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IMPLICATION OF TAX MORALE AND COMPLIANCE ON ECONOMIC GROWTH IN NIGERIA, 2006 – 2017

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ABSTRACT
The study explores the implications of tax morale and compliance of taxpayers in Enugu and Ebonyi states and their impacts on economic growth in Nigeria (2006 – 2017). Ex-facto research design was used in order to capture the periods under review. Data for the study were collected from Federal Inland Revenue Services ((FIRS), official websites of Central Bank of Nigeria and World Bank. The paper used multiple regression analysis as its statistical tool to analyse the data collected. The analysis revealed that relationship exists among the independent and dependent variables however not significant. Among the recommendations was that the government should motivate the taxpayers by providing social infrastructure like good road, pipeborn water, electricity etc.

Introduction
Taxation remains one of the major sources of income to governments, locally and globally. However, Ogechi and Ihendinihu (2016) posit that there is hardly a more contentious issue in public finance than those associated with taxation in corroboration of this assertion, Nosakha, Augustine and Chijioke (2013) aver that tax morale and compliance has remained a critical factor of challenge affecting tax revenue and economic growth especially in developing countries including Nigeria. In Nigeria various tax reforms of 1998, 2004 and 2011 have not been able to stimulate the expected increase in tax revenue accruable to the governments for economic growth. According to (Asada, 2005; Kiabel and Nwokah, 2009, Nzotta, 2007; Olusola, 2006; Sani, 2005) in Noshakara et al (2013) proportion of income taxes to the government's to total revenue has been abysmal pointing out to the fact that non-oil revenue to total revenue of government of Nigeria has been dropping in percentage. As Cobhan, 2005, CITN, 2010, IMF, 2005 put it, non-oil revenue to total revenue of Nigeria government dropped from 19.8% in 1999 to 11.7% in 2008 and 11% in 2009, the lowest in West Africa and below the 15% recommended for low income countries. Previous researchers on taxation have identified tax morale and tax compliance as one of the factors that led to this low percentage in revenue generation.

The Concept of Tax Morale and Tax Compliance
Tax morale is described as inherent motivation in the taxpayer to pay taxes. It therefore implies that the higher the degree of this motivation in the taxpayers the more they comply with tax payment. This view is supported by (Andreoni, Erard and Feinstein, 1998; Hart and Frey, 1994; Frey, 2003). In the same vein, (Frey and Torgler, 2002; Feld and Tyran 2002) argue that tax morale which emphasizes taxpayers internal motivations, social

norms, personal values and cognitive processes has critical causal implications on tax compliance.

Komhauser (2007) notes that components of tax morale include procedural fairness, trust, legitimacy, identification with the group and reciprocity. He equally argues that demographic factors such as age, gender and education also correlate with tax morale. Tax morale therefore, is identified as the missing link in the tax compliance puzzle (Nosakhara et al, 2013). It is true that no one pays taxes laughing because of its reduction effects on the disposable income of the taxpayers, yet taxes are inevitable for provisions of social welfare. It is also worthy of noting as Asue (2015) puts it, that the call for tax payment in Nigeria is both divine and constitutional.

By divine injunction, Mathew 22:17 – 22 (KJV) records that "Tell us then, What is your opinion? Is it right to pay taxes to Caeser or not? But Jesus knowing their evil intent, said, you hypocrites, why are you trying to trap me? Show me the coin used for paying the tax. They brought him a denarius and he asked them, whose portrait is this? And whose inscription? Caeser's they replied. Then he said to them, give to Ceaser what is Caeser's and to God what is God's. When they heard this, they were amazed, so they left him and went away.

By constitution, section 24 (f) of the 1999 Constitution of Federal Republic of Nigeria (as amended) provides that; it shall be the duty of every citizen declare his income honestly to appropriate and lawful agencies and pay his tax promptly. Thus tax payment as a matter of fact is a non-negotiable responsibility of all Nigerian citizens. It is against this background that this paper seeks to determine the implications of tax morale and tax compliance on economic growth and development of Nigeria.

Review of Related Literature

Conceptual Review

Globally, taxation is perceived as a civic responsibility and burden that every citizen must bear to aid Government perform certain functions that will help improve life standard of the citizenry. Taxation is seen as one of the major sources of Government revenue since it accounts for over seventy percent of government revenue (Appa and Eze, 2013). The realized through taxation enables government in providing some basic infrastructural facilities such as pipeborne-water, electricity, internet facilities, good roads, security, health facilities etc which contributes tremendously to economic development. According to Afuberoh and Okoye, 2014, as cited in Oladele, Abel and Nancy (2018), tax revenue could be utilized as a social change agent, provided it is employed as an innovative in redirecting the economy. Provision of basic infrastructures lies on the shoulder of the governments (all tiers) as responsibility, heavily hinging on the rate of compliance by the taxpayers. Compliance is considered important because it determines the level of tax revenue accruable to the government. Abiola and Asiweh (2012) in Oladele et al (2018) argues that tax compliance refers to the rate at which taxpayer adheres or fails to adhere to the tax laws of his country. Oladele et al (2018) measures tax compliance in respect of timely payment of tax liabilities, in respect of timely payment of tax liabilities, in respect of filing required return on time and in respect of accurate reporting of income and tax obligations. These three dimensions are considered imperative because imperative because, according to Brown and Mazur (2005), successful tax administration requires taxpayers to cooperate with tax authorities instead of using forceful apparatus, dishonest reporting of income, filing of tax returns and untimely payment of tax liabilities results in aiding the taxpayer to escape his tax bills thereby reducing the revenue accruable to the government.

The morale of the taxpayers is another factor considered imperative in issue of taxation. It is described as the capacity of people to maintain belief in an institution or a goal, or even in oneself and others. It is a strong wheel that propels taxpayers willingness to comply. The stronger the compliance thus, resulting in more revenue accruable to the government expected to result in higher standard of living of the citizenry. Motivational factors such as provision of infrastructures like good road, pipeborn water, electricity, internet facilities, security, good educational system, health facilities, etc increases the morale of the Nigerian taxpayers to comply in tax payments. But according to Silvia et al (2018), Nigerian has continued to grapple with poor infrastructural facilities in recent times. In fact as (Edun, Akinde, Olaleye and Idowu, 2013) as cited in Silvia et al (2018), put it, most of the current infrastructural facilities in Nigeria were developed during the second National Development Plan (1970 – 1974). The near absence of infrastructural facilities has resulted in some firms and investors relocated to other neighbouring countries like Ghana, South Africa etc thereby affecting Nigeria economic growth and development negatively as the departure of such firms results in loss of job and fall in standard of living of the Nigerian citizens affected. This trend goes a long way in damping the morale of taxpayers in compliance to payment of tax. It has also had severe consequences on the economic and social welfare of the people, which often manifests in a lot of youth restiveness, like the Biafra agitation in the East, Niger Delta Avengers in the South amongst other (Silvia et al, 2018).

Another factor to consider in issue of tax morale and compliance is the adjustment of tax rate. Screwing the tax rate higher that is from 5% to 7% simply imply that the taxpayer's tax liabilities is increased by 2% and this may tend to retard his morale to comply. As (Murphy, 2004; Roth, John & Witte, 1989) cited in (Oladele, Abel and Nancy, 2018) put it, the higher the rate of tax the less the compliance to tax. Also, Chiunnya (2006) and Slemrod, Blumethal and Christianah (1985) establish that the marginal rate of tax could cause a remarkable effect on under-reporting. The consequences of this include reduction in income accruable to government through taxation and its negative impacts in provision of infrastructures to boost the economy.
Tax audit is yet another factor that could affect tax morale and compliance. It is a situation whereby the tax return of a taxpayer faces objection and is reassessed by the tax authority in order to correct the dictated anomalies in the return. A threat of this exercise could result in greater compliance by the taxpayer who may prefer to avoid the embarrassment and its associated repayment of under-assessed amount in the return. Tax system is also another factor that could influence tax morale and compliance. According to Adam Smith (1976) a good tax system also known as Adam Smith Cannon of Taxation must have process the following qualities which include: equality which upholds fairness to all taxpayers, economy of the tax system which implies that the amount of tax to be collected must exceed the cost incurred for it, convenience of the system which implies that taxpayers will pay the tax at the time he has the money e.g. pay as you earn (PAYE) and certainty which implies that taxpayer must know the exact amount of tax to pay and when to pay it. All

these qualities of tax system if well maintained will in no small way increase the degree of tax morale and compliance amongst taxpayers in Nigeria.

The Concept of Economic Growth

Economic growth could be said to have taken place or occurred, when unemployment rate, poverty rate, poor security rate, and other rates of infrastructural facilities are drastically reduced so that the GDP of such a nation rises to an appreciable and acceptable size: it depicts a situation where near enough infrastructural facilities, such as employment opportunities, adequate security, investment opportunities, etc exist to aid economic growth and development. Absence of these named variables of economic growth simply implies a situation of economic recession. Economic growth is assessable to good roads, pipeborn water, electricity, internet facilities, security, educational facilities because the existence of these facilities would not only help to attain the required growth but sustain it for a reasonable length of period. In the recent time, Nigeria has been grappled with difficulties in achieving these important goals, hence this study is set out to determine the extent tax morale and compliance have helped in achieving them.

Empirical Review

Appah and Eze (2013) as cited in Oladele et al (2018) examined whether Tax Audit could affect tax compliance in anyway. The study used primary data and descriptive statistics to analyse the data. The study established a positive relationship between Tax Audit and tax compliance, show in that tax audit plays important roles in achieving compliance plan.
Also Abdulsalam, Almustapha and El-Mande (2014) explored the relationship between tax rate and tax compliance in Africa using cross-country data. The study used the multi-stage sampling approach and posits that there was no positive relationship between tax rate and tax compliance. The authors recommend that any country experiencing serious tax violation should reduce her tax rate to the mean tax rate of 29.1985% which is recognized in Africa.

Chrisenda (2007) explores whether infrastructure projects are to be exempted from taxation and also private sector involvement in financing infrastructural development. The author rightly emphasized that infrastructural facilities require huge capital outlay and that government at all levels require capital mobilization from different services to meet the obligation. The author concludes that it is difficult to establish a linkage between taxation and infrastructural financing because of the existence of vast sources of revenue for these infrastructural projects.
For the purpose of clarity and easy understanding, this study adopts theory of classical tax compliance and theory of economic of tax compliance as cited in Oladele et al (2018).
Theory of Classical Tax Compliance
Theory of classical tax compliance or A-S model which depends largely on deterrence theory, holds that taxpayer prefers to make use of the anticipated utilities of the tax evasion risk. In line with this, Mohammed and Mohammed (2012) argue that the theory of deterrence rests on the impact of tax audit and penalty implying that taxpayers comply because of the fear of tax audit and penalty.

Theory of Economic of Tax Compliance

This theory was initiated by the studies of Allingham and Sandmo (1972) and Srinivasan (1973). The theory was anchored the model of economics of crime. It holds that tax compliance rests on three deterrent variables such as tax rate, tax audit and detection possibility. The theory supports imposition of penalty on under-reporting of taxes and under-disclosure of revenue as a deterrent for non-compliance (Wenzel and Taylor, 2004). The fault of this theory as pointed out by Abdulsalam et al (2014) is non-inclusion of the psychological and sociological aspects which portend motivation of individual taxpayer response to tax laws without being compelled or coaxed.

Methodology

Research Design

The study explores the morale and compliance behavior of taxpayers and their impacts on economic growth and development in Nigeria. The data were collected from FIRS, official website of CBN and World Bank. In other words the paper used Ex-Post-Facto research design since it requires quantitative data to capture the periods under review.

The model specification is stated thus,

Y = TM + TC + GE & GDP and proxies as:

Y = Economic growth and development

TM = Tax morale of the taxpayers (companies)

TC = Tax compliance of registered companies

GE = Government expenditures on relevant infrastructures

GDP = Increase/decrease in GDP

The model is modified as shown below:

$Y = \beta_0 + \beta_1 TM + \beta_2 TC + \beta_3 GE + \beta_4 GDP + \varepsilon$

where

Y = Economic growth and development (EGD)

β_0 = the intercept or constant,

$\beta_1 - \beta_4$ = the parameters

ε = error terms

Apriori expectation is that β_1, β_2, β_3, and $\beta_4 > 0$

Results and Discussion

The results of the ordinary least square multiple regression analysis is presented in the tables below.

Table 1: Summary OLS Results between tax morale and compliance on economic growth in Nigeria

Dependent Variable: Y = Economic growth and development
Method: Least Squares
Date: 03/16/19 Time: 13:34
Sample: 1 12
Included observations: 12

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	24.74361	15.46845	1.599618	0.1537
TM	3.612582	7.702569	0.469010	0.6533
TC	0.070647	0.170828	0.413556	0.6916
GE	-0.015794	0.017456	-0.904834	0.3956
GDP	0.000181	9.93E-05	1.819705	0.1116

R-squared	0.350198	Mean dependent var	34.56750
Adjusted R-squared	-0.021117	S.D. dependent var	7.714818
S.E. of regression	7.795849	Akaike info criterion	7.239397
Sum squared resid	425.4269	Schwarz criterion	7.441441
Log likelihood	-38.43638	Hannan-Quinn criter.	7.164593
F-statistic	0.943129	Durbin-Watson stat	2.157091
Prob(F-statistic)	0.492264		

From the summary of the estimated results above, implication of tax morale and compliance on economic growth in Nigeria within the scope of the model formulated has been adequately analysed. The coefficient of the dependent variable i.e. economic growth and development at zero level of the explanatory of all independent variable is given as 24.74361. This indicates a positive relationship between the constant parameter and economic growth and development. The constant has no significant meaning in the model than to reflecting the value of economic growth and development when other explanatory variables are held constant. The result exerts no significant relationship between the TM, TC, GE and EGD. The F statistic and the probability of the model were 0.492264 and 0.943261 respectively.

The coefficient of TM (3.612582) indicates that there is a positive relationship between the EGD and the TM, though the relationship is not significant ($t = 0.469010$, $p = 0.6533$). Hence 1% rise in the TM will bring about 3.6% increase in the EGD. The coefficient of TC (0.070647) shows positive relationship with the dependent variable EGD at 1% increase in TC which led to 0.07% in EGD. The coefficient of GE (-0.015794) is insignificant negatively related ($t = -0.904834$, $p = 0.3596$) to the EGD at 1% increase in GE which result in 0.02% decrease in EGD. However, the coefficient of GDP (0.000181) indicates that there is a positive relationship between the EGD and the GDP, a unit rise in the GDP is expected to bring about 0.0002% increase in EGD. The coefficient of multiple

determination (R^2) is 0.35 i.e. 35%. This indicates that about 35% of the total systematic variations in the EGD are jointly explained by the variation in all the explanatory variables TM, TC, GE and GDP. The remaining 65% could be attributed to the stochastic error term not included in the model.
The estimated model is
EGD = 24.74361 + 3.612582TM + 0.070647TC - 0.015794GE + 0.000181GDP

Summary, Conclusion, Recommendation

Tax morale and compliance plays a crucial role in generating revenue through taxation. The optimal utilization of revenue from taxation by the government would have effect on economic growth and development in Nigeria. The bane of the study has been to examine the implication of tax morale and compliance on economic growth in Nigeria. The study employed the ordinary least square multiple regression analysis. The analysis revealed that relationship exists among the independent and dependent variables however not significant.

Based on the findings in the study, recommendations were made. Firstly, the government should motivate the taxpayers by providing social infrastructure like good road, pipeborn water, electricity etc. Secondly, government should monitor tax officials to ensure that taxpayers are not disproportionately pay tax. This would increase the productivity of the nation. Also, the government through its monetary authorities should put measures in place to curtail the inflationary trend in the economy.

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