

# Tax Compliance Intentions and the Behaviour of the Individual Taxpayer: Evidence from Nigeria

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## Abstract

Tax compliance is a multi-faceted measure and theoretically, it examines payment compliance, filing compliance, and reporting compliance. Taxpayers' are influenced by the disposition towards public institutions, fairness and social norms in the society. This study investigates the tax compliance intentions and the behaviour of the individual taxpayer in Nigeria. Primary and secondary sources were used for the empirical analysis. The secondary sources were from scholarly books and journals while the primary source involved a well structured questionnaire of four sections of forty seven items with an average reliability of 0.81 that was administered to seven hundred and eighty five respondents. The data collected from the questionnaire were analyzed using relevant diagnostics tests and multiple regression models. The result revealed that a significant relationship between tax compliance intentions and equity attitudes; tax compliance intentions and social and moral norm variables; and tax compliance intentions and risk and penalties. The paper concludes that the behaviour of an average taxpayer should be examined on the basis of financial condition, risk preference, nature of the society in terms of the level of governance. Therefore, the paper made the following useful recommendations that the relevant tax authorities should put in place a permanent department devoted specifically to voluntary tax compliance issues; the relevant tax authorities should apply tax morale model of compliance that incorporates internal taxpayer motivations and emphasizes a more individual carrot and stick approach; the relevant tax authority in Nigeria should improve on the taxpayers' education and media programmes to encourage voluntary compliance among others.

**Keywords:** Tax compliance, Behaviour, equity, norms, risk, Nigeria

## INTRODUCTION

Tax is one of the major sources of revenue in both developed and developing countries. According to Appah (2010), Appah (2011) and Chigbu and Appah (2011), taxes remain an important component of government revenue for the provision of social services to citizens in any society. According to Azubike (2009), tax is a major player in every society of the world. The tax system is an opportunity for government to collect additional revenue needed in discharging its pressing obligations. A tax system offers itself as one of the most effective means of mobilizing a nation's internal resources and it lends itself to creating an environment conducive to the promotion of economic growth. Nzotta (2007) argues that taxes constitute key sources of revenue to the federation account shared by the federal, state and local governments. Hammar, Jager and Norddlow (2005), Alabede, Zainol-Affrin and Idris (2011) reported that except people pay the taxes they are obliged by law to pay, government may not function effectively and efficiently. Therefore, it is a known fact that people like evading the payment of taxes, making it difficult for the relevant tax authorities to assess and collect the right amount of tax anywhere and time (Alm, Martinnez-Vazquez and Schneide, 2003; Nzotta, 2007; Appah and Oyadongha, 2011). The non-compliance with tax laws means that a taxpayer may be committing an act of tax evasion and the resulting tax revenue loss from such an act may affect the effective functioning of government (Franzoni, 2000; Kiabel and Nwokah, 2009; Fathi and Esmaelian, 2012). Wonglimpigarat (2010) stated that the possibility of non-compliance with tax laws and loss of tax revenue are issues of serious interest to tax policy makers and relevant tax authorities.

The non-compliance to tax is a fundamental phenomenon affecting all societies both developed and developing economies. According to Torgler (2003), McGee (2006), Torgler (2007), Chau and Leung (2009), the issue of non-compliance to tax is a world-wide challenge with tax administration in both developed and developing countries. The argument of Terkper (2003) that the amount of revenue loss from non-compliance to tax laws is proportionally more in developing than the developed economies as a result of the large informal sector. The United States of America 2.7% of GDP, Switzerland 6% of GDP, Italy 27% of GDP Bame-Aldred (2011). Trekkpar (2003) stressed that the average revenue losses in developing countries ranges between 25%-35% of GDP in 2002. This is why the Group Bank Group (2011) in a study of tax perception and compliance: a tool for tax reform noted that many developing and transition countries appear to be trapped in vicious circle of low investment, low growth, low tax revenues and as a result, poor public services. The paper further noted that governments try to raise tax revenues to improve public services, but tax payers (business taxpayers in particular)

generally evade taxes by staying informal or by hiding income from tax authorities. The notion that people must be forced to pay their taxes by threat of punishment is based on established economic theory. Taxpayer behavior is anchored on the expected utility maximization calculus. It represents special application of economic theory of crime (Frey, 2003). Cummings et al (2009) stressed that tax compliance is a complex decision that is caused by several factors. The threat of detection and punishment is clearly a factor, and evidence from a variety of sources supports the argument that increased enforcement lead to increased compliance. It is on the basis of these arguments that this study investigates tax compliance intentions and the behaviour of taxpayers' in South-South, Nigeria.

The objective of this present study is to examine the tax compliance intentions and behaviour of individual taxpayers in South-South, Nigeria. To achieve the objective of the study, the paper consists of five interconnected sections. The next section examines the review of related literatures on tax compliance. The third section presents the materials and methods used in the study and the fourth section examines the results and discussions while the final section presents the conclusion, recommendations and further research.

## LITERATURE REVIEW

This section reviews the literature that is relevant to the problem under investigation. The review also covers empirical studies in the area focusing attention on the research problems that were investigated by the studies, the hypotheses that were formulated and tested and their findings and limitations. The rationale was to critically use the evidence from the studies to establish the gaps in the literature and also to serve as a basis for validation of the findings of the paper.

### Theoretical considerations:

#### Classical Theory of Tax Compliance

This theory of tax compliance is also called the A-S models based on the deterrence theory. The theory states that the taxpayer is assumed to maximize the expected utilities of the tax evasion gamble, balancing the benefits of successful tax cheating against the risky prospect of being caught and punished by tax authorities (Sandmo, 2005). Alabede et al (2011) stated that the deterrence theory depends largely on tax audit and penalty. They further stressed that this theory of tax compliance makes taxpayers to pay tax as a result of fear and sanctions. Trivedi and Shehata (2005) says that the deterrent theories suggest that taxpayers "play the audit lottery", that is they make calculations of the economic consequences of different compliant alternative. Verboon and Dijke (2007) stated that the essence of the deterrence model of tax compliance is to chiefly examine the interaction between probability of detection and sanction severity that should affect non-compliance. Brook (2001) says that classical theory is only based on economic analysis but social and psychological variables are equally important in understanding the issue of noncompliance to tax. Some of the important studies about the effects of deterrence on compliance include Hasseldine (2000), Torgler (2002) and Kirchler (2007). Elffers (2000) and Braithwaith (2003) argued that if deterrence (that is the probability of detection and sanction severity) would be the most significant variable in explaining compliance, rational individuals in most societies of the world would be non-compliant because the levels of deterrence are low.

#### Theory of Planned Behaviour

The theory of planned behaviour states that the behaviour of individuals within the society are under the influence of definite factors, originate from certain reasons and emerge in a planned way (Erten, 2002). Benk et al (2011) stated that the ability to perform a particular behaviour depends on the fact that the individual has a purpose towards that behaviour. Therefore, the factors that determine the purpose towards that behaviour are attitude towards behaviour, subjective norms and perceived behavioural control (Armitage and Conner, 2001). Ajzen (2002) says that these factors are under the influence of behavioural beliefs, normative beliefs and control beliefs. Wenzel (2004a), Braithwaith (2003) highlighted that sociological and psychological factors have proved to be important in understanding the high levels of tax compliance. In such analyses, concepts such as trust in authorities (Murphy, 2004), perceived fairness of the system (Wenzel, 2004), moral considerations and norms (Frey, 2003; Wenzel, 2004b) are used to promote better understanding of tax compliance.

#### Nature and Scope of Tax Compliance

Verboon and Dijke (2007) stated that tax compliance is the willingness of individuals to comply with relevant tax authorities by paying their taxes. Brown and Mazur (2005) noted tax compliance as a multi-faceted measure and theoretically, it can be defined by considering three distinct types of compliance such as payment compliance, filing compliance, and reporting compliance. The Organisation for Economic Cooperation and Development (2001) divided compliance into administrative compliance and technical compliance. Administrative compliance refers to complying with administrative rules of lodging and paying. This compliance can also be called reporting compliance or regulatory compliance. The technical compliance refers to complying with technical requirements of tax laws.

#### Prior Empirical Studies on Tax Compliance

There are plethora of studies on tax compliance and the behaviour of individual taxpayer in both developed and

developing countries. These studies examine the behaviour of various categories of taxpayers and the level of compliance with existing tax laws within that particular jurisdiction. The table below gives a summary of prior studies:

**Tax Compliance and Equity:** The equity perception of the individual taxpayer affects tax compliance. The studies of Torgler (2004), Cummings et al (2009) stated that the relationship between tax compliance and tax equity is negative based on the fact that the tax system is perceived to be unfair to the taxpayer. The equity theory is one of the first models of distributive justice. A number of studies have reported positive correlation between perception of fiscal inequity and tax evasion. Social psychology research suggests that a lack of equity in an exchange relationship creates a sense of distress, especially for victims. The equity theory is important because it hypothesizes that satisfaction and behaviour are linked not only to the objective outcome levels, but also to outcomes received in relation to those which were judged to be fair (Torgler, 2003; Cummings et al, 2009).

**Tax Compliance and Norms and Morals:** Tax morale is defined as the intrinsic motivation to comply (Verbon and Dijke, 2007). It is the belief that people ought not to cheat on their taxes. It is a good surrogate for tax compliance. Most studies take personal norm or tax morale as an explanatory variable for predicting the level of compliance. Research by Torgler (2003); Torgler and Murphy (2005) highlighted several factors that may be important for increasing tax morale. The important factors that positively influence tax morale are trust in the authorities and religiosity. Sanctions may also increase personal norm, provided that the authority exercising the sanction is trusted (Mulder, Verboon, de Cremer, 2007). Cummings et al (2004), Alm and Martinquez-Vasquez (2007) stresses that tax morale and compliance levels appear to be influenced by the fairness of tax administration, perceived fiscal exchanges, and overall attitudes toward governments. Equity can be designed into vertical equity and horizontal equity. Horizontal equity treatments refer to situations where taxpayers have the same income, but other variables changes. Exchange equity refers to the perceived fairness between what taxpayers receive from the government in exchange of their paid taxes.

**Tax Compliance and Detection risk and Penalty Magnitude:** Efebera et al (2004) stated that studies on tax compliance shows that observed legal sanctions to the attitude of adopted by the laws against the incompatible behaviours of the individuals about taxes were evaluated with detention risk and penalty magnitude. Franzoni (2000), Scholz (2007) noted that tax evasion decreases and tax compliance increases as a result of parallel increase in detention risk increase.

Table 1: Summary of Prior empirical studies

Author	Country	Period	Method	Main findings
Alabede, Affrin & Idris (2011)	Nigeria	NA	Questionnaire, factors analysis, descriptive statistics and multiple regression.	Perceived tax service quality is positively significantly related with tax compliance behavior.
Lubian and Zarri (2011)	Italy	2004	Descriptive statistics, sensitivity analysis, factor analysis, and regression analysis.	Fiscal honesty generates a higher hedonic payoff than cheating.
Bame-Aldred (2011)	USA		Data sourced from World Business Environment Survey for 3000 companies and 31 countries using hierarchical generalized linear modeling.	The findings suggest a number of theoretical and practical cross-cultural research implications.
Benk, Cakmak & Budak (2011)	Turkey	NA	Questionnaire, factor analysis, descriptive statistics, and multiple regression	Normative expectations of tax compliance and penalty magnitude indicate are most significant effect on tax compliance.
Marti et al (2010)	Kenya	January-December 2005	158 respondents using questionnaires, descriptive statistics and correlation.	The result suggests that there is a very strong relationship between the taxpayers' attitudes and tax compliance.
Cummings, Martinez-Vaquez, McKee & Torgler (2009)	Botswana and South Africa		Questionnaire, parametric and non-parametric tools	The field experiments conducted in countries with substantially different political histories and records of government quality demonstrate that observed differences of tax compliance levels persist over alternative levels of enforcement.
Verboon and Dijke (2007)	Netherlands		Questionnaire, descriptive statistics and hierarchical regression analysis	The study found a significant positive effect of outcome favourability on people's compliance with the tax authorities decisions when distributive justice was high.
Hyun (2005)	Korea and Japan		World value survey Descriptive statistics, regression	The found that Japan has higher rate of tax culture than that of Korea
Torgler (2003)	Switzerland	NA	Event history model, sensitivity and regression analysis	Vertical equity factors significantly influence the probability to undertake full tax evasion. The effect of exchange inequality is not so clear.
Frey & Feld (2003)	Switzerland	2002	Questionnaire, descriptive statistics and regression analysis	Taxpayer's tax morale is raised when the tax officials treat them with respect.

**Source:** Adopted from various scholars

On the basis of the reviewed literature, the authors proposed the following research questions and hypotheses:

**Research Questions:**

1. To what extent do tax compliance intentions and perceptions equity in South-South, Nigeria?
2. To what extent do tax compliance intentions affect social norms and moral norms of the taxpayer in South-South, Nigeria?
3. To what extent do tax compliance intentions and perceived detection risk and perceived penalty magnitude in South-South, Nigeria?

**Hypotheses:**

HO1: There is no positive significant association between tax compliance intentions and perceptions of equity in Nigeria.

HO2: There is no positive significant association between tax compliance intentions and social norms and morale norms in Nigeria.

HO3: There is no positive significant association between tax compliance intentions and perceived detection risk and penalty magnitude in Nigeria.

**MATERIALS AND METHODS**

**Research design, population and Sample:** This research applied the quasi-experimental research design. Therefore, the quasi – experimental research design is chosen and applied because of the fact that the various elements of the design are not under the control of the researcher. The survey research design is thus applied because it relies on sample elements from the population of interest (Baridam, 2008; Osuala, 2005). The target population of this study includes all taxpayer in Nigeria. However, the accessible population consists of taxpayers in three state capitals (Yenagoa, Port Harcourt and Asaba) in the South-South of Nigeria from March 2011 to March 2012 from the Relevant States Boards of internal revenue directorate. Simple random sampling technique was used to arrive at the sample of the study. The sample size was made of one thousand, eight hundred (1,800) for the study was derived from the application of Yaro Yamen model.

**Instrumentation**

The instrument used for data collection was a 47-item instrument adapted from prior studies but modified by the authors to investigate tax compliance intentions and the behaviour of the individual tax payer in Nigeria. The tax compliance aspects of the instrument was adapted in part from Franzoni, 2000 Chatopadhyay and DasGupta, 2002; Efebera et al. (2004), Benk, Calmak and Budak (2011), Alabede, Affrin and Idris (2011). The four subscales measure of tax compliance as used in this study include income reporting, tax claims reporting, return filing, tax payment. Equity in this research was adapted from the studies of Togler, (2006); McGee and Bose (2007), Cummings et al. (2009); Benk, Calmak and Budak (2011). Social and moral norms aspect of the research instruments was adapted from Eferebera et al., (2004); Kirchler et al., (2008); Scholz, 2007; Cummings et al., (2009); Benk, Calmak and Budak (2011), Alabede, Affrin and Idris (2011). Risk in the study was adapted from the study of Scholz, (2007); Nicholson et al (2005); Benk, Calmak and Budak (2011), Alabede, Affrin and Idris (2011). The questionnaire was divided into five sections. Section one examines the demography of respondents. Section two examines the tax compliance behaviour. Section three examines the equity perception of taxpayers. Section four examines the social and moral norms of taxpayers and the section section presents the risk perception and penalty magnitude of taxpayers. A five point scale of very high extent (5), high extent (4), moderate extent (3), low extent (2) and very low extent (1) were used to measure the response.

**Reliability and Validity**

The reliability has two aspects, that is, stability (ability to produce consistent results over time despite uncontrollable testing conditions or state of the respondents) and consistency (homogeneity of the items in the instrument tapping the construct) Krishnaswamy, Sivakumar, and Mathirajan (2004; Kothari, 2004; Ndiyo, 2005; Baridam, 2008). According to Osuala (2005), a reliable measure is one that is consistent. And because it gives a stable measure of a variable, a reliable measure is precise. The test-retest was done for estimating external reliability by using twenty five (25) respondents within a period of two weeks to ascertain the level of consistency of the instruemnt. The test-retest coefficients of the instruments measuring tax compliance behaviour, equity, social and moral norms and risk and penalty magnitude were 0.86, 0.91, 0.68 and 0.85 respectively suggesting that each instrument possesses a high degree of test-retest reliability. This suggested that there was a strong consistency of responses between the various taxpayers. The Cronbach's Alpha is used to test the degree of internal consistency of an instrument. The Cronbach' alpha for the variables were 0.85, 0.79, 0.76, and 0.82 respectively for the four variables.

**Data collection procedure**

A study of this type presents a number of data collection challenges. It requires as broad a sample as possible and at the same time requires that each data point provide comprehensive information on tax compliance intentions and the behaviour of the individual tax payer. Thus, the sample was drawn from the number of recognized taxpayers in the Revenue Board Directorate. A total of one thousand eight hundred (1,800) questionnaires were

sent to the respondents. A total of seven hundred and eighty five (785) questionnaires were received with a response rate of forty three percent (43%).

## Data Analysis

The study used quantitative techniques for the analysis of data. Econometric view (e-view) was employed for data analysis. Descriptive statistics and ordinary least square were used. The ordinary least square was guided by the following linear model:

$$Y = f(X_1, X_2, X_3) \dots \quad 1$$

Where: TCI = Tax compliance intention, EQU = Equity, NOM = Norms, RPM = Risk and penalty magnitude,  $\beta_1$ ,  $\beta_2$ ,  $\beta_3$  are the coefficients of the regression, while  $\epsilon$  is the error term capturing other explanatory variables not explicitly included in the model. However, the model was tested using the diagnostic tests of heteroskedasitcity, serial correlation, normality and misspecification (Gujarati and Porter, 2009; Asterious and Hall, 2007). Augmented Dickey-Fuller was also used in the study for stationarity of data.

## RESULTS AND DISCUSSION

This section presents the results and discussion from the econometric analysis of the data collected from the questionnaire administered to the respondents.

**Table 2: Demographic Analysis of Taxpayers**

Category	Frequency	Percentage
	N = 785	100%
Gender: Male	534	68
Female	251	32
Age: 20-30	102	13
31-40	337	43
41-50	208	26
51-60	125	16
Above 60	13	2
Education:		
Primary	37	5
Secondary	108	14
Polytechnic	237	30
College of education	116	15
University	287	36
Sources of income:		
Government	396	50.4
Private Business	389	49.6

Source: Field survey 2012

**Table 3: Augmented Dickey-Fuller Unit Root Test**

Variable	ADF	1%	5%	Test for unit root
Tax Compliance Intentions (TCI)	-4.314066	-3.4890	-2.8870	Level
Equity (EQU)	-3.892837	-3.4890	-2.8870	Level
Norm (NOM)	-5.853549	-3.4890	-2.8870	Level
Risk and penalty magnitude (RPM)	-4.763404	-3.4890	-2.8870	Level

Source: e-view output

The table above shows that all the variables in the model are stationary at level data (that is the ADF values of -4.314066, -3.892837, -5.853549, -4.763404, -3.796998 is greater than the critical value of 1% (-3.4890) and 5% (-2.8870) respectively). This reveals that the mean, variance and covariance are constant at level data 1(0). This result implies that ordinary least square can be used for the purposes of analysis (Greene, 2002; Wooldridge, 2006; Asterious and Hall, 2007; Brooks 2008; Gujarati and Porter, 2009; Kozhan, 2010).

Table 4: Multiple regression

Dependent Variable: TCI

Method: Least Squares

Date: 07/07/12 Time: 19:31

Sample: 1 785

Included observations: 785

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.209254	0.686341	1.761886	0.0802
EQU	0.135869	0.055147	2.463761	0.0302
NOM	0.129077	0.048848	2.642421	0.0472
RPM	0.163191	0.070387	2.318482	0.0404
R-squared	0.235201	Mean dependent var		3.000000
Adjusted R-squared	0.181342	S.D. dependent var		1.038724
S.E. of regression	0.939834	Akaike info criterion		2.782954
Sum squared resid	125.4270	Schwarz criterion		3.000829
Log likelihood	-201.8960	F-statistic		4.366973
Durbin-Watson stat	2.186379	Prob(F-statistic)		0.000024

Source: eview program

Table five above shows the multiple regression analysis for tax compliance intentions and behaviour of taxpayers in Nigeria. The result suggests that equity, norms and risk and magnitude of preference with p-values of 0.0302, 0.0472 and 0.0404 is less than the critical value of 0.05. Hence, we deduce that there is a significant relationship between tax compliance intentions and equity, norms and risk preference of the behaviour of taxpayers in Nigeria. The  $R^2$  (coefficient of determination) of 0.235201 and adjusted  $R^2$  of 0.181342 shows that the variables combined determines about 24% and 18% of tax compliance intentions. The F-statistics and its probability shows that the regression equation is well formulated explaining that the relationship between the variables combined of tax compliance intentions are statistically significant (F-stat = 4.366973; F-pro. = 0.000024).

Table 5: Breusch-Godfrey Serial Correlation LM Test:

F-statistic	0.604424	Probability	0.576575
Obs*R-squared	1.676896	Probability	0.432381

Source: e-view output

The table above shows the Breusch-Godfrey Serial Correlation LM test. The result of the test reveals that the probability values of 0.576575 and 0.432381 is greater than the critical value of 0.05; this implies that the null hypothesis of no autocorrelation will be accepted because the p-value of about 57% is greater than the c-value of 5%.

Table 6: White Heteroskedasticity Test:

F-statistic	1.460169	Probability	0.295121
Obs*R-squared	2.943789	Probability	0.229490

Source: e-view output

The table above shows the White Heteroskedasticity test. The result reveals that the p-values of 0.295121 and 0.229490 are greater than the c-value of 0.05; this implies that we accept the null hypothesis of no evidence of heteroskedasticity, since the p-values are considerably in excess of the 0.05.

Table 7: Ramsey RESET Test:

F-statistic	1.105986	Probability	0.390042
Log likelihood ratio	3.138335	Probability	0.208218

Source: e-view output

The table above shows the Ramsey RESET test. The result reveals that the p-values of 0.390042 and 0.208218 are greater than the critical value of 0.05; this implies that there is apparent linearity in the regression equation and so it will be concluded that the model is appropriate.

## CONCLUSION AND RECOMMENDATIONS

The study examined the tax compliance intentions and behaviour of taxpayers in Nigeria. Review of literature provides strong evidence of tax compliance intentions and the behaviour. Our research empirically substantiated the results of prior studies of the relationship between tax compliance intentions and equity attitudes; tax compliance intentions and social and moral norm variables; and tax compliance intentions and risk and penalties (Efebera, et al. 2004; McGee and Bose, 2007; Kirchler et al., 2008; Cummings et al., 2009; Benk, Cakmak and

Budak, 2011). The study highlights the various variables in the tax compliance intentions and the theory of planned behaviour. The empirical analysis provided a linkage between tax compliance intentions and the behaviour of an average taxpayer in Nigeria. On the basis of the empirical result, the paper concludes that the behaviour of an average taxpayer should be examined on the basis of financial condition, risk preference, nature of the society in terms of the level of governance. Therefore, the paper made the following submission on the need to improve the tax structure of the country: the relevant tax authorities should put in place a permanent department devoted specifically to voluntary tax compliance issues; the relevant tax authorities should apply tax morale model of compliance that incorporates internal taxpayer motivations and emphasizes a more individual carrot and stick approach; the relevant tax authority in Nigeria should improve on the taxpayers' education and media programmes to encourage voluntary compliance; the friendly treatment of taxpayers by the relevant tax officers will increase tax compliance.

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