

## **Digital taxes are reshaping cross-border e-commerce economics in Africa**

Digital taxation has moved from policy debate to regulatory reality. Governments across the world are implementing measures aimed at taxing revenue generated within their markets by digital businesses, regardless of their physical presence. These measures, including VAT on electronic services, digital services taxes and withholding-based mechanisms, are changing how digital commerce operates.

The rapid growth of the digital economy has fundamentally altered how goods and services are traded across borders. Businesses can supply digital products, services, and platforms into markets without establishing a physical presence in those markets, thus enabling unprecedented levels of cross-border e-commerce.

While digital taxes are often framed as a fiscal issue, their real impact is commercial. They are reshaping pricing, participation, and competitiveness in cross-border e-commerce markets, with implications for both multinational platforms and local businesses.

### **The economic logic behind digital taxes**

Traditional international tax systems were designed around physical presence. A company paid tax in a country where it had offices, employees or tangible operations. The digital economy disrupted that model in ways that are now well understood, but still not fully resolved.

Social media platforms monetise user data without maintaining local offices. Streaming services generate subscription revenue from users across many countries. Online marketplaces facilitate transactions between buyers and sellers in countries where the platform itself may have no legal entity.

As digitalisation accelerated, governments became increasingly concerned about base erosion and profit shifting, loss of tax revenue, perceived inequities between local and foreign companies, and growing political pressure to tax large multinational technology firms.

Digital taxes have emerged as a response to these concerns. They are intended to both capture revenue and create parity between domestic and foreign businesses. However, in doing so, they inevitably change the underlying economics of how digital services are supplied across borders.

### **Global context: the OECD framework**

The global response to digital taxation has been shaped in large part by the work of the Organisation for Economic Co-operation and Development (OECD).

Through its BEPS 2.0 initiative, the OECD has introduced a two-pillar framework. Pillar One seeks to reallocate taxing rights of large multinationals profits to markets where their goods or services are used, while Pillar Two introduces a global minimum corporate tax rate of 15%.

147 countries have committed to elements of this framework, although implementation remains complex and uneven. In the meantime, countries have continued to introduce unilateral or regional digital tax measures in their own markets.

For businesses, this creates a layered environment: global rules are emerging, but local regimes remain highly relevant and, in many cases, decisive.

### **The adoption of digital services taxes in Africa**

Direct digital services taxes, i.e. turnover-based levies on gross revenue from digital services supplied by non-residents, remain relatively limited in Africa compared to VAT-based approaches.

A few African countries have implemented direct digital service tax regimes, including Kenya, Nigeria, Tunisia, Zimbabwe, Tanzania and Sierra Leone.

However, over 20 African countries have introduced VAT on electronic services supplied by non-resident providers, reflecting a more administratively straightforward first step in taxing the digital economy.

This shows that Africa is not creating a single model of digital taxation, but is rather experimenting with different approaches depending on administrative capacity, enforcement considerations and policy priorities.

### **The impact on pricing and market dynamics**

One of the most immediate effects of digital taxation is on pricing.

Turnover-based digital services taxes, as well as VAT obligations on foreign suppliers, increase the cost of supplying digital services. In most cases, these costs are not absorbed entirely by the platform, but are passed on to consumers.

This is already visible across some digital services. Subscription prices, advertising costs and marketplace commissions are adjusted to accommodate digital service taxes. Although they are commercially

rational, they have real implications for how businesses and consumers participate in digital markets.

The result is that digital taxes influence not only government revenue, but also consumer pricing and market demand.

For cross-border e-commerce, the effect is cumulative. Many African businesses rely on global digital platforms to reach their customers, advertise products and manage operations. As platform costs increase, so too does the cost of participating in those markets.

### **Cross-border e-commerce and structural friction**

Digital taxes do more than increase costs. They introduce new forms of friction into cross-border trade.

The defining feature of digital commerce has been its ability to operate across borders with minimal structural barriers. Digital tax regimes are beginning to change that.

As countries introduce VAT, direct digital service taxes and withholding-based taxation of digital services, businesses must navigate:

- multiple tax regimes applied to the same transaction;
- differing definitions of taxable digital services. and
- varying compliance requirements.

This results in a more fragmented and complex cross-border environment.

### **From adoption to enforcement: evolving digital tax models in Africa**

Beyond the question of adoption, a more important development is how digital tax frameworks are evolving in practice.

Across Africa, there appears to be a shift from relatively simple turnover-based models towards approaches that prioritise enforceability and broader jurisdictional reach.

In some cases, this involves expanding the basis on which tax is imposed. For example, Kenya's transition from a digital services tax to a significant economic presence framework reflects a move from transaction-based taxation to a model grounded in sustained digital participation within the local market. This broadens the scope of taxable activity and introduces greater complexity in determining exposure.

In other cases, the focus is on how the digital tax is collected. For example, Zimbabwe's move toward a withholding-based model

demonstrates a different strategy, i.e., incorporating tax collection within the payment system itself. By requiring intermediaries to collect the tax at the point of transaction, the framework reduces reliance on voluntary compliance by foreign providers and significantly enhances enforcement.

Nigeria's application of economic presence rules reflects a similar objective of asserting taxing rights over digital activity without requiring physical presence, while Tanzania's approach demonstrates how existing income tax frameworks can be adapted to capture digital marketplace activity.

From a practical advisory perspective, these developments indicate that digital taxation in Africa has not been static, but is evolving toward models that are both more comprehensive in scope and more effective in enforcement, with direct implications for how cross-border digital services are structured and delivered.

### **Community and market implications**

Digital taxes are often framed as a corporate tax issue. In reality, their effects are felt much more broadly.

Consumers may have to pay higher subscription prices for digital services, increased online advertising costs and, in some cases, reduced service offerings. Where platforms pass on tax costs, the impact is felt directly by users.

Small and medium enterprises are also affected. Businesses that rely on digital advertising, online marketplaces and cross-border platforms may face higher operating costs as platforms adjust pricing in response to tax obligations. At the same time, digital taxes may help level the playing field by reducing advantages enjoyed by large multinational firms.

For governments, digital taxation presents an opportunity to strengthen domestic revenue bases and support broader policy objectives, including infrastructure development and digital inclusion.

At the same time, there are legitimate concerns that these unilateral measures can create trade tensions, introduce compliance complexity and, in some cases, affect investment decisions. In practice, both perspectives have merit, particularly in emerging markets where the balance between regulation and growth is more delicate.

### **Balancing competing policy objectives**

For emerging markets, the central challenge lies in balancing competing priorities.

Governments want to generate revenue while continuing to attracting investment, support local innovation and ensure that digital services remain affordable and accessible. Digital taxation therefore intersects directly with digital inclusion policy and broader economic development objectives.

In the African context, this balance is particularly important. Digital markets are still developing, and policy choices in this area will have long-term implications for growth and participation.

### **Strategic implications**

For businesses, the implications are clear. Digital taxes are not limited to large technology companies. They affect a wide range of sectors, including digital advertising, streaming and audiovisual services, gaming and betting platforms, e-commerce marketplaces, SaaS providers and data-driven platforms.

Even in countries without direct digital services tax regimes, VAT enforcement on foreign suppliers has intensified.

At the same time, unilateral digital tax measures, including those adopted in parts of the European Union, have introduced additional complexity for multinational businesses operating across multiple countries.

As a result, digital taxation must be considered as part of broader commercial and regulatory strategy. Pricing, market entry, platform design and transaction structuring all need to take into account the evolving digital tax landscape.

### **Conclusion**

Digital taxation is reshaping the economics of cross-border e-commerce in Africa. While the adoption of direct digital services taxes remains relatively limited, the broader direction of travel is clear.

While the adoption of direct digital services taxes remains relatively limited, the broader trend is clear. African countries are expanding their ability to tax digital activity through a combination of VAT, income tax and withholding-based mechanisms.

For policymakers, the challenge is to balance revenue mobilisation and fairness with the need to promote digital inclusion and economic growth.

For businesses, the implication is that digital tax is not just a peripheral tax issue. It is a central factor in how cross-border commerce is structured, priced and executed.

Understanding and responding to these dynamics will be critical for any business seeking to operate successfully in Africa's evolving digital economy.

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