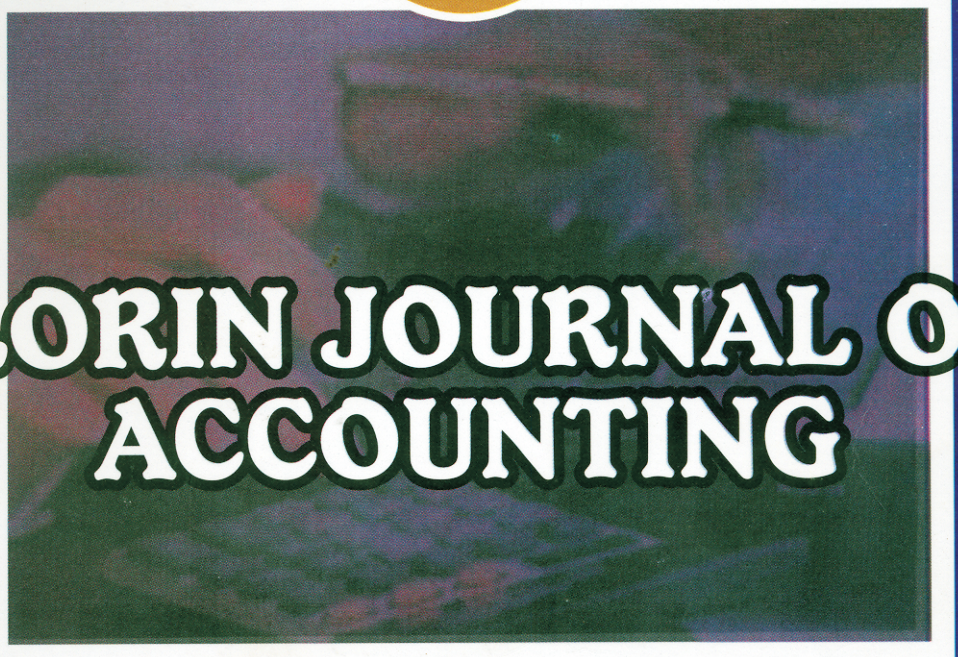
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EFFECT OF TAX ADMINISTRATION ON REVENUE GENERATION IN KWARA STATE, NIGERIA

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ABSTRACT

The importance of tax administration cannot be overemphasised because it contributes immensely to the growth and development of any nation through revenue generation. However, the role of taxation in promoting the Nigerian economic activity and growth is not felt primarily because of its poor administration and involuntary compliance with tax laws. Lack of efficient data processing system has also adversely impacted on government tax system. Hence, this study seeks to examine the effectiveness of tax administration on revenue generation in Kwara State. The 16 local government areas of the State constitute the population of the study while the study made use of survey research design. Ten respondents were purposively selected from each of the local governments. Questionnaires administered were rated on a five-point Likert scale to obtain the primary data and ordered probit regression technique was used for the analysis. Results from the analysis revealed that collection of taxes has a positive relationship with revenue generation in Kwara State. The study concluded that tax administration is a significant determinant of revenue generation in Kwara State, Nigeria. It was therefore recommended that procedures of tax assessment should be adequately reviewed and monitored to increase revenue in the State.

Keywords: Revenue generation, Tax, Administration, Kwara State
JEL Codes: M41, H71

INTRODUCTION

The research interest in tax administration is extensive because tax serves as a major source of revenue for any nation. There were various forms of taxation by various communities in the northern and southern Nigeria before British colonisation. The system of taxation in the northern Nigeria included "Zakat", "Kurdin Kasa", and the south-west area included "Isakole" and "Owo ori" which were far more definite than those of the eastern Nigeria "Egwu ukwu" and community efforts (Arowomole, 2006).

Tax administration differs from one country to another. It concerns new ways of improving institutional performance by increasing the effectiveness of tax control and providing tax payers with services that

may allow them to comply better with their tax obligations. Tax administrators are faced with difficulties (resource inadequacy and unskilled manpower). This has greatly hampered their efforts to put into operation integral management models that may lead to the effectiveness of their administrative processes.

The objective and purpose of taxation are to generate revenue to finance government expenditure. The need for the government to provide social amenities, embark on developmental projects that would improve living standard of the citizenry as well as meet its overhead or recurrent expenses necessitate intensified revenue generation efforts both internally and externally (Oladele & Udume, 2013). Likewise, Kiabel and Nwokah (2009) asserted that one of the major sources of revenue of a nation is by generating revenue through taxes on tax objects which could be individuals or corporate entities.

According to Ijewere and Ndekwu (1991), the deficiencies in the tax administration and collection system result in low revenue generation capability. The importance of taxation as a source of revenue is better appreciated in an economy with greater reliance on tax as the major source of revenue generating activity.

Taxation plays a crucial role in promoting economic activity and growth. Through taxation, the government ensures that resources are channelled towards social projects in the society while giving succour to the common man. Unfortunately, infrastructural decay, unemployment and low standard of living appear to undermine the economic development in Nigeria. However, the role of taxation in promoting economic activity and growth is not felt primarily because of its poor administration. Consequently, the plight of involuntary compliance system, lack of efficient data processing system has adversely impacted on local government tax system since they are part of the ruling process in the state. Such impact has been based on problems associated with assessment and notification, collections, and returns' procedures in the local government areas. Thus, the increasing cost of running government activities has left various state governments in Nigeria with formulating strategies to improve revenue base (Kiabel & Nwokah, 2009). Nzotta (1995) affirmed that the legal system itself had manifested so much corruption that it is somehow difficult to obtain the conviction of tax offenders and that the punishment in tax laws exist only on paper. Based on these challenges, this study examines the effect of tax administration on revenue generation in Kwara State.

The research questions relevant for this study are:

(i). What effect does the procedure of tax assessment and notification have on revenue generation in

Kwara State?

(ii). What effect does the collection of taxes have on revenue generation in Kwara State?

(iii). What impact does accounting for taxes have on revenue generation in Kwara State?

(iv). To what extent does training of staff impact on revenue generation in Kwara State?

The paper's main objective is to examine the effectiveness of tax administration on revenue generation with specific focus on Kwara State, Nigeria while it specifically:

(i). examined the effect of procedure of tax assessment and notification on revenue generation;

(ii). determined the effect of the collection of taxes on revenue generation;

(iii). evaluated the effect of accounting for taxes on revenue generation in Kwara State; and

(iv). examined the impact of training of staff on revenue generation in Kwara State

The hypotheses for the study stated in null (H_0) form are:

H_{o1}: Tax assessment and notification do not significantly affect revenue generation in Kwara State.

H_{o2}: There is no significant relationship between the collection of taxes and revenue generation in Kwara State.

H_{o3}: Accounting for taxes does not significantly have any effect on revenue generation in Kwara State.

H_{o4}: Training of staff does not significantly impact on revenue generation in Kwara State.

The study examined how tax administration in Kwara State affects the overall effectiveness of revenue generation in relation to assessment, notification, collection and accounting for tax remittances. It covers all the sixteen local government areas in Kwara State from June 2012-September 2014.

LITERATURE REVIEW

Conceptual Issues

Farayola (1987) defined taxation as one of the sources of income for the government; such income is used to finance or run public utilities and perform other social responsibilities. Aguolu (2004) defined tax as a compulsory levy by the government through its agencies on the income, consumption and capital of its subjects. These levies are made on personal incomes such as salaries, business profits, interests, dividends, discounts and royalties. It is also levied against company's profits petroleum profits,

capital gains and capital transfer. Miller and Oats (2006) maintained that taxation is required to finance public expenditure.

Ojo (2008) stresses that taxation is a concept and the science of imposing tax on citizens. According to him, tax is itself a compulsory levy which is required to be paid by every citizen. It is generally considered as a civic duty. The imposition of taxation is expected to yield the income which should is utilised in the provision of amenities, both social and security and creates conditions for the economic well-being of the society.

In addition, Anyanwu (1997) noted that tax could be categorised into direct and indirect taxes. Direct taxes are levied directly on the income and property of individuals and companies while indirect taxes are levied upon persons or groups whom they are not intended should bear the burden or incidence, but who will shift them to other people. According to Nightingale (2002) and Lyme & Oats (2010), the objectives of taxation includes but not limited to raising revenue to finance government expenditure; redistribution of wealth and income to promote the welfare and equality of the citizens and regulation of the economy thereby creating an enabling environment for business to thrive.

Smith (1976) provided some guiding principles of taxation which are: equality, certainty, convenience, economy, fiscal adequacy, buoyancy, flexibility, simplicity, diversity and neutrality.

Tax System in Nigeria

The tax system in Nigeria, is made up of the tax policy, the tax laws and the tax administration. All of these are expected to work together in order to achieve the economic goal of the nation. According to the Presidential Committee on National tax policy (2008), the central objective of the Nigerian tax system is to contribute to the well-being of all Nigerians directly through improved policy formulation and indirectly though appropriate utilisation of tax revenue generated for the benefit of the people. In generating revenue, the tax system is expected to minimise distortion in the economy.

Tax Administration

It is one thing to make policies, rules and regulations in an attempt to attain a desired goal or objective and it is another thing to implement these policies, rules and regulation. Efficiency and effectiveness should be the watch word in designing a tax administration structure that will give the desired result (Mcpherson, 2004). Put differently, tax administration in Nigeria is the responsibilities of the various tax authorities as established by the relevant tax laws (Kiabel & Nwokah, 2009).

Alabede (2003) outlined the objectives of tax administration as the following: to improve and inculcate the culture of voluntary compliance with government rules and regulations among the taxpayers; to ensure that there are no significant differences on how taxation issues are addressed at domestic

and international level especially with respect to redress mechanism and the confidentiality of taxpayer information; to relate with taxpayers, employees and other revenue authorities as well as to adopt changes in their business and legislative environment, e.t.c.

Responsibilities of the Tax Administrators

Jacobs, Crawford, Murdoch, Hodges, Lethbridge, Jimenez, Osinski, Hinsz, Pulse and Kamenov (2013) maintained that the main mission of tax administration is to collect the tax revenue due and needed by USA governments from taxpayers, under the country's tax laws, without hindering private sector development. Other responsibilities are to facilitate and encourage voluntary compliance by taxpayers with the country's tax laws; administer the tax laws fairly and impartially; minimise the cost and burden on taxpayers as they comply with their tax obligations and lastly enforce the country's tax laws in cases of non-compliance. It is important to note that tax administrators must be adequately trained, well equipped with operational vehicles and well remunerated so as to function effectively (Samuel & Tyokoso, 2014).

Theoretical Framework

This study is hinged on the theory of revenue productivity. The theory of government revenue productivity states that the tax base must be large enough and that the cost of operating the tax system must be lower than the revenue it generates. Adam Smith opined that it made minute sense to introduce a tax scheme where the cost of obtaining the tax is higher than the realised tax revenue. Others such as Ricardo and Mills submitted that revenue should be put first in their division of public finance; "revenue, expenditure and public debt".

The main essence of tax is to raise revenue; the law setting up tax agreed with this position. The revenue productivity theory agrees that it makes little sense to institute a tax system for which the cost of collection is higher than the realised tax revenue (Joseph & Samuel, 2014). The theory further emphasised the aspects of having a large enough tax base to cover at minimum cost and stressed an efficient tax administration so as to enforce compliance.

As earlier referred to, Adam Smith's book on Wealth of Nations published in 1776 provided the theoretical basis for taxation emphasising equality, certainty, convenience and economy. Other Economists like Keynes believe that these are not sufficient to meet all the purposes of modern economic policy which are partly achieved through the budget. These are the allocation, distribution and standardisation functions. As a result, they proposed five broader criteria of taxation. These are the principles of equity, efficiency,

simplicity, neutrality and revenue (Joseph and Samuel, 2014).

Empirical Evidence

Yahaya (2009) conducted a study on the challenges of taxation in Kwara state. The author used descriptive technique and t- test statistics to test the hypothesis. The study identified the major societal factors hindering effective taxation as the high rate of poverty, rampant causes of corruption, high rate of illiteracy, tax evasion and tax avoidance. The findings also indicated the ineffective utilisation of the collected tax, poor remuneration of tax officers, improper record keeping as major challenges to efficient taxation in the State. Worlu and Emeka (2012) researched on tax revenue and economic development in Nigeria. The data collected were analysed using the three-stage least square estimation technique. The result showed that tax revenue stimulates economic growth through infrastructural development. The study revealed that tax revenue has no independent effect on growth through infrastructural development and foreign direct investment, but just allowing the infrastructural development and foreign direct investment to positively respond to increase in output.

Abiola and Moses (2012) investigated Nigeria tax administration and its capacity to reduce tax evasion and generate revenue for developmental desires of the populace. They made use of 121 online survey questionnaires containing 25 relevant questions. Descriptive statistics were used to analyse 93 usable responses. They found that increasing tax revenue is a function of effective enforcement strategy which is the pure responsibility of tax administration. Jamala, Asongo, Mahai and Tarfena (2013) examined the revenue generation in Numan, Southwestern Adamawa State, Nigeria. One hundred and twenty questionnaires were administered to randomly selected staff of finance, education, administration and livestock departments respectively. Descriptive statistics such as tables, frequency distributions, and percentages were used to analyse the data obtained. The respondents indicated the sources of internally generated revenue in the study area to be from markets, animal sales, land, slaughter slabs, property and income taxes respectively. Also, a majority of the respondents (56.7%) indicated that law enforcement agents are usually used to assist in revenue generation, and this had yield some measures of improvement of revenue generated from 2005 to 2009.

METHODOLOGY

This study focused on the effectiveness of tax administration on revenue generation with a specific focus on Kwara State, Nigeria. The study employed primary data which was obtained through questionnaire from the sixteen local governments in Kwara State, Nigeria.

Ordered probit regression technique was used to achieve the objectives of the study. The dependent variables have more than two response categories and the responses are ordered.

Model Specification

The relationship among the study variables is captured as:

$RG = f(ASN, CT, AT, TS)$ ..... (i)

This model is specified as:

$RG = b_0 + b_1ASN + b_2CT + b_3AT + b_4TS + \mu_t$ .....(ii)

Where:

RG= Revenue Generation (dependent variable), while the independent variables are:

ASN= Assessment and Notification

CT= Collection of taxes

AT= Accounting for taxes

TS=Training of staff μ_t = Stochastic error term to account for other factors that could influence revenue generation that is not captured by the above model.

From the theoretical background of the relationship between the dependent and independent variables, the A-priori expectation of the coefficients can be expressed as:

$b_1 > 0, b_2 > 0, b_3 > 0, b_4 > 0$.

DATA ANALYSIS, INTERPRETATION AND DISCUSSION OF RESULT

This section lays emphasis on data presentation, analysis and interpretation. Simple percentage and regression analysis were used in analysing responses from various officials who have a direct relationship with the administration of tax in each local government area of Kwara State.

Table 1 shows that out of the 160 copies of the questionnaire sent out for administration to various officials who have direct relationship with the administration of tax in each local government area in Kwara State, 100 representing about 62.5% were returned as duly completed while 60, representing about 37.5% were not returned.

Table 1 Distribution and Collection of Questionnaire

Questionnaire	Respondent	Percentage
Returned	100	62.5
Not Returned	60	37.5
Total	160	100

Source: Field Survey, (2015)

Table 2: Distribution of Respondents by Gender, Age and Educational Qualification of officials involved in Tax Administration in Kwara State

Parameters		No of respondents	Percentages
Gender	Male	24	43.63%
	Female	31	56.36%
	Total	55	100%
Age group	18-25	01	1.82%
	26-35	04	7.27%
	36-45	15	27.27%
	46 and above	35	63.64%
	Total	55	100%
Educational Qualification	No formal Education	Nil	Nil
	Primary Education	Nil	Nil
	Secondary Education	03	5.45%
	Tertiary Education	42	76.36%
	Post Graduate	10	18.18%
	Total	55	100%

Source: Field Survey, 2015.

Table 2 shows the demographic features of the sampled respondents (tax officials) in Kwara State. A total of 24 representing 43.63% of the sampled tax officials is males while a total number of 31 representing 56.36% of the sampled population are females. This shows that there are more female staff in the board of internal revenue in Kwara State. A total of 35 representing 63.64% of the sampled tax officials fall within the age bracket of 46 years and above, 15 representing 27.27% of the sampled tax officials fall within the age bracket of 36 years-45 years, 4 representing 7.27% of the sampled tax officials are 26 years-35 years, this implies that majority of the total respondents have more experienced in tax administration. A total of 10 representing 18.18 percent of the sampled officials possess postgraduate qualification, about 42 representing a total of 76.36% possess tertiary qualification while three representing 5.45% of the sampled officials possess secondary qualification, this shows that largest percentage of the respondent are educated.

Table 3: Distribution of Respondents by Gender, Age, and Educational Qualification of Tax Payers

Parameters		No of respondents	Percentages
Gender	Male	26	57.78%
	Female	19	42.22%
	Total	45	100%
Age group	18-25	09	16.36%
	26-35	06	13.33%
	36-45	12	26.67%
	46 and above	18	32.72%
	Total	45	100%
Educational Qualification	No formal Education	Nil	Nil
	Primary Education	12	26.67%
	Secondary Education	15	33.33%
	Tertiary Education	15	33.33%
	Post Graduate	03	6.67%
	Total	45	100%

Source: Field Survey, 2015.

The table shows the demographic features of the sampled respondents (tax payers) in Kwara State. A total of 26 representing 57.78% of the sampled tax payers is males while a total number of 19 representing 42.22% 0f the sampled population are females. This shows that majority of tax payers are males. A total of 18 representing 32.72% of the sampled tax payers fall within the age bracket of 46 years, and above, 12 representing 26.67% of the sampled tax payers fall within the age bracket of 36years-45years, 6 representing 13.33% of the sampled tax payers are 26 years-35years. A total of 3 representing 6.67percent of the sampled payers possess postgraduate qualification, about 15 representing a total of 33.33% possess tertiary qualification, and 15 representing 33.33% of the sampled payers possess secondary qualification while 12 representing 26.67% of the sampled tax payers possess primary school qualification.

Table 4: Reliability Test

The Cronbach alpha is used to test the reliability of the data collected for the study.

Average interitem covariance	Number of items in the scale	Scale reliability coefficient
.2018616	6	0.8970

Source: Authors' Computation, 2015

The alpha coefficient for the six items is 0.8970, suggesting that the items have relatively high internal consistency. A reliability coefficient of 0.70 or higher is

considered acceptable.

Table 5: Normality Test

Variables	Prob>z
RG	0.00113
ASN	0.0326
CT	0.0001
AT	0.00540
TS	0.00000
RO	0.00354

Source: Authors' Computation, 2015

The table above shows that all the variables were normally distributed. It also shows that RG, CT, AT, TS and RO are normally distributed at 1% while ASN is normally distributed at 5%, signalling that the variables are normally distributed.

Table 6: Summary Statistics

Revenue Generation	**Coefficient**	P>/z/	Prob>chi2	0.000
Assessment of Taxes	-0.2727***	0.001	Pseudo R^2	0.0860
Collection of Taxes	0.1829***	0.000	/cut1	-0.4455
Accounting for taxes	-0.09514**	0.05	/cut2	0.1035
Training of Staff	-0.5825***	0.002		
Remuneration of Staffs	-0.1907***	0.0000		

Source: Authors' computation, 2015

Interpretation and Discussion of Result

The Prob>chi2 shows a value of 0.000, indicating that the model used for the study is statistically significant at 1%, 5% and 10%. The coefficient of assessment of taxes is significant at 1%, 5% and 10% in explaining the variation in the revenue generation in Kwara State. The result shows that there is a negative relationship between assessment of taxes and revenue generation, giving a value of -0.2727 and is more likely to report a lower category of revenue generation for Kwara State government.

The coefficient of collection of taxes is also significant at 1%, 5% and 10% in explaining the variation in revenue generation in Kwara State, the result shows that there is a positive

relationship between collection of taxes and revenue generation, giving a value of 0.1829, signaling that an increase in collection of taxes by tax officials will lead to increase in revenue generation for Kwara State government.

The coefficient of accounting for taxes is significant at 5% and 10% in explaining the variation in the revenue generation in Kwara State. The result shows that there is a negative relationship between tax laws and revenue generation, signalling that an increase in tax laws will necessarily lead to a decrease in the probability of reporting a higher category of revenue generation for Kwara State government.

The coefficient of training of staff is also significant at 1%, 5% and 10% in explaining the variation in revenue generation in Kwara State, the result shows that there is a negative relationship between training of staffs and revenue generation, giving a value of -0.5825 signaling that an increase in training of staff necessarily increases the probability of being in the lowest category of revenue generation status, which decreases the probability of reporting a higher category of revenue generation for Kwara State government.

The coefficient of remuneration of staff is also significant at 1%, 5% and 10% in explaining the variation in revenue generation in Kwara State, the result shows that there is also a negative relationship between remuneration of staffs and revenue generation, giving a value of -0.1907 signaling that an increase in remuneration of staff necessarily increases the probability of being in the lowest category of revenue generation status, which ultimately decreases the probability of reporting a higher category of revenue generation for Kwara State government.

CONCLUSION AND RECOMMENDATIONS

The importance of tax administration cannot be overemphasised because it contributes immensely to the growth and development of any nation through revenue generation. Based on the findings of the study it was concluded that assessment of taxes, accounting for taxes and training of staff have a negative relationship with revenue generation in Kwara State, Nigeria. On the other hand collection of taxes has a positive relationship with revenue generation in Kwara State, Nigeria. Finally, the study concluded that tax administration is a significant determinant of revenue generation in Kwara State, Nigeria.

The study therefore, recommends that procedures of tax assessment should be adequately reviewed and monitored. Tax officials should be properly trained on procedures for assessment, collection and accounting for taxes and ultimately tax officials should be adequately remunerated. There is also the need for government to increase the tax rate so as to increase revenue generation. Finally, the handling of tax clearance certificates should be well decentralised such that

neither the assessor nor the collector can issue tax clearance certificates.

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APPENDIX

S/N	Local Government Area in Kwara State
1	Asa
2	Baruten
3	Edu
4	Ekiti Kwara
5	Ifelodun
6	Ilorin East
7	Ilorin South
8	Ilorin West
9	Irepodun
10	Isin
11	Offa
12	Oke Ero
13	Oyun
14	Pategi
15	Kaiama
16	Moro