

**AN ASSESSMENT OF FACTORS THAT INFLUENCE TAXATION; TAXPAYERS AND THE
SELF EMPLOYED IN NIGERIA**

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Abstract

Why people pay taxes as required by the law instead of evading tax has been an important questions by tax administrators around the globe. This is because deterrence measures put in place by government have failed to completely tackle noncompliance. Hence, this study investigates the influence of social-psychological factors on tax morale of self employed taxpayers in Nigeria. To achieve this objective, a survey method was used to collect data by administering 367 questionnaires to self-employed taxpayers. The results of regression analysis indicated that religiosity and peer influence have a significant positive relationship with tax morale while moral reasoning and perception of government does not influence tax morale. Therefore, this study recommends that government should also engage in massive campaigns that will highlight the importance of paying taxes to individuals and also emphasises the religious injunctions on tax evasion since level of religiosity was found to have an influence on tax morale.

Keywords; Taxation, Government, Tax Administrators and Self Employed.

Introduction

Tax administrators have been faced with the problem of tax evasion ever since taxes itself came into being. Evasion has been and is still a substantial problem in almost all societies and countries in the world(Cobham 2005). The question is why people pay taxes while others refuses to pay. According to Frey (2002), this question is as old as the tax itself. In spite of the presence of the economic deterrence measures, the tax noncompliance is still persisting. This is due to human behaviour and their attitude towards paying a tax ranging from under paying tax or refusing to pay at all (Frey, 2003) Hence, noncompliance is still a challenge affecting revenue generation in both developed and developing countries. So, government are exploiting every means available to ensure that citizens pays their tax as at when due.

Despite the presence of enforcement mechanism in all countries, statistical evidence has shown that tax noncompliance is a challenge faced by both developed and developing countries. For instance, Morgan Stanley Capital Investment (MSCI) revealed that United Kingdom has a corporate tax gap of £12 billion

annually, MSCI further estimated that there are £82 billion tax gap in the developed countries in 2008 alone (MSCI, 2008). This challenge is extended to developing countries. In view of this, Cobham (2005) stated that the average amount of revenue lost due to noncompliance in developing countries is estimated to around US\$285 billion per year. So, noncompliance constitutes a serious threat to generating revenue from tax source in both a developed and developing country like Nigeria.

Nigeria like any other developing countries in the world is faced with the menace of tax noncompliance which is perceived to be a serious challenge in tax administration and revenue generation. The tax revenue for both states and the Federal government has continued to decline over the years. For instance, personal income tax constitutes 10.53% of the total revenue generated in Nigeria in 1990, but it has dropped to 6.01% in the year 2000. It further slipped to 4.67% in 2010. Despite the fact that Nigeria's GDP has risen over this period (Central Bank of Nigeria, 2011). The worrisome case is that the Federal Inland Revenue Service (FIRS) revealed that the tax potentials of Nigeria as at 2008 is ₦3.857 trillion in which only ₦2.793 trillion naira was collected as a tax which shows that there is a tax gap of ₦1.064 trillion in the year 2008 alone (FIRS, 2009). Furthermore, Akpo (2013) stated that Nigerian government lost US\$550 million due to tax evasion in automobile industry alone. Consequently, this huge revenue loss could be as a result of tax noncompliance. The noncompliance is persisting in Nigeria due low tax morale among taxpayers (Nzotta, 2007).

The aforementioned noncompliance is persisting in the presence of enforcement measure put in place by government. In Nigeria, tax defaulters are fined ₦50,000 for the period of defaults and tax audits are frequently carried out on the tax returns of those identified defaulters for a specified period of time, still the enforcement measures did not deter some tax payers to comply. On the other hand, Okoye, Akenbor and Obara (2012) stated that enforcement measures alone will not solve the noncompliance issues in Nigeria. Hence there is need to understand what motivates taxpayers to comply in other inculcate such habits in them alongside the enforcement measures put in place.

Also, empirical evidence has shown that encouraging high level of tax compliance is one of the vexing problems for policy makers all around the globe. This is because the presence of enforcement mechanism does influence all taxpayers but rather, it only influence those set of taxpayers that are planning to evade, because some citizens simply decided to pay tax even if the probability of detection is low and the fine rate is small (Mcgee, 2012). The question is why do people decide to pay tax or decided not to pay? Allingham and Sandmo's (1972) model tries to provide an answer to the question. They stated that taxpayers are rational human beings as such they are averse to risk and are always trying to maximize their net income. So, their decision to comply or not is subject to a net trade-off between their gains and the probability of being caught and being dealt with. It means whenever a tax evasion pay off outweigh the cost of cheating or penalties, and then tax compliance will be low.

However, Alm (1999) opines that Allingham and Sandmo's (1972) model ignores the attitude of individual's taxpayers toward tax compliance neither does it incorporate the social conventions and norms in explaining the individual's tax compliance decisions. Therefore, tax morale tends to explain the willingness of taxpayer to comply with relevant tax laws

In line with the opinion of Alm (1999), this study will focus on social-physiological factors in explaining tax compliance behaviour by analysing the tax morale of taxpayers with a view of understanding what motivate them to comply since the economic deterrence have not completely solved the menace of tax noncompliance. This is because existing tax compliance literature have shown that taxpayers compliance decision are being strongly influenced by social factors such as religiosity (Mohdali & Pope, 2014), moral reasoning (Bobek, Robert & Sweeney, 2007) taxpayers relationship with government (Kirchler, 2007) and also social norm (Saad, 2010). This study is being motivated by the presence of high noncompliance in Nigeria which was caused by low tax morale among the taxpayers. Hence enforcement mechanism alone cannot solve it. Thus, there is need to explore other factors that influence the tax morale of taxpayers. Therefore, this study will investigate the influence of religiosity, moral reasoning, perception of government governance quality and peer influence on tax morale of self employed taxpayers in Nigeria. This study focused on self employed taxpayers because they are the set of taxpayers that have high chances of evading tax.

Theoretical Background and Hypotheses Development

Tax Morale

Tax morale has been a topic of discussion for quite a long time and has attracted the attention of tax scholars as since the 1960s. According to Alm and McCrellan (2012), the term was initially used by Schmolders (1960) and Strumpel (1969) in explaining factors that are crucial to tax compliance. Although the term was initially used in the 1960s, adequate attention was not given to it until economic deterrence theory that tries to explain tax compliance from neoclassical perspective was criticised (Frey & Feld, 2002). As a result of this criticism, tax morale has attracted the attention of numerous scholars that want to explain taxpayer's behaviour beyond the deterrence perspective.

Tax morale has been defined as an intrinsic motivation to pay tax (Torgler 2002). Also, Torgler and Muppy (2004, p.301) describes tax morale as the "moral principle and values held by individuals about paying their taxes. Thus, explaining tax morale as a factor that influence tax compliance is difficult because there is no clear definition that describes tax morale and understanding the element that shapes it might be crucial. Feld and Frey (2002) stated that "Black Box" is being used to describe how most studies treated tax morale without given a clear picture of those factors that influence it. Additionally, in the words of Graete and Wild (1985, p.358), "Tax morale is the commitment to the responsibilities of citizenship and respect for the laws by the taxpayer". This definition shows that tax morale is synonymous to voluntary tax compliance.

Therefore, tax morale tends to explain the portion of taxpayers attitude that was not taking care by the economic deterrence theory.

Religiosity and Tax Morale

Religiosity has been viewed among those factors that influenced individual's tax morale (Torgler, 2006). The effects of religiosity on tax morale can be traced back to the era of Adams Smith, in which the term was considered among the internal moral enforcement mechanism which influences tax compliance decision (Torgler, 2006).

The term religiosity has been seen as those moral forces which mandate people to behave in a certain way (Leonardo & Martinez-Vazquez, 2016). According to Pope and Mohdali (2010), religious affiliation and religious commitments are the two main perspectives in which previous studies have viewed religiosity. Religious affiliation is a particular religion that a person belongs to, such as Islam and Christianity while the religious commitment is the extent to which a person adheres to the teaching of particular religion (Mohdali & Pope, 2014). This study does not refer to any religious affiliation but rather, religiosity is taken from the perspective of religious commitments, which means the extent or level of religiousness of a person in respective of his/her religion affiliation.

According to Benk, McGee and Yüzbası, (2015), Religiosity has received little attention in tax compliance studies as one of the essential elements that explain the puzzle of tax compliance, though Stack and Kposowa (2006) have stressed the importance of religiosity in explaining tax compliance behaviour. Religiosity in this context is the extent to which level of taxpayer's religiousness affects their tax compliance decision. This can be supported by the argument of Mohdali and Pope (2014), which stated that those people that strictly adhere to certain religious belief will have high moral value and will not cheat on anyone. Therefore, the internal elements such as moral reasoning and religiosity can be used by individuals to decide whether to comply with tax laws or not.

Similarly, McGee (2012) explained that taxpayer's inner values which include religiosity are being used by taxpayers in making compliance decision although they stressed that religiosity plays a different role from moral values in tax compliance decision. There is strong evidence that religiosity tends to increase taxpayer's morale (Torgler, 2003). Hence, people with strong belief will comply more than those with lesser belief with the teachings of the particular religion. According to Riahi-Belkaoui (2004), People with strong beliefs are expected to act more decently and in a more ethical way. As such, it is believed that tax evasion is not only illegal but unethical. Similarly, Pope and Mohdali (2014) stated that religious belief will prevent a person from engaging in an illegal behaviour through a self-imposed guilt. So, religiosity has an influence on the tax morale.

Moral Reasoning and Tax morale

Taxpayer's level of moral reasoning is considered to be among those elements that motivate a taxpayer to pay tax. Bobek, Robert and Sweeney (2007) stated that the personal moral reasoning of a taxpayer is one of the most significant factors that explained taxpayer's compliance behaviour. Similarly, Chan, Troutman, and O'Bryan (2000) affirmed that tax morale is being influenced by moral reasoning and many taxpayers voluntarily comply with tax laws due to their perception of moral reasoning to obey the law. Thus, the taxpayer's morale is being shaped by their moral reasoning towards tax compliance.

However, since the tax authorities do not have the capability of strictly enforcing the tax laws, the alternative is the social control mechanism which concentrates on the moral reasoning of taxpayers. So, Focusing on shoring up the sense of moral reasoning toward tax compliance will improve the tax morale of taxpayers (Riahi-Belkaoui, 2004).

Evidence from previous studies has shown that a relationship exists between individual moral reasoning and tax morale. The study of Torgler (2012) shows that a taxpayer will shy away from evading when noncompliance is perceived as a moral issue in respective of the situation. Further, Chan et al. (2000) revealed that low level of moral reasoning among taxpayers was the cause of low tax compliance in Hong Kong. However in contrast, the findings of Bobek, Robert and Sweeney (2007) shows that level of moral reasoning alone will not increase tax morale.

Similarly, in the study of Kasipillai, Udin and Arifin (2003), it was revealed that there is a link between moral values or ethical conduct of individual and their intension to comply with relevant laws. By these, the moral reasoning tends to affect tax morale and further affect tax compliance. This shows that taxpayers that have strong moral reasoning tend to have high tax morale. Furthermore, Sia, Salleh, Sambasivan, and Kasipillai (2008) found that a compliant taxpayer appears to have a high sense of moral reasoning and tax morale compared to noncompliant taxpayers.

Perception of government and tax morale

The psychological tax contract which is known to be the complex interface between the taxpayers and the government has been used to give a clearer explanation of the fundamentals of tax morale (Bobek, Robert and Sweeney (2007). Also, Feld and Frey (2007) stated that government policy in a given state is being influenced by the existence of a social contract between taxpayers and government. As a result of this, the taxpayer's perception of government is being twisted by the way government design and manage its policies, as well as the benefits taxpayers, received in return from the contribution made by the taxpayers to the revenue generate by a government. The nature of perception of government by a taxpayer is either positive or negative, depending on some reasons such as trust in government, the extent of fairness of the tax system and equity exchange between taxpayers and governments (McGee, 2012). Similar reasons were given in many previous studies such as Feld and Frey, (2002) and Torgler, (2005).

Additionally, Mohdali and Pope (2014) stated that trust in government which in return lead to a positive perception of government substantially influenced tax morale and tax compliance at large. Therefore, a government need to gain the trust of its citizens in order to increase their tax morale and shape their compliance behaviour. So, the government can gain the trust from its citizen when it can meet the expectation of the taxpayers.

Also, Kirchler(2007) suggested that trust in government have a greater impact on the behaviour of taxpayer compared to common assumption made by most economists. The opinion of taxpayers on the fairness or unfairness of the system can also be identified as one of the factors that influenced taxpayer's behaviour (Chan, Troutman & O'Bryan, 2000). In addition, McKerchar, Bloomquist, and Pope (2013) stated that taxpayers willingness to comply are being encouraged by the positive attitude towards government which is mostly based their perception of tax fairness and trust in government. However, it is difficult to separate the independent impact of these basics elements on the taxpayer's attitude and so; it is assumed that they have equal impact.

Peer Influence and Tax Morale

Although, many tax compliance studies have acknowledged peer influence as an essential variable towards understanding tax morale. The outcome of these studies appears to provide mixed results when viewed as a whole. Peer influence has been mostly conceptualised base on the idea of social norms (Mohdali& Pope, 2014). However, Saad (2010) stated that taxpayers behaviour are influenced by the behaviour of people surround them. Thus, this kind of influenced is termed as peer influence.

According to Kramer, Mitterling, and Frank (2016), peer influence is a form of persuasion within a group or among individual that are relatively close in which the behaviour of one individual influences the behaviour of other. In this regard, Pope and Mohdali (2014) stated that taxpayer's behaviour can be influenced by the behaviour of their peers or people they closely interact with. Saad (2010) found out that when a taxpayer is surrounded by those that are willing to comply, their actions will be motivated by those people's behaviour and so peer influence have a positive effect on taxpayer's behaviour. However, in contrast, findings, Sie et al., (2008) discovered that peer influence has no significant difference on a noncompliant and compliant taxpayer. This could be as results of averse to the risk of detection and fine.

Despite the facts that peer influence has been acknowledged among the basic elements that shape taxpayer's compliance behaviour, Fortin (2011) stated that the effect of peer influence has been neglected in tax compliance studies. Additionally, Akan and Odita (2013) explained that the main reason why tax compliance studies neglected peer influence as a factor that influenced tax morale is because it is difficult to identify the reference group that significantly influence the attitude of taxpayers. Secondly, differentiating between the effects of taxpayer's moral reasoning and the values that influence the taxpayers within their environment is another complicated issue.

In line with the relevant literatures and theoretical support provided in the literature review above, the research framework which incorporates religiosity, moral reasoning, perception of government quality and peer influence in a single framework is set out in figure 1.1 below

Based on the above research framework, the following hypothesis was developed for validation:

H₁: There is a positive relationship between religiosity and tax morale.

H₂: There is a positive relationship between moral reasoning and tax morale.

H₃: There is a positive relationship between the perception of government and tax morale.

H₄: There is a positive relationship between peer influence and tax morale.

Methodology

The population of this study consists of the entire 7,829 registered self-employed businesses that are registered with the state board of internal revenue service (Gombe State Board of Internal Revenue, 2015). Therefore, the appropriate sample size chosen for this study is 367 taxpayers. This is in line with sample size proposed by Sekaran and Roger (2013), which states that the appropriate sample size for a population between 7, 000 to 7,999 is 367 self employed taxpayers as the respondents.

Method of Data Collection

Unlike most of the previous tax morale studies that used secondary data using subjective survey ratings. This study collect data through self administered questionnaire because the reliability of the data from secondary sources, particularly from the cross-country survey is questionable because there is likely to be errors of measurement due to cultural and different environmental setting (Richardson, 2006). Out of the 376 questionnaire administered, 209 were duly returned by the respondent.

Variables Measurement

In this study, tax morale was measured using five construct. This constructs are adapted from Torgler, Schaffner, and Macintyre (2010). The items tends to enquire from the respondents whether cheating on taxes is justifiable or not. The items are measured using five point likert scale where by five signified low tax morale while one signified high tax morale.

For the first independent variable, i.e., religiosity, the extent of taxpayer's adherence to the teaching of a particular religion was used in measuring religiosity. This measurement was adopted from Mohdali and Pope (2014). Also similar measurement was used by Torgler (2006). Also, five construct were developed with five point likert scale in order to measure the extent of taxpayer's religiosity.

Secondly, moral reasoning as a variable in this study is being measured using the degree at which a taxpayer believes that an action is ethical or unethical. In this case, the measurement of Kirchler and Wahl (2010) was adopted.

Thirdly, the measurement of perception of government was adopted from Kirchler and Wahl (2010). It measured taxpayer's tax compliance decision base on the provision of social service and trust of government officials.

Finally, the measurement for peer influenced is adopted from MohdAli and Pope, (2014). This measurement seeks to explore the opinion of taxpayers on how the behaviour of people in his surroundings affects their tax compliance decisions.

Results

The Relationship between Social Factors and Tax Morale

The results of the correlation analysis were used to investigate the relationship that exists between religiosity, perception of government, moral reasoning, peer influence, threat of punishment and tax morale. The result indicated that areligiosity and peer influence have a moderate positive relationship with tax morale (.397, $p < .05$, .342 $p < .05$). Also, the correlation results indicated that there is a weak positive relationship between taxpayer's perceptions of government, moral reasoning and their tax morale. The detail of the Pearson product movement correlation is provided in table 1.

Table 1

Pearson product movement correlation

	Tax morale	Religiosity	Perception of government	Moral reasoning	Peer Influence
Tax morale	1				
Religiosity	.397**	1			
Perception of Government	.220**	.363**	1		
Moral reasoning	.177*	.297**	.545**	1	
Peer influence	.342**	.347**	.385**	.269**	1

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

* Correlation is significant at the 0.05 level (2-tailed).

Multiple Regression Analysis

In order to investigate factors that significantly influenced tax morale of self-employed taxpayers, Standard regression analysis was utilised in this study. This is because the Standard regression allows the entire variable to be inserted into the model at one time and evaluated based on the variance contribution (Sekaran & Roger 2013).

Multiple regressions analysis was conducted to test H1, H2, H3 and H4. Multiple regression analysis is used in predicting the proportion of the variance in dependent variable that is being explained by the independent variables. It is being observed that 21% of the variance in tax morale had been significantly explained by the religiosity, moral reasoning, perception of government and peer influence. In the model, out of the four social factors, two variables were statistically significant and has a positive relationship with tax morale, with religiosity having a higher beta value ($\beta = .309$, $p < .01$), and the followed by peer influence ($\beta = .225$, $p < .01$). However, moral reasoning and perception of government is not related to tax morale. Thus, H1 and H3 were supported. Table 2 presents the results of multiple regression analysis. Out of the two variables that are significant, religiosity is the strongest predictor of tax morale with highest *Beta* of .309, *t*-value of 4.456 and *p*-value of 0.000. Hence, religiosity is the most significant determinants of tax morale among self-employed taxpayers in Nigeria. The detail of results of regression analysis is presented in Table 2.

Table 2

Coefficients of Standard Regression Model

Model	Unstandardized Coefficients		standardized Coefficients	T	p-value
	B	Std error	Beta		
(Constant)	-.214	.643		-.333	.739
Religiosity	.597	.134	.309	4.456	.000**
Moral reasoning	.021	.158	.010	.131	.896
Perception of government	.034	.135	.019	.248	.804
Peer influence	.313	.097	.225	3.231	.001**

Dependent variable: Tax morale

**Significance at 5% level of significance

Discussion

Based on the results obtained from the regression analysis, the first hypothesis, which state that there is a positive relationship between religiosity and tax morale is statistically supported. This means that tax morale of self-employed taxpayers is being influenced by religiosity. This result is similar to finds of Gallup poll

(2009) that stated that 96% of Nigerian perceived their religion as the most important guide in their life and so, they will comply with tax laws if it is in line with teaching of their religion. In a similar study, Torgler and Schneider (2007) explained that taxpayer's inner values which include religiosity are being used by taxpayers in making compliance decision although they stressed that religiosity plays a different role from moral values in tax compliance decision. Therefore, this study provides an additional evidence that religiosity tends to increase taxpayer's morale (Torgler, 2003). Hence, people with strong belief will comply more than those with lesser belief with the teachings of the particular religion.

Secondly, this study did not find a statistical evidence to support the second hypothesis, which states that there is a positive relationship between moral reasoning and tax morale. This result shows that the tax morale of self-employed taxpayers is not affected by their moral reasoning in Nigeria. This is because of the high level of immorality and corruption that has perpetrated Nigerian society. Nigeria is recently rank 136th least corrupt country out of 176 countries by transparency international (Alabade, 2012).

Thirdly, from the regression analysis obtained in this study, the perception of government is found to be not significantly related to tax morale. This shows that in Nigeria, the way taxpayers perceived the provision of public services by the government does not affect their tax morale. This is similar to the findings Akan and Odita (2013) where they also found that perception of government does not significantly affect tax morale in Nigeria. However, this result is contrary to the findings of majority of the studies that was conducted in another place such as Torgler (2012); Torgler and Schneider (2007) and Kirchler, (2007); all found a positive significant relationship between perception of government and tax morale.

This could be as a result of evidence proving that the provision of public services by government in Nigeria is not satisfactory over the years (Nzotta, 2007). Also, Alabade (2012) (2008) stated that quality of public services in Nigeria is too low that a taxpayer will not be motivated to pay their taxes because of the provision of public service.

Finally, the fourth hypothesis that states that there is a positive relationship between peer influence and tax morale was statistically supported in this study base on the regression results. The result indicates that the behaviour of people that surround a taxpayer influences his/her tax morale. When taxpayers are in the midst of evaders, they also tend to behave in that way. Also, when a taxpayer is surrounded by those that are willing to comply, their actions will be motivated by those people's behaviour (Saad, 2010). So, peer influence has a positive effect on Nigerian taxpayer's behaviour.

The findings of this study indicated that the self-employed taxpayer's tax morale is being affected by the behaviour of those people close to them such as neighbours, peer group or any other set of people with whom they interact with regularly. This study, therefore, affirms that there is a positive relationship between peer influence and tax morale.

Conclusion and Recommendation

This study examines the effects socio-psychological factors on tax morale of self employed taxpayers in Nigeria. The study basically analyses the influence of religiosity, moral reasoning, perception of government and peer influence on tax morale. The results of the regression analysis shows that religiosity and peer influence are positively significant to tax morale while perception of government and moral reasoning does not affect tax morale in Nigeria.

This study contributes to existing literatures on tax morale by incorporating religiosity, moral reasoning, perception of government and peer influence in one single model in order to understand the determinants of tax morale by analysing only socio-psychological factors. The study also contributed by exploring the effects of moral reasoning on tax morale of self employed taxpayers

By implication, if Nigerian government is concerned with improving tax compliance, the study recommends that they should lay an emphasis on social factors since this study has provide an empirical evidence which support that the social-psychological factors also influenced tax morale. The study also recommended that government should engage in massive campaigns that will highlight the importance of paying taxes to individuals and also emphasises the religion injunctions on tax evasion since level of religiosity was found to have an influence on tax morale.

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