

Tax Dialogues

An ACBF Webinar Series

Knowledge Brief for March 2026 Webinar

Taxing the Digital Economy in Africa: Unlocking Domestic Revenue Mobilization

Knowledge Brief No 1 | 2026

This Knowledge Brief synthesizes insights from the Tax Dialogue Webinar, convened in March 2026 by the African Capacity Building Foundation (ACBF). Discussions highlighted that Africa's digital economy is growing rapidly, yet existing tax systems struggle to capture its value. Drawing on insights from the Webinar, this Brief highlights challenges such as limited institutional capacity, information asymmetries, and outdated international tax rules. It proposes practical measures, including modernizing tax laws, strengthening VAT frameworks, and investing in digital administration, to enhance domestic revenue mobilization and support long-term development. Regional cooperation and policy harmonization are also critical to reducing tax arbitrage and improving enforcement across borders. Ultimately, effective taxation of the digital economy in Africa depends on a balanced approach that mobilizes revenue while supporting innovation and inclusive growth. By implementing forward-looking reforms and engaging in global tax governance, African countries can secure fair taxing rights and ensure that digital transformation contributes meaningfully to sustainable development.

1. Introduction

Africa's digital economy is expanding rapidly, with estimates suggesting it could grow from approximately USD 180 billion today¹ to nearly USD 700 billion within the next two decades². This growth presents a major opportunity for governments to strengthen Domestic Resource Mobilization (DRM) through effective taxation of digital activities.

Multinational technology companies increasingly generate value in African markets without physical presence, limiting countries' ability to tax them under existing rules. For example, major firms such as Facebook and Google report most of their tax payments in the United States, about 92% and 88%, respectively, despite significant revenues from African markets³.

African tax administrations face structural constraints, including limited access to real-time transaction data, insufficient IT infrastructure, and unclear legal definitions, which reduce their ability to enforce compliance. Without reform, countries risk losing revenue as digitalization accelerates. Poorly designed digital taxes could also undermine innovation or burden small digital entrepreneurs.

In response, several African countries have introduced or amended tax measures to capture revenues from the digital economy. For example, Kenya enacted a Digital Services Tax (DST) at 1.5 percent in 2021 (now evolving into a Significant Economic Presence tax), and Nigeria introduced a 7.5 percent VAT on digital services supplied by non-resident firms in 2022 to stem revenue leakage. Meanwhile, at least 21 African countries have expanded Value-Added Tax (VAT) and Goods and Services Tax (GST) rules to require non-resident suppliers of electronic services to register and remit tax, signaling growing policy recognition of the need to mobilize revenue from digital activities.⁴ At the global level, efforts to address digital taxation challenges continue through initiatives

such as the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS), which includes proposals under Pillar One and Pillar Two to improve the allocation of taxing rights and establish minimum taxation standards. Yet, there are ongoing debates about how these frameworks reflect African interests and revenue needs.⁵

Against this backdrop, digital economy taxation offers both an opportunity and a policy dilemma for Africa. Well-designed digital tax instruments, including digital services taxes, VAT on digital supply, withholding taxes, and modern compliance mechanisms, have the potential to enhance domestic revenue mobilization, improve tax equity, and modernize administration. At the same time, poorly designed measures risk market fragmentation, compliance burdens, and adverse effects on investment and regional integration under frameworks such as the African Continental Free Trade Area (AfCFTA).

In response, the African Capacity Building Foundation (ACBF) convened, as part of the ACBF Tax Dialogue Webinar Series, a Session on the theme *"Digital Economy Taxation, a Key Lever for Strengthening Domestic Revenue Mobilization in Africa"*. The webinar aimed to facilitate inclusive dialogue, share innovative policy frameworks, and co-develop actionable solutions for fiscal sustainability across the continent.

Drawing on insights from the Tax Dialogue Webinar held in March 2026, this Knowledge Brief outlines challenges in taxing Africa's digital economy and proposes practical options to strengthen legal frameworks, enhance tax administration, promote regional harmonization, and ensure fair allocation of taxing rights globally.

1. Google & International Finance Corporation (2020) e-economy Africa 2020: Africa's \$180 Billion Internet Economy Future. Washington, DC: IFC. Available at: <https://www.ifc.org/content/dam/ifc/doc/mgrt/e-economy-africa-2020.pdf> (Accessed: 12 March 2026).

2. Mene, W. (2025) 'Speech by H.E. Wamkele Mene at the 32nd Afreximbank Annual Meetings (AAM2025)', *Business News Nigeria*, 25 June. Available at: <https://businessday.ng/business-economy/article/africapositionstoharness712bndigitaltrademarketby2035/> (Accessed: 12 March 2026).

3. Tax Justice Network Africa (TJNA) (n.d.) *Taxation of Digital Services*. Available at: <https://taxjusticeafrica.net/policy-priorities/taxation-digital-services> (Accessed: 17 March 2026).

4. <https://economicconfidential.com/digital-economy-african/>

5. OECD (2021), *Tax Challenges Arising from Digitalisation of the Economy – Global Anti-Base Erosion Model Rules (Pillar Two): Inclusive Framework on BEPS, OECD/G20 Base Erosion and Profit Shifting Project*, OECD Publishing, Paris, <https://doi.org/10.1787/782bac33-en>

2. Key Institutional Insights from the Dialogue

2.1 Digitalization and Institutional Capacity Challenges

The rapid expansion of internet access and digital technologies across Africa is reshaping economic activity and redefining national tax bases. Increasing numbers of businesses operate online via social media marketplaces, e-commerce platforms, and digital payment systems. While this shift creates new opportunities for entrepreneurship and market access, it also complicates tax administration.

Many digital businesses operate across borders without a fixed physical presence, making tax identification and compliance enforcement difficult under traditional tax models. The growing use of mobile payments and online platforms further limits visibility into transactions, especially for microenterprises and informal digital traders.

African tax administrations, originally designed for traditional brick and mortar economies, remain ill-equipped to monitor digital activity. Key capacity gaps include limited access to real-time data, inadequate monitoring infrastructure, and insufficient analytical tools to detect cross-border tax avoidance.

Information asymmetry between multinational digital firms and tax authorities exacerbates these challenges. Digital companies typically control extensive operational and financial data, supported by legal and economic experts, while tax administrations often lack comparable expertise. Addressing these gaps requires investment in digital tax administration systems, such as big data analytics, automated compliance tools, and digital transaction monitoring platforms, alongside strengthened institutional capacity through staff training and retention.

Gradually integrating informal digital businesses into simplified tax regimes can also help broaden the tax base without discouraging innovation.

2.2 Limitations of Existing International Tax Rules

Traditional international tax rules are increasingly inadequate for the realities of the digital economy. The concept of permanent establishment, which allocates taxing rights based on a company's physical presence within a country, no longer reflects how digital businesses operate. Digital multinational enterprises can generate substantial revenues in a market jurisdiction without establishing any physical office or branch, limiting the ability of many African countries to tax profits generated within their markets.

The arm's length principle, which governs transfer pricing between related entities, is also becoming increasingly difficult to apply to digital companies. These firms derive significant value from intangible assets such as algorithms, intellectual property, data, and software, which can be easily shifted across jurisdictions. This makes it difficult for tax authorities to determine where value is created and how profits should be allocated.

Addressing these challenges requires countries to consider alternative nexus rules, such as Significant Economic Presence, while engaging in global tax negotiations to ensure emerging international frameworks allocate taxing rights more fairly across market jurisdictions.

2.3 Digital Tax Administration: Tools and Institutional Reform

Strengthening digital tax administration requires both technological innovation and institutional transformation. Digital compliance tools improve monitoring and taxation of online economic activity. One example is the **Digital Economy Compliance Tool developed by the Inter-American Centre of Tax Administrations**, which helps countries register non-resident digital suppliers and automate VAT compliance processes.

However, successful digital transformation depends not only on technology but also on institutional culture and organizational change. Experience from the **Zambia Revenue Authority** demonstrates that digital tax reforms require strong leadership, staff training, and organizational buy-in across the institution. Tax authorities must invest in digital literacy, change management programs, and long-term institutional reforms to ensure new systems are effectively adopted and utilized.

Uganda provides another positive example. The Ministry of Finance, Planning and Economic Development has modernized its tax administration by deploying digital monitoring tools, automating compliance for online transactions, and strengthening staff capacity through targeted training programs. Uganda's approach also integrates informal digital businesses into simplified tax regimes, expanding the tax base while maintaining support for small enterprises and digital entrepreneurs.

Regional cooperation is also critical for improving the enforcement of digital taxation policies. Harmonized approaches across African countries can reduce opportunities for tax avoidance and strengthen information sharing among tax authorities.

3. Country Experiences

3.1 Adoption of the Significant Economic Presence (SEP) Rule

The experience of Nigeria provides a useful example of how African countries are adapting their tax systems to the digital economy. Nigeria introduced the Significant Economic Presence rule in 2019 to address gaps in traditional tax rules that relied on physical presence. The policy targets non-resident companies earning income from Nigeria through digital services such as streaming, online advertising, cloud services, digital intermediation, consultancy, and remote services.

The rule applies revenue thresholds and indicators such as the use of Nigerian domain names, customized interfaces for Nigerian users and sustained commercial engagement with Nigerian consumers.

3.2 Revenue Outcomes and Implementation Challenges

The introduction of the SEP rule significantly expanded Nigeria's ability to tax foreign digital companies. Initial revenue collection reached ₦338 million in the first year, followed by a 300 per cent increase in the second year. However, revenue declined by approximately 50 per cent in the third year due to aggressive tax planning strategies and loophole exploitation by multinational companies.

Key implementation challenges included difficulties enforcing compliance for companies without physical presence, limited guidance on profit attribution, treaty shopping by multinational firms, and administrative complexity in monitoring cross-border digital payments.

3.3 Policy Adjustments and Lessons for African Countries

Nigeria subsequently introduced reforms to strengthen digital taxation. These included clarifying income attribution guidelines, integrating SEP considerations into new tax treaties, implementing minimum tax rules for digital suppliers, expanding VAT rules for digital

services, and appointing digital platforms as VAT withholding agents.

The Nigerian experience demonstrates that taxing the digital economy requires continuous policy reform, combining legal innovation with improved administrative capacity to keep pace with evolving business models and tax avoidance strategies.

4. Policy Recommendations

The rapid expansion of the digital economy across Africa presents both opportunities for domestic resource mobilization and challenges for traditional tax frameworks. Effective digital taxation requires coordinated reforms in legal frameworks, tax administration systems, institutional capacity, and regional cooperation. The following recommendations provide practical guidance for African governments, tax authorities, and regional institutions.



4.1 Modernize Tax Legislation for the Digital Economy

African countries should reform domestic tax laws to reflect digital business models. Traditional rules based on physical presence no longer capture income generated by multinational digital firms. Governments should introduce economic nexus rules, such as Significant Economic Presence, with clear thresholds based on revenue, users, or transaction volumes.

Countries should also strengthen VAT frameworks for digital services by requiring simplified registration for non-resident suppliers and enabling platform-based VAT collection.



4.2 Strengthen Digital Tax Administration Systems

Tax authorities need modern systems to monitor digital activity. Many lack real-time access to transaction data and digital monitoring tools. Governments should invest in data analytics platforms, automated compliance systems, and artificial intelligence tools for detecting tax avoidance.

Stronger integration between tax authorities and financial intermediaries, including banks, mobile money operators, and digital payment gateways, can improve access to transaction data and support enforcement.



4.3 Reduce Information Asymmetry Through Greater Transparency

Governments should introduce stronger transparency requirements to access corporate data. Key measures include mandatory country-by-country reporting, disclosure of revenues generated in specific markets, and enhanced reporting obligations for digital platforms.

These mechanisms help tax authorities assess economic activity more accurately and enforce tax obligations.



4.4 Invest in Institutional Capacity and Human Capital

Effective digital taxation requires a strong institutional capacity within tax administrations. Many African tax authorities continue to face shortages of specialized expertise in areas such as international taxation, transfer pricing for intangible assets, and digital transaction auditing. To address these gaps, governments should increase investment in training programs for tax officials and support the establishment of specialized units dedicated to digital taxation. Partnerships with regional training institutions and international organizations can further strengthen technical capacity and help develop the specialized skills required for effective digital tax administration.

At the institutional level, tax authorities must also prioritize organizational change management to ensure the success of digital transformation initiatives. The experience of the Zambia Revenue Authority demonstrates that effective

digital tax reforms depend on a supportive organizational culture, sustained staff training, and long-term institutional commitment. This underscores that technological tools alone are insufficient; meaningful reform requires investing in people and embedding digital readiness across the institution.



4.5 Strengthen Regional Cooperation and Policy Harmonization

Digital activities are inherently cross-border. Without coordinated policies, multinational firms can exploit differences between national systems. African countries should strengthen cooperation through regional bodies such as the African Union, ACBF, and ATAF to harmonize digital tax frameworks, share information, and coordinate enforcement.

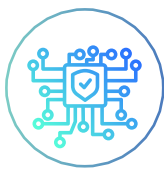
Regional alignment reduces tax arbitrage and strengthens Africa's position in global negotiations.



4.6 Actively Engage in Global Tax Governance

African governments should participate actively in global tax discussions to ensure that emerging international frameworks reflect the interests of developing economies. Global reforms must recognize market jurisdictions and allocate fair taxing rights to countries where digital services are consumed.

Engagement also allows African countries to influence global standards on digital services taxation and profit allocation.



4.7 Promote Inclusive and Innovation-Friendly Digital Tax Policies

Digital tax policies must balance revenue mobilization with support for innovation. Governments should avoid imposing heavy compliance burdens on small digital businesses.

Simplified tax regimes, clear compliance guidance for startups, and support mechanisms for youth and women digital entrepreneurs can foster inclusive growth. Revenues should be reinvested in digital infrastructure, digital literacy, and innovation ecosystems.



4.8 Establish Continuous Reform and Policy Adaptation Mechanisms

Digital business models evolve quickly, requiring flexible tax rules. Governments should adopt mechanisms for periodic review of digital tax policies and continuous monitoring of new business practices and tax avoidance strategies.

Regular stakeholder consultations and international knowledge sharing can help maintain responsive and adaptive frameworks.

5. Conclusion

The rapid growth of Africa's digital economy presents both an opportunity and a challenge. While digital platforms create new avenues for economic growth, current tax systems struggle to capture the value generated within African markets.

Addressing this gap requires comprehensive policy reforms, including stronger legislation, improved data systems, enhanced administrative capacity, and greater regional cooperation.

No single policy instrument will solve the problem. Effective taxation of the digital economy requires a coordinated strategy combining legal reforms, digital tools, and international engagement.

By adopting forward-looking policies and strengthening institutional capacity, African governments can ensure that the digital economy contributes fairly to national development while supporting innovation and sustainable economic growth across the continent.

Appendix: Webinar Program

Time (GMT+3)	Session	Speakers
15:00 – 15:10	Opening Remarks	Abdrahamane Dicko , Director, Programs and Impact Department, ACBF
15:10 – 15:20	Framing Presentation: Digital Economy and Domestic Revenue Mobilization in Africa	Solomon Rukundo , Tax Policy Specialist, Ministry of Finance, Planning and Economic Development, Uganda
15:20 – 16:10	Panel Discussion: Leveraging Digital Economy Taxation for Sustainable Domestic Revenue	Lyla Latif, Co-founder and Chair, Center of Fiscal Studies; Digital Economy Taxation Expert. Alejandro Juárez Espíndola, Director of Training and Human Talent, CIAT, Brazil Harrison Chapu, Project Manager, Tax Online, Zambia Revenue Authority (ZRA) Femi Olarinde, Head, Fiscal and Tax Reforms Implementation Division, Federal Inland Revenue Service (FIRS), Nigeria Magdalena Gisse, Vice Chair of the Young Women of Africa Tanzania chapter
16:10 – 16:25	Open Floor: Reflections and Q&A	All Participants
16:25–16:30	Closing Remarks and Next Steps	Rodolphe Bance , Head, Economic and Social Governance Unit, ACBF



“Digital Economy Taxation, a Key Lever for Strengthening Domestic Revenue Mobilization in Africa”

SPEAKERS



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MODERATOR



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11 March
2026

15:00 - 16:30
EAT (GMT+3)

Virtual
Registration Link:
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