International Research Journal of Finance and Economics
ISSN 1450-2887 Issue 78 (2011)

http://www.internationalresearchjournaloffinanceandeconomics.com

Determinants of Tax Compliance Behaviour: A Proposed Model for Nigeria

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Abstract

Despite the various tax reforms undertaken by Nigerian Government to increase tax revenue over the year, prior statistical evidence indicates that the contribution of income tax to the Government's total revenue remained consistently low and is relatively shrinking. A number of factors may be responsible for this phenomenon but the basic model of tax compliance may not provide adequate explanation to the phenomenon. In order to gain an in-depth understanding to the factors influencing individual taxpayers' compliance behaviour in Nigeria, this study proposes an extension to Fischer's model of tax compliance to incorporate perceived tax service quality, public governance quality, ethnic diversity as well as moderating effect of taxpayer's financial condition and risk preference. The proposal integrates economic, social, psychological and cultural factors into a single comprehensive model and accounts for the situational and environmental peculiarity of Nigeria for better understanding of individual taxpayers' compliance behaviour.

Keywords: Tax compliance behavaiour, tax service quality, public governance quality, ethnic diversity, individual income tax
JEL Classification Codes: H24, H26, K42

Introduction

In Nigeria, as in some other developing countries, tax noncompliance is a serious challenge facing income tax administration and hindering tax revenue performance. Despite the various tax reforms[1] undertaken by Nigerian government to increase tax revenue over the years, prior statistical evidence has proven that the contribution of income taxes to the government's total revenue remained consistently low and is relatively shrinking. However, from all the taxes, personal income tax has remained the most disappointing, inefficient, unproductive and problematic in Nigerian tax system (Asada, 2005; Kiabel & Nwokah, 2009; Nzotta, 2007; Odusola, 2006; Sani, 2005). The statistical data indicated that contributions of non- oil income tax to total revenue of Government in Nigeria dropped from 19.8% in 1999 to 11.7% in 2008 and the tax ratio[2] in 2009 was 11% the lowest in West Africa and below 15% recommended for low income countries (Cobham, 2005; CITN, 2010; IMF, 2005)[3]. Specifically, the contribution of individual income tax remained marginal and comparatively low in Nigeria's tax revenue. At the state and local government levels, where the major source of internal revenue is expected to be individual income tax, its contribution to the total revenue of these levels dropped from 20.18 and 7.7% in 1999 to 12.4 and 1.6% in 2008 respectively (CBN, 2008) [4].

Compare to other African countries, Nigeria had been consistently recording lowest income tax ratio and personal income tax (PIT) ratio. For instance in 2006, Nigeria had 2.5% and 1% respectively as income tax and PIT ratio the second lowest in the group of fifteen countries with South Africa recording the highest with 14.4 % and 7.7% (Volkerink, 2009). This phenomenon remains unexplained even though one tries to apply the basic and extended model of tax compliance.

Theoretically, literature has provided evidence suggesting that tax compliance is influenced by numerous factors (Alm, 1999; Brook, 2001). Scholars identified these factors as economic, social and psychological factors (Alm, 1999; Brook, 2001; Devos, 2008; Fischer, 1993; Fischer, Wartick & Mark, 1992; Jackson & Millron, 1986; Kirchler, 2007). To tackle the challenge of tax noncompliance, it is necessary to understanding factors influencing individual's decision to comply with provision of tax laws. The early researchers based their work on economic perspective of tax compliance and they identified tax rate, penalty and detection probability as factors influencing taxpayers' behaviour (Allingham & Sandmo, 1972).

In the course of time, researchers realised that taxpayers' compliance behaviour is equally influenced by social and psychological factors and as a result, extended their studies to cover these factors (Bobek, 1997; Fischer, 1993; Fischer et al., 1992; Jabbar, 2009; Jackson & Millron, 1986; Manaf, 2004; Wenzel, 2004). In the first major comprehensive review of literature of tax compliance, Jackson and Millron (1986) identified 14 key factors influencing tax compliance.

Fischer et al. (1992) categorised these key determinants into four group constructs and it became known as Fischer's Model of tax compliance. This model consists of tax system structure (tax rate, penalty, and probability of detection, complexity of tax system); attitude and perception (fairness, ethics, and peer influence); noncompliance opportunity (income level, income sources and occupation) and demographic factors (age, gender and education). Fischer's Model is a single model, which integrated economic, social and psychological factors and a viable conceptual framework for understanding tax compliance behaviour (Chan, Troutman & O'Bryan, 2000).

However, Alm (1999) contended that no single model can account for the enormous factors influencing tax compliance decision and submitted that other factors may well be relevant in explaining tax compliance behaviour. For this reason, some researchers had expanded Fisher's Model

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[1] Some tax reforms in Nigeria include Structural Adjustment Program in 1986, Shehu's Task Force on Tax, 1978; Dr Sylvester's Study Group on Tax, 1999; Economic Empowering Development Strategies, 2002; Professor Dotun's Study Group on Tax, 2002.

[2] Tax ratio is computed as Tax/GDP *100

[3] CITN = Chartered Institute of Taxation of Nigeria, IMF = International Monetary Fund

[4] States and local governments in Nigeria finance their annual budgets mainly with grant from Federation account. The revenue that accrued to the Federation account is majorly from crude oil. CBN= Central Bank of Nigeria

to incorporate other relevant factors (Chan et al., 2000; Chau & Leung, 2009; Manaf, 2004; Mustafa, 1997; Tayib, 1998). Despite various expansions to the model, nothing much is known empirically about the influences of perceived tax service quality, public governance quality[5] as well as moderating effect of personal financial condition and risk preference on tax compliance behaviour. However, the relevance of these factors in understanding tax compliance behaviour particularly in developing countries and Nigeria especially cannot be underestimated (Akpo, 2009; Ariyo, 1997; Bird & Zolt, 2005; Everst-Philip & Sandall, 2009; Odinkonigbo, 2009; Odusola, 2006; Wallshutzky, 1984). Moreover, in a country like Nigeria with high ethnical fractionalization, the perception of different ethnic group regarding tax payment may cause variation in compliance behaviour in different part of the country. Nevertheless, the Nigerian tax system has not given adequate consideration to the ethnic and cultural diversity of Nigeria (Osemene, 2004).

This study is undertaken primarily to propose an expansion to tax compliance model to incorporate perceived tax service quality, public governance quality, ethnic diversity as well as moderating effects of taxpayer's financial condition and risk preference for better understanding of the compliance behaviour of individual taxpayers in Nigeria. To achieve this purpose, this paper is structured into the following parts: concept of tax compliance and noncompliance; perceived tax service quality and tax compliance, public governance quality and tax compliance; ethnic diversity and tax compliance; financial condition and tax compliance; risk preference and tax compliance; proposed theoretical framework; discussion and conclusion.

Concept of Tax Compliance and Noncompliance

The payment of tax is obligatory duty of every citizen whether natural or corporate citizen. As a civic duty, it is expected that citizens will voluntarily comply with such obligation but that is not the case with some citizens. Alm Martinez-Vazquez and Schneider (2003) acknowledged that most people do not like to pay taxes as a result; it is difficult for tax authority to impose and collect taxes anywhere and anytime. Kirchler, Hoelz and Wahl (2008) said that government has primary interest and responsibility in ensuring that citizens follow this civic duty and behave in compliance with provision of tax laws irrespective of their social status.

In order to ensure compliance with tax rules and regulations, tax system made up of tax laws, tax policy and tax administration is in place. According to Marti (2000), the existence of tax system forces individuals and organizations to give part of their income to the government as tax payment. Silvani (1992) added that the goal of tax administration is to foster voluntary compliance.

Tax compliance can be described as the degree to which a taxpayer obliges to tax rules and regulations. James and Alley (2004) indicated that the meaning of tax compliance concept can be given from different perspectives but they define tax compliance as "…the willingness of individual and other taxable entities to act in accordance within the spirit as well as the letter of tax law and administration without the application of enforcement activity"(p.7) . McBarnett (2003) identifies three forms of compliance, which include committed compliance, capitulative compliance and creative compliance. Committed compliance is the willingness to discharge tax obligations by taxpayer without grumbling. While capitulative compliance is the reluctant in discharging of tax obligations by taxpayer and creative compliance refers to any act by taxpayer aimed at reducing taxes by redefining income and deductible expenditure within the confine of the law.

In his contribution, Kirchler (2007) submitted that compliance might be voluntary or enforced compliance. Voluntary compliance is made possible by the trust and cooperation ensuing between tax authority and taxpayer and it is the willingness of the taxpayer on his own to comply with tax authority's directives and regulations. However, in the presence of distrust and lack of cooperation

[5] It seems there is correlation between public governance quality score and income tax revenue performance, for instance Nigeria had 2.5% as income tax ratio and good governance score of 49.6 %; South Africa was having 14.4 and 69.4% while Uganda had 3.8 and 57.9% respectively in 2006 (Rotberg & Gisselguist, 2009).

between authority and taxpayer, which creates tax hostile climate, authorities can enforce compliance. Compliance is enforced on taxpayers who are unwilling to pay their taxes through the threat and application of audit and fine (Kirchler, 2007). In its submission, Organization for Economic Cooperation and Development (OECD, 2001) categorized tax compliance into administrative compliance and Technical compliance. Administrative compliance is made up of reporting compliance, procedural compliance and regulatory compliance and it is generally concerned with complying with the rule relating to lodging and payment of tax while technical compliance is concerned with meeting up technical requirement of tax laws in computation of tax liability. Franzoni (2000) and Chatopadhyay and DasGupta (2002) stated that compliance with tax laws involves true reporting of the tax base; correct computation of the tax liabilities; timely filling of tax returns and timely payment of the amount due as tax. Any behaviour by the taxpayer contrary to the above constitutes non-compliance

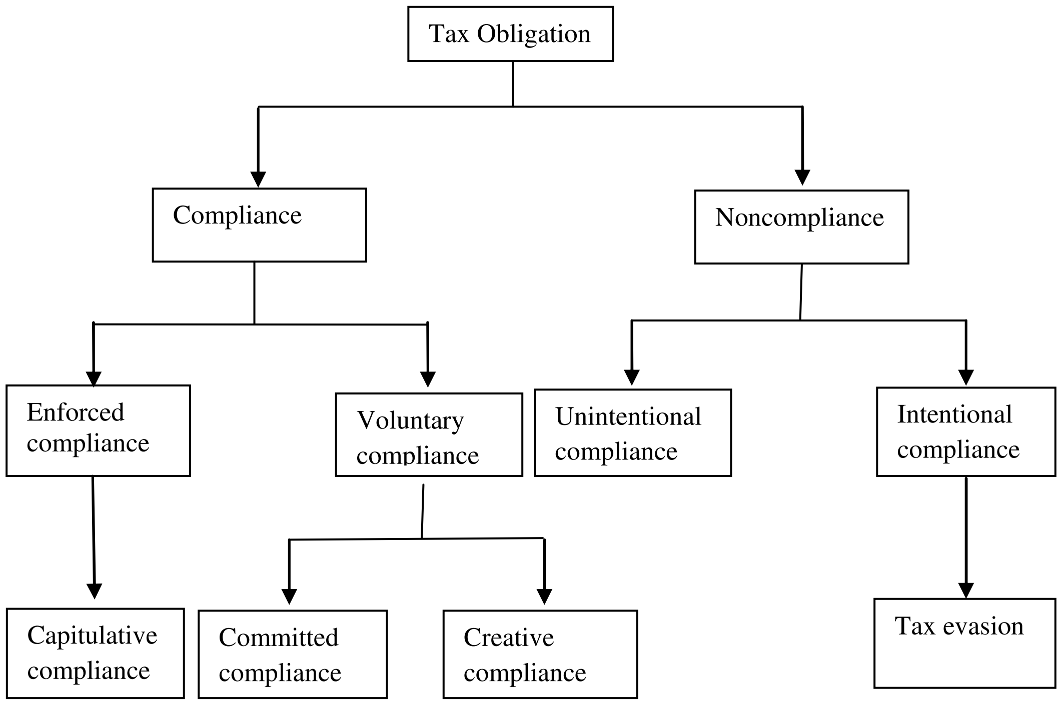
Despite the arrangement put in place through tax system to ensure compliance with tax rules and regulations, human society is still confronting numerous cases of tax noncompliance. Therefore, as Marti (2000) submitted, tax noncompliance problem is a phenomenon inherent by the existing tax system.

Tax noncompliance is the failure of taxpayer to meet tax obligations whether the act is done intentionally or unintentionally (James & Alley, 2004). However, Kirchler (2007) argued that since degree of compliance varies then certain noncompliance might not violate the law. According to Roth, Scholz and Dryden-Witte (1989), tax noncompliance occurs through failure to file return, misreporting income or misreporting allowable subtractions from taxable income or tax due (exemptions, deductions, adjustment, tax credit etc). Soos (1991) broadly classified noncompliance into four types: failing to file a tax return; underreporting of taxable income; overstating tax claims such as exemptions, expenses etc and failing to make timely payment of tax liability.

Noncompliance with tax laws comes in different forms. It may be intentional noncompliance in which the taxpayer deliberately undermines the tax rules and regulations for his personal gains. The second is in form of unintentional noncompliance, which may be as result of ignorance, oversight or mistake in applying tax laws. Any noncompliance act committed by taxpayer which results to non-declaration or underreporting of taxable income leading to non-payment or underpayment of tax is regarded as tax evasion. Anyanwu (1993) described tax evasion as the failure to meet tax liabilities through illegal means, such as not declaring income or profit.

Goradichenko, Martinez-Vanzquez and Peter (2009), Tanzi and Shome (1993), and Vela (2007) stated that tax evasion is a universal and growing phenomenon. Research evidences available have shown that the problems of tax evasion cut across the globe from developing countries to developed countries. For instance, Embaye (2007) also reported that evasion is considerable in U.S with about 16% overall noncompliance for individual income tax. The concept related to tax evasion is tax avoidance, which is described as creative compliance in McBarnett (2003). However, according to Arogundade (2005) and Sandmo (2005) there is conceptual distinction between tax evasion and tax avoidance. The distinction between these two concepts hinges on the legality of taxpayer's actions. Arogundade (2005) said that the similarity of both concepts is that they lead to leakages in tax revenue. Sandomo (2005) distinguishes the two concepts from legal perspective. He said that tax evasion is carried out in violation of the law, therefore is illegal while tax avoidance is carried out within the legal framework of the tax law in order to reduce one's tax liability, therefore tax avoidance is legal. Figure1 below indicates the various classes of compliance and noncompliance. Figure 1 shows branches of tax compliance.

Figure 1: Branches of Tax Compliance. The author's design



Public Governance Quality and Tax Compliance

Everest-Phillip and Sandall (2009) argued that public governance quality is necessary to have good tax system and equally good tax system is essential to achieve public governance quality. Citizens support government in its responsibilities through the provision of finance in form of tax payment. What is happening in government therefore, should matter to the taxpayers because they provide the finance for its sustenance. As a result, governance affairs may have either positive or negative influence on the compliance behaviour of the taxpayers.

In analyzing the relationship between taxpayers and government, Levi (1988)[66] stated the tax compliance is influenced by vertical contract. He said the contract between taxpayers and government is vertical contract, which he refers to as quid pro quo of taxation. Vertical contract is concerned with whether taxpayers get public goods in exchange for taxes paid. According to the argument of quid pro quo, complying with tax law provision depends in part, on whether the political goods provided by the government are sufficient in return to the taxes they are paying (Lassen, 2003). Levi (1988) argued that if it is perceived by the taxpayers that the rate of transformation from tax to political goods is low then the taxpayers will feel that the government has not kept its obligation of the contract, as a result, voluntary tax compliance will deteriorate. In support of Levi (1988), Besancon (2003) also stated there is social contract between government (ruler) and taxpayers (ruled) which embodied effective delivery of political goods.

In addition, in line with the submission of Alm, McClelland and Schulze (1992), Lassen (2003) said the political goods mix is also important and declared that if the political goods mix supplied by the government is very different from those they prefer or rate of transformation is low due to corruption, taxpayers may feel the attractiveness of the quid pro quo contract diminished and that could lead to lower tax compliance. Arguing in the same vein, Torgler (2003) said when government's integrity is down, individuals' tax compliance may be crowded out since government fails to honor his

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[6] Levi (1988) as cited in Lassen (2003)

honesty. He further said that positive actions by the government may cause taxpayers' to develop positive attitudes and commitment to tax system and tax payment resulting into enhanced compliance behavior. Mann and Smith (1988) also submitted that taxpayers are conscious of the exchange relationship with government when taking decision relating tax compliance.

Examining the relationship between public governance quality and compliance further, Everst-Philips and Sandall (2009) noted that there is linkage between public governance quality and taxation and that quality governance deliver good tax system and equally better tax system make it possible to have good governance. Akpo (2009) equally stated that good governance entails the provision of quality public goods to the public and that where government fails to provide public amenities and infrastructure to the citizen in exchange for tax payment, citizen may become reluctant to pay tax. The study of Alm and Gomez (2008) established significant positive association between perception of the benefits to be derived from political goods and the willingness of taxpayers to comply with tax laws.

In Nigeria, there are indications pointing to the fact that the quality of public governance may not be satisfactory. Natufe (2006) said that Nigeria is witnessing a fundamental crisis in public governance. Abati (2006) equally submitted that the state of decay in Nigeria's public infrastructure and economic activity are reflection of poor public governance quality. Religious and inter- ethnic crisis, decay in infrastructure such as education, power supply, health and road etc are all indicators and symptoms of poor public governance in Nigeria (Natufe, 2006). The study of Madueke (2008) showed general dissatisfaction to quality of public governance in Nigeria and underpinned the problem on lack of control of corruption, lack of rule of law and poorly articulated government policy. The studies of Lewis (2006) and Lewis and Alemika (2005) also indicated drop in public expression of satisfaction with government performances and dividends of democracy in Nigeria. Fagbadebo (2007) also declared that Nigeria is a victim of bad public governance and suggested that accountability and transparency must be guaranteed to ensure good public governance in Nigeria. On basis of the above empirical evidence and the social exchange theory, we propose that the perception of public governance quality in Nigeria influenced taxpayer's compliance behaviour.

Perceived Tax Service Quality and Tax Compliance

The issue of service quality was initially thought to be concept related only to the private sector but with systematic extension of the principles of marketing to public sector, it is now realised by organizations operating within the public sector that customer service and quality are critical strategic issue that desire attention (Donnelly, Darlymple, Wiskniewki & Curry, 1995; Wiskniewki, 1996). With the new administrative philosophy known as the New Public Management (NPM) being evolved for the public sector, the issue of service quality is more critical (Brysland & Curry, 2001; Proctor, 2007).

Just like any other public sector organizations, the issue of service quality is also critical to tax offices since they provide numerous services to taxpayers. OECD (2005 & 2007) identified services commonly provided by revenue offices in three categories of information, interaction and transaction and described transaction as the core service while information and interaction service provide support to transaction. But Ott (1998) argued that tax administration in the modern societies should offer services to citizens and in the process become more and more specialized and he concluded that the goal of any tax administration is to offer better service to taxpayers. However, there are widespread of opinion among public that tax offices are inefficient, incapable, rude, abusive and unhelpful which directly influence their willingness to pay taxes, (Job & Honaker, 2003; Job, Stout & Smith, 2007). US taxpayers indicated that their satisfaction with IRS service is low and that quality of the service was deteriorating (Job & Honaker, 2003). This assertion was supported by Jackson and Millron (1986) and Feld and Frey (2006) who stated separately that the manner in which taxpayers are treated in the course of the provision of tax service has impact on their compliance behaviour. Torgler (2007) argued taxpayers' willingness to cooperate with tax authority will increase, if the authority sees itself as service institution and providing quality service and treating the taxpayers as partners. OECD (2007) equally submitted that delivery of quality of service to taxpayers will strengthen their willingness to comply with tax rules and regulation voluntarily as result will contribute to overall level of tax compliance.

However, with the evolving New Public Management concept, tax offices are increasingly becoming aware of the necessity to accord the taxpayers the status of customers as many tax authorities such as those of Australia, France, Sweden, the UK and the US have reconstructed their approaches toward taxpayers by giving more consideration to their tax service needs and treating them as client (Kirchler, 2007).

In Nigeria, the poor quality of service delivery from the public sector organizations (including tax office) to citizens, prompted the Federal Government to establish Service Compact office (SERVCOM) in 2004 with objective of improving the quality of service delivery in public sector. Every Federal ministry and agency has a designated officer in charge of SERVCOM, who monitors the quality of service delivery in the ministry or agency, (including the tax office). However, the study by Institute for Development Research (2001) showed that most households were not satisfied with quality of public services delivery in Nigeria. A number of factors have been identified for poor quality of public service in Nigeria including tax services. These factors include lack of commitment by civil servants, inadequate professional manpower, lack of training and development to update skill of civil servants, inadequate working materials etc (Ewenpu, 2010; FGN, 2002; Odusola, 2006; Odinkonigbo, 2009; Thomson, 2004). Drawing from social influence theory which indicates that expert (tax office service) has power to influence compliance and on the empirical studies that established relationship between perceived service quality, customer's satisfaction and patronage, we equally propose that the perception of taxpayers about quality of tax service provided by revenue offices influences tax compliance behaviour in Nigeria.

Ethnic Diversity and Tax Compliance

There is increasing number of studies suggesting the importance of understanding the degree of ethnic fractionalization as it influences taxpaying compliance in a society (Kimenyi, 2003; Lassen, 2003). Ethnicity exhibits cultural heritage of people and it is commonly believed to express cultural differences (Eriksen, 2002). However, is there a link between ethnicity / culture and tax compliance behaviour? According to Chan et al. (2000), cultural differences have direct effect in individual taxpayer's compliance behaviour. Chau and Leung (2009) considered culture as a powerful environmental factor that influences taxpayer's compliance behaviour. Lewis, Carrera, Cullis and Jones (2009) said that the taxpayer's compliance behaviour is different as a result of variation in ethnicity. Tsakumis, Curatola and Porcano (2007) pointed out that the study of ethnic culture may contribute to a further understanding of taxpayer compliance behaviour.

Furthermore, some scholars have suggested that there is linked between ethnic fragmentation and noncompliance behaviour. Studies have shown that the level of tax compliance may be affected by the degree of trust existing in a society (Scholz & Lubell, 1998; Kimenyi, 2003; Lassen, 2003; Torgler, 2003). It is also stated that the degree of level of trust in a society depends on degree of ethnic polarization and diversity of the society (Kimenyi, 2003; Lassen, 2003; Zerfu, Zikhali & Kabenga, 2009). This suggests that ethnic diversity may explain variation in the level of compliance behaviour of taxpayers in a multi-ethnic society and therefore society with ethnic fragmentation is likely to experience low degree of trust among its people and equally lower level of taxpayers' compliance (Kimenyi, 2003).The study of Coleman and Freeman (2002) has indicated that differences in ethnicity have great influence tax compliance behaviour in Australia. Rothengatter's (2005) study equally showed that tax regulators encountered some kinds of difficulties in administration of tax in ethnic diverse country.

Within an ethnic diverse country as Nigeria, variation in tax compliance behaviour of taxpayers from different ethnic groups may not be underscored. Nigeria is multi- cultural country characterized with high ethnic polarization. The country has among its about 158 million people, 250 ethnic groups speaking about indigenous 500 languages. The ethnic groups are divided into ethnic majorities and minorities. The major ethnic groups are the Hausa/Fulani (29%), Yoruba (21%) and Igbo (18%) while ethnic minorities (32%) are made up of northern minorities and southern minorities (Wolffram Alpha, 2010). On religion, most Nigerians belong to either Islamic faith or Christianity faith while few are of traditional belief. However, Lewis (2007) indicated that most Nigerians would like to be identified with their race. Therefore, on the basis of various empirical evidences provided above, we propose that diverse ethnic background influences taxpayers' compliance behaviour in Nigeria.

Risk Preference as Moderator of Determinants of Tax Compliance

Empirical evidence suggests that actual compliance level in most countries cannot be explained by basic theory of tax compliance (Feld & Frey, 2003; Slemrod, 2009; Torgler, 2003; Torgler & Schaffner, 2007). Other than that, there is inconsistency in the findings of tax compliance studies (Dubin, Grazte & Wilde, 1987; Dubin & Wilde, 1988). Therefore, following the inconsistency in research findings on the relationship between tax compliance and some of its determinants most especially the deterrents factors, literature has suggested that the relationship may be moderated by certain variables (Kirchler, Muelbacher, Kastlunger &Wahl, 2007). This argument is supported in the submission of Baron and Kenny (1986) which stated that moderators are introduced when the relationship between dependent variable and independent variables is inconsistent or unexpectedly weak. Earlier before the suggestion, some researchers had tested the moderating effects of certain variables on the relationship between tax compliance and its determinants, (McGill, 1988; Murphy, 2007; Wenzel, 2004a & 2004b).

However, evidence from other behavioural studies has suggested that risk preference as well as financial condition interfere with individual's behaviour and commitment (Brett, Cron & Slocum, 1995; Campell & Goodstein, 2001; Mathieu & Zajac, 1990). In this regard, the moderating role of individual risk preference in determining the relationship between tax compliance and its determinants is equally important. Risk preference has been suggested as one characteristic of individual that influences his behaviour (Sitkin & Pablo, 1992). In a complete conceptualization of risk preference, three ranges are possible. These include: risk aversion, risk neutrality and risk seeking. In a number of behavioural studies, risk preference has been introduced as moderators, (Chiles & McMakin, 1996; Ghosh, 1994). The study of Ghosh (1994) found that risk preference moderated behaviour of negotiators.

For tax compliance, researchers and scholars have suggested that the attitude of taxpayer to risk cannot be underestimated in his/her compliance behaviour (Alm & Torgler, 2006; Hite & McGill, 1992; Torgler, 2003). Torgler (2007) submitted that individual taxpayers' decision could be affected by their attitude towards risk. Individual risk preference is one of the components of several theories relating to decision making including tax compliance theories like expected utility theory, prospect theory etc. The theoretical basis for the moderating role of risk preference in the relationship between tax compliance and its determinants is found in the prospect theory. According to Kahneman and Tversky (1979), individual tends to be inconsistent in their decision making as a result of changing situation. Kirchler (2007) stated that when the payment is perceived as loss, there would be willingness to take higher risks leading to noncompliance compared to the payment of tax seen as gain.

Financial Condition as Moderator for Determinants of Tax Compliance

There are indications in behavioural literature that individuals' financial condition (requirement) and family obligations moderate the relationship individuals' commitment and performance (Mathieu & Zajac, 1990; Brett, Cron & Slocum, 1995). Empirically, some behavioural studies have shown support for the moderating effects of financial requirement on individual's behaviour. The study of Doran, Stone, Brief and George (1991) supported the proposition that individual's financial condition moderates the consistency of his/her attitude and behaviour. The study of Brett and his colleague also revealed that when financial condition is a moderator of individual commitment and performance, if individual is in good financial condition or low financial requirement, the relationship between commitment and performance is high vis-à-vis.

However, financial condition of individual might positively or negatively affect his willingness to comply with provisions of tax irrespective of the relationship between tax compliance and its determinants. Torgler (2003) argued that the financial situation of the individual may create a sense of distress particularly when payment is to be made including taxes and that individual may perceive the payment of tax as a strong restriction as a result this may increase the incentive for tax dishonesty. Bloomquist (2003) identified financial strain as one of the sources of taxpayer's stress and said that individual taxpayer with meager financial resources may be tempted by his bad financial condition to be noncompliant where the expenses of his household are more than his income. There is high tendency that individual in sound financial condition would comply with provisions of the tax laws better than individual in bad financial condition would. This analogy agrees with the study of Bloomquist (2003) which suggested that taxpayers with limited financial resources have a higher propensity to be noncompliant because they are more vulnerable to financial strain than those taxpayers e in sound financial condition. The study of Carroll (1986) also reported that lack of money motivates individual to search for opportunity for engaging in crime.

Proposed Theoretical Framework

Although some researchers had expanded the tax compliance model by adding one or more variables to meet their environmental needs (Chan et al., 2000; Chau & Leung, 2009; Fischer et al., 1992; Manaf, 2004; Mustafa, 1997), literature has suggested that tax compliance behaviour are influenced by numerous factors, which are yet to be captured in the model (Alm, 1999; Jackson & Millron, 1986). This suggestion encourages the need for further expansion of the model as circumstances and environmental reality may demand. It is in this light that this study proposes an expansion to the model.

The model proposed in this study is made up variables from the tested models of the previous studies. The model has nine variables (factors) and two moderators. Of these factors, tax system structure; noncompliance opportunity, attitude, moral reasoning, tax knowledge and demographic factors were adopted from other studies (Bobek, 1997; Chan et al., 2000; Fischer, 1993; Kasipillai & Jabbar, 2006; Manaf, 2004, Mustafa; 1997; Richardson, 2006; Tayib, 1998) and these factors influenced individual taxpayers' compliance behaviour in Nigeria. Just as in Fischer's model and other studies, demographic factors in this study are equally proposed as antecedent factors linked to tax knowledge, moral reasoning, noncompliance opportunity and attitude but have no direct influence on tax compliance behaviour.

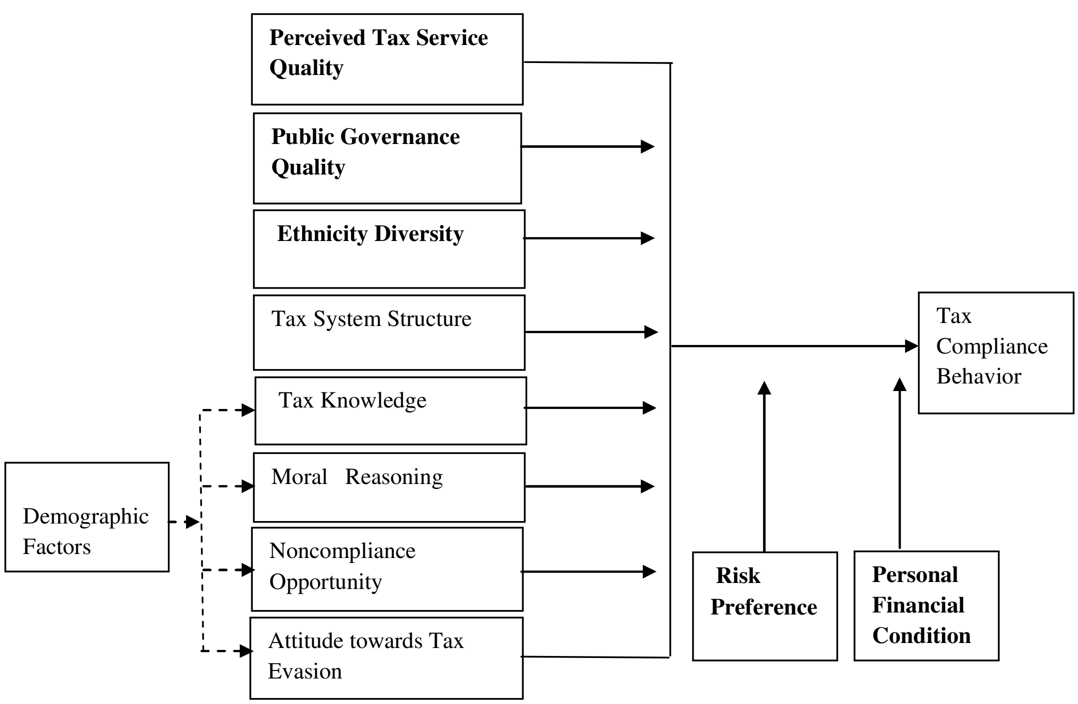
However, in order to satisfy the environmental needs of Nigeria, the tax compliance model was expanded to include perceived tax service quality and public governance quality. Taxpayer's personal financial condition and risk preference were also introduced into the model as moderating factors. In addition, ethnic diversity was also incorporated in the model to capture cultural characteristics of Nigerian taxpayers in the study. The need to expand the tax compliance model by these factors and moderators were derived from the suggestions of scholars and previous studies (Alm & Torgler, 2006; Akpo, 2009; Kircher et al., 2007; Torgler, 2006; Wallschutzky, 1984).

Although the low and the shrinking tax compliance level in Nigeria might be caused by multitude of factors, the relevance of public governance quality cannot be underestimated (Akpo, 2009; Bird & Zolt, 2005; Everst-Philip & Sandall, 2009; Odinkonigbo, 2009; Oluba, 2008). With unimpressive ranking position of 38 out of 53 and a score of 49.6% in African governance index in 2006 (Ibrahim, 2010; Rotberg & Gisselquist, 2009), as evidenced in lack of control over corruption, lack of accountability, level of crime and poor public infrastructure, it appears that public governance quality may not be satisfactory in Nigeria (Natufe, 2006; Oluba, 2008). The noncompliance behaviour may perhaps be an indication that the taxpayers are not satisfied with quality of public governance in Nigeria. The theory of Social Exchange provides justification for their behaviour. The theory posits that relationship between parties is based on cost and benefit and for it to continue, it must be rewarding to all parties. In light of the importance of public governance quality, Bird and Zolt (2005) indicated that taxpayers think that government of countries with good public governance is likely to enjoy public acceptance for the need for taxation than government of countries with poor public governance.

Similarly, the perception of Nigerian taxpayers about quality of tax service may also play a role in their compliance behaviour as quality of service delivery in Nigeria's public organizations including tax offices is poor and fall below internationally accepted standard (Ewenpu, 2010; Thomson, 2004; Wallshutzky, 1984).This argument is supported by the theory of social influence, which indicates that the power of expertise influences compliance. To stress the relevance of perceived tax service quality, Wallshutzky (1984) declared that taxpayer's level of satisfaction with tax office service have influence on their future compliance level. Furthermore, the effects of personal financial condition and risk preference as they moderate taxpayers' compliance behaviour are also important given Nigeria's level poverty of 54.4% and crime ranking position of 46 out of 53 (Ibrahim, 2010; Rotberg & Gisselquist, 2009). Nzotte (2007) and Odinkonigbo (2009) in separate submission said poverty and extended family burden may be responsible for noncompliance behaviour in Nigeria and similarly, Bloomquist (2003) stated that financial strain causes individual to be less tax compliant. Hite and McGill (1992) as well as Torgler (2003) have also indicated that the taxpayer's attitude towards risk affect his compliance decision.

In addition, despite uniform tax system operating in Nigeria, individual taxpayers have continued to exhibit varying level of compliance in different part of the country. This difference may not be unconnected with the multi-ethnic background of Nigeria. Bird and Zolt (2005) contended that most developing countries adopted personal income tax system from developed countries without consideration for the environmental reality of their countries. Figure 2 presents the proposed model of tax compliance.

Figure 2: Proposed model of tax compliance



Discussion and Conclusion

This paper proposes model for better understanding the individual taxpayers' compliance behaviour in Nigeria. This proposed model is an extension of Fischer's model, which incorporates perceived tax service quality, public governance quality, ethnic diversity as well as moderating effect of taxpayer's financial condition and risk preference. These factors were incorporated in the model taking into account the environmental, social and cultural peculiarity of Nigeria as suggested in the literature (Akpo, 2009; Bird & Zolt, 2005; Feld & Frey, 2006; Odinkonigbo, 2009; Wallshutzky, 1984).

Theoretically, this proposed extension to the model will enrich the tax compliance literature for better understanding the compliance behaviour. In addition, the proposal is a single comprehensive model incorporating economic, political, social, psychological, cultural, environmental peculiarities and characteristic of tax administration as well as taxpayer in developing countries.

Practically, the proposal brings to the knowledge of government of developing countries especially Nigeria, tax administrators and policy makers the influential role of perception of the taxpayers about quality of tax service, public governance quality, ethnic diversity as well as moderating effect of taxpayer's financial condition and risk preference on tax compliance behaviour as well as other factors and the need for policy to be directed towards influencing these factors positively for improvement in tax compliance level. The proposed model would be useful to tax administrator in formulating strategies for the improvement in quality of tax service. The proposed model provides guide to the government in formulating social, economic and political policy and through the model, government would know the exact policy to follow to shore up the compliance behaviour of the taxpayers.

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