

**COMPLEXITY OF NIGERIAN COMPANY INCOME TAX
ACT (CITA 2007): READABILITY ASSESSMENT**

MUSA SULAIMAN UMAR

**COMPLEXITY OF NIGERIAN COMPANY INCOME TAX ACT
(CITA 2007): READABILITY ASSESSMENT**

MUSA SULAIMAN UMAR

**MASTER OF SCIENCE (INTERNATIONAL
ACCOUNTING)**

MAY 2013

**M.Sc. International Accounting
2013**

**Complexity of Nigerian Company Income Tax ACT (CITA 2007): Readability
Assessment**

Musa Sulaiman Umar

(809990)

**Project Paper Submitted to the Othman Yeop Abdullah Graduate School of
Business, Universiti Utara Malaysia, in Fulfilment of the Requirement for the
Degree of Master of Science (International Accounting).**

May 2013

PERMISSION TO USE

In presenting this project paper in partial fulfilment of the requirements for a postgraduate degree from Universiti Utara Malaysia, I agree that the University Library may make it freely available for inspection. I further agree that permission for copying of this project paper in any manner, in whole or in part, for scholarly purpose may be granted by my supervisor or, in her absence by the Dean of Othman Yeop Abdullah Graduate School of Business. It is understood that any copying, publication, or use of this project paper or part thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition will be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my project paper.

Any request for permission to copy or make other use of the materials in this project paper in whole or in part should be addressed to:

Dean

Othman Yeop Abdullah Graduate School of Business

Universiti Utara Malaysia

06010 UUM Sintok

Kedah Darul Aman, Malaysia

ABSTRACT

Simplification of tax laws in terms of readability to aid easier and complete compliance by taxpayers is a key issue to achieving the objectives of every country's tax system. The connection between language and compliance is obvious and understanding of the laws is crucial for all stakeholders to be able to carry out their respective responsibilities (Tan & Tower, 1992). In particular, simple tax laws would reduce the burden of compliance costs. Under the self-assessment system (SAS) regime, the simplicity of the tax laws is very important as most responsibilities defined by the laws have been shifted to the taxpayers. Thus, complexity of the tax laws may be an obstacle to both the taxpayer and the SAS.

This study examines the readability of the Nigerian Company Income Tax Act 2007 (CITA 2007) and explores its association with compliance and administrative costs and SAS of taxation. The study employs readability formulae (Flesch Reading Ease Score and Flesch-Kincaid Grade Level), Average Sentence Length (ASL) and Percentage of Passive Voice (PPV) to determine the level of readability of the Act. Furthermore, this study adopts interview approach to triangulate the readability results obtained using the above formulae, and explores the association between the readability of the Act and compliance costs, administrative costs and SAS.

The study found that the CITA 2007 has low level of readability which made the Act very difficult to understand. The low level of readability is also found to be associated with increased compliance costs as well as administrative costs, which subsequently impair the progress of the SAS in Nigeria.

The study recommends that tax simplification policy in Nigeria should include language simplification in order to reduce compliance costs and administrative costs. With this tax simplification effort, it is hoped that tax compliance under the SAS can be improved and more tax revenue can be generated.

Key Words: Complexity of tax law, readability, compliance cost, administrative cost and self-assessment system.

ACKNOWLEDGEMENT

“In the name of Allah, the most Gracious, the most Merciful”. “Who has taught (the writing) by the pen. He has taught man that which he knew not”.

I have to start by expressing my gratitude to Allah (S.W.T) for giving me the opportunity to accomplish my M.Sc. program. Alhamduli- Allah.

I am thankful to my supervisor, Dr Natrah Saad for her insightful guidance, encouragement and support throughout the work. I also acknowledge the financial support by my employer, Kaduna State University. My sincere appreciation goes to all my family members, friends and anybody I have not mentioned for their support, prayers and encouragement. Finally, words are not enough for me to express my appreciation to my wife for her support throughout my M.Sc. program.

TABLE OF CONTENT

TITLE	i
CERTIFICATION OF PROJECT PAPER	ii
PERMISSION TO USE	iii
ABSTRACT	iv
ACKNOWLEDGEMENT	vi
TABLE OF CONTENT	vii
LIST OF TABLES	ix
LIST OF APPENDICES	ix
LIST OF ABBREVIATIONS	ix
CHAPTER ONE- GENERAL INTRODUCTION TO THE STUDY	
1.1 INTRODUCTION	1
1.2 BACKGROUND OF THE STUDY	1
1.3 PROBLEM STATEMENT	4
1.4 RESEARCH QUESTIONS	7
1.5 RESEARCH OBJECTIVES	7
1.6 SIGNIFICANCE OF THE STUDY	7
1.7 SCOPE AND LIMITATIONS OF THE STUDY	8
1.8 ORGANIZATION OF THE PROJECT PAPER	10
CHAPTER TWO- LITERATURE REVIEW	
2.1 INTRODUCTION	11
2.2 BACKGROUND OF THE NIGERIAN TAX LAWS	11
2.3 NIGERIAN COMPANY INCOME TAX LAW	13
2.4 COMPLIANCE COST OF TAXATION AND TAX COMPLEXITY	14
2.4.1 Determination of Compliance Cost	16
2.5 SELF-ASSESSMENT SYSTEM AND TAX COMPLEXITY	23
2.5.1 Introduction of SAS in Nigeria	24
2.5.2 Tax Compliance Costs under SAS	26
2.5.3 SAS and Complexity of the Tax System	29
2.6 COMPLEXITY OF TAX LAW	30
2.7 READABILITY	32
2.7.1 Development of Readability Formulae	33
2.7.2 Flesch Reading Ease Score (FRES)	34
2.7.3 Flesch Kincaid Grade Level (F-KGL)	36
2.7.4 Average Sentence Length and Percentage of Passive Voice	37
2.8 TAX LAWS RE-WRITE PROJECTS	38
2.8.1 New-Zealand	39
2.8.2 Australia	42

2.8.3 United Kingdom	44
2.8.4 The United States	45
2.8.5 African Continent	45
CHAPTER THREE- METHODOLOGY	
3.1 INTRODUCTION	47
3.2 ADOPTION OF READABILITY MEASURES	47
3.3 READABILITY DETERMINATION PROCEDURE USING MICROSOFT WORD 2007	48
3.4 INTERVIEW	48
3.4.1 Interview Guide Development	49
3.5.2 Sampling Selection	49
3.5.3 Data Collection	50
CHAPTER FOUR- QUANTITATIVE RESULTS AND DISCUSSION	
4.1 INTRODUCTION	51
4.2 FLESCH READING EASE SCORE (FRES)	51
4.3 FLESCH KINCAID GRADE LEVEL (F-KGL)	55
4.4 AVERAGE SENTENCE LENGTH AND PERCENTAGE OF PASSIVE VOICE	56
CHAPTER FIVE- QUALITATIVE DATA ANALYSIS AND DISCUSSION	
5.1 INTRODUCTION	58
5.2 COMPLEXITY IN THE CITA 2007	58
5.2.1 Reasons for the Complexity	58
5.2.2 Impact of the Complexity	61
5.3 LOW LEVEL OF READABILITY AND COMPLIANCE AND ADMINISTRATIVE COST	61
5.4 LOW LEVEL OF READABILITY AND SAS	63
5.5 TAX LAW RE-WRITE	63
CHAPTER SIX- CONCLUSION, IMPLICATION AND FUTURE RESEARCH	
6.1 CONCLUSION	66
6.2 IMPLICATION	67
6.3 FUTURE RESEARCH	68
REFERENCE	69

LIST OF TABLES

Table 2.1 Non-oil Tax Revenue 2011	13
Table 2.2 Portugal Corporate Tax Compliance Cost for the Fiscal Year 2004 in USD	20
Table 2.3 FRES Scores Description	35
Table 2.4 F-KGL Readability Scores	37
Table 4.1 Summary of CITA 2007 Readability Test Using FRES Index	52
Table 4.2 Summary of Flesch Readability Scores	53
Table 4.3 F-KGL Summary	56
Table 4.4 Summary of Average Sentence Length and Percentage of Passive Voice	56

LIST OF APPENDICES

Appendix 1 Interview Guideline	77
Appendix 2 Readability of CITA 2007	79
Appendix 3 Overall Average Readability of CITA 2007	83

LIST OF ABBREVIATIONS

ASL	Average Sentence Length
CITA:	Company Income Tax Act
FIRS:	Federal Inland Revenue Service
FRES:	Flesch Reading Ease Score
F-KGL:	Flesch-Kincaid Grade Level
ITA:	Income Tax Act
PPV:	Percentage of Passive Voice
SAS:	Self-Assessment System

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This chapter begins with an overview of the background of the study. In the later sections, the problem statement is highlighted, followed by the research questions. Based on the research questions, research objectives are formulated. This is followed by a discussion on the significance of the study. The chapter ends with the description of the scope and limitation of the study and organization of the project paper.

1.2 BACKGROUND OF THE STUDY

Taxation has a very important role in the development of a country. Taxation is becoming a most fundamental factor for economic development compared to other financing mechanisms, such as trade and aid. Taxation provides a stable flow of revenues to finance developmental priorities (Chipunza, 2010). In order to serve this vital role, a tax system should be efficient and effective. The two criteria of an effective tax system, as highlighted by Gale and Holtzblatt (2000) are: (i) simple to administer; and (ii) simple for taxpayers to comply. On the same note, Salami (2011) asserted that complexities in the tax system may lead to high tax corruption and evasion.

Omuigu (2011) emphasized that simplification of tax laws and tax processes to aid easier and complete compliance by taxpayers, is a key issue to achieving the objectives of Millennium Development Goals (MDGs) and Vision 2020 of Nigeria. It is important to note that these development plans (MDGs and Vision 2020) aim to place Nigeria in the league of developed countries. Therefore, reducing complexity of the tax laws is crucial

The contents of
the thesis is for
internal user
only

REFERENCES

- Ariff, M., & Pope, J. (2002). *Taxation and compliance costs in Asia Pacific economies*.
Sintok: Universiti Utara Malaysia.
- Asabor, M.(2012). The burden of tax compliance in Nigerian. Tribune news paper
Retrieved from <http://www.tribune.com.ng/index.php/tribune-business/49218-the-burden-of-tax-compliance-in-nigeria> 9/12/12.
- Blazic, H. (2004). Tax compliance costs of companies in Croatia. *Ekonomický časopis*, 6,
723-38.
- Chan, S.Y.S., Cheung, D. K. C. & Ariff, M. (1999). Compliance costs of corporate
taxation in Hong Kong. *International Tax Journal*, 25, 42-68.
- Chipunza, (2010). Taxation and the MDGs Africa tax. Spotlight Quarterly Newsletter of
the fourth quarter, volume 1.
- Christian, W. N., & Nkoro, E. (2012). Tax revenue and economic development in
Nigeria: A macroeconometric approach. *Academic Journal of Interdisciplinary
Studies*, 1(2), 62-68.
- Clatworthy, M., & Jones, M. J. (2001). The effect of thematic structure on the variability
of annual report readability. *Accounting, Auditing & Accountability Journal*,
(14)3, 311 – 326.
- Cooper, G. S. (1993), ‘Themes and issues in tax simplification’, *Australian Tax Forum*,
10, 417–60.
- Das-Gupta, A. (2003). *The income tax compliance cost of corporations in India 2000-
2001*. Working paper prepared for the National Institute of Public Finance and
Policy, New Delhi.

- DuBay, W. H. (2006). The classic readability studies. *Teachers College Record*, 45, 404-419.
- Erard, B. (1997). The income tax compliance burden on Canadian big business. (Working Paper No. 972) retrieved from <http://www.fin.gc.ca/>
- Eriksen, K., & Fallan, L. (1996). Tax knowledge and attitudes towards taxation; A report on a quasi-experiment. *Journal of economic psychology*, 17(3), 387-402.
- Evans, C. (2003). Studying the studies: An overview into recent research into taxation of operating cost. *Ejournal of Tax Research*, 1(1), 64-92.
- Flesch, R. F. (1948), 'A new readability yardstick', *Journal of Applied Psychology*, 32, 221-33.
- Gale, W. G., & Holtzblatt, J. (2000). The role of administrative issues in tax reform: Simplicity, compliance, and administration. *Tax reform for the millennium*. US: Rice University.
- Gray, W. S., & Leary, B. E. (1935). *What makes a book readable: With special reference to adults of limited reading ability* (Vol. 2): US: University of Chicago Press.
- Hanefah, M., Ariff, M., & Kasipillai, J. (2001). Compliance costs of small and medium enterprises. *Journal of Australian Taxation*, 4 (1), 73-97.
- Heston, A., Summers, R., & Aten, B. Penn World Table Version 7.1, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, Nov 2012.
- James, S. (2007). Tax simplification is not a simple issue: The reasons for difficulty and a possible strategy. *University of Exeter Discussion Papers in Management Paper number 07/18 ISSN 1472-2939*

- James, S., & Edwards, A. (2008). Developing tax policy in a complex and changing world. *Economic Analysis and Policy*, 38(1), 35-53.
- James, S., & Wallschutzky, I. (1997). Tax law improvement in Australia and the UK: The need for a strategy for simplification. *Fiscal Studies*, 18(4), 445-460.
- James, S., Sawyer, A. & Wallschutzky, I. (1997), 'Tax simplifications: a tale of three countries', *Bulletin of the International Fiscal Association*, 51, 493–503.
- Kasipillai, J., & Mohammed Hanefah, M. (2000). Tax professionals' views on self assessment system. *Analisis*, 7(1&2), 107-122.
- Kiabel, B. D. & Nwokah N. G. (2009). Boosting revenue generation by state governments in Nigeria: The tax consultants option revisited. *European Journal of Social Sciences*, 8(4), 532-539.
- Kincaid, J. P., Fishburne, R., Rogers, R. L. & Chissom, B. S. (1975), *Derivation of New Readability Formulas (Automated Readability Index, Fog Count, and Flesch Reading Ease Formula) for Navy Enlisted Personnel*, Millington TN: Branch Report 8-75, Chief of Naval Training.
- Koch, B. S., & Karlinsky, S. S. (1984). The effect of federal income tax law reading complexity on students' task performance'. *Issues in Accounting Education*, 2, 98-110.
- Lai, M., & Choong, K. (2009). Self-assessment tax system and compliance complexities: Tax practitioners' perspectives. *Oxford Business and Economic Conference 2009 Program St. Hugh University, Oxford, UK*

- Leyira Christian Micah, L. C., Ebere, C., & Umobong, A. A. (2012). Tax System in Nigeria – Challenges and the way forward. *Research Journal of Finance and Accounting*, (3)5, 9-15.
- Li, F. (2008). Annual report readability, current earnings, and earnings persistence. *Journal of Accounting and Economics*, 45(2-3), 221-247.
- Lignier, P., & Evans, C. (2012). The rise and rise of tax compliance costs for the small business sector in Australia. *ATAX UNSW 10th International Tax Administration Conference Paper 5 Tax Administration Conference*, Sydney.
- Linsley, P. M. & Lawrence, M. J. (2007). Risk Reporting by the largest UK companies: readability and lack of obfuscation. *Accounting, Auditing & Accountability Journal*, (20)4, 620 – 627.
- Lopes, C. (2012). Compliance costs of corporate income taxation in Portugal. *International Journal of Economics and Management Sciences*, 1(10), 68-80.
- Mansor, M., Saad, N., & Ibrahim, I. (2004). The self-assessment system and its compliance costs. *Journal of Financial Reporting and Accounting*, 2,(1), 1 – 15.
- Marshall, J. R., Smith, M., & Armstrong, R. W. (1997). Self-assessment and tax audit lottery: the Australian experience. *Managerial Auditing Journal*, 12(1), 1-8.
- Martindale, B. C., Koch, B. S., & Karlinsky, S. S. (1992). Tax law complexity the impact of style. *Journal of Business Communication*, 29(4), 383-400.
- Mayring, P (2000). Qualitative Content Analysis. *Forum: Qualitative Social Research*, 1(2).

- McKerchar, M. (2007). Tax Complexity and its impact on tax compliance and tax administration in Australia. *IRS Conference*. George town university school of law: Washington DC.
- Micah, L. C., Ebere, C., & Umobong, A. A. (2012). Tax system in Nigeria—challenges and the way forward. *Research Journal of Finance and Accounting*, 3(5), 9-15.
- Morris, D & Qiao, P. (2011). The courts' role as a backstop in the battle against tax complexity. *ATA Journal of Legal Tax Research American Accounting Association*, 9, 14–49.
- Organization for Economic Co-operation and Development (OECD) (2005), Survey of trends in taxpayer service. Delivery using new technologies. Centre for Tax Policy and Administration, OECD, Paris.
- Organization of Economic Corporation and development (2001). Compliance measurement- practice note. OECD tax Guidelines Series.
- Omuigu, O. (2011). FIRS boss tasks tax officials on MDGs, Vision 2020 goals. *Economic Confidential, online news paper*
<http://economicconfidential.net/new/financial/tax-matters> retrieved 23/11/12
- Prebble, J. (1994). Why is the tax law incomprehensible? *British Tax Review*, 4, 380-393.
- Richardson, G. & Smith, D. (2002). The readability of Australia's Goods and Services Tax legislation: An empirical investigation. *Federal Law Review*, 30 (3), 475–506.
- Robert, P. E., & Zussman, D (1998). The compliance costs of Canada's major tax systems and the impact of single administration. *Canadian Tax Journal*, 46, 761-785.

- Salami, D. (2011). Achieving vision 20: 2020 goals through effective taxation. *Taxation and New Global Order*. 13th annual conference of Chartered Institute of Taxation Nigeria 2011.
- Sandford, C. (1994), "International comparisons of administrative and compliance costs of taxation", *Australian Tax Forum*, 11, 291-309.
- Sandford, C. (1973) *Hidden Costs of Taxation*. London: Institute for Fiscal Studies.
- Sandelowski, M. (2000). Focus on research methods-whatever happened to qualitative description? *Research in nursing and health*, 23(4), 334-340.
- Sapiei, N. S. (2010, April 7-9). *External tax professionals' perception of the corporate taxpayers' compliance costs and behavior under the self-assessment system*. Paper presented at The 9th International Tax Administration Conference, Building Bridges, Australia.
- Sapiei, N. S. & Kasipillai, J. (2013). Impacts of the self-assessment system for corporate taxpayers. *American Journal of Economics*, 3(2,) 75-81.
- Sawyer, A. (2013). "Reviewing tax policy development in New Zealand: Lessons from a delicate balancing of 'law and politics'", *Australian Tax Forum*, 38(3), 1-31.
- Sawyer, A. (1996). Blurring the distinction between avoidance and evasion: The abusive tax position. *British Tax Review*, 483-504.
- Saw, K & Sawyer, A (2010). Complexity of New Zealand tax legislation: The final installment. *Australian tax forum*, 25, 213-244.
- Schnase, J. L., & Cunnius, E. L. (Eds.). (1995). Proceedings from CSCL '95: The First International Conference on Computer Support for Collaborative Learning. Mahwah, NJ: Erlbaum.

- Silvani, C. & Baer, K. (1997). Designing a tax administration reform strategy: Experiences and guidelines. IMF Working Paper, March 1997.
- Slemrod, J. (1984) "Optimal tax simplification: Toward a framework for analysis," in proceedings of the seventy-sixth annual conference on taxation. Columbus, Ohio: National Tax Association-Tax Institute of America (1984).
- Slemrod, J. B., & Blumenthal, M. (1996). The income tax compliance cost of big business. *Public Finance Review*, 24(4), 411-438.
- Slemrod, J. & Venkatesh, V. (2002). The income tax compliance costs of large and mid-size business. In *Report to IRS LMSB Division submitted by the Office of Tax Policy Research*. Michigan: University of Michigan Business School. Retrieved from <http://ssrn.com/abstract=913056> 11/01/13
- Slemrod, J. & Sorum, N (1984). The compliance cost of the U.S. individual income tax system. *National Tax Journal*, 37, 462-465.
- Simon, J., & Clinton, A. (2002). Tax compliance, self-assessment and tax administration. MPRA Paper No. 26906, posted 22. November 2010 / 17:53 <http://mpra.ub.uni-muenchen.de/26906/> retrieved 30/1/2013
- Smith, D., & Richardson, G. (1999). The readability of Australia's taxation laws and supplementary materials: An empirical investigation. *Fiscal Studies*, 20(3), 321-349.
- Tan, L. M. & Tower, G. (1992), 'The readability of taxation laws: An empirical study in New Zealand', *Australian Tax Forum*, 9, 355-72.
- The Tax Law Rewrite Acts (Amendment) Order (2013). Retrieved from <http://www.legislation.gov.uk/uksi/2013/463/contents/made>, 22/02/2013

- The World Bank & International Finance Corporation (2012). Paying Taxes. World Bank and IFC's *Doing Business* 2012 report.
- Thuronyi, V. (1996). *Drafting tax legislation. Tax Law Design and Drafting*. Washington, DC: International Monetary Fund.
- Tran-Nam, B., Evans, C., Walpole, K., & Ritchie, K. (2000). Tax compliance costs: research methodology and empirical evidence from Australia. *National Tax Journal*, 53(2), 229-252.
- Tukur, M. (2010). Achieving voluntary compliance through Self-assessment tax regime. Paper presented at 2010 technical annual conference of the Commonwealth Association of Tax Administrators, Retrieved from <http://www.catatax.org/uploads/011211/2/1/2013>.
- Urbancic, F. R., & Hsu, K. (2007). The readability of instructions for income taxation in the Western states. *Mountain Plains Journal of Business and Economics, General Research*, 8, 29-37.
- Vaillancourt, F. (1989). *The administrative and compliance costs of the personal income tax and payroll tax system in Canada, 1986*: Canadian Tax Foundation Toronto.