



**AFRICAN TAX  
ADMINISTRATION FORUM**

**FORUM SUR  
L'ADMINISTRATION  
FISCALE AFRICAINE**



## **Domestic Resource Mobilization and the Taxation of Services in a Digital Economy**

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## OUTLINE

### Focus:

- Taxing the Digital Economy – What is at Stake
- The Challenges of Taxing the Digital Economy
- The OECD Inclusive Framework Approach
- The Emerging Promise from the United Nations Framework Convention
- Country Responses
- Tax Administration & Capacity Constraints
- The Way Forward.



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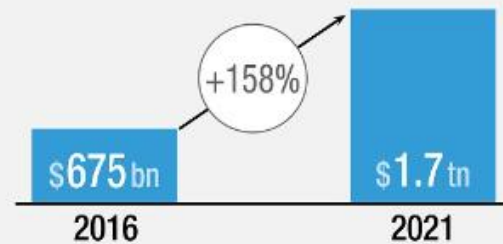


## Taxing the Digital Economy – What is at Stake

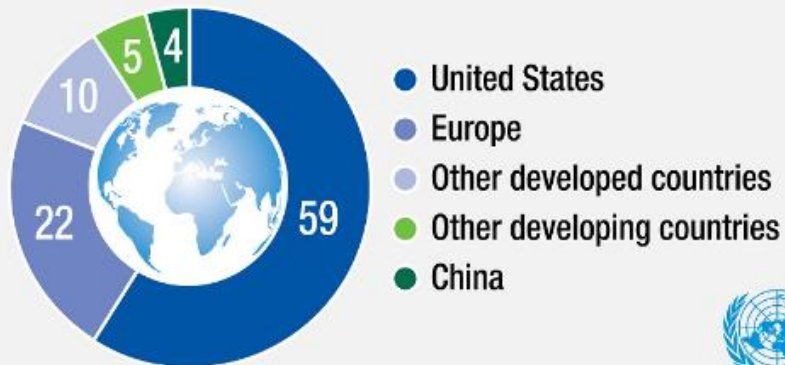


### TOP 100 DIGITAL MULTINATIONAL ENTERPRISES

#### ▶ Increase in sales



#### ▶ Geographical distribution of headquarters in 2021



Source: UNCTAD, Investment Trends Monitor, April 2022.



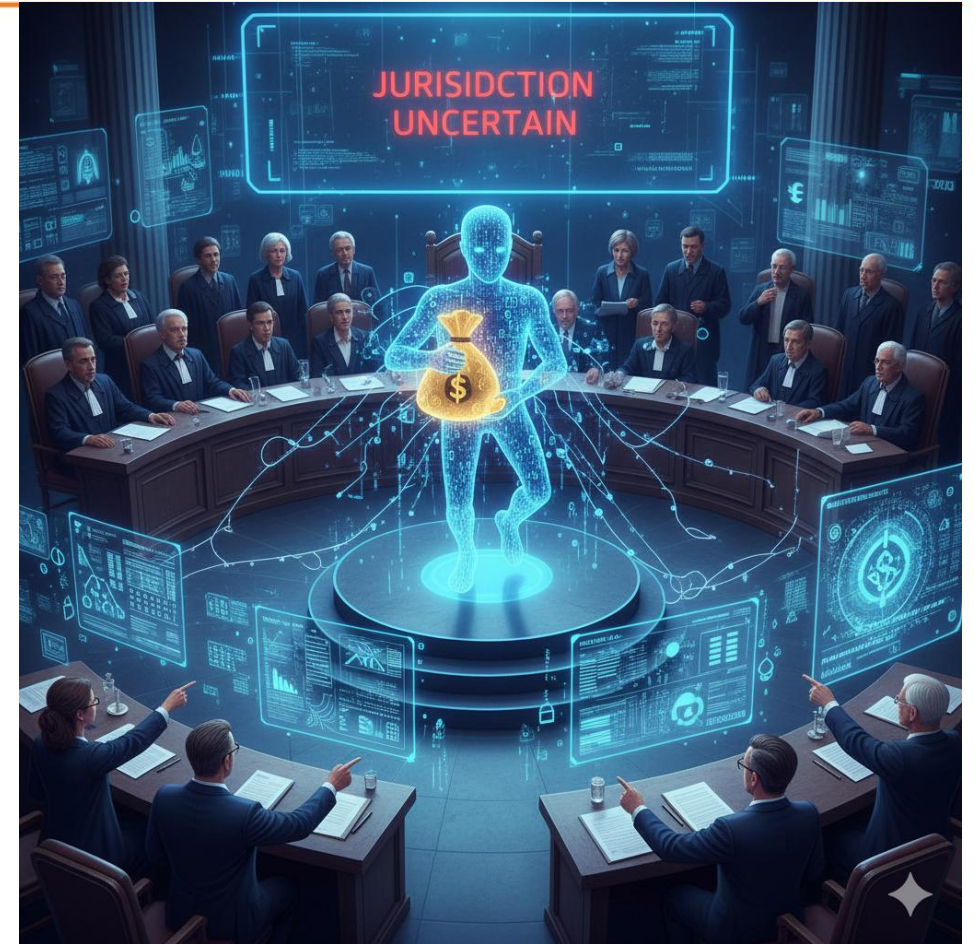
### Key Performance Trends of Digital MNEs (*UNCTAD World Investment Report 2025*)

- The digital economy continues to be a primary engine for global growth, with the value of its "narrow scope" (digital services, solutions, and platforms) expected to reach **\$16.5 trillion by 2028**.
- **Explosive Sales Growth:** Total sales of the Top 100 digital MNEs reached **\$3.5 trillion by 2024**, representing a massive increase from approximately \$1.7 trillion in 2021.
- **Market Concentration:** The dominance of "Big Tech" has intensified. The top five digital MNEs alone now account for **48% of global sales** in this category, more than doubling their 21% share from 2017.
- **Profitability Spike:** Net income for these companies saw a significant growth spike of **60%** during the post-pandemic recovery period.
- **"FDI Lightness":** These companies increasingly penetrate foreign markets with minimal physical assets. The ratio of foreign sales to foreign assets (their "FDI Lightness Index") rose by **11%** recently.



## The Challenges of Taxing the Digital Economy

- ❑ Limited Nexus Under Current Rules
- ❑ Profit/Loss Attribution
- ❑ Treaty Constraints (Allocation of Taxing Rights)
- ❑ Base Erosion and Profit Shifting (IP location manipulation, Intra-group pricing abuse, etc)
- ❑ No or Low Withholding on Cross Border B2C Digital Services
- ❑ Limited Voice in Standard Setting

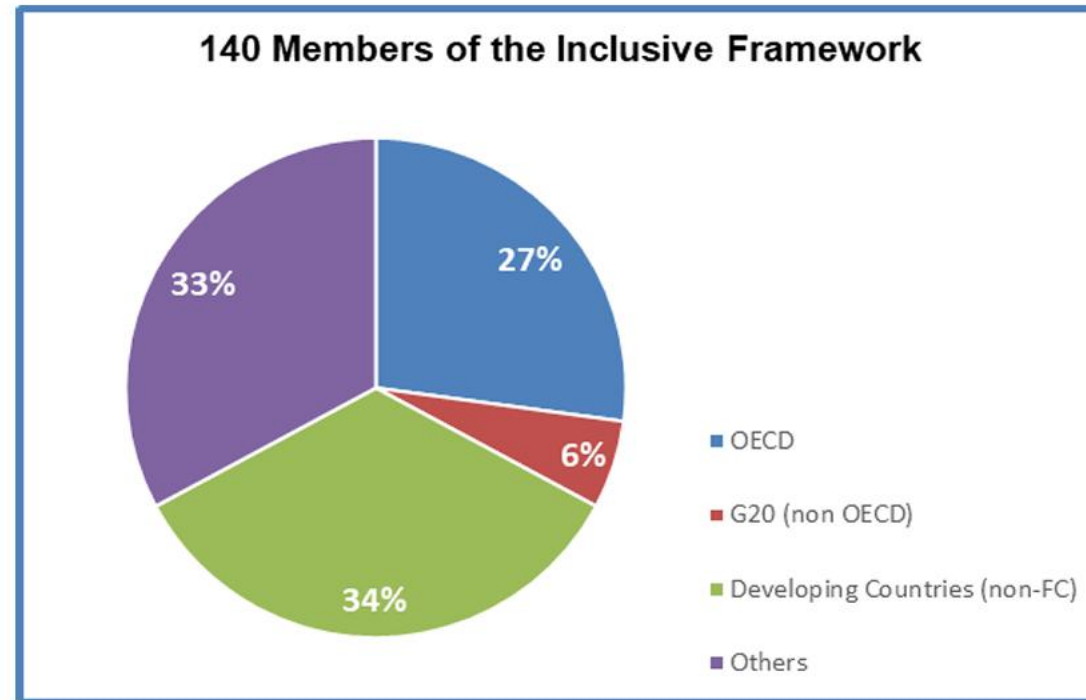


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## The OECD Inclusive Framework Approach

Figure 1.1. Members of the OECD/G20 Inclusive Framework on BEPS



Source: OECD, <https://www.oecd.org/tax/beps/inclusive-framework-on-beps-composition.pdf>.

- **POWER DYNAMICS:**
  - ✓ Despite that there is 140 members of IF, the Agenda setting as well as approval of the final output is by the G20 (33%)
  - ✓ 80% of the top 100 Digital MNEs reside in the OECD countries.
  - ✓ Opaque decisions making build around consensus which enable minority veto of majority stance
  - ✓ None or inadequate taxation of the digital services or services generally benefits the key power players in the OECD who can always tax the MNEs invoking their right to tax their residence
- **Approaches to taxing digital Services**
  - ✓ Physical Presence requirement
  - ✓ Emphases on place of delivery
  - ✓ Transfer Pricing
  - ✓ Pillar 1 –Amount A



## The Emerging Promise from the United Nations Framework Convention



- **POWER DYNAMICS:**
  - ✓ Consensus is pursued but when unattainable, majority rules apply while minority views are noted.
  - ✓ Work mandate including Agenda setting as well as approval of final output is by the UNGA
  - ✓ All countries participate in equal and inclusive footing.
  - ✓ Simplicity, equity, respect for sovereignty, sustainability, fair allocation of taxing right are key underlying principle for engagement.
- **Emerging discussion on Approaches to taxing digital Services (Protocol 1)**
  - ✓ Taxes covered
  - ✓ Scope
  - ✓ Nexus
  - ✓ Method
  - ✓ Relation with existing instruments

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## Country Responses

### ❑ Withholding Taxes on Cross Border Digital Payments (DSTs, etc)

**Benefits:** easy to administer; captures hard to-tax providers.

**Trade-offs:** treaty override concerns, may shift burden to consumers, may not cover all taxable cases

### ❑ Significant Economic Presence Rule

**Benefits:** market-based rule, treaty compatibility, easy to administer.

**Trade-offs:** treaty override concerns.

### ❑ VAT/GST on Cross-Border Digital Services (simplified registration regime)

**Benefits:** strong revenue yields, administratively efficient.

**Trade-offs:** compliance burdens for small foreign providers; risk of double taxation where guidance is unclear.



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## Tax Administration and Capacity Challenges

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### **(a) Identifying Non-Resident Digital Suppliers:**

- who provides services into the country,
- their turnover, and
- how payments flow.

### **(b) Monitoring and Enforcement**

- Limited real-time data from financial institutions and telecom operators,
- Challenges in registering foreign digital suppliers,
- Inadequate tools for monitoring VAT on low-value, high-volume digital transactions.

### **(c) Human and Technological Capacity Gaps**

- advanced audit skills,
- data analytics capabilities,
- cross-agency integration of tax, and financial data,
- legal expertise in digital commerce structures and international tax.



## THE WAY FORWARD

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### Domestic Priorities

- Take domestic measures to ensure effective taxation of Digital MNEs with safety nets to encourage the development of domestic digital economy,
- **Adopt and modernize VAT on digital services**, with automated enforcement systems.
- **Enhanced real-time access to payments data** to identify taxable digital flows.
- **Build specialized digital economy tax units**, with experts in platform business models, payment systems, and intangibles.
- **Review and renegotiate tax treaties** to expand source-based taxing rights.
- **Strengthen coordination between tax authorities, financial regulators, competition bodies, and central banks.**

### International Priorities

- Ensure that global tax reforms reflect the economic realities of developing markets— A support for the United Nations Framework Convention and its protocols is key.
- Create simplified, low-cost compliance frameworks suitable for low-capacity tax administrations.
- Expand joint audits, information exchange, and regional cooperation mechanisms.
- Enhance South–South cooperation on digital tax policies, capacity-building, and best practices.
- Leverage on global and regional organizations like G24 and ATAF to amplify common voice in global tax policy negotiations

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# FEEDBACK

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