

## An Appraisal of the Determinants of Non-Tax Compliance in Nigeria

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### ABSTRACT

Tax is a key factor in the financial system of several countries. Taxation is an opportunity for government to gain supplementary income needed to provide basic necessities for the people. Consequently, taxation is one of the most efficient means of building a nation's internal resources, as it also lends itself to creating an environment conducive for the promotion of economic growth. Non-tax compliance seems to be a problem that has defied solution right from colonial times. While some have blamed the situation on tax authorities for not living up to expectation with regards to tax administration, others attribute it to the unpatriotic attitude of tax payers. Based on the foregoing, this paper evaluated the factors responsible for non-tax compliance in the country. Although, the degree to which a government can perform its functions depend largely on the ability to design tax plans and administration as well as the readiness and patriotism of the citizens to respond adequately; there is need for government to give serious consideration to the factors that discourage citizens from paying taxes, and improve on them. The paper recommended among others, the need for awareness creation in order to improve public knowledge on the importance of tax payment is necessary, so that the level of compliance can be improved and non-compliance will be minimized.

**Keywords:** Non-Tax Compliance, Tax, Determinants, Government, Civic responsibility.

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### INTRODUCTION

Tax is one of the most vital sources of income to the government. In developed economies of the world, taxation provides the bulk of government revenue for administration and development. Government requires these taxed funds to finance some basic amenities which include social and economic infrastructures like health services, basic education, good roads, the maintenance of law and order and the provision of public utilities etc. These are benefits of the state and are structured in such a way that the consumption of the products by all individuals in the state is non-rival in the sense that one person's partaking of the benefits does not reduce the benefit available to another [1]. That is, the benefit derived by one person is externalized in that it becomes available to another person at the same time [2].

Tax is an obligatory payment enforced by various tiers of government on individuals and corporate organizations.

In addition, there is no 'quid pro quo' between tax payer and how the government spends the tax paid. This implies that the government needs not to explain to a payer how his own particular payment will be utilized [3]. As earlier observed, the payment of tax permits government to finance or run public utilities and perform other social responsibilities. However, non-payment or tax avoidance is one of the major problems facing Nigerian Tax System. In spite of the multiple benefits of taxation creation among the populace, taxable persons are still being compelled to pay their taxes. They seem to put up resistance that create the impression that they are not happy paying the tax or that they are paying more than they are receiving in terms of social amenities.

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. Most people take pleasure in evading tax, others exhibit recalcitrant disposition when it comes to fulfilling their tax obligation [4] 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 [5]. [6] further attribute this to "the lack of adequate and imperfect information process (i.e. tax agent, tax payer conflict). He further asserts that the tax agent is ignorant of what the taxpayer is to pay, since he or she cannot capture a complete and accurate assessment of what he owed.

Compliance to tax payment, which largely depends on the abovementioned issues have resulted in a huge gap between actual and potential revenue. As such, government has consistently decried the widespread incidence of non-compliance in the payment of tax especially as companies and other taxable individuals make use of various tax avoidance strategies to escape or minimize their taxes, sometimes with the active collusion of the tax officials [7]. There is no doubt that revenue due any government will be

### **Theory of taxation**

They are a number of economic theories propounded in order to run an effective tax system. Usually, taxes are classified under three different theories given as: ability to pay principle, benefit approach and equal distribution principle. Nevertheless, this study is anchored on the "ability to pay principle." Just as the name implies, this theory is based on the principle that taxation should be levied according to an individual's ability to pay. It says that public expenditure should come from "him that hath" instead of "him that hath not." The principle began in the sixteenth century; the ability-to-pay principle was scientifically extended by the Swiss philosopher Jean Jacques

reduced by the unpatriotic act of tax evaders thereby affecting economic growth.

Regarding the ease of tax payment, report from the 'World Bank Doing Business Report 2011 and 2012' shows that Nigeria ranked 109 and 138, respectively, out of 183 countries; in Sub-Saharan Africa (SSA), it ranked 27 out of 46 countries [8]. This is notwithstanding the critical advances that government has made to the tax system. For example, the Federal Inland Revenue Service (FIRS), was established as an operational arm of the Federal Board of Inland Revenue (FBIR), and was assigned the responsibility of controlling and administering different taxes as well as accounting for all taxes collected. Also, the government has rolled out the Tax Identification Number (TIN) programme, a system developed with a relational data base linked to all important stakeholders in Nigerian tax administration. There is also the Joint Tax Board (JTB); these institutions have all been established with the objective of tackling issues of the tax policies and its implementation, tax collection, and the tax payer's compliance in the country [9]. Hence, a fundamental part of the tax system is the people's disposition towards tax payment. This paper examines the factors responsible for non tax compliance among people.

### **Theoretical Framework**

Rousseau (1712-1778), the French political economist Jean-Baptiste Say (1767-1832) and the English economist John Stuart Mill (1806-1873). This is indeed the basis of 'progressive tax,' as the tax rate increases by the increase of the taxable amount. This principle is indeed the most equitable tax system, and has been widely used in industrialized economics. The usual and most supported justification of ability to pay is on grounds of sacrifice. The payment of taxes is perceived as a deprivation to the taxpayer because he surrendered money to the government which he would have used for his own personal use. On the other hand, there is no solid approach for the measurement of the equity of

sacrifice in this theory, as it can be measured in absolute, proportional or marginal terms. Thus, equal sacrifice can be measured as: (i) Each taxpayer surrenders the same absolute degree of utility that s/he obtains from her/his

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income; (ii) Each sacrifice the same proportion of utility she/he obtains from her/his income; (iii) Each gives up the same utility for the last unit of income; respectively.

### **Conceptual Clarification**

#### **Tax**

Tax is termed as revenue collected by the federal or state or regional governments respectively to provide goods and services equitably to all its citizens. There are many types of taxes [5]. The most common tax system in Nigeria are payroll tax, tax on individual income, taxes on corporate income, and taxes on consumption; for example, sales tax or value added tax [2]. The federal and state governments in Nigeria collect taxes to pay expenses such as defense of the country, maintenance of law and order, imparting justice, providing welfare services, maintenance of staff and office structure or buildings, and servicing existing debt as well as ensuring economic growth through fiscal and monetary policies [8]. Government equally needs to finance its income, expenditure and capital assets, for which the taxpayers receives nothing specific in return (African Development Bank 2011) [4].

#### **Tax Compliance**

According to [7], tax compliance is the readiness of individuals to meet the terms of relevant tax authorities by paying their taxes. Tax compliance can equally be regarded as the capacity of a tax liable body to submit accurate, complete and satisfactory returns in compliance with tax laws and regulations of the state to the authority for the purpose of tax assessment [3]. On his part, [9] cited in [1] defines tax compliance as the degree to which a taxpayer abides by the tax rules of his country. [10] while evaluating the concept of tax compliance observed that, as a multifaceted measure, three distinct types of compliance, viz: 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) needs to be considered. One of the major problems of government revenue generation in Nigeria through taxes is the incidence of non-tax compliance by some income earners for reasons best known to them [6]. Government employees seen to be more tax compliant because their taxes are deductible directly from the source in the form of Pay as You Earn (PAYE) unlike those employees in the private sector that may manipulate their data in such a way that their tax burden becomes lower than required by law [3]. Unfortunately, the Government of Nigeria tends to use the adversarial approach for tax collection [5]. This approach tends to focus on “hunter and hunted” or “catch me if you can” a sequence of action that makes taxpayers and administrators to react without two-way communication [9]. Rather than promoting cooperation between taxpayers and tax administrators, suspicion of taxpayers often reveals detection of cheating by auditing as well as a variety of judicial and administrative measures [1]. In addition, taxation can only be used to execute governments’ functions efficiently where taxpayers are willing and able to comply with extant tax laws of the country [10]; [4]. However, it is widely acknowledged that most income earners do not like to pay taxes [6], and for this reason, some income earners may fail to comply with a country’s tax laws or policies. As a result of the above reasons non-tax compliance is the failure of income earner to fulfill their tax obligations either intentionally or unintentionally. The lack of commitment to their constitutional obligation by not filing tax returns, misreporting taxable income or specifying allowable deduction from taxable income or tax due, such as exemptions, tax credit and so on [3].

### **Factors responsible for Non- Tax Compliance**

In Nigeria, some of the causes as identified by [6] include:

#### **The lack of a “Quid Pro Quo”**

Typical of human nature, the average man dislikes the payment of tax as he perceives taxation as a discredited obligation. This is as a reason of the absence of a “quid pro quo” (something of value given in return by the Government) for the taxes paid. It has been argued that taxes should not be paid as the authority does not provide amenities that are commensurate with the taxes paid [6].

#### **Unequal Distribution of Amenities**

In several parts of Nigeria, a lot of people are against the payment of any form of taxes owing to the failure of government to equally distribute social amenities commensurate with the taxes being paid. This is the view often touted by those who fail to comply with tax payment in defense of their behaviour.

#### **Mismanagement of Taxes**

Time and again, there are reports in the media of how government personnel mismanage taxpayer’s money. These can be seen in the level of wastage of public funds through inflated contract, white elephant projects, and criminal diversion of huge amount of money by individuals in government circles. Dubious officials often create loopholes to steal funds voted for ministries and governmental

### **Methods of achieving Tax Compliance**

The literature on non-tax compliance in Nigeria identifies economic recession, hyperinflation, natural disaster, high unemployment, and insecurity as some of the challenges of non-tax compliance. In addition, absence of civic consciousness, distrust in government; lack of equity in the distribution of goods and services, as well as more structural factors tends to affect governments’ ability to collect tax or enforce tax compliance [5]. Therefore, the dependence on taxes would require the Federal Government of Nigeria to develop pragmatic bureaucratic departments or agencies for tax administration as well as proactive collection systems in the country [2]. Hence, Tax compliance can be achieved through the following ways:

departments before the financial year run out. The outcome unfortunately is the decision by scores of honest taxpayers never to pay taxes again or at most, to pay under compulsion.

#### **Remoteness of Taxpayers from the Government**

It is a common understanding that the average man would not always want to part with his hard earned resources for the upkeep of imagined enemies (mostly corrupt government officials). The creation of local government councils, which is supposed to bring government closer to the people, has not helped matters either. Hence, [9], explain that the solution to the problem perhaps lies in the proper education and orientation of the taxpayers towards government and its functionaries.

#### **Absence of Spirit of Civic Responsibility**

Owing to ignorance and some illiteracy, some Nigerians fail to understand that it is part of their duty to pay tax. This lack of civic consciousness among the majority of Nigerians is a major cause of non-tax compliance in the country. For example, [4] has argued that some businessmen do not see any reason why they should pay tax irrespective of the huge profits they make. This is a direct manifestation of unpatriotism.

**Tax Public Relation:** The idea of public relations is to establish a tax conscious atmosphere among taxpayers, dormant taxpayers, as well as the general public. The need for public relations is to improve tax compliance; disseminate and increase public knowledge of taxation; enhance mutual understanding between taxpayers and tax authorities, as well as the understanding and collaboration of the mass-media for effective tax administration [3].

**Tax Education:** Tax education is one of the approaches used by tax authorities to achieve tax compliance. According to [1], the Board recognizes the fact that taxpayers cannot obey tax laws unless they are aware, and understand what is expected of them. Consequently, the

Board offers assistance and publications that enables taxpayers to fill their returns.

**Tax Counseling:** The essence of tax counseling is to help taxpayers with issues related to tax and to encourage deliberate compliance with accurate tax returns and payment of taxes. Usually, tax counseling offices offer advice on the interpretation and application of tax laws, procedures for filing returns and applications, etc [10].

Many scholars have contended that there is a strong positive correlation between tax collection and development [2]. On one hand, they argued that an effective national tax system may be paramount to the attainment of sustainable development because such payer mechanism could galvanize the domestic revenue base for developing countries [7] also argues that there is a moderate relationship between nation building and effective taxation. This is because tax revenue could enhance governance and stronger incentives to promote economic

#### CONCLUSION

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**Tax Guidance and Examination:** In order to boost taxpayer compliance to filing tax returns and paying of 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 approach involves giving recognition and awards to officials and taxpayers for being tax compliant.

growth (African Development Bank 2011; Moore 2008; OECD 2012).

Thus, the need to improve the level of tax compliance among residents of Nigeria in general is very important. It is the opinion of this paper that government should give serious consideration to the factors that detracts from citizens' readiness to pay taxes; and improve on them. This way, tax payers will readily comply with government tax laws, thereby improving government revenue and economic growth and overall development of the nation.

#### RECOMMENDATIONS

- i. Awareness creation in order to improve public knowledge on the importance of tax payment is necessary, so that the level of compliance can be improved and non-compliance will be minimized.
- ii. In order to promote tax compliance, government needs to demonstrate high level of responsibility through the provision of infrastructural and social amenities.
- iii. Government should endeavour to account for the revenue collected to promote more tax compliance.
- iv. The system of taxation should be understandable. Also, 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.

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