Impact of Tax Morale on Economic Development in Nigeria

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Taxation is one of the most volatile subjects in governance both in the developing and developed nations. Hence, this study examines the impact of tax morale on economic development in Nigeria. Data were collected from Lagos State Internal Revenue Service, Primary data was used in this research work, and Cross-sectional survey was used with questionnaire as the major tool of data collection. Simple Percentages, Regression Analysis were used to analyze the data. The result shows that there are a number of significant correlations between economic development and tax morale. The study recommended that there is a need to provide strong taxpayer’s services particularly during the tax filing stage, tax returns be scrutinized under the supervision, or be jointly examined with a senior tax official so that the discretionary powers being exercised by tax officials are not abused. The government and tax administrators should aim at strategies that would enhance confidence in their credibility and their capacity would be rewarded with higher tax morale. The analyzing tool was Manual Scientific Formula Calculation.

Keywords: tax morale, tax payers, effective governance, economic development

INTRODUCTION

Taxation is one of the most intellectual and educational concept of governance in developing and developed countries. According to Nightingale (2001), a tax is compulsory contribution, imposed by government, and while taxpayers may receive nothing identifiable in return for their
contribution, they nevertheless have the benefit of living in a relatively educated, healthy and
safe society. However, taxation is a way of raising revenue for the day to day running of
government activities; government activities involve generating funds and using the funds to
provide security, social amenities, and infrastructural facilities for the inhabitant of the country.
Based on this, it is worthy of note that the objective of taxation is in tandem with the functions of
government (Akhor, 2014). Taxation is one of the most subtle (cunning) subjects in governance
both in the developing and developed nations. Rakner and Gloppen (2002) noted that for most
countries, taxation goes hand-in hand with economic growth and taxes have become the life
blood for governments to deliver essential services and to make long-term investments in public
goods.

Furthermore, Tax morale is defined as the ‘intrinsic motivation to pay taxes’. Frey, B.S (2003)
stress its relevance to economic development. Three key factors are important in understanding
tax morale: they are moral rule and norms, culture of the people and the relationship between
taxpayer and government. Economic growth is an increase in the production and consumption of
goods and services, it occurs when there is an increase in the multiplied product of population
and per capita consumption, the global economy grows as an integrated whole consisting of
agricultural, extractive, manufacturing, and services sectors that require physical inputs and
produce wastes. According to Lynn (2003), Economic development means sustained and
sustainable growth in per capita income, accompanied by diversification of production, reduction
of absolute poverty, and expanding economic opportunities for all citizens.

Moreover, poor economic development is a matter of serious concern in Nigeria. This is because
it limits the capacity of government to raise revenue for developmental purposes (Torgler, 2003).
According to Nzotta (2007), four key issues must be understood for taxation to play its functions
in the society. First, a tax is a compulsory contribution made by the citizens to the government
and this contribution is for general common use. Secondly, a tax imposes a general obligation on
the taxpayer. Thirdly, there is a presumption that the contribution to the public revenue made by
the tax payer may not be equivalent to the benefits received. Finally, a tax is not imposed on a
citizen by the government because it has rendered specific services to him or his family. Hence,
tax is an obligatory levy imposed by the government on the income, profits, property, wealth and
consumption of individuals and corporate organizations to enable government obtain the required revenue to provide basic amenities, security and well-being of the citizens as a whole.

**Objective of the study**
The main objective of the study is to determine the impact of tax morale on the taxpayer in contract with economic development in Nigeria while other specific objectives are to:

i. ascertain the effect of trust in government on economic development.
ii. examine the extent of governance on tax morale in Nigeria.

**Research Question**
This study is intended to make adequate attempt to the following research questions
1. Does tax morale on the tax payer have significant effect on economic development?
2. Will trust in government affect economic development?
3. To what extent does governance affect tax morale?

**Research Hypotheses**
From the foregoing research questions and research objectives, three propositions of hypotheses were made and are stated below:

\( H_1: \) There is no significant relationship between tax morale and economic development in Nigeria.
\( H_2: \) There is no significant relationship between trust in government and economic development in Nigeria.
\( H_3: \) There is no significant relationship between effective governance and tax morale.

**LITERATURE REVIEW**
The Nigeria tax system is basically structured as a tool for revenue generation and this is a legacy from the pre- independence government based on 1948 British tax laws (Okoye & Ezejiofor, 2014). Moreover, Indirect and Direct tax system are the features of Nigerian Tax
system, as all individuals, groups and corporate bodies that earned income, profits or gains, are affected by the laws imposed by the government towards generating revenue.

Taxes do not just contribute to the principal source of government revenue but they are in fact fundamental components of any attempts to build societies, and indeed nations. (Ibadin & Eiya, 2013). The Nigerian tax system is expected to contribute to the well-being of all the citizens, and taxes collected by Government, should positively impact on the growth and development of citizens. This can be accomplished through proper and judicious utilization of the revenues gathered by government. Other objectives of Nigeria tax system is to; To promote fiscal responsibility and accountability; To facilitate economic growth and development; To address inequalities in income distribution; To provide economic stabilization; To provide the government with stable resources for the provision of public goods and services and To pursue fairness and equity.

However, people need a minimum fiscal knowledge to practice tax avoidance otherwise they can use tax practitioners as paid assistance to devise strategies to exploit legal ambiguities. Therefore, it could be argued that practitioners reduce compliance cost by reducing legal uncertainties and time or even anxiety costs. In other word, tax practitioners provide services and information and might be “guardians against unequivocal breaches of legal code and, on the other hand, exploiters of legally ambiguous features of tax code to the advantage of taxpayers” (Beck, 1994). Hence, the Forum on Tax morale identified some of the basic theories of tax compliance” which include, among others: Intrinsic Motivation theory, Ipsative theory, and Theory of crime.

**Theoretical issues**

**Intrinsic Motivation theory:** Intrinsic motivation depends on the application of policy instruments. Frey (1997) claims that tax morale is not expected to be crowded out if the honest taxpayers perceive the stricter policy to be directed against dishonest taxpayers. Regulations which prevent free riding by others and establish fairness and equity help preserve tax morale. If intrinsic motivation is not recognized, taxpayers get the feeling that they can as well be
opportunistic. This puts into account the relevance of policy instruments in supporting or damaging the intrinsic motivation.

**Ipsative Theory:** This theory considers, human actions can be constrained by a set of possibilities which is considered to be relevant only for oneself, under certain circumstances; other alternatives are disregarded (Frey and Foppa 1986). That is why Frey (1997) calls it the “ipsative possibility set”. The theory strongly relies on psychological evidence and can be seen as an attempt to model an aspect of human- imperfection. The ipsative possibility sets are characterized by Frey (1997) as:

i. Non-marginal (alternatives are either considered fully or not at all)

ii. Asymmetric (alternatives outside the set are out of consideration) and

iii. Personal (relevant to certain person)

Moreover, Frey even speaks of a perverse effect that arises when the government threatens citizen of high tax morality with increased punishment. Citizens can take this as an indication that the government does not honor compliant behavior. If the government distrusts them, tax morale can be undermined.

**Theory of Crime:** The deterrence doctrine can be traced back to the classical works of Jeremy Bentham and Cesare (Murphy 2008). Their classical utilization theory of crime is that people are rational actors who behave in a manner that will maximize their expected utility. Becker (1968) argued that authorities needed to and appropriately balance between detection of non-compliers and sanctions to the point where non-compliance becomes irrational. They began to focus their attention on researching compliance rather than deterrence and began to realize the importance of persuasion and cooperation as a regulatory tool for gaining compliance. In fact, research has shown that the use of threat and legal coercion, particularly when perceived as illegitimate, can produce negative behavior; these actions are more likely to result in further non-compliance (Murphy and Harris 2007).
Factors affecting economic development
This section provides the fundamental factors influencing tax morale and affecting economic development.

- **Tax Practitioners**
People need a minimum fiscal knowledge to practice tax avoidance otherwise they can use tax practitioners as paid assistance to devise strategies to exploit legal ambiguities. Therefore, it could be argued that practitioners reduce compliance cost by reducing legal uncertainties and time or even anxiety costs. In other word, tax practitioners provide services and information and might be “guardians against unequivocal breaches of legal code and, on the other hand, exploiters of legally ambiguous features of tax code to the advantage of taxpayers” (Beck 1994).

- **Taxpayer’s Typology**
Emotion played an important part in keeping routines or rules intact. They are established by norms of justice, fairness and appropriateness. Different rules and factors may affect behavior differently and perhaps cause a movement away from the previous rules. Therefore, each type of taxpayer systematically disregards or agrees with specific information.

In this regard, there should be frequent interaction between tax payers, tax authorities and other stakeholders in the tax system, in a forum where ideas may be freely exchanged and suggestions made for the improvement of tax practice and administration in Nigeria. Overall, taxpayers should see themselves as part and parcel of the Nigerian tax system and not outsiders and shall therefore carry out their Constitutional and civic roles as their contribution to National development and growth.

**Empirical Studies**
The more modern approach to economic development has benefited from different disciplines. According to Wenzel (2002), he argued that there are different factors that might influence taxpayer’s behavior and the roles of individuals in the society and accepted norms of behavior have also shown to have a strong influence. According to Kagan and Scholz (1984), unreasonable behavior like disrespect for citizens, arbitrary refusal to take their concerns into
consideration by regulators during enforcement generates poor economic development. In fact, research has shown that the use of threat and legal coercion, particularly when perceived as illegitimate, can produce negative behavior; these actions are more likely to result in poor tax payments resulting low economic development (Murphy and Harris 2007).

Furthermore, Tyler (2006) argues that if regulators are prepared to first engage in dialogue and fair treatment with those they regulate, then, this will serve to encourage support for the law. He has shown specifically in his research that people value respective treatment by authorities and view those authorities that treat them with respect as more entitled to be obeyed. The study of Wang (2010) concluded that taxpayers’ confidence is largely dependent on the efficiency and efficacy of government services, the perceived level of fraud and corruption in the government, and whether government is serious in combating fraud and corruption.

However, Most research works in this area of study have focused on Western world and some Asian countries; therefore, the significance of this study lies in the fact that it will provide a framework for inter-state comparison between nations of the world. Moreover, our findings and conclusion will form a basis for further research work.

METHODOLOGY

Research Design
The research design used for this research work was cross-sectional survey design. The reason for this is to investigate the relationship of the independent variable “tax morale” and the dependent variable “economic development”. In other words the study looked at the impact of tax morale on economic development in Nigeria.

Population and Sampling technique of the Study
The population of the study includes tax payers of LIRS (Lagos State Internal Revenue Services) in all four branches of Lagos. The sample consisted of 100 participants. The study sample comprised of females and males participants where every member of the population was given
equal chance of being selected, as the sample frame was designed such that no discrimination was made against age, gender, status, working experience and position.

**Instrument and Instrumentation**

Construction of the Structured Questionnaire, consideration were given to tax payers opinions on matters such as trust in government and effective governance, in order to obtain relevant information regarding tax morale and economic development in Nigeria. A structured questionnaire on tax morale, trust in governance was administered by the participants and it was designed by the researcher on likert scale method. However, explanation was made necessary to participants, which needed certain clarification on the questionnaire in order to give adequate direction to the respondents.

**Method of Data Analysis**

This study used manual statistical procedure and regression analysis to assess the relative predictive power of the dependent variable and independent variable. The regression model used for this study is as follows;

\[ y = a + b + c + \varepsilon \]

Where;
- \( y \) = Economic development
- \( a \) = tax morale
- \( b \) = taxpayer trust in government
- \( c \) = effective governance

However, it is expressed as follows:

\[ ED = \alpha_0 + \alpha_1 TM + \alpha_2 TTG + \alpha_3 EG + \varepsilon \]

Where;
- \( \alpha \) = constant
- ED = Economic Development
- TM = Tax Morale
- TTG = Taxpayer trust in government
EG = Effective Governance
ε = the error term

The analyzing tool was manual scientific formula calculation.

DISCUSSION OF FINDINGS

A total of 100 administered questions were distributed with only 80 returned. With the standard assumption in illustrating a linear regression, this study predicts that tax morale is based on the level of the positive impact on economic development. The hypotheses are based on 1% level of significance.

The data collected from the respective respondents were already run through the data screening process to check for missing values, outliers and multicollinearity issues. The data was in relation to tax morale to (taxpayers trust in government, effective governance) on tax compliance. The interpretation output is in the following sequence.

Correlations
A Pearson correlation analysis is performed on the variables to check if there is any issue of multicollinearity among the predicting variables details. Therefore, the interpretation of the manual computation of the correlation can be found on the test of hypotheses.

\[
r = \frac{n \sum XY - (\sum X)(\sum Y)}{\sqrt{n \sum X^2 - (\sum X)^2} \sqrt{n \sum y^2 - (\sum y)^2}}
\]

Where;
\( r = \) Correlation
\( x = \) grade of points
\( y = \) total number of response in each grade.
\( \sum = \) Summation.

Source: Field Study (2017)
Test of Hypotheses

Hypothesis 1:

\[ r = \frac{5 \times 308 - 15(80)}{\sqrt{(5)(55) - (15)^2} \cdot 5(1746) - (80)^2} \]

\[ = \frac{1540 - 1200}{\sqrt{275 - 225} \cdot (8730 - 6400)} \]

\[ = \frac{340}{\sqrt{50} \cdot 2330} \]

\[ = \frac{340}{\sqrt{116500}} \]

This states that there is a significant relationship between tax morale and economic development in Nigeria. From the calculation above, the tax morale shows a positive correlation of (0.99) to economic development according to the correlation decision rule and indicates alternative hypothesis is accepted at 1% level of significance. However, this implies that the null hypothesis is rejected, while the alternative hypothesis is accepted.

Hypothesis 2:

\[ r = \frac{5 \times 275 - 15(80)}{\sqrt{5(55) - (15)^2} \cdot 5(1486) - (80)^2} \]

\[ = \frac{1375 - 1200}{\sqrt{275 - 225} \cdot (7430 - 6400)} \]

\[ = \frac{175}{\sqrt{50} \cdot 1030} \]

\[ = \frac{175}{\sqrt{51500}} \]

This states that there is a relationship between trust in government and economic development in Nigeria. From the calculation above, the trust in government shows a positive correlation of
(0.774) to economic development according to the correlation decision rule and indicates alternative hypothesis is accepted at 1% level of significance. However, this supports that the null hypothesis is rejected, while the alternative hypothesis is accepted.

**Hypothesis 3:**

\[
r = \frac{5 \times 271 - 15(80)}{\sqrt{5} (55) (5) (1446) - (80)^2} \\
= \frac{1355 - 1200}{(275 - 225) (7230 - 6400)} \\
r = \frac{155}{\sqrt{(50) (830)}} \\
r = 0.760 = 1
\]

This states that there is a significant relationship between governance and economic development in Nigeria. From the above calculation, heavy tax burden which is one of effective governance parameters shows a positive correlation of (0.760) to economic development according to the correlation decision rule and indicates alternative hypothesis is accepted at 1% level of significance. However, this suggests that the null hypothesis is rejected, while the alternative hypothesis is accepted, which implies that there is significant relationship between effective governance and economic development in Nigeria.

**CONCLUSIONS AND RECOMMENDATIONS**

**Conclusions**
The study has investigated the impact of tax morale on economic development in Lagos State Internal Revenue, one can conclude that effective and efficient tax reporting is very important in Nigeria. Data collected through structured questionnaire has been analyzed by multiple regression models. It is found that significant statistical evidence exists to support the hypotheses that tax morale impacts economic development positively as well as taxpayers trust in government and effective governance has significant influence on economic development in Nigeria.
Recommendations

It is required that good tax reporting and trust of taxpayers in government should be improved and given maximum and adequate attention due to its significant influence on economic development in the Country. Other recommendations towards tax morale impacts are as follows:

1. Tax administrators and analyst should harmer on the importance of truthfulness one one’s income as a medium of providing social amenities to citizens.
2. The government should ensure they judiciously use tax revenue towards the development of the citizens by providing social amenities.
3. The implementation of relevant tax laws faithfully, equitably and fairly by the government without giving preferences to people’s status and organization concerned.
4. The relevant tax authorities at all levels should improve on the standard of tax audit employed for effectiveness and efficiency in tax administration to reduce the high level of tax evasion of citizens.

However, it is recommended that the government should pay close attention to factors that would boost tax morale of the citizens so as to positively influence the Country’s growth and development over time.

REFERENCES

APPENDIX

QUESTIONNAIRE

PART A: PERSONAL PROFILE

1. Gender: Male ( ) Female ( )
2. Marital Status: Married ( ) Single ( ) Others ( )
3. Position: Academic staff ( ) Non-academic staff ( ) others specify ( )
4. Age Groups: 18 - 25 ( ) 26-35 ( ) 36-45 ( ) 46 and above ( )
5. Educational Qualification: HND ( ) BSC ( ) MSC ( ) Others ( )
6. Working Experience 1-5 years ( ) 6-10 years ( ) 11-15 years ( ) 16 and above

PART B: FACTORS

Strongly Agree (SA), 2 –Agree (A), 3 – Neutral (N), 4 – Disagree (D), 5 – Strongly Disagree (SD)

Tax Morale Governance.

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<td>An average person would cheat on tax if you have the chance</td>
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<td>It is wrong if a tax payer does not report all of his or her income in order to pay less tax income tax.</td>
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<td>You can pay less tax if you know you wouldn’t be penalized.</td>
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<td>An average Nigerian pay taxes voluntarily without coercion.</td>
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<td>Since everyone evades tax one can be hardly blamed for doing it.</td>
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Trust in Government

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<td>You have confidence in government and its practices.</td>
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<td>The present tax board benefits the rich and it is unfair to the ordinary working men and women.</td>
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<td>There is nothing bad about under reporting taxable income on one’s tax return.</td>
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<td>There is nothing wrong in trading with your friend and not reporting it in your tax form.</td>
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Economic development

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<td>Government wastes tax money.</td>
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<td>Negligence of tax responsibilities has an effect on the economy.</td>
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<td>Poverty has an effect on tax revenue</td>
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<td>Good utilisation of tax refund collected has an effect on economic</td>
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<td>development.</td>
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<td>Tax illiteracy has an effect on the economy.</td>
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