in the Customs Services Department; Installation of X-ray Cargo Scanners at the Kilindini Port in Mombasa; Implementation of a function-based rather than tax-based organisational structure in order to offer seamless service to taxpayers. In this regard, the electronic filing and payment system was introduced. Kenya has witnessed significant changes in many aspects of its economy over the last four decades, but like most developing countries, it has had to contend with the common problems that plague tax systems of developing countries<sup>45</sup>.

#### **4.2 Electronic Taxation in Tanzania**

Most African countries including Tanzania have undergone transformation to expand their tax bases and to collect more tax revenue to finance public expenditures. In Tanzania, the government has been implementing tax reforms since the 1960s to increase tax revenue. With the application of e-tax system in Tanzania, it was estimated that there would be a substantial expansion of tax revenue with a visible increase in tax income as the proportion to GDP<sup>46</sup>.

Section 34(1) of the Tax Administration Act (TAA, 2015), grants the Commissioner General (CG), the powers to establish and operate an electronic system for filing, furnishing and servicing documents. Accordingly, the Tanzania Revenue Authority (TRA), on 6<sup>th</sup> August, 2020, introduced online filing system for the following returns:

- Statement of Estimated tax payable by instalments (SETPI) <sup>47</sup>
- Statement of Revised tax payable by instalments<sup>48</sup>
- Statements and Payment of tax withheld (half-yearly returns)<sup>49</sup>
- Skill and Development levy monthly return<sup>50</sup>
- Annual corporate income tax (CIT)
- Monthly pay-as-you-earn (PAYE) returns
- Provisional income tax returns

The introduction of an online filing of tax return is a commendable one by the Tanzania Revenue Authority (TRA), which will increase voluntary compliance, save time and bring in efficiency in the tax administration regime. It address the below key challenges peculiar in Tanzania;

- Outdated tax reforms which missed key details and changes in the tax regime. The previous tax return forms did not address the differential treatment of various business operations including mining and petroleum operations, insurance, banking etc. However, under the new online tax returns forms and incorporated in the same to enable easy and correct assessment of taxes.

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<sup>44</sup>JNg'ang'a, 'KRA Optimizes ITax Ahead Of June 30 Annual Returns Filing Deadline' Kenya News Agency 2021 <https://www.kenyanews.go.ke/kra-optimizes-itax-ahead-of-june-30-annual-returns-filing-deadline/> Accessed 04/04/24.

<sup>45</sup>O M Lumumba et al, 'The Effectiveness Of Electronic Tax Registers In Processing Of Value Added Tax Returns' African Journal of Business & Management (AJBUMA) Vol. 1 (2010),p44-54.[http://erepository.uonbi.ac.ke/bitstream/handle/11295/13642/Lumumba\\_The%20effectiveness%20of%20Electronic%20Tax%20Registers%20in%20Processing%20of%20Value%20added%20Tax%20Returns.pdf?](http://erepository.uonbi.ac.ke/bitstream/handle/11295/13642/Lumumba_The%20effectiveness%20of%20Electronic%20Tax%20Registers%20in%20Processing%20of%20Value%20added%20Tax%20Returns.pdf?) Accessed 04/04/24.

<sup>46</sup>FM Masunga et al, 'Influence of E-tax system on Tax Revenue Collection in Tanzania Large Tax Payers' Journal Of Accounting, Finance and Auditing Studies, [www.jafas.org](http://www.jafas.org) accessed 05/05/24.

<sup>47</sup> ITA, 2004, s.89.

<sup>48</sup> ITA, 2004,S. 88.

<sup>49</sup> ITA, 2004,s. 84.

<sup>50</sup> VETA Act, s.16.

- Errors in capturing the data when issuing the assessments which resulted in unjustified demand notices especially where the incorrect assessments were issued but not delivered to the taxpayer and recovery measures taken.
- The system will allow the tax taxpayer to file returns on the go at any particular time before the due date instead of the limited time, ie, working hours.<sup>51</sup>

From the foregoing, the introduction of electronic filing system by TRA has improved tax compliance and increase efficiency in tax administration. Prior, to deploying the e-filing system, only the monthly value-added tax returns were filed electronically and withholding tax certificates were generated electronically, while the rest were done manually. Subsequently, after the introduction of e-filing, aside the aforementioned returns above, all other tax returns are to be filed physically (paper copy) with the TRA.

#### **4.3 Evaluation**

From the foregoing, it was observed that E- tax payment system is relatively new in Nigeria, Kenya and Tanzania. As E- tax payment system is still in its incubative stage in these countries, they are combining both manual and electronic systems of payment of taxes. There is no distinct legal framework regulating E- tax payment systems in these countries, except for directions and circulars issued by the various revenue authorities; Federal Inland Revenue Service (FIRS), Kenya Revenue Authority (KRA), Tanzania Revenue Authority (TRA) of the said countries. However, it is commendable for these countries to strive towards enhancing their tax administrations to conform to tax administration of developed countries.

It is also observed that the introduction of electronic tax payment system has relatively enhanced tax compliance in Nigeria, Kenya and Tanzania.

#### **5. Conclusion**

Technology has unarguably made our lives easier; it has cut across distance, space and even time. One of the technological innovations in tax administration is the E-tax Payments System. Electronic tax payments provides clear link between time to comply and payments of taxes, and it allows tax authorities to inspect transaction on a real-time basis rather than relying on manual tax returns. It is an indispensable and effective tool for transforming tax administration and aptly exploiting taxation for national development. Although, it is faced with great challenges some of which have been discussed especially the activities of cyber criminals on electronic tax environment, due to its reliance on internet and computer systems, electronic taxation in Nigeria is susceptible to various threats such as hacking, viruses, malware, ransom ware, data manipulation, and false declarations aimed at minimizing tax obligations. This vulnerability is underscored by the fact that citizens have been prosecuted for electronic tax fraud in foreign nations, and the country ranks third in the global cybercrime index.

Albeit these challenges the system has been proven to be more productive as regards to tax payer's compliance and increase in government revenue. If these governments at all level efficiently implements e-taxation in tax administration for taxpayers, it would facilitate accurate identification of taxpayers within these countries' economy and enable effective tax collections. Additionally, this approach would safeguard taxpayers from any potential overreach by different tax authorities. Thus, the move made by FIRS, TRA and KRA in adopting this system is commendable.

#### **6. Recommendations**

Flowing from above, this paper therefore makes the following suggestions for effectiveness:

Specific laws should be enacted by the legislature at the Federal and State levels to properly back up and clothe the e-taxation process with legality. It is highly recommended that the existing federal and state tax laws be revised to include provisions for governing electronic tax filing, or alternatively, new legislation should be introduced to oversee the entire e-taxation procedures.

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<sup>51</sup> FM Masunga etal (n.47).

Consequently, the FIRS should advocate for the National Assembly to pass laws that would provide a legal framework for e-taxation in Nigeria, giving the process a solid statutory foundation. This will prevent and reduce unnecessary legal disputes from tax evaders who might seek to challenge the legitimacy of the system.

A widespread campaign should be conducted to raise awareness among taxpayers, individuals with taxable income, and the public about the benefits of e-taxation for national development. The FIRS could create electronic tax payments system mobile App, create adverts on social media platforms, TV and radio stations which will serve as a means of creating more awareness and simplification of the tax system in the country.

It is advisable to set up ICT centres in every state, with a particular focus on rural areas. This is to provide taxpayers with the opportunity to participate in cost-free computer literacy programs aimed at maximizing the use of e-taxation for both federal and state taxes once tax administration processes are fully automated across Nigeria. It is equally commendable that FIRS and JTB have been actively promoting awareness about tax-related matters, particularly regarding the registration and issuance of TIN.

Regular and consistent registration of individuals with taxable income, along with the appropriate upkeep of the current taxpayer database, is essential. This will enable the relevant tax authorities to monitor taxpayers effectively and enforce the provisions of the diverse tax laws.

Furthermore, it is vital to have specialized IT personnel readily accessible to address any issues faced by taxpayers utilizing e-taxation. Therefore, it is imperative for different tax authorities to establish a proactive IT team capable of managing internet and other associated difficulties that taxpayers may encounter while fulfilling their tax obligations.

The E-tax should be made to accommodate all sectors and businesses in Nigeria in line with the provision of the Finance Act, 2021. Foreign currency dominated tax returns should be incorporated and accommodated in the E-platform.