

# Government Accountability and Voluntary Tax Compliance in Nigeria

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## ABSTRACT

This study examines the nexus between government accountability and voluntary tax compliance based on the theoretical framework that there exist a relational fiscal/social contract between the state and the citizens. Specifically, the hypothesis that voluntary tax compliance is influenced by the individuals' perception of government accountability was specified and tested. Primary data elicited using structured likert scale questionnaire was used for the study while the Z- scores were computed and used to test the hypothesis. The Findings were in the affirmative indicating that the citizens' perception of government accountability is an instrumental factor that shapes the emergence and maintenance of tax morale resulting in voluntary tax compliance. The study recommends is that to reduce tax gap, voluntary compliance should be motivated by improving the quality of public governance.

**Keywords:** voluntary tax compliance, tax morale, government accountability.

## 1. INTRODUCTION

In Nigeria, the need to improve voluntary tax compliance has resulted in the various tax reforms attempts by various successive governments. Suffice to mention that these reforms have not been able to stimulate the expected increase in tax revenue over the years, and this has snowballed into an unarguable tax gap as revealed in the share of income taxes in total revenue profile of the country. The evidence from statistical records shows that the proportion of income taxes to the government's total revenue has been abysmal (Asada, 2005; Kiabel and Nwokah, 2009; Nzotta, 2007; CITN, 2010; Odusola, 2006; Sani, 2005). This poor tax compliance behaviour often referred to in the literature as the "compliance puzzle" is a challenging experience across countries but suspected to be more critical in developing economies. In retrospect, the prevailing orthodoxy in modeling tax compliance behaviour has been in line with the economics-of-crime approach based on the expected utility maximization calculus model by Allingham and Sandmo (1972). The model presents and specifies the extent of compliance as positively correlated with the probability of detection and the degree of punishment and identified tax rate, penalty and detection probability as factors influencing taxpayers' behaviour. In modelling tax compliance, the answer under the traditional theory of compliance implied by the Allingham and Sandmo's model is fear of detection and punishment. However, this model has been found to be inadequate in explaining the motives and intentions for tax compliance (for example, Graetz and Wilde, 1985, Alm, McClelland and Schulze 1992; Frey and Feld, 2002). The argument is that tax compliance may be subdivided into compliance resulting from enforcements or influence of tax authorities and voluntary compliance. While the Allingham and Sandmo (1972) model provides justification for the proportion of total compliance signaled by enforcements which may be specified as a function of penalty and detection probability, it does not provide explanations for what may inspire voluntary compliance, that is, complying with the tax laws without being compelled by the tax authority to do so.

This leads to a logical question which interestingly extends the compliance issue; what would lead citizens to behave more honestly, provide correct information and improve the tax compliance rate voluntarily? One answer to this question is the existence of an intrinsic motivation to pay taxes, which have been sometimes called, "tax morale" (Feld and Frey, 2002). Tax morale has evolved as an instrumental component in understanding voluntary tax compliance using a more integrated approach with a bias for non-economic factors.

This study argues that the citizens' perception of government accountability is an instrumental factor that shapes the emergence and maintenance of tax morale resulting in voluntary tax compliance. The underlining framework according to Sacks and Levi (2005) is that there is a social contract that defines the relationship between the government and the governed. Levi (1988) argues that if it is perceived by the taxpayers that the rate of transformation from tax to public goods is low then the taxpayers will feel that the government has not kept its obligation of the contract, as a result, the tax morale will be affected negatively which would result in deteriorating voluntary compliance. Thus voluntary compliance, particularly in contemporary states, may be seen as a function of the citizens' assessment that government upholds the fiscal contract with its citizens and meets prevailing standards of procedural fairness in delivering public services.

In Nigeria, there are indications that the institution of governance at all levels is entangled in a web of public distrust and declining public confidence (Natufe, 2006; Abati, 2006). Elaigwu (2002) notes that there is a big gap between the rhetorics of transparency and accountability on the one hand and demonstrable commitment to values in the actions of the political actors, on the other hand. In another perspective, Onyegbula (2000) has pointed out that optimistic expectations from government have all been dashed with the increasing loss of accountability even in the midst of a representative democracy. The trend is worsened by the wide gap between government official pronouncements and actions. In the light of the above, there is a need to investigate the nexus between citizens' perception of government accountability and voluntary tax compliance and hence the justification for the study. To achieve this purpose, this paper is structured into the following parts: Introduction, The Literature Review, Methodology, Presentation of result, Analysis of result, Conclusion and Policy Recommendation.

## **2. LITERATURE REVIEW**

### **2.1 Taxation and Governance: The Historical Experience**

Historically, the formation of accountable and effective states has been closely bound up with the emergence of taxation systems (Moore, 2007). Evidence from Western Europe and later in North America show that equally beneficial arrangements between government and taxpayers help to give governments an incentive to promote broad economic prosperity and improve public policies in ways that meet citizens' demands. The OECD (2008) report on "governance, taxation and accountability" indicated that the recognition of the existence fiscal social contract was central to explanations of how representative government and democracy emerged in Western Europe and the United States. Citizens accepted obligations to pay tax in return for rights to be represented in processes of decision-making about how public money was raised and spent. American colonists in the 18th century captured this expected tacit contract between the state and the citizens in their famous protest, "no taxation without representation" (OECD, 2008). Brewer (1989) and Tilly (1992) explained that notably in Britain and the Netherlands from the mid-17th Century, governments actually were involved in tax negotiations with tax payers that were based on some form of reciprocity that created joint gains to both government and taxpayers. The fact that tax was negotiated and the "rules of engagement" specified, meant that voluntary tax compliance was more or less the norm and tax collection became less costly to administer, less onerous and more predictable. This encouraged governments to undertake better long-term planning and businesses were encouraged to invest. Taxpayers in parliament adopted mechanisms to oversee revenue-raising and public expenditure management (Tilly, 1992).

### **2.2 Voluntary Tax Compliance: Concept and Issues**

The need to examine the issue of voluntary tax compliance as a subset of the broader body of knowledge on tax compliance as emerged, motivated by the inadequacies of the prevailing orthodoxies on tax compliance to capture the proportion of total compliance not accounted for by economic models. Allingham and Sandmo (1972) in their proposition based on economic perspective of tax compliance which provided a considerable basis for enforcement strategies to ensure compliance had argued that tax rate, penalty and detection probability are the factors influencing taxpayers' behaviour. In modelling tax compliance, the answer under the traditional theory of compliance implied by the Allingham and Sandmo's model is fear of detection and punishment. However, the model has been criticized and several studies have shown the limitations of enforcement strategies (e.g., Graetz and Wilde 1985, Alm, McClelland and Schulze 1992, Frey and Feld 2002). Specifically, Kornhauser (2007) submitted that this deterrence theory, however, accounts for only a minor portion of actual compliance levels. It has such poor explanatory power because it assumes that the decision to comply is based solely on a cost-benefit analysis in which people rationally weigh the benefits of non-compliance against the costs of detection and penalties. In this regards, Frey (1997) demonstrates that intrinsic motivation are also relevant for explaining compliance behaviour. The opinion of Frey (1997) is suggestive as stated previously, that there is unattended proportion of systematic compliance unexplained by enforcement mechanisms and the general deterrence theory and this creates the platform for examining voluntary compliance. In his contribution, Kirchler (2007) submitted that compliance might be voluntary or enforced compliance. Voluntary compliance is made possible by the trust and cooperation ensuing between tax authority and taxpayer and it is the willingness of the taxpayer on his own to comply with tax authority's directives and regulations. Also, Voluntary Tax Compliance is a tax system based on taxpayers complying with the tax laws without being compelled by the tax authority to do so. Under this system taxpayers are expected to report their income, calculate their tax liability and file a tax return (Quadri, 2010).

Lubian and Zarri (2011) argue that several empirical studies have shown that taxpayers are more honest and may respond voluntarily in the fulfillment of their tax obligation than classic deterrence models inspired by the economics of crime approach would predict. They argued further that citizens may be driven by a positive moral attitude towards taxation thus it may not be appropriate to specify compliance behaviour as a purely

economic decision under uncertainty or simply a function of enforcements. Researchers (Frey and Feld 2002, Feld and Tyran 2002, Frey and Torgler 2002) have attributed the response of voluntary compliance to a set of intrinsic motivation or attitude often referred to as tax morale. Tax morale emphasizes that taxpayer' internal motivations, social norms, personal values, cognitive processes and sense of moral obligation to pay taxes can help to explain the motivation for voluntary tax compliance. Thus positive morale may signal higher voluntary compliance while negative morale will signal lower voluntary compliance. Several studies have identified the factors that may elicit and maintain tax morale and stimulate voluntary tax compliance. According to Torgler and Schaltegger (2007) Socio-demographic factors which are generally agreed to be critical determinants of behavior have also been observed to influence tax morale. Most theories regarding the effects of socio-demographic factors on compliance behavior have been developed by social psychologists. Tittle (1980) argues that females may exhibit stronger positive tax morale suggestive of higher voluntary compliance than males. Tittle (1980) argues further that the reason could be that females are more risk averse than males.

According to Kirchgässner (2003), religiosity, measured as church attendance and the perceived degree of religiosity may also play a role in tax morale and voluntary compliance as those who take their religion to heart may find attempts at non compliance as been "unrighteous". The finding of Torgler and Schaltegger (2007) also support this view as their results suggested a positive correlation between church attendance/religiosity and tax morale. Blumenthal, Christian and Slemrod (2001) reporting findings from a field experiment, identified the impact of moral persuasion on voluntary income tax compliance.

Levi (1988) argued that if it is perceived by the taxpayers that the rate of transformation from tax to public goods is low then the taxpayers will feel that the government has not kept its obligation of the contract, as a result, the tax morale will be affected negatively which would result in deteriorating voluntary compliance. The OECD (2007) equally submitted that delivery of quality of service to taxpayers will strengthen their willingness to comply with tax rules and regulation voluntarily as result will contribute to overall level of tax compliance. Cowell (1992) argued that the individual's perception of personalized inequity or equity can be rationalized and reflected in their tax morale and compliance behaviour.

### **2.3 Government Accountability as a Framework for Voluntary Tax Compliance**

That taxation is bedrock for states to fulfill their responsibility and ensure their continuity is an unarguable axiom. As Rakner and Gloppen (2002) notes for most countries taxation goes hand-in hand with economic growth and taxes have become the lifeblood for governments to deliver essential services and to make long-term investments in public goods. The nexus between government accountability and voluntary tax compliance has emerged as a non-economic approach to modelling voluntary compliance based on the recognition that there exist a relational social contract between the state and the citizens.

According to Baskaran and Bigsten (2010), the state's fiscal capacity is influenced by the strength of this social contract. The social contract is bounded and strengthened by accountability relations between parties involved. Moore and Rakner (2002) notes that generally, accountability relations involves at least two parties; the one who has been entrusted with something that gives rise to the accountability obligation, and the principal who gave the mandate in the first place, or an agent delegated this authority. Democratic accountability is a special case where the principal is "the people" and the parties owing accountability are those entrusted with political power. Within the context of this social contract, voluntary tax compliance has been specified as a plausible outcome dependent on the perception of the principal that the terms of the social contract are been met.

According to Rotberg and Gisselquist (2009) it seems there is correlation between perception of governance accountability score and income tax revenue performance, for instance Nigeria had 2.5% as income tax ratio and good governance score of 49.6 %; South Africa was having 14.4 and 69.4% while Uganda had 3.8 and 57.9% respectively in 2006. Individuals in a given state accept and trust their government in general and voluntarily complies with the tax burden in particular, if the government and/or the state provide them with conditions that enhance and protect their human dignity, trigger their morality and respect for moral norms.

Tansey (1995) argues that for the citizens to have a sense of obligation to the state there must be a rational relationship between the citizens and the state. Tyler (1998) in his opinion submitted that this obligation is a basic requirement of the relationship between the citizens and the state suggesting that citizens are not an unwilling element, but a conscious and voluntary partner in such a relationship. Thus, for citizens to demonstrate support for the government, the state must have been seen to play its part. In this regards, Azeez (2009) notes that political obligation therefore is a function of the extent to which the state can better the lots of her citizens. If governments are perceived as accountable, more people will pay their taxes "voluntarily", which lowers the need for coercion and generally reduces the costs of tax-collection. Conversely, if people do not see their governments as accountable, there is an increased likelihood that state demands for (new or higher) taxes will be met with protest and violence that is costly and might even jeopardize the position of those in power.

According to Everest-Phillip and Sandall (2009) the public perception of government accountability can influence of tax morale and tacitly, voluntary compliance. Both authors argued that through payment of taxes the government is able to meet its obligations to the people. It follows therefore that how government goes about in fulfilling these obligations should matter to the taxpayers because they provide the finance for its sustenance. As a result, governance affairs may have either positive or negative influence on the tax morale of taxpayers. The tax function creates a relational vertical contract between government and taxpayers which Lassen (2003) defined the expectation of requisite public goods in exchange for taxes paid as the terms of that vertical contract. According to the argument of quid pro quo, complying with tax law provision depends in part, on whether the political goods provided by the government are sufficient in return to the taxes they are paying.

Levi (1988) argues that if it is perceived by the taxpayers that the rate of transformation from tax to public goods is low then the taxpayers will feel that the government has not kept its obligation of the contract, as a result, the tax morale will be affected negatively which would result in deteriorating voluntary compliance. Taxpayers are sensitive regarding the way the government uses the taxes and as such the tax morale may be represented as a reflection of an input-output relation between what an individual pays with his/her taxes and what comes back from the government. Thus, individuals' tax morale might be influenced by rationalizing the benefits received from the government in form of public goods with taxes payed. Individuals might feel cheated if taxes are not spent adequately which may result in tax morale been crowded out.

Akpo (2009) equally stated that good governance entails the provision of quality public goods to the public and that where government fails to provide public amenities and infrastructure to the citizen in exchange for tax payment, citizen may become reluctant to pay tax. The study of Alm and Gomez (2008) established significant positive association between perception of the benefits to be derived from political goods and the willingness of taxpayers to comply with tax laws. Natufe (2006) argued that Nigeria is experiencing a fundamental crisis in public governance. In a similar vein, Abati (2006) notes that the state of decay in Nigeria's public infrastructure and economic activity are reflection of poor public governance quality and the low tax morale and voluntary compliance may have become the aftermath effect.

Moore (1998) in explaining the weakness of tax-accountability relations in African countries, argued that aid and aid dependency has thwarted the development of a reciprocity based fiscal contract and the general governance accountability system. According to this perspective, the more states depend on unearned income the less accountable they will be towards their citizens and the more a state earns its income through the operation of a bureaucratic apparatus for tax collection, the more the state needs to enter into reciprocal arrangements with citizens about provisions of services and representation in exchange for tax contributions (OECD, 2008). In the light of the extant literature, the following hypotheses are stated for the purpose of the study.

*H<sub>0</sub>: Voluntary tax compliance is not influenced by the individual's perception of Government accountability.*

*H<sub>1</sub>: Voluntary tax compliance is influenced by the individual's perception of Government accountability.*

### 3. METHODOLOGY

Survey research design was used in this study. This research strategy was considered necessary because of its ability to view comprehensively and in detail the major questions raised in the study (Spector 1981; Denscombe, 2003). The scope of the study covers tax payers in the six geopolitical zones of Nigeria which are: South-South, South-West, South-East, North Central, North-East and North-West. The simple random sampling technique was employed in selecting the 600 participants consisting of 100 each from the geopolitical zones. Primary data was elicited using structured likert scale questionnaire as the research instrument. The primary data collected were analyzed using both descriptive and inferential statistics. The hypotheses formulated for this study are tested with the use of statistical test for population means and level of significance tests. The study also made the some necessary assumption; that the scores collected are normally distributed and scores for each of the statements are independent of one another. The data scores were converted into standard normal distribution and thereafter calculation of Z-score is done in order to make inference after obtaining the p-value of the statements. This was done at a five percent (5%) level of significance. The methodology adopted in this study is consistent with other related studies like McGee and Maranjyan (2006) and Nasadyuk and McGee (2006), Fagbemi, Uadiale and Noah (2010). The data was analyzed using procedures within Statistical Package for Social Sciences (SPSS).

4.

**PRESENTATION AND ANALYSIS OF RESULTS**

**Table 1**

Cronbach Reliability Test

Cronbach alpha	No of items
.658	13

**Source:** SPSS output, 2012

Table 1 examines the properties of measurement scales and the items that compose the scales. The cronbach coefficient for the study performs fairly with a value of .656 and this indicates that the scales and the items of the research instrument show some measure of internal consistency.

**Table 2**

Factors Influencing Voluntary Tax Compliance

SN	Statement	Mean	Standard deviation
1	Perception of tax fairness and equity	2.08	1.03
2	Treatment by tax authorities	2.13	1.22
3	Perception of governments been considerate of citizen plight	3.24	1.22
4	Perceived level of government accountability	4.11	0.46
5	Tax rate is too high	3.28	1.98
6	Provision of public goods	4.32	0.32
7	Probability of detection and punishment	4.01	1.16
8	Political party in power	3.32	1.21
9	Being Religions	2.14	5.12
10	Easy understanding of tax laws	3.34	1.42
11	Ethics and morality; the feeling that tax is an obligation	4.21	1.42
12	Satisfaction with governments performance	4.5	1.90
13	Positive peer attitude i.e. a belief that your neighbors, friends engage in voluntary tax compliance	3.10	1.12

**Source:** Field Survey, 2012

From table 2, the mean values of statements 1, 2 and 9 which stabilizes around 2, indicates that the likert scale which assumes a value of 2 for the option “disagree” suggests that “perception of tax fairness and equity”, “treatment by tax authorities”, and “being religious” respectively is identified as unlikely factors to influence voluntary tax compliance. The mean value of statements 3, 5, 8 and 12 which stabilizes around 3 and indicates that the likert scale assuming a value of 3 for the option “Undecided” reflects the opinion of respondents on the role of “Probability of detection and punishment”, “Political party in power”, “Easy understanding of tax laws”, “Tax rate is too high” and “Positive peer attitude” can play in stimulating voluntary tax compliance. This suggests effects of these factors may not be certain as the factors may or may not stimulate voluntary tax compliance. The mean value of the statements 6, 7, 11 and 12 hovering around an average value of 4 (agree) reveals that the respondents agree that “Provision of public goods”, “Perception of governments been considerate of citizen plight”, “Satisfaction with government’s performance”, “Ethics and morality” can play a considerable role in stimulating voluntary tax compliance.

**Table 3**

Normalized Z-scores for the Means of the Response for Each Factor (statement)

SN	Statement	mean	Standard deviation	Z Score	Z <sub>0.05</sub>	Decision result for Hypothesis
1	Perception of tax fairness and equity	2.08	1.03	8.93	1.64	Accept
2	Treatment by tax authorities	3.32	1.22	-2.62	1.64	Accept
3	Perception of governments been considerate of citizen plight	3.24	1.22	-1.96	1.64	Accept

4	Perceived level of government accountability	2.90	0.46	2.17	1.64	Accept
5	Tax rate is too high	3.28	1.98	-1.4	1.64	Reject
6	Provision of public goods	2.82	0.32	5.63	1.64	Accept
7	Probability of detection and punishment	2.84	1.16	1.37	1.64	Reject
8	Political party in power	3.32	1.21	-2.64	1.64	Accept
9	Being Religions	2.84	5.12	0.31	1.64	Reject
10	Easy understanding of tax laws	3.34	1.42	-2.39	1.64	Accept
11	Ethics and morality; the feeling that tax is an obligation	4.21	1.42	-8.52	1.64	Accept
12	Satisfaction with governments performance	4.5	1.90	-7.89	1.64	Accept
13	Positive peer attitude i.e. a belief that your neighbors, friends engage in voluntary tax compliance	3.10	1.12	-0.89	1.64	Reject

**Source:** Field Survey, 2012

From table 3, the z-score for the responses to the questionnaire items are computed and juxtaposed with the z-table value of 1.64 at 5% significance level. The analysis indicates that the proposition that “Perception of tax fairness and equity” can influence voluntary tax compliance is accepted at 5% significance level as the computed z value of 8.93 exceeds the table value of 1.64. The proposition about the influence of “Treatment by tax authorities”, “Perception of governments been considerate of citizen plight” and “Perceived level of government accountability” are all accepted at 5% level as the absolute values of the computed z scores; 2.62, 1.96 and 2.17 respectively exceeds the table value of 1.64. Also, the z scores for “Provision of public goods”, “Political party in power” and “Easy understanding of tax laws” of 5.63, 2.64 and 2.39 in absolute values respectively exceeds the 1.64 table z value and suggest their relevance in influencing voluntary tax compliance. However, on the role of “Probability of detection and punishment” in influencing tax compliance, the finding suggest it’s ineffectiveness in influencing voluntary tax compliance as the Z score of 1.37 is less than the 1.64 table value. A similar effect is also observed for “Positive peer attitude”, “Being Religions” and “Tax rate being too high “with Z- scores of 0.89, 0.31 and 1.4 in absolute values respectively.

The findings for “Being Religions” is at variance with that of Torgler and Schaltegger (2007) which found the religiosity affects voluntary tax compliance. The finding for “Perception of tax fairness and equity” is similar with that of Cowell (1992) and Falkinger (1995) which argued that the individual’s perception of personalized inequity or equity can be rationalized and reflected compliance behaviour. Findings for “Perception of governments been considerate of citizens plight” “Perceived level of government accountability”, “Satisfaction with governments performance” and “Provision of public goods” is consistent with that of Everest-Phillip and Sandall (2009), Levi (1988) and Lassen (2003) which argues the tax function creates a relational vertical contract between government and taxpayers and the expectation of requisite public goods in exchange for taxes paid as the terms of that vertical contract which when fulfilled has potentials for eliciting voluntary tax compliance. The finding for “Treatment by tax authorities” is in line with that of Brysland and Curry (2001), Proctor, (2007) and Ott (1998) which submits that the public perception about the service delivery system of tax administration affects tax morale and voluntary compliance. The finding for “Probability of detection and punishment” is in line with the opinion of Frey and Feld (2002) that compliance is not fully explained by the rewards and punishments and other penalties or the probability of audits. The finding for “peer attitude” is at variance with that of Toumi, Hasseldine, Hite, James and Conner (2000).

## 5. HYPOTHESES TESTING

In testing the hypothesis that Voluntary tax compliance is influenced by the individual’s perception of Government accountability, items 3, 4, 6 and 12 are utilized. The statements are “Perception of governments been consideration of citizen’s plight” “Perceived level of government accountability”, “Satisfaction with government’s performance” and “Provision of public goods” respectively. As seen from Table 2 and the subsequent analysis of result the computed Z-scores for the statements exceed the table z value of 1.64 at 5% significance level. Therefore, we reject the null hypothesis and accept the research hypothesis that Voluntary tax compliance is influenced by the individuals’ perception of Government accountability.

## 6. CONCLUSION AND RECOMMENDATION

This study has made effort to provide empirical evidence that governments’ fulfillment of social/fiscal contract with their citizens significantly encourages voluntary tax compliance. The interface between

behavioural analysis and the purported rational and economic models of tax compliance may after all be the new synergy if the alarming tax gap is to be reduced. In this regards, the nexus between government accountability and voluntary tax compliance was examined and tested based on the recognition that there exist a relational social contract between the state and the citizens. The findings are in the affirmative indicating that the citizens' perception of government accountability is an instrumental factor that shapes the emergence and maintenance of tax morale resulting in voluntary tax compliance. Thus voluntary compliance, particularly in contemporary states, may be seen as a function of the citizens assessment that government upholds the fiscal contract with its citizens and meets prevailing standards of procedural fairness in delivering public services.

The recommendation is that effort must be made by governments at all levels to engage in activities that indicates their sense of accountability to Nigerians. The perception of quality of governance should be improved by actually imbibing the tenets of representative democracy. The tax authorities must also re-strategize and utilize the findings from behavioral models on the determinants of voluntary compliance.

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