

Taxpayers' Education: A Key Strategy in Achieving Voluntary Compliance in Lagos State, Nigeria

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Abstract

This study examined taxpayers' education as a key strategy in achieving voluntary compliance in Lagos State. The objective of the study is to examine the impact of tax education programme on tax payment compliance behaviour. The study novel based on the extended research instruments adopted compared to earlier studies. This paper adopted a survey research method which is quasi-experimental form of design in nature. A simple random sampling technique was used to sample 250 Taxpayers in Lagos State. The Taxpayer Compliance Appraisal (TCA) questionnaire developed by the researcher following the lead of Fisher, Wartick and Mark (1992) was used as the adopted research instruments for data collection in the study. The descriptive analysis revealed that 44.6% (108) and 55.4% (134) of total surveyed taxpayers in Lagos state were male and female respectively. Also, the Analysis of Variance (ANOVA) for the test of hypotheses revealed that tax education programme focused on enlightening taxpayers' on socio-economic implications of tax evasion opportunities and the transparent and accountable use of tax proceeds have significant influence on taxpayers' voluntary compliance in Lagos State, Nigeria. On this basis, the study proffered that there is need for tax education to be offered to students pursuing non-accounting courses and not restricted to accounting students at all levels. Also, government and other stakeholders should work together to reduce tax complexity and compliance cost in order to encourage voluntary compliance.

Keywords: Taxpayers' education; Tax compliance, Tax evasion, ANOVA, Lagos State and Nigeria.

1. Introduction

Tax is a compulsory levy which a government imposes on its citizens to enable it to obtain the required revenue to finance its activities (Adesola, 1986). It is generally considered as a civic duty. On the other hand, taxation is the process of imposing, assessing, collecting and accounting for taxes (Agbetunde, 2010). The original concept of tax was basically to raise money to meet the expenditure needs of government. Tax is much more than collecting revenue, it is about building accountable relations between government and citizens. Tax is a cost to the tax payer, be it an individual or corporate body. The desire of the tax payer to minimize the cost and thus maximize his income and profit naturally exists. There is therefore a conflict between government objectives to maximize tax revenue and that of the taxpayer to minimize tax incidence. Tax compliance can be described as the process of fulfilling the tax payer's civil obligation for tax payment and filing of tax returns including the provision of necessary documents and explanations required by the tax authority in a timely manner (Oyedele, 2009). Tax compliance may be voluntary or involuntary. However, one of the greatest problems facing the Nigerian tax system is the problem of non-compliance. Tax compliance is a major problem for many tax authorities and it is not an easy task to persuade taxpayers to comply with tax requirement even though 'tax laws are not always precise' (James and Alley, 2004). Aksnes (2011) discussed some reasons why taxpayers may be non-compliant and these include flexible tax morale; low education; rules that are too complicated to follow; taxable activities that are manipulated to avoid tax; a perception that the risk of being caught is low; aversion towards the public sector; and a culture of corruption. The

objective of this study is to examine the impact of taxpayers' education in achieving voluntary taxpayers' compliance with the view to inculcate in the youth the culture of voluntary tax compliance.

2. Literature Review and Conceptual Framework

Although it is commonly said that only death and taxes are certain in life, it is unmistakable that taxes are in fact far from inevitable. Individuals do not like paying taxes, and they take a variety of actions to reduce their tax liabilities. Taxpayers tend to interpret tax rules to their own advantage. History has shown that there has always been a reluctance to pay tax. The perception of tax payers that the government was not accountable to them has been identified as a major challenge facing the tax authority (Onuba, 2011). Moreover, Ojo, (1998) argues that ignorance about tax is a significant problem in Nigeria. The low level of taxpayers' education is unarguably the major factor affecting the proper planning and administration of tax in Nigeria. According to Azubike (2009), the absence of information and enlightenment for taxpayers is a major problem as they are not sufficiently educated and enlightened on the provisions of the various tax laws in the country.

This study is anchored on the Fisher tax compliance model. The model provides a framework for understanding the influence of those socio-economic and psychological components on taxpayer's compliance decision. The tax compliance literature identified four key factors which are categorized by Fisher and associates (Fischer, Wartick & Mark, 1992) into four groups in his expanded model (Fisher Model): (i) demographic (e.g.- age, gender and education) (ii) noncompliance opportunity (e.g. income level, income source and occupation), (iii) attitudes and perceptions (e.g. fairness of the tax system and peer influence) and (iv) tax system/structure (e.g. complexity of the tax system, probability of detection, penalties and tax rates). Thus Fisher model of tax compliance incorporates economic, sociological and psychological factors in a comprehensive manner.

The Fisher model suggests that demographic variables indirectly affect taxpayer compliance by their impacts on non-compliance opportunities, attitudes and perceptions. A common demographic variable is the taxpayer's age. A positive link between age and taxpayer compliance is reported (Fischer, Wartick & Mark, 1992). In general, young taxpayers are more willing to take risks and are less sensitive to sanctions. Traditionally, females have been identified with conforming roles, moral restraints and more conservative life pattern. Education, as a demographic variable relates to the taxpayers' ability to comprehend and comply or not comply with the tax laws. Two aspects of education have been distinguished: "the general degree of fiscal knowledge and the degree of knowledge involving evasion opportunities" (Groenland and Veldhoven, 1983).

Standard models of tax compliance assume that taxpayers are fully informed of all the aspects that cover the tax reporting process (Andreoni Erard and Feinstein, 1998). However, this is a strong assumption. The degree of knowledge and information might be an important factor in the way taxpayers behave. Better educated taxpayers are supposed to know more about tax laws and fiscal connections and thus would be in a better position to assess the degree of compliance (Lewis, 1982). However, it should be noticed that there might be people with a lower education who have acquired a high knowledge about taxation (Eriksen and Fallan, 1996). Some taxpayers might find the complexity of tax information more difficult to understand than others (Pinney, 1993). On the other hand, Vogel's (1974) survey findings indicate that less educated taxpayers are less exposed to tax compliance information and less informed about relevant tax regulations and need assistance more often. Braithwaite (2001), from a survey of 1000 Australians in 1998, reports that only 15% believed that "the Tax Office does a good job stopping tax avoidance by very wealthy people". More educated people may be less compliant because they better understand the opportunities for avoiding taxes. Fiscal knowledge may positively influence the practice of avoidance (Gereroms and Wilmots, 1985). Witte and Woodbury (1985) found that compliance is higher in established, but growing areas, which are populated largely by middle class native born whites. Areas with a better educated population and areas with large student populations have low levels of compliance. Furthermore, areas with high levels of poverty and unemployment have a low level of compliance for all groups. An important factor which influences the incentive to seek tax information is the relevance of information. Such an incentive might depend on taxpayers' financial situation. Complex financial situations involve taxpayers in tax-related issues. Self-employed taxpayers, for example, have higher opportunities to evade or avoid taxes and thus have an incentive to get informed about the tax law (Pinney, 1993).

Fiscal ignorance might be an important contributor to the development of negative feelings towards taxation. Lewis (1982) after reviewing the literature of the 70s, reports that more educated taxpayers have in general more sympathetic fiscal preferences than those with a lower education. They are better aware of the benefits and services the state provides for the citizens from the revenues. Achieving tax compliance is costly for both tax authorities and

taxpayers. Tax audit and investigation is obviously costly to tax authorities (Allingham and Sandmo, 1972). Compliance is also costly to taxpayers, who must keep records as well as consult tax professionals and this is particularly true under a self-assessment system.

Taxation literature confirms that taxpayer's compliance is determined by the government fiscal policy, tax enforcement systems, perceptions of taxpayers, fairness of the tax system and the services provided by the government in return.

2.1 Comparison of Tax Evasion and Tax Avoidance

Tax evasion is a deliberate and willful practice of not disclosing full taxable income in order to pay less tax. It is a violation of tax laws and a general term for efforts by individuals, companies, trusts and other entities to evade taxes by illegal means. Tax evasion usually entails taxpayers deliberately misrepresenting or concealing the true state of their affairs to the tax authorities to reduce their tax liability. It also includes, in particular, dishonest tax reporting such as declaring less income/profits or gains than actually earned or overstating deductions. According to Adegbile and Fakile (2011) tax avoidance, on the other hand, is the active means by which the taxpayer seeks to reduce or remove altogether his tax liability to tax without actually breaking the law. It is the means by which tax liability is minimized or avoided by exploiting the loopholes in the law.

Nigeria is one of the few countries in the world where it is fashionable to evade tax. The various structures which are required to work together to make tax evasion difficult are not properly coordinated. For instance, it is possible for a company to register with the Corporate Affairs Commission (CAC) without registering with the FIRS when it could have been one of the conditions in the company registration process. Enforcement of tax compliance should be given adequate attention and various government agencies (land registry, corporate affairs commission, vehicle registration department, immigration etc) should collaborate and share information to reduce tax evasion. Both tax avoidance and tax evasion have only one objective which is to reduce the tax liability of the tax payer. The difference lies in the legality of one over the other. While evasion is illegal and a criminal offence, avoidance is not illegal, but it is not encouraged.

2.2 What is Taxpayers' Education?

Taxpayers' education can be described as a method of educating the people about the whole process of taxation and why they should pay tax. Taxpayer education assists taxpayers in meeting their tax obligations to the government. The primary existence of taxpayer education is to encourage voluntary compliance amongst taxpayers, but the theory needs to be developed further to establish whether taxpayer education in isolation can impact on compliance. Before this phenomenon can be explored, the components of voluntary compliance need to be examined. Most taxpayers want to do the right thing and pay their fair share of tax. They do not, however, want to pay more than is necessary. Voluntary compliance amongst taxpayers is heightened when taxpayer education and enforcement functions are balanced to achieve the desired output in tax compliance (Misra, 2004). Tax administration is a key public sector responsibility that touches the lives of citizens and their businesses on a daily basis. Failure to understand the taxation system leads to less compliance since most people will avoid it because they do not know what they should pay as and why they should pay tax.

Educating the people about the whole process of taxation and why they should pay tax will encourage compliance. According to Ojo (1998) where the correct attitude has been imbibed the very next step should be that of educating the citizenry. The education would be effective when they have noticed in their position in terms of the social amenities that are basic to their existence. Most of the taxpayers can then be expected to react positively towards tax drives and a reduction in evasion. Ogundele (1994) asserts that to comply with tax laws, taxpayers need to have adequate tax knowledge.

One of the major objectives of the last administration in Lagos State, Nigeria, was to optimize the State's tax potentials by achieving a very substantial, if not total coverage of its taxpayer base. In simple terms, to bring all taxable persons into the tax net. To actualize this goal, the Tinubu's administration initiated the State's Tax Administration reform process. As part of the re-engineering process, the tax payment process was reviewed and all payments to the Board were to be made directly to designated revenue collecting banks by the taxpayers. Moreover, Lagos State Internal Revenue adopted public enlightenment by using Radio, Television, Newspapers, Bill Boards and Distribution of T-shirts among others. With the following messages:

- a. A secure, safe, beautiful State with adequate social amenities, job opportunities and empowerment programmes. This is only possible when you **PAY YOUR TAX**;
- b. IT IS YOUR DUTY, IT IS YOUR CIVIL RESPONSIBILITY AND IT IS THE LAW.

3. Methodology

The study adopted a survey research design of a *quasi experimental* in nature due to the inability of the researchers to control the sample environment. Also, due to the fact that the researchers had no control over the independent variables as they have manifested already. The study covered only individual tax payers in Lagos State metropolis as registered and validated by the Lagos State Inland Revenue Services. Random sampling technique was adopted for selection of 250 samples of Taxpayers in Lagos State.

3.1 Research Instruments

The instrument used in this study was Taxpayer Compliance Appraisal (TCA) questionnaire. The TCA was developed by the researchers following the work of *Fisher, Wartick and Mark (1992)* and was tested on 250 taxpayers in Lagos metropolis. The Cronbach's alpha coefficient was computed to determine the reliability of adopted instruments. The instrument was divided into three parts which were scored accordingly. The first constructs, Taxpayer Demographic variables (TDV) covers the background information of the respondents with six items (Age, Gender, Income level, Income source, Education level, and Occupation). The second part of the instrument covers the Tax Education Programme (TEP) which measures the Taxpayers enlightenment level using five items such as Tax liability Information, Tax Law Information, Knowledge of Tax Evasion opportunities, Methods of Tax Payments, and Accountability of Tax Revenues. Also, the third section presents the Taxpayer Compliance Behaviour (TCB) with six items such as Complexity of Tax System, Tax Rate, Tax Evasion Penalty, Payment Convenience, Ease of Payment, Fairness and Accountability of Tax Revenue. The last two parts of the instruments are scored on a five point likert scale response as follows: Strongly Agree (SA), Somewhat Agree (A), Neutral (N), Somewhat Disagree (D), and Strongly Disagree (SD). Researchers were involved in carrying out the administration and collection of the Taxpayer Compliance Appraisal (TCA) questionnaire.

3.2 Research Hypothesis

The main research hypothesis for this study is synthesized as follows:

H₀ Taxpayers education has no significant influence on taxpayer voluntary compliance behaviour.

3.3 Methods of Analysis

The research hypotheses were analyzed using Analysis of Variance (ANOVA) to determine the influence of Tax Education Programme (TEP) on Taxpayer Compliance Behaviour (TCB). Though, prior to the test of hypotheses, the relationship between Tax Education Programme (TEP) and Taxpayer Compliance Behaviour (TCB) items was estimated using the Spearman Rank correlation technique in order to determine the level and significance of interactions among each pairs.

Spearman (1904) test is the nonparametric equivalent of a test of correlation for matched pairs of data. If X_i represents instruments of Tax Education Programme (TEP) and Y_i is the instruments of Taxpayer Compliance Behaviour (TCB), then one can consider the following bivariate random sample of size n , $(X_1, Y_1), (X_2, Y_2), \dots, (X_n, Y_n)$. Let $R(X_i)$ be the rank of X_i compared with the other values of X , for $i=1,2, \dots, n$. For example, $R(X_i) = 1$ if X_i is the smallest number in the series. By the same token, let $R(Y_i)$ be the rank of Y_i for $i=1,2,3, \dots, n$. The Spearman's Rank is mathematically defined as in Equations 1 & 2:

$$\rho = 1 - \left\{ \frac{\sum_{i=1}^n [R(X_i)][R(Y_i)]}{n(n^2 - 1)} \right\} \quad (1)$$

Where: ρ = Spearman's correlation co-efficient

$R(X_i)$ = The rank of variables X_i

$R(Y_i)$ = The rank of variable Y_i

n = Sample size

Nijssse (1988) contains the justification and use of t-test application to the Spearman Rank (ρ).

Accordingly, the t-test is defined as:

$$t = \frac{\rho}{\left(\frac{1 - \rho^2}{n - 2} \right)^{\frac{1}{2}}} \quad (2)$$

The t-test represented by Equation (2) is based on $n-2$ degrees of freedom. As Conover (1980) notes, the Spearman's rank (ρ) is insensitive to some types of dependence in the data; thus, a researcher is allowed to be specific as to the nature of the dependence that may be detected. Under this test, the null hypothesis is that variables X_i and Y_i are mutually independent. In other words, there is no monotonic relation between the two variables. The alternative hypothesis is that there is a tendency for the smaller values of X to be paired with the larger values of Y , and vice versa. The null hypothesis is rejected if the calculated t falls outside the acceptance region based on the level of significance chosen.

4. Results and Discussion

4.1 Taxpayers Demographic Variables (TDV)

The total of 96.8% (242) of the distributed questionnaires were dully administered and collected. This sub-section presents the descriptive statistics of the Taxpayers Demographic Variables (TDV). The results indicated that 44.6% (108) and 55.4% (134) of total surveyed taxpayers in Lagos state were male and female respectively. The descriptive results further revealed that 45.9% (111) and 30.6% (74) of the surveyed taxpayers are respectively within the 26-40 and 41-60 age groups; majority of the respondents are holder of first school leaving certificate (24.4%), OND/NCE (31.8%), and HND/B.Sc (21.9%), this indicates that the surveyed taxpayers were relatively educated; and most of the taxpayers (49.8%) annual income ranges between ₦500,000 and above ₦1 million.

4.2 Pre-Hypothesis Diagnostic Tests

The reliability of the employed instruments (Tax Education Programme (TEP) and Taxpayer Compliance Behaviour (TCB)) for evaluating taxpayers' enlightenment level and compliance behaviour was conducted in order to determine the extent to which the items in the instruments are related to each other. The Cronbach's alpha test for assessing internal consistency of items within an instrument was adopted and the results of the iterated loaded factors are shown in Table 2.

The instruments reliability test analysis results reported in Table 2 indicated that the loading of all the items in tax education programme (TEP) and tax compliance behaviour (TCB) instruments were not statistically reliable based on the estimated low alpha coefficients. Also, several items combinations were loaded iteratively but only two items for each of the instrument found highly reliable for analyzing the effect of taxpayer's education on tax compliance level in Lagos state, Nigeria.

Also, the inter-instruments interaction test was conducted using the Spearman Rank correlation technique in order to determine the level and significance of relationship between valid items. The Spearman Rank correlation coefficients are shown in Table 3.

The reported results of the inter-items interaction test in table 3 revealed that there is significant negative relationship between knowledge of tax evasion opportunities (TEP3) and voluntary tax compliance level (TCB1); positive

relationship between the knowledge of tax evasion opportunities (TEP3) and tax evasion penalty (TCB3)-(this implies that as taxpayers become aware of the opportunities in evading tax, the more stringent the tax evasion penalty). Also, significant negative interactions were reported between education of tax revenue accountability (TEP5) vs. complexity of tax system (TCB1); and education of tax revenue accountability (TEP5) vs. tax evasion penalty (TCB3).

This analysis provide insight that tax education programme focused on tax revenue accountability and non-existence of tax evasion opportunities as the key strategy of achieving voluntary tax payment compliance in Lagos state, Nigeria based on the inter-instruments interaction test result in table 3.

4.3 Test of Hypotheses: Analysis of Variance (ANOVA)

The major null hypothesis “taxpayers’ education has no significant influence on voluntary tax payment compliance” is tested using the analysis of variance (ANOVA). From the pre-hypothesis diagnostic tests, other minors null hypothesis were constructed in order to achieve the objective of the study based on the selected valid and reliable items in each of the instruments (Tax Education Programme (TEP) and Taxpayer Compliance Behaviour (TCB)). The hypotheses are tested in the subsequent sub-sections.

4.3.1 Hypothesis I

H01 Knowledge of tax evasion opportunities has no significant influence on taxpayer compliance behaviour.

The ANOVA test result of hypothesis I is presented in Table 4. The results revealed that knowledge of tax evasion opportunities has significant influence on complexity of tax system and tax evasion penalty as proxies for taxpayers compliance behaviour (TCB) instrument because the p-values of the estimated F-Statistics (119.841 and 108.257) are less than 0.05. On the basis of the significance, the minor null hypothesis “Knowledge of tax evasion opportunities has no significant influence on taxpayer compliance behaviour” is rejected at 5% significance level.

4.3.2 Hypothesis II

H02 Education of tax revenue accountability has no significant influence on taxpayer compliance behaviour.

Also, the ANOVA test result of the effect of education of tax revenue accountability as an item of tax education programme (TEP) instrument on taxpayer’s compliance behaviour is shown in Table 5. The test result revealed that availability of education programme for tax revenue accountability has significant influence on complexity of tax system and tax evasion penalty as proxies for taxpayers compliance behaviour (TCB) instrument because the p-values of the estimated F-Statistics (80.832 and 15.051) are less than 0.05. This necessitates the rejection of the null hypothesis “Education of tax revenue accountability has no significant influence on taxpayer compliance behaviour” at 5% significance level.

5 Concluding Remarks

Conclusively, the findings emanating from test of hypotheses I and II revealed that tax education programme focused on enlightening taxpayers’ on socio-economic implications of tax evasion opportunities and the transparent and accountable use of tax proceeds have significant influence on taxpayers’ voluntary compliance in Lagos State, Nigeria based on the survey of 250 taxpayers.

There is a need to strike a balance between revenue targets and service targets. The revenue target must be sufficiently challenging to drive performance; hence Taxpayer education is an important ingredient in any efficient tax administration. It enhances the level of tax knowledge to taxpayers. Taxpayers should be able to understand the tax rules for computations by which they are to be taxed. These tax rules should be simple, understandable and clear in order to enhance tax compliance. Taxpayer education will enhance the level of voluntary tax compliance and reduce tax evasion.

Recommendations

1. The government should continue to empower the Lagos State Internal Revenue Service to expand the income tax net in the State and bring into the net such persons as are currently not tax compliant.
2. The use of media to display that the revenue authority does catch tax fraudsters need to be balanced carefully to simultaneously signal that very few are cheating on the tax payment so as to avoid a situation

- that it is only fraudsters that are caught by their education programme and those that voluntarily complied who are in the majority as a result of the education programme are ignored in the media display.
3. Establishment of Tax clubs in secondary schools and the preparation for introducing taxation subjects as a measure to prepare future taxpayers.
 4. Tax education is part of public relation activities, which can play important role in creating tax awareness. The target audience should be primarily students and young apprentices, who are future taxpayers.
 5. It will be useful if the taxation paper is also offered to other students pursuing non-accounting courses and not restricted to accounting students alone.
 6. Governments and private entrepreneurs should work together to reduce tax compliance cost in order to encourage voluntary compliance.
 7. It is also imperative for government to consider taxpayers' and other key stakeholders' interests in fiscal policy formulation and implementation in order to achieve improved tax compliance rate in the State.

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Table 1: The Internally Generated Revenue of States in Nigeria

States	%IGR	States	%IGR	States	%IGR
Abia	4.7	Ekiti	3.2	Nassarawa	6.7
Adamawa	4.4	Enugu	9.5	Niger	3.8
Akwa ibom	9.8	Gombe	10.3	Ogun	16.2
Anambra	14.2	Imo	10.6	Ondo	10.1
Bauchi	4.7	Jigawa	2.2	Osun	14.4
Bayelsa	1.3	Kaduna	22.9	Oyo	17.7
Benue	3.9	Kano	6.8	Plateau	19.2
Borno	4.2	Katsina	6.0	Rivers	12.0
Cross River	6.8	Kebbi	3.8	Sokoto	8.9
Delta	9.6	Kogi	11.0	Taraba	3.4
Ebonyi	1.9	Kwara	14.9	Yobe	3.2
Edo	8.8	Lagos	64.3	Zamfara	10.1

Source: CBN (2005).

Table 5: ANOVA Test Result for Hypothesis II

ANOVA^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	107.574	1	107.574	80.832	.000 ^a
	Residual	319.405	240	1.331		
	Total	426.979	241			

a. Predictors: (Constant), Accountability of Tax Revenues
 b. Dependent Variable: Complexity of Tax System

ANOVA^b						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.600	1	23.600	15.051	.000 ^a
	Residual	376.305	240	1.568		
	Total	399.905	241			

a. Predictors: (Constant), Accountability of Tax Revenues
 b. Dependent Variable: Tax Evasion Penalty

Source: Authors' Computation

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