



Tax Justice and Voluntary Compliance of the Taxpayers in Nigeria

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ABSTRACT

The study examined how tax justice could influence voluntary tax compliance among taxpayers in Nigeria in which the theoretical underpinning was expediency theory which establishes the practicability and feasibility of a tax administration to the extent of its formulation and collection. The work's methodology was an ex-post facto research design where the authors were afforded an avalanche of secondary sources-oriented data between 1981 to 2020. The proxies of Tax justice were Petroleum Profit Tax (PPT), Companies Income Tax (CIT), Duties and (D) while the proxies of voluntary compliance before the advent of Voluntary Assets Income and Declaration Scheme (VAIDS) is the Gross Domestic Product (GDP) upon which tax was paid). The result of the study of the main objective posited a significant relationship between tax justice and voluntary tax compliance among taxpayers (0.03 @ 5% significance level). The result of the specific objectives also revealed a significant relationship between the explained and explanatory variables (0.02, 0.00 @ 5% significant level). In addition, the Analysis of Variance (ANOVA) result of 0.00 is significant at the 5% level. Also, Pearson's result shows a positive correlation between GDP on one hand and PPT, CIT, and D on the other hand. The study, therefore, concluded that with a virile and formidable tax justice system many taxpayers will voluntary and promptly file returns to pay tax since they can now feel the impact of the tax regime

INTRODUCTION

The emergence of Nigeria as the poverty capital of the world-by-World Bank (2021) makes tax justice a topical and fundamental subject as it affects the common man and the need to engender the positives there-in to better the lots of the masses. Low tax revenues (coupled with heightened political corruption and illicit financial flows) have, over the years, resulted in acute underinvestment in vital infrastructure such as Electricity, roads, schools, hospitals, port facilities, etc, are so daunting, damning, and very challenging (Okpomo, 2019). The aftermath is that Nigeria's infrastructural deficit will hit the \$878 billion mark by 2040. The nation will require sustained investments of about \$14.2 billion, over the next decade, to fix her ailing infrastructure, an amount that translates to about 12 percent of her Gross Domestic Product

Government after government in Nigeria for a long time has been encumbered with the dilemma of how to source revenue to finance the government budget and its laudable projects and this revenue is also expected to be channeled to the welfare and well-being of the citizenry (Oyedokun, 2016). According to Durankev (2019), the link between taxation and justice is a classic debate issue, while also being very relevant at a time of changing environmental factors and conditions of the social and economic system and from a practical standpoint, taxes have been around for as long as there have been countries. According to the Bible, a "tithe" of the harvest had to be set aside and given to the priests, Later, as late as 1913 in the USA, a constitutional amendment was adopted giving the federal government the power to levy an income tax (Durankev, 2019).

According to Broekhuijsen and Vording (2020), the tax problem, we assume (rather than demonstrate) consists of two parts with one cause, one part being that developing countries tend to be engaged in forms of tax competition that should be considered harmful to their interests while the other part is large scale tax planning by multinational enterprises, at the detriment of developing countries. The single underlying cause is that the 'rules of the game' of international taxation are not particularly fit to protect the taxing rights of developing countries (Broekhuisen & Vording, 2020).

Objective of the Study

The general Objective of this study is to examine the effect of Tax Justice on voluntary compliance among taxpayers in Nigeria. The following specific objective was however formulated:

- i. To determine the effect of the Petroleum Profit Tax on VAIDS in Nigeria.
- ii. To ascertain the effect of Companies' Income Tax on VAIDS in Nigeria.
- iii. To investigate the effect of Duties on VAIDS in Nigeria.

Research Questions

1. Can Petroleum Profit Tax affect VAIDS in Nigeria?
2. To what extent can Companies' Income Tax impact VAIDS in Nigeria?
3. How can Duties influence VAIDS in Nigeria?

Research Hypotheses

To empirically investigate the effect of Tax Justice on Voluntary Compliance, the following hypotheses were formulated and tested.:

- i. Petroleum Profit Tax has no significant effect on VAIDS in Nigeria
- ii. There is no significant influence of Companies' Income Tax on VAIDS
- iii. Duties have no significant impact on VAIDS in Nigeria.

LITERATURE REVIEW

Conceptual Review

Tax Justice

According to Okpomo (2019), In Nigeria, it is generally acknowledged that it is the ordinary people (civil servants, average workers in the private sector, etc) who pay their fair amount of taxes while the rich and mighty (millionaires, billionaires, big businesses, foreign corporations, etc) pay little or no taxes. A semblance of tax justice was espoused several years back in the study of Olukoshi (2005), and Olabiyi (2005) but the ability of the tax itself to stimulate economic growth results from the deliberately designed regimes that encourage compliance by all who should pay (Omesi & Nzor, 2020)

The tax system in Nigeria is made up of the tax policy, the tax laws, and the tax administration, and are expected to work collectively to accomplish the financial intention of the nation (Oyedokun, Akintoye, and Salawu, 2018). According to Obayemi (2018), Tax Justice demands that taxpayers who bear the brunt of paying taxes on their hard-earned income must continue to perceive, enjoy and realize the dividends accruing from such taxes as the taxpayers are being compelled to pay over to the government every month or year leading to questions such as; In which equitable and justiciable manner has Nigeria exercised its taxing powers and taxing jurisdiction? What are the driving policies behind the spending of revenue accruing from internal and domestic sources? What has the Nigerian government achieved with internal revenue accruing to the federal, state & local governments via the taxes, royalties, licenses, and fees accruing from the exploration of natural resources and taxes imposed on corporate entities within the Nigerian jurisdiction? and whether the current domestic revenue generation and spending policies in Nigeria promote Tax Justice.

The tax justice avenue may include but is not limited to Personal Income (PIT), Companies Income Tax (CIT), Petroleum Profit Tax (PPT), Duties, etc. The one that constitutes the mainstay of the Nigerian economy to date is the Petroleum Profit Tax is regulated by the Petroleum Profit Tax Act (PPTA) and under the administration of the Federal Inland Revenue Service (FIRS), which is a tax on the n profit of companies engaged in petroleum operations (Ewa, Adesola & Essien, 2020).

Tax System

Taxation plays an essential part in supporting the financing of quality public services, without an effective taxation system, quality public services (QPS) will be inadequately funded and will struggle to meet the needs of the population, this dovetailed into several issues that need to be addressed through an

improved system of taxation: rising inequality and the underfunding of QPS, such as health and social services (Lethbridge, 2016). Public finance has been a challenge for most developing countries including sub-Saharan Africa, most especially, Nigeria, with the postulation that government is most likely to incur large expenditures to finance the economic and developmental activities of the nation (Oyedokun, 2016).

The generation of tax revenue in Nigeria is propelled and enforced by various tax authorities established under the relevant tax laws (Bariyiman & Gladson 2009). Tax reforms became fundamental in Nigeria because of the nature of its tax structure, which was complex, inelastic, inequity, able, and unfair (Anyawu, 1997). Moreover, the country depended on import and export duties while there were no opportunities to generate revenue via consumption-based tax such as Value Added Tax (Omesi & Uzor, 2020). According to Soyode and Kajola (2006); Ogungbesan (2015) the replacement of the old sales tax with Value Added Tax was informed by myriads of factors.

Voluntary Compliance

Palil and Mustapha (2011) described voluntary tax compliance behavior as a combination of the readiness of taxpayers to comply with the tax laws, declare the correct income, claim the correct deductions, relief, and rebates, and pay all taxes on time. Internally influenced behavior is believed to be under the personal control of the individual, while externally influenced behavior implies that individuals will have to behave because of the demands of the situation or the environment (Hassan, Naeem, and Gutza (2021). In Nigeria, an initiative designed to encourage voluntary disclosure of previously undisclosed assets and income for the payment of all outstanding tax liabilities tagged the Voluntary Assets and Income Declaration Scheme (VAIDS) was formally launched by Osinbajo (2017). VAIDS is a time-limited opportunity for taxpayers to voluntarily regularize and remediate their tax status with respect to concerning periods that the taxpayer had been in default by now making a full, fair, complete, honest, and veritable declaration of their assets and income.

According to Ewa, et.al (2020), Gross Domestic Product (GDP) remains one of the yardsticks for measuring economic development, but Manish and Andre (2019) retorted that the incessant adoption of GDP as a measure of economic growth is largely due to easy quantification of manufactured goods and activities than a multi-dimensional index can measure other welfare achievements.

Tax Justice and Tax Compliance

According to Durankev (2019), The concept of justice itself is very often defined by resorting to artificial constructs rather than to a phenomenon (process) of universal nature and if there is a generally accepted form of justice somewhere, then it is not universal or universally applicable, every society is just in its way, but it is generally acknowledged that nowadays social justice is undergoing a process of development. Taxes are crucial to state building, funding public services, infrastructure, and redistribution, and creating a fiscal

social contract between governments and citizens, if revenues are not adequate to cover needed spending in areas such as infrastructure, health, and education, this is a critical constraint (Orwaru, 2018). At the same time, tax systems can impoverish people, deter investment, and provide both resources, and direct means, to entrench the power of a narrow elite and sustain them in patterns of public policy and administration that hold back broad-based growth (Orwaru, 2018).

Chattopadhyay and Das Gupta's (2002) study suggests that the simplification of tax legislation might have a significant impact on encouraging tax compliance behavior amongst taxpayers. Loo (2006) stated that the self-assessment system resultantly increases voluntary compliance and simplifies the tax collection system. Slemrod and Bakija (2008) suggest that the ideal tax system should be fair, simple, enforceable, and promote economic prosperity.

Theoretical Review

Expediency Theory of Taxation

This research work is anchored on expediency theory and the theory asserts that every tax proposal must pass the test of practicability which must be the only consideration when the authority in government is choosing a tax proposal for the collection of tax revenues and returns. This assertion has a truth in it since it is useless to have a tax that cannot be levied and collected efficiently as having such could be tantamount to a tax system in the abstract. The economic and social objective of the state as also the effects of a tax system should be treated as irrelevant (Bhartia, 2009). The administrative setup may not be efficient to collect the tax at a reasonable cost of collection (Urio, 2020). Taxation provides a powerful set of policy tools to the authorities and should be effectively used for remedying the economic and social ills of the society such as income, inequalities, regional disparities, unemployment, cyclical fluctuations, and so on (Bhartia, 2009)). The expediency theory of Taxation was adopted in the study conducted by Oyedokun (2016) which noted that when every Naira of taxes as paid by the taxpayers provides an equivalent legitimate benefit to taxpayers, there would be a regime of tax compliance that will limit the evasion and avoidance. The result is in compatibility with the result of our work. According to Ewa, et.al (2020), the effect of taxation on economic development encompasses both tax revenue generation and taxation policies on the economy tax theories and addresses the influence of tax returns on economic growth.

Theoretical Framework

The theoretical framework encompasses the relationship between the key dependent and independent variables as they affect and influence one another. The objective of the study is diagrammatically explored to establish the relationship in terms of the measurement that all variables are subjected to.

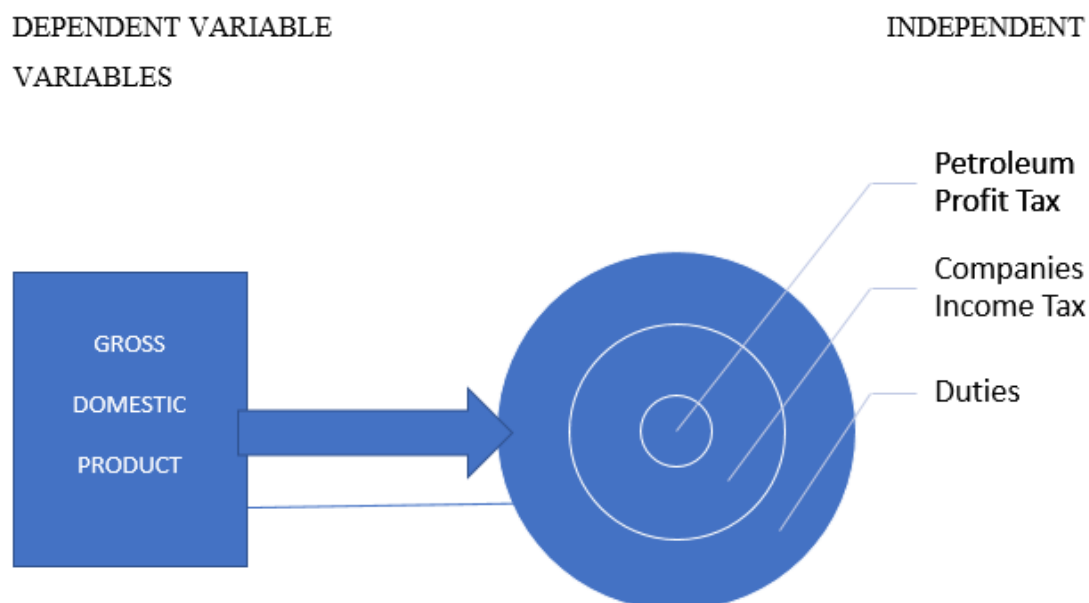


Figure 1. Shows the Gross Domestic Product as Affected or Influenced by the Explanatory Variables in Petroleum Profit Tax, Companies Income Tax, Duties

Empirical Review

Edame and Okoi (2014) investigated the effect of taxation on investment and economic development in Nigeria in which the authors explored the ordinary least square (OLS) method to analyse the secondary data gathered and the result shows that taxation is negatively related to the level of investment and the output of goods and services (GDP) and it is positively related to government expenditure in Nigeria. Broekhuijsen and Vording (2020) discussed what may be expected of a theory of international tax justice having considered the most important distributive as well as procedural theories of tax justice and the authors concluded that none of the existing theories could offer a coherent account of international tax justice.

Obayemi (2018) considered the connection between Taxation and Tax Justice which is based on the fact that while public funding and finance may be sustained both by domestic resources and external finance, good governance and public policy initiatives suggest that domestic resources sans foreign loans are the more optimal choice as a veritable domestic source is tax. Akintoye and Dada (2013) investigated the tax system in sub-Saharan Africa with special emphasis on Nigeria. Various causes of tax evasion and tax avoidance were considered with a view to finding solutions to evasion looking at the enormous importance of taxation in meaningful economic growth and development in all developing economies generally. In addition, a feeling of injustice in the application of taxation proceeds in terms of benefits to the public is another grouse against different tiers of government. The study recommended that policies should be progressive rather than regressive to make the rich bear more burden than the poor regarding the proportion of income.

Abiola and Asiwah (2012) attempted to look at the Nigerian Tax Administration and its capacity to reduce tax evasion and generate revenue for the development desire of the populace. The study made use of 121 online

questionnaires containing 25 relevant questions. Descriptive statistics were used to analyze 93 usable responses. The study found among other things that increasing tax revenue is a function of effective enforcement strategy which is the pure responsibility of tax administration. The study found that Nigeria's lax enforcement machinery includes adequate manpower, computers, and an effective postal and communication system.

Stanley (2014) conducted a study titled "Effective Tax Administration and Institutionalization of Accounting Systems in Small and Medium Scale Enterprises; Evidence from Nigeria". He used the econometric e-view to analyze the data obtained and he found that lack of effective tax administration undermines the collection of profit tax from the operators of that sector. His study also revealed that several variables mitigate against the establishment of an effective tax administration in Nigeria. The study concentrated more on the SMSs than the Nigerian economy. James and Moses (2012) in the United Kingdom examined the impact of tax administration on revenue generation in a developing economy with Nigeria as a case study. Primary data were collected via questionnaires and analyzed using simple percentages. They found that inadequate training of personnel and lack of modern information communication tools are some of the challenges facing the effective administration of tax in Nigeria.

Akintoye and Tashie (2013) examined the effect of Tax Compliance on economic growth and development in Nigeria. Tax compliance is proxied on willingness to pay tax. A comparative analysis of willingness to pay taxes in two (2) large states of Nigeria, Lagos, and Oyo was presented. Primary data was collected through the administration of questionnaires to self-employed in each senatorial district in Oyo and Lagos states. Frequencies and percentages were used to measure the demographic variables of respondents while the chi-square technique was used to measure the difference between the willingness of citizens to pay tax and that of the willingness of citizens to pay tax in Lagos state. It was discovered that many Nigerians are complying with tax payments and the willingness to pay tax in Lagos is significantly higher than that of Oyo. It was suggested that the government should pay attention to the factors that influence willingness to pay taxes and improve on them.

METHODOLOGY

- Research Design

This study employed ex-post facto research design using time series data analyses of tax proceeds generated by the Nigerian Revenue Service (NRS) on behalf of the government for the period 1981 to 2020 as proxies for the need for tax justices for more transparent tax revenue. The figure of the Voluntary Assets Income Declaration Scheme (VAIDS) same period was used to indicate the voluntary tax compliance by some taxpayers.

- Model Specification

The model specification was predicated on the relationship between the predicted and predictor variables. Both descriptive statistics and regression

analysis were adopted in ascertaining the relationship between tax justice and voluntary compliance by taxpayers.

X= Tax Justices

Where:

$X = x_1 + x_2 + x_3 + \mu$ (explanatory variables)

$X = x_1 + x_2 + x_3 + \mu$ (explanatory variables)

x_1 = Petroleum Profit Tax (PPT)

x_2 = Company Income Tax (CIT)

x_3 = Duties (D)

Model Specification:

VAIDS = $\alpha_0 + \beta_0$ PPT + μ_0 i

VAIDS= $\alpha_1 + \beta_1$ CIT + μ_1 ii

VAIDS = $\alpha_2 + \beta_2$ D + μ_2 iii

VAIDSN it = $\alpha_4 + \beta_1$ PPT it + β_2 CIT it + β_3 D it + μ_4v.

RESULT AND DISCUSSION

The result from the regression analysis shows a significant relationship between tax justice and voluntary tax compliance among taxpayers in Nigeria at a 0.05 significant level. The regression result of 0.003, 0.002, and 0.001 of a significant nature agrees with the work conducted by Oyedokun (2016), and Durankev (2019) not neglecting the recent work conducted by Broekhuijsen and Vording (2020).; Urio (2020); Hassan, Naeem & Gutzar (2021); Ewa, Adesola & Essien (2020; Omesi & Nzor (2020). Pearson’s positive correlation result between GDP on one hand and PPT, CIT, and D on the other hand also agrees with the study conducted by Oyedokun (2016). The positive correlation result of PPT, CIT, and D are 0.992, 0.993, and 0.992, respectively, and this also agrees with the work conducted by Manish & Andre (2019); Ogungbesan (2015); Durankev (2019). The expediency theoretical findings agree with the study conducted by Bhartia (2009) and Urio (2020).

CONCLUSION AND RECOMMENDATION

The study therefore concluded that with a virile and formidable tax justice system, many taxpayers will voluntary and promptly file returns to pay tax since they can now feel the impact of the tax regime. The proceeds from various sources of tax such as Petroleum Profit Tax, Companies’ Income Tax, and Duties, ordinarily and rationally dependent on the Gross Domestic Product (GDP) and this invariably means that all things being equal the more and higher the GDP the higher in return would the collections from the various sources of tax be. It is believed that the more the judicious use of the tax proceeds for infrastructure development, the more tax justiciable and better off the people are likely to be. For instance, the study conducted by Urio (2020) surrogated gross domestic product with economic development and believes that any intention of the government to engender economic development only demands one step and that is to shore up Gross Domestic Product (GDP).

This study, therefore, recommended the need for more infrastructure provision from the various tax revenue that emanates from taxpayers as this would not only make the Nigerian environment conducive for businesses, but it will also

voluntarily ginger the taxpayers to voluntary file returns and pay the right amount of tax at the right time. Government and other tax policy formulators of government must continue to pursue a positive tax system that will have a direct impact on the taxpayers in terms of improvement of welfare and wellbeing of the people and a friendly business policy in that by so doing the confidence of the taxpayers would be rekindled to continue to live up to the expectation of voluntary tax compliance. It is also very vital to establish that investors and other potential taxpayers that are outside the tax net will be encouraged to come within the tax net and this will be beneficial to the government both in the short and long run. It suffices to also recommend that although tax justice to taxpayers is not the end for taxpayers a means to an end for the taxpayers to have a feel of government, the tax policy of the government should be reviewed from time to time to add life to the tax regime at every point in time.

FURTHER STUDY

This research still has limitations, so it is necessary to carry out further research related to the topic of Tax Justice and Voluntary Compliance of the Taxpayers in order to improve this research and add insight to readers

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