Athabasca University

Confident in Africa's Future

INTERNATIONAL ACADEMY OF AFRICAN BUSINESS AND DEVELOPMENT

Dear T. O. Fagbemi, S. O. Ajibolade, S. S. A. Arowomole and M. Femi Ayadi

Date 30.03.2011

Re: Repositioning the Nigerian Tax System for Sustainable Development: Role of Business Taxpayers' Perception of the Company Income Tax Administration

Thank you for submitting the above manuscript to Track 1 of the International Academy of African Business and Development (IAABD) Conference to be held from **17 May – 20 May 2011**, at **Athabasca University, Edmonton, Canada.**

It is my pleasure to inform you that your paper has been accepted for presentation at the Conference. The paper will also be published in the ***2011 IAABD Proceedings*** as long as the following conditions are met:

(1) **Completing the revisions suggested by the reviewers** (please see the attached comments)

(2) **Submission of the final manuscript**: please pay attention to ***all*** the following details when submitting your final manuscript. All papers should be prepared in Microsoft Word, Times New Roman, Font 11 and single-spaced, with the following specifications:

- **Columns and Margins:** Use single column, one inch margins (1") all-round: Top, Bottom, Left, and Right
- **Length:** Should not be longer than 7 single-spaced pages, including the title, tables, figures, appendices, references, and other illustrative materials. Accepted papers that are longer than 7 pages (and published in the Proceedings) will incur a charge of U.S $15 per page. Such authors should pay the extra fee at the time of submitting their final papers, otherwise the paper will not be included in the Proceedings. In addition, such manuscripts will not be considered for the Best Paper Awards. If your paper is longer than 14 pages, please consider submitting an abbreviated version for the proceedings and a full version to the *Journal of African Business*.
- All papers should have an **Abstract** (maximum of 100 words) as well as an **Introduction**.
- **Citations:** should be of the form Rugimbana (2005) or Rugimbana and Rutashobya (2005) or Rugimbana et al. (2005) within sentences. For end of sentences use (Rugimbana, 2005).
- **Tables/figures/graphs:** should be typed as close as possible to the location where they are cited. All Tables/Figures/Graphs should fit within the margins specified above. Please, use **MSWord Table Menu** to create your Tables.
- **Equations:** All equations should be placed on separate lines and numbered consecutively, with the equation numbers placed within parentheses (brackets) and aligned against the left margin.

Repositioning the Nigerian Tax System for Sustainable Development: Role of Business Taxpayers' Perception of the Company Income Tax Administration

T. O. Fagbemi
Department of Accounting and Finance, Faculty of Social Sciences, University of Ilorin, Nigeria.
E-mail: olamidefag@yahoo.com

S. O. Ajibolade (Ph.D.)
Department of Accounting, Faculty of Business Administration, University of Lagos, Nigeria.
E-mail: soajibolade@yahoo.com

S. S. A. Arowomole (Ph.D.)
Department of Accounting, Faculty of Business Administration, University of Lagos, Nigeria.
E-mail: drasoarowomole@yahoo.com

M. Femi Ayadi (Ph.D.)
University of Houston Clear Lake
E-mail: AyadiM@uhcl.edu

ABSTRACT

Tax revenue constitutes a major source of revenue for most modern governments but this has not been the case with the Nigerian economy. The Nigerian tax system is characterised by low level productivity attributed largely to deficiencies in the tax administration and collection system and tax payers' apathy. The need to reposition non-oil tax revenue as number one source of sustainable revenue has been emphasised in many quarters. Following previous studies' suggestion that high collection of tax revenue would involve high voluntary taxpayers' compliance which could only be achieved if the taxpayers positively perceived the tax administrative system and tax law fairness, this paper examines the perception of taxpayers about the Company Income Tax administration in Nigeria. It attempts to establish whether any relationship exists between perception of taxpayers about tax administration system features and their compliance. Data obtained from one hundred and forty-four (144) companies' income tax payers using a questionnaire are analysed using means, standard deviation, Pearson's correlations and regression analysis. The results reveal a moderate positive perception about the tax administration structures and procedures, moderate tax knowledge and a high negative perception about governance in the collection and use of tax revenue. Findings also show that, there is a moderate level of compliance attitude. Significant positive correlations are found between perception about the tax administration structures and procedures; tax knowledge; perception on governance practices and compliance attitude, the most significant relationship however is found between tax knowledge and compliance attitude. The study recommends improvements in the education of taxpayers and in tax system's governance practices.

Keywords: Companies Income Tax Administration, Tax payers' knowledge, Compliance attitude, Governance practices.

1. INTRODUCTION

Revenue generation forms an important part of governance as most of government's plans and policies depend on the amount of revenue collected (Soyode & Kajola, 2006). Taxation constitutes a major source of government revenue for many modern economies, typically accounting for 70 – 90 percent or more of their income (Oloyede, n.d). Generally, taxation plays a critical role in providing revenue to support and pay for the basic functions of government which include managing and regulating the economy (for example, protection of the environment, the public and vulnerable groups within the society), developing society and providing public goods (for example, defence and education systems) (Lymer & Oats, 2008). Additionally, taxation may be used to promote behaviours believed to be for the good of the wider community as for example, environmental taxes (Institute of Chartered Accountants in England and Wales, 2007).

Taxes are imposed by government as a compulsory levy on people's income or wealth. They are thus a burden that every citizen owes a duty to bear. For many nations, taxes range from taxes on income to taxes on consumption and taxes on properties. Collecting tax revenue from such a wide variety of sources and given the enormity of the number of tax payers involved creates challenges. Effective collection would therefore often require that some administrative system be in place. Tax administration has been described as 'the process of assessing and collecting taxes from individuals and companies by relevant tax authorities in such a way that correct amount is collected efficiently and effectively with minimum tax avoidance or tax evasion' (Soyode & Kajola, 2006: 29). This implies that the amount of revenue generated by the government for meeting its obligations to the governed would depend on the success of the tax administration.

Studies have pointed to tax administration as an important aspect of using tax policy to achieve the goal of efficient resources allocation through the provision of adequate infrastructures. Adequate tax policy properly administered is expected to greatly improve revenue generated from tax. Studies have suggested that the problem of infrastructural deficiencies may often be traced to low tax revenue generation (Fisher & Walpole, 2005; Fafunwa, 2005; Obaji, 2005; Lambo, 2005) which can result from ineffective tax administration (Kidd & Crandall, 2006; Kaldor, 1980). In many countries, low tax revenue is often traced to incapability of the tax administration in realization of its duty, or some degree of corruption (Kidd & Crandall, 2006; Kaldor, 1980). Failure to administer the tax laws effectively can result in a substantial gap between tax law and actual taxation (Mansfield, 1988). Inefficient tax administration is thus argued to lead to negative consequences for government revenues with the resultant effect on the provision of adequate infrastructure.

Successful tax administration has been linked with a number of features, prominent among which is the way tax payers perceive the tax system. According to Ayua (1999), Hurwich (2001) and Soyode and Kajola (2006), a good tax system should be seen to be fair, equitable, simple to administer with minimal cost, convenient and productive. Hurwich (2001) posited that the tax system should be seen to be fair by vigorous pursuit of minimising tax avoidance and evasion. Christensen *et al.* (1994) argued that cost efficiency and productivity would enhance the tax administrative system but that these alone would not be enough without a high voluntary compliance by the taxpayers, which could only be achieved if the taxpayers positively perceived the tax administrative system, tax law fairness or equity and tax law complexity. Several studies have attempted to provide evidence in support of this argument.

Taxation in Nigeria unlike in the developed countries has not been a major source of government revenue. The country which ranks among the major oil producing economies in the world has much of its public revenue being generated from oil. Oil revenue accounts for about 70% of budget revenues and up to 95% of foreign exchange earnings. This excessive dependence on the oil sector makes the economy to be vulnerable to external shocks with resultant effects on the achievement of government plans. A major concern to successive governments has therefore been the continued poor performance of non-oil revenue especially taxation. Company income taxation for instance, has contributed only an insignificant 6% of government revenue in recent years, in spite of the massive turnover of incorporated entities in Nigeria (Babalola, 2009). The low level of productivity of the Nigerian tax system has been attributed largely to the deficiencies in the tax administration and collection system, complex legislation, and apathy, especially on the part of those outside the tax net (Ijewere, 1991 and Ndekwu as cited in Ariyo, 1997). According to Silvani (as cited in Olaofe, 2008) even if a tax administration is very effective in detecting tax liabilities and bringing more tax payers into the tax net, its overall effectiveness will be low if it is unable to combat tax evasion. Sikka and Hampton (2005) and Olatunde (2007) noted that tax evasion is one of the major social problems inhibiting development in developing countries (including Nigeria).

The Federal Inland Revenue Service, the body responsible for tax administration at the federal level of government has taken various steps to improve on the structures and procedures of tax administration, designed to encourage voluntary compliance to the company income tax law, yet little compliance is being recorded in this area (Olaofe, 2008). Afolayan (2008) estimated that the tax officers in Lagos State alone were able to uncover six companies that have evaded tax to the tune of ₦0.593billion between 2000 and 2006 while Nwachukwu (2006) estimated that about $8 billion is being lost annually to capital flight in the upstream activities of oil and gas industry. In examining factors contributory to the alarming state of the incidence of tax evasion in the Nigerian tax system, a notable gap in the studies is the absence of empirical evidence on tax-payers' perception about the Tax administration and its contribution to the compliance attitude of taxpayers. Knowledge of taxpayers' perception and the relationship of this with compliance attitude will assist in identifying areas for improving tax administration and the appropriate improvement strategies needed to encourage voluntary tax payments and improve the nation's revenue generation.

This research therefore seeks to provide empirical evidence on how taxpayers perceive the efficiency of the structures and procedures and governance practices in administering the Nigerian Company Income Tax, the level of tax payers' knowledge and the impact of these on compliance attitude. The aim is to identify those factors that would enable the Nigerian economy to improve revenue generation from business profits for sustained economic growth. In achieving this aim, the study examines four variables; Taxpayers' perception on the efficiency of the structures and procedures followed in collecting Companies Income Tax; Tax payers' knowledge of the Companies Income Tax in Nigeria; Tax payers' perception of governance and taxpayers' attitude to tax obligations. It also examines the relationships between these variables by testing the following three hypotheses:

H_{01}: Taxpayers' perception on Companies Income Tax administration's structures and procedures has no significant relationship with Taxpayers' compliance attitude.

H_{02}: Taxpayers' knowledge has no significant relationship with Taxpayers' compliance attitude.

H_{03}: Taxpayers' perception of governance has no significant relationship with Taxpayers' compliance attitude.

2. REVIEW OF LITERATURE

The Nigerian Tax System

Taxation system as it exists in Nigeria today, dates back to 1904 with the introduction of the community tax in the northern part of the country. It later became the Native Revenue

Ordinance in 1917 and was later implemented through the Native Revenue Ordinances 1917 and 1928 to the western and eastern regions, respectively. These native ordinances and amendments were later incorporated into the Direct Taxation Ordinance No. 4 of 1940. Since then, several amendments and new provisions have replaced this 1940 Ordinance. The Income tax Management Act 1961 (ITMA) repealed the Direct Taxation Ordinance of 1940, the Income tax Management Act 1975 amended the 1961 Act which was later repealed and replaced with the Personal Income tax Act 1993. The Nigerian Tax system has undergone significant changes over time. Various new tax laws have been enacted and the existing laws consistently being reviewed to repeal obsolete provisions and simplify the main ones (Oloyede, n.d). Some of the operative tax laws are as follows: Company Income Tax Act 1979; Personal Income Tax Act 1993; Value Added Tax Act 1993; Capital Gains Tax Act 1967; Customs and Excise Management Act 1999; Petroleum profits Tax Act 1959; Education Tax Act 1993; and Industrial Development (Income Tax Relief Act 1993.

Constituents of the Nigerian Tax System

Tax system refers to a set of rules and regulations and the aggregation of tax arrangements, institutions and agents that interact with each other and the rest of the economy to generate revenue for the government (Olaofe, 2008). The tax system responsibility is assigned to three key players, the government who is responsible for the tax policy and laws for the imposition of taxes; tax authorities who are the government institutions responsible for tax law administration; and the tax payers who have the civic responsibility to comply with the laws by paying the taxes imposed.

Government's Powers to legislate and collect Taxes

Nigeria operates a federal system of government through three tiers namely the federal, state and local government. A wide range of statutes exists by which each of these three tiers are empowered to legislate on and/or collect different types of taxes. The ability to legislate on a particular tax and the ability to collect the tax may reside in one level of government (as for instance the company income tax legislated upon and collected by the federal government) or may be separated (as for instance, the personal income tax where the power to legislate resides with the federal government but the administration and collection reside with the state government). These powers are clearly spelt out in the Taxes and Levies (Approved list for collection) Decree 1998. Examples of taxes collectible by the Federal Government include; Company Income tax; Withholding tax on companies; Residents of Abuja FCT; and Non-residents; Petroleum Profit Tax; Value-added tax (VAT); Education tax; Capital gains tax - Abuja residents and corporate bodies; Stamp duties involving a corporate entity; Personal income tax in respect of: Armed forces personnel; Police personnel; Residents of Abuja FCT; External Affairs officers; and Non-residents; those collectible by State Governments include; Personal income tax: Pay-As-You-Earn (PAYE); Direct (self and government) assessment; Withholding tax (individuals only); Capital gains tax; Stamp duties (instruments executed by individuals) e.t.c.; and those collectible by Local Governments include; Shops and kiosks rates; Tenement rates; On and off liquor licence; Marriage, birth and death registration fee.

Tax Authorities - Company Income Tax Administration in Nigeria

The relevant tax authorities in Nigeria include: The Federal Inland Revenue Service Board (which replaced the Federal Board of Inland Revenue); The State Boards of Internal Revenue and The local Government Revenue committees. The Federal government has the power of legislation and collection of the company income tax and delegates this responsibility to the Federal Inland Revenue Service (FIRS). The FIRS established under the provision of the

Federal Inland Revenue Service (Establishment) Act, 2007 is charged with powers of assessment, collection of, and accounting for revenues accruable to the government of the federation; and for related matters. The FIRS administers the Company Income Tax Act (CITA) through its governing board known as the Federal Inland Revenue Service Board whose membership is drawn from different related areas.

The CITA which was first enacted in 1961 (as amended in 1979) has undergone series of other amendments, the most recent being in 2007 is the law that regulates the taxation of all incorporated companies doing business in Nigeria (private and public limited companies alike), other than those engaged in Petroleum Operations. The Act provides that tax is payable for each year of assessment on the profits of any company accruing in, derived from, brought into or received in Nigeria in respect of all kinds of income; that is income derived from a trade, business or investments.

Company Income Taxpayers' Obligations

The exact obligations placed on a taxpayer usually vary based on the arrangements of the formation of the company, the type of business activity the company engages in and the location of the company. However, Baiyewu (2000), identified four broad categories of obligations likely to exist for almost all taxpayers, irrespective of whatever business arrangement adopted. These are: registration in the system; timely filing or lodgement of requisite taxation information; reporting of complete and accurate information (incorporating good record keeping); and payment of tax obligations on time. For their part, taxpayers and others have an important role to play in meeting these obligations as, in many situations, it is only they who are in a position to know that they may have an obligation under the law (OECD, 2004). The Companies Income Tax law (1979) in Nigeria provides that taxpayers are expected to adhere to these four important obligations.

Prior Empirical Evidence on Taxpayers' Attitude to Tax obligations

Explanations on the attitude of tax payers to their obligations in literature may be viewed from different perspectives. From the economic rationality perspectives, such economic factors as the tax complexity and cost of compliance were identified as factors which shape the behaviour of taxpayers. Higher levels of complexity have been reported to result in increased non-compliance, both intentional and unintentional. (Richardson & Sawyer, 2000; Long & Swingen, 1988). OECD (2004) also found a relationship between the amount of tax owed (cost of compliance) and compliance behaviour in a survey of selected OECD countries around the world.

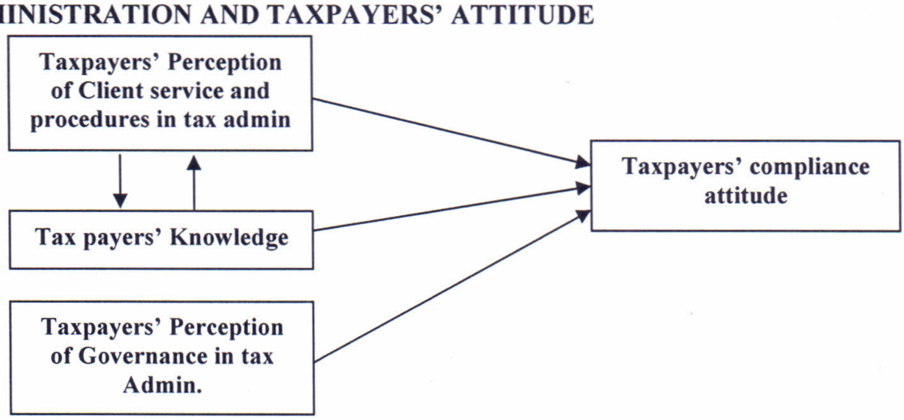
From the behavioural perspective, factors that have been used to explain tax payers' attitude include perception of fairness in collection procedures and perception of fairness in the way tax revenue is utilized. Ritsema *et al.* (2003), found taxpayers' perceptions of the fairness of the tax system as likely influence on willingness to evade payment. Wenzel (2002) noted that perceived fairness has emerged as an important consideration in taxpayers' behaviour. Thurman *et al.* (1984) and Richardson and Sawyer (2000) also explored justice concerns on whether or not citizens receive the goods and services they believe they deserve given the taxes that they pay. Wenzel, 2002; Thurman *et al.*, 1984 and Coleman *et al.* (2001) noted that perceptions of unfair treatment (procedural unfairness) were reputed to be rife among the small business community in Australia who according to the Australian Taxation Office (1996) expressed strong resentment against the tax system. Noble (2000) and Tan and Veal (2003) also raised fairness issues in relation to administration and tax levels in New Zealand. Etzioni (1986) concluded that tax evasion is linked to the feeling of tax unfairness in public opinion (1960-1980), even when tax rates remain unchanged For the United States of America. Other studies also recognised the significance of factors such as public opinion, civic duty and moral values, tax morale, personal and social norms (Orviska & Hudson, 2003; Torgler, 2003; Braithwaite & Ahmed, 2005; Vogel, 1974); and from the perspective of norm breaking, procedural justice, perceptions of fairness, and ethics (Wearing & Headey, 1995; Williamson & Wearing 1996; and Schmidt, 2004).

A suggestion that tax knowledge will affect the attitude of tax payers has also been indicated. According to Lewis (1982) attitudes are learned and in some way affected by experience and knowledge. Eriksen and Fallan (1996) have reported significant changes in attitudes towards taxation from tax course exposure. Increasing tax knowledge of the tax payer is an important function of Tax administration (OECD, 2004). Tanzi and Pellechio (1995) also noted as one of the main tasks of tax administration the provision of information and instruction to taxpayers. Tax administration effectiveness is therefore expected to result in high level of knowledge among tax payers. This is in turn expected to result in a higher level of compliance.

Model of the Study

Based on suggestions in studies from the behavioural perspectives that taxpayers' attitude towards the acceptance of the tax system is important for the effectiveness of the system, this study proposes a model which suggests relationships among four groups of variables. These are: Perception of Tax Administration structures and procedures; Perception of governance; and Tax payers' knowledge as the independent variables and the Compliance Attitude of taxpayers as the dependent variable. The study argues that poor compliance attitude by the Company income taxpayers in Nigeria is influenced to a higher extent by the poor perception of tax payers about the accountability and fairness in tax administration and by inadequacies of tax administration to properly educate the taxpayers (Low tax knowledge).

FIGURE 1: CONCEPTUAL MODEL OF THE RELATIONSHIP BETWEEEN TAX ADMINISTRATION AND TAXPAYERS' ATTITUDE



Source: *Authors*

3. METHODOLOGY

The population of this study is made up of all incorporated companies (private and public) chargeable to tax under the Companies Income Tax Act in Nigeria. However, since a large percentage of the country's business activities (Sixty-five percent) are carried out in Lagos State (Nigeria Business Directory Index, 2009), the state was considered an appropriate study site for the study. Using a sampling frame constructed of companies with registered offices in Lagos state, a sample size of two hundred (200), constituting 25 percent of the sampling frame was selected by the simple random sampling technique. A questionnaire designed on a five-point Likert scale was used to seek the perceptions of company representatives on aspects of interest to the study on the Company income tax administration. The data collected were analysed using Mean, Standard deviation and Pearson correlations. A Linear Regression analysis was carried out of the full model of the relationship proposed as follows:

$Y = \beta_o + \beta_1 X_1 \beta_2 X_2 \beta_3 X_3 + \varepsilon$ where:

Y = Taxpayers' compliance attitude

β_o, $\beta_1\beta_2\beta_3$= Regression Coefficients

X_1 = Perception on Tax admin client service and procedures

X_2 = Tax Knowledge

X_3 = Perception on Governance in tax administration

ε = Error term

4. DATA ANALYSIS AND FINDINGS

A total of one hundred and forty-four (144) usable copies of the two hundred copies were obtained and utilized for the analysis, representing a seventy-two percent (72%) response rate.

4.1 Analysis of Variables Representing Aspects of Tax Administration

Mean scores were computed for the respondents' perception on each of the 18 items in the questionnaire, and the items were also grouped into the four variables under study. Mean scores below 3.0 were considered low, 3.0 to below 4.0 were considered moderate and 4.0 and above were considered high perceptions scores.

I *Perception of Tax Administration Structures and Procedures*

Eight (8) questionnaire items were used as measure of the perception of taxpayers of the tax authority's client service and procedures. The results as indicated in Table 1 reveal a high level of positive perception on the tax officers' competence, efforts and ability to provide appropriate information (above 4.0 in the 3 items; CS1, CS7 and CS8). The overall mean score on this variable is found to be moderate at 3.8.

TABLE 1: CLIENT SERVICE AND PROCEDURES OF THE TAX AUTHORITY

	Mean	**Std. Deviation**
Tax officers' competence **(CS1)**	4.0278	0.39124
Quick response to taxpayers' need **(CS2)**	3.7500	0.86502
Attitude towards approaching tax authority for guidance **(CS3)**	3.3681	0.64501
Satisfaction with services provided by tax officers **(CS4)**	3.8056	0.44687
Tax officers' response to taxpayers' enquiries are useful **(CS5)**	3.8681	0.33961
Tax officers treat taxpayers in a professional manner **(CS6)**	3.4722	0.77500
Tax officers' effort in educating taxpayers **(CS7)**	4.3403	0.47546
Accurate information on filling procedure is obtainable from the tax authority **(CS8)**	4.0069	0.41806
Overall Mean Score	**3.829875**	

Source: Survey (2010)

II *Taxpayers' Knowledge of Companies Income Tax Law in Nigeria*

The knowledge of taxpayers on Companies Income Tax in Nigeria was measured with the use of five (5) questionnaire items. Results as shown in Table 2 indicate a high level of awareness of the respondents on the need to comply with tax laws; knowledge about filling of tax forms was found to be high (above 4.00); however low knowledge on preparation of tax returns (TK2=2.95) and the impact that non-payment of taxes could have on government effectiveness (TK4 - mean 2.93) is indicated. The overall mean score of taxpayers' knowledge was found to be moderate at 3.48056. This result appears to corroborate the result on the overall perception of client service and procedures and tend to support arguments that the Nigerian public is yet not sufficiently educated and enlightened on the provisions of the various laws and that there is absence of information in the public domain on some relevant tax matters (Olaofe, 2008).

TABLE 2: TAXPAYERS' KNOWLEDGE (TK)

	Mean	Std. Deviation
The need for compliance **(TK1)**	4.7361	0.69951
Knowledge about preparation of tax returns **(TK2)**	2.9514	0.88760
Knowledge about filling of tax forms **(TK3)**	3.3056	0.98434
Unpaid taxes reduce governments' effectiveness **(TK4)**	2.9375	0.87880
Performance of government is hinged on its revenue base **(TK5)**	3.4722	0.77500
Overall Mean Score	**3.48056**	

Source: Survey (2010)

Perception of Governance

The perception of taxpayers on the accountability, fairness and effectiveness in accounting for the tax resources was measured using one questionnaire item expressed in the negative form. The result as shown in Table 3 indicates high agreement among the respondents on their affirmation on lack of transparency and ineffectiveness in the use of government revenue in providing adequate infrastructure for the benefit of the citizens. This is evidenced by a high mean score of 4.4086 and low standard deviation of scores.

Table 3: GOVERNANCE

	Mean	Std Deviation
Lack of transparency and Ineffectiveness in the use of tax revenue in providing adequate infrastructure for the benefit of the citizens (Gov)	4.4086	0.21580

Source: Survey (2010)

Compliance Attitude of Taxpayers

The compliance attitude was appraised through four (4) questionnaire items (CPL1, CPL2, CPL3 and CPL4). It can be seen from Table 4 that respondents are of the view that it is everyone's responsibility to pay the correct amount of tax and that it is quite ethical to claim for reliefs and allowances they are entitled to (CPL3 and CPL2). This is evidenced with a mean score of 4.03 and 4.28 respectively. However, respondents have a lower mean score of 2.87 and 3.10 on the ease with which they can prepare and file their tax returns (CPL1 and CPL4).

TABLE 4: FILING OF TAX RETURNS (COMPLIANCE ATTITUDE)

	Mean	Std. Dev.
No difficulty in preparation of tax returns (CPL1)	2.8681	0.86296
Taxpayers' responsibility to claim reliefs and allowances (CPL2)	4.2847	0.48275
Responsibility to pay the correct amount of tax (CPL3)	4.0347	0.21849
Preparation of tax returns is time consuming (CPL4)	3.1042	0.55114
Overall Mean Score	**3.572925**	

Source: Survey (2010)

4.3 Test of Hypotheses

Relationship between Client service and Compliance attitude (Hypothesis 1)

This study also tested the relationship between client service and taxpayers' attitude to compliance. There are indications from Table 5 that there is a significant positive relationship between the perception of the client service and procedures of tax officers and their attitude to filing of tax returns. This relationship is also significant at $r=0.241$ and $p<0.01$.

TABLE 5: CORRELATIONS BETWEEN COMPLIANCE AND PERCEPTION OF CLIENT SERVICE AND PROCEDURES

		CLIENTSERVICE	TAX_RETURNS_FILING
CLIENTSERVICE	Pearson Correlation	1	.241(**)
	Sig. (2-tailed)		.004
TAX_RETURNS_FILING	Pearson Correlation	.241(**)	1
	Sig. (2-tailed)	.004	

** Correlation is significant at the 0.01 level (2-tailed).

Source: Survey (2010)

Relationship between Tax Knowledge and Compliance attitude (Hypothesis 2)

This study also sought to know the relationship between taxpayers' knowledge and their attitude to compliance by testing hypothesis. The results indicate a significant relationship between the knowledge of taxpayers and their attitude to filing of tax returns. This relationship is significant at $r=0.530$ and $p<0.01$ (Table 6). Hence, the more knowledgeable taxpayers are, the more they are likely to comply with companies income tax laws.

TABLE 6: CORRELATIONS BETWEEN TAX KNOWLEDGE AND COMPLIANCE

		TAX KNOWLEDGE	TAX RETURNS FILING
TAXKNOWLEDGE	Pearson Correlation	1	.530(**)
	Sig. (2-tailed)		.000
TAX RETURNS FILING	Pearson Correlation	.530(**)	1
	Sig. (2-tailed)	.000	

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Survey (2010)

Relationship between perception of Governance and Compliance (Hypothesis 3)

This study also hypothesised relationship between perception of governance and taxpayers' attitude to compliance. There are indications from Table 7 that there is a significant positive relationship between perception of governance and taxpayers' attitude to filing of tax returns. This relationship is positive and statistically significant with $r=0.317$.

TABLE 7: CORRELATIONS BETWEEN GOVERNANCE AND COMPLIANCE

		GOV	TAX RETURNS FILING
GOV	Pearson Correlation	1	.317(**)
	Sig. (2-tailed)		.009
	N	144	144
TAX RETURNS FILING	Pearson Correlation	.317(**)	1
	Sig. (2-tailed)	.009	
	N	144	144

** Correlation is significant at the 0.01 level (2-tailed).

Source: Survey (2010)

4.4 Regression Analysis of the full model of the study

TABLE 8: REGRESSION RESULTS

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.633[a]	.401	.388	.23233

a. Predictors: (Constant), GOV, CLIENTSERVICE, TAXKNOWLEDGE

ANOVA

Model		Sum of Squares	df	Mean Square	f	Sig.
1	Regression	5.053	3	1.684	31.202	.000a
	Residual	7.557	140	.054		
	Total	12.609	143			

a. Predictors: (Constant), GOV, CLIENTSERVICE, TAXKNOWLEDGE
b. Dependent Variable: TAX_RETURNS_FILING

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.592	.509		-1.164	.246
	TAX KNOWLEDGE	.485	.057	.566	8.474	.000
	CLIENT SERVICE	.210	.081	.172	2.581	.011
	GOV	.404	.093	.294	4.343	.000

a. Dependent Variable: TAX_RETURNS_FILING

5. CONCLUSION

Tax revenue is a veritable tool for enhancing social and economic development for many nations. Revenues generated by government to date are insufficient to meet our developmental needs. There is therefore need to re-position the tax system to fully exploit Nigeria's potential to be among the developed economies of the world. While tax evasion has been noted to be one of the major problems militating against revenue generation in Nigeria, it has been suggested that high voluntary compliance could only be achieved if the taxpayers positively perceived the tax administration system. This study, as an effort towards improving tax revenue generation in Nigeria, examined the effectiveness of the Nigerian tax administration system from the perspective of taxpayers' perception of the system.

The study found that tax payers positively perceive the effectiveness of tax administration's structures and procedures; this being corroborated by a moderate level of tax payers' knowledge. The study however found that the system has failed to generate the trust and confidence of taxpayers. The perception of taxpayers on governance practices in tax administration was found to be highly negative. All the variables proposed in the study; Tax payers' knowledge, Perception on governance and Perception on client service and procedures were found to have a significant relationship with the dependent variable, Compliance attitude of taxpayers. The regression model also showed statistical significance. However, contrary to the expectation of the study, Tax payers' knowledge appears to exert a greater impact than perception on governance on compliance attitude. The results reveal a strong positive correlation ($r=0.53$) between Tax payers' knowledge and compliance attitude in comparison to $r=0.371$ between governance and compliance.

6. RECOMMENDATIONS

The findings of the study reveal that tax payers' knowledge exerts the most significant influence on taxpayers' compliance attitude followed by the perception on governance in tax administration. On the basis of this major finding, to improve compliance with Company Income Tax obligations in Nigeria, the study recommends as follows:

i. Improvement on structures: Although the structures and procedures for collection of taxes are rated highly by taxpayers, the high rating is not reflected in the level of taxpayers' knowledge. Increased taxpayers knowledge should result in increased compliance. There is therefore room for improvement in client service and procedures to enhance taxpayers' knowledge. Strategies for improvement include

a. Regular training and retraining of tax officers to keep them abreast of any developments in the tax system so they can properly educate, give advice and continually update taxpayers on changes in the tax laws and their interpretations.
b. Better reward system and career advancement prospects for tax collectors should be put in place to ensure that they are encouraged to give assistance to tax payers without making unethical demands for gratification. This should encourage taxpayers to seek for clarifications and advise where needed. The reward system should be able to discriminate between more or less efficient collectors as adequate reward for good skills and honest efforts can reduce corruption among tax collectors.
c. Deploying information technology to maintain databases of different categories of taxpayers, returns submitted in previous years, time returns were made and a system to remind taxpayers of the expiration of time to make returns. A communication network link between the Corporate Affairs Commission and the tax office may also ensure that all corporate taxpayers are brought into the tax net. A communication network between
d. Commissioning surveys on regular basis to assess the effectiveness of the system and gain knowledge on difficulties faced by taxpayers to enable timely corrective actions.

ii. Improvement on governance issues: The tax system should focus on improving the confidence of taxpayers in the fairness and accountability of the system through the following:
a. Putting in place effective mechanisms to track companies' financial activities such as acquisitions to ascertain the reasonableness of returns submitted. Tax administration should be seen as being fair in ensuring compliance by publicly prosecuting tax offenders.
b. The use of tax consultants in collecting tax revenue should be done with caution. The use of consultants for collecting certain taxes which are easily deductible from source may be construed as a means of diverting tax revenue that should have accrued to government into individual pockets.
c. Developing mechanisms to communicate to the public the extent to which tax revenue contribute to the provision of infrastructure and services for public benefit.

iii. Stakeholders' involvement: Tax payers' contributions to fiscal policy formulations should be sought and their interest taken into consideration to enhance acceptance of such policies and ultimately their compliance attitude. Private sector organizations such as the Manufacturers' Association should be more actively engaged, A communication network between such groups and the tax authority would provide a more co-operative system.

REFERENCES

Ariyo, A. (1997). *Productivity of the Nigerian tax system: 1970 – 1990 AERC* Research paper 67, African Economic Research Consortium, Nairobi, November.

Australian Taxation Office – ATO (1996). 'Small business attitudes to tax compliance: A pilot research study for the ATO'. *Danger Research Group*.

Ayua, I. A. (1999). *The Nigerian tax law*. Ibadan: Spectrum Law Publishing.

Babalola, R. (2009). *Boosting government revenue through non-oil taxes*. Retrieved on October 13, 2010 from http://www.economicconfidential.com/june09features remitax.htm.

Baiyewu, F. A. (2000). *Nigerian taxation: A practical approach*. Egbe Kogi: Bhoti International Publishing Ltd.

Braithwaite, V. & Ahmed, E. (2005). A threat to tax morale: The case of Australian higher education policy, *Journal of Economic Psychology,* 26(4), 523.

Christensen, A. L., Weihrich, S. G., & Newman, M. D. (1994). The impact of education on perceptions of tax fairness, *Advances in Taxation,* 6, 63-94.

Coleman, C., Freeman, L., & Wang, P. (2001). Honesty is the best policy – but not for me: Research into motivations for taxpayers' compliance, Paper 16. Paper presented at the Australian tax Teachers' Association Conference.

Eriksen, K. & Falian, L. (1996). Tax knowledge and attitudes towards taxation: A report on a quasi-experiment, *Journal of Economic Psychology*, 17, 387-402.

Etzioni, A. (1986). Tax evasion and perception of tax fairness : A research note, *The Journal of Applied Behavioral Science,* 22(2), 177-185.

Fafunwa, A. B. (2005). Collapse in educational system: Our collective failure, *The Guardian*, October: 30.

Federal Inland Revenue Service (Establishment) Act 2007. Retrieved on October 13, 2010, from http://www.firs.gov.ng.

Fisher, R. & Warpole, M. (2005). *Global challenges in the tax administration*, downloaded on May 19, 2009 from http://www.accountingeducation.com/subsites/fiscal publications/index.html.

Hurwich, D. (2001). Tax avoidance discussed, *The Chartered Institute of Taxation*. Retrieved on April 17, 2009 from http://www.tax.org.uk/showarticle.pl?id=491&n=379.

Ijewere, E. I. (1991). Past, present and future of Tax legislation in Nigeria. A Paper presented at a National Workshop on Tax Structure and Administration in Nigeria. Lagos, 15-17 May.

Institute of Chartered Accountants in England and Wales (ICAEW) (2007), *TAXREP 65/07: Key Tax Issues for the 2007 Pre-budget Report* [online document]. Retrieved on April 11, 2009, from http://www.icaew.com/index.cfm? route=151703.

Kaldor, N. (1980). *The role of taxation in economic development: Essays on economic policy I*, London: Duckworth.

Kidd, M. & Crandall, W. (2006). Revenue Authorities: Issues and Problems in evaluating their success, Washington: International Monetary Fund. WP/06/240.IMF Working Paper 95/22.

Lambo, E. (2005). Minister decries state of health system. *The Guardian*, October: 13.

Lewis, A. (1982). *The Psychology of Taxation.* Oxford: Martin Robertson.

Long, S. B. & Swingen, J. A. (1988). The role of legal complexity in shaping taxpayer compliance. In Van Koppen, P.J., Hessing, P.J.D. and Van den Heuval, G. (eds.) (1988), *Lawyers on Psychology and Psychologists on Law*, 127–146 (Amsterdam: Swets and Zeitlinger).

Lymer, A. & Oats, L. (2008). *Taxation Policy and Practice*, (14th ed.). Birmingham: Fiscal Publications.

Mansfield, C. Y. (1988). Tax administration in developing countries: An economic perspective, *International Monetary Fund Staff Papers,* 35(1), 181-197.

Nigerian Business Directory Index (2009).

Noble, P. (2000). *Qualitative research results: The New Zealand cash economy - A study of tax evasion amongst small and medium businesses*, A paper presented at the CTSI 1st International Conference.

Nwachukwu, I., (2006). Institutions indulge in tax evasion despite huge profits they make in Nigeria. *The Tribune,* September: 1

Obaji, C. (2005). Nigeria cannot justify ₦40billion spent on education, *The Punch*, Oct. 19.

Olaofe, E. O. (2008). Overview of tax administration and the three tiers of government in Nigeria, *ICAN Students' Journal*, 12(2), 7-15.

Olatunde, J. O. (2007). *Tax evasion, tax avoidance and corruption: An interface with source of finance for development in Nigeria.* Retrieved on April 4, 2009 from www.google.com.

Oloyede, I. O. (n.d) *Repositioning the Nigeria's Tax System: Suggested policy measures.* Retrieved on August 30, 2010 from www.unilorin.edu.ng/publications/Repositioning%20The%20Nation.doc.

Organisation for Economic Co-Operation and Development (2004). *Monitoring Taxpayers' Compliance: A Practical Guide Based on Revenue Body Experience, Final Report by Centre for Tax Policy and Administration.* Retrieved on May 18, 2009 from www.oecd.org/dataoecd/51/13/40947920.pdf.

Orviska, M. & Hudson, J. (2003). Tax evasion, civic duty and the law abiding citizen, *European Journal of Political Economy,* 19(1), 83 – 102.

Richardson, M. & Sawyer, A. J. (2000). A taxonomy of the tax compliance literature: Further findings, problems and prospects, *Australian Taxation Forum*, 16(2), 137–320.

Ritsema, C. M., Thomas, D. W. & Ferrier, G. D. (2003). Economic and behavioral determinants of tax compliance: Evidence from the 1997 Arkansas Tax Penalty Amnesty Program, A Presentation at the 2003 IRS Research Conference, June 2003.

Schmidt, P. (2004). On perceptions of fairness: The role of valuations, outside options, and information in ultimatum bargaining games, *Experimental Economics,* 7, 49.

Sikka, P. & Hampton, M. P. (2005). The role of accountancy firms in tax avoidance: Some evidence and issues, *Accounting Forum*, 29(3), 325-343.

Soyode, L. & Kajola, S. O. (2006). *Taxation: Principles and Practice in Nigeria*, (1st Ed.). Ibadan: Silicon.

Tan, L. M. & Veal, J. (2003). Debt collection by tax authorities: Tax practitioners' reactions to procedures, *Australian Tax Forum*, 18, 243-64.

Tanzi, V. & Pellechio, A. (1995). The reform of tax administration, *IMF Working Paper* 95/22 (Washington: International Monetary Fund).

Thurman, Q. C., John, C. S. & Riggs, L. (1984). Neutralisation and tax evasion: How effective would a moral appeal be in improving compliance to tax Law, *Law and Policy*, 6, 309–207.

Torgler, B. (2003). Tax morale in Asian countries, *Journal of Asian Economics*, 237.

Torgler, B. (2003). To evade or not to evade: That is the question, *Journal of Socio-Economics,* 32, 283-302.

Vogel, J. (1974). Taxation and public opinion in Sweden : An interpretation of recent survey data, *National Tax Journal,* 27(4), 499-513.

Wearing, A. & Headey, B. (1995). The would-be tax evader: A profile, Compliance Research Conference on *Measurement, Evaluation and Risk Management*. Canberra: 12.

Wenzel, M. (2002). An analysis of norm process in tax, *Journal of Economic Psychology,* 25(2), 213-228.

Williamson, M. & Wearing, A. (1996). Lay people's cognitive models of the economy, *Journal of Economic Psychology,* 17, 3.