Analysis of Income Tax Administration in Nigeria: Problems and Prospects Case study: (Kogi State Board of Internal Revenue)

Godwin Christopher[1**], Yat Solomon[2], Yusuf Sani[3], Stanley Iheanacho[4]

[1] *Department of Accountancy, Federal polytechnic Kaura-Namoda, Zamfara state, Nigeria.*
*godwin4christ2008@gmail.com**, +23408068681437*
[2] *Department of Accounting, Federal polytechnic Kaura-Namoda, Zamfara state, Nigeria.*
yattsolo@gmail.com, +23408065374323
[3] *Department of Accounting, Federal polytechnic Kaura-Namoda, Zamfara state, Nigeria.*
yusufsanigrz@gmail.com, +23407034526747
[4] *Department of Accounting, Federal polytechnic Kaura-Namoda, Zamfara state, Nigeria*
iheanachstano@gmail.com, +23408060268645

ABSTRACT

In Nigeria, income tax is mostly causes a huge problem when viewed in terms of administration, assessment, compliance and revenue generation. In order to deal with these problems, series of reforms had been carried out unsuccessfully over the past few years with a view to reducing these challenges. One of the main objectives which this research seeks to achieve is to examine the factors responsible for the high rate of non-compliance. The basic research question was designed to know the measures tax authorities can take to minimise the high rate tax non-compliance. The use of descriptive statistics was used to test the relationship between variables. The questionnaire method was used for collecting primary data. The research population was made up of 500 individuals consisting of taxpayers and tax administrators, while the total 50 individuals was taken as the sample size. The stratified random sampling technique was used to select the sample size and the sample size cuts across gender, age, educational qualification and years of working experience. Major findings reveal that high tax rate does in any way affect non tax noncompliance and penalties and fees if adopted would help minimise the high rate of tax evasion and avoidance. The relatively small sample size is a major limitation to this study.

KEYWORDS: *Analysis, Tax Administration, Problems and Prospects*

1.0 INTRODUCTION

Tax is defined as a compulsory levy imposed by the government of any country on the incomes of individuals and business organizations for primarily financing government expenditure ([1]; [2]. Similarly, Chris and Elizabeth [3] view tax as a compulsory payment from individuals and property levied by the government of a country for the purpose of enhancing government activities and supply of public goods services. The ultimate goal of imposing tax by the government is to generate income to finance public services for the common good of all the citizens. Countries raise taxes for a number of reasons; to finance government expenditure (capital and recurrent), to discourage the consumption of harmful goods and services and to redistribute income and wealth to reduce inequality [4].

In Nigeria, income tax had posed serious challenges ranging from of poor administration, assessment, collection, compliance and accounting of tax income. The weak nature of tax administration system, deficiency of public utilities and non-remittance of tax revenue to the relevant tax authority can serve as a major disincentive to the payment of income tax.

The goal which this studies seeks to achieve is to find out whether tax rates have an adverse impact on tax payers income which in turn can be a great disincentive to compliance.

2.0 Literature Review

Nigeria as a nation is greatly endowed with both human and natural resources and has greatly depended for several decades on its oil revenue to finance its budget. Although, tax revenue may not have contributed significantly to the nation's economy over past decades, this may be attributed to inefficient and ineffective tax administration systems, irregularities in collection systems, complicated tax laws, and failures on the part of taxable individuals and corporations to remit tax revenues [5]. The Nigerian tax system has been designed for various economic objectives at different periods, it has however been used a means as a basic means for revenue generation with the overall goal to finance important projects for the welfare of its citizens [6]. The need for tax as an instrument for revenue generation takes a progressive dimension, in the light of the present economic recession which at present is retarding growth the Nigerian economy. Taxation when used as a fiscal instrument has the tendency of encouraging growth in some sectors of the economy and can serve as a vital tool for economic recovery. Personal income tax is defined as a levy imposed on employment income and any other income received by individuals. The administration of personal income tax in Nigeria is governed by the Personal Income Tax Act No. 104 LFN, 1993. This law gives the necessary procedures and administrative powers to impose and collect taxes from persons, individuals, partnerships, executors, trustees Family or Communities Corporation sole or body of individuals. Personal Income tax is under the jurisdictions of the various state governments through the State Board of Internal Revenue (SBIR) on individuals resident in the tax territory are administered by State Governments in Nigeria.

2.1 Challenges in the administration of personal income tax in Nigeria

Numerous factors can be advanced for the poor administration of personal income tax in Nigeria [5]. Some of the factors are discussed below.

A. High rate of noncompliance

According to [5], the tax revenue raised by government for funding public capital expenditure depends largely on so many factors such as, the willingness of the taxpayers to fulfil their tax obligation within any country. It is a well norm that most individuals dislike paying taxes and as a result of this, it is often difficult for tax authorities to impose and collect taxes as at the appropriate time [7]. The refusal to obey tax laws by not paying taxes at the right time may suggest that a taxpayer is non-compliant. In addition, Franzoni [8] maintains that tax noncompliance is viewed as a general problem and has a severe consequences in terms of tax assessment. Tax noncompliance is a universal trend existing in both developing and developed nations. In a developing nation such as Nigeria, tax revenue loss resulting from non-compliance is comparably higher than that obtained in developed countries which is as a result of the presence of large informal economy that is challenging to tax sector.

B. Tax rate

Tax rate refers to the actual amount a taxable person is expected to pay as tax revenue to the government. In other words, it is the portion of the income of the tax payer that is subject to tax. Several studies have been conducted both in developed and developing countries on the relationship between tax evasion and tax rates. The empirical findings of Angahar and Sani [2] show that there is a positive correlation between tax rates and tax evasion .The assumption is that tax rates have a high bearing on the taxpayer ability to either behave positively or negatively towards evading and avoiding tax. Taxpayers often justify that high TR as a reason for evading taxes and therefore under reporting their income and earnings to the relevant tax bodies.

C. Tax evasion and avoidance

Tax evasion as the refusal of the taxpayer to disclose the correct amount to be assessed as tax by way of misrepresentation of facts, falsification of figures, filing of incorrect returns or by understating the tax liabilities. Through this criminal or fraudulent mechanism, the tax payer pays less tax than he ought to pay. This wilful act of omission or commission constitutes a criminal act under the Nigerian tax laws and could attract severe. Tax avoidance occurs in a situation where the taxpayer arranges his financial affairs in a way that would make him pay the least possible amount of tax without contravening the laws [9]. In addition it be seen as a means adopted by the tax payer to minimise his tax liability which would have been otherwise incurred [10]. While tax avoidance is considered to be legal as it does not violate the law, tax evasion on the other hand is considered a criminal action since it is a breach of the law.

Changes in the quality and efficiency of tax laws, incompetent personnel, lack of a central database of all taxpayers, lack of clear legislators for tax evaders. Furthermore, the problem is made worse by lack of qualified tax administrators and dishonest administrators, which increased the incidence of tax avoidance and evasion to a higher proportion. Finally, there is the problem of tax collection, assessment and corruption.

3.0 Research Methodology

This research adopts the quantitative method to measure relationships among different variables and tested statistically to either validate or invalidate such a relationship. Quantitative methods involve the processes of collecting, analysing and interpreting and writing results of a study [11].The purpose of adopting this research approach is to generalize from a sample to a population so that inferences can be drawn about some characteristics, attitude, or behaviour of the population. One of the limitations of this method is that understanding a phenomenon from the opinion of the participants and its precise social and institutional framework may be missing when documented data are quantified.

3.1 Data collection method

The questionnaire data collection method was adopted by the researcher because it is economical in the sense that it can supply a considerable amount of research data for relatively low costs in terms of materials, money and time. The questionnaire was fully designed using scales of 1-10 to investigate how high tax rates, tax evasion and avoidance, tax fraud, ambiguous tax laws, unqualified personnel affect income tax administration in Nigeria. The justification for the use of scales is that numeric scales are a good way of providing an exhaustive set of responses. Furthermore, by summarising information conveyed by a number of questions into one variable it helps to simply analysis. Nevertheless, one of its greatest disadvantage is that the respondent can fall into a 'pattern' of answers by putting a particular number as answers to all the questions.

3.2 Research population and Sampling procedure

The population of the study is made up tax administrators, income taxpayers, personnel of the State Board of Internal Revenue Kogi State and practising tax accountants. For the purpose of this study, the research population is 500 persons while 50 would be used as the sample size. The sample size is arrived at by taking 10% of the entire population. The researcher will adopt the simple probability random sampling approach in selecting his sample. The best way to get a representative sample is to ensure that the researcher has absolutely no influence on the selection of people to be included to be included in the sample. A sample size of 50 will be drawn from a population of 100.The sample size will consist of 5 personnel of the State Board of Internal revenue service (SBIRS), 10 will be the employees of the state board of internal revenue (SBIRS),while will be distributed 35 will be spread across taxpayers within the state.

Hypothesis

H1: There is a positive significant relationship between tax rate and tax non-compliance

Model for testing hypothesis

$TNC = a + b_1Tr + b_2Inc + b_3Tp + b_4Cor + b_5Ed + e$

Where: TNC is the tax non-compliance, Tr is the tax rate, Inc denotes the income, Tp is the tax policy, Cor represents corruption, Ed represents education/awareness, e denotes the error, a denotes a constant, b represent the coefficient

4.0 Analysis and Discussion of results

Data the data collected and analysed from Kogi state Board of Internal Revenue (KSBIR)) through the administration of questionnaire**.** The questionnaire research method was used to collect primary data from taxpayers and tax administrators in Nigeria.

Gender, education, years of work experience, and age was used in stratifying members of the group. Scale questionnaire were sent to respondents through electronic mailing system. Data gathered were separately analysed in relation to the research questions. To ensure a higher response rate, consistent phone calls follow-up were made. In spite of this method, only 35 responses were collected out of a total of fifty questionnaires sent out, representing 70% of the total sample size. This response rate could be due to several factors such as limited time in which the questions were sent, difficulty in understanding the scale questionnaire, poor internet service at home, and unwillingness to give out information which they considered personal.

Questions targeting responses to the research questions were presented to respondents using a questionnaire and responses generated are treated under the following research questions:

1. What impact does high tax rate have on tax payers' income?
The respondents were asked on a ranking basis the effect of high tax rate on the tax payers. The results from Table 4.1 shows that 17 respondents representing 48.6% indicated that it has a significant impact on the tax payer and at the same time 12% of the respondents agree that it has a highly significant impact on the tax payers' income. Cumulatively, 65.7% of the respondents agree that increased tax rate would have a significant impact on tax noncompliance while only 2.9 % of the total respondents indicate that higher tax rate will not have any significant impact on tax noncompliance and 17.1% of the respondents were being neutral. From the results, it can be seen that higher tax would greatly affect taxpayer's response to paying tax which will eventually result to tax evasion and avoidance. The findings is also consistent with the literature which shows that greater tax pressure would give rise to tax non-compliance and the rise of the shadow economy

Table 4.1 tax rate-non- compliance

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	highly insignificant (1-2)	1	2.9	2.9	2.9
	neutral (5-6)	5	14.3	14.3	17.1
	significant (7-8)	17	48.6	48.6	65.7
	highly significant (9-10)	12	34.3	34.3	100.0
	Total	35	100.0	100.0	

From table 4.2, the cumulative response rate shows that 26 respondents representing 68.8% indicate that high tax has significant impact on fraud, while only 4% of the respondents representing 14.3% show that high tax rate has no significant impact on fraud and 5% representing 25.7% were undecided. From the results above, it can therefore be concluded that higher tax would lead to an increase in fraud on the part tax officials.

Table 4.2 Tax rate-tax fraud by tax officials

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	highly insignificant (1-2)	1	2.9	2.9	2.9
	insignificant (3-4)	3	8.6	8.6	11.4
	neutral (5-6)	5	14.3	14.3	25.7
	significant (7-8)	15	42.9	42.9	68.6
	highly significant (9-10)	11	31.4	31.4	100.0
	Total	35	100.0	100.0	

4.2 Hypothesis Testing

H1: There is a positive significant relationship between tax rate and tax non-compliance
From the table 4.3, even though the distributions are normal, with higher significant level of over 5%, the result shows that there is no positive significant relationship between tax rates and tax non-compliance. In other words, tax rate does not influence with the level of compliance. Therefore, the results do not support the hypothesis.

Table 4.3 Regression table Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	3.041	0.685		4.438	0.000		
	tax rate-non- compliance	0.070	0.124	0.099	0.562	0.578	0.915	1.093
	proportional tax-increase in productivity	0.001	0.100	0.001	0.006	0.995	0.886	1.129
	progressive tax-injustice to low earners	0.117	0.102	0.209	1.150	0.260	0.850	1.176
	tax failure-non-remittance of tax money	0.063	0.107	0.105	0.591	0.559	0.901	1.110
	measures-public enlightenment and sensitisation	0.154	0.125	0.231	1.235	0.227	0.803	1.245

a. Dependent Variable: tax non-compliance- risk of evasion and avoidance

5.0 Conclusion

Income tax in Nigeria has adequately failed to contribute substantially as a key source of income to Nigeria. The high rate of tax, unemployment and low income tend to have an undesirable effect on the tax payers ability to pay which greatly accounts for the high rate of tax evasion and avoidance. The findings of this research reveal that a high tax rate imposed by the government has serious consequences on the tax payer's decision to evade and avoid tax. Also, evidence from the results shows that the unfair nature of the income tax system administered by the tax agencies has a negative implication on the tax payers

Future research can focus on analysing income tax on inflationary analysis, this will provide more extensive analysis because it would be justify the tax payer ability to pay which will take into consideration diversity within the country and will prove a veritable tool most especially in policy and law making which can also serve as a guide to action in decision making process.

5.1 Recommendations

In order to boost voluntary compliance, tax policy formulation should be implemented after due consultation with relevant stakeholders. The gap between the citizens and the government is so wide that policies are made and imposed on the citizens without proper consultation. For tax administration to be successful tax policies must be welcomed by all the citizens. Satisfactory services to the taxpayers could encourage voluntary compliance. Tax refund where necessary should be encouraged for the benefit of those who comply voluntarily. There is the need for management and organisational approach that emphasises services, support and information for the honest tax payers, increase tax revenue is a function of effective enforcement strategy which is the pure responsibility of the government.

REFERENCES

[1] I. R. Akintoye, , "The effect of tax Compliance on Economic Growth and Development in Nigeria," 2013.

[2] A. P. Angahar, and I. A. Sani, , "Personal Income tax Administration in Nigeria: Challenges and Prospects for increased revenue generation.," *Journal of Economic Research,* vol. 1, pp. 1-11, 2012.

[3] W. H. Chris, and S. B. Elizabeth, , Revenue Law, Principles and Practice, 8th Ed ed., London: Butter Worths Publishers., 2001.

[4] R. M. Bird, and . E. M. Zolt, , "Redistribution via taxation: The limited role of the personal income tax in developing countries.," *Journal of Asian Economics*, vol. 16, no. 1, pp. 928-946, 2005.

[5] A. James, and A. Moses, , "Impact of tax administration of government revenue in a developing economy - A case study of Nigeria," *International Journal of Business and Social Science,* vol. 3, no. 8, pp. 99-113, 2012.

[6] M. Oduh, , "Revenue Implication of Nigeria Tax System, Lagos," *Journal of Economic and Sustainable Development,,* vol. 3, no. 8, 2012.

[7] J. Alm, , J. Martinez-Vazquez, and F. Schneidler, , "Sizing the problem of the hard-to-tax," in *Andrew Young School of Policy Studies international conference*, Altanta, 2003.

[8] . L. Franzon, , "Tax evasion and tax compliance, in B. Bouckaert, & G. DeGeest," in *Encyclopedia of Law and Economics.*, Cheltenham: Edward Elgar, 2000.

[9] J. F. Adebisi, and Gbegi, "Effect of Tax Avoidance and Tax Evasion on Personal Income Tax Administration in Nigeria," *American Journal of Humanities and Social Sciences,* vol. 1, no. 3, pp. 125-134, 2013.

[10] B. . D. Kabel and G. N. Nwokah, , "Curbing tax evasion and avoidance in personal income tax administration: A study of south-south states of Nigeria," *European Journal of Economic. Finance and Administrative Sciences*, vol. 15, p. 60, 2009.

[11] J. W. Creswell, , Research Design: Qualitative, Quantitative and mixed and Mixed Methods Approaches, Canada: Thousand Oaks, CA: Sage , 2003.