

Voluntary Tax Compliance as an Alternative to Boosting Tax Revenue Generation in Nigeria

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Abstract

This study examined the correlation of voluntary tax compliance as a means for boosting tax revenue generation in Nigeria. The study is motivated by the bid to provide an insight into alternative ways of boosting tax revenue yields. It looks at the possibility of widening the tax base by bringing in the informal sector and high net individuals into the tax nets through voluntary tax compliance or enforce voluntary tax compliance. A survey design method was employed to sample opinions of respondents through the use of questionnaire, interviews and content analysis, which employ review of relevant books and articles on the subject of discussion. Descriptive statistic using mean, ordinary least square (OLS) regression method was equally used for data analysis. Findings from the study revealed that voluntary tax compliance and enforcing voluntary tax compliance are both capable of boosting tax revenue generation in the country. The study recommend the establishment of reward and honors scheme for all categories of taxpayers who are regular in the payment of their tax for a period of not less the 30yeras consecutively for national honors in order to encourage them and others to be compliant.

Keywords: Informal Sector, Tax Compliance, Tax Revenue Generation, Voluntary Tax Compliance,

1. INTRODUCTION

Financing government activities and Programmes has not been an easy task. In recent times various levels of government in Nigeria are faced with the challenges of insufficient revenue to meet its responsibilities for the protection of life and property of its citizens, provision of infrastructure, good health system, education and welfare goods and services to its citizens. In some states and local government areas in the country, government are unable to pay the salaries of its workers for more than five to ten months, a situation that is quite worrisome and disturbing. The major source of revenue to the government in Nigeria is the oil revenue, which often accounts for about 70% of the total revenue generation in the country Ade (2018), closely followed by tax revenue. Tax revenue are charge, usually monetary imposed by government on individual, corporate bodies, transactions or property to yield public funds for the discharge of government responsibilities.

Recently the dwindling oil revenue occasioned primarily by the fall in crude oil price at the international market has made the government to take a look at the undeclared source of tax revenue by individual and corporate bodies, with the aim of harnessing its benefits by increasing tax revenue generation and broadening the tax base. Tax revenue being the next in line, as a source of revenue generation compared to oil revenue has remained low in Nigeria despite of the fact that it remains the most reliable sources of revenue to government, be it state, local or federal government. No doubt, the federal government through the Acting President Prof. Yemi Osibanjo in 2017 issued an executive order, mandating the Federal Ministry of Finance to set up a Voluntary Assets and Income declaration scheme (VAIDS), a scheme, which is geared towards voluntary compliance and amnesty for tax defaulters to declare and pay the correct amount of tax, with a view of expanding the Nigeria tax base and improving the tax revenue generation capacity of the three tiers of government.

Most developed Countries have adopted the voluntary tax compliance scheme, where eligible taxpayer and other corporate bodies are required to freely declare and paying income tax obligations to government as at when due, rather than government imposing involuntary tax on the citizens. In Nigeria the voluntary tax compliance scheme has been in operation for quite some time now, but the rate at which eligible taxpayers fail to pay their full tax burden either by mistake or by deliberate attempts at tax evasion is a matter for concern. (Ade, 2018) states that Nigeria has a population of about 186 million people. Of this number, about 77 million were employed as at 2015 and only about 10 million people out of this number, are registered for personal income tax across the 36 states and the federal capital territory (FCT). These numbers just do not add up. How does one explain that 10 million people carry the tax burden that at least 77 million people are expected to share? A reality that leaves the economy very vulnerable to fluctuations in the oil market and the reason that propel the federal government to introduced the VAIDS. According to Anyaduba, Eragbhe and Kennedy (2012) Tax researchers have investigated why some people pay taxes and others do not. Through experiments random surveys and available tax database, research have identified characteristics of non-compliance and factors that inhibit voluntary tax compliance to include but not limited to lack of citizen-inclusive approach to compliance through policies that encourage dialogue and persuasion, combined with an effective mix of incentive and sanctions. Other scholars have identified inadequate public awareness, public enlightenment and sensitization of the citizens of their legal obligation to pay tax, government inability to fulfill the social /fiscal contract, Inability to judiciously applying the resources available to projects and programmes that have direct bearing on the governed. Inability to make the taxpayer obligation to pay easier and cheaper by providing simple mode of payment, and technical assistance were necessary and building a positive relationship between the taxpayer, tax authorities and the government. Thus this study adds to existing literature by assessing the correlation of voluntary tax compliance as a means of boosting tax revenue generation in Nigeria, as compared with order developed countries that have adopted the same or similar scheme. Therefore the study tests the following specific hypothesis:

H₀₁: Voluntary compliance has no significant effect on tax revenue generation in Nigeria.

H₀₂: Enforcement of Voluntary compliance has no significant effect on tax revenue generation in Nigeria.

2. LITERATURE REVIEW

Researches are of the view that voluntary tax compliance required a positive induced attitude of continuous cooperation, educating the taxpayer and transparency on the part of government in the utilization of resources at its disposal. However, Batrancea, Nichita, and Batrancea, (2012) identified social psychological issues, political, industry, business and economic among others as determinant of voluntary tax compliance. Sarker (2003) opines that tax counseling, establishing tax information management system, regular auditing and examination, penalty provisions and enforcement, and tax education are capable of ensuring voluntary tax compliance and improving the level of tax revenue generation in developing countries.

2.1 Conceptual Framework

Voluntary compliance refers to the principle that taxpayers will cooperate with the tax system by filing honest and accurate annual returns and pay the tax due thereon. Voluntary means that each taxpayer is expected to prepare and file returns without government involvement. (Investopedia.com), it further sees voluntary compliance as the expectation that taxpayers will be forthcoming in reporting income and calculating their individual income tax burden and payment of such, and all other taxes. The United States frivolous tax arguments section 1A to C and the internal revenue services, (2018) defined the word voluntary to mean the system of allowing taxpayers initially to determine the correct amount of tax and complete the appropriate returns, rather than have the government determine tax for them from the outset. Somorin (2012) put voluntary compliance as an assumption or principle that taxpayers will comply with tax laws and more importantly, accurately report their income and deductions honestly. Ariwodola (2001) states that self-assessment is synonymous to voluntary compliance since taxpayers are required to make return of the income plus self – assessment of what their tax liability should be, and forward same with their cheque for the tax due to the respective tax offices. Fowler (2017) states that if you allow self - assessment with no checks and balances and no consequences, then tax revenue generation won't be possible.

2.2 Empirical Review

Saad (2014) examined compliance based on taxpayer views so as to uncover the reason for non-compliance. A survey research design was used to obtain data for analysis with the aid of thematic statistical technique. The result revealed that

tax payers have inadequate technical knowledge and perceive tax system as complex and therefore contributing to non – compliance attitude of tax payer.

Beesoon D., soondram H. and Jugurnath B. (2016) assessed the determinants of income tax compliance in Mauritius for individual taxpayers. The study adopted primary survey design to obtain data, which was analyzed with the aid of thematic statistical analysis. Their result suggests that tax knowledge impact significantly on tax compliance and that statutory audit, penalties personal financial constraints, perception of government expenditure influences compliance level.

Anyaduba, Eragbhe and Kennedy (2012) examined the effects of deterrent tax measures in tax compliance in Nigeria. The study used ordinary least square (OLS) regression techniques, which were estimated using computer software (Microfit 4.1). The study result suggests inadequate deterrent measure capable of promoting tax compliance in Nigeria, and that tax compliance will be enhanced upon fostering voluntary compliance and enhancing taxpayers' morale. In concluding the study identified that Nigeria compliance strategy is inappropriate and responsible for the low tax revenue generation.

Appah and Ogbonna (2014) examined self-assessment scheme and revenue generation in Nigeria. The study adopted both primary and secondary research designs to obtain data for analysis with the aid of correlation coefficient statistical model. The study results suggested strong correlation between self –assessment compliance and revenue generation.

2.3 Theoretical Framework

This study is based on the following theories and principles of taxation. Equity and fairness, the theory requires a tax system that is fair and equitable devoid of discrimination among taxpayers, as taxpayers will normally seek to pay tax based on their income and ability, it is a clear justification of the principles of progressive taxation were the higher your income the higher the tax. This implies that all taxpayers sacrifice equally and according to their ability. The benefits seen and sustainability theory put it, that payment of tax should depend on the benefits that are physically seen of projects executed by governments in the interest of the taxpayers, these projects must be sustainable on a continuous basis and in different locations and areas within communities in order to motivate citizens to pay tax. Musgrave (1959) as cited in Akpu and Ohaka (2017) the benefits Principles of taxation plays a dual role working as a cumulative justice principle based on the contract of relationship between the state and the citizens on one hand and on the other hand it presents the principle of equity in taxation which makes citizens to pay taxes equivalent to the amount of benefits received by the state.

Theory of simplicity, certainty and clarity of tax payable, should be such that taxpayers can easily understand, be certain of the amount to pay and the procedure for the payment. Without this in place it often be difficult for taxpayers to voluntary comply. Anyaduba, Eragbhe and Kennedy (2012) states that revenue authority should always be to encourage voluntary compliance wherever possible and to facilitate such compliance by whatever means it can make available. The national tax policy (2017) requires government to apply all available resources and tools at their disposals to ensure that taxpayers voluntarily comply with their tax obligations. In order to improve voluntary compliance the relevant authorities should ensure; that the option for self – assessment is in place, and process and procedure are simple; development of frameworks for tax amnesty in order to expand the tax net; constant tax education and enlightenment; and the establishment of a system to recognize and honour compliant taxpayers.

3. METHODOLOGY

This study adopts correlational research design. The choice of this design is predicated upon the fact that it uses historical data to test hypothesis about the relationship between voluntary compliance and tax revenue generation. The population of the study comprises the staffs of the federal Inland Revenue service (FIRS), 50 businesses in the informal sector, 10 limited liability companies and 20 enterprises. The study used primary and secondary data because the variables under consideration are gotten from reports of tax revenue generation from the Federal Inland Revenue service (FIRS) and interviews conducted with some informal business owners. Ordinary least square regression was employed to estimate the parameters of variables in the model. The model is considered appropriate giving the objective of the study. Model of the study is mathematically expressed as follows:

$$TRG = a + \beta_1 VTC + \beta_2 EVTC$$

The variable were defined and measured as follows:

Table 1: Variable Definition and Measurement

Variable	Proxy(ies)	Measurement
Voluntary tax compliance	VTC	Tax revenue generated 2016 /2017 FIRS
Enforce voluntary compliance	EVTC	Tax revenue generated 2016/2017 FIRS
category of tax payers	Informal sector	Level of compliance 2016 / 2017
	Limited liability company	Level of compliance 2016 /2017
	Individual/ enterprises	Level of compliance 2016 /201

4. RESULTS AND DISCUSSION

The result of the study are presented and discussed in this section.

Table 1. Responses of Respondents on voluntary compliance as an alternative to boosting tax revenue generation

Respondent	Affirmation (%)	Negative (%)	Confidence Level
Informal sector	59.5	40.6	0.055
Limited Liability Company	68.6	38.8	0.059
Individual / Enterprises	60.0	39.9	0.601
Staff (FIRS)	95.5	5.5	0.823

Respondents significantly agree that voluntary compliance is capable of boosting tax revenue in Nigeria. Note that all the confidence level from the different respondents is above 50%. The informal sector suggested that voluntary tax compliance is possible if the government helps to provide enabling environment at all levels of business and a soft loan with low interest rate, minimum repayment period of not less than one year, to the sector operators, they have suggested mechanism for constant monitoring and evaluation of their performance by government, a central database as well as training and advisory services.

Table 2.

Do you comply with voluntary tax compliance (VTC) as an obligation of the law

	Min	Max	Mean	Std. Dev.
1. IS	-0.782	0.223	0.0218	0.0883
2. LLC	0.008	7.200	0.6271	0.5200
3. IE	0.009	8.815	0.6117	0.4524

Table 2 shows that voluntary compliance by informal sector has a minimum of -0.782 and 0.223 as maximum value. The mean values of 2% with a standard deviation of 8.83% indicating low VTC among the informal sector, with an average compliance among the limited liability company of 52%, individual and enterprises has compliance rate of 45%.

Table 3.

Responses of Respondents on enforcing voluntary compliance as better way of boosting tax revenue generation

Respondent	Affirmation (%)	Negative (%)	Confidence Level
Informal sector	28.5	62.3	0.035
Limited Liability Company	60.5	35.8	0.052
Individual / Enterprises	52.8	48.5	0.054

Staff (FIRS)	90.00	9.5	0.855
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Three (3) category of Respondents agree that enforcing voluntary compliance is capable of boosting tax revenue generation in the country, as their confidence level is above 50%, whereas the informal sector are not convinced that enforcing voluntary tax compliance will boost tax revenue generation as their confidence level is at 35% and their affirmation at 28.5% their position is based on the fact that only business or an individual that is thriving or making profit that can pay tax from earnings of the business, this position is in line with one of the principles or canons of taxation as propounded by Adam Smith in 1929 as principle of convenient for payment.

Table 4.

In your opinion can you suggest a better way of boosting tax revenue generation in Nigeria?

	Recognition (%)	Enlightenment (%)	Sanctions (%)	Prudent Spending (%)
1. IS	60	50	30	55
2. LLC	40	50	58	60
3. IE	65	55	45	65
3. FIRS	45	60	55	58

Result of Table 4 indicate that the informal sector, individual and enterprises are of the opinion that establishing a system of reward and honors for taxpayers who are compliant with payment of their taxes on a regular basis should be honor with national awards like, Officer of the Order of Niger (OON), Officer of the Federal Republic (OFR) and Commander of the Order of Niger (CON). Such persons must have paid taxes consecutively for a period of not less than thirty to fifty years. The entire respondent agreed that public enlightenment is another better way of boosting tax revenue generation in the country with respondents having 50% and above in affirmation. Two categories of respondents are of the view that sanctions are equally another means of boosting tax revenue generation in the country with an affirmation of 50 -58%. As in Akpu and Ohaka (2016) prudent spending of resources by the government for the benefits of the governed is necessary in order to propel citizens to continue to pay tax, this position has being re-confirmed in this study with all the respondents affirming with about 50% - 65%.

4.1 Discussion and Findings

Findings have revealed that Voluntary tax compliance and enforcing voluntary compliance are both relevant in boosting tax revenue generation in Nigeria, although the continuous monitoring and creating of enabling environment for the informal sector in the country, is identified as means of boosting the tax revenue generation in the country, a more specific point have being put forward by the informal sector, for government to ensure the establishment of rewards and honors for deserving and regular taxpayers who have regularly pay their taxes for a period of not less than thirty years consecutively to feel or have sense of recognition and appreciation by government of their efforts in paying tax, this will not only make others to emulate but will bring about competition among the citizen in the country towards payment of income tax. These honors might include but not limited to the Nigeria national honors of; Officer of the order of Niger (OON); Officer of the Federal Republic (OFR), and; Commander of the Order of Niger (CON).

Government at all levels must on their part ensure accountability and prudence by providing records at all times of all tax revenue received and how they are being spend for the benefits of the citizens. Projects must be cited evenly among communities within the states, local and federal government jurisdiction. Again like in other research, public enlightenment has being emphasis as additional way of boosting tax revenue in Nigeria.

5. CONCLUSION AND RECOMMENDATIONS

This study investigated the effect of voluntary tax compliance as an alternative to boosting tax revenue generation in Nigeria, it comes to a conclusion that voluntary tax compliance work hand in hand with enforcement otherwise taxpayers will continue to evade tax. In line with the findings the following recommendations are made:

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- i. Government should establish a reward and honors award for deserving and regular taxpayers. For example the national honors such as OON, OFR and CON
- ii. The creation of public enlightenment campaigns on the need to pay tax by citizens.
- iii. Government must be accountable and prudent on every project they are embarking on, and ensure spread of such project evenly
- iv. Government should ensure sanction in place for defaulters.
- v. Government is encouraged to provide financial, technical and advisory services to the informal sector, as well as monitor their performance.

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