

TAX COMPLIANCE MEASURES AND TAX REVENUE IN NIGERIA

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ABSTRACT

Nigeria, a country with a monoculture and an oil-based economy, began borrowing money to support the economy as its resources began to decline due to global oil rivalry, falling oil prices, and other issues. This borrowing was unsustainable since government debt was piling up, burdening future generations with debt, and instilling fear and a lack of trust in the economy among the populace. This analysis was required due to the ongoing fluctuations in the price of oil throughout the world and the Nigerian government's efforts to find alter. With particular goals including figuring out the relationship between tax enforcement measures dimensions and business income tax, value-added tax, and hydrocarbon tax, the study examined the relationship between tax enforcement measures and revenue generation in Nigeria. This study evaluated the effects of enforcing the payment of Value Added Tax, Hydrocarbon Tax, Companies Income Tax, etc. in Nigeria in order to address these and other issues. The study used data from secondary sources and conducted the assessment using a descriptive methodology. According to the study, there is minimal tax income in Nigeria due to a high rate of non-compliance and disinterest. The few compliant taxpayers, nate means of raising public income to cover its expenses. Consequently there is a significant tax gap. Based on the findings, it is determined that in order to enforce the payment of Companies Income Tax, it is necessary to bring the remaining taxpayers in Nigeria into the tax system. This may be done by imposing penalties and interest on tax defaulters, among other enforcement methods. The report suggested that in order to promote tax auditing, the Nigerian government should review its approaches to tax enforcement. To make sure that the amount of tax reported and paid complies with tax rules and regulations and tax enforcement measures like interest and penalties, a taxpayer's company records and financial affairs should be inspected on a regular basis. Penalties should be applied to tax defaulters in order to enforce discipline and motivate compliant taxpayers, guaranteeing the availability of funds for the government to fulfill its obligations to all citizens. Potential tax evasion is discouraged more when the penalty rate is higher. It is thus advised to choose a larger penalty rate.

Keywords: Tax Revenue, Tax Compliance, Enforcement Measures, Tax defaulters and Penalties, Taxpayers.

INTRODUCTION

Background to the Study

A government's primary source of funding is its constituents' basic utilities and other social services; these are the primary duties of an elected public official worldwide, and governments require large sums of money to carry out their duties in order to accomplish these goals (Modugu and Anyaduba, 2014). The government uses taxes as a mechanism to raise the funds necessary to build the infrastructure or basic services for the populace. A tax is a mandatory charge that the government imposes through its agencies on the capital, consumption, and income of its citizens. These taxes are imposed on people's earnings, including salaries, business profits, dividends, interest, discounts, and royalties, in order to raise money. Taxes are therefore a necessary payment or transfer of resources from the private to public sectors, levied according to the specified criteria and without consideration of particular benefits received (quid pro quo), in order to accomplish some of the nation's economic and social goals. Encouraging and preparing the taxpayer to abide by tax audit recommendations and future tax code regulations is one of the

objectives of tax compliance. As a result, the terms are now used to describe government fund-raising campaigns.

The main goal of compliance is to guarantee that all tax compliance requirements are strictly followed, including timely and accurate filing as well as timely payment of tax liabilities. This research will provide the government with well-informed measures to improve income through tax payer compliance.

In Nigeria, taxes are not always used as intended as the primary source of revenue for the government (Amah & Nwaiwu, 2018). For a sizeable portion of its money for governance, the nation is increasingly dependent on resources from crude oil, loans from abroad, and help. This is mostly a result of the nation's weak tax administration and collection capacities. For a variety of reasons, a nation needs to overhaul its tax administration.

First off, while tax laws and policies have the potential to increase tax revenues, the amount of taxes that actually end up in the government coffers mostly depends on how well the revenue administration is run. Tax collections are insufficient because of revenue administration flaws. Inflation and an unsustainable rise in public debt could follow from borrowing to cover the ensuing budget deficit (Alabede, Ariffin, & Idris, 2011).

Any real effort to reduce corruption in a country and improve governance would most likely require reforming the tax administration (Abel, 2017). Reforms including efficient and effective tax compliance may be necessary for the revenue administration to stay up with the increasingly complex economic activities and tax evasion techniques. Tax compliance is one of the most important strategies for raising revenue. This study will examine tax compliance and income in Nigeria in order to close the gap.

Statement of the Problem

According to Anah and Nwaiwu (2018), taxes should be the main source of funding for the government, but this isn't always the case in Nigeria. To fund a large portion of government expenditures, the nation is increasingly dependent on foreign loans, aid, and crude oil resources. The main cause of this is the nation's inadequate capability for tax administration and collection.

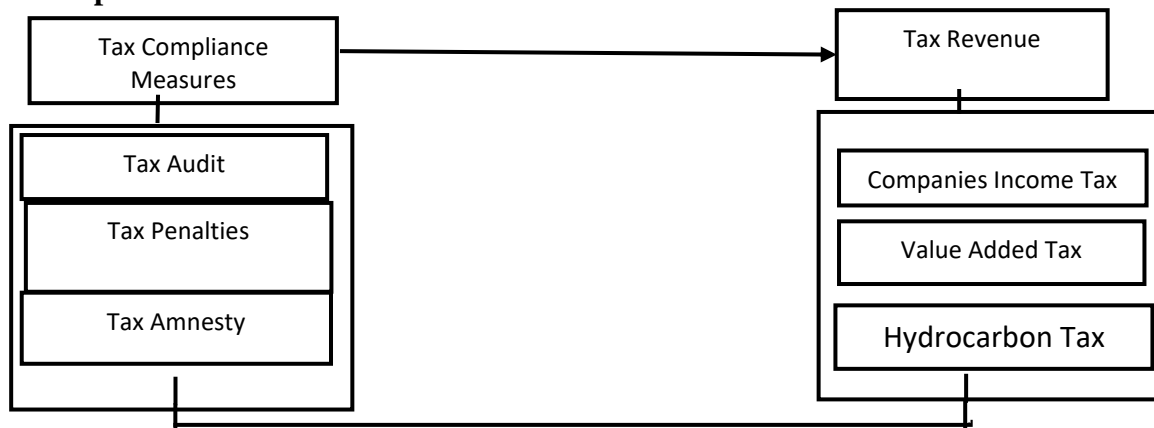
Second, a lack of income reduces the available budgetary resources, which has an impact on the government's capacity to carry out its operations and deliver public services. Significant inefficiencies in the administration of public expenditures are the outcome of budget cuts brought on by unexpected drops in revenue collections also cause budget cuts that result in major inefficiencies in the management of public expenditure.

Thirdly, the administrations in charge of taxes and customs have a high rate of corruption. When dishonest revenue authorities grant willing tax evaders unjustifiable tax benefits, the government experiences significant revenue leakages. Additionally, as corruption in revenue management results in harassment, exaggerated assessments, expensive litigation, and leniency towards rivals who do not comply, honest taxpayers suffer. The huge cost of corruption to the public and private sectors, respectively, is a significant hindrance to a nation's tax administration system. Reforming the tax administration is probably necessary for any significant attempt to strengthen governance and lessen corruption in a nation (Abel, 2017).

In order to keep up with the growing complexity of corporate operations and tax evasion methods, revenue administration reform that includes effective and efficient tax enforcement may be necessary. Products and services are being generated by taxable companies across several nations as a result of globalization. Large chances to manipulate transactions in order to lower the tax burden are presented by this. Major issues in enforcing tax laws will persist due to corruption, tax havens, and the growing use of electronic financial transactions unless the revenue administration can keep up with the advancements in technology and professionalism (Oyebanji, 2006).

Monitoring taxable activities and combating tax evasion will be made even more difficult as a result. This is why enhancing the effectiveness of revenue administration requires strong tax enforcement. One important method for raising money is the enforcement of tax laws. To bridge that gap, this study looks into tax enforcement and income collection in Nigeria.

Conceptual Framework



Conceptual framework of the relationship between Tax Compliance Measures and Tax Revenue in Nigeria.

Source: Okoye (2006), Bitrus, (2014), Okonkwo.

Purpose of the Study

This study's primary objective is to conduct an experimental analysis of the correlation between tax revenue and tax compliance measures in Nigeria. Specifically, the objectives are to find out how tax audits and corporate income taxes are related in Nigeria.

- i. Examine the relationship between tax audits and Nigerian corporations' income taxes.
- ii. Examine the relationship between Nigeria's hydrocarbon tax and tax audits.
- iii. Analyze the connection between Nigeria's Companies' Income Tax and tax penalties.
- iv. Identify the connection between Nigeria's Companies Income Tax and tax amnesty.
- v. Find out how Nigeria's value-added tax yield and tax amnesty interact.
- vi. Examine how Nigeria's hydrocarbon tax and tax amnesty relate to each other.

Research Questions

Given the aforementioned precise goals, this study will focus on answering the following research questions:

What is the relationship between tax audit and corporate income tax in Nigeria?

What connection exists in Nigeria between value-added tax and tax audits?

How does Nigeria's Hydro Carbon Tax relate to tax audits?

What connection exists in Nigeria between companies income tax and tax penalties?

What connection there is in Nigeria between value added tax and tax penalties?

How do tax penalties relate to

Research Hypotheses

Based on the above research questions, the following null hypotheses will be tested in this study:

Ho₁ There is no significant relationship between tax audit and companies income tax in Nigeria.

Ho₂ There is no significant relationship between tax audit and value added tax in Nigeria.

Ho₃ There is no significant relationship between tax audit and Hydrocarbon Tax in Nigeria.

Ho₄ There is no significant relationship between tax penalties and company income tax in Nigeria.

- Ho₅ There is no significant relationship between tax penalties and value added tax in Nigeria.
- Ho₆ There is no significant relationship between tax penalties and Hydrocarbon Tax in Nigeria.
- Ho₇ There is no significant relationship between tax amnesty and company income tax in Nigeria.
- Ho₈ There is no significant relationship between tax amnesty and value added tax in Nigeria.
- Ho₉ There is no significant relationship between tax amnesty and Hydrocarbon Tax in Nigeria.

Scope of the study

The scope of this study will be seen from the perspective of content, geographical and unit of analysis.

Significance of the Study

The economy of Nigeria is directly impacted by changes in tax income. The study is likely to highlight the advantages or disadvantages of tax compliance, as well as how it helps the government combat tax fraud and increase tax revenue while also benefiting taxpayers, thereby enhancing the knowledge of other government institutions preparing to launch similar modernization initiatives. The study will add to the body of knowledge in the field of tax compliance and revenue, and it may serve as a springboard for additional study in these areas.

Operational Framework

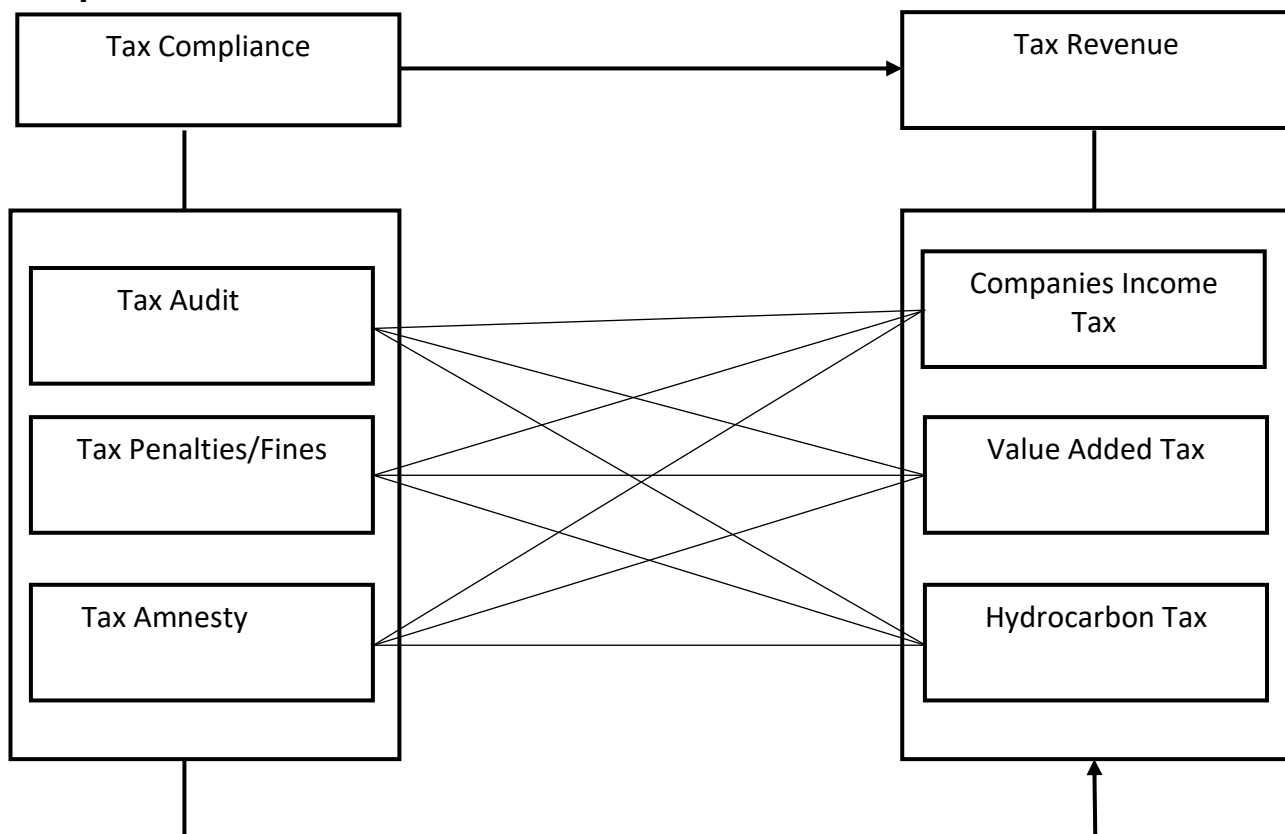


Figure 2.1: Operational framework of the relationship between Tax Compliance and tax revenue in Nigeria. Source: Izedonmi (2000), Adesina (2005), Okoye (2006), Bitrus, (2014), Okonkwo (2014), Oyedokun (2014). Kirchler, (2007), Feld & Fery (2007).

LITERATURE REVIEW

Theoretical Foundation

The concept employed in this study is the ability to pay theory, which was initially put out in 1939 by Erik Lindahl and Arthur Cecil Pigou.

The Theory of Ability to Pay

The most well-known and commonly acknowledged principle of fairness or justice in taxes is that citizens of a country should make contributions to the government commensurate with their financial means. But here's where we get into trouble: the notion of ability to pay. It is important to accurately assess a person's ability, but economists cannot agree on whether to base this assessment on income, expenditure, or property ownership. Most people agree that the best way to determine someone's ability to pay is to look at their income.

Conceptual Review

Citizens of a nation should pay taxes in proportion to their financial resources, which is the most well-known and widely acknowledged notion of fairness or justice in taxation. The definition of ability to pay is where we disagree. While there is consensus among economists that a person's capacity should be properly evaluated, there is disagreement over whether or not this assessment should be based on expenditure, income, or property ownership. For the most part, income is seen as the most accurate indicator of someone's capacity to pay.

Tax Compliance Initiatives

Most people consider income to be the most reliable measure of someone's ability to pay.

Tax Compliance Measures

When voluntary compliance seems challenging, there are a number of compliance measures accessible, according to Ibrahim (2016) and Onuoha and Dada (2016). These consist of tax audits, fines and penalties, amnesty, and even tax holidays (Amah & Nwaiwu, 2018).

Tax Audit

Taxes are regarded as a source of funding for economic expansion and advancement. To ensure that taxpayers have calculated their tax payable in accordance with current tax laws and regulations, many tax agencies continue to rely on audits of taxpayers' business records and financial affairs. This implies that tax revenues are growing; otherwise, tax agencies risk losing significant revenue opportunities.

Tax Penalties/Fines

Tax penalties are punitive measures that the tax code imposes for performing prohibited acts or for failing to conduct required acts, such as failing to submit returns on time or filling out incorrect or undervalued forms, among other things. A late filing fine may be imposed on a taxpayer who is required to file an income or excise tax return but fails to do so in a timely manner.

Tax Amnesty

Tax amnesty, in the opinion of Baer and Le Borgne (2006), can be viewed as a short-term government offer to taxpayers to pay a certain amount of tax in exchange for the government forgiving their tax debt, which includes interest and penalties from the prior tax year.

Tax Revenue

The term revenue has been interpreted differently by different authors. According to Adam (2006), income is the sum needed by the government to finance its operations. The tax revenue measures that will be examined in this article are the corporate income tax, the value-added tax, and the hydrocarbon tax.

Companies Income Tax (CIT)

In Nigeria, incorporated entities must pay Companies Income Tax (CIT) on their profits. Taxes on the profits of non-resident corporations doing business in Nigeria are also included. Limited liability firms, including public limited liability companies, are responsible for paying the tax. As a result, corporate tax is a common name for it.

Value Added Tax (VAT)

As of 1 February 2020, the regular VAT rate raised from 5% to 7.5%. A consumption tax on value added is known as VAT. The tax it has paid on these purchases might be subtracted from the tax it charges clients.

Hydro Carbon Tax

The study will examine the effects of substituting a hydrocarbon tax for the hydrocarbon tax. Holders of a Petroleum Prospecting Licence or Petroleum Mining Lease will be subject to both CIT at 30% and Hydrocarbon Tax (HCT) after the Petroleum Industry Act 2021 takes effect. These are the HCT rates: 30% for onshore and shallow offshore petroleum mining leases that have been converted or renewed.

Empirical Review

Okoye (2019) investigated how Nigeria's tax compliance program affected political trust's moderating effect on tax compliance. To determine the impact of taxpayer education on tax compliance in Kenya, Gitaru (2017) examined the impact of taxpayer education on tax compliance in Kenya's SME sector. The statistical software for social sciences (SPSS) was used to examine the data, which was collected using a survey research methodology. According to the study's findings, stakeholder sensitization is positively correlated with taxpayer education, which leads to taxpayers accurately calculating their tax payments

METHODOLOGY

Philosophical Foundation

The philosophical foundation serves as a framework for all research activities. It refers to the logical flow that links the empirical facts to the study's initial questions and, finally, to its conclusions, according to Inkoom (1999). The intellectual tradition that the study is rooted on is its philosophical underpinning. A deductive methodology known as a positivist research philosophy uses questionnaires to produce data (Blumberg et al., 2011). When the researcher shifts from a broad point to a more focused one, it is used. When and where a researcher investigates hypotheses is when and where a positivist philosophy is applied. By doing this, the dimensions and breadth of the current issue can be widened and clarified in order to produce a comprehensive understanding of human behavior and experience, which can then result in the development of workable solutions to social issues. Consequently, the premise of this work will be based on positivist philosophy.

Research Design

According to Abdullah and Levine (1979), a research design is a framework or plan that the researcher uses to guide the gathering and analysis of the study's data.

The survey research design will be used for the investigation.

Population of the Study

According to Baridam (2001), a study's population comprises of the entire universe. He continues by saying that the results of the study apply to the entire population. As a result, the Federal Inland Revenue Service (FIRS) personnel divisions in South-South, Nigeria, would serve as the study's demographic source.

Sample Size and Sampling Procedure

According to Dike (2004), there are two types of methodologies used in sampling procedures: probability and non-probability. The probability technique will be used in this investigation because it involves a population selection.

The method developed by Taro Yamane in 1967, which was later used by Baridam (2001), will be used to calculate the study's sample size.

The formula reads as follows:

Taro Yamane's formula

$$n = \frac{N}{1+N(e)^2}$$

Where:

n = sample size

N = Population size

e = Level of significance desired.

Methods of Data Collection

Both primary and secondary data will be used in the investigation. The primary data would be gathered via a questionnaire using a 5-point Likert scale that asked respondents for their views.

Instrument Design

The likert scale, a measure used to record responses from respondents to the study's variables, will be used in the questionnaire design.

Operational Measures of Variables

Tax audit, tax fines and penalties, and tax amnesty will all serve as proxies for the independent variable, tax compliance.

A tax audit is defined as "an examination of a person's or an organization's tax return by the appropriate tax authorities to determine compliance with applicable state or federal tax laws and regulations." The revenue service attempts to evaluate the financial information reported on your tax return through the tax audit process (Kircher, 2008).

Tax fines and penalties are calculated using a penalty rate. The various tax authorities typically use the rate of penalty to estimate the amount of fine that delinquent taxpayers must pay (Ladi & Henry, 2015).

A government program known as tax amnesty offers a reduction or cancellation of the interest and/or penalties payable on unpaid taxes or unpaid tax liabilities. Penalties for both civil and criminal offenses are waived as part of the legal element. All taxpayers, including those subject to both corporate and personal income taxes, may be covered by tax amnesties. Tax revenue, the dependent variable, is quantified by corporate income tax, value-added tax, and hydrocarbon tax.

Goodness of Data

Validity of Research Instruments

When a research instrument measures what it is intended to measure, it is legitimate. The ability of the instrument to cover every variable in the study is known as content validity, whereas construct validity refers to the instrument's capacity to gather data that can be used to assess the study's central hypothesis. The researcher would establish the construct validity of the study's instrument's content and design. The instrument will be shown to the research supervisors for review as well as to experts in quantitative analysis.

Reliability of Research Instruments

In this context, reliability refers to how consistently a measurement tool produces the same results across trials. Using the Statistical Package for Social Sciences (SPSS) version 23.0, Cronbach alpha coefficients would be used to evaluate the survey instrument.

Reliability Analysis

To make sure that only useful data are used for univariate, bivariate, and multivariate analysis, this component of the study will be concerned with the data's dependability.

Methods of Data Analysis.

This will cover the tools that would be used for analyzing data which aid the analysis of the relationship between the variables used for the purpose of this research work. Ahiazu (2006) argues that the choice of a data analysis technique depends on the type of study, research design and method adopted. The statistical analysis of data in this study would involved the following: frequency tables, percentages, Spearman Rank Order Correlation Coefficient a with the use of Statistical Package for Social Science version 23.0. The reason for the adoption of the tool is because the study is relational and the data is non-parametric.

CONCLUSION

It has been the fault of government by believing that tax education is not necessary and hence no investments into tax matters (NB, government was comfortable with the oil revenue then). Most people have this natural dislike for tax, if proper tax education is conducted, the tax payer will appreciate the importance of honest and timely payment of Companies Income Tax and not just its dark side thereby pooling the revenue for government functions. There is the need to drag the rest taxpayers to the tax net in Nigeria and this can be achieved through imposition of penalties and interests amongst other enforcement measures on tax defaulter as a means of enforcing the payment of Companies Income Tax.

RECOMMENDATIONS

Given the results and analysis of this investigation, the next suggestions were proposed: In order to make sure that negligent taxpayers face harsher penalties, the FIRS's compliance enforcement program needs to be reinforced. This ought to involve pursuing non-compliant taxpayers via all legal means of enforcement stipulated in tax legislation. To guarantee that the measures are perceived by the taxpayer as a way to promote prompt and genuine tax payment rather than as a way to dissuade them from paying taxes, care should be used when using this authority. To prevent penalties, interest, and even fines, the Nigerian government should educate the populace and tax payers on the need of timely tax payment.- The majority of people naturally detest paying taxes; but, if appropriate tax education is provided, taxpayers will come to understand the value of paying taxes as well as its negative aspects.

Reducing taxpayers' reported or unreported tax liabilities in accordance with the law should always be done to promote tax compliance.

- Just as there are penalties for both late and non-payment of taxes, the government should also institute rewards for truthful and punctual tax payments.

- The rationale for the tax computation should be explained to the taxpayers, and they should be made aware of the consequences of filing and paying taxes after the deadline.

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