A CONCEPTUAL ANALYSIS OF TAXATION OF DIGITAL ASSETS VERSUS THE CRYPTO BAN IN NIGERIA: BALANCING FISCAL OBJECTIVES AND FINANCIAL INNOVATION

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Abstract
The emergence of digital assets has transformed the world in terms of finance and has brought both opportunities and challenging regulation and fiscal problems especially to developing economies like Nigeria. The taxation, economic stability, and regulation of cryptocurrencies are crucial issues because of their decentralization and the lack of borders. Within the Nigerian context, these issues are further complicated by apparent inconsistency in the policies of the government developing interest in taxing online material and the banning of cryptocurrency-related businesses by the Central Bank in terms of their implementation in the formal banking structure. The paper critically discussed the tension between taxation and prohibition and what the opposing conception of these two potential implications imply with regard to fiscal sustainability and financial innovation.By using the conceptual and qualitative method, the research is based on comprehensive literature review, policy documents, and other theoretical frameworks to give a structured and interpretive analysis. It is implied in the discussion that the taxation-oriented strategies are typically linked with better visibility of regulations, greater growth potential of revenue generation, and financing financial innovation. On the other hand, the policies based on prohibition can restrain the activities within the formal financial system and, probably, transfer the digital asset operations to the unofficial or less transparent ways. These opinions are informed based on the past research and policy interpretations and not through empirical research.The paper thus suggests that by having a balanced regulation structure that incorporates taxation and sensible monitoring, a more consistent and sustainable policy framework can be provided to Nigeria. It however notes that these propositions are still exploratory and that further empirical studies are necessary to prove the arguments and guide evidence based policymaking. Simply, the paper indicates

that cryptocurrency regulation and taxing, instead of its ban, would be economically beneficial, but additional evidence is needed to defend this standpoint.

Keywords: Blockchain regulation;cryptocurrency ban; digital assets; digital economy;financial innovation;fiscal governance; monetary policy; taxation policy; tax compliance

1.0 Introduction

The introduction of the blockchain technology and digital resources has broken the usual lines of finance around the world. Cryptocurrencies have been transformed since the release of the article by Nakamoto (2008) Bitcoin: A Peer-to-Peer Electronic Cash System, as a small example of a digital token being tried out to a significant means of trade, investment, and wealth maintenance. Their decentralized aspect weakens the dominance of the central banks in the money creation process and doubts the usefulness of the monetary policy instruments (Auer, Cornelli, & Frost, 2022).

The transformation is centered on Nigeria. Although it is a developing economy, the country is one of the top ten countries in the crypto adoption globally, which is supported by its young population, large internet use and the pursuit of financial independence (Chainalysis, 2022). This quick adoption has however created a regulatory conflict that is based on the difference between fiscal and monetary policy goals. Financially, such institutions as the Federal Inland Revenue Service (FIRS, 2024) and the Securities and Exchange Commission (SEC, 2022) consider digital assets as a new source of revenues according to the revenue diversification and taxation of the digital economy models. Conversely, in monetary policy terms, the Central Bank of Nigeria (CBN, 2021) considers the adoption of cryptocurrencies as a risk to monetary sovereignty, policy transmission processes, and financial system stability, and so the need to restrict actions in the formal banking industry.

This rift is symptomatic of a larger theoretical quandary which stems on conflicting financial and monetary priorities. Digestually, digital assets are a new untapped tax base, which is consistent with the theory of optimal taxation, diversification of revenues, and formalisation of economic activities in the digital economy (OECD, 2023). Taxation thus provides a solution of boosting the amount of revenue to the people, increasing regulatory transparency, and including the cryptocurrency transactions in the official financial system. In contrast, the decentralized and borderless character of cryptocurrencies, as regards a monetary policy perspective, is extremely problematic to central bank control over the money supply, monetary exchange rate stability, and transmission policy. Consistent with the monetary theory, the spread of unregulated digital currencies can also lead to currency substitution, volatility in capital flows, and loss of monetary sovereignty, which should justify prohibitive actions of the nature presented by the CBN (2021) (Saka & Adedeji, 2022).

This issue is, however, not merely an issue of either taxation or prohibition but a policy inconsistency that presents itself in the form of the lack of an integrated regulatory framework. As fiscal authorities aim to mobilize revenues and include the economy, monetary authorities aim to maintain stability of the financial system and control of the macroeconomy. This absence of policy coordination brings about uncertainty, curtails the effectiveness of regulations and limits Ability of Nigeria to fully embrace the benefits of digital financial innovation.

The paper is part of the current argument because it looks at taxation and prohibition as a rivalry apart as a fiscal policy, but a monetary theory as a fiscal and monetary policy. It discusses the possibility of Nigeria balancing these stances in order to enhance innovation and fiscal sustainability and macroeconomic stability. And two objectives are used to inform this work:

i. To theorize the consequences of the taxation of digital assets to fiscal sustainability and economic diversification of Nigeria.
ii. To develop a critical analysis of how the ban on cryptocurrencies affects the innovation, entrepreneurship, and the economic development in the long term.

Through a conceptual analysis, the work empowers a gap between theoretical knowledge and policy implications to offer the framework of sustainable digital economy governance in Nigeria.

2.0 Literature Review

Digital Assets and Taxation Conceptualization.

The development of digital assets is one of the most radical changes in world financing and economies. Digital assets that include cryptocurrencies, stablecoins, non-fungible tokens, and central bank digital currencies are technologically enabled financial instruments that are managed with distributed ledger technologies to document ownership, as well as to support transactions. According to scholars like Tapscott and Tapscott (2018), digital assets are so called trust protocols that disintermediate the traditional financial system and enable peer to peer exchange without the assistance of centralized authorities. Ciaian et al. (2021) state that the taxation of digital assets is a developing trend on the international stage that should have a certain, dynamic fiscal system. The paper discusses how Nigeria can bring its digital taxation policies in line with the global practice and foster financial innovation.

Lack of intermediaries and the pseudonymous character of blockchain transactions have brought complicated tax policy concerns to the national governments (OECD, 2022). Digital assets taxation deals with the treatment of the gains, transfers, and holdings of the digital assets in terms of income, capital gains, and value added tax. Cryptocurrencies are not subject to central registry unlike ordinary assets and this makes them hard to enforce. The OECD (2022) observes that tax collectors have a substantial challenge of making sure they comply with and avoid evasion, particularly when transactions are cross-border. These issues are also more complicated in the developing economies as the digital economy is developing more rapidly than the ability of the tax authorities to control it (IMF, 2023).

Capital Versus Currency Classification

The capital assets (property) or currency classification has important implications on how tax rules are designed and used to determine whether transactions are capital gains tax, income tax or foreign exchange-regulated (OECD, 2022; IMF, 2023).

Taxation in jurisdictions where digital assets are treated like property is usually caused upon disposal, the gains being taxed in accordance with capital gains tax regimes. This is an indication that cryptocurrencies are viewed as an investment tool or store of value equal to common asset classes like equities or real estate (Ciaian et al., 2021). Conversely, in a situation where digital assets are treated as currency or currency equivalents, the application of the assets in daily transactions can be subject to immediate tax, such as the recognition of income or the treatment of currency equivalents to foreign exchange transactions. This type of approach, though in line with the transactional role of digital assets, can greatly expand compliance requirements on users and administrative burden on tax authorities (OECD, 2022).

The challenge posed by the classification of digital assets is also influenced by the diversity of digital assets in terms of functionality. An example of this is cryptocurrencies like Bitcoin, which are both a speculative investment and a medium of exchange and stablecoins which are specifically meant to remain stable in value and thus act more like fiat currencies in practice. On the contrary, central bank digital currencies are sovereign-based digital money, which

supports the currency description in the regulated systems (IMF, 2023). This functional overlap makes it difficult to apply one hard and fast classification model.

Therefore as new scholarship and policy advice, a flexible and functional approach to classification where the tax treatment of digital assets is based on their actual economic value rather than formal nomenclature is being favored. This kind of solution is deemed necessary to encourage uniformity, limit the possibility of a tax arbitrage, and make tax regimes receptive to current innovation in the digital economy (OECD, 2022; IMF, 2023).

Global Approaches to Digital Asset Taxation

Countries around the world have taken varied approaches to digital asset taxation. Digital assets refer to electronically represented tokens of value, including cryptocurrencies and blockchain-based assets. Taxation of these assets poses unique challenges, including valuation, anonymity, and cross-border transactions (Ibrahim et al, 2024). The European Commission (2023) recognizes these challenges and advocates harmonization across jurisdictions.

In the African context, Gbohoui and Sy (2020) argued that digital taxation can provide developing countries with sustainable revenue streams if implemented effectively. Similarly, the IMF (2023) has encouraged nations to adopt transparent taxation systems for digital assets to promote both fiscal integrity and market confidence. The Central Bank of Nigeriaimposed a crypto ban to safeguard the financial system from volatility and fraud. the ban has been criticized for limiting innovation. The FATF (2022) guidance indicates that compliance and monitoring, rather than prohibition, yield better regulatory outcomes. Nigeria's current fiscal framework lacks clarity regarding the treatment of digital assets, which complicates taxation and investor confidence. Aligning Nigeria's policies with global best practices could foster both innovation and tax efficiency.

The United States treats cryptocurrencies as property for federal tax purposes, meaning each transaction can trigger a taxable event (IRS, 2019). The United Kingdom, through Her Majesty's Revenue and Customs (HMRC), classifies digital assets based on their function exchange tokens, utility tokens, or security tokens and taxes them accordingly (HMRC, 2021). Similarly, Australia's Tax Office (ATO) has issued detailed guidelines treating cryptocurrencies as capital assets, subjecting disposals to capital gains tax (CGT).

In contrast, countries such as Germany and Switzerland adopt more investor-friendly frameworks. Germany exempts cryptocurrency holdings from tax if held for more than one year (BMF, 2021), while Switzerland treats digital currencies as foreign currencies for wealth tax assessment but offers favorable conditions for long-term holders. These diverse approaches illustrate an ongoing global effort to reconcile innovation incentives with the need for revenue mobilization and compliance (OECD, 2022).

Asian economies, particularly Singapore and Japan, have also made substantial progress. Singapore's Inland Revenue Authority (IRAS) abolished the Goods and Services Tax (GST) on digital payment tokens in 2020 to promote innovation and investment (IRAS, 2021). Japan, conversely, imposes income tax on gains from digital assets but has established licensing regimes for exchanges to ensure transparency and compliance (FSA Japan, 2022). Collectively, these examples reveal that global best practices favor taxation frameworks that encourage innovation while maintaining fiscal accountability and consumer protection.

Nigeria's Regulatory and Fiscal Response

Nigeria presents a distinctive case within the African context. As Africa's largest digital currency market, Nigeria has experienced exponential crypto adoption driven by youth

participation, remittance flows, and inflation hedging motives (Chainalysis, 2022). the Central Bank of Nigeria (CBN) adopted a restrictive stance in February 2021, directing financial institutions to refrain from facilitating cryptocurrency transactions (CBN Circular, 2021). The CBN justified this decision on grounds of consumer protection, money laundering prevention, and financial stability concerns.

Despite this prohibition, Nigeria's Securities and Exchange Commission (SEC) in 2022 released guidelines recognizing digital assets as securities, providing a legal framework for token issuance and exchange registration (SEC Nigeria, 2022). This dual regulatory posture ban by CBN and regulation by SEC illustrates Nigeria's evolving approach towards reconciling innovation with control.

From a fiscal perspective, the Federal Inland Revenue Service (FIRS) has yet to issue a comprehensive digital asset taxation framework, though the Finance Act 2023 expanded the scope of "chargeable assets" to include digital currencies. This legislative development marks a turning point in Nigeria's fiscal modernization and signals potential future alignment with OECD's Crypto-Asset Reporting Framework (CARF). Yet, the absence of clear operational guidelines has left significant uncertainty for taxpayers, auditors, and investors (FIRS, 2023).

Conceptual Debate: Taxation Versus Prohibition

The intersection of taxation and prohibition in the digital asset context remains a core policy dilemma. Prohibition is often justified on prudential and moral grounds emphasizing the potential for financial crimes, speculative bubbles, and illicit flows (CBN, 2021). economic theorists argue that outright bans stifle innovation and deny governments potential tax revenues (Yermack, 2018; Prasad, 2022).

Conceptually, taxation offers a mechanism for legitimacy. By recognizing digital assets within the fiscal system, governments can formalize their existence, attract investment, and improve transparency (OECD, 2022). In contrast, prohibition drives transactions underground, complicating surveillance and enforcement. Empirical studies (e.g., Houben & Snyers, 2020) reveal that jurisdictions adopting regulatory taxation rather than bans have seen improved compliance and economic growth within the fintech ecosystem.

For Nigeria, the paradox lies in its simultaneous promotion of the eNaira (a central bank digital currency) and prohibition of decentralized crypto assets. This duality suggests a control-based rather than innovation-based fiscal philosophy. A well-designed taxation framework could transform crypto markets from shadow activities into taxable economic value, consistent with national digitalization goals.

Empirical Review Of Taxation Of Digital Assets

The recent researches point at the need to come up with adaptive and technologically integrated taxation systems that would ensure compliance and collection of revenues. Bhatt and Sharma (2026) show that the dangers of failing to comply with statutory regulations are unvalued within the framework of the existing taxation mechanisms due to market changes, as well as the internal adjustment. The tax regimes, however, are supposed to be more dynamic and responsive to the dynamic digital markets. Additionally, according to Kennedy (2025), digital assets encourage cross-border capital flows that partially bypass more traditional fiscal regimes bringing quantifiable fiscal leakage and the need to have systems that are responsive to both compliance and cross-border fiscal agendas.

In addition, review conducted by Grijalva-Salazar et al. (2025), legal vagueness, lack of enforcement, and lack of harmonization are listed as some of the barriers to effective taxation,

particularly in emerging economies. They also emphasize the importance of tax literacy, and technological surveillance in the compliance. Similarly, Judijanto (2025) also finds that the cryptocurrency taxation is slowly including into the more overall fiscal governance and regulatory novelty, like anti-money laundering and blockchain surveillance systems, and making taxation a multidimensional regulatory tool. Also, the study by Le Tran et al. (2025) demonstrates that the returns of the cryptocurrency are prone to the macroeconomic factors such as exchange rates and inflation, which means that the policies of the cryptocurrency concerning taxes can be linked to the far-reaching effect on the financial stability and the shift of the investment flows in general. Much of this body of research leads to the discovery that not only are adaptive structures required in successful taxation but also macroeconomic factors.

Furthermore, Thiemann (2024) also shows that the jurisdiction with the properly defined reporting regulations displays a greater level of compliance and traceability, especially amongst the retail investors, which is the primary significance of the third-party reporting mechanisms. Lee (2024) elaborates on it by demonstrating that cryptocurrencies ought to be considered as property to guarantee the greater legal certainty and minimize tax evasion, but it must raise the difficulty of enforcement. Moreover, Louvieris et al. (2024) prove that thanks to the supply of programmable money and blockchain-based systems of payments, it is possible to incorporate taxation directly into digital transactions to increase the degree of their taxation. These articles all suggest that the solution to successful digital asset taxation lies in the technological integration, and adequate law classification.

Besides, Keen (2023) reports the empirical data which demonstrates that duality of cryptocurrencies as a payment tool and investment asset creates structural tax design problems. He notes that pseudonymity in transactions reduces the usefulness of traditional methods of collection which involves a more efficient system of reporting and surveillance. Additionally, KPMG (2023) finds that hybrid forms of regulation, that are based on taxation and control are more effective in revenue collection and innovation. These imply that the policy frameworks need to be held at par to support fiscal and innovation objectives.

The background research, which has been conducted previously, is also very informative. The regulatory clarity including taxation will increase formal entry into the market and institutional investment, similar to Auer, Cornelli and Frost (2022) which warns about high taxation resulting in stagnation in innovation. Similarly, Ciaian, Rajcaniova, and Kancs (2021) find that good taxation policies reduce the speculative uncertainty and stabilise the behaviour of the trading and taxation may assist in increasing the efficiency of the markets. Moreover, IMF (2023) indicates that the growth in tax-to-GDP ratio in digitally active economies may hit up to 1-2 percent in taxing the digital assets yet enforcing these taxes remains a challenge. OECD (2022) also proves the fact that information-sharing tools like the Crypto-Asset Reporting Framework (CARF) help to increase compliance and reduce tax evasion, and Makarov and Schoar (2020) consider the fact that the majority of cryptocurrency transactions are not performed in exchanges, and the system of control should be combined. Chainalysis (2022) further discloses that the formal volumes of transactions are more prevalent in countries where the regulatory and taxation framework is well-structured and formal regulation is limiting or undefined, which compels the activity to other informal forms of engagement. In Nigeria, Saka and Adedeji (2022) confirm that regulatory uncertainty reduces the revenue capture, and proceed to confirm that there is need of having direct and aligned taxation policies. Finally, as suggested by Yermack (2017) and Devereux and Vella (2018), tracing and compliance may be improved with the help of property-based approach to cryptocurrencies and reevaluation of

classical principles of location-based taxes, which implies the underlying problems that continue to shape the debate of cryptocurrency taxation.

Although the reviewed studies share common areas of focus with technological integration, adaptive policy and compliance mechanisms, they are either set in the developed country or cross-country simulation which in the case of Nigeria is a gap in the context. Moreover, the controversies of classification (capital vs currency), whether it should be integrated with AML systems or macroeconomic spillovers have been identified, but they have not been empirically studied in Nigeria. Against this context, the conceptual framework in the present study suggested that would facilitate the conceptual analysis of taxation and prohibition as policy instruments in the perspective of developing a balanced framework that would ensure fiscal sustainability and innovation in the digital economy of Nigeria.

Theoretical Perspectives

Three key theoretical frames shed light on the taxation-prohibition debate, especially when taken in an integrated form to explain how regulatory decisions affect the outcome of innovations and tax-compliant behavior in the digital asset sector.

Regulatory Theory is that regulation must strike a balance between the interest of the publics and efficiency in innovation (Baldwin, Cave, and Lodge, 2012). Regulations can either stifle innovation through over regulation e.g. blanket bans or encourage exploitation through under regulation. The action of the Central Bank of Nigeria, in the example of Nigeria, to ban cryptocurrency is arguably an act of excessive regulation in response to the perceived risks of cryptocurrencies. In this theoretical framework, a more balanced solution will be a tax-based regulatory framework, where the state can get economic value by means of taxation and, at the same time, reduce risks by means of monitoring, reporting requirements, and compliance mechanisms.

Diffusion of innovation is a theory used to explain the way in which new technology is integrated into social systems (Rogers, 2003). The use of cryptocurrency in Nigeria demonstrates the major determinants of diffusion, such as relative advantage (e.g., inflation, currency volatility hedging), consistency with the peer-to-peer financial activities, as well as high observability through the digital means and the social media. The prohibition upsets this process of diffusion by driving activity to informal or underground activities. Conversely, a taxation system that considers digital assets as valid economic tools can help to enable organized adoption, increase transparency and create positive network effects in the formal economy.

According to tax Compliance Theory, perceived fairness, belief in authorities and simplicity and clarity of tax systems determine voluntary compliance (Kirchler, 2007). Within the frame of digital assets, a transparent, predictable and administratively easy tax system would presumably promote voluntary adherence by Nigerian actors and investors. When taxpayers feel that the regulatory bodies encourage innovation and equally impose tax on its product, the levels of compliance are likely to rise, even in dynamic and complex markets like crypto-markets.

Although both theories make a different contribution to the story, their combined explanatory value will result in a stronger understanding of the nexus between taxation and prohibition. The Regulatory Theory describes the character and strength of government intervention; the Innovation Diffusion Theory describes the impact that government intervention has on the adoption and dissemination of digital assets; and the Tax Compliance Theory explains how individuals will react to fiscal requirements in the selected regulatory structure.

In this regard, the study builds a conceptual framework where regulatory approach (prohibition vs. taxation) acts as the independent variable, having an impact on two crucial intermediate variables, which include innovation diffusion (rate and form of digital asset adoption) and perceived tax system attributes (fairness, trust, and simplicity). These, in their turn, define the dependent outcomes of tax compliance and revenue generation and other economic impacts on a larger scale, including financial innovation and market formalization.

This model identifies prohibition with suppressed diffusion, less transparency and less compliance through informality. On the other hand, a regulatory model based on taxation would facilitate formal adoption, increase dependence in the institutions, and greater voluntary compliance, which will eventually result in better and more sustainable tax revenue. This combined framework hence offers a consistent theoretical platform on which to examine the way in which Nigeria can move out of the restrictive policy of the nation into more balanced and innovation-friendly taxation of digital assets.

Conceptual Framework and Policy Implications

Integrating these theoretical insights, a conceptual framework emerges wherein taxation serves as a mediating mechanism between innovation and regulation. The framework suggests that while digital assets disrupt traditional finance, effective taxation can legitimize their operation, foster fiscal inclusion, and enhance policy control without suppressing innovation.

For Nigeria, policy implications are multifaceted: (1) harmonizing regulatory roles between CBN, SEC, and FIRS; (2) implementing a risk-based tax compliance framework for digital assets; and (3) participating in global tax cooperation initiatives such as the OECD CARF. Adopting these measures could shift Nigeria's fiscal governance from a prohibitive to an enabling paradigm, supporting economic diversification and technological advancement.

Base on this therefore, tax as opposed to prohibition is a more viable and sustainable channel of controlling digital assets according to the world experience. The empirical and theoretical experiences suggest that jurisdictions with practical and properly designed tax policies are likely to have more compliance rates, investor trust, and an increase in innovation (OECD, 2022; IMF, 2023). The current policy development in Nigeria is indicative of a slow process of relaxation of the restrictive policy to a prudent integration process due to the necessity of a flexible and consistent fiscal policy. The presented conceptual and theoretical analyses emphasize that fiscal inclusion of the digital assets is not only a source of revenue, this, in fact, is a strategic tool of furthering modernization, transparency, and economic competitiveness in the global market.

Digital Asset Taxation Framework Conceptual Model.

Independent Variable:

Regulatory Structure (Prohibition vs. Taxation-Based Structure)

Mediating Variables:

Innovation Diffusion (formalization, network effects, adoption rate)

Perceived Tax System Characteristics (justness, simplicity, autocratic trust)

Moderating Factors:

Efficiency of the Institution (efficiency in administration, digital surveillance tools)

International Standards (consistency with the global standards)

Dependent Variables (Outcomes):

Tax Compliance (disclosure behavior, voluntary disclosure)

Revenue Generation (tax revenue due to digital assets activities)

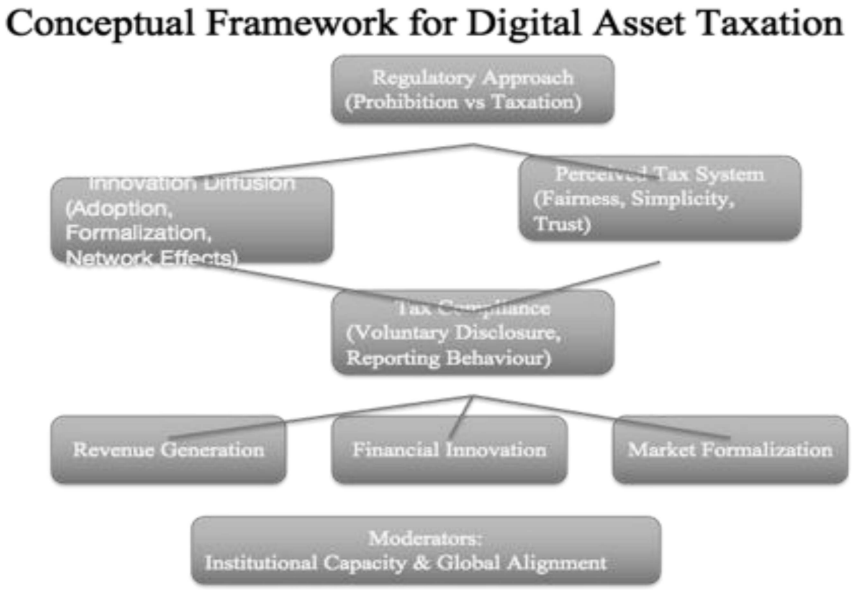
Financial Innovation (expansion of fintech and digital market)

Market Formalization (transformation of informal participation to formal participation)

Model Flow Structure

Regulatory Approachhas an effect on Innovation Diffusion and Perceived Tax System Attributes which collectively stipulate Tax Compliance resulting in Revenue Generation and Financial Innovation Results.(Where Institutional Capacity and Global Alignment determine how strong and which way these relationships are).

This conceptual framework creates a very strong connection between policy decisions and the maintenance of the economy, and it shows that the taxation-based strategy is more probable to create favorable effects on the systemic level than the prohibition. It also gives a systematic foundation to testing empirically and future research can operationalize the variables and estimate the scale and direction of the relationships in Nigeria and other similar economies.



Summary of Conceptual Literature

In summary, global evidence suggests that taxation not prohibition is the sustainable path for managing digital assets. Countries adopting pragmatic tax policies have achieved higher compliance, investor confidence, and innovation growth. Nigeria's ongoing policy evolution reflects a transition from restriction to cautious integration. The conceptual and theoretical analyses presented highlight that the fiscal inclusion of digital assets is not merely a matter of revenue generation but a strategic step toward modernization, transparency, and global competitiveness.

3.0 Methodology

The conceptual and qualitative research design is adopted in this paper because it suits the discussion of emerging issues that do not have significant empirical evidence but need profound theoretical understanding (Katz, 2021; Mills and McCarthy, 2023). Conceptual analysis allows this paper to combine the conclusions drawn out of current literature, policy reports and theories to construct an integrative knowledge of taxation of digital assets in relation to the crypto ban in Nigeria. Conceptual studies rely on logical thinking, scholarly synthesis, and interpretative reflection, unlike empirical methods, which rely on the data collection via primary methods (Oseni, 2022).

To increase the practice of rigor of methods, the study is conducted using a systematic conceptual review protocol that has a clear definition of the literature identification, selection, and analysis process. The methodology utilizes the secondary data source, such as the official policy documents of the Central Bank of Nigeria (CBN, 2021, 2023), the Federal Inland Revenue Service (FIRS, 2024), and the Securities and Exchange Commission (SEC Nigeria, 2022). Similar statistics of other international agencies like International Monetary Fund (IMF, 2023), the Organisation for Economic Co-operation and Development (OECD, 2023), and the Financial Action Task Force (FATF, 2022) are also informative and comparative and contextual.

Literature Search And Selection

To transpire and to be replicated, a structured search strategy was used. The academic databases searched include Google scholarly, Scopus, and Web of science along with institutional repositories which were used to identify relevant literature. The following search keywords were used: digital assets taxation and cryptocurrency regulation and crypto ban Nigeria and tax compliance digital economy and blockchain policy frameworks.

The choice of sources was supported by the following strict standards:Journal articles, policy papers and institutional reports are peer reviewed.Articles that were published in 2015-26 to guarantee up-to-date relevance.Research on the taxation, control, or economic effects of digital assets.Reporting by the known international and national regulators.It is because this process made sure that only high-quality and policy-relevant materials guided the analysis process thus enhancing the internal validity of the study.

Data Analysis Procedure

Articles, policy reports and institutional reports of scholarly articles were suitably reviewed and thematically analyzed. The interpretative process is based on three steps of analytical framework. To start with, the thematic synthesis was performed to outline the central issues, such as the justification of the taxation of digital assets, risks of crypto markets, and the reaction on regulation. Second, a conceptual analysis by comparative methods was done to find how other governments like the European Union, the United Kingdom, and South Africa strike a balance between innovation and taxation. The last stage was a contextual integration phase that

assessed the applicability of this knowledge to Nigeria policy and fiscal context. Such a multi-layered methodology is used to make sure that the conclusions are not only descriptive but also theoretically based and relevant to the policy.

Theoretical Integration

Theoretically, this research is informed by three lenses, which are interdependent:

i. Regulatory Theory, that describes the way governments develop and implement regulations to deal with the emerging risks within financial systems
ii. Innovation Diffusion Theory that explains the process of adopting or resisting technological improvements like blockchain in institutions.
iii. Tax Compliance Theory, which investigates behavioral reactions on tax responsibility within the framework of trust, equity and enforcement.

The theories have not been addressed separately but are logically combined in the framework of analysis to conceptualize the connections among regulatory approach, innovation adoption, and compliance outcomes. Taxation is thus not understood as a fiscal process but as a tool of governance and prohibition as a control-based regulatory measure as part of the larger goal of financial stability.

Validity, Reliability and Ethical Considerations

Triangulation of various data sources, the compliance with a clear selection protocol, and consistency in the theoretical application are the tools that substantiate the validity and reliability of this conceptual study. The study is unbiased by merging economic, legal, and institutional viewpoints and is enriched with the depth of analysis.

Ethics were well followed by ensuring that sources were properly cited, intellectual honesty was applied in interpretation and equal representation was made on opposing policy views. There was no proprietary or confidential information involved, and all the materials were taken out of the freely available and reliable sources.

In general, systematic conceptual review protocol, complemented with thematic and comparative analysis, promotes rigor, transparency and replicability of the study, overcoming the limitations inherent in conceptual research designs as a recognized strategy.

Findings and Analysis Results and Discussion

This section views and incorporates the conceptual results into the overall fiscal and regulatory environment in Nigeria. As it was shown in the analysis, taxation of the digital assets and the ban on cryptocurrency are not mutually exclusive, but two policy solutions that lie at the opposite ends of the financial regulation scale. The major conflict is between the promotion of innovation on the one hand and the reduction of systemic risks on the other hand.

Leaving the descriptive exposition, the analytical insights of three crucial reasons are presented in the analysis to further understand the policy course of Nigeria.

To begin with, the existing prohibition-based position has had unwanted regulatory displacement outcomes. Instead of making cryptocurrency activities illegal, the prohibitions by the Central Bank of Nigeria have transferred the transactions to the informal peer-to-peer platforms that cannot be regulated. This is consistent with the experience of the regulatory theory that dictates that excessively restrictive interventions tend to diminish transparency and state oversight ability. In turn, this situation can lead to the contrary, as prohibition can

exacerbate systemic risk by reducing the capacity of the authorities to oversee the transactions, make them comply, and extract taxable value.

Second, the results show that there is an incompatibility between the dynamics of policy design and innovation. With the application of the theory of innovation diffusion, the adoption of cryptocurrency in Nigeria has been ever-growing as a result of robust socio-economic aspects including inflation hedging, remittance efficiency, and financial inclusion gaps. The continuity of the adoption process even with the regulatory restrictions implies that prohibition fails to reduce the demand but it only changes the structure of it. However, the current taxation-driven models in other jurisdictions portray that legalization of the digital assets can direct innovation to a regulated setting, and therefore, stabilize the markets and increase fiscal gains.

Third, the study shows a compliance paradox in Nigerian context. The theory of tax compliance points out that voluntary compliance is very much influenced by the perception of legitimacy, equity and administrative simplicity. Taxpayers would have no incentive and a clouded vision to report digital asset-related income under a prohibition regime creating low compliance and revenue opportunities. On the other hand, a clear taxation system can turn users of digital assets into responsible economic participants by ensuring that taxation is legal as well as optimizing taxation with perceived economic gains. This implies that the results of compliance are not only a function of the intensity of enforcement but majorly influenced by the general regulatory environment.

By combining these enlightenments, the research confirms causal relationship between regulatory strategy and financial performance. The informality, lack of transparency and inability to collect maximum revenue are linked with a prohibition-dominant structure. Conversely, a taxation-based strategy encourages formalization, better tracking of transactions and an increased ability of the government to get sustainable income out of the digital economy. This correlation supports the conceptual model suggested above according to which the regulatory design will impact the innovation diffusion and the perceived tax fairness, which further conditions the compliance behavior and economic outcomes.

Moreover, relative analysis demonstrates that those jurisdictions that implement hybrid regulatory frameworks, i.e. taxation, licensing, and risk-based supervision, strike a more effective tradeoff between innovation and control. These models are not risk eliminating models but control it by the institutional capacity and the clarity of regulations. In the case of Nigeria, it means that the question of policy concern is not whether to control digital assets or not but the formulation of a framework that would combine taxation with reasonable control mechanisms.

In general, the results show that the success of the digital asset policy will depend on how capable it is of matching the regulatory goals with the market conditions. The transition to a ban on prohibition to a system of taxation is thus a fiscal necessity as well as a regulatory realignment that can create more transparency and compliance as well as place Nigeria in a better position in the changing global digital economy.

The Policy Paradox: Taxation Versus Prohibition

Nigeria's regulatory approach to cryptocurrency has evolved from strict prohibition to conditional recognition. The 2021 CBN directive effectively barred financial institutions from engaging with crypto-related accounts (CBN, 2021). This action was justified on the grounds

of protecting monetary stability, curbing illicit flows, and safeguarding the financial system (Saka & Adedeji, 2022). such prohibition inadvertently stimulated informal trading through peer-to-peer (P2P) platforms, reducing transparency and government control (Reuters, 2023).

In contrast, the FIRS (2024) guidelines on digital asset taxation represent a policy shift toward inclusion. By recognizing taxable events such as crypto gains and digital transactions, Nigeria implicitly acknowledges the economic value of digital assets. This duality prohibition by the monetary authority and taxation by the fiscal authority creates a conceptual and institutional paradox. It reflects a transitional phase in policy adaptation, where fiscal necessity begins to override conservative regulatory instincts.

Comparative Perspectives and Lessons

Globally, countries have moved toward balanced regulation rather than outright bans. The European Union's MiCA Regulation (2023) provides a harmonized legal framework for crypto-asset issuance and service provision. The United Kingdom and the United States have integrated crypto taxation into their fiscal systems while maintaining strong anti-money laundering (AML) oversight (Bank of England, 2023). Similarly, South Africa and Kenya have embraced taxation of digital assets as a pathway to broaden the tax base and encourage financial innovation (World Bank, 2023).

In contrast, Nigeria's restrictive stance may limit its ability to participate in the expanding global digital economy. Empirical evidence from IMF (2023) and World Bank (2023) reports suggests that countries with adaptive digital finance policies experience faster financial inclusion, improved tax collection, and enhanced innovation capacity. Hence, Nigeria's challenge is to transition from regulatory resistance to adaptive engagement where taxation, rather than prohibition, becomes a tool of control and development.

Conceptual Insights

Conceptually, digital asset taxation can be viewed as an instrument of fiscal modernization. It aligns with Nigeria's broader economic diversification agenda by integrating digital transactions into the formal tax net (FIRS, 2024; Afolabi & Udo, 2023). Beyond revenue generation, taxation fosters legitimacy and accountability within the digital economy, creating an interface between government and emerging financial actors. Conversely, prohibition limits these benefits by pushing innovation underground.

Digital asset taxation resonates with regulatory theory, which posits that effective governance arises from adaptive oversight, not rigid control (Auer et al., 2022). The CBN's shift in 2023 toward issuing operational guidelines for virtual asset service providers (VASPs) signals growing recognition of this principle (CBN, 2023). Conceptually, such adaptation represents an incremental yet significant policy recalibration toward a regulated inclusion model.

Policy Implications to Nigeria.

The conceptual implications are that the future policy of the digital finance in Nigeria should focus on regulatory consistency between fiscal and monetary powers. Nonetheless, it will be impossible to do it without mitigating Nigeria-specific institutional fragmentation. The existing situation is that the regulatory roles have been spread across the Central Bank of Nigeria (CBN), the Federal Inland Revenue Services (FIRS), and the Securities and Exchange Commission (SEC), leading to overlapping of mandates and inconsistency in policies. Creating a formal inter-agency model of digital finance coordination could do this by creating a statutory body or independent regulatory task force that would allow aligning tax policy, anti-money laundering compliance, and monetary supervision. This coordination is especially important in

Nigeria due to the existence of regulatory silos and bureaucratic inertia that has traditionally made responding to policy slow. The adoption of blockchain analytics in the FIRS, although a desirable move, should hence be supplemented with investment in technical capacity, inter-agency data-sharing protocols, and legal frameworks of authorization to ensure successful implementation.

The process of prohibition to taxation in Nigeria also needs specific institutional capacity building. In comparison with developed economies, Nigeria has such drawbacks as a lack of digital infrastructure in the tax collection process, insufficient human resources in blockchain data analysis, and a lack of enforcement mechanisms in the informal sector. Capacity development, therefore, must be gradual and contextual starting with a special training program among FIRS and SEC officials and incremental implementation of digital monitoring system. Also, the sensitization of the population should be able to consider the low morale of taxpayers and prevalence of informality in the Nigerian economy. The creation of awareness efforts must not solely inform taxpayers on the need to report digital assets, but also highlight the advantages of formalization, including legal coverage and ability to access financial services. By simplifying the tax structure perhaps with tax thresholds, presumptive taxation or withholding methods, the compliance would be further improved by making the administrative complexities less complex to small-scale investors.

The clear, simple, and enforceable nature of taxation of digital assets must be directed then, but in the reality of the fiscal environment of Nigeria, where the capacity to enforce may be unequal and compliance may be expensive. This means that the design of the policy should not be too complicated in terms of reporting rules that may deter compliance or push the activity more into the shadows. In lieu of this, a dynamic and gradual regulatory strategy would be suggested: to begin with, the first policies should focus on increasing transparency and data gathering before proceeding to more complex tax enforcement strategies.

In addition, the digital asset governance must be in line with sustainable development goals (SDGs) as it should foster transparency, financial inclusion and economic diversification. Within the Nigerian setting, this involves the use of digital resources to enhance cross-border remittances, increase the coverage of financial services among the unbanked consumers, and boost fintech innovation. Nevertheless, these opportunities have to be balanced with the risks of fraud, capital flight and financial turmoil. An integrated regulatory framework so that it involves the taxation, licensing and risk-based supervision will offer a viable solution to the issue because it will open up avenues to innovativeness but will protect the investors and the financial system.

The generalization of this research is not limited to Nigeria but is especially applicable to the developing economies that are similar in terms of their structure, such as high informality, weak regulatory control, and high rates of digitalization. The Nigerian case shows that the effectiveness of the policy does not rely on whether the policy should be prohibited or taxed, but it is also reliant on the institutional willingness to introduce and enforce the policies. As a result, states within similar environments need to introduce regulation of digital assets in ways that match their domestic institutional abilities instead of implementing international best practices without modification.

5.0 Conclusion and Recommendations

This conceptual paper has discussed policy paradigms of the two opposing views of taxing and banning digital assets and cryptocurrency in Nigeria, and has put them into context in world events and budgetary governance issues. Such a conflict between taxation and prohibition is

evidenced by its analysis to indicate underlying institutional conflict between innovation management and monetary control. Unlike prohibition, which aims at protecting financial integrity and monetary stability, taxation offers a formalized system of inclusion, control and fiscal viability.

Contributions to the Theory and New knowledge.

In addition to reaffirming what already exists in literature, this paper also contributes to a new form of integrative thinking by the conceptualization of taxation as a regulatory intermediary between informality and formal financial systems by way of the fiscal tool. Particularly, the paper presents the concept of compliance-innovation equilibrium, according to which the most optimal policy results are obtained when regulatory design is such that it facilitates both the spread of innovation and voluntary tax compliance.

Based on the regulatory theory, innovation diffusion theory, and tax compliance theory, the study shows that:Overbearing prohibition interrupts the process of innovation diffusion and undermines compliance incentives by compelling the activity to go underground;Virtually permissive governments can promote innovation but threaten to induce regulatory arbitrage and revenue loss;An appropriately designed taxation-based framework can develop a feedback mechanism whereby formalization leads to better compliance and compliance leads to better regulatory visibility and trust.This combined view is a more dynamic way of explaining digital asset governance, where the binary view about tax or ban is replaced with a continuum based optimization issue.

Policy Recommendations

The recommendations are grouped into short-, medium-, and long-term priority in order to increase its viability and relevance to implementation considering the institutional limitations and administrative reach in Nigeria.

Short-term (0-2 years): Essential Clarity and Data Capture.

Provide interim digital asset tax regulations to establish a set of straightforward conditions in digital asset classification, reporting, and valuation to minimize uncertainty.Enforce the simple disclosure provisions via financial institutions and online to enhance access to data.Form a collective regulating force (CBN-FIRS-SEC) to harmonize the course of policies and prevent different instructions.feasibility: High, because such measures are based more on administrative directions than on large-scale amendments to the legislation.

Medium- Term (2-5 years): Strengthening and Formalization of Institutional Systems.

Establish a comprehensive system of taxation of digital assets, which involves capital gains, reporting standards and audit procedures.Authorize and supervise Virtual Asset Service Providers in order to direct transactions to visible and taxable frameworks.Make an investment in capacity building and blockchain analytics infrastructure in the FIRS to make monitoring and enforcement more effective.Feasibility: Moderate, which necessitates budgetary allocation, technical expertise and inter-agencies coordination.

Long-term (5 and above years): Digital Financial Governance.

Coordinate the regulatory framework of digital assets within Nigeria with the international regulatory system to make cooperation across borders a possibility and minimize arbitrage risks.Discover automated tax compliance software such as real-time reporting and digital connections with blockchain networks.Tax digital assets as a part of larger digital economy policies, which facilitate the innovation of fintech and economic diversification.Feasibility: More complicated relying on the long-term political intention, institutional maturity, and technological development.

Implementation Pathways

It should be implemented in a sequence and coordinated manner. First, the enforcement should be preceded by regulatory clarity in order to gain confidence of taxpayers. Second, complex compliance requirements should not be introduced until institutional capacity is enhanced. Third, the involvement of stakeholders (fintech companies, investors and the general population) is necessary to make sure that the policy is accepted and to minimize opposing forces.

Furthermore, there might be a need to reform the law to establish a clear taxation of digital assets and enable information exchange among agencies. In the absence of such statutory support, the enforcement can be easy going and inefficient.

Future Research Directions

Although this paper gives a theoretical background, future studies ought to be restricted to the empirical testing of the suggested framework. The quantitative research would be able to investigate the correlation between regulatory strategy, compliance behavior, and revenue performance in Nigeria and other similar economies. Moreover, the micro-level studies of the behavior of taxpayers in the digital asset markets would shed more light on the dynamics of compliance.

Concluding Insight

To sum up, the comparison of taxation and prohibition shows that fiscal prudence and fiscal innovation are not necessarily opposing but can be complementary with an adequate policy structure. The key contribution of the study is that taxation can be used not to regulate digital assets, but to become an economic opportunity when placed as a governance instrument instead of a revenue-generating tool. In the case of Nigeria the way to go is not by exclusion, but an inclusive regime that is measured to balance regulatory restraint to incentivization of innovation to promote sustainable growth, fiscal diversification, and international competitiveness in the changing digital financial environment.

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