



A Publication of Departments of Accounting & Finance and Business Administration, Fountain University, Osogbo.

Journal homepage: www.osogbojournalofmanagement.com

ISSN: 2315 – 6325 (Print) ISSN: 2408-6959 (Online)

PLUCK THE FRUIT, BUT NURTURE THE TREE: A SURVEY OF THE EFFECT OF GOVERNMENT PERFORMANCE ON TAX MORALE AMONG NIGERIANS

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Abstract

Empirical studies revealed the limitations of rational economic theories in accurately predicting compliance level, the puzzle on reasons why people pay taxes therefore still remain unsolved. Efforts of recent studies now move away from examining reasons behind evasion to assessing reason why people actually pay taxes. Noteworthy achievement in this direction is the identification of tax morale as fundamental factor behind reasons for tax compliance. Literature in the last few decades had been examining factors that influence this identified tax morale. Factors considered to be influencing tax morale include perception of government's institutions performance of including tax authorities. But most studies used only micro data to examine this complex puzzle. This paper examined impact of government performance on tax morale in Nigeria, a sub-Saharan African country adopting macro data from Afrobarometer survey Rounds 1 to 7 collected between 1999 and 2017. The study also examined the moderating role of citizens' perception of the "prevailing economic condition" in a country on the effect on tax morale. The study was based on the Fiscal Exchange Theory. The results established that perception of government performance, especially in the area of creating more jobs and prevailing economic condition in the country had positive influence on tax morale. The study recommends that governments in Nigeria, as they pluck the fruits, should ensure creation of more jobs for its citizenry and provide conducive economic condition sustainable enough to nurture the trees that provide the fruits to ensure sustainable provision of the fruits.

Keywords— *Afrobarometer survey, Government performance, Economic condition, Fiscal exchange theory, Tax morale.*

JEL Classification Codes: *D11, F43, H11, H24*

1. INTRODUCTION

Human societies are sustained through social psychological contract between the ruling governments and the ruled citizens. This contractual relationship demands that the rulers should provide public goods and services for the benefits of the ruled, while the ruled should provide required fund for running the operations and activities of governance (Armah-Attah & Awal, 2013; Beale & Wyatt, 2017; Otto, Michael, Philipp, Gertraud, Martina & Martin, 2015). This is the simple but fundamental rule of social contract theory, of which its absence crumbles the foundation of civil society. It is however noted that countries, especially developing economies, are facing several challenges in generating this much needed public revenue from taxation (Akintoye & Tashie, 2013; Beale & Wyatt, 2017; Chude & Chude, 2015; Enahoro & Olabisi, 2012; World Bank/PwC, 2017; Kira, 2017). Compliance therefore, is found to be posing serious worries and concerns to major stakeholders. In spite of the number of measures taken by relevant stakeholders to induce tax compliance. Non-compliance still is giving serious threats to government revenue generation and management of the economy (Akintoye & Tashie, 2013; Aronmwan, Imobhio & Izedonmi, 2014; Beale & Wyatt, 2017; Chude & Chude, 2015; Fakile, Adegbie & Faboyede, 2014; World Bank/PwC, 2017).

Therefore, the menace of tax compliance and its consequential effects remain serious worries to all. Studies by (Allingham, & Sandmo, 1972; Yitzhaki, 1974) made early attempts to suggest theoretical postulation of rational economic theory to explain reasons “why people evade taxes”. The proposition is that human beings are rational utility maximizers who always attempt to weigh the costs and benefits of their decisions to take the option that offers the highest net benefit to the actor. Practical experiences from studies, starting from the United States, revealed that the predicted compliance level is far below what is found in actual life situation. Results therefore established limitations of the perspective especially, in explaining “why people pay taxes”. This limitation therefore demanded for expansion of the research on tax compliance beyond deterrence factors to incorporate issues like moral, sentiments, values, ethics and perceptions. Researchers are now focusing on issues like reciprocity (fiscal exchange) whereby governments are expected to supply public goods and services that will be commensurate with the taxes paid by citizens in a fiscal relationship established through social contract (Akerlof, 1982; Feld & Frey, 2007; Lewis, 1982). The quality of such public products is therefore of paramount importance in term of citizens’ perception of the efficiency of government’s performance. This is considered a potential factor that can influence the motivation, willingness, or readiness of taxpayers to voluntarily pay their taxes. This justifies the need to empirically examine this relationship and the exchange therein.

2. LITERATURE REVIEW

2.1 Conceptual Framework

Tax is “...a compulsory levy imposed by government authority through its agents on its subjects or his property to achieve some public goals and payer of such levy does not expect something specific in return” (Lewis, 1982). Tax Morale, according Torgler (2007), refers to is the intrinsic motivation to pay taxes, or “the willingness to pay taxes”. It is the “moral obligation to pay taxes”, “the belief in contributing to the society”. It can also be perceived as “moral regret” or “guilt” over cheating on taxes. It measures individual’s attitude while tax evasion measures individual’s behaviour. According to Agbetunde and Adedokun (2014) there is a clear causal link between this tax morale and tax compliance. It is opined to be the reason behind the puzzle of tax compliance. With these views, Torgler (2007) considered it reasonable to empirically measure tax morale as “the justification of

cheating on taxes” and “belief to which extent it is wrong not to report all income” in order to pay less taxes. The author however waved a caution flag of biasness from their definition, because a taxpayer that had evaded before may now excuse this type of ‘behaviour’ and display a contrary ‘attitude’ to display high tax morale. It is therefore considered fundamental to examine under which institutional arrangement citizen will be more willing to pay taxes Torgler (2007).

2.2 Theoretical Framework

This study adopted Fiscal Exchange Theory as the theoretical basis. The postulation is that a psychological contract exists between the state and the citizens which requires fiscal obligations from each of the two parties in an exchange relationship. The state is expected to provide public goods and services in line with its contractual duties. In response, the citizens that enjoy public goods and services supplied are expected to discharge certain contractual obligations especially provision of the required fund to finance these government-supplied public goods and services. This fund is provided in form of taxes paid by the citizens (Lewis, 1982). As rational consumers of public goods, citizens would weigh the value derived from government services compared to the taxes they paid. Therefore, if any party fails in discharging its own duty, then the contract term is fouled. The efficiency or otherwise of government performance would show the quality of the public products supplied in reciprocal for taxes paid. It is therefore expected that this quality should be commensurate to the price paid in form of tax.

2.3 Empirical Review

2.3.1 Tax morale and its determinants

It was opined by Ramona-Anca and Larissa-Margareta (2013) that Schmolders coined the word tax morale in 1960 as “the attitude of a group or the whole population of taxpayers regarding the question of accomplishment or neglect of their tax duties, it is anchored in citizens’ tax mentality and their consciousness to be citizens, which is the base of their inner acceptance of tax duties and acknowledgement of the sovereignty of the state. Tax morale was seen by Feld and Frey (2007), as the internalized obligation to pay tax. It is the intrinsic motivation to pay tax (Alm & Torgler, 2006). There is however a challenge in tax morale due to its inability to be directly observed rather its effects can only be felt (Pommerehne, Hart & Frey, 1994).

Tax morale according to Torgler (2007) is positively induced by direct democracy. Controlling for factors like religiosity, trust in authority, tax awareness, perceived tax burden, tax administration, tax system, corruption and willingness to obey laws. Study of Torgler, Demir, Macintyre and Schaffner (2008) also found a significant relationship between tax morale and tax evasion. Attitude of Austrian citizens’ towards tax morale was examined by Torgler and Schneider (2007) to argue that very few studies theoretically and empirically explored the concept. The study used World Value Survey and European Value Survey for its analysis. On the whole, major factors identified to influence tax morale include national pride, and social perception of general compliance. The authors concluded that perception of low tax compliance generally among taxpayers would reduce tax morale, indicating that peer or social norms has influence on tax morale.

Impact of institutions’ effects on tax morale of Switzerland taxpayers was evaluated by Torgler and Schneider (2007) in constructs like direct democracy, federalism, trust in government and the court and legal system. The result generally, established strong influence of institutions on tax morale. A challenge is noticed on the limitation of generalization to other tax jurisdictions, since data

from Switzerland alone was used for the analysis. Study by Torgler (2011) gave empirical evidence from Europe on tax morale. The paper made an overview of tax morale and tax compliance literature based on earlier studies which the author conducted together with other researchers over a decade. Generally, the findings suggested that democracy, governance, accountability, efficient and transparent legal structures and trust contribute to tax morale. The study of Torgler, Schaffner and Macintyre (2007) examined factors that determine existence of tax morale. This was done with emphasis on the relevance of governance and institutional qualities.

According to Ramona-Anca and Larissa-Margareta (2013), Government Accountability (efficiency in public expenditure) improves tax morale. This influence is found to be more significant when public spending is lower, if fiscal autonomy is considered higher (Torgler, 2007; Ramona-Anca & Larissa-Margareta, 2013). Specifically, Ramona-Anca and Larissa-Margareta (2013), showed evidences that high fiscal autonomy induces higher tax morale, thus higher tax compliance. Similarly, OECD (2010) studied tax morale using macro data to elicit citizens' attitudes across Europe, Latin America and Asia. The study concluded that relationship between taxpayers and government is a major determinant of tax morale, and that citizens' favourable perception of such relationship can induce taxpayers to acknowledge tax as a civic responsibility.

The role of reciprocity and social norms on tax morale among German citizens was examined by Doerrenberg and Peichi (2013). The survey on general note established that perception of efficient government performance enhanced tax morale. Tax morale is found to be significantly high when government performance is efficient. The influence of this reciprocity on tax morale was even found to be higher than the influence of a social norm. Reciprocity according to the study suggests that motivation to comply depends on perceptions of services and quality of government performance. This is much related to Frey and Meier (2004) concept of "conditional cooperation". Other earlier studies supporting the relevance of government performance on tax morale include studies of Alm (2012), Frey and Meier (2004), Frey and Meier (2004) Frey and Torgler (2007) as well as Lambertson, De Neve, and Norton (2014).

Arising from the review made here, it could be deduced that extensive studies have been carried out on tax morale and tax compliance especially outside African sub-region, with variances of results. Only few of them focused on developing African economy like Nigeria. Furthermore, very few ones, to the knowledge of the researcher, examined government efficiency and tax morale with a view to assessing their relationship, despite the allegations of inefficient public performance in Africa generally and their low tax to GDP ratios. It is also observed that earlier studies on the topic using macro data from WVS or EVS and Afrobarometer mostly adopted one indicator to measure each of the variables. The current study used multiple indicators to test each of the variables measured. Hence, it is considered expedient for research to address this area with focus on developing economies like Nigeria. On this note, the current study attempted to examine tax morale and government performance in Nigeria with a view to assessing the impact of the latter on the former. Unlike most of the earlier studies that used data from one survey, but this study used data generated in 7 surveys conducted over 18 years.

3. METHODOLOGY

The study adopted descriptive survey design, being one of the most popular methods adopted to study tax morale. Results of experimental studies showed what people actual did, unlike the survey studies that elicit what people would do in certain condition (Torgler, 2007). In order to have a reliable

and comprehensive analysis of respondents' perception on the issues examined, studies of this nature used to adopt macro data from repositories like World Value Survey, European Value Survey and Afrobarometer Value Survey. Since this study focused on Nigeria, an African country, data from Afrobarometer survey Rounds 1 to 7 were used so as to acknowledge the peculiarities of the region (Afrobarometer, 2018).

Population covered citizens above 18 years of age, of which over 2000 sampled respondents were interviewed in their natural environment. Each of the surveys focused on governance, accountability and corruption of each country. From the items on the questionnaire, three indicators selected to measure tax morale relate to respondents' perception on (1) acceptance of tax payment as a civil duty, (2) readiness to pay tax despite reasons for not paying, and (3) law compliance. Efficiency of government performance was measured with three proxies; efficiency in "narrowing income gap between the rich and the poor" (GP1); "creating jobs" (GP2) and "managing the economy" (GP3). Citizen perception on the "satisfaction with the economic condition of the country" was used to moderate the influence of government performance on tax morale.

4. FINDINGS AND DISCUSSIONS

Data were analysed with regression analysis using Ordinary Least Square (OLS) method processed with the aid of E-View software. Results are presented on Table 1.

Table 1: Regression of Government Performance, Economic Condition and Tax Morale.

Dependent Variable: TM				
Variable	Coeff	Std. Err	t-Stat	Prob.
Management of economy	1.5259	25.0942	0.0608	0.9613
Creating jobs	2.7539	26.7630	2.1029	0.0347
Bridging income gap	-11.9416	7.8557	-1.520	0.3704
Economic Condition	3.4975	7.0669	3.4949	0.0074
C	126.381	126.514	0.9990	0.5003
R-squared	0.8456	Mean dependent variable		66.052
Adjusted R-squared	0.2277	S.D. dependent variable		8.8190
S.E. of regression	7.7503	Akaike info criterion		6.8082
Sum squared residual	60.0667	Schwarz criterion		6.6347
Log likelihood	-15.4247	Hannan-Quinn criterion		6.1136
F-statistic	14.3851	Durbin-Watson stat		2.2591
Prob (F-statistic)	0.0092			

Source: Authors' Computation (2019)

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a. Effect of Government Performance on Tax Morale

Results on Table 1 shows $R^2 = 0.846$, *Adjusted R*² = 0.228, $F = 14.385$; $p < 0.050$. Individual contributions from the proxies of government performance gave: Bridging the income gap: $\beta = -11.942$, $t = -1.520$, $p > 0.050$; job creation: $\beta = 2.754$, $t = 2.103$, $p < 0.050$; management of the economy: $\beta = 1.526$, $t = 0.061$, $p > 0.050$; prevailing economic condition: $\beta = 3.498$, $t = 3.495$, $p < 0.050$.

These revealed on the whole that, government performance showed significant effect on tax morale of individuals in Nigeria. On the individual contributions of the proxies on government performance, only job creation and prevailing economic condition gave significant contributions to variation in tax morale while, bridging the income gap and management of the economy did not give significant contribution to enhancement of tax morale. The statistics also revealed a coefficient of determination suggesting that approximately 85% variation ($R^2 = 0.846$) in the tax morale was explained by government performance. The combined effect of the proxies of government performance was 22.8%, (*Adj. R*² = 0.228). The F -test probability of 0.0092 indicated that the result is significant at 5 percent ($p < 0.050$). This implies that reliable inference can be made on the findings. Hence, one can make generalisations at a reasonable level of assurance. The model is therefore reliable enough for prediction and policy analysis. Finally, the Durbin-Watson value of 2.3 suggested that autocorrelation is not a problem among the variables in the model.

These suggest that if government performance in creating job is perceived to be efficient, taxpayer's morale would be enhanced. Similarly, if government performance in managing the economic condition of the country is perceived by the citizen to be efficient, tax morale will be induced, thus resulting to more revenue from taxation. However, with respect to narrowing income gap between the rich and poor, respondents' perception did not show it has capability of significantly inducing tax morale. The implication is that a move towards progressive tax system may not necessarily induce tax morale in Nigeria. Likewise, any adjustment of the salary scale at the expense of high income earners, such that the gap on the salary scale between two levels on the scale is bridged, may not have significant implication on tax morale. This may suggest that the income gap among Nigerians is so high and has been appreciated by all as acceptable social norm. Moreso, perception of citizens on the management of the economy was not found to be significant. The policy implication of these findings is that authorities need to focus more on job creation and improving economic condition than management of the economy and bridging of income gap.

b. Role of Prevailing Economic Condition on the Effect

The introduction of citizens' perception of the citizens' satisfaction with the prevailing economic condition of the country as moderating variable gave a positive relationship. This testifies that with an improvement in the economic condition prevailing in the country, Nigerian showed that their perception of government's performance will be favourable improved and resultantly tax morale enhanced. This result suggests that Nigerians expressed opinion that they could be considerate with that is not efficient in, bridging gap between rich and poor or in managing the economy. However, during boom, Nigerians would expect government to be efficient in its performances, for citizens to be willing and ready to pay taxes.

5. CONCLUSION AND RECOMMENDATIONS

The paper concludes that improvement in the macroeconomic condition goes a long way in encouraging the tax morale. On a general note, these results agree with earlier studies like claiming that efficient performance of government would enhance tax morale Akerlof (1982), Lewis, (1982), Feld and Frey (2007) and Torgler (2007). Arising from the findings in this study, the paper recommends that governments in Nigeria should improve on their performance, especially in creating more jobs for its citizenry and also in creating good economic condition that would give conducive atmosphere for all to operate. These, based on the principle of fiscal exchange paradigm, would nurture the trees that bear the fruits.

Governments and other stakeholders should also embark on continuous tax education and enlightenment that would be emphasizing the link of public spending to tax revenue. This would assist in building public trust and loyalty. Further study is also recommended on the impact of government performance and tax morale that would examine government performance in other areas of activities r a robust and comprehensive knowledge on the relationship.

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