AN INVESTIGATION OF FACTORS INFLUENCING TAXPAYERS’ COMPLIANCE BEHAVIOUR: EVIDENCE FROM NIGERIA

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ABSTRACT

The contribution of income taxes to the total revenue of Nigeria’s government remained consistently low and is relatively shrinking due to low tax compliance. However, from all the taxes, individual income tax remains the most unproductive in Nigerian tax system. Although this noncompliance behaviour can also be explained by the existing theory, the explanation will not be comprehensive because some important variables adhere specifically to Nigeria are not addressed in the existing theory. Thus, this study investigates empirically the factors underlying individual taxpayers’ compliance behaviour in Nigeria to uncover the causes of noncompliance. In order to gain in-depth understanding of the phenomenon, the study expands the tax compliance model to incorporate perceived tax service quality, public governance quality, ethnic diversity as well as moderating effects of personal financial condition and risk preference. The study was designed using taxpayers’ opinion survey method. Multi-stage cluster random sampling technique was applied to select the samples of the study from the population of individual taxpayers residing in the Federal Capital city of Nigeria. The primary data, which were collected through self-administered questionnaire, were treated statistically using multiple regression analysis and other statistical techniques. The results reveal that taxpayers’ perception about tax service quality and public governance quality significantly related to the compliance behaviour. In addition, the effect of taxpayers’ financial condition strengthened the capacity of the compliance model in predicting taxpayers’ behaviour better and significantly moderated the influences of tax system structure, moral reasoning and occupation. By implications, the findings of the study suggests extension to the compliance model to incorporate perceived tax service quality, public governance quality, ethnic diversity and the moderating effect of taxpayers’ financial condition for better understanding of tax compliance behaviour. Furthermore, policy should be directed towards strengthening these factors to reawaken the culture of tax compliance among individual taxpayers in Nigeria.

Keywords: Tax Compliance Behaviour, Perceived Tax Service Quality, Public Governance Quality, Ethnic Diversity, Individual Income Tax
ABSTRAK


Kata kunci: Tingkahlaku Pematuhan Cukai, Persepsi Kualiti Perkhidmatan Cukai, Kualiti Tadbir Urus Awam, Kepelbagaian Etnik, Cukai Pendapatan Individu
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TABLE OF CONTENTS

Permission to Use ii
Abstract (English) iii
Abstract (Bahasa) iv
Acknowledgement v
List of Tables xi
List of Chart and Figures xiii
Abbreviation xiv

CHAPTER 1: INTRODUCTION
1.1 Introduction 1
1.2 Background of the Study 2
1.3 Problem Statement 4
1.4 Research Questions 7
1.5 Research Objectives 7
1.6 Significance of the Study 8
  1.6.1 Theoretical Contributions 8
  1.6.2 Practical Contributions 10
1.7 Scope of the Study 12
1.8 Assumptions of the Study 13
1.9 Organization of the Thesis 13

CHAPTER 2: OVERVIEW OF NIGERIAN PERSONAL INCOME TAX SYSTEM
2.1 Introduction 15
2.2 History of Nigerian Personal Income Tax 15
2.3 Tax Assignment in Nigeria 18
2.4 Tax Revenue Structure and Income Tax Performance 21
2.5 Personal Income Tax System in Nigeria 27
  2.5.1 Nigerian Personal Income Tax Law 27
  2.5.2 Personal Income Taxable in Nigeria 31
  2.5.3 Personal Income Tax Assessment and Collection 32
  2.5.4 Personal Income Tax Allowances and Relief 35
2.6 Administration of Personal Income Tax in Nigeria 38
  2.6.1 Tax Administration at Federal Level 38
  2.6.2 Tax Administration at State Level 41
  2.6.3 Tax Administration at Local Government Level 43
  2.6.4 Problem of Personal Income Tax Administration in Nigeria 44
2.7 Noncompliance in Personal Income Tax and Penalty 46
2.8 Summary 48
CHAPTER 3: LITERATURE REVIEW

3.1 Introduction 50

3.2 Theoretical Assumptions of Tax Compliance 50
   3.2.1 Economic Theories 51
   3.2.2 Social Psychological and Sociological Theories 56

3.3 Concepts of Tax Compliance and Noncompliance 65

3.4 Tax Compliance and Taxpayer’s Behaviour 70

3.5 Factors Influencing Tax Compliance and Noncompliance 74

3.6 Public Governance Quality and Tax Compliance 79

3.7 Perceived Tax Service Quality and Tax Compliance 84

3.8 Ethnic Diversity and Tax Compliance 89

3.9 Risk Preference as Moderator of Determinants of Tax Compliance 93

3.10 Financial Condition as Moderator of Determinants of Tax Compliance 95

3.11 Other Researchers’ Conceptual Model 97
   3.11.1 Financial Self Interest Model 97
   3.11.2 Social Psychological Model 98
   3.11.3 Lewi’s Revised Model 99
   3.11.4 Fischer’s Model 101
   3.11.5 Expanded Models 103

3.12 Summary 109

CHAPTER 4: METHODOLOGY

4.1 Introduction 110

4.2 Conceptual Framework 110

4.3 Hypothesis Development 114
   4.3.1 Tax System Structure and Tax Compliance 114
   4.3.2 Tax Knowledge and Tax Compliance 118
   4.3.3 Perceived Tax Service Quality and Tax Compliance 120
   4.3.4 Attitude and Tax Compliance 124
   4.3.5 Moral Reasoning and Tax Compliance 128
   4.3.6 Ethnic Diversity and Tax Compliance 130
   4.3.7 Noncompliance opportunity and Tax Compliance 134
   4.3.8 Quality of Public Governance and Tax Compliance 137

4.4 Research Design 142

4.5 Operational Definitions of Constructs and Variables 144
   4.5.1 Tax System Structure 144
   4.5.2 Tax Knowledge 147
   4.5.3 Perceived Tax Service Quality 147
   4.5.4 Attitude towards Tax Evasion 150
   4.5.5 Moral Reasoning 152
   4.5.6 Ethnic Diversity 152
   4.5.7 Noncompliance Opportunity 153
   4.5.8 Public Governance Quality 154
   4.5.9 Personal Financial Condition 157
   4.5.10 Taxpayer’s Risk Preference 157
   4.5.11 Tax Compliance Behaviour 158
4.6 Measurement of Variables and Constructs
   4.6.1 Tax System Structure
   4.6.2 Tax Knowledge
   4.6.3 Perceived Tax Service Quality
   4.6.4 Attitude towards Tax Evasion
   4.6.5 Moral Reasoning
   4.6.6 Ethnic Diversity
   4.6.7 Noncompliance Opportunity
   4.6.8 Public Governance Quality
   4.6.9 Tax Compliance Behaviour
   4.6.10 Financial Condition and Risk Preference

4.7 Data Collection
   4.7.1 Sampling
   4.7.2 Data Collection Procedures

4.8 Data Analysis Techniques
   4.8.1 Descriptive Statistics
   4.8.2 Cross-Tabulation
   4.8.3 Goodness of Measures
   4.8.4 Correlation Analysis
   4.8.5 Multi-Regression Analysis

4.9 Summary

CHAPTER 5: RESEARCH FINDINGS
5.1 Introduction
5.2 Data Inspection and Transformation
   5.2.1 Missing Data and Outliers
   5.2.2 Data Transformation

5.3 Response Rate
5.4 Non-Response Bias
5.5 Demographic Characteristics of the Respondents
5.6 Descriptive Statistics
   5.6.1 Tax Compliance Behaviour
   5.6.2 Tax System Structure
   5.6.3 Tax Knowledge
   5.6.4 Perceived Tax Service Quality
   5.6.5 Public Governance Quality
   5.6.6 Attitude towards Tax Evasion
   5.6.7 Moral Reasoning
   5.6.8 Risk Preference

5.7 Cross Tabulation: Demographic Factors and Tax Compliance
   5.7.1 Gender and Tax Compliance
   5.7.2 Age and Tax Compliance
   5.7.3 Education and Tax Compliance
   5.7.4 Occupation and Tax Compliance
   5.7.5 Income Level and Tax Compliance
Appendix 5: Map of Nigeria and Abuja City 364
Appendix 6: Statistics on Federal Public Staff 367
Appendix 7: Summary of the Population of Individual Taxpayers 369
Appendix 8: Sample Size for a given Population Size 374
Appendix 9: Copy of Questionnaire 376
Appendix 10: Letter from College of Business, UUM 385
Appendix 11: Letter from Federal Polytechnic Bauchi, Nigeria 388
Appendix 12: Multiple Regression SPSS Output 390
LIST OF TABLES

Table 2.1: Tax Jurisdiction of All levels of Nigerian Government 20
Table 2.2: Degree of Tax Decentralization in Nigeria 21
Table 2.3: Nigerian Government’s Tax Income Performance 25
Table 2.4: Nigeria’s Tax to GDP Ratio 26
Table 2.5: Nigeria’s and others African Countries Tax Ratios 27
Table 2.6: Nigeria’s Capital Allowance Rates 36
Table 2.7: Nigeria’s Personal Allowance for Nigeria Individual Taxpayers 37
Table 2.8: Nigeria’s Personal Income Tax Rates 38
Table 2.9: Nigeria’s Personal Income Tax Offences and Penalties 48
Table 3.1: Six Stages of Moral Reasoning 58
Table 3.2: Summary of Underpinning and Supporting Theories 65
Table 3.3: Categories of Tax Services Provided by Revenue Authority 86
Table 3.4: Summary of Tax Compliance Models from the Literature 107
Table 4.1: Summary of Hypotheses, Objectives and Research Questions 142
Table 4.2: Dimensions and Measurements of Tax System Structure 146
Table 4.3: Dimensions and Measurements of Tax Knowledge 147
Table 4.4: Dimensions and Measurements of Perceived Tax Service Quality 150
Table 4.5: Dimensions and Measurements of Attitude towards Tax Evasion 151
Table 4.6: Dimensions and Measurements of Moral Reasoning 152
Table 4.7: Dimensions of Tax Noncompliance Opportunity 154
Table 4.8: Dimensions and Measurements of Public Governance Quality 156
Table 4.9: Dimension and Measurements of Taxpayer’s Financial Condition 157
Table 4.10: Dimension and Measurements of Taxpayer’s Risk Preference 157
Table 4.11: Dimension and Measurements of Tax Compliance Behaviour 160
Table 4.12: Structure of Questionnaire 173
Table 4.13: Pilot Study’s Reliability Test 174
Table 5.1: Summary of Missing Data 190
Table 5.2: Distribution of Questionnaires 192
Table 5.3: Levene’s Test for Response Bias 195
Table 5.4: Cross Tabulation: Demographical Factors and Response Bias 196
Table 5.5: Demographic Information of the Respondents 198
Table 5.6: Descriptive statistics for Tax Compliance Behaviour 200
Table 5.7: Descriptive Statistics for Tax System Structure 203
Table 5.8: Descriptive Statistics for Tax Knowledge 205
Table 5.9: Descriptive Statistics for Perceived Tax Service Quality 206
Table 5.10: Descriptive Statistics for Public Governance Quality 209
Table 5.11: Descriptive Statistics for Attitude towards Tax Evasion 211
Table 5.12: Descriptive Statistics for Moral Reasoning 213
Table 5.13: Descriptive Statistics for Risk Preference 214
Table 5.14: Cross Tabulation: Gender and Tax Compliance Behaviour 215
Table 5.15: Cross Tabulation: Age and Tax Compliance Behaviour 216
Table 5.16: Cross Tabulation: Education and Tax Compliance Behaviour
Table 5.17: Cross Tabulation: Occupation and Tax Compliance Behaviour
Table 5.18: Cross Tabulation: Income Level and Tax Compliance Behaviour
Table 5.19: Cross Tabulation: Income Source and Tax Compliance Behaviour
Table 5.20: Cross Tabulation: Race and Tax Compliance Behaviour
Table 5.21: Cross Tabulation: Religion and Tax Compliance Behaviour
Table 5.22: Cross Tabulation: Financial Condition and Tax Compliance
Table 5.23: Inter-Correlation Matrix
Table 5.24: Reliability of Latent Variables
Table 5.25: Factor Analysis for Tax System Structure
Table 5.26: Factor Analysis for Tax Knowledge
Table 5.27: Factor Analysis for Attitude towards Tax Evasion
Table 5.28: Factor Analysis for Moral Reasoning
Table 5.29: Factor Analysis for Perceived Tax Service Quality
Table 5.30: Factor Analysis for Public Governance Quality
Table 5.31: Factor Analysis for Risk Preference
Table 5.32: Factor Analysis for Tax Compliance Behaviour
Table 5.33: Testing for Normality
Table 5.34: Testing for Homoscedasticity
Table 5.35: Testing for Multicollinearity for the Main Effect
Table 5.36: Testing for Multicollinearity for the Joint Interacting Effect of Financial Condition and Risk Preference
Table 5.37: Multiple Regression Result for the Main Effect and Interacting Effect of Financial Condition
Table 5.38: Multiple Regression Result for the Main Effect and Interacting Effect of Risk Preference
Table 5.39: Multiple Regression Result for the Main Effect and Joint Interacting Effect of Financial Condition and Risk Preference
Table 5.40: Summary of Hypothesis Findings
# LIST OF CHART AND FIGURES

<table>
<thead>
<tr>
<th>Chart/Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chart 2.1</td>
<td>Nigeria’s Oil and Non oil Revenue</td>
<td>23</td>
</tr>
<tr>
<td>Figure 3.1</td>
<td>Branches of Tax Compliance</td>
<td>69</td>
</tr>
<tr>
<td>Figure 3.2</td>
<td>Factors Influencing Tax (Non) Compliance Decision</td>
<td>76</td>
</tr>
<tr>
<td>Figure 3.3</td>
<td>Financial Self Interest Model</td>
<td>98</td>
</tr>
<tr>
<td>Figure 3.4</td>
<td>Weigel’s Social and Psychological Model</td>
<td>99</td>
</tr>
<tr>
<td>Figure 3.5</td>
<td>Lewi’s Revised Model of Tax compliance</td>
<td>101</td>
</tr>
<tr>
<td>Figure 3.6</td>
<td>Fischer Model of Tax Compliance</td>
<td>103</td>
</tr>
<tr>
<td>Figure 3.7</td>
<td>Mustafa’s Tax Knowledge Based Model</td>
<td>104</td>
</tr>
<tr>
<td>Figure 3.8</td>
<td>Tayib’s Local Tax Based Model</td>
<td>105</td>
</tr>
<tr>
<td>Figure 3.9</td>
<td>Manaf’s Land Based Tax Compliance Model</td>
<td>106</td>
</tr>
<tr>
<td>Figure 3.10</td>
<td>Chau and Leung’s Culture Based Model</td>
<td>107</td>
</tr>
<tr>
<td>Figure 4.1</td>
<td>Conceptual Model of the Current Study</td>
<td>113</td>
</tr>
<tr>
<td>Figure 4.2</td>
<td>Data Collection Process</td>
<td>178</td>
</tr>
<tr>
<td>Figure 6.1</td>
<td>Recommended Tax Compliance Model for Nigeria</td>
<td>307</td>
</tr>
<tr>
<td>Acronym</td>
<td>Meaning</td>
<td></td>
</tr>
<tr>
<td>---------</td>
<td>---------</td>
<td></td>
</tr>
<tr>
<td>CBN</td>
<td>Central Bank of Nigeria</td>
<td></td>
</tr>
<tr>
<td>CITA</td>
<td>Companies Income Tax Act</td>
<td></td>
</tr>
<tr>
<td>CITN</td>
<td>Chartered Institute of Taxation of Nigeria</td>
<td></td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Economic Community of West Africa States</td>
<td></td>
</tr>
<tr>
<td>FCT</td>
<td>Federal Capital Territory (Abuja)</td>
<td></td>
</tr>
<tr>
<td>FGN</td>
<td>Federal Government of Nigeria</td>
<td></td>
</tr>
<tr>
<td>FIRS</td>
<td>Federal Inland Revenue Service</td>
<td></td>
</tr>
<tr>
<td>FIRSEA</td>
<td>Federal Inland Revenue Service (Establishment) Act</td>
<td></td>
</tr>
<tr>
<td>FISRB</td>
<td>Federal Inland Revenue Service Board</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
<td></td>
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<td></td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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</tr>
<tr>
<td>ITMA</td>
<td>Income Tax Management Act</td>
<td></td>
</tr>
<tr>
<td>IRS</td>
<td>Internal Revenue Service of United States</td>
<td></td>
</tr>
<tr>
<td>JTB</td>
<td>Joint Tax Board</td>
<td></td>
</tr>
<tr>
<td>NITS</td>
<td>National Institute of Technology Standard (USA)</td>
<td></td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
<td></td>
</tr>
<tr>
<td>PAYE</td>
<td>Pay As You Earn</td>
<td></td>
</tr>
<tr>
<td>PIT</td>
<td>Personal Income Tax</td>
<td></td>
</tr>
<tr>
<td>PITA</td>
<td>Personal Income Tax Act</td>
<td></td>
</tr>
<tr>
<td>SIRS</td>
<td>State Internal Revenue Service</td>
<td></td>
</tr>
<tr>
<td>SIRSB</td>
<td>State Internal Revenue Service Board</td>
<td></td>
</tr>
<tr>
<td>TPB</td>
<td>Theory of Planned Behaviour</td>
<td></td>
</tr>
<tr>
<td>TAC</td>
<td>Taxpayers Assistance Centre</td>
<td></td>
</tr>
<tr>
<td>TRA</td>
<td>Theory of Reasoned Action</td>
<td></td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
<td></td>
</tr>
</tbody>
</table>
Chapter One
Introduction

1.1 Introduction

In Nigeria, as in some other developing countries, tax noncompliance is a serious challenge facing tax administration and hindering tax revenue performance. In relative terms, tax revenue has continued to drop tremendously, for instance, the share of individual tax in the total federal and state revenue\(^1\) was 10.53% in 1977 but dropped to 5.19% in 1997 and further to 4.67% in 2010, despite the fact that the Nigeria’s Gross Domestic Product (GDP)\(^2\) grew by 61% between 1997 and 2010 (CBN, 2007 & 2011). The record of Federal Inland Revenue Service (FIRS) indicates the severity of the problem as it revealed that although the tax potential of Nigerian economy in 2008 was ₦3.857 trillion\(^3\) only ₦2.793 trillion tax was collected; that is, about 72% performance leaving a huge sum of ₦1.064 trillion representing an approximately 28% tax gap. Furthermore, there were 654 tax cases audited resulting in ₦92.2billion revenue collection and also 26 tax cases were investigated which yielded ₦2.48billion as revenue in 2008 (FIRS, 2009).

As a consequence of tax noncompliance, the studies of Ariyo and Rahmeen (1990) and Ariyo (1997) reported that Nigeria’s fiscal deficit is a recurring feature. The available statistical data have revealed that the fiscal deficit of all levels of Government in Nigeria

\(^{1}\) The total federal and states revenue was ₦6,441 billion, ₦688.114 billion and ₦12285.7 billion in 1977, 1997 and 2010, respectively. Of this amount, individual tax accounted for ₦.6782 billion, ₦35.708 billion and ₦ 574.1 billion, respectively (CBN, 2007 & 2011).

\(^{2}\) Nigeria’s Real GDP increased from ₦302.02billion in 1997 to ₦ 775.1billion in 2010 (CBN, 2007 & 2011).

\(^{3}\) This tax was the estimate for the federal level only. The official name for Nigeria’s currency note is the Naira and the coin is Kobo. The Naira was introduced in 1973 to replace the Pound. The Naira is coded as NGN and the sign is ₦. A unit of Naira is subdivided into 100 Kobo. A unit of USD is equivalent to about ₦160 while a unit of MYR (Ringgit) is about ₦52 as at 1st January, 2012.
The contents of the thesis is for internal user only
financial condition could only exert a significant effect on the influence of the tax system structure, moral reasoning and nonprofessional occupation on tax compliance behaviour.

A tax compliance model that incorporates taxpayers’ financial condition as a moderator is recommended to policymakers for a better understanding of the compliance behaviour of individual taxpayers in Nigeria in order to formulate policies that positively enhance such behaviour.
REFERENCES


