 

# Impact of Tax Enforcement and Tax Penalty on Tax Yield in Southwest Nigeria

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**Abstract**
The goal of the research was to see how tax enforcement and tax penalty affect tax revenue yield in southwest Nigeria. Tax enforcement and tax penalty are both part of the tax administrators' programs with a view to improve tax generation. Residents have a natural desire to decrease their tax liabilities by overstating their expenses The attitude of taxpayers in Nigeria has not been encouraging overtime. The rate of tax compliance is abysmally low. The research took place in Ekiti, Ondo, Osun, Oyo, Ogun, and Lagos states in southwest Nigeria. The study employed the survey research method, with 302 audit and risk department employees from the State Board of Internal Revenue (SBIR) and the Federal Inland Revenue Service (FIRS) as the study's population. 172 sample size was scientifically obtained through Taro Yamane sampling approach. The researcher devised a closed-ended questionnaire called Tax Administration and Tax Yield (TATY) to collect relevant data for the study. According to the findings, tax enforcement and tax penalty has a significant correlational effect on tax yield in southwest Nigeria, tax administrator should continue to enforce tax laws on taxpayers, and appropriate penalty should be applied consistently on tax defaulters to boost tax generation in the region.
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**Introduction**
Governments are responsible for harnessing all available resources and carefully using them for the benefit of citizens all around the world. The available revenue streams demonstrate the extent to which the government raises people's living standards and contributes to the country's growth and development. The ability of every government to function is determined by its ability to generate revenue. As a result, the government, through the appropriate agencies, devises procedures for generating and effectively managing predicted annual income in order to meet the government's overall agenda goal. One of Nigeria's most important sources of revenue is tax revenue.

According to Afuberoh and Okoye (2014), tax yield otherwise known as tax revenue is the revenue raised by the taxing authority from a particular tax, or taxes generally. Also, Adeogun (2012) asserted that tax revenue is an input extorted by the government from individuals and organizations either directly or indirectly. Taxes are to be paid and efficiently utilized. It must be paid by every individual, partner, and corporation for the use of the development of the country by the government. Tax revenues appear to make up a significant portion of the government's total revenue. The taxes collected are used for the common goods of every citizen within the country, state, or local government for the provision of certain services, which are considered as necessities for the wellbeing of the citizens such as the provision of clean water, electricity, good road, bridges, etc.

These stated objectives could be achieved through tax administration. Tax administration is the activity that is focused on the enforcement and execution of tax rules, policies and regulations (Animasaun, 2017). These operations include processing tax returns, calculating tax liabilities, collecting taxes and providing services to taxpayers, identifying and registering taxpayers, reviewing third-party information, and examining the completeness and accuracy of tax files, to name a few (Animasaun, 2017). Tax administration, according to Ogbonna and Appah (2016), is the government's machinery for determining, monitoring, and enforcing tax collection. Some of the machinery include; tax penalty and tax enforcement.

The use of a variety of tactics to guarantee that inhabitants of a country comply with tax laws is known as tax enforcement. Dada and Taiwo (2020), tax enforcement is the process of ensuring that taxpayers adhere to tax laws and regulations. Two components of tax administration prosecution are the enforcement of laws and the judgement of defaulters. Tax enforcement entails the use of all available laws to help tax authorities in carrying out their duties, including laws that are not directly related to taxes but have a substantial impact on tax enforcement. Tax enforcement is largely intended to encourage consistent filers to keep up with their tax obligations, rather than tax defaulters who do not intend to comply with tax laws (Amos, John, & Eric, 2019).

A tax penalty is a legal recourse given for failing to comply with a legal requirement, such as failing to file a return on time or filing out false or undervalued returns (Adesina & Uyioghosa, 2016). According to Dada and

Taiwo (2020), the tax penalty enhances informality. Businesses may prefer to operate in the shadows, assuming they are not in danger, if the deterrent effect is not strong enough, or if the tax authority is not strong enough to enforce penalties. As a result, one of the vehicles for rewarding business formalization should be a sound tax penalty system. It has a reasonable chance of influencing taxpayers' decisions, especially if other impediments and disincentives are removed (Bassey & Oluwafemi, 2017).

The problem of this study is that many Nigerians are averse to paying any type of tax or rate because they believe the government has been unfair in providing utilities for which tax is mostly collected. Nevertheless, it appears that the apparatus and procedures in place in Nigeria to manage an effective tax system are inadequate. Despite the several studies that have been carried out on how tax yield/revenue could be influenced by the tax administration in Nigeria. The available studies in Nigeria show that only a few studies captured tax administration with tax enforcement and tax penalty. Studies like John and Olabisi (2012), Abiola and Asiweh (2012), Adeogun (2012), Animasaun (2017), Soetan (2017), Emmanuel (2018), asserted that tax administration is inefficient and has an impact on government revenue, James, Abiola and Moses (2012), Theobald (2018), Amos, John, and Eric (2019) and Maimako, Kwatmen and Gwaison (2020 argued, among other things, that a good enforcement strategy, which is the sole responsibility of tax administration, leads to increased tax income. This is a vacuum in literature and therefore constitutes the motivation for this study and empirical studies that examine the connection between tax penalty, tax enforcement, and tax yield are relatively few in the Southwest region of Nigeria. Most of the available studies on tax penalty and tax enforcement are mostly related to tax compliance and not tax yield. This is why the current study was conducted: to investigate the tax administration in Nigeria in terms of tax enforcement and tax penalties on tax yield.

**Objectives of the Study**

The major goal of this research is to determine the impact of tax enforcement and penalties on tax yield in Nigeria. Specifically examined:

i. the relationship between tax enforcement and tax yield in Southwest Nigeria.; and,
ii. the correlational consequence of a tax penalty on tax yield.

**Research Questions**

The following research questions are raised to guide this study:

i. in Southwest Nigeria, what is the relationship between tax enforcement and tax yield?
ii. in Southwest Nigeria, what is the relationship between tax penalty and tax yield?

**Research Hypotheses**

The following hypotheses are formulated and tested at 0.05 level of significance:

$H_0$1: In Southwest Nigeria, there is no statistically significant link between tax enforcement and tax yield.
$H_0$2: there is no statistically significant relationship between tax penalties and tax revenue in Southwest Nigeria.

**Empirical Review**

Abiola and Asiweh (2015) using Nigeria as a case study, looked at the impact of tax administration on government revenue in a developing country. In this investigation, the Pearson correlation analysis method was applied. The findings revealed that a good enforcement approach, which falls mostly on the shoulders of the tax administration, leads to greater tax collection. According to the research, Nigeria also lacks enforcement machinery, such as appropriate staff, computers, and a functional postal and communication infrastructure. Both studies centered on tax administration in Nigeria covering different locations.

According to Mohdali, Isa, and Yusoff (2015), who investigated the impact of tax penalties on tax compliance and noncompliance in Malaysia, tax penalties have caused taxpayers to become less compliant, possibly signaling disobedience to the government. In addition, Jemaiyo and Mutai (2016) in Eldoret, Kenya, looked into the factors of tax compliance and how they influenced tax compliance levels. Data was collected through questionnaires, and the chi-square statistic was utilized to analyze the results. In this study, it was discovered that the cost of tax compliance, tax professional skills, tax penalty, and tax audit all had a significant impact on tax compliance. Real estate investors' tax compliance was hampered by high compliance costs.

Richard (2018) investigated the impact of tax audits and penalties on the income taxpayers of Nigerian companies. The strength of the measures was evaluated using Ordinary Least Square (OLS) regression with Econometric Views (E Views) software. According to the research, tax audits and penalties have positive and strong connections to tax compliance.

John and Olabisi (2015) in terms of tax assessment, collection, and remittance, researchers looked at the overall performance of the Lagos State tax administration. The hypothesis on the relationship between tax administration, tax regulation, and revenue generation was tested using the Kendall analysis model. According to the findings, the Lagos state tax structure is ineffective As a result, tax administration has an impact on government revenue; additionally, there is a strong correlation between tax administration, tax policy, and tax legislation.

Foluso, Abdul-Lateef, Saliu, and Muyiwa (2019) in Ondo State, Nigeria, evaluated the effectiveness of tax enforcement measures as a remedy for increasing tax compliance and overall tax revenue. The outcomes of Ordinary Least Square regression revealed a positive and significant correlation between the two explanatory variables and tax compliance at the .05 level of significance. A slight increase in tax audits and penalties is expected to result in higher tax compliance in Ondo State.

Animasaun (2017), from the perspective of the Ogun State Internal Revenue Service, investigates the relationship between tax administration and revenue generation. Descriptive and inductive statistics were utilized to analyze the data. The methods employed include multiple regression and Pearson Product Moment Correlation. Tax administration in Ogun state, according to the data, has no substantial relationship with the quantity of income generated.

Nwaiwu and Okoro (2018) demonstrated the moderating effect of government regulation on tax audit and revenue generation with empirical evidence. The data were examined using descriptive analysis, Pearson product-moment of coefficient of reciprocity, ordinary least square regression, and partial reciprocity. According to the findings, government regulation in Nigeria has a considerable moderating effect on tax audit and revenue output.

James, Abiola, and Moses (2015) the Nigerian tax administration was investigated for its abilities to combat tax evasion and generate revenue to meet the requirements of the population. Using descriptive statistics, the acquired data was evaluated. According to the findings, a good enforcement strategy, which is essentially the duty of tax administration, leads to improved tax collection. Nigeria lacks a functioning enforcement system, comprising appropriate personnel, computers, and a working postal and communication infrastructure, among other problems. The studies of Adeogun (2015) and James, Abiola, and Moses (2015), have similar perspectives on Nigeria's tax administration and revenue collection, whereas James, Abiola, and Moses (2015) have clear practical applicability for tax practitioners and policymakers in Nigeria.

Theobald (2018) in Tanzania, specifically in the Dar es Salaam region, looked into how tax management influences government revenue. The researcher employed descriptive statistical approaches to examine the data collected. Good tax design, effective tax policy and regulations, tax administration structure, tax collection methods, proper use of computerized systems for keeping taxpayer registers, and outsourcing revenue collection to private tax collectors were among the study's results. Tanzania's effective tax administration relies on internal and external capacity growth, strict collaboration with other authorities, and proper tax collection.

**Methodology**

In this study, a survey research design was adopted. All 302 audit and compliance department workers from the State Board of Internal Revenue (SBIR) and the Federal Inland Revenue Service (FIRS) in the states of Ekiti, Osun, Ondo, Ogun, Lagos, and Oyo were included in the survey. Using the Taro Yamane (1967) approach , 172 respondents were chosen as the sample size. The sample size chosen was 172 respondents, according to Taro Yamane's (1967). Method. To gather relevant data for this study, the researchers created a closed-ended questionnaire called Tax Administration and Tax Yield (TATY). Validity approaches employed included face and content validity. The instrument's reliability was determined using Cronbach Alpha. In doing this, a pilot study was conducted at the Oyo State Board of Internal Revenue Service where 15 questionnaires were administered on procurement officers. The data collected was statistically analyzed using Cronbach Alpha. The Cronbach Alpha coefficient of 0.772 and 0.881 respectively, which mean the instrument is reliable. The research questions were analyzed using descriptive methods such as frequency, percentage, and mean. Following that, the study questions were analyzed using mean and standard deviation, and all hypotheses were subjected to test using Pearson Correlation.

 

**Results**

**Research Question 1:** What is the effect of tax enforcement on tax yield in Southwest, Nigeria?

**Table 1:** Responses on the effect of tax enforcement on tax yield in Southwest, Nigeria

| S/N | Item | SA | A | U | D | SD | Mean | Remarks |
|---|---|---|---|---|---|---|---|---|
| 1 | Tax payers comply with tax rules as expected | 89 (53.9%) | 60 (36.4%) | 3 (1.8%) | 8 (4.8%) | 5 (3%) | 4.33 | Agreed |
| 2 | There is laws compelling voluntary compliance of taxpayers | 69 (41.8%) | 55 (33.3%) | 15 (9.1%) | 18 (10.9%) | 8 (4.8%) | 3.96 | Agreed |
| 3 | Adequate judgement is always meted out to defaulters | 63 (38.2%) | 57 (34.5%) | 22 (13.3%) | 13 (7.9%%) | 10 (6.1%) | 3.91 | Agreed |
| 4 | Tax enforcement stimulate increase in tax revenue | 77 (46.7%) | 79 (47.9%) | 7 (4.2%) | 0(0%) | 2 (1.2%) | 4.39 | Agreed |
| | ***Grand Mean*** | | | | | | ***4.14*** | ***Agreed*** |

*Mean greater than 3.00 "Agreed" otherwise "Disagreed"*

Source: Author's Computation 2021

The result presented in table 1 revealed the effect of tax enforcement on tax yield in southwest, Nigeria. In the table (90.3%) of the respondent agreed that when tax is enforced, tax payers comply with tax rules as expected. (75.1%) of the respondents also indicated that there are laws compelling voluntary compliance of taxpayers in southwest, (72.7%) of the respondents revealed that adequate judgement is always meted out to defaulters, and (94.6%) of the respondents believed that tax enforcement stimulate increase in tax revenue. The result implies that tax enforcement has effect on the tax yield. The grand mean value of 4.14 is higher than the acceptable mean score of 3.00. This further indicated the level of agreement of the respondents to the effect of tax enforcement in southwest, Nigeria.

**Research Question 2:** What is the effect of tax penalty on tax yield in Southwest, Nigeria?

**Table 2:** Responses on the effect of tax penalty on tax yield in Southwest, Nigeria

| S/N | Item | SA | A | U | D | SD | Mean | Remarks |
|---|---|---|---|---|---|---|---|---|
| 1 | Fear of being penalized will propel tax payer to file accurate and timely return | 65 (39.4%) | 85 (51.5%) | 5 (3.0%) | 4 (2.4%) | 6 (3.6%) | 4.21 | Agreed |
| 2 | Good numbers of tax payers are not familiar with tax penalties otherwise they would have complied | 46 (27.9%) | 101 (61.2%) | 13 (7.9%) | 5 (3.0%) | 0 (0%) | 4.14 | Agreed |
| 3 | Sealing up tax payer properties as a form of penalty increases tax compliance | 58 (35.2%) | 84 (50.9%) | 17 (10.3%) | 4 (2.4%) | 2 (1.2%) | 4.16 | Agreed |
| 4 | Tax penalties will bring lasting solution to noncompliance problem. | 52 (31.5%) | 85 (51.5%) | 23 (13.9%) | 2 (1.2%) | 3 (1.8%) | 4.10 | Agreed |
| | ***Grand Mean*** | | | | | | ***4.15*** | ***Agreed*** |

*Mean greater than 3.00 "Agreed" otherwise "Disagreed"*

Source: Author's Computation 2021

The effect of tax penalty on tax yield as presented in table 2 revealed that (90.9%) of the respondents agreed that fear of being penalized will propel taxpayers to file accurate and timely return, (89.1%) of the respondents shows that good numbers of taxpayers are not familiar with tax penalties otherwise they would have complied, also as part of penalty (86.1%) indicated that sealing up taxpayers' properties as a form of penalty increases tax compliance, and the (83%) of the respondents believed that tax penalties will bring lasting solution to noncompliance problem. The grand mean value of 4.15 also further revealed the level of agreement of the respondents to the effect of tat penalty on tax yield. Therefore, tax penalty has effect on tax yield in southwest, Nigeria.

**Test of Hypotheses**

**Hypothesis 1:** There is no significant relationship between tax enforcement and tax yield in Southwest, Nigeria**.**

**Table 3:** Pearson correlation coefficient for relationship between tax enforcement and tax yield in Southwest, Nigeria

| | | Tax_Yield | Tax_ Enforcement |
|---|---|---|---|
| Tax_Yield | Pearson Correlation | 1 | .926** |
| | Sig. (2-tailed) | | .000 |
| | N | 165 | 165 |
| Tax_Enforcement | Pearson Correlation | .926** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 165 | 165 |

P < 0.05 (Significant)

*Source: Author's Computation 2021*

The result of the analysis presented in table 3 revealed that relationship between tax yield and tax enforcement is high as the correlation coefficient of 0.926 was obtained and the P-value of 0.000 was less than 0.05 level of significance, this led the rejection of the hypothesis. Therefore, there is significant relationship between tax enforcement and tax yield in Southwest, Nigeria.

**Hypothesis 2:** There is no significant relationship between tax penalty and tax yield in Southwest, Nigeria

**Table 4:** Pearson correlation coefficient for relationship between tax penalty and tax yield in Southwest, Nigeria

| | | Tax_Yield | Tax_Penalty |
|---|---|---|---|
| Tax_Yield | Pearson Correlation | 1 | .802** |
| | Sig. (2-tailed) | | .000 |
| | N | 165 | 165 |
| Tax_Penalty | Pearson Correlation | .802** | 1 |
| | Sig. (2-tailed) | .000 | |
| | N | 165 | 165 |

P < 0.05 (Significant)

*Source: Author's Computation 2021*

The result presented in table 4 showed that the correlation between tax penalty and tax yield is high as the correlation coefficient of 0.802 was obtained. The P-value of 0.000 is less than 0.05 significance level. This makes the null hypothesis to be rejected. Hence, there is significant relationship between tax penalty and tax yield in southwest, Nigeria.

**Discussion of Finding**

In Southwest Nigeria, tax enforcement has a convinced and substantial correlation with tax yield. according to the findings. Government policy and tax deduction procedures may account for the significant effect of tax enforcement on tax yield. The findings of Nwaiwu and Okoro (2018) that government regulation has a strong moderating effect on tax audit and government tax revenue production in Nigeria are supported by this research. The findings support Abiola and Asiweh (2015), who found that increasing tax revenue is a function of an effective enforcement strategy, which is primarily the responsibility of tax administration.

Lastly, it was realised that tax penalties in Southwest Nigeria had a positive and substantial correlation with tax yield. This indicates that in Southwest Nigeria, a larger tax penalty will result in a higher tax yield. The final result matches the a-priori expectation. This could be because taxpayers become more complying when they think the government is entirely committed to detecting and punishing non-compliant taxpayers. As a result, educating taxpayers and ensuring that they are always aware of the repercussions of noncompliance may be a more effective strategy for ensuring that tax compliance is high in Nigeria.

This research work duly backs up Richard's (2018) conclusion that tax audit and penalty have a positive and significant link with tax compliance. The findings were not supported by Mohdali, Isa, and Yusoff (2015), who found that tax penalties have caused taxpayers to become less compliant, possibly indicating a rebellious attitude against the government. Foluso, Abdul-Lateef, Saliu, and Muyiwa (2019) mutually concurred that, in Ondo State, a slight increase in tax audit and penalty will lead to an increase in tax compliance.

**Conclusion and Recommendations**

According to the study's findings, tax enforcement has a substantial relationship with tax yield in southwest Nigeria. The tax penalty has a positive and effective association with tax yield in Southwest Nigeria. The study concludes that tax penalties should be severe enough to deter would-be tax defaulters, that tax administration should continue to impose tax on taxpayers, and that officers' welfare should be examined higher to push them for openness and adequate responsibility.

 

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