Tax Administration and Generation of Tax Revenue in Nigeria

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Abstract

The purpose of the study was to evaluate how tax administration affects tax revenue generation in Nigeria. The government tax administration mechanisms, which are used to monitor tax collection, include tax audit, tax amnesty, tax enforcement and tax penalties. The study adopted survey research design analysed with descriptive and inferential statistics. The population of the study consisted of 302 audits and risk department personnel from the State Board of Internal Revenue and the Federal Inland Revenue Service in the southwest Nigerian states of Ekiti, Ondo, Osun, Oyo, Ogun, and Lagos. A total of 172 persons were sampled using the Taro Yamane sampling method to obtain the sample size. The researcher created a closed-ended questionnaire to obtain primary data for the study. The data were analysed using multiple linear regression analysis to obtain the inferential statistics. According to the findings, tax penalties should be strong enough to deter would-be tax defaulters, tax administrators should continue to enforce tax laws against taxpayers. Tax audit should be intensified to unravel any act of tax evasion and tax amnesty should be seldomly granted due to its negative effect on tax revenue in Nigeria.

Keywords: Tax administration, Tax revenue, Tax audit, Tax amnesty, Tax penalties, Tax enforcement.

1. Introduction

The government's primary job is to use all available resources wisely for the benefit of its inhabitants all around the world. The numerous revenue streams demonstrate how the government raises people's living standards while also promoting the country's growth and development. The ability of any government to function is determined by the amount of revenue it generates. The purpose of revenue generation is to improve citizen welfare by providing development activities with a focus on the country's economic growth and development. As a result, the government, through the appropriate agencies, devises modalities for generating and properly managing expected annual revenues in order to meet the government's overall agenda goal. As a result, revenue generation is the most common method that governments use to meet their enormous responsibilities (Awotomilusi, 2020).

Tax revenue, according to Afubero and Okoye (2014), is the money raised by the taxing body from a specific tax or a group of taxes. Adeogun (2012) also claimed that tax money is an input
extorted by the government either directly or indirectly from individuals and companies. Taxes and money from administrative operations such as fines, fees, gifts, and grants, according to Ilyas and Siddiqi (2010), comprise public revenue. Revenue collection as a means of funding development operations has proven challenging in Nigeria, owing to many forms of opposition, including corruption, evasion, and avoidance, among others. The tax administration's incapacity to generate money sabotages the economy and is frequently cited as a cause of the country's underdevelopment (Adegbie & Fakile 2011).

Despite the benefits of revenue creation, some states in Nigeria's physical development in terms of social amenities and infrastructure remains regressive. People also naturally seek to lower their tax responsibilities by purposefully overstating their expenses and making fraudulent entries and fiction in their books of accounts. This, without a doubt, reveals a great deal about Nigeria's tax administration system, both in terms of its architecture and the attitudes of some taxpayers regarding taxation (Awotomilusi, 2019).

Tax administration refers to the process of enforcing and implementing tax laws, policies, and regulations (Animasaun, 2016). Processing tax returns, determining tax responsibilities, collecting taxes and providing services to taxpayers, identifying and registering taxpayers, evaluating third-party information, and examining the completeness and accuracy of tax filings are just a few of these operations (Animasaun, 2016). In order for tax administration to achieve its goals, some mechanism must be in place to encourage taxpayers to pay their taxes on time. Tax administration, according to Ogbonna and Appah (2016), is the apparatus put in place by a country's government to determine, monitor, and enforce tax collection. Tax audits, tax amnesty, tax penalties, and tax enforcement are just a few of the tools available.

Tax audit is an examination of a taxpayer's business records and financial affairs to ensure that the amount of tax reported is paid in accordance with tax laws and regulations; tax amnesty is a program in which non-compliant taxpayers are given a window of opportunity to pay an outstanding tax debt in exchange for forgiveness of a liability relating to a previous period without fear of penalty or prosecution; tax enforcement is the use of a variety of strategies to ensure that tax laws and regulations are followed; (Adesina & Uyioghosa, 2016; Bassey & Oluwafemi, 2017; Dada & Taiwo, 2020). According to a study conducted by Folayan and Adeniyi (2018), tax evasion has a negative impact on government revenue collection in Oyo State, resulting in revenue loss. In light of this, this research looked into mechanisms that could aid in the increase of revenue generation in Nigeria's southwest.

### 2. Empirical Review

In Ekiti State, Nigeria, Olaoye and Ekundayo (2018) investigated the effects of tax audit on tax compliance. The estimation approach used was Multinomial Logistic Regression analysis. The results showed that the multinomial logistic regression model fitting information was significant, implying that the tax audit can have an impact on tax compliance. Moreover, multinomial regression likelihood ratio tests revealed that tax accuracy and current returns had no significant impact on tax compliance, that tax law has an impact on tax compliance, and that tax process had no impact on tax compliance during the study period. According to the findings,
tax audits have yet to have a significant impact on tax compliance. Both of the studies are about Nigerian taxation. Both, however, focused on different aspects of Nigerian taxation.

The moderating effect of government regulation on tax audit and government tax revenue production is established empirically by Nwaiwu and Okoro (2018). The data was examined with the help of SPSS version 22 and descriptive analysis, Pearson product moment of coefficient of correlation, ordinary least square regression analysis, and partial correlation. Government regulation has a strong moderating effect on tax audit and government tax revenue production in Nigeria, according to the findings.

Richard (2018) also looked on the impact of tax audits and penalties on the tax compliance paradigm of Nigerian businesses. Ordinary Least Square (OLS) regression was used to estimate the model strength using Econometric Views (E Views) software to evaluate the strength of the measures used. Tax audits and penalties have a favorable and significant link with tax compliance, according to the findings. Although Richard's study is an extension of Emmanuel's, the conclusions of both investigations are interconnected.

Theobald (2018) looked at how tax administration affects government revenue in Tanzania, specifically in the Dar es Salaam region. The data was analyzed using descriptive statistical methods in this study. Good tax design, effective tax policy and regulations, tax administration structure, tax collection methods, proper use of computerized system for maintaining taxpayer register, and outsourcing revenue collections to private tax collectors were among the findings of this study. The key aspects that increase effective tax administration in Tanzania include internal and external capacity building, intensive coordination with other institutions, and proper keeping of taxpayer records.

3. Methodology

A survey research design was used for this investigation. The survey included all 302 audit and compliance department employees from Ekiti, Osun, Ondo, Ogun, Lagos, and Oyo States' State Board of Internal Revenue Service (SBIR) and Federal Inland Revenue Services (FIRS). The sample size chosen was 172 respondents, according to Taro Yamane's method from 1967. To gather relevant data for this study, the researchers created a closed-ended questionnaire called Tax Administration and Tax Yield (TATY). Face and content validity were employed as validation approaches. Cronbach Alpha was used to determine the instrument's reliability. A pilot study was done at the Kwara State Board of Internal Revenue Service, where procurement officers were given 15 questionnaires. Cronbach Alpha was used to statistically analyze the data collected. The instrument has a Cronbach Alpha coefficient of 0.772 and 0.881, respectively, indicating that it is reliable. The data was examined using regression analysis, and the hypothesis was tested at a significance level of 0.05.

Post Estimation Test

As indicated in the preceding section, the variables were measured using standardized instrument with demonstrated reliability and validity. The normality test, linearity test, and
heteroscedasticity test were used to see if the respondents’ replies to both independent and dependent variables met the requirements of linear regression.

Model Specification

The model used by Theobald (2018) to examine the impacts of tax administration on government revenue in Tanzania is adapted. The model is given thus:

\[ \text{GOR} = f(\text{TAD}) \]  

Where:

- GOR is Generation of Revenue
- TAD is Tax Administration

However, some modifications are made with the intention of achieving the stated objectives of the study:

1. tax revenue is used to replaced government revenue,
2. tax administration was captured with tax audit, tax amnesty, tax enforcement and tax penalty.

Therefore, the model used for this study is specified thus:

\[ \text{TAR} = f(\text{TAU TAM TEN TPE}) \]  

Where:

- GOR is Generation of Revenue
- TAU is Tax Audit
- TAM is Tax Amnesty
- TEN is Tax Enforcement
- TPE is Tax Penalty

The regression equation is given below:

\[ \text{TAR} = \alpha_0 + \alpha_1 \text{TAU} + \alpha_2 \text{TAM} + \alpha_3 \text{TEN} + \alpha_4 \text{TPE} + \text{U} \]  

\[ \alpha_0 = \text{Intercept} \]
\[ \alpha_1 - \alpha_4 = \text{Coefficient of independent variables} \]
\[ \text{U} = \text{Error term.} \]

3.11 A- priori Expectations

It is expected that all the predictors will have a positive relationship tax yield. The above expectations are presented in mathematical forms below:

\[ \frac{dTAR}{dTAU} > 0 \]: this implies that tax audit is expected to have a positive relationship with generation of revenue;
\[ \frac{dTAR}{dTAM} > 0 \]: this implies that tax amnesty is expected to have a positive relationship with generation of revenue;
\[ \frac{dTAR}{dTEN} > 0 \]: this implies that tax enforcement is expected to have a positive relationship with generation of revenue;
\[ \frac{dTAR}{dTPE} > 0 \]: this implies that tax penalty is expected to have a positive relationship with generation of revenue.

4. Results of Findings
Assumptions of Linear Regression

The variables were measured by using standardized instruments of proven reliability and validity as described in the previous chapter. To observe whether the responses of the respondents with respect to both independent and dependent variables fulfil the requirement of linear regression, normality test was carried out.

**Table 1: Normality Test Results**

<table>
<thead>
<tr>
<th>Shapiro-Wilk Statistic</th>
<th>Df</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.985</td>
<td>165</td>
<td>0.083</td>
</tr>
</tbody>
</table>

To check the normality of data distribution, the Shapiro-Wilk statistics and probability values of the error term estimated models, showed 0.985 and 0.083 respectively. Therefore, the data is normally distributed since there is no sufficient evidence to reject the null hypothesis that the error term of the estimated model is normally distributed, as P-value is greater than 0.05.

**Table 2: Breusch-Pagan Godfrey Heteroscedasticity Test Results**

<table>
<thead>
<tr>
<th>F-statistics</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.452</td>
<td>0.944</td>
</tr>
</tbody>
</table>

The F-statistics of 0.452 and P-value of 0.944 shows that there is no sufficient evidence to reject the assumption of homoscedasticity. Therefore, the dataset has no homoscedasticity issue.

**Hypothesis 1:** Tax audit, tax amnesty, tax enforcement and tax penalty will not have significant effect on tax yield in Southwest, Nigeria

**Table 3: Multiple regression analysis showing effect of Tax Audit, Tax Amnesty, Tax enforcement and tax penalty on generation of revenue.**

<table>
<thead>
<tr>
<th>Model</th>
<th>Raw Beta Weight</th>
<th>Std Error</th>
<th>Standardized Beta</th>
<th>T</th>
<th>Sig</th>
<th>Multi R</th>
<th>Multi R²</th>
<th>Adj R²</th>
<th>F</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>6.941</td>
<td>1.91</td>
<td></td>
<td>3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAX_AUDIT</td>
<td>0.915</td>
<td>0.07</td>
<td>0.609</td>
<td>11.8</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
<td>227.6</td>
</tr>
<tr>
<td>TAX_AMNESTY</td>
<td>0.128</td>
<td>0.02</td>
<td>-0.158</td>
<td>5.06</td>
<td>8</td>
<td>0.00</td>
<td>0.922</td>
<td>0.851</td>
<td>0.8</td>
</tr>
<tr>
<td>TAX_ENFORCEMENT</td>
<td>0.258</td>
<td>0.03</td>
<td>0.339</td>
<td>6.67</td>
<td>0</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TAX_PENALTY</td>
<td>0.386</td>
<td>0.16</td>
<td>0.075</td>
<td>2.35</td>
<td>8</td>
<td>0.00</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
P < 0.05 (Significant)

Source: Author’s Computation 2021

The result in table 3 presents the effect of independent variables (tax audit, tax amnesty, tax enforcement and tax penalty) on the dependent variable (generation of revenue). The result revealed that tax audit, tax amnesty, tax enforcement and tax penalty have significant effect on tax yield (F=227.682 P<0.05). The null hypothesis is rejected. This implies that tax audit, tax amnesty, tax enforcement and tax penalty significantly contribute to generation of revenue.

The model summary shows that there is significant positive composite correlation between the predictors variables (tax audit, tax amnesty, tax enforcement and tax penalty) and generation of revenue (R = 0.922, P < 0.05). This indicates that the independent variables contributed and predicted tax yield in southwest, Nigeria. The coefficient of determination (R² = 0.851) implies that tax audit, tax amnesty, tax enforcement and tax penalty jointly accounted for (85.1%) of the total variance in generation of revenue. This showed that the predictors (tax audit, tax amnesty, tax enforcement and tax penalty) had (85.1%) contribution on tax yield. The remaining (14.9%) variance in generation of revenue can be attributed to other factor outside the regression model. The Adjust R² was 0.847. This indicates that possible inclusion or removal of variable(s) will lead to corresponding positive increase or decrease in the predictive strength of the independent variables to (84.7%).

The regression result revealed the contribution of each of the predictor variables to the generation of revenue. The table indicates that the best predictor variable of the total variance in generation of revenue is tax audit (β = 0.609). This was followed by tax enforcement (β = 0.339), followed by tax penalty (β = 0.075). However, the beta coefficient of tax amnesty (β = -0.158) was negative. This implies that given tax amnesty to taxpayers has negative effect on tax yield. This indicates that tax audit, tax amnesty, tax enforcement and tax penalty had effect on generation of revenue in southwest, Nigeria.

The table further confirm that tax audit (t = 11.802, P< 0.05), tax enforcement (t = 6.670, P< 0.05), tax penalty (t = 2.358, P< 0.05) had significant positive effect on generation of revenue in southwest, Nigeria at 0.05 level of significance in each case. However, tax amnesty (t = -5.068, P< 0.05) has significant negative effect on generation of revenue in southwest, Nigeria at 0.05 level of significance.

5. Discussion of Findings

In Nigeria, an attempt has been made to assess tax administration and revenue creation. Regular tax audits were discovered to be one of the ways in which revenue could be generated, according to the study. This will aid in the prevention of tax avoidance and evasion, both of which have the potential to reduce Nigeria’s revenue generation. This was confirmed by the regression, which revealed a positive and significant influence of tax administration on revenue creation in Southwest Nigeria. This could be due to a comprehensive examination into whether taxpayers have properly reported their tax responsibilities and met other criteria, which pulls more taxpayers into the tax net and so increases total tax collection. This result supports Olaoye and Ekundayo (2018) conclusion that tax audits can influence tax compliance.
Also, the regression results revealed that tax amnesty has a negative impact on revenue creation. By implication, this indicates that as soon as a tax payer is granted amnesty, revenue will begin to decline. The study contradicts Theobald (2018) conclusions that tax amnesty promotes taxpayers to cooperate with the tax administrators.

Additionally, the study revealed that tax enforcement is a powerful indicator that can help Nigeria generate income. This means that the more income is earned when a tax enforcement program is in existence. As a result, tax enforcement in Nigeria has made a considerable contribution to revenue generation. This research backs up Nwaiwu and Okoro (2018) results that government regulation has a strong moderating effect on tax audit and government tax revenue generation in Nigeria.

Finally, the study discovered that in Nigeria, tax penalties are a strong predictor of revenue generation. This means that imposing greater penalties will lower the number of tax payers who seek to engage in tax avoidance, resulting in increased revenue generation. As a result, the tax penalty boosts income generation in southwest Nigeria. The final result matches the a priori expectation. This result backs up Richard (2018) conclusion that tax audits and penalties have a positive and significant link with tax compliance.

6. Conclusion and Recommendations

In southwest Nigeria, the study looked at how tax administration may be used to create money. The study was prompted by underdevelopment in Nigeria's southwestern states, which may be linked to tax evasion. In southwest Nigeria, the study found a significant positive effect of predictor factors (tax audit, tax amnesty, tax enforcement, and tax penalty) on revenue generation. As a result, it was suggested that the tax administration in south west Nigeria use tax audit, tax enforcement, and tax penalties as revenue-generating mechanisms. Furthermore, tax amnesty should not be granted to taxpayers because it reduces the amount of income that may be earned.

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