A Causality Analysis between Tax Compliance Behaviour and Nigerian Economic Growth

Professor Stephen Ocheni Ph.D., FCNA, ACTI.

Department of Accounting, Kogi State University, Anyigba
Email: stephenocheni@yahoo.com

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Abstract

The development of any nation depends on the amount of revenue generated and applied by the government on public infrastructure for the benefits of members of that society. The willingness to pay tax, which may depend on the issues in tax-revenue generation, remains a key taxation-challenge in Nigeria. Therefore, the study, tax compliance behaviour and the causality on Nigerian economy is aimed at evaluating the factors that influence the willingness of citizens to comply with tax and how this tax compliance has affected Nigerian economic growth. A comparative analysis of the willingness to pay tax by citizens in Kogi and Enugu States was presented. Primary data was collected through the administration of questionnaires to self employed in each senatorial district in Kogi and Enugu States. Frequencies and percentages were used to measure the demographic variables of the respondents, and also the factors that affect the willingness to pay tax, while the Chi-square technique was used to measure the difference between willingness to pay tax by citizens in Kogi and Enugu States. It was discovered that many Nigerians are complying with tax payment and that the willingness of citizens to pay tax in Kogi State is significantly higher than that of Enugu State. From the list of factors that were tested for, Trustworthiness of government, Provision of Infrastructural Amenities, Tax Accountability by Government, Level of government delivery, Income, Morale Ethics, Tax Knowledge, Tax Rate, and The System of Tax Payment were found to influence the willingness to pay tax. The conclusion is that compliance through the willingness of citizens to pay tax is very important and cannot be ignored. It is suggested that government should pay attention to the factors that influence the willingness of citizens to pay tax and improve on them, thereby improving peoples‟ willingness to pay tax, government revenue and economic growth and development of the nation generally.

Keywords: *Tax Compliance, Economic Growth, Tax knowledge, Accountability, Tax Rate.*

1. Introduction

The importance of taxation in the activities of any government cannot be overemphasized. The world over, taxes is one major source of government revenue, however, not every national government have been able to effectively exploit this great opportunity of revenue generation. This can be attributed to a number of reasons including the system of taxation; tax legislation; tax administration and policy issues; over reliance on other sources of revenue (such as foreign aid and grants); corrupt practices in the system – especially as it relates to the system of tax collection and behaviour of citizens towards tax payment; and ease of tax payment.

The willingness to pay tax, which may depend on the other aforementioned issues in tax-revenue generation, remains a key taxation-challenge in Nigeria. In the ease of tax payment, evidence from the World Bank Doing Business Report 2011 and 2012, show that Nigeria ranked 109 and 138, respectively, out of 183 countries; in Sub-Saharan Africa (SSA), it ranked 27 out of 46 countries. This result is, despite some improvements the government has made to the tax system in the recent past.

The Federal Inland Revenue Service (FIRS), for instance, which was first established as an operational arm of the Federal Board of Inland Revenue (FBIR) in 1993 but autonomous in 2007, was saddled with the responsibility of controlling and administering different taxes as well as accounting for all taxes collected. Another innovation by the government is the Tax Identification Number (TIN) programme, which has objective of carrying out a successful roll-out and implementation of TIN for Nigeria. The system developed a relational data base linked to all relevant stake holders in Nigerian tax administration. There is also the Joint Tax Board (JTB), amongst others, which are set up to address problems of the tax policies and its implementation, tax collection, and the tax payers‟ compliance in the country.

Thus, an integral part of the tax system is the people's attitude towards tax payment. Further evidences that affect willingness will include multiplicity of taxes that is, paying similar taxes on the same or substantially similar tax base, ineffective and inefficient tax collection structure, poor tax awareness, tax transparency and tax accountability. The issues raised have implications on the willingness to pay tax in Nigeria, with the indirect effects on actual revenue generated from taxation. The end-point implication of strong unwillingness to pay tax is a crippled government that is unable to implement its growth and development objectives.

The significance of the willingness to pay is also better related in the case of the informal sector, where the government is limited in terms of monitoring their affairs. The willingness of the people is what will speak for the government concerning tax payment. The peoples" willingness is greatly influenced by their perception of the government's" delivery.

2. Review of Literature

Verboon and Dijke (2014) stated that tax compliance is the willingness of individuals to comply with relevant tax authorities by paying their taxes. Tax compliance can be defined as an ability of a tax liable body to submit accurate, complete and satisfactory returns in conformity with tax laws and regulations of the state to the authority for the purpose of tax assessment (Badara, 2012). Sarker (2003) also reported that tax compliance is the degree to which a taxpayer complies (or fails to comply) with the tax rules of his country. Brown and Mazur (2005) noted tax compliance as a multi-faceted measure and theoretically, it can be defined by considering three distinct types of compliance such as **payment compliance** (timely payment of all obligations), **filing compliance** (the timely filing of any required return), and **reporting compliance** (the accurate reporting of income and of tax liability). The Organisation for Economic Cooperation and Development (2001) divided compliance into administrative compliance and technical compliance. **Administrative compliance** refers to complying with administrative rules of lodging and paying. This compliance can also be called reporting compliance or regulatory compliance. **The technical compliance** refers to complying with technical requirements of tax laws.

Tax compliance can be achieved through:

Tax Public Relation: The purpose of public relations is to build a tax conscious environment not only among taxpayers but also among the public including latent taxpayers, and can be categorized as the need to enhance tax compliance; diffuse and enhance public knowledge of taxation; improve mutual understanding and trust between taxpayers and tax authorities and obtain the understanding and cooperation from mass-media for tax administration (Sarker, 2003). **Tax Education:** Tax education is one of the strategies used by the relevant tax authorities to ensure tax compliance. According to Ola (2001), the Board is cognizant of the fact that taxpayers cannot comply with the laws unless they know and understand what is expected of them. To this end, the Board provides assistance and publications to help taxpayers to fill their returns.

Tax Counseling: The objective of tax counseling is to assist taxpayers in matters related to tax and encourage the voluntary submission of accurate tax returns and payment of taxes. Generally, tax counseling offices provide advice on the interpretation and application of tax laws, procedures for filing returns and applications, etc (Sarker, 2003).

Tax Guidance and Examination: In order to enhance taxpayer compliance so that they voluntarily file tax returns and pay taxes appropriately, the tax administration provides individuals and groups with guidance on how to improve bookkeeping standards and tax returns. **Tax Recognition and Prizes:** This is also a very important strategy that can be used to achieve tax compliance. Tax officials and taxpayers should be recognized and rewarded to ensure that they work very hard as tax officials and comply to with tax laws as taxpayers.

3. Theoretical Consideration on Compliance

According to Azubike (2009), tax is a major player in every society of the world. The tax system is an opportunity for government to collect additional revenue needed in discharging its pressing obligations. A tax system offers itself as one of the most effective means of mobilizing a nation"s internal resources and it lends itself to creating an environment conducive to the promotion of economic growth. Tax is a compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create conditions for the economic wellbeing of the society (Appah, 2004; Appah and Oyandonghan, 2011). Anyanwu (1997) defined taxation as the compulsory transfer or payment (or occasionally of goods and services) from private individuals, institutions or groups to the government. Anyanfo (1996) and Anyanwu (1997) stated that tax are imposed to regulate the production of certain goods and services, protection of infant industries, control business and curb inflation, reduce income inequalities etc. The main purpose of purpose of tax is to raise revenue to meet government expenditure and to redistribute wealth and management of the economy (Ola, 2001; Jhingan, 2004; Bhartia, 2009).

Nzotta (2007) presented four key issues to be understood for taxation to play its functions in the society. First, tax is a compulsory contribution made by the citizens to the government and for the general common use. Secondly, a tax imposes a general obligation on the tax payer. Thirdly, there is a presumption that the contribution to the public revenue made by the tax payer may not be equivalent to the benefits received. Finally, a tax is not imposed on a citizen by the government because it has rendered specific services to him or his family.

Thus, it is evident that a good tax structure plays a multiple role in the process of economic development of any nation which Nigeria is not an exception (Appah, 2010a). Musgrave and Musgrave (2006) note that these roles include: the level of taxation affects the level of public savings and thus the volume of resources available for capital formation; both the level and the structure of taxation affect the level private saving. A system of tax incentives and penalties may be designed to influence the efficiency of resource utilization; the distribution of the tax burdens plays a large part in promoting an equitable distribution of the fruit of economic development; the tax treatment of investment from abroad may affect the volume of capital inflow and rate of reinvestment of earnings there from; and the pattern of taxation on imports relative to that of domestic producers affect the foreign trade balance.

Nwezeaku (2005) argues that the scope of these functions depends, inter alia, on the political and economic orientation of the people, their needs and aspirations as well as their willingness to pay tax. Thus, the extents to which a government can perform its functions depend largely on the ability to design tax plans and administration as well as the willingness and patriotism of the governed.

In a study carried out by Torgler (2011), examining the impact of tax morale on tax compliance, he states that over the last several decades, there has been a growing interest in theoretical, empirical, and experimental work on all aspects of tax compliance and tax evasion. A common theme in much of these works is that the traditional economics-of-crime approach to compliance, while containing many insights, is simply inadequate as a framework for more fully understanding why people pay taxes. Rather, the basic model of individual choice must be expanded by introducing some aspects of behaviour or motivation considered explicitly by other social sciences. Many of these aspects can be discussed under the general rubric of behavioural economics, broadly defined as an approach that uses methods and evidence from other social sciences to inform the analysis of individual and group decision making. The question of why so many people pay their taxes, despite low fine and audit probabilities, has become a central issue in the tax compliance literature. Erard and Feinstein (1994) stress the relevance of integrating moral sentiments into the models to provide a reasonable explanation of actual compliance behaviour.

4. Trend Analysis of Government Revenue

Nigeria is governed by a federal system; hence its fiscal operations also adhere to the same principles. This has serious implications on how the tax system is managed in the country. In Nigeria, the government fiscal power is based on a three tiered tax structure divided between the Federal, State and Local government, each of which has different tax jurisdictions, as discussed above. As of 2002, about 40 different tax and levies is shared by all three levels of government.

The Nigerian tax revenue is lopsided - dominated by oil revenue. The most veritable tax handles are under the control of the federal government, while the lower tiers are responsible for the less buoyant ones- the federal government taxes corporate bodies while state and local government tax individuals. While the federal government on average accounts for 90% of the overall revenue annually, it only accounts for 70% of total government expenditure. In 1995, the breakdown of total tax and levy collection of the three tiers of government was 96.4% for the federal government, 3.2% for the state and 0.4% for the local government (Phillips 1997). A major element contributing to this development was the prolonged military rule that had ignored constitutional provision.

Over the past four decades, the country's revenues were largely derived from primary products. Between 1960 and the early 1970s, revenue from agricultural products dominated, while revenue from other sources was considered as residual. Since the oil boom of 1973/4 to date, however, oil has dominated Nigeria"s" revenue structure, and its share in federally collected revenue rose from 26.3% in 1970, to 81.8%, 72.6%, and 76.3% in 1979, 1989 and 1999 respectively. Over the past two decades, oil has accounted for at least 70% of the revenue, thus indicating that traditional tax revenue has never assumed a strong role in the country"s management of fiscal policy. Instead of transforming or diversifying the existing revenue base, fiscal management has merely transited from one primary product based revenue to another, making the economy susceptible to fluctuations of the international oil market (Odusola, 2006).

5. Tax Policy Reforms and Institutional Development

The need to address the problem of low tax returns motivated the Federal government to embark on a number of reforms to existing tax laws. According to Alli (2009), the objectives of tax reforms in Nigeria include: to bridge the gap between the national development needs and the funding of the needs; to ensure taxation, as a fiscal policy instrument, to achieving improved service delivery to the public; to improve on the level of tax derivable from non-oil activities, vis-à-vis revenue from oil activities; efforts at constantly reviewing the tax laws to reduce/manage tax evasion and avoidance; and to improve the tax administration to make it more responsive, reliable, skilful and taxpayers friendly and to achieve other fiscal objectives. The Nigerian tax system has experienced series of reforms since 1904 to date. The effects of the various reforms in the country are as follows: The introduction of income tax in Nigeria between 1904 and 1926; The grant of autonomy to the Nigerian Inland Revenue in 1945; the Raisman Fiscal Commission of 1957;The formation of the Inland Revenue Board in 1958.

v. The promulgation of the Petroleum Profit Tax Ordinance No. 15 of 1959; the promulgation of Income Tax Management Act 1961;The establishment of the Lagos State Inland Revenue Department; The promulgation of the Companies Income Tax Act (CITA) 1979;The establishment of the Federal Board of Inland Revenue under CITA 1979;The establishment of the Federal Inland Revenue Service between 1991 and 1992 and The tax policy and administration reforms amendment 2001 and 2004.

Another reform embarked upon by the Nigerian government was instituting the Study

Group on the Nigerian Tax System. This group was inaugurated on the 6th of August, 2002, to examine the tax system and make appropriate recommendations towards entrenching a better tax policy and improved tax administration in the country. This group consists of individuals from business, academia, and the government.

There is also the Chartered Institute of Taxation of Nigeria (CITN), established in 1982 and Chartered by Act No. 76 of 1992 to regulate tax practice and administration in the country, and to this extent a major stakeholder in the Nigerian tax system.

To understand the importance of tax policy reforms, one needs to appreciate the urgency for such reforms. First, there is a compelling need to diversify the revenue portfolio for the country in order to safeguard against the volatility of crude oil prices and to promote fiscal sustainability and economic viability at lower tiers of government. Second, Nigeria operates on a cash budget system, where proposals for expenditure are always anchored to revenue projections. This facilitates determining the optimal tax rate for a given level of expenditure. Thus accuracy in revenue projection is vital for devising an appropriate framework for sustainable fiscal management, and this can be realized only if reforms are undertaken on existing tax policies in order to achieve some improvement.

Third, Nigerian tax system is concentrated on petroleum and trade taxes while direct and broad-based indirect taxes like the value-added (VAT) are neglected. This is a structural problem for the country's tax system. Although direct taxes and VAT have the potential for expansion, their impact is limited because of the dominance of the informal sector in the country. Furthermore, the limited formal sector is supported with strong unions that act as pressure groups to deter any appreciable tax increment from gross income. Fourth, the widening fiscal deficit that over the years has threatened macroeconomic stability and prospects for economic growth makes the prospect of tax reform very appealing.

Nigeria's fiscal policy measures have been largely driven by the need to promote certain macroeconomic objectives as promoting rapid growth of the economy, generating employment, maintaining price levels and improving the balance-of-payment conditions of the country. Although policy measures change frequently, these objectives have remained relatively constant. Until the mid 1980s, tax policies, for instance, were geared to achieving such specific objectives as:Ensuring effective protection for local industries; Encouraging greater use of local raw materials; Enhancing the value added of locally manufactured and primary products; Promoting greater geographical dispersion of domestic manufacturing activities and Generating increased government revenue.

As regards institutions relevant to the tax system, it is noted that the efficiency of a country"s institution has significant bearing on its operations. For instance, between 1999 and 2002, FIRS accounted for 74.5 per cent of federal revenue while the NCS collected the balance. For efficient operations, the federal tax organizations should comprise the following (Study Group on Tax Reform, 2003): Federal Inland Revenue Services (FIRS) with responsibility for income and other; Value-added tax services, responsible for VAT;NCS (Nigeria Custom Services) for custom and excise duties; and JTB (Joint Tax Board) for harmonizing income tax at the three tiers of government; managing the national database, and serving as a clearinghouse for inter-state tax flows.

6. Theoretical Nexus

Two theories that have been applied in analyzing the benefit approach are:

Theory of Lindahl: This theory is discussed in the context of two tax payers who are free to reveal their preferences for state services against corresponding tax liability. It is a kind of voluntary exchange between the taxes paid and state services received. Lindahl tries to find out a solution for the following three problems: the decision regarding the extent of state activity; Allocation of the total expenditure amongst various goods and services and Allocation of tax burden among tax payers

Theory of Bowen: Theory of Bowen is favoured for having the most operational significance. It has the virtue of easy adaptation to show what happens social goods are produced under conditions of increasing costs, the opportunity cost of private goods foregone.

7. Analysis of Data

From the 300 questionnaires administered, 112 respondents, with a mean score of 60.0625, are less willing to pay tax, while 188 with a mean score of 76.6649, are more willing to pay tax and complying. Hence, it could be implied that more of Citizens in Nigeria are willing to pay tax and complying, drawing from the Enugu and Kogi States study.

The result reveals this glaring difference in the Willingness to pay Tax by Citizens of

Enugu and Kogi States. Citizens in Enugu State with a mean score of 73.0400 are more willing to pay tax than Citizens in Kogi State with a mean score of 67.8933.

Our findings reveals Tax Knowledge as an influencing factor on Willingness to pay Tax: 75% (42% + 33%) of the respondents agreed to their perception of the importance and essence of tax affects my willingness, 73% (44% + 29%) of the respondents agreed to their knowledge of what tax is being an influencing factor on willingness to pay tax, while, 70.4% (43.7% + 26.7%) of the respondents agreed to how much they know about how to go about paying their tax being an influencing factor on their willingness to pay tax. This then implies that majority of the respondents agreed to tax knowledge as an influencing factor on willingness to pay tax.

Among factors discovered to affect compliance and willingness to pay, Taxpayer‟s perception of the essence of tax has a mean value of 3.8, knowledge of various taxes 3.79 and understanding the payment system 3.75. 120(40.0%) of the respondents disagreed, 31(10.3%) were undecided while 149(49.6%) agreed to the system of tax payment operated in Nigeria being an influencing factor on willingness to pay tax. 59(19.7%) of the respondents disagreed, 19(6.3%) were undecided while 222(74.0%) agreed that morale ethics is an influencing factor on willingness to pay tax. 49(16.4%) of the respondents disagreed, 21(7.0%) were undecided while 230(76.7%) agreed that income is an influencing factor on willingness to pay tax.

75(25.0%) of the respondents disagreed, 23(7.7%) were undecided while 202(67.3%) agreed to tax rate as an influencing factor on willingness to pay tax. 26(8.6%) of the respondents disagreed, 14(4.7%) were undecided while 260(86.6%) agreed with provision of infrastructural facilities as factoring influencing tax compliance. 20(6.7%) of the respondents disagreed, 21(7.0%) were undecided while 259(86.4%) agreed to tax while 86% (31.7% + 54.3%) agreed that their willingness to pay tax is influenced by how well government is able to meet their expectations, 5.7% were undecided, while 8.3% disagreed. 83% (38% + 45%) agreed that the low level of government delivery on promises made influences their willingness to pay tax. 76.7% (44.7% + 32%) agreed that government being wasteful with tax proceeds influence their willingness to pay tax influencing on willingness to pay tax.

8. Discussion of Findings

It was discovered that many Nigerians are complying with tax payment and that the willingness of citizens to pay tax in Enugu State is significantly higher than that of Kogi State. From the list of factors that were tested for, Trustworthiness of government, Provision of Infrastructural Amenities, Tax Accountability by Government, Level of government delivery, Income, Morale Ethics, Tax Knowledge, Tax Rate, and The System of Tax Payment were found to influence the willingness to pay tax.

9. Conclusion and Recommendations

In conclusion, the compliance through the willingness of citizens to pay tax is very important and cannot be ignored. It is suggested that government should pay attention to the factors that influence the willingness of citizens to pay tax and improve on them, thereby improving peoples‟ willingness to pay tax, government revenue and economic growth and development of the nation generally, lending credence to the Lindahl and Bowen models showing relationship between tax revenue and economic growth.

Therefore, following recommendations are provided to achieve an effective and efficient tax compliance that would yield to rapid economic growth in Nigeria:

i. The government should show some degree of tax accountability on the revenue collected to encourage the citizens to build trust in them.

ii. A high level of delivery on the promises made by the government should be implemented to enable citizens develop towards government the sense of trustworthiness.
iii. The system of taxation and tax authorities at all level should be transparent.
iv. Improvement on the standard of tax audit employed for effectiveness and efficiency in tax administration to reduce the high level of tax evasion on those that are self-employed should be encouraged.
v. The government should be honest with the use of tax proceeds.
vi. Tax audit should aim at reducing the problems of tax evasion, tax avoidance and other tax irregularities for standardization to improve the level of filing, payment and reporting compliance in Nigeria.
vii. The relevant tax authorities should improve the public awareness of the importance of tax payment and the effect of non-tax payment, so that the level of compliance can be improved and non-compliance will be minimized.
viii. In order to encourage voluntary tax compliance, government needs to be more responsible to the needs of the citizens through the Provision of infrastructural and social amenities.

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