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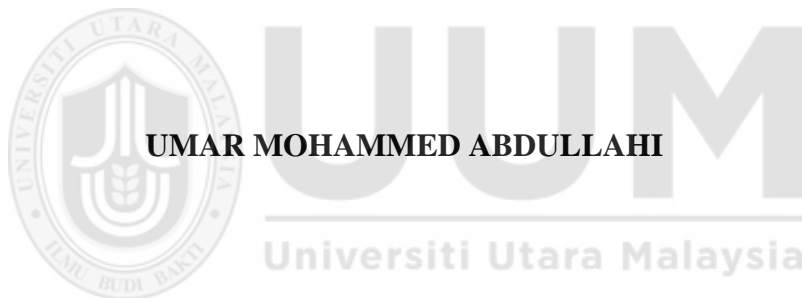


**FACTORS INFLUENCING TAX COMPLIANCE  
BEHAVIOR AMONG THE SELF-EMPLOYED IN  
NIGERIA**



**DOCTOR OF PHILOSOPHY  
UNIVERSITI UTARA MALAYSIA  
APRIL 2017**

**FACTORS INFLUENCING TAX COMPLIANCE BEHAVIOR AMONG THE  
SELF-EMPLOYED IN NIGERIA**



**Thesis Submitted to  
Tunku Puteri Intan Safinaz School of Accountancy,  
Universiti Utara Malaysia,  
in Fulfilment of the Requirements for the Degree of Doctor of Philosophy**

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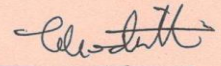
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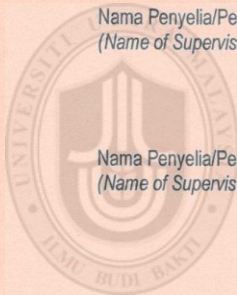


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## ABSTRACT

The objective of the study was to investigate factors influencing tax compliance behavior among the self-employed in Nigeria. The level of tax noncompliance in Nigeria is unusually high. Some authorities have described the level of noncompliance in the country as one of the highest in the world. This research was designed as a mixed method whereby the research questions were answered through a mixture of qualitative and quantitative methodology. The qualitative study was designed as intensive interviews with a sample of thirty-two self-employed in the study area, Abuja, Nigeria. The quantitative study was designed as a questionnaire survey of 360 self-employed taxpayers in Nigeria's capital city of Abuja. Nine variables were investigated to determine their influence on tax compliance behavior. The variables were: perceived public governance quality, socioeconomic condition, perceived audit effectiveness, perceived social norm, perceived citizen engagement, perceived tax service quality, perceived tax system complexity, tax fairness perception and attitude towards evasion. Data from the survey was analyzed using the Partial Least Square approach and the SmartPLS software. Results from the analysis produced a significant mediation effect of socioeconomic condition on the relationship between perceived public governance quality and tax compliance behavior. Perceived citizen engagement, perceived audit effectiveness, perceived social norm and perceived tax service quality were all found to have a significant positive relationship with tax compliance behavior. The study made good contributions to existing literature by introducing the mediating role of socioeconomic condition and also the construct of perceived audit effectiveness into tax compliance research. Finally, the study highlighted the implications of the findings for policy, methodology and theory. The policy recommendation emphasized the need for the Nigerian government to adopt the carrot and stick approach in influencing tax compliance behavior.

**Keywords:** tax compliance behavior, self-employed, socioeconomic condition, public governance quality, audit effectiveness

## ABSTRAK

Penyelidikan ini bermatlamat untuk mengkaji faktor yang mempengaruhi gelagat kepatuhan cukai dalam kalangan individu yang bekerja sendiri di Nigeria. Tahap ketakpatuhan cukai di Nigeria sangat tinggi dan ada pihak menyifatkan tahap ketakpatuhan cukai di negara ini sebagai antara yang tertinggi di dunia. Penyelidikan berbentuk kaedah campuran ini berhasrat untuk menjawab soalan kajian menerusi kedua-dua kaedah berbentuk kualitatif dan kaedah kuantitatif. Kajian berbentuk kualitatif melibatkan temu bual yang dijalankan secara intensif dengan sampel seramai 32 orang individu yang bekerja sendiri di kawasan kajian, iaitu di ibu negara Nigeria, Abuja. Kajian kuantitatif pula dikendalikan menerusi edaran sejumlah 360 borang soal selidik kepada pembayar cukai yang bekerja sendiri di Abuja. Sembilan pemboleh ubah diteliti untuk menentukan pengaruh pemboleh ubah terhadap gelagat kepatuhan cukai. Pemboleh ubah yang diteliti ialah kualiti tadbir urus awam yang ditanggap, keadaan sosioekonomi, keberkesanan audit yang ditanggap, norma sosial yang ditanggap, keterlibatan warganegara yang ditanggap, kualiti perkhidmatan cukai yang ditanggap, kesukaran sistem cukai yang ditanggap, persepsi keadilan cukai dan sikap terhadap pengelakan cukai. Data tinjauan soal selidik ini dianalisis dengan menggunakan pendekatan kuasa dua terkecil separa dan perisian *SmartPLS*. Dapatan analisis menunjukkan terdapat kesan perantaraan pemboleh ubah keadaan sosioekonomi yang signifikan terhadap hubungan antara kualiti tadbir urus awam yang ditanggap dengan gelagat kepatuhan cukai. Keterlibatan warganegara yang ditanggap, keberkesanan audit yang ditanggap, norma sosial yang ditanggap dan kualiti perkhidmatan cukai yang ditanggap didapati mempunyai hubungan positif yang signifikan dengan gelagat kepatuhan cukai. Kajian ini menyumbang kepada kosa ilmu sedia ada dengan memperkenalkan peranan perantaraan keadaan sosioekonomi dan juga konstruk keberkesanan audit yang ditanggap dalam kajian pematuhan cukai. Akhir sekali, kajian ini memperlihatkan implikasi dapatan kajian terhadap polisi, kaedah, dan teori. Polisi yang disarankan menekankan perlunya kerajaan Nigeria menerima pakai pendekatan ganjaran dan hukuman untuk mempengaruhi gelagat kepatuhan cukai.

**Kata kunci:** gelagat kepatuhan cukai, individu yang bekerja sendiri, keadaan sosioekonomi, keterlibatan warganegara, kualiti tadbir urus awam



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## LIST OF ABBREVIATIONS

ATE	Attitude Towards Evasion
ATO	Australian Tax Office
CIT	Company Income Tax
CGT	Capital Gain Tax
CB-SEM	Covariance-based Structural Equation Modeling
DFID	Department for International Development
EUR	Euro
FCT	Federal Capital Territory (Nigeria)
FIRS	Federal Inland Revenue Service (Nigeria)
GDP	Gross Domestic Product
GNI	Gross National Income
HDR	Human Development Report
IIAG	Ibrahim Index of African Governance
ILO	International Labour Organization
IMRAD	Introduction, Methodology, Results and Discussion
IRB	Inland Revenue Board (Malaysia)
IRS	Inland Revenue Service (America)
MDG	Millennium Development Goals
NBS	National Bureau of Statistics (Nigeria)
OECD	Organization for Economic Cooperation and Development
PAE	Perceived Audit Effectiveness
PCE	perceived Citizen Engagement
PGQ	Public Governance Quality
PIT	Personal Income Tax
PSN	Perceived Social Norm
PTSQ	Perceived Tax Service Quality
PTSC	Perceived Tax System Complexity
PLS	Partial Least Squares
PwC	PricewaterhouseCoopers
PPT	Petroleum Profit Tax
SAS	Self-Assessment System
SERVQUAL	Service Quality
SEM	Structural Equation Modeling
SERVICOM	Service Compact With all Nigerians
SOC	Socioeconomic Condition
TCB	Tax Compliance Behavior
TFP	Tax Fairness Perceptions
TQM	Total Quality Management
VAT	Value Added Tax
WDI	World Development Indicators
WGI	World Governance Index
WHT	Withholding Tax



## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

Governments evolved as a result of the necessity to organize societies into administrative units where the lives and properties of citizens can be safeguarded. How government raise the money to finance its activities is where taxation comes in. The Australian Taxation Office (ATO, 2010) defines tax as monetary charge imposed by the government on persons, entities, transactions or property to yield public revenue. It is a logical sequence of the social contract theory, which underpins the existence of government that funds should be provided to finance government activities. How this is done is the subject of a vast, dynamic and expanding field of study called taxation.

According to Besley and Persson (2014), the fund government utilizes to prosecute its numerous programs are acquired through tax and non-tax revenues. While it is agreed that governments could raise finance for their activities through tax and non-tax revenues like public enterprises, foreign aids and others, taxation has been projected as the major source of revenue (Brautigam, 2002). Many countries especially advanced countries like Australia, United Kingdom etc. are able to raise adequate revenue to finance government activities but developing countries such as Nigeria find it difficult to raise adequate tax revenue (Kaldor, 1963).

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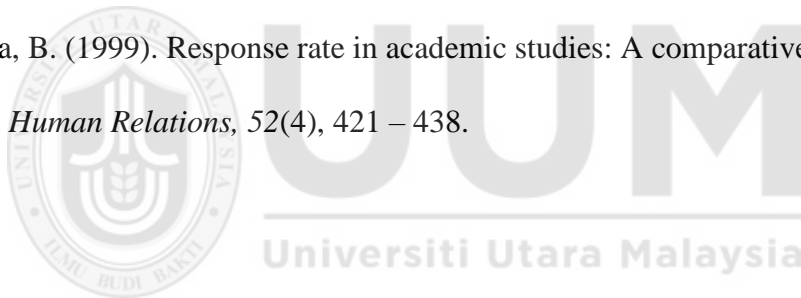
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## Appendix A

### SURVEY QUESTIONNAIRE

# UMAR ABDULLAHI MOHAMMED

PhD Scholar, School of Accounting, Universiti, Universiti Utara,  
Sintok, Kedah, Malaysia.

Phone: 08037474047, +601133329679

Dear Participant,

I am seeking your opinion on issues regarding personal income tax in Nigeria. This survey is part of my research for the PhD programme at the Universiti Utara Malaysia. The objective of the research is to determine factors influencing tax compliance behavior in Nigeria. At the end of the research, I hope it will lead to better understanding of the challenges of the tax system and the recommendations that will be made will further enrich tax compliance literature. Kindly take note of the following clarifications:

- Note that this research is strictly for academic purpose and will not be used for any other purpose.
- All the opinion you will express will be treated confidentially and will not be taken against you.
- Your anonymity is guaranteed; hence you do not need to write your name on the questionnaire.
- Participation is entirely at your discretion and you are free to withdraw at any point.
- It is in the overall interest of nation-building for you to be accurate in your responses as this will lead to valid reports that will enhance our understanding of the tax system. Ultimately, an improved tax system will benefit all Nigerians.

If you need further clarifications, please do not hesitate to contact me on any of the above phone numbers. Thank you for your participation.

Yours Faithfully,

Umar Mohammed Abdullahi



## Instructions for filling the questionnaire

1. Part 1 consists of demographic information, tick the box that applies to you.
2. Part 2 consists of statements on different aspects of the tax system. You are to disagree or agree with the statements. The scale is from 1 – strongly disagree to 10 – strongly agree. Based on a rating scale, tick the number that best express your opinion on each statement.
3. Kindly tick one response only for each item as double ticking renders the item invalid
4. Endeavour to complete all items.

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### Part 1. Demographic Information

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i Gender: Male  Female

ii Age: 20 – 30 , 31 – 40 , 41 – 50 , 51 – 60 , Above 60

iii Source of income: Paid employment , Self-employed

iv Average monthly income: Below ₹ 100,000 , ₹100,00 – ₹500,000 ,  
₹500,000 – ₹,1000,000 , Above ₹1,000,000.00

v Education: Primary Education , Secondary education , Diploma ,  
Degree/Higher National Diploma , Masters  Others

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**UUM**  
Universiti Utara Malaysia

		<b>Part 1</b>	<b>Strongly Disagree</b>							<b>Strongly Agree</b>		
		<i>Musa is a self-employed business man. Please tick your candid opinion in respect of each of the following actions of Musa. 1 to 5 shows you disagree, with 1 showing you strongly disagree. 6 to 10 shows you agree, with 10 showing you strongly agree</i>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
<b>Tax compliance Behavior</b>	TCB1	Musa is justified if he doesn't file his tax returns at the stipulated time.	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TCB2	Musa is not justified if he understates the income he reports for tax purpose	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TCB3	Musa is justified if he overstates his deductions	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TCB4	Musa is not justified if he fails to pay the assessed amount at the due date	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
		<b>Part 2</b>										
		<i>Statements in this section are in respect of taxpayers' perceptions of issues about the tax system and economic situation. Please rate the statements by ticking 1 to 10 depending on whether you agree or disagree.</i>										
<b>Taxpayers socioeconomic Condition</b>	SOC1	I am not satisfied with my current financial situation	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	SOC2	I, am not satisfied with the current healthcare situation	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	SOC3	I, am not satisfied with the current educational service	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	SOC4	I, am satisfied with the current public security situation	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
<b>Perceived Social Norms</b>	PSN1	Many other people in this society do not comply with tax laws	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	PSN2	My family members would approve of noncompliance	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	PSN3	My friends will approve of noncompliance	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	PSN4	My peers would not justify noncompliance	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]

<b>Perceived Citizens Engagement</b>	PCE1	I don't have access to information about government	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	PCE2	Ordinary people are not consulted in matters of governance	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	PCE3	It is difficult to find out how government uses revenues from taxes and fees	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	PCE4	Taxpayers are aware of how and why they are to contribute to tax revenue generation.	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	PCE5	Tax authorities do not have periodic interactions with taxpayers on areas of mutual concerns.	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
<b>Perceived Public Governance Quality</b>	PGQ1	Government is not effective in handling of its responsibilities	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	PGQ2	The government does not formulate good policies for citizen's benefit	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	PGQ3	The civil service does not implement government policies effectively	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	PGQ4	Government policies encourage businesses	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	PGQ5	The rule of law is not respected in all public and private transactions	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	PGQ6	The diversion of public funds to private gain due to corruption is common	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
<b>Perceived Audit Effectiveness</b>	PAE1	It is easy to evade paying taxes	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	PAE2	Businesses generally face low audit rate	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	PAE3	If one evades tax payments, there is a high chance of being caught.	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	PAE4	Assuming one is caught, it is not much of a problem.	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	PAE5	Tax auditors are willing to cooperate even if one is caught	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]

<b>Perceived Tax Service Quality</b>	PAE6	Being asked to pay fine is a serious problem.	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	PAE7	Being taken to court is not much of a problem	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	PAE8	Sanctions for tax evasion is generally severe	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TSQ1	Overall, I would say the quality of my interaction with FIRS employees is excellent	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TSQ2	The behavior of FIRS employees demonstrate their unwillingness to help me	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TSQ3	The behavior of FIRS employees shows me that they don't understand my needs	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TSQ4	FIRS employees are not able to answer my questions quickly	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TSQ5	I find that FIRS other customers do not leave with a good impression of its service	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TSQ6	FIRS tries to keep me waiting for too long	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TSQ7	FIRS does not provides vital information to educate me on my tax obligations	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
TSQ8	FIRS employees does not treat all customers fairly without bias.	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	
<b>Perceived Tax System Complexity</b>	TSC1	I think the terms used in tax guides and forms are difficult for people like me to understand	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TSC2	The sentences are wordings are lengthy and complicated	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TSC3	The rules related to income tax are very clear	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TSC4	Most of the times, I need to relate to others for assistance in dealing with tax matters	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TSC5	I have a problem with completing and filing tax returns forms	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TSC6	I find it difficult to provide all the information required by the tax authorities for filing purpose	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]
	TSC7	I spend a lot of time and effort in the process of filing my tax returns	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]

<b>Attitude Towards Tax Evasion</b>	ATE1	Taxes are so heavy that evasion is an economic necessity to survive	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	ATE2	Not declaring all my income for tax purpose is a serious offence	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	ATE3	If I am in doubt about whether or not to report a certain income, I would not report it	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	ATE4	Claiming a non-existent deduction on my tax return is not a serious offence	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	ATE5	Since everybody evades tax you cannot blame anyone for doing it	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	ATE6	There are opportunities for evading taxes so you cannot blame those who evade	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	ATE7	People are right to evade taxes because the system is unfair	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
<b>Tax Fairness Perceptions</b>	TFP1	Generally, I believe the burden of the income tax is not fairly distributed	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	TFP2	I do not believe everyone pays their fair share of income tax	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	TFP3	The benefits I receive from government is not fair in terms of my tax payment	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	TFP4	Some legal deductions are not fair because only the wealthy enjoys them	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	TFP5	People whose incomes are the same as mine should pay the same amount as tax regardless of the kind of investment they make, how many dependents they have or their financial obligations	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	TFP6	High income earners have a greater ability to pay income taxes so it is fair they should pay a higher rate of tax than low income earners	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]
	TFP7	Compared to other taxpayers, I pay less than my fair share of income tax	[1] [2] [3] [4] [5] [6] [7] [8] [9] [10]



## Appendix B

### LETTER OF INTRODUCTION



OTHMAN YEOP ABDULLAH  
GRADUATE SCHOOL OF BUSINESS  
Universiti Utara Malaysia  
06010 UUM SINTOK  
KEDAH DARUL AMAN  
MALAYSIA



Tel.: 604-928 7101/7113/7130  
Faks (Fax): 604-928 7160  
Laman Web (Web): www.oagbsb.uum.edu.my

"MUAFAKAT KEDAH"

TO WHOM IT MAY CONCERN

Dear Sir/Madam,



UUM/OYAGSB/R-4/4/1  
26 September 2016

#### LETTER OF RECOMMENDATION FOR DATA COLLECTION AND RESEARCH WORK

This is to certify that **Umar Mohammed Abdullahi (Matric No: 900476)** is a student of Othman Yeop Abdullah Graduate School of Business, Universiti Utara Malaysia pursuing his Doctor of Philosophy (PhD). He is conducting a research entitled "**Factors Influencing Tax Compliance Behaviour Among The Self-Employed In Nigeria : The Mediating Effect Of Socioeconomic Condition**" under the supervision of Assoc. Prof. Dr. Chek B Derashid.

In this regard, we hope that you could kindly provide assistance and cooperation for him to successfully complete the research. All the information gathered will be strictly used for academic purposes only.

Your cooperation and assistance is very much appreciated.

Thank you.

"BERKHIDMAT UNTUK NEGARA"  
"ILMU, BUDI, BAKTI"

Yours faithfully

**ROZITA BINTI AMLIL**  
Assistant Registrar  
for Dean

Othman Yeop Abdullah Graduate School of Business

c.c - Supervisor  
- Student's File (900476)

Universiti Pengurusan Terkemuka  
The Eminent Management University



## Appendix C

### LETTER TO FIRS

# UMAR ABDULLAHI MOHAMMED

PhD Scholar, No 219, Taman Universiti, Universiti Utara,  
Sintok, Kedah, Malaysia.  
Phone: +601133329679

17<sup>th</sup> October, 2016.

The Executive Chairman,  
Federal Inland Revenue Service,  
Abuja, Nigeria.



Dear Sir,

#### REQUEST FOR PERMISSION TO ADMINISTER SURVEY QUESTIONNAIRE ON SELF-EMPLOYED BUSINESSMEN WITHIN THE FCT

I am a lecturer in the department of Accounting, Kogi State University, Anyigba. I am currently undergoing a PhD programme at the Universiti Utara, Malaysia. My research topic is: factors influencing tax compliance behavior among the self-employed in Nigeria: The mediating effect of socioeconomic condition. As part of the requirement for this research, I am conducting a survey of self-employed businessmen registered with the FCT unit of the FIRS. This survey is for academic purpose only and will not be used for any other purpose.

I therefore solicit your assistance and cooperation to enable me conduct this survey among self-employed businessmen in the FCT. Find attached an introductory letter from the Universiti Utara, Malaysia, in support of my request.

Thank you very much in anticipation of your kind cooperation.

Yours faithfully,

Umar Mohammed Abdullahi



## Appendix D

### EXPERT REVIEW OF QUESTIONNAIRE



INSTITUT PENYELIDIKAN PENGURUSAN DAN PERNIAGAAN (IMBRe)  
INSTITUTE FOR MANAGEMENT AND BUSINESS RESEARCH  
Universiti Utara Malaysia  
06010 UUM SINTOK  
KEDAH DARUL AMAN  
MALAYSIA



Tel: 604-928 7601  
Faks (Fax): 604-928 7611  
E-mel (E-mail): imbre@uum.edu.my

“MUAFAKAT KEDAH”

04<sup>th</sup> October 2016

YBhg. Professor. Dr. Zainuddin Awang  
Faculty of Economics and MGT. SC  
UNISZA  
Terengganu

Dear sir,

#### REVIEW OF QUESTIONNAIRE ITEMS

Kindly refer to the above subject. I would like you to review the attached questionnaire items of PhD candidate, Umar Mohammed Abdullahi, Matric No. 900476 who is undergoing his PhD research under my supervision at the School of Accountancy, Universiti Utara, Malaysia. The title of the study is: *Factors influencing tax compliance behavior among the self-employed in Nigeria: The mediating role of socioeconomic condition.*

The candidate intends to use structural equation modeling (SEM) for the study and as such, your expertise on the subject will be very helpful in improving the design of the questionnaire. Feel free to make your comments and send back to us. Thank you

Yours faithfully,

ASSOC. PROF. DR. CHEK DERASHID  
Director,  
Institute for Management and Business Research (IMBRe)  
Universiti Utara Malaysia  
06010 UUM Sintok  
Kedah Darul Aman, Malaysia  
Email: chek@uum.edu.my

Universiti Pengurusan Terkemuka  
The Eminent Management University



## Appendix E

### SAMPLE SIZE

**TABLE 13.3**

sample size for a given population size

N	S	N	S	N	S
10	10	220	140	1200	291
15	14	230	144	1300	297
20	19	240	148	1400	302
25	24	250	152	1500	306
30	28	260	155	1600	310
35	32	270	159	1700	313
40	36	280	162	1800	317
45	40	290	165	1900	320
50	44	300	175	2000	322
55	48	320	181	2200	327
60	52	340	191	2400	331
65	56	360	196	2600	335
70	59	380	205	2800	338
75	63	400	210	3000	341
80	66	420	217	3500	346
85	70	440	226	4000	351
90	73	460	242	4500	354
95	76	480	248	5000	357
100	80	500	260	6000	361
110	86	550	265	7000	364
120	92	600	274	8000	367
130	97	650	278	9000	368
140	103	700	169	10000	370
150	108	750	186	15000	375
160	113	800	201	20000	377
170	118	850	214	30000	379
180	123	900	234	40000	380
190	127	950	254	50000	381
200	132	1000	269	75000	382
210	136	1100	285	100000	384

## Appendix F

### SOURCE OF PROBLEM STATEMENT

In my view: Development depends on realising the potential of taxation... <http://oecdinsights.org/2014/10/09/in-my-view-development-depends>.



**OECD INSIGHTS**  
Debate the issues

## In my view: Development depends on realising the potential of taxation

9 OCTOBER 2014

by Guest author



*Today's post from Ngozi Okonjo-Iweala, Co-ordinating Minister for the Economy and Minister of Finance, Nigeria, concludes a series of 'In my view' pieces written by prominent authors on issues covered in the Development Co-operation Report 2014: Mobilising resources for sustainable development. The Report is being launched today in London with the Overseas Development Institution, and you can watch the event by registering here.*

Developing country governments would do well to strengthen their tax systems so they can mobilise the domestic resources they need to finance their own development. This is particularly true for African countries, where the recent trend of decreasing ODA shows no sign of reversing.

In developing countries in general, revenue administration is often hampered by weak organisational structures, low capacity of tax officials and a lack of modern, computerised, risk-management techniques. The value-added tax "gap" alone is estimated at around 50-60% in developing countries, compared with only 13% in developed countries. The International Monetary Fund (IMF) estimates that for many low-income countries, an increase in tax revenues of about 4% of GDP is attainable.

Since the 1990s, many African countries have made progress in improving their domestic tax capacities and receipts. Despite these improvements, however, there are still many revenue leaks that need to be plugged.

In Nigeria, we are making concerted efforts. Following the recent revision of our GDP to USD 510 billion, our tax-to-GDP ratio declined from 20% to about 12%, several points below the 15% tax-to-GDP threshold recommended by the IMF for satisfactory tax performance. Yet with our increasingly diversified economy, there is room to greatly improve our tax administration capacity and increase our tax revenues.

A recent diagnostic exercise to examine the bottlenecks in our tax collection processes revealed some interesting findings. For example, about 75% of our "registered" firms were not in the tax system! Moreover, about 65% of Nigeria's registered taxpayers had not filed their tax returns over the past two years. With the support of external consultants, we are introducing remedial measures to improve tax performance and estimate that we can raise an additional USD 500 million in non-oil tax revenues in 2014.

The international community has an important role to play in supporting such efforts by developing

**Appendix G**

**TRANSCRIPTS OF INTERVIEWS**



**Name of Participant-** Participant 3

**Sex-** Male

**Business line-** General merchant

**Age-** 62

**Number of Years in Business-** 34

**Number of Employees-** 4

**Annual income-** 10-15 million Naira

***Team Leader's introductory remark-** Good day sir. My name is Mohammed Abdullahi Umar, a PhD researcher from the Universiti Utara, Malaysia and these are my colleagues (referring to other members of the interview team). As you have read in the introductory letter we sent earlier, the interview is about understanding the problems with the tax system in Nigeria. It is an academic exercise which has no linkage with any form of government whatsoever. Please feel free to respond to our question as accurately as you can and I would like to repeat that your name or identity will not be revealed in any form after this process. I would also like to remind you that you are free to withdraw your participation even at this point.*

**Participant 3-** You are welcome to my office. Thank you.

***Interviewer 1-** Sir, government has complained of tax noncompliance among businessmen. We would like to know your experiences about the tax system generally and reasons, in your opinion, why people do not pay tax.*

**Participant 3-** Yes. I have been in business before some of you were born (general laughter). Yesss...it is very true. You see..nothing happens without a history. What am I saying? You need to trace or go back to history to understand certain things. In this country, things were not always like this. People used to pay tax when things were better and we have good government but as it is currently, businessmen do not want to pay tax. For me, I do not know the basis of these monies they are collecting. What do they do with it? The roads are bad, there is no electricity and nothing works in this country. Emmh.. you see... no one knows how government is run by these people. You can only pay or contribute to what you know about.

***Interviewer 2-** You always mention the word 'they' in your statements when referring to those in government. Why do you use that word? You are also part of government as a citizen of this country.*

**Participant 3-** Of course! Of course! I am correct to use that word because these days, government has degenerated to such a level that people only go there for their selfish interest and not for the benefit of everybody as it was meant to be originally. You see...there is a

fundamental problem. I don't understand the kind of government they run in this country. At least, I have the opportunity of visiting some countries and you can see government working practically. But in this country...I cannot blame businessmen. The democracy we have here is not government for the people as we were taught in school (general laughter).

*Interviewer 1- Don't you think businessmen are sidelined from the system because they don't pay tax as claimed by the government. Maybe they will be more involved if they pay tax.*

**Participant 3-** That is why at the beginning of this discussion, I said you need to look at the history of anything before you make comment or judge anybody. Businessmen were willing to contribute to government in those days, why have things changed suddenly? You see.. I earlier said some of you (referring to interview crew) were very young. This country was not always run with oil revenue as it is being done now. There was a time we had serious government that worked with the business community. Members of the business community were carried along in government activities. Then we had respectable associations like chambers of commerce and industry. But today, there is oil money and government no longer care about the business community. Some people without any visible source of income or any experience in business just rig their way into government and share oil money. Who want to pay tax to these kind of people and of course do they need it?

*Team leader- Sir, I think government need tax revenue because they are always complaining about tax noncompliance.*

**Participant 3-** All these complains are just talks. As long as there is oil revenue, they don't care. If they are serious about tax revenue, they know what to do.

*Team leader- well, government is also constituted by people like you and I who may not be perfect as we are all human beings. You may think they know what to do but in reality, they don't. Even if they do, there is no harm in volunteering additional advice. What exactly do you think government can do to improve tax compliance by businessmen?*

**Participant 3-** Well if you say so, then no problem...though... actually, I don't agree with you that they need advice. But then....if you ask me...the solution to the current problem of tax compliance lies with the government. They need to carry business owners along in government policies and actions. Do you know that government policies are not even friendly to a lot of businesses? For instance, if you travel from Abuja to Lagos, can you count the number of closed factories on the way? They are just too many. If you are lucky to have a surviving business, the last thing on your mind will be paying taxes to government. You will concentrate on how to ensure the survival of your business. What government need to do is to invite business owners to a round table to discuss issues. There is nowhere in the world that businesses are taxed without a reciprocal arrangement between businesses and

government. For instance, do you notice that advanced countries like America and UK can go to any length to protect the interest businesses that carry out operations in their countries and even businesses owned by their citizens that operates outside their countries? They do this because government knows that their operations are funded by taxes paid by these businesses. But here in Nigeria, businesses operate on their own. There is no recognition from government.

***Interviewer 1-** From what we understand from your responses so far, businessmen in Nigeria are not involved in the affairs of governance and as such their interest are not catered for by those in government. Businessmen respond by not paying taxes.*

**Participant 3-** Exactly what I mean. Businessmen and government do not operate on common grounds and that is not conducive for tax compliance.

***Interviewer 2-** Do you have other issues you wish to point out?*

**Participant 3-** Nothing much really. I would like to thank you all for this research initiative. Though I am not sure our government values research (general laughter). Yes! Yes! That is one of the problems with those in government. You will agree with me that this is not the first research initiative on tax issues in this country but those in government don't listen to the voice of reason. Anyway, I wish you good luck and I hope the country gets better someday.

***Team leader-** Thank you Sir for your cooperation in this interview. We have noted your comments on the problem of tax compliance among businessmen and we shall bring it up in compiling our results. We shall be in touch again if there is anything more we need to know. Thank you so much for your cooperation.*

**Name of Participant-** Participant 23

**Sex-** Male

**Business line-** hotel owner

**Age-** 54

**Number of Years in Business-** 12

**Number of Employees-** 23

**Annual income-** 10-15 million Naira

**Team Leader's introductory remark-** *Good day sir. My name is Mohammed Abdullahi Umar, a PhD researcher from the Universiti Utara, Malaysia and these are my colleagues (referring to other members of the interview team). As you have read in the introductory letter we sent earlier, the interview is about understanding the problems with the tax system in Nigeria. It is an academic exercise which has no linkage with any form of government whatsoever. Please feel free to respond to our question as accurately as you can and I would like to repeat that your name or identity will not be revealed in any form after this process. I would also like to remind you that you are free to withdraw your participation even at this point.*

**Participant 23-** Thank you and welcome. Please feel comfortable to ask your questions

**Interviewer 1-** *Sir, government has complained of tax noncompliance among businessmen. We would like to know your experiences about the tax system generally and reasons, in your opinion, why people do not pay tax.*

**Participant 23-** For me, I see paying taxes as a difficult thing to do in this country. If business owners are not paying taxes as claimed by government, then the reason is very obvious. Business owners and their families are facing serious problem in trying to survive. By the time you consider all the stress, I don't know how you can even consider anything like tax. We need to be sincere with ourselves. Nobody pays tax when you face all the problems we battle with every day. I am saying this because we all know these problems are with us because the government failed in its responsibility to provide infrastructure for the wellbeing of the citizens. Emmmh..let me give you an example. Ok? My brothers' wife just returned from India for treatment of Kidney ailment. Two people accompanied her on the trip and that translate to air tickets for three. Add that to the cost of treatment and feeding for three in a foreign land – what is wrong with our health system? My brothers (referring to the interview crew), is it not better for government to fix our healthcare so we can get treated locally? We can then save money to pay tax. Believe me, as it stands currently, tax cannot work in this country.

**Interviewer 2-** *From your statements, I understand the condition of living is bad so businessmen do not bother to pay tax.*



**Participant 23-** That is correct. How are you going to pay when you spend all your earnings in providing what governments are providing cheaply in other countries? For example, since there is no public power supply, you can see we run power generating set. The cost of fueling and maintenance of fueling and maintenance of the generating set is very high. At times it takes three-quarter of your profit. If there is public power supply, the money currently spent on power generation will be saved. Then there would not be too much complain about paying tax.

*Team leader-- But government is also complaining about inadequate fund to provide social infrastructure.*

**Participant 23-** I think we are misunderstanding the issue involved in this case. When we say government is guilty of not providing social amenities, it doesn't mean government has unlimited fund. Every educated person knows that government operates on a limited budget. But...you see...the problem is what have they done with what they have? You need to utilize the little you have in a judicious and transparent manner then you can demand for contribution from citizens. The people are not fools. They see corruption and stealing of public funds in an open way so you cannot come up to tell them you don't have fund to provide social amenities. Ok. For instance, you claim there is no money to provide the best equipment in local hospitals but when you or any member of your family (referring to government officials) is sick, you quickly fly out to foreign hospitals in other countries. How are people going to believe that there is no money? There is no money for public equipment but there is money for your private needs? My brothers (referring to the interview crew), those in government are not sincere and it will be very difficult for businessmen to cooperate with them.

*Team leader- But businesses in Nigeria are still making profit even though business owners complain about operating condition and living condition*

**Participant 23-** Well...nobody can deny that businesses make profit. But the problem is under what condition do they make this profit? If I rent my business premises, provide power generating set, provide water through a privately dug borehole at the business premises and even in my living house, I even construct the road in front of my house, then what job is left for government to do? The cost of providing for all these things is very expensive, you know another big problem is inflation. You could buy something today for say... a hundred thousand naira, the next month, there is a fifty percent increase in price. In all these difficult situation, you still struggle to make profit. One thing with Nigerian business men is that they are very hardworking and try to face challenges. If you go through these struggles and make profit as you mentioned, then how can any government claim any entitlement to tax? For me, government collect taxes because of the services they provide to the society. Yes, the

business people benefit from the society and pay tax in return. But like I said before, in Nigeria those in government have created the best condition of living for themselves and their families but ordinary people take care of themselves.

*Interviewer 1- How do you think this problem can be resolved?*

**Participant 23-** Well... I think, for me, it is a difficult question because I am not a politician. Rather, I am a businessman. But if you say I must give advice, then I think the solution is a simple one. When government provides social amenities, it is beneficial to citizens and business owners, in fact, social amenities will improve productivity among citizens and business owners. One thing government in Nigeria does not realize is that when social amenities are provided, business performance will improve. Businesses will make more money and they will be in a better position to pay more taxes to government. It is very sad that government in this country do not see it this way. Of course they do not have any good intention of providing development in the first instance. They only went into government for their selfish interest.

*Team leader- You have mentioned numerous challenges facing business owners – healthcare, power supply, inflation and other infrastructural problem. These things cannot all be provided at the same time. Which one is the most pressing or the highest in priority if government wants to solve the problem?*

**Participant 23-** I think this is a good question. If you ask 1000 business owners in Nigeria this same question, the answer you are likely to get is electricity. It is the most pressing problem facing businesses in Nigeria.

*Team leader- Do you see tax compliance improving if electricity improves?*

**Participant 23-** Yes but again, government must involve the people so that they know exactly what government is doing and they can support. There must be transparency.

*Team Leader- We appreciate your time. Thank you so much for your cooperation.*

**Name of Participant-** Participant 13

**Sex-** Female

**Business line-** hotel owner

**Age-** 40

**Number of Years in Business-** 6

**Number of Employees-** 20

**Annual income-** 5-10 million Naira

***Team Leader's introductory remark-** Good day sir. My name is Mohammed Abdullahi Umar, a PhD researcher from the Universiti Utara, Malaysia and these are my colleagues (referring to other members of the interview team). As you have read in the introductory letter we sent earlier, the interview is about understanding the problems with the tax system in Nigeria. It is an academic exercise which has no linkage with any form of government whatsoever. Please feel free to respond to our question as accurately as you can and I would like to repeat that your name or identity will not be revealed in any form after this process. I would also like to remind you that you are free to withdraw your participation even at this point.*

**Participant 13-** I am happy to meet you. I hope we would be very brief as I have some urgent issues to attend to very soon.

***Interviewer 1-** Madam, government has complained of tax noncompliance among businessmen. We would like to know your experiences about the tax system generally and reasons, in your opinion, why people do not pay tax.*

**Participant 13-** I am always surprised when I am asked questions like this. You forget that taxation and the tax system is part of the larger society. How do you expect taxation to work when every other thing is not working?

***Interviewer 1-** In essence you are saying taxation is not working because other things are not working in the country?*

**Participant 13-** Yes. Tax compliance by businessmen is a matter of law and order and the rule of law. But you can see that there is a general lawlessness in the society. How do you expect tax to be different? In fact, the problem has its root in the audit process. The auditors are supposed to be the watchdog of the tax system but are they interested in enforcing tax laws? The whole system has degenerated due to bribery and corruption but...for...me I don't blame the tax auditors. How do you expect tax auditors to be different with the level of decadence in the society?

***Interviewer 2-** Are you saying every other thing about the tax system is okay and only the auditors are the problem?*

**Participant 13** - No! No! Not exactly. The problems with the tax system are numerous and like I said before, it is a general societal problem. There is widespread dissatisfaction with governance. Those in government are the leaders of impunity in this country. The leaders themselves don't obey the laws so how do they expect followers to do the same? It is a matter of law enforcement. If you want people to pay tax, then the rule of law must be supreme. There must be a mechanism to detect noncompliant people. When they are detected, they must be transparently punished so as to act as a reference point for others. But when you have a situation where people can break the law and they can escape justice then what do you expect? There will be general lawlessness. Nobody want to pay tax when others do not pay are they are walking about freely. Again, why do I need to pay N200,000 as tax when I can negotiate with the auditors to settle for N50,000?

*Interviewer 1- You have mentioned the issue of punishment throughout your responses. I think the punishment of offenders is the responsibility of law enforcement agents and the courts...*

**Participant 13-** (interrupts) of course! Of course! That is what I am saying. It is a systemic problem. One section alone cannot solve the problem. The law enforcement agencies and the courts are even a bigger problem than the tax auditors. The police that should assist to enforce the law are more interested in their own share of what they called national cake. They don't care about the success or failure of the tax system. The court system is another big problem. Cases in courts can last for a lifetime and it is never decided. For example, if you have a case of tax evasion in court, that can last for years, then by the time it reaches two to three years, everyone has forgotten about the case (general laughter). So what I am saying in essence is that the enforcement system is not working and people will not comply unless they are afraid of prosecution. As it stands currently, nobody is afraid of detection or any sanction. It is a system that can easily be manipulated. But...again...the whole issue comes from the top. Enforcing law and order must start from the top in any society and like I said earlier, if the leadership do not show commitment to the rule of law and lead by example, then the system is bound to collapse. That is what we are currently witnessing in Nigeria.

*Team leader- Apart from the law enforcement system as you have mentioned throughout this interview, what is your assessment of the effectiveness of tax administration itself?*

**Participant 13-** Well.... they are not too bad. I have interactions with them once in a while and I think they have good professionals. But the problem is that a tree cannot make a forest. The tax administrators cannot operate outside the system that produces them.

*Team leader- Thank you for your time. We shall be in touch with you again if we need anything.*

# Appendix H

## PLS OUTPUT

