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EVALUATING THE ADMINISTRATION OF NIGERIAN TAX SYSTEM AS KEY CONTRIBUTOR TO IMPROVED VAT PERFORMANCE IN

SOUTHWESTERN NIGERIA

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ABSTRACT

The recent downward trend in the prices of crude oil in the world market has prompted the various tiers of governments in Nigeria to shift attention to the non-oil sources of revenue such as Value Added Tax (VAT). Hence, this study examined the Nigerian tax system as key contributor in achieving improved tax performance in Southwestern Nigeria. The objective is to examine the roles of the tax laws, policies and administration as key factors influencing tax assessment and payment compliance behaviours of taxpayers. The uniqueness of this study is based on the extended research instruments adopted which focused on State Governments as beneficiary of the revenue accruable from VAT. This paper adopted a survey research method which is quasi-experimental form of design in nature. A simple random sampling technique was used to sample 360 taxpayers and 361 staff of Federal and State Internal Revenue Services as key players in Nigeria tax system administration on which the questionnaires were administered.

The Analysis of variance (ANOVA) result for the test of hypotheses indicated that tax authorities empowered with the content of manual of tax procedure (($F = 8.60$, $p < 0.05$)) and adequate staff motivation ($F = 16.43$, $P < 0.05$) have significant influence on the performance of VAT. Tax compliance level ($F = 23.81$, $p < 0.05$), Self assessment nature of VAT ($F = 6.15$, $p < 0.05$) are adequate and encouraging factors needed for Taxpayers Voluntary compliance.

The study concluded that any government policy that will enhance VAT performance must take into consideration the need to adequately motivate the tax officers of the Federal and State Internal Revenue Services and provide them with explicit manual of procedure. Self assessment nature of VAT must be promoted to encourage taxpayers' voluntary compliance.

KEYWORDS: Taxation, Nigerian Tax System, Taxpayers, Tax Authorities, VAT Compliance, VAT Performance

1. INTRODUCTION

Tax revenues play a vital role in a nation's economic development. This is evidenced by the attention problems of taxation have received over the years (Keen, 2006 and IMF, 2007). The relevance of tax revenues is a core motive for suggesting that emerging economies such as Nigeria must increasingly mobilize internal resources to enhance economic growth and reduce fiscal deficit through the implementation of an effective tax policy (Wawire, 2006). In Nigeria, the need to control fiscal deficit through generation of higher revenue especially from non-oil sector, occupies the attention of every tier of government and redirect focus on taxes such as Value Added Tax (VAT) as a reliable revenue source especially in the presence of rising expenditure (Matthew, 2010).

The declining prices of crude oil at the international market makes it imperative for a shift to other revenue sources which are yet to be fully tapped in Nigeria such as VAT. The non-oil producing areas constituting substantial proportion of Southwestern Nigeria need to enhance revenue from other sources such as the Value Added Tax (VAT) .A payment will only qualify as tax if it is compulsory for taxpayers, has a regulatory authority such as the Federal and State internal revenue service and an enabling law for its implementation. Hence, taxpayers and the tax authorities are the key players in the realization of adequate revenue from such taxes, hence the need for this study.

The shift towards indirect taxation such as VAT as a means of raising revenue for government fiscal activities has raised some fundamental questions for tax policy; what is the appropriate contribution of tax authorities and taxpayers towards achieving a peak in revenue accruable from consumption tax and what are the best roles of these key players?

Enhanced revenue from taxes can be hindered by several factors of which tax compliance is a major constraint. The more the potential taxpayers willingly comply with the payment of the relevant tax, the more the revenue accruable to government through such taxes.

2. STATEMENT OF THE PROBLEM

Studies conducted by IMF (2007), suggested that Value-Added Tax (VAT) raises about 20 percent of the world's tax revenue, and affect about 4 billion people. Widely adopted in sub-Saharan Africa and elsewhere, it has been the centrepiece of tax reform in many developing countries. By any standards, the rise of the VAT has been the most significant development in tax policy and administration of recent decades (IMF, 2007).Ironically, the contributions of tax authorities and taxpayers towards an enhanced performance of VAT as part of the overall Federation collectable revenue is yet to receive much attention especially in Southwestern Nigeria, hence the need for this study.

A vital argument made by proponents of the VAT, especially for developing countries, has been that it would enhance efforts to mobilize much needed tax revenue, not only directly but through wider improvements in tax administration and compliance.The presumptions that VAT makes it easier to raise revenue and a beneficial expansion of the armoury of tax instruments available to governments, and in that sense improves the economic development of the state or nation adopting it requires some empirical evaluation of the contributions of all the key players needed to achieve such a feat. The existing loopholes and challenges in the Nigerian tax system called for relevant questions on measures that could be adopted by the key players to increase the effectiveness and productivity of the system, and for realignments to make the system meet up with international best practices (Anyafulu,2016).

In developing countries like Nigeria, the establishment of effective and efficient tax systems faces some formidable challenges which include the structure of the economy that makes it difficult, if not impossible, to impose and collect certain taxes, the limited capacity of the tax administration and the paucity or poor quality of basic data base system (Tanzi and Howel, 2000). Despite the reforms that the nation had witnessed in tax administration in the past eleven years, a lot of grounds according to Jonathan (2010) are needed to be covered. It is obvious that most wealthy Nigerians, who have the means, generally do not pay tax or tax due. Our basic problem perhaps is that the enforcement machinery of our tax laws is so weak that anybody can go against it without any serious concern. The tax authorities are more often than not so ill-equipped, ill-trained and neglected that they become disillusioned, frustrated and therefore hardly give their best services. Tax administration in Nigeria is generally poor in spite of the efforts of government, tax administrators, practitioners and institutions to improve tax administration.

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However, one of the greatest problems facing the Nigerian tax system is the problem of non-compliance. Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirement even though 'tax laws are not always precise' (James and Alley, 2004). Aksnes (2011) discussed some reasons why taxpayers may be non-compliant and these include flexible tax morale; low education; rules that are too complicated to follow; taxable activities that are manipulated to avoid tax; a perception that the risk of being caught is low; aversion towards the public sector; and a culture of corruption which calls for empirical investigation in order to improve the revenue performance through effective tax system. There is the need to closely examine, restructure and overhaul the springboard of the Nigerian tax system which includes the tax laws, policies and tax administration in order to position them effectively to enhance the generation of sufficient revenue for the execution of government infrastructural development and social activities.

3. TEST OF HYPOTHESIS

- **Ho$_1$:** Content of Tax Manual of procedure for tax authorities has no significant influence on VAT performance in the selected period.

- **Ho$_2$:** Tax officer's motivation and training have no significant influence on VAT performance in the selected period.

4. LITERATURE REVIEW AND CONCEPTUAL EXPLANATION

Tax Compliance Models

This study is anchored on the Extended Modified Fischer tax compliance model. The model provides a framework for understanding the influence of those socio-economic psychological components on taxpayer's compliance decision. Jackson and Milliron (1986) carried out a comprehensive review of the tax compliance literature and identified fourteen key factors that have been studied by researcher on tax compliance. These factors were categorized by Fischer and associates (Fischer, Wartick and Mark, 1992) into four groups in his expanded model (Fischer Model): (i) demographic factors (e.g.- age, gender and education) (ii) noncompliance opportunity (e.g. income level, income sources and occupation), (iii) attitudes and perceptions (e.g. fairness of the tax system, ethics and peer influence) and (iv) tax system/structure (e.g. complexity of the tax system, probability of detection, penalties and tax rates).

Model Specification:Fischer Model

$$TC = f(DF, NCO, AP, TS)$$

(2.1)

Where,

TC = Tax Compliance

DF = Demographic Factors

NCO = Non Compliance Opportunities

AP = Attitude and perception

TS = Tax System / Structure

Where,

DF = f(Age, Gender, Education)

NCO = f(Income level, Source and Occupation)

AP = F (Fairnesss of tax system, Ethics and Peer influence)

TS = f(Complexity of tax system, Probability of detection, Penalty and Tax rates)

The Fischer model suggests that demographic variables indirectly affect taxpayers' compliance by their impacts on non-compliance opportunities and attitudes and perceptions. A common demographic variable is the taxpayer's age. A positive link between age and taxpayer compliance is reported (Jackson and Milliron, 1986). In general, young taxpayers are more willing to take risks and are less sensitive to sanctions. Traditionally, females have been identified with conforming roles, moral restraints and more conservative life pattern (Jackson and Milliron, 1986). Education, as a demographic variable relates to the taxpayers' ability to comprehend and comply or not comply with the tax laws (Jackson and Milliron, 1986).Two aspects of education have been distinguished: "the general degree of fiscal knowledge and the degree of knowledge involving evasion opportunities" (Groenland and Veldhoven, 1983).

Improved Extended Modified Fisher Tax Compliance Model

$$TC = f(DF, NCO, AP, TS, TSQ, QPG, ED)$$

(2.2)

Where,

DF = Demographic Factors.

NCO=Non compliance opportunities.

AP= Attitude and perception.

TS= Tax system/structure.

TSQ = Tax Service Quality

QPG = Quality of Public Governance

ED = Ethnic Diversity

This study was based on Improved Extended Modified Fischer tax compliance Model as developed by James, Zaimah and Kamil (2011) which incorporates Tax service Quality, Quality of Public governance and Ethnic Diversity into earlier model. The improved model incorporates the taxpayers' perception of the level of integrity of government as measured by the truthfulness, transparency and accountability of government. A positive perception of the level of integrity of government has the tendency to enhance the level of taxpayers' compliance. Hence, enhanced revenue to government from taxes is a function of the level of tax compliance by taxpayers. The higher the level of compliance the higher the tendency for government to earn more revenue from taxes The level of compliance is also a function of perceived tax service quality, public governance quality, ethnic diversity, tax system structure, tax knowledge and demographic factors (age, gender and education).

5. METHODOLOGY

The study adopted panel method as well as cross-sectional, analytical survey method on a randomly selected

sample. This was designed to investigate the relationship between the value added tax and the income profiles of the considered states in South-Western Nigeria. To ascertain the compliance of the instrument, a pilot validity test was conducted, whereby the questionnaires were administered to 100 civil service employees and selected VAT rated goods consumers in Ibadan, Oyo State. The results were analyzed using alpha test including interitem covariance and scale reliability tests to confirm the suitability and reliability of the instrument for measuring the relevant variables of this study.

The study covered five out of the six states in Southwestern Nigeria. Only Osun State was dropped as it shares both geographical and demographic characteristics with Ekiti State. Consumers of VAT rated goods in the selected states were used as taxpayers for the study. Random sampling technique was adopted for the selection of 361 staff of federal and state internal revenue services and 360 consumers of VAT rated goods as shown on table 1.1.

6. RESULTS AND DISCUSSIONS

Characteristics of Consumers of Vat Rated Goods

The result in Table 6.1 below shows the socio-economic characteristics of consumers of VAT rated goods. The results indicate that most (54.1%) of the respondents are female while 45.9 per cent are male. 75.4 per cent are single while 24.6 per cent are married. Result also indicate that majority (93.5%) of the consumers are still in the age bracket below 46 years of age. Most of the sampled consumers are holders of Higher National Diploma / Bachelor Degree. The income range of consumers differs; 73.4 percent of sampled consumers of VAT rated goods earn monthly income between ₦ 20, 000 and ₦100, 000.00.

Table 6.1: Socio Economic Characteristics of Consumers of VAT Rated Goods

	Frequency	Percentages
Sex		
Male	162	45.9
Female	191	54.1
Marital status		
Single	266	75.4
Married	87	24..6
Age (mean)		
< 25	132	37.4
26-35	178	50.4
36-45	20	5.7
46-55	15	4.3
56-65	5	1.4
> 65	3	0.8
Educational qualifications		
Below SSCE	6	1.7
OND/NCE	27	7.6
HND/BSC	307	87
Higher Degree	13	3.7
Professional Qualification	-	-
Income range/month		
Below N20,000	84	23.8
N20,000-N50,000	205	58.1
N50,000-N100,000	54	15.3
Above N100,000	10	2.8

Source: Field Survey(2014)

Contributions of Taxpayers on the Value Added Tax Performance of States in Southwestern Nigeria

The result of assessment of contributions of taxpayers in the value added tax performance is presented in Table 6.2. The result indicates that the present compliance level of VAT taxpayers is adequate (F= 23.81, p<0.05). Also, VAT is not being perceived as a fraudulent means of exploiting the ordinary people (F = 1.34, P > 0.05). This means that the populace still considers tax as a responsibility to the government, ceteris paribus. Self assessment nature of VAT is significant (F = 6.15, p< 0.05) as an encouraging factor for taxpayers' voluntary compliance. However the perceived level of integrity of government and its agencies does not significantly contribute to the high compliance rate of taxpayer. Also, the result lends credence to the statement that the uniform rate of % on both luxuries and necessities translates to regressive tax and a higher burden on the masses.

Table 6.2: Contributions of Taxpayers on VAT Performance in Selected States

	F	P Value
Adequacy of compliance level	23.81	0.000***
VAT is exploitative	1.34	0.2541
Self assessment nature of VAT	6.15	0.0001***
Integrity factor	1.67	0.6033
Uniform rate of Tax	3.03	0.0176**
VAT laws and structure	2.98	0.0364**

Significant at *** 5%: ** 10% respectively.

Source: Field Survey(2014)

Socio-Economic Characteristics of Stakeholders of State and Federal Internal Revenue Services

Table 6.3 shows the description of the socio economic characteristics of stakeholders of State and Federal Internal Revenue Services. Result indicates that 48.3 per cent of the stakeholders are male while 51.7 per cent are female, indicating there are more female involved in tax revenue activities of the South Western States. Most of the respondents (78.9%) are also within the active age bracket of less or equal to 45 years. Similarly, their educational level is high as most (70.5%) are Higher National Diploma/ Bachelor Degree holders. However, lowest percentage (25.8%) has spent above 5 years in service.

Table 6.3: Socio Economic Characteristics of Stakeholders of State and Federal Internal Revenue Services

	Frequency	Percentages
Sex		
Male	172	48.3
Female	184	51.7
Age (mean)		
< 25	82	23.0
26-35	100	28.1
36-45	99	27.8
46-55	58	16.3
56-65	15	4.2
> 65	2	0.6
Educational Qualifications		
Below SSCE	12	3.4
OND/NCE	83	23.3
HND/BSC	251	70.5
Higher Degree	6	1.7
Professional Qualification	4	1.1
Length of service		

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Up to 5 years	264	74.2
Above 5 years	92	25.8

Source: Field Survey(2014)

Contributions of Tax Authorities on the Value Added Tax Performance of States in Southwestern Nigeria

Table 6.4 shows the contributions of Tax authority in the Value Added Tax performance. The results which is a rejection of the null hypothesis one (Ho$_1$) indicate that content of the manual of tax procedure plays a significant role (F = 8.60, p< 0.05) in the performance of value added tax. This result highlights the need for Tax authorities to provide an explicit manual of procedure in order to enhance the performance of tax. Adequate motivation of staff which is also a rejection of hypothesis two (Ho$_2$) is also found to significantly (F = 16.43, P < 0.05) contribute to the performance of VAT. Another significant variable is the extent to which VAT has contributed to reducing budget deficits of government. Analysis of opinion elicited from tax authority indicates that VAT plays a significant role (F = 3.19, p < 0.05) in reducing budget deficit. Results also indicate that security challenges contribute negatively (F = 2.39, p < 0.05) to efficiency of VAT collection. However, the extent of staff training on tax assessment and collection procedure is not significantly related to performance of VAT. The result simply indicates that staff training is not adequate and could have been one of the observed low performances of tax workers. Similarly, result indicates that internal controls in place for assessment, collection and remittance of VAT are not adequate to ensure transparency, probity and accountability in the revenue mobilization system.

Table 6.4: Contributions of Tax Authority on VAT Performance in Selected States

	F	P Value
Content of manual procedure	8.60	0.000***
Staff training	0.57	0.6842
Motivation	16.43	0.000***
Taxpayers identity	2.03	0.0897*
Internal control	0.62	0.6486
VAT computation	0.26	0.9041
Reduction of budget deficits of Government	3.19	0.0137**
Agricultural contribution	1.37	0.2447
Contribution of Imports, Manufacturing and services sector	1.05	0.3907
Security problems and political instability	2.39	0.0376**

Significant at *** 5%: ** 10%: * 1% respectively

Source: Field Survey(2014)

7. CONCLUSIONS AND RECOMMENDATIONS

Based on the findings of the study, the following conclusions can be drawn: First, the present VAT compliance rate is adequate, hence it has the potential to enhance the government revenue base; however the internal controls in place in respect of assessment, collection and remittance of tax due is inadequate and must be improved upon to enhance the revenue accruable from the tax.

Deliberate policies to adequately train the tax authority staff on assessment through provision of manual of tax procedures should be put in place by the FIRS to minimise avoidance through underassessment of VAT payable.

Transparent use of tax revenues to provide social and economic infrastructures is desired to encourage increased tax compliance by taxpayers and to provide enabling environment for physical and economic development.

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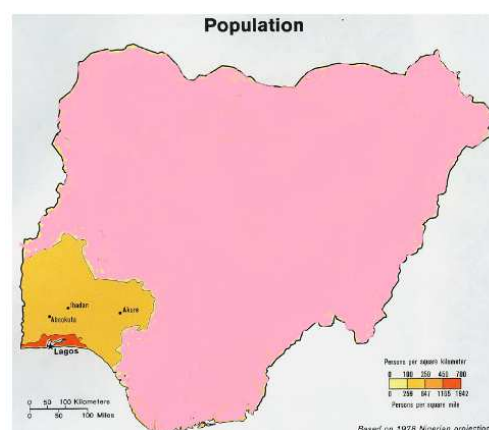
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Source: Field Survey(2014)

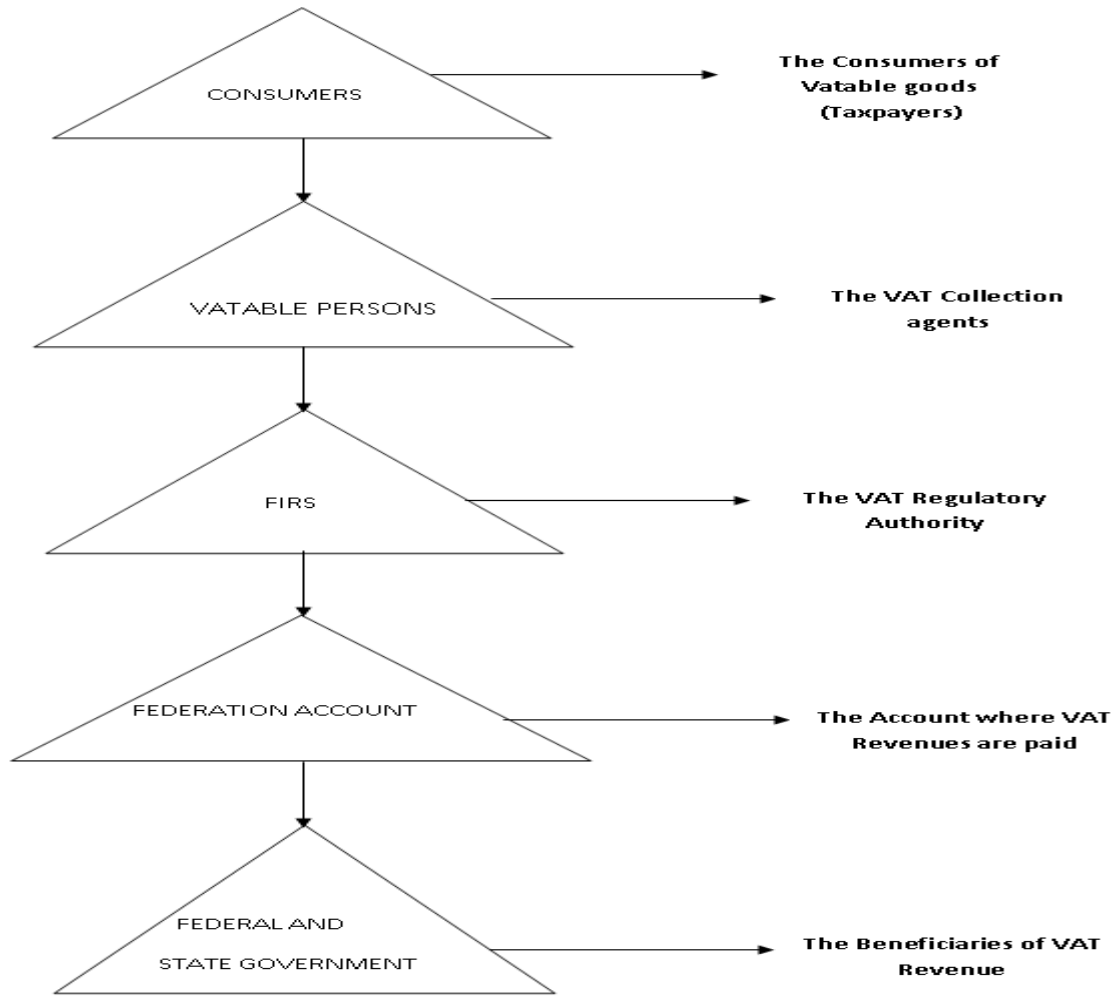**Figure 3.1: Map of Nigeria Showing the Study Area**

Source: NIGERIA MAPS DIRECTORY

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Figure 3.2: Flowchart for VAT Administration in Nigeria

Table 6: 3: Description of Respondent's Groups by Sample Size

S/N	Category of Respondents by Location	State	Firs, Sirs Tax Officers and Agents	Consumers of Vat Rated Goods (Taxpayers)
I.	Ministry of finance Ibadan and area offices	Oyo	56	62
II.	Federal Inland Revenue Service Ibadan and area offices.	Oyo	12	___
III.	Ministry of Finance, Abeokutaand area offices.	Ogun	49	75
IV.	FIRS, Abeokuta and area offices.	Ogun	11	
V.	Ministry of Finance, Ikeja, Lagos and area offices	Lagos	129	173
VI.	FIRS Broad street, Lagos and area offices.	Lagos	29	___
VII.	Ekiti State Ministry of Finance and area offices.	Ekiti	24	20
VIII.	FIRS Ado-Ekiti and area offices.	Ekiti	7	___
IX.	Ondo State Ministry of Finance, Akure and area offices.	Ondo	36	30
X.	FIRS Akure and area offices..	Ondo	8	___
		TOTAL	**361**	**360**

Source: Author's Design (2014)