

## Functional Tax Governance Apparatus and Economic Development

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### ABSTRACT

The proportion of tax earnings to gross domestic product (GDP) in Nigerian economy had been ranked and affirmed the least in the sub-Sahara African and as evolving economy, different reasons attested to this fact, hence, the study is aimed at investigate the inherent lacuna of tax governance apparatus in responses to economic development as broad objective. The study employed field research design, the research instrument that was deployed for collection of data is purposive and structured questionnaire targeted at elicit information from relevant and related stakeholders in tax matters, the research instrument and data collected were subjected to Cronbach alpha test and heteroscedasticity test to affirm the validity/reliability and best linear unbiased estimator of data collected respectively. The result revealed that the responsiveness of economic development to tax assessment, tax policy and tax administration were statistically significant inversely related while tax collection was statistically insignificant related directly with economic development. Thereby study concluded that poor management and administration of tax system in Nigeria responsible for adverse relationship that subsist between the proportion of tax earnings to GDP and resulted decayed and declined physical infrastructures and socio-economic development.

**Keywords--** Tax Assessment, Tax Governance, Economic Development

## I. INTRODUCTION

### Background of the Study

The usefulness of instrumentality of tax in economy globally is inexhaustible and cannot be overemphasized. The dynamism and functions of taxes has strategically position it as an instrument to revamp economic recession, depression and as a stabilizer in boom period. Evolved economies had harnessed and leveraged on numerous potentials inherent in tax to advanced and have functional and sound infrastructural

development, the socio-economic and political improvement that culminated to high standard of living. These attainments were hinged on the fact that there are good, functional and sound governances of taxation that underpinned their tax system that cumulate to these great accomplishments in the domain of their economies.

Some evolving economies have started also to leverage on these potentials of tax dynamism and had started champion new course for growth and development economically, where failure experienced in the economies, reasons are linked to dysfunctional in tax governances or the tax governance had been dormant. Hence, a dysfunctional tax governance is likening to an instrument of revenues generator that had engine but the engine is knocked, yet the sound that emanating from these revenues generator seems good but the internal mechanism combustion of the engine is faulty. This is the picture of governance of tax in evolving economy like Nigeria economy, hence the study is intended to examine effectiveness of tax governances in evolving economy and case studied Nigeria as a template.

Oriakhi, (2002) grouped the functions of tax into three: financial function, economic function and social function. Tax is the major sources of revenue to all governments globally and income redistributions, these were encapsulated in financials function of tax. Tax is used as a stabilizer of an economy during inflation and deflation period and protect the infantry and local industries, put in a nutshell in economic function of tax. Moreover, socio-political function of tax is the curtained of harmful consumption commodities. These functions could be a mirage, where government machineries or relevant tax authorities in charge of tax administration are not conscious of good tax governance that will bring about enhancement in tax earnings capacity and functional tax system, where tax payments are not made easy by every tax-payer in term of convenient, economy, certainty and the functionality of other canons of taxation are not upheld.

Evolving economy earned a very low amount of revenue from taxation because these countries face a number of institutional problems that is associated with revenue generation. A cogent problem is lack of sound and functional tax governance. Again, two central apparatuses of tax as an income generation are tax system reforms and governance of tax (Brondolo, Silvani, Borgne, & Bosch, 2008). The core primacy of this is the enhancement of tax efficiency governance, specifically by reducing corruption. But main associated problem of low revenue generation is political instabilities in developing countries contributed to dysfunctional of tax governance.

The system of tax assessment, tax administration and policy of tax in Nigerian economy has been approved out towards the socio-economic objective of the country. Various methods of tax assessment, tax collection, tax administration and tax policy had to be adopted since tax has been an imposition levels on individuals and organizations. The primary objective economic goal in any countries are to increase the rate of economic growth which in turn leads to economic development, hence, the per capita income which will lead to the advanced living standard.

Therefore, this research intends to reawaken the consciousness of relevant tax authorities and tax payers on the contingency to have effective and efficient tax governance as development tools and examine the effect of tax governance have so far on the economy. The functions and roles tax governance be examined in order to identify the causes of their ineffective and inefficiency.

## II. STATEMENT OF THE PROBLEM

In any economy, tax assessment, tax collection, administration of tax and policy of tax are veritable governance that enhance and support earnings capacity of tax as a source of revenues to the nation's economy and therefore foster the economic growth and development.

Over the years, revenue derived from taxes has been tremendously at lower level of tax earnings capacity and attendant consequence is insignificant growth and development as the end product that must be experienced, hence the impact on the poor is not being felt.

Inadequate tax personnel, fraudulent activities of tax collectors and poor assessment of tax and deficiencies in tax administration are associated problems of collection of tax and tax policies in Nigeria. Therefore, it is difficult to ascertain what impact or effect tax assessment, tax collection and tax administration has to do with emerging economy considering greater multiplicities in government management abilities.

Moreover, Nigerian tax laws are complex and difficult for the ordinary taxpayer to comprehend, and in some instances are difficult even for knowledgeable tax official. In addition, many taxpayers are ignorant of

the existence of certain Nigeria tax laws because the manner of legislations in the country. These peculiarities are associated with may be a exhibition of the poor tax enlightenment and weak fulfillment by Nigerian tax authorities of their responsibilities with regard to public consciousness. Ocheoha (2000) emphasizes that tax is a commodity nobody is stimulated to consume if there are close substitutions to opt for because tax is an imposition. Today the purposes of tax governance have assumed a wider dimension hence the government uses it as a veritable tool of administration. Therefore, core of the study is to examine tax governance and economic development as the broad objective.

## III. OBJECTIVES OF THE STUDY

The broad objective is to evaluate the influence of tax governance in Nigeria Economy while the specific objectives are:

1. To examine the influence of tax assessment on economic development
2. To dissect tax collection as a tool on economic development
3. To investigate tax administration effectiveness on economic development
4. To find out if tax policy on economic development.

The research hypotheses in relation to objective of the research are as follows:

1. H<sub>1</sub>1: Tax assessment governance has a negative and significant relationship with economy development
2. H<sub>1</sub>2: Tax collection governance has a direct and significant impact on Nigerian economy
3. H<sub>1</sub>3: Tax administration governance has an inverse influence and significant on economic development
4. H<sub>1</sub>4: Tax policy has negative and significant relationship with economy development.

The sequence of the remain of the study is as following, section two is on conceptual framework, section three deals with research methods while section four relate with data analysis and results and section five is on summary, conclusion and recommendation.

## IV. CONCEPTUAL FRAMEWORK

### *Concept of Taxation*

Tax earnings is a return on social capital or social goods that are provided by government in order to sustain these social capitals or social goods. Taxation is an instrument employed by the government for earning revenue (Anyaduba, 2004). Tax is a required payment imposed by the government on the earnings, profit or wealth of individuals, group of persons, and corporate establishments.

Therefore, the instrumentality of tax can be used in achieving both micro and macroeconomic intents especially in evolving economies such as Nigeria. However, Musgrave and Musgrave (2004) comment that

the dwindling level of tax revenue generation in the evolving countries makes it difficult to use tax as an instrument of fiscal policy for the achievement of economic growth and subsequently economic development. Some evolved economies like Canada, United States, Holland, and United Kingdom have substantially influenced their cost of living, standard of living and infrastructural development through earnings capability from tax generated from various forms of taxes available in their economies and have thrived economies through tax revenue (Oluba, 2008). In evolving countries, such as income from production sharing, royalties, and corporate income tax on oil and mining companies yield the substantial percentage of tax revenue (Pfister, 2009). The tax revenues are sources where government earnings and basically and most reliable that is characterized certainty and flexibility principles. Jhingan (2011) argued that tax is obligatory earnings contribution imposed by the relevant tax authority, regardless of the exact amount of social goods or social services rendered to the tax payer in return. He further claimed that tax is obligatory contribution from taxable person to the government covers to finance the expenditures incurred in interest ordinary citizens of all without reference to special benefits conferred.

#### ***Taxation as Revenue Generation and Economic development***

According to plethora of existing library studies, economic growth entails steady increase in real GDP, while economic development is the translation of economic growth that reflect or cause changes in the improvement in nation economic, political, and social well-being of its people. We have researchers that had metered tax earnings and economic growth and affirmed positive relationship between tax earnings and economic growth (Ugwunta & Ugwuanyi, 2015) and (Dasalegn, 2014). While the negative relationships is the conclusion of (Saibu, 2015), (Delessa, 2014), (Keho, 2013), (Marire & Sunde, 2010). The mixed findings of these studies is a function of many factors, different sources of data, material methodologies, in doubt of the discrepancy. The study intends to use field source of data to elicit first-hand information from the relevant and related stakeholders. So that the stakeholders express their opinion on tax earnings and enrichment, improvement in the earnings capacity of tax has really impacted or not on their lives and economy as a whole.

#### ***The Concept of Tax Governance***

Tax governance entails administrative effectiveness, administrative efficiency and procedural fairness that will ensure and engender tax earnings capacity in an economy (Jang, & Eger III, 2018) these will help to stimulate economic development. Governance entails the implementation of good bureaucratic and administrative policies (namely, building an effective tax system which can deliver public goods and service to society),

A number of definitions of good governance proposed by international organizations exist in literature. The World Bank (1992) looks at governance

to mean the manner in which authority is exercised in the managing of a social resources and country's economic resources for expansion. Sustainable development can take place only where existed functional and frameworks for institution of tax assessment, tax administration tax collection and tax policy which the study has proxy as component of tax governance.

Good governance issues focus on:

1. the procedure by which relevant tax authorities are exercised in the administration and improvement of a country's tax revenues and other social resources;
2. the ability of relevant tax authorities to formulate design and implement policies and execute functions on the principles of economy, effectiveness and efficiency.

However, the relevant of good governance is the fiscal system, as this plays a key role in state building and in incapacitating the challenges in the global economy. Effective tax systems not only establish a framework for economic growth, but also support the states' efforts to build responsible governments. According to the OECD, (2010) appropriate standards in taxation can bring about improvement in governance by:

1. development of a shared interest in economic growth, as governments which depend on taxes are more eager in implementing incentives for supporting economic development;
2. developing the State apparatus, as one of the conditions for effective tax collection is a well-functioning administration and the process of improvement of the bureaucratic apparatus which can affect encouraging changes in the tax earnings capacity elsewhere;
3. developing accountability and responsiveness, as relevant tax authority have enticements to improve governance in order to involve taxable persons in the politics and – by increased tax compliance – sustain tax revenues.

In the recent years, there have been brought a shift in researches concerning taxation issues. The traditional focus on maximizing tax revenues, compliance and efficiency has been extended to the function of taxation in supporting the strategy for state building.

#### ***Tax Assessment and Economic Development***

Tax assessment is governances that involve in the calculation or evaluation of tax liability of tax payers. Put differently, tax assessment is the process of estimating tax object or tax base of tax payers in order to arrive tax liability. There are principles that underpin this tax assessment governance among the listed principles by the scholar Jhingan (2004), Bhartia (2009), Osiegbu, Onuorah and Nnamdi (2010). The **equity principle** states the taxpayer must be assess to tax according to the proportion of income and the assessment must base on ability of the taxpayers and finally the tax assessment must be on fairness and equitable assessment. Bhartia (2009) Another principle that underpin tax assessment in the **principle of certainty** states both taxable persons and relevant tax authority must be sure amount of the tax

assessment and tax liability must not arbitrary assessment.

Assessment forms include government assessment, self-assessment and best of judgement assessment. **Government assessment:** is a form of assessment where relevant tax authorities evaluate tax payer to tax liability based on annual financial report and other tax returns submitted or filled to tax authorities. **Self-assessment;** is a form of assessment where the tax payers voluntarily assess and evaluate itself to tax liability base on taxable income and relevant tax information at its disposal and filled evident of payment of assessable tax and other relevant tax document to tax authorities. **Best of judgement.** This is a form of tax assessment where tax authorities assess tax payers into tax liability base on best knowledge of tax authority due to the failure on the part of tax payers to fill the necessary tax returns to relevant tax authorities.

Bases of assessment is the period whereby tax payer is legally qualifying to be assessed to tax. There **two categories of base of assessments: Actual Year Bases and Preceding Year Bases**

Hence, tax assessment of tax payers is crucial to the quantities and qualities of revenue that will be accruable to government cover. Therefore, the governance of tax assessment has nexus to economy viability of country especially evolving economy like Nigerian. Hypothesis developed:

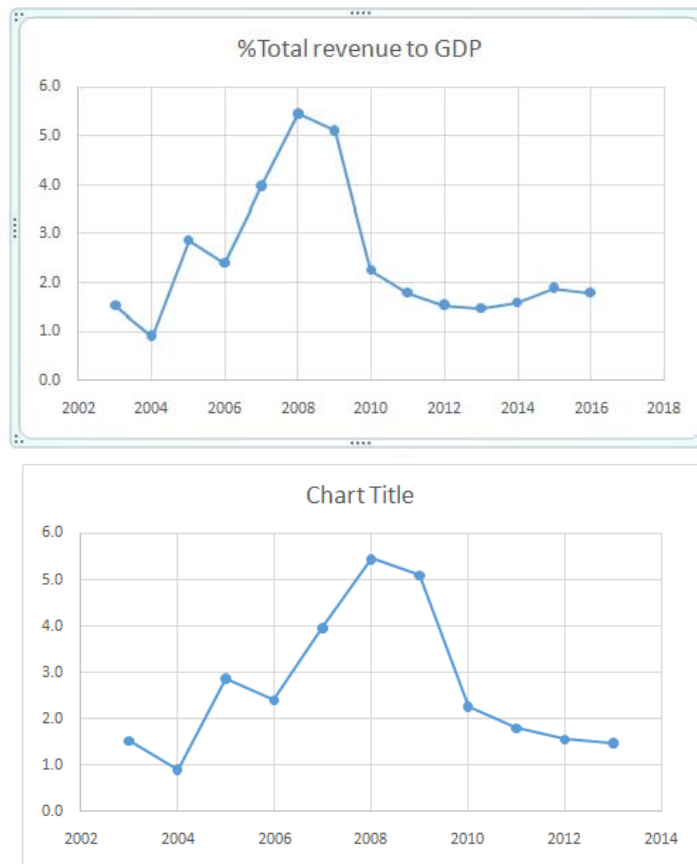
**Tax Collection and Economic Development**

Tax collection is defined as the gathering of pecuniary charges or levies obligatory upon an taxable persons or taxable legal bodies by relevant tax authority in the local, state and federal government. Is the process of pooling of a fiscal burden laid upon taxable individuals or taxable property to support government expenditure?

Attamah (2004) posits that tax collection is the assembling of a mandatory revenue contribution forced upon taxable persons and taxable firms by a public government to cover government expenses by those charged with the responsibilities or appointed agents or tax consultants.

The CITN (2002) defined tax as an compulsory revenue contribution by a taxable persons and firms to government covers in pursuant to a defined authorized legislation expenditures. The World Bank (2016) noted that tax revenue defines is compulsory transfers of funds to the central government covers for public utilization. Tax collection in governance of tax is very crucial in the sense of its functionality will enhance quantity and quality of revenue generated through tax. According to world bank, (2016) affirmed trend of tax revenue ratio to GDP is range between 1.5% to 5.5% to GDP for past fifteen years. The figure below shown the trend of Nigerian tax revenue ratio to GDP between 2003 to 2016

Figure 1: THE PERCENTAGE OF TOTAL REVENUE TO GDP



Source: researcher’s compilation (2018)  
 Source: Researcher’s Compilation.(2018)



The trend of tax revenue to GDP is as a result of the deficiency in the tax collection process in comparison to advanced economy higher percentage of their tax revenue to their economy domestic product.

<https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?locations=NG>

tax collection must be underpinned with the **principles of conveniences** and **principle of simplicity**. The process of tax collection must be made ease, accessible and suitable to taxpayers and tax authorities while the principle of simplicity states that tax collection should possess the attribute of straightforwardness and effortlessness in the task of collection

#### **Tax Collection and challenges**

In Nigeria, tax collection is confronted with complex and thoughtful multidimensional challenges. According to Ola (2001) revenue collection from income tax of taxable individual and taxable corporate bodies is tend to be too low because of insufficient level of information and enlightenment (tax education), poor relation between relevant tax authorities and taxable persons, insufficient number of qualified and competent accountant among the staff of tax authorities. Unexperienced and unqualified tax personnel lack skills on how to reach information or other technical procedures on how to utilize information available for the assessment and calculating tax in a best suitable manner (Ayodeji, Oyeyinka and Efunboade, 2014). However, Ariyo (1997) advised the followings were attributed to: dysfunctional in collection arrangement, multilayered law and apathy of taxable persons because of absence of utilities enjoyed as exchanged of their tax collected. The unison opinion of taxable person is that the wealthy taxable individual does not pay tax liability in the Nigeria, this has worsened the situation. It is also viewed as a process of determining the legitimate position laborious and difficult (Ariyo, 1997; Ola, 2001; and Odusola, 2003)

These associated challenges revolved around tax collection process constitute a major hurdle to quantum and potency of generating capacity of tax revenues in Nigerian economy.

On the grounds of the above analysis, the following research hypothesis is developed:

#### **Tax Administration and Economic Development**

Sapru (2009), says the word administration comes from the Latin word administrare which is a combination of meaning to and ministrare signifying to minister or serve. Later, the word assumed the meaning to govern. In another sense, he defined administration as activities connected with keeping records and information processing, paperwork and activities concerned with applying rules, procedures and policies determined by others. Tax administrations are governmental bodies that are in charge of practical interpretation and application of the tax laws

According to Bariyiman and Gladson (2009), tax administration in the country is being carried out by the many relevant tax authorities as enacted under the tax laws. The tax administration also includes

computation of tax liability communication of tax assessment to taxpayers, processing of objections and appeal, recovering of tax, accounting for tax collected, research and statistics. The tax administration including the following bodies: Federal Board of Inland Revenue (FBIR), Joint Tax Board (JTB) The State Board of Internal Revenue (SBIR) and the Local Government Revenue Committee (LGRC), The Joint State Revenue Committee (JSRC) and the Body of Appeal Commissioners together constitute the organs of tax administration in Nigeria, (Agbetunde 2004). These administrative bodies are supported and encouraged tax imposition either to redistribute wealth or to government project. The tax administration governance, it also has the tax principles that are fundamental to tax administration include **principle of economy** and **principle of productivity**. The principle of economy states that all administrative expenses that are incidental to total tax revenue collected must be less in value to the actual total tax revenue collected. While productivity principle states that tax must be creative to earn sufficient tax revenue.

Therefore, following the view of the above stated researchers it is obvious that tax administration has significant impact in economy development once the tax administration of a country is not effective nor efficient the purpose which is being set for will be forfeited as it for economy development which stand as the basis of this research work.

#### **Tax Policy and Economic Development**

Tax policy is an instrument of variation in government's possession to vary the existing tax rate, tax base, and other tax governance apparatus that need to be varied to meet the current economic reality status of any nation. Tax policy is government proposal on taxes, use intervene in the activities of tax relating to a particular fiscal year budget. Tax policy is the aspect of governance that relate with choice by a government in an economy to vary tax levies, at what rates, and on what base. Tax policy two structures microeconomic and macroeconomic characteristics, (Egbunike, Emudainohwo, & Gunardi, 2018 ;Musgrave and Musgrave, 2004). The tax fiscal policy is always associated with annual budget estimate that deals with the use of government tax revenue collection and expenditure (spending) to influence the economy. But this tax policy is underpinned by **principle of flexibility** which is been reflexed in annual budget proposals. The principle of flexibility states the tax policy must be given to constant changes in responses to change that occurred in economy as a consequence of fluctuations in macro and micro economic variables. Therefore, tax policy has a perceived association with economy development.

## **V. RESEARCH METHODOLOGY**

The study adopted research field design because it is based on the expression of opinions and attitude of stakeholders in tax matters and elicit information through purposive and structured questionnaire

The data needed to validate the research objectives and hypotheses of this study are data on tax assessment, tax collection, tax administration, tax policy and economic development. The data was obtained from primary source by the use of purposive and structured questionnaires which were personally administered. The population is stakeholders on tax matters in Ondo state. The study sample size is determined by using Cochran, W.G. (1953) formula to select 245 sample from unknown population. Purposive sampling technique was used to administered the structured questionnaires on selected respondents from tax officials, tax consultants, taxpayers, academia.

The explained variable of this study is economic development. It is widely acknowledged in the literature that economic development has been metered several independent variables but it has not been metered with tax governance to know the perceived relationships.

## VI. DATA ANALYSIS

Regression analysis was employed to analyzed data collected to depict the relationship or the effect of the decomposed independent variables on the dependent variable

Average interitem covariance	.1979944
Number of items in the scale	5
Scale reliability coefficient	<b>0.8049</b>

The coefficient of Cronbach's alpha test is 0.8049 which means good result whereas the tolerable limit 0.6, the structured questionnaires are reliable and inference can be drawn from the result for statistical measurement. It also portrays that when the questions were re-administered at different intervals, the same results were gotten every time, hence indicating the validity of the data.

### Breusch-Pagan / Cook-Weisberg test for heteroscedasticity

Ho: Constant variance  
 Variables: fitted values of taxgv  
 chi2(1) = 17.10  
 Prob > chi2 = 0.0000

The table above revealed the result obtained from the test for heteroscedasticity. The probability value of 0.000 resulting from the test for heteroscedasticity implies that the model is not free from

## VII. ROBUST REGRESSION ANALYSIS

Robust regression is a correction for the problem of heteroscedasticity.

VARIABLES	OLS	ROBUST
CONSTANT	8.852 (0.000) *	
TAXASS	-.2169 (0.001) *	-.2241 (0.001) *
TAXCOL	.0749 (0.171) *	.0472 (0.406) *

### *Regression Analysis*

The relationship between economic development and tax governance apparatus variables were estimated using OLS. According to Coake et al (2007), basic assumptions underlying application of OLS analysis. These assumptions were evaluated because the violation of these assumptions of Best Least Unbiased Estimator (BLUE) may affect the integrity of the regression result. Hence, pre-regression test and post regression test were carried out on the data used.

Reliability and Validity are vital ideas in research as they are used for enhancing the accuracy of the assessment and evaluation of a research work (Tavakol and Dennick, 2011). According to Twycross and Shields, (2004) opine that reliability states that the stability, repeatability and consistency of the contents of research instrument must be congruent to the results obtained. Put differently, the results or outcomes of an investigator are considered reliable when consistent outcomes have been attained in indistinguishable conditions but different circumstances. While Thatcher, (2010) affirmed that validity of research instruments are the extent to which any measuring instrument measures what it is intended to measure.. Therefore, the inferentiality of this study Cronbach's alpha was carried out on the research instrument (Questionnaire).

### *Heteroscedasticity Test*

Heteroscedasticity means the absence of homoscedasticity, the constant variance assumption of the Ordinary Least Square estimator. It implies that the absence of non-constant variance leading to the violation of the BLUE properties in which the efficiency and consistency property are lost.

the presence of unequal variance. The presence of heteroscedasticity invalidates the OLS results, therefore, there is need for robust to correct inconstancy of variance.

TAXADM	-.1477(0.005) *	-.1205 (0.027) *
TAXPOL	-.1428 (0.021) *	-.1517 (0.019) *
<i>R-squared</i>	0.22	0.22
<i>F statistic</i>	16.11 (0.000) *	15.08 (0.0000) *
<i>VIF</i>	1.69	
<i>Heteroscedasticity</i>	17.10 (0.000) *	
<i>Observations</i>	229	229

Source: Researcher's Compilation (2018)

Note: \* is 5% level of significance

In the table above, the result of OLS regression shown that R-squared value is 0.22, this means 22% of systemic variations in the opinion of respondents on economic development as explained variable was jointly explained by the opinion of respondents on the explanatory variables which were the tax governance apparatus. The F-statistic value of 16.11 and its associated p-value of 0.000 shows the regression model on the overall is statistically significant at 5% level is valid, therefore, the inferentiality of the study is reliable. The meanvalue of o *VIF* shows is 1.69 which is less than the benchmark value of 10, this indicates the absence of multicollinearity among the tax governance apparatus. Also, it can be observed the OLS result had heteroscedasticity problem {17.00 (0.000) \*} this is significant and it is corrected by opt out to run robust regression. In other to validate our stated hypotheses of explanatory variables, the result of robust regression will be used.

On the influence of individual explanatory variables in the model, the table above indicates that Tax assessment (TAXASS) {OLS  $\beta_{robust} = -0.2241$ ;  $p > 0.001$ }, tax administration (TAXADM) { $\beta = -0.1206$ ;  $p > 0.027$ } and tax policy (TAXPOL) { $\beta = -0.1518$ ;  $p > 0.019$ } as explanatory variables had a negative and significant influence on explained variables at 5% level of significant. While only tax collection (TAXCOL) { $\beta = 0.0472$ ;  $p < 0.40$ }, has a positive and insignificant association with opinion of respondent on economic development. Hence, we accept alternative hypothesis as stated the study on tax assessment, tax administration and tax policy while null hypothesis is accepted of tax collection which has a positive relationship with the explained but insignificant statistically.

## VIII. CONCLUSION

The study has empirically provided evident on the inherent lacuna of tax governance apparatus in responses to economic development which the primacy of the study. Methodologically, purposive and structured questionnaires were targeted and elicited opinions from relevant and related stakeholders on tax matters, data collected were subjected to pre-regression test and post regression test, but heteroscedasticity test failed ordinary least square, then robust regression was opted for as offshore to correct the failed test. The result revealed that the responsiveness of economic development to tax assessment, tax administration and tax policy were statistically significant inversely related while tax

collection was statistically insignificant related directly with explained variable. Thus, study concluded that poor management and administration tax governance apparatus of tax system in Nigerian economy context responsible for adverse relationship that subsist between tax earnings capacity and decayed and declined in physical infrastructures and socio-economic goods for economic development.

## RECOMMENDATIONS

1. Government through relevant tax authorities should constantly review tax apparatus to in order to align with current economic reality and that will always stand the test of time.
2. Possibly, use of experts /consultant to review operational efficiency of tax authorities at all levels.
3. Tax administration should be given more priority through constant training and retraining of tax officer with good motivation

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