# KWARA STATE UNIVERSITY, MALETE, NIGERIA

## SCHOOL OF POSTGRADUATE STUDIES (SPGS)

**TAX REFORMS AND REVENUE GENERATING CAPACITY OF STATE INTERNAL REVENUE SERVICE IN NORTH CENTRAL NIGERIA**

**Taofiq Taiwo ALABI**

**18/27/MAC/016**

**MARCH, 2022**

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# TAX REFORMS AND REVENUE GENERATING CAPACITY OF STATE INTERNAL REVENUE SERVICE IN NORTH CENTRAL NIGERIA

**A M.Sc THESIS SUBMITTED AND PRESENTED**

***BY***

**Taofiq Taiwo ALABI**

**18/27/MAC016**

**In Partial Fulfilment of the requirements for the award of Master of Science (M.Sc) Degree in Accounting**

**DEPARTMENT OF ACCOUNTING AND FINANCE,**
**FACULTY OF HUMANITIES, MANAGEMENT AND SOCIAL SCIENCES,**
**KWARA STATE UNIVERSITY, MALETE**
**NIGERIA**

***March, 2022***

# DECLARATION

I hereby declare that this thesis titled "Tax Reforms and Revenue Generating Capacity of State Internal Revenue Service In North Central Nigeria" is a record of my research. It has neither been presented nor accepted in any previous application for higher degree.

**Taofiq Taiwo ALABI**
**Name of Student**

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**Signature and Date**

# APPROVAL

This is to certify that this thesis by TaofiqTaiwo ALABI has been read and approved as meeting the requirements of the Department of Accounting and Finance for the award of for the award of the degree of Master of Science (M.Sc.) Degree in Accounting.

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# DEDICATION

This research work is dedicated to Almighty Allah the Alpha and Omega, my total gratitude goes to Almighty Allah for His guidance, protection, knowledge and wisdom bestowed on me that made the programme an easy task despite all challenges.

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## ***ABSTRACT***

*The dramatic fall in the price of oil led to a reduction in the revenue generating capacity of the country, the state governments are also affected. As a means of survival, the various state governments resorted to alternative sources of fund. These new efforts and means of raising funds by the federating units are generally described as Tax reforms. Therefore, the study evaluates the effect of tax reform on internally generated revenue capacity of State Internal Revenue Service in North Central Nigeria. Data for this study were obtained from primary source through the use of questionnaires administration. The study made use of both descriptive and inferential statistical tools of analysis. The inferential statistics used was ordinary least square (OLS). The result of the study shows that tax reform contributed positively to internally generated revenue capacity of state internal revenue service in North Central Nigeria, when individual components of tax reform are considered, the result show that: Tax knowledge contribute positively ($\beta=0.312$, t-value=4.727, P-value $< 0.05$) to internally generated revenue capacity; Tax law reform contributes positively ($\beta=0.394$, t-value=2.775, P-value $< 0.05$) to internally generated revenue capacity; Information and communication technology contribute positively ($\beta=0.439$, t-value=2.286, P-value $< 0.05$) to internally generated revenue capacity; but Administrative strategies on tax reform do not significantly ($\beta=0.296$, t-value=1.458, P-value $> 0.05$) impact on the internally generated revenue capacity of Nigeria. The study then recommends that: State internal revenue service in North Central Nigeria should improve more on the tax payers advocacy; should ensure that tax law reform should stem from a well thought out program of action and a clear perception of the problems of the pre-reform tax system and improve more on the application of information and communication technology (ICT).*

# CHAPTER ONE

# INTRODUCTION

## 1.1 Background to the Study

The importance of tax globally cannot be over emphasized as most developed countries rely on different taxes to generate government revenue. Nonetheless, political and economic differences between these countries have created differences in the way tax revenues are collected. The tax structure of each country depends on factors such as economic conditions and political goals. However, each type of tax has different economic implications, and some taxes are at a disadvantage over others. In general, sales tax is a more efficient source of income because it has less economic damage and distortion than income tax. Different countries also have different levels of government taxation and way of reforming the tax system to bring about the desired economic growth.

According to Rao (2014) tax reforms reduce tax evasion and avoidance and enable more efficient and fair tax collection to fund public goods and services, thus necessitating the need for nation to reform their tax system. It can make revenue levels more sustainable and promote future independence from foreign aid and revenue from natural resources. In addition to a better understanding of the impact on growth and inequality, the role of taxation in national construction is increasingly recognized.

Developed countries are increasing their capacity to generate revenues by combining personal income tax, corporate tax, social security tax, goods and services tax, and wealth tax. Tax and non-tax revenues are important elements of domestic resource mobilization (DRM) aims to invest in development, alleviate poverty and provide governments with the means to provide public services. Revenue generating capacity for many developing countries are faced with challenges, including difficult external environments and weak management ability, weak tax administration, low taxpayer morale compliance, corruption, low tax base, lack of interconnection between taxes and public and social spending.

Tax reform is a continuous stream of small technological changes in laws and procedures to reflect the reality of a particular country. Tax reform is one of the most important means of stimulating the economy in the long run. Improving the national tax system can attract business and investment, encourage entrepreneurship and the workforce, and eliminate deadweight loss that impedes growth. Of course, it's not just tax reform that matters, but it's one of the most important and important things that the government has direct control over to increase its revenue generating capacity.

However, reforming the tax system is not an easy task. Therefore, the need to identify the part of the tax system that requires the most attention, focus on establishing a simple, predictable and neutral tax system that will not discourage private citizens and minimize market disruption, decide which reforms will drive the most growth and understand how to implement tax reform when it seems unlikely, if not impossible, to significantly reduce the overall tax burden. Most governments follow this global reform programs to some extent with International Monetary Fund being the main driver of the global tax reform agenda. (Fjeldstad & Moore, 2008)

The social, economic and political development of any country is a reflection of the amount of various sources of revenue at its disposal for the provision infrastructure in that given country. Perhaps more importantly, the global reform agenda is unable to address some of the more pressing problems facing the poorest countries.

Federal government of Nigeria and indeed the various state governments have as their primary responsibilities, the protection of life and property as well as the provision of basic social amenities for the citizenry. To be able to discharge these responsibilities effectively, the government needs adequate funding. There are several sources of revenue at the disposal of government at all levels as provided for in 1999 constitution of the Federal Republic of Nigeria. Despite the numerous sources of revenue available to the various tiers of government, it is awesome to note that since the 1970s till date, over 80% of the annual revenue of the three tiers of government came from petroleum as against what was obtainable in the 1960s when agriculture, mining and other sources of revenue accounted for the lion share of the regions and by extension the nation's annual revenue (Olajide, 2015).

Recently, there was a serious decline in the price of oil, a trend which almost caused financial earthquake in the country as a result of drop in the price per barrel and quantity in the world, which was the outcome of world economy recession. The dramatic fall in the price of oil led to a reduction in the revenue earning capacity of the country.

This period of financial crisis did not rock the federal government alone. The state governments were also affected because the federation account could no longer deliver to them so much funds like they used to get as their portion of the national revenue. The serious decline in the price of oil in recent years has consequently led to the decrease in the funds available for distribution to the states (Adesoji & Chike, 2013). Balogun (2015) averred that most state governments generate only 15% of their revenue and depend on federal allocation for further sustenance; unfortunately this is no longer sustainable.

After 2015 general election, State Governors without being pushed, now have to focus on planned strategies for a turn-around from oil dependence to self-sustainability. This era of dwindling revenue from the federation account witnessed an increase in the cost of running the government. As a means of survival, the various state governments resorted to alternative sources of fund. So falling back to internal revenue sources became an unavoidable alternative. This informed the willingness of government at all levels to device new means of raising fund or get more creative and committed in the way they collect revenue from existing sources. These new efforts and means of raising funds by the each federating units are generally describe as tax reforms.

Too often the growth in revenue has failed to catch up with government spending pressures, a situation that has occasioned huge imbalances between the demand and supply of public budgetary resources. The tax reform cuts across the tax administrative machinery, tax policy and tax laws which could be refer to as reforming the people, process and technology. The driving force towards these reforms includes improved efficiency of tax administration, stimulate the non-oil sector of the economy, reduce effective tax rates and simplify tax regime, reduce tax incentives (by eliminating those that are unnecessary), redistribute wealth and entrench a more equitable tax system as well as to develop a tax policy for Nigeria (Omoigui, 2006).

Despite the call from every nook and cranny for tax reforms, the reform process cannot go smoothly without a hitch. Some of the problems by Ovunda (2018) that are likely to affect the Nigerian tax reform agenda are political factors, economic factors, data management, tax structure and macroeconomic environment. With this background, the study appraises the tax reform and revenue generation capacity of State Internal Revenue Service in North Central Nigeria.

### .1.2 Statement of the Problem

The effort of Government in mobilizing domestic revenue through the various tax policy, law and administration seems thwarted by not well crafted reforms. Given the low revenue profile experienced by all federating units, within the period of drastic fall in crude oil. States across the federation engaged in aggressive Internally Generated Revenue (IGR) drive through various strategies with emphasis on tax reform.

However the extent to which this effort that covers all the chains (policy, law and administration) of tax management and practice seems not to be empirically validated. For instance, Oyedele (2021) raised serious concern as regard how State Government have engaged themselves in the reform of their tax law. The author essentially identify overlapping of jurisdiction in the collection of taxes with resultant effect of multiple taxation thereby making law reform effort counter-productive.

In an effort to boost revenue generating capacity, the reform also brings innovations in the area of information and communication technology. Tax automation, though are adjudged.in literature (Oduor, Sevilla, Wanyoike, and Mutua, 2016) to be an effective platform of tax assessment and collection but basic requisites such as reliable and accessible internet service, robust software development, reliable electricity supply and competent staff training seems not to be given adequate attention in the reform effort.

Taxpayers' knowledge has been described as a contributory factor to effective tax compliance (Mahfar, 1994), the extent to which tax reform take this into consideration seem yet to be empirically established. The expected area such as computation complexity, ability to know what windows of opportunities the tax provisions had for businesses, filing instruction, what types of taxes to pay or effective due date of payment cannot be categorically affirmed that the recent reform actually addressed them.

Effective and efficient tax administration strategies has also been described in literature to be a determinant to provide tax revenue yield (Ayee, 2007). Administrative strategies in context of organizational structure, operational policy, staff training and remuneration and other enabling working condition are expectedly to be the hallmark of the recent reform. The degree to which recent tax reform has effectively re-engineer this very important aspect of tax management needs to be empirically validated.

## 1.3 Research Questions

The following research questions were emanated from the statement of problems above.

i. To what extent does tax knowledge affect the revenue generation capacity of State Internal Revenue Services in North Central Nigeria?

ii. What impact does tax law has on revenue generating capacity of the State Internal Revenue Services in North Central Nigeria?

iii. How does information and communication technology impact on revenue generating capacity of State Internal Revenue Services in North Central Nigeria?

iv. How does administrative strategies of tax reforms influence the revenue generating capacity of State Internal Revenue Services in North Central Nigeria?

## 1.4 Objectives of the study

The aim of this study is to evaluate the tax reform and internally generated revenue capacity of State Internal Revenue Services in North Central Nigeria. The specific objectives are to;

i. assess the effect of tax knowledge on revenue generating capacity of State Internal Revenue Services in North Central Nigeria.

ii. determine the impact of tax law on revenue generating capacity of State Internal Revenue Services in North Central Nigeria.

iii. examine the impact of information and communication technology on revenue generating capacity of State Internal Revenue Services in North Central Nigeria.

iv. determine whether administrative strategies has influence on revenue generating capacity of State Internal Revenue Services in North Central Nigeria.

## 1.5 Statement of Hypotheses

The following hypotheses were tested and were stated in null form:

$Ho_1$: Tax knowledge has no significant effect on revenue generating capacity of State Internal Revenue Services in North Central Nigeria.

$Ho_2$: Tax law has no significant impact on revenue generating capacity of State Internal Revenue Services in North Central Nigeria.

$Ho_3$: Information and communication technology do not impact significantly on revenue generating capacity of State Internal Revenue Services in North Central Nigeria.

$Ho_4$: Administrative strategies has no significant influence on revenue generating capacity of State Internal Revenue Services in North Central Nigeria.

## 1.6 Justification for the Study

Different studies have been conducted on tax reforms and the revenue generation capacity within and outside the scope of Nigeria, most of the studies only focus on one tax reform at a time, for example Kasippilai and Jabbar (2013), Harris (2013), Ritseme, Thomas and Ferrier (2013), Cussia (2013), Maseko (2013), Saad (2014), Bird (2014), McKerchar and Hansford (2015), Bautigam, Fjeldstad and Moore (2015) and Adam and Webly (2015) were on tax knowledge and revenue generation, Zeng, Li and Li (2013), Osoro (1995), Murithi and Moji (2003), Daba and Mishra (2014), Oriakhi and Ahuru (2014) and Ashaolu, Dopemu and Monday (2015) were on tax law reform and revenue generation, Miuta and Mukanga (2010), Okiro (2015), Mosomi (2015) and Danchev, Demain, Papadakis, Paratsiokas, Pappas, Thomaidou and Valavamoti (2015) were on information, communication and technology (ICT) and revenue generation, and Ndekwa (2013), Djawadi and Fahr (2013), Fisher (2016), Shamrodi (2016), Dube (2014) and Chile and Rothberg

(2014) were on administrative strategies and revenue generation. This study seeks to enrich the existing literature by bringing into the conventional discourse and testing the hypotheses concerning the relationship between aggregate tax reform and the revenue generation capacity among State Internal Revenue Services in North Central Nigeria.

The results of this study will be relevant to the field of knowledge, policy makers and regulatory framework. The empirical result of this study will contribute to the academic field of knowledge by adding to the dearth of knowledge on the subject matter as well as to serves as a body of reference for further researchers such as in the area of the importance of tax advocacy, tax education and awareness, educating the tax payers on the application of new tax law reforms, the role of electronic tax filings and payments and reforms of the tax administration. The study will assist the policy makers such as tax authorities, tax collectors agent and others on the issue of tax reform and revenue generation. The result of the study will also assist the regulatory authorities and professional bodies such as Joint Tax Board (JTB) and Chartered Institute of Taxation of Nigeria (CITN) in formulating policies and procedures that will accelerate national economic growth and performance.

## 1.7 Scope of the Study

The scope of this study is mainly focus on tax reforms and the revenue generating capacity as it affect administrative policy within the states in the north central geopolitical zone of Nigeria. The study was limited to Six (6) states that make up North Central geopolitical zone in Nigeria. Reason for selection of North Central geopolitical zone in Nigeria was based on the fact that most of the states are classified as low IGR states and with high poverty index and how the tax reforms could impact their revenue generating capacity. (Nigeria Bureau of statistics, 2020). Reference was made to only respondents who have five years working experiences, which questionnaires were administered to them.

# CHAPTER TWO

# LITERATURE REVIEW

This chapter is segmented into three. The first segment focused on the concept of revenue generation capacity and tax reforms. Other segments of the literature deals with the related and relevant theoretical discuss of the study, while the remaining part focused on the review of earlier studies by the researchers. Lastly, there is discussion of gap identified in the literature.

## 2.1 Conceptual Review

### 2.1.1 Revenue Generation Capacity

Capacity is define as the maximum amount that something can contain. It also implies the amount something that can be produce (Oxford, 2017). It also means the ability or power to do something. The facility or power to produce, perform or deploy (Merriam, 2018).

The term revenue has been defined by many scholars in different ways. Elamah (2015) defined revenue as the fund required by the government to finance its activities generated from different sources such as taxes, fines, fees, borrowings, etc. It is also defined as the total amount of income that accrues to an organization (public or private) within a specified period of time (Balogun, 2015). Ayegba (2013) equally defined revenue as a general term for all monetary receipts accruing from both tax and non-tax sources. He went further to elucidate that revenue from tax and non-tax sources as well as fees, grant and contributions constitute the live wire of the State Government. According to Adesoji and Chike (2013) state revenue comprise of receipt from taxation as well as those which are not the proceeds of taxation, but of either the realization from the sale of government properties or other interest and returns from loans and investment earning. Olusola (2011) equally asserts that revenue receipt include “routine” and “earned” income.

For these reasons, according to him, revenue do not include borrowing and recovery of loans from other parties, but on the contrary includes tax receipts, donations, grants, fees, fines and so on. From the above definitions, it can be said that revenue is the total amount of income accruing to a state from various sources within a specified period of time. Revenue refers to an income from both non-current and current asset. Non-current asset can be described as an asset which is expected to last more than one year and it is has future benefit, while current asset are those assets that last for less than a year and can be converted to cash immediately (Etukudo, 1973).

Revenue can also be defined as all tools of income to government such as taxes, rates, fees, fines, duties, penalties, rents, dues, proceeds and other receipt of government to which the legislature has the power of appropriation. This is classified by government into two such as recurrent revenue and capital revenue (Fayemi, 1991). Revenue generation capacity implies the monetary receipts that the government can accrue from both tax and non-tax sources at maximum level. It can also refer to as the ability or power of the government to generate more funds within its capability.

Revenue is collected by the government upon its citizens for support or for the purpose of facilitating the service delivery in a country (Aamir, Qayyum, Nasir, Hussain, Khan, and Butt, 2011). It is raised to meet expenditure which is resource needed to provide services (Hepworth, 1976). It is neither a voluntary payment by the tax payer nor like a donation. Rather it is an enforced payment to the government (Garner, 1999). Country Governments therefore collect revenue for investment, socio-economic development and growth at the grassroots (Olatunji, 2009). Revenue generation is the process of sourcing revenue for the government in carryout their aim and objectives (Edogbanya, Adejoh and Ja'afaru 2013). Revenue generation is the strategy and bed-rock of any government at which services are rendered and the quality of those services are linked with the financial resources available to them (Adeosun, 1991). According to Enahoro and Olabisi,

(2012) revenue generations are ways through which government raise revenue for the purposes of meeting its capital and recurrent expenditure. Revenues earned by the government are received from sources such as taxes levied on the incomes and wealth accumulation of individuals and corporations and on the goods and services produced, exports and imports, non-taxable sources such as government-owned corporations' incomes, central bank revenue and capital receipts in the form of external loans and debts from international financial institutions.

In Nigeria, federally collected revenue is divided into oil revenue and non-oil revenue. While oil revenue covers all revenue generated from oil and gas activities in the country, non-oil revenue looks at any revenue earned from sources other than oil and gas activities. While other countries within and outside Africa segment their revenues into tax and non-tax revenue, Nigeria preferred oil and non-oil due to the fact that oil is the major revenue driver of the economy (Chijioke, Leonard, Bossco, & Henry, 2018). Despite the numerous sources of revenue available to the various tiers of government in Nigeria as outlined in the 1999 Constitution, over 80% of the annual revenue of the 3 tiers of government come from petroleum (Olajide, 2015). However, the serious decline in the price of oil in recent times has negatively affected the revenue base of Nigeria. Federal, State and Local Governments now pay close attention to the proceeds from tax to finance the ever increasing budget so as to steer economic growth and development.

Nigeria Governor's Forum (2012) defined revenue as tolls, taxes, rates, fees, penalties, rents, forfeitures, dues and other receipts of government from whatever source arising over which legislature has power of appropriation including proceeds of loans raised. Section 160 (9) of the 1989 constitution and Section 5, 162 (10) of the 1999 constitution defined revenue as any income or returns accruing to, or derived by the government from any property belonging to government, any return by way of interest on loans and dividends in respect of shares or interest held by the government, in any company or statutory body, incidental sources resulting from a particular environment, permissive sources from normal operations and statutory sources recognized by the Nigerian constitution (FRN, 1999). Tapang (2012) states that there are basically two types of revenue that accrues to states governments. These are internally generated revenue and revenue from the federation account.

Internally Generated Revenue is revenues generated internally apart from subventions, allocation, and grants from the federal Governments. Every organization has various ways of enhancing her internal sources of revenue. For example, in the universities, student registration fees, rent of hall, rent of equipment, donations, dividends, interest, payment for transcript, payment for academic gown among others constitute their internal revenue bases. At the State and Local Government level they equally have such internal sources. For instance, according to Okolie & Eze (2004), State and Local Government internal sources of revenue refer to the avenues by which they generate money from within their local areas. Internal revenue generations are the exclusive sources of revenue accrued to the State and Local Government system in Nigeria. They are that revenue which the State or Local Government alone is in charge. They are the sources of revenue which has been sustaining State or Local Government before the 1976 revenue reform. They are the sources of revenue in which the State or Local Government fall back on if the external ones fail. In fact, they are the traditional sources of revenue due for State or Local Government system in Nigeria.

Internally Generated Revenue in normal day to day parlance refers to those revenue sources that are generated solely by the State and Local Governments. Adesoji & Chike (2013) defined it as those revenues that are derived within the State from various sources such as taxes (pay as you earn, direct assessment, capital gain taxes, etc), and road taxes, among others. State government as the second tier of government in Nigeria derives its revenue from various sources which are by no means uniform among the States. Hence, States derive their revenue depending on the sources available to them (Okoh, 2004).

Strategies are designed as means of achieving desired goals and objectives. Neil (2011) defined strategy as the mediating force between the organization and the environment. When linked to the process of management, it is viewed as organized development of the resources of the functional areas such as revenue service, marketing, manufacturing etc in pursuit of its objectives (Alao & Alao, 2013). From the foregoing, strategy is a means of achieving set objectives. The link of strategy with revenue generation implies the strategically laying of plans that will move from general to specific with a view to executing the real intent of revenue generation effort particularly in the state and local government system and in public sector generally. IFRS 18 recommends that revenue recognition is dependent upon the terms of the contract between the entity and the buyer of goods, the recipient of the services or the users of the assets of the entity.

The aim of revenue generation as stipulated by the Federal Government is income generation through personal and income taxes, adverts or bill-board, business premise registration, among others. Alao and Alao, (2013) notes that due to the wideness of the revenue sources, tactical plans are required to get grip of harnessing resources to enable collection, and reduction or elimination of tax avoidance and evasion. The internal revenue agency is the income generating organ for the state and is faced with the herculean task of collecting taxes in various forms from the public.

According to Norton and Kaplan (2012), the finance focus is not enough to effectively handle the diverse types of revenue to be collected. Even though the financial health of an organization such as the state is essential, there are other intervening variables which are necessary for goal attainment. Strategic plans aimed at achieving organizational goals therefore should consider the satisfaction of everyone that is concerned or linked to achieving the revenue collection goal. Improving the approach to the task requires setting of goals, which has to do with the quality of service, income generation mix along with other drivers directed at attaining organizational goals. In line with this, a tool to cater for better measures of the organization's capacities or that will create long term value by identifying relevant key drivers such as customers, financial and operational plans, innovativeness, etc, is the balanced scorecard that should be sought in this dispensation.

### 2.1.2 Tax Reform

The significant role played by tax in the economic advancement of the country makes its reform very important. The Nigerian tax system needs to be reformed in order to place it on a better footing so as to address the weaknesses inherent in the administrative machinery of the system. As a matter of fact, the era of over dependence on oil revenue will be bye gone if proper tax reforms are put in place and the tax system is driven to operate at full potential. However, the following areas of reform have been identified by scholars and advocates of tax reforms:

#### 2.1.2.1 Electronic Money Transfer levy

Electronic Money Transfer levy is a new levy recently levied as part of the effort to tax e-transactions. Every electronic funds transfer of 10,000 or more to a bank or financial institution account, attract a levy of N50 (Adejokun, 2021). Under the Finance Act 2020, revenue from this newly introduced levy will be distributed on a derivation basis. 15% of this revenue is shared between the federal government and the Federal Capital Territory, and the state receives the remaining 85% of revenue (Felix, 2021). On the bright side, revenue from this new tax revenue will undoubtedly increase government revenues. In particular, an 85% share of that revenue allocated to states really helps to strengthen their revenue-generating profile. This has the potential to improve and develop living standards in the States. However, money transferred on which the levy is paid may already be subject to income tax and may result in double taxation.

**2.1.2.2 PAYE exemption for low income earners**

Prior to the Finance Act 2020, the provisions of the 2011 Income Tax Act (PITA) as amended, no matter how low a worker's monthly income was, they were expected to pay a minimum tax of 1% of total income. However, under the Finance Act 2020, employees with a monthly income of N30,000 or less are exempt from personal income tax (PAYE). According to a statement from the presidency, the exemption is seen as a way to mitigate the effects of inflation on Nigeria's low-income earners, many of whom have been hit hard by the negative socio-economic impact of the COVID 19 pandemic (Ahmed, 2020).

**2.1.2.3 Digitization of tax assessments and objections process**

It is now possible to file and object to income tax assessment electronically, which was previously primarily done in paper form. In fact, Companies Income Tax Act (CITA) sections 69 (1) and (2) as well as Personal Income Tax Act (PITA) section 58(1) provide that written objection resulting from a tax assessment-related dispute provided by Federal Internal Revenue Service and State Internal Revenue Services must be filed within 30 days. However, CITA and PITA does not specify the media to which it will be sent (Banwo & Ighodalo, 2019). Under the Finance Act 2020, such submissions can also be made by sending an email following the instructions of from Federal Internal Revenue Service and State Internal Revenue Services.

This privilege of income tax assessment notice and the objections granted under the Financial Act will undoubtedly lead to cost and time savings. This reduces the costs and time normally associated with the manual process of submitting notices of assessment and objection for review. This efficiency promotes and enhances voluntary compliance by corporate and individual taxpayers. A significant impact of this on the economy is that the tax administration process will be more efficient and tax revenue for government will increase.

### 2.1.2.4 Virtual tax appeal hearings

The tax Administration often required hearings of tax complaints and had to be held to ensure that the petitioner of a tax dispute was treated fairly or impartially. Under this procedure, tax appellants are required to meet as often as necessary to hear the appeal in the jurisdiction assigned to the court (Bassey, 2013). Under the 2020 Finance Act, these tax complaint hearings can be conducted virtually without physical meeting with members of the Court. This welcome development can be seen as a result of the COVID 19 pandemic essentials that limit the physical interaction of the people.

This provision raises the tax appellant's awareness of impartiality and restores confidence in the tax administration process. This will ultimately improve tax compliance and more revenues for the government. However, one issue that needs to be considered is the cost of setting up these virtual meetings as set out in the Finance Act 2020. This is especially true if some tax appeal meetings are held multiple times. This means that if the cost of holding this virtual session is higher than the cost of the physical session, starting this session will indirectly increase the cost of tax collection / administration of and ultimately reduce government tax revenue.

### 2.1.2.5 Personal relief claims for enterprise owners

Section 33(2) of the Finance Act redefined gross income for personal relief purposes. It is redefined as income from all sources minus non-taxable income, tax exempt items, and income for which no further tax is paid. For individuals in business, their gross income does not include all allowable expenses and capital allowance for tax relief purposes. These business owners with this new development now has the opportunity of ploughing back their allowances to the business for the purpose of expanding , leading to more income, more employment opportunities, and more taxes paid to the government. It also reduces the cost of borrowing. Finance Act is believed to help boost SMEs by reducing tax burdens, especially given that pandemics have had a significant impact on businesses (Andersen Tax, 2021).

### 2.1.3 Challenges of Tax Reforms in Nigeria

Despite the call from every nook and cranny for tax reforms, the reform process cannot go smoothly without a hitch. Some of the problems by Ovunda (2018) that are likely to affect the Nigerian tax reform agenda are as discussed below.

#### 2.1.3.1 Political Factors

Taxation in itself is simply the application of laws-tax laws. So for tax reforms to become realistic, the recommended reforms must first be passed into law before implementation. This of course, will kick-start the various law making processes and the bottle necks associated with them. Apart from the rigorous process of law making, the political arrangement of Nigeria is so unstable that the policies and programs of a particular government are hardly implemented by another government. This is a serious problem as each government comes with different tax policies.

#### 2.1.3.2 Economic Factors

The agro-allied industries and small scale businesses in Nigeria are operated in such a way that appropriate records are not kept which will form the basis for assessment and collection of taxes. One would want to ask what impact tax reforms will make in these areas.

#### 2.1.3.3 Data Management

It is usually very difficult if not impossible to assess the availability of tax data and as such ascertain the effectiveness of any tax reform.

#### 2.1.3.4 Tax Structure

The Nigerian tax system was structured in accordance with the British method. The sophistication that is characterized by this structure has made it near impossible for tax to be effectively administered in Nigeria. The Nigerian tax system lacks the requisite administrative machinery to formulate and implement tax reforms.

#### 2.1.3.5 Macroeconomic Environment

Such other macroeconomic factors as inflation, unemployment, etc. make it practically difficult for tax reforms to come to place in Nigeria.

### 2.1.4 Information and Communication Technology

E-payment is the adoption of information communication technology (ICT) for IGR revenue administration, collection and payment management thereby bringing accountability (Balunywa, 2014). It has been designed to help individual customers and companies as well as the banks itself in eliminating or reducing some of the problems inherent in the settlement and payment process. Customers can pay their bills without having to actually move to the bank's premises (Wahab, 2012). They may also have access to their account information and even transfer money to other accounts in the comfort of their homes. When it comes to making electronic payments, there are a handful of options available to people, primarily: cheques, Electronic Funds Transfer (EFT), Automated Teller Machine (ATM), cards (debit, credit and smart), Electronic Purses/Wallets, mobile money (Mobile Banking and Money Transfer), Telephone Banking, point of sale (POS) etc. The implementation of e-payment is paramount in ensuring optimal revenue collection. Various ICT based revenue collection applications are available for use in the modern world today. These are simply referred to as Electronic Payment (E- payment) system integrated into revenue collection (Ndunda, Ngahu and Wanyoike, 2015).

The system is accessible online, convenient and save to operate. E- payment is defined as the transfer of an electronic value of payment from a payer to a payee through an e-payment mechanisms, Payment services exist as web based user-interfaces that allow customers to remotely access and manage their bank accounts and transactions (Lim, 2008; Weir et al., 2006). E-payment is a payment by direct credit, Electronic Transfer of credit card details, or some other electronic means, as opposed to payment by cheque and cash (Agimo, 2004).

The decline in price of oil in recent times has led to urgent and importance need to devise strategies and tactics by Federal, State and local governments to generate adequate revenue from internal sources for sustainable Internally Generated Revenues (IGR) collection from VAT, PAYE, Income Tax, Property Tax, Custom Duties, Road Taxes etc (E-Revenue Sustainability Conference, 2016). The Nigerian tax system has undergone several reforms geared towards enhancing tax collection and administration with minimal enforcement cost. The recent reforms include: the introduction of TIN (Tax Payers Identification Number), which became effective since February, 2008. Automated Tax System (ATS) that facilitates tracking of tax positions and issues by individual tax payer, E-Payment System (EPS) which enhances smooth payment procedure and reduces the incidence of tax touts, Enforcement scheme (special purpose tax officers), all these have led to an improvement in the tax administration in the country (Nwgu,2013).

The E-payment is intended to help eliminating or reducing and minimizing corruption (some of the problems inherent in the settlement and payment process), by allowing customers to pay their bills without having to actually move to the bank which increase revenue (Wahab, 2012).

States Internal Revenue Service in Nigeria has adopted an Electronic Revenue Management System (ERMS) to be integrated with the Nigerian Inter Bank Settlement System (NIBSS) as their payment platform. The systems were deployed in January 2016 but the systems were not efficient enough to accomplish the goals. Then a change in the technology platforms and migrated to Application Management and Data Automation (AMANDA) for taxpayer and billing administration and PAY-Direct as there multi-channel payment platform. They have seen an almost 80% adoption of PAY-Direct by the banks and are now automating all their Directorates on AMANDA, which has brought in e-commerce into the revenue collection process by developing Application Form Portal for all MDAs in States. This portal converts paper Ministries Department & Agency (MDA) forms into online applications with payment with instant download slips that can be printed for service at the relevant MDA. They found huge success with the Citizenship and Pilgrimage forms. They are also complementing the process with a customized Payment Operating System (POS) for collection of revenue from different points of collection with an offline option deployed to areas where there are no internet services.

### 2.1.5 Tax Knowledge

Tax knowledge in general is an understanding of the essential tax policy concepts implemented within a country (Fauziati, Minovia, Muslim and Nasrah, 2016). An understanding of the tax policies in a country determines the compliance with the tax system. Tax knowledge is an essential element in a voluntary compliance tax system, particularly in determining an accurate tax liability (Baru, 2016). According to Adam and Webly (2012), tax knowledge is an essential element in a voluntary compliance tax system, particularly in determining an accurate tax liability (Palil, 2015). Loo (2016) also proposed that tax knowledge is the most influential factor in determining taxpayers' compliance behaviour under the self-assessment system.

Tax knowledge is the level of awareness or sensitivity of the taxpayer to tax legislation. According to Oladipupo and Obazee (2016), formal education among other factors influence it. One's knowledge about an object contains two aspects: positive and negative. Both aspects will determine the attitude of a person. Knowledge is the information known or recognized by someone (Bird, 2014). Knowledge is something that is known to be associated with the learning process. This learning process is influenced by various factors from within such as motivation and external factors such as the means of information available as well as socio-cultural circumstances proposed (Bird 2014). The taxpayer's knowledge shows the understanding of the taxpayer in applying the tax rules particularly on income tax.

Educated taxpayers may be aware of noncompliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favourable taxpayer attitude and therefore greater compliance (Chan, Troutman and O'Bryan, 2012). Cuccia (2013) also suggested that those with a higher education level are more likely to have a higher level of moral development and higher-level attitudes toward compliance and thus will tend to comply more. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2012). According to Cuccia (2013), an important factor affecting tax knowledge is the level of education. Their studies were based in Sudan, and they contended that people with higher level of education could easily understand the tax requirement. Iyoke (2016) from her studies in Nigeria also supported that, level of education has an influence on tax knowledge. However, Atawadi (2012) refuted that level of education increases tax knowledge. This was based on his studies in Taiwan where he contested that tax payers have tax knowledge despite their low level of education. On similar note Bird (2014) also argued that taxpayers level of education has been sorely neglected yet most SMEs were complying with tax regulations. Baru (2016) also seconded that the level of education is not necessary on having tax knowledge, but the beliefs of the taxpayer. Her studies were explored in Israel where most of the people believe that paying tax is fraud on its own. McCarthy (2017) argues that the level of education contributes to a certain extent but not necessarily always has an effect on tax knowledge. There is a weak relation between the level of education and the ability to operate in a legal system, which means these variables are unrelated and that education does not influence any compliance on the part of managers and owners (Nyamwanza, Mavhiki, Mapetere, and Nyamwanza, 2014). The level of education was considered in the study in Gweru, Zimbabwe for its impact on compliance of owners and managers on operating within the legal system. The study indicated that the education held by the owners could have failed to include tax compliance on the part of business (Nyamwanza et al, 2014). The non-compliance rate indicates that the education might not be relevant to business or tax issues they argued. Nonetheless, findings on the relation between level of education and tax compliance are mixed.

**2.1.6 Complexity of Tax Law:** Tax complexity arises due to the increased sophistication in the tax law argued Richardson and Sawyer (2014). Tax complexity can take many forms such as computational complexity, forms complexity (Bird, 2014), compliance complexity, rule complexity (Carnes and Cuccia, 2011), procedural complexity (Cox and Eger, 2013) and low level of readability (Pau et al., 2015; Richardson and Sawyer, 2014). Complex tax laws and high tax rates as well as lack of tax education are the most crucial factors causing non-compliance (Atawodi and Ojeka, 2012). Cuccia (2013) argued that the complexity of some tax policies causes many people to ignore tax issues; other factors like lack of education only affect tax compliance only to a lesser extent. The income tax system was also perceived as inherently complex (Saad, 2013), who further argues that the huge amount of paperwork to be completed in complying with tax obligations further escalated the problem and encouraged noncompliance among SMEs. Navigating through the legal and procedural issues related to taxation is often taxing in itself.

### 2.1.7 Administrative Strategies

The content of administrative reforms in certain countries relied heavily on what had already been implemented (Bird, et al., 2004; Owens and Hamilton, 2004). Some of the more popular components are: Taking advantage of the potential of new information and communication technologies, move from multiple tax systems to community and / or industry-based systems to allow individual taxpayers deal with fewer tax officials, introduce a unique identification number for each taxable entity, establishment of different offices and procedures for different categories of taxpayers. It usually begins with the establishment of a large taxpayer unit that focused on large corporations, using a commercial bank as a collection agency, it seeks to make the collection process more "user friendly". A more selective and strategic use of the audit unit to review the performance of primary tax collectors. Give tax collectors the status of semi-autonomous financial authorities. The logic for simplifying and improving tax management is closely tied to tax authorities, as tasks become simpler, more stable, and more predictable and more effective.

## 2.2 Theoretical Review

Theory of public expenditure, optimal theory of taxation, resource-based theory and expediency theory were some of the theories related to tax reform and revenue generation capacity. This are explained below:

### 2.2.1 Theory of Public Expenditure

The theory of public expenditure was propounded by Peacock and Wiseman (1961) and was based on the political theory of public expenditure determination which states that the government likes to spend more money, citizens do not like to pay more taxes, and that government needs to be more attentive to the aspiration and wishes of its citizenry. The theory sought to explain the circular trend or time pattern of change in government expenditure in response to development in the political economy while at the same time, the taxable capacity of the citizens is a constraint (Kanyi, 2014). The public expenditures theory further states that government expenditures are largely determined by government revenue and taxation. To this effect, the theorists opined that as both economy and income grew, tax revenue would inevitably rise. This consequently enables the government expenditures to rise in tandem with Gross National Product (GDP). There is a feeling that the level of taxation that acts as a constraint is tolerated. Moreover, it is asserted that there may be discrepancies between a desirable level of taxation and government expenditure (Baghebo, 2012). In the context of customs reforms, modernization and tax revenue, the theory of public expenditure can be employed to explain the link between the government's efforts to raise the tax collected from its citizens in order to address its development agenda and its capacity to raise the desired tax revenue.

### 2.2.2 Optimal Theory of Taxation

The optimal taxation theory was pioneered by Mirrlees (1971) though in the recent past there are a number of theorists who have examined it including Creedy (2009), O'Brien (2009) and Sorensen (2010). The theory postulates that in any economic system where equality is valued, the assumption is, income taxation would be a vital instrument of policy. It is further stated that the redistributive progressive taxation is often linked to a man's income. Mirrlees observed that, due to the use of people's economic performance as evidence of their economic potentialities, absolute equality of social marginal utilities of income ceases to be desirable for the tax system that would bring about that result would completely discourage unpleasant work. The foregoing observation leads to a number of queries regarding the kind of principles that are supposed to govern optimum income tax, the nature of the tax schedule, and the degree of inequality upon the establishment of the tax schedule.

Recent advances in optimal tax theory have made the theory far much easier to apply and could possibly facilitate the explanation of some current trends in international tax policy (Sorenson, 2010). Optimal theory of taxation can be used to analyze tax reform within a normative framework whereby given a government revenue objective, an optimal tax reform seeks to maximize an explicit social welfare function that balances vertical equity gains against tax-induced losses in the efficiency of resource allocation (Aminu and Eluwa, 2014). According to Alm (1996), the standard approach to optimal taxation is based on several methodological assumptions: the government is required to raise a specified amount of revenues, there is limitation in the types of tax instruments that is available for usage such as either commodity taxes or income taxes or both types, its decisions must be consistent with individual and firm optimization, and it makes its choices in order to maximize a "social welfare function," which indicates the value that society places on the welfare of different individuals.

### 2.2.3 Resource-based theory

The resource-based theory was propounded by Barney in 1991. The resources based theory of the firm blends concept from organizational economics and strategic management (Barney, 1991). A fundamental assumption of this view is that organizations can be successful if they gain and maintain competitive advantage (Porter, 1985). A resource is a kind of production factor which is at the firms' disposal, that is, each one is controlled by the firm in spite of having no property right to it. Competitive advantage is gained by implementing a value creating strategy that competitors cannot, easily copy and sustain (Barney, 1991) and for which there are no ready substitutes. For competitive advantage to be gained, two conditions are needed. First, the resources available to competing firm must be variable among competitors, and second, these resources must be immobile i.e. not easily obtained. However, the resource based theory provides a tool for analysing a firm's competitive advantages from a resource position. The resourced-based theory of the firm conceptualises the firm as unique bundles of productive resources which managers utilise (Lockett and Wild, 2014)

According to Wernerfelt (1984) the resource based approach views the firm as a historically determined collection of assets or resources which are tied semi-permanently to the firm's management. The typical resources to include in such analyses are labour, capital and land. Wernerfelt (1984) argues that this approach is unpleasant for modeling purposes. For some resources such as technological the mathematics use by economists typically require that the resources exhibit declining returns to scale, as in the traditional theory of factor demand. Penrose (1959) defines the organization with reference to its administrative framework within which activities are co-ordinate. However, in reality the organization is more than an administrative unit, it is a collection of productive resources. These resources are at the disposal of the administrative unit. Hence these resources and the different use of them are determined by administrative decisions. For tax organization, the resources included in the organization may be both physical and human resources such as, Buildings or offices, electronic, internet, employees, management team and directors. It is important, however, to recognize all of these resources, including managerial services, as resources for revenue generation. Penrose (1959) argues that it is never the resources themselves that are the inputs in a production process, but only the services that the resources can render. Tax reform revolves around a utilization or renew the tax structure, administration or both. More generally, a tax reform is beneficial if it increases both revenue and social welfare.

### 2.2.4 Expediency Theory of Taxation

The expediency theory of taxation which was developed by Buehler in 1936 states that tax revenue collection system must pass the test of practicability, which must be the only consideration when the government is choosing a revenue collection system. Proposition of the thoery is that the economic and social objectives of the government should be treated as irrelevant, since it is useless to have a tax which cannot be levied and collected efficiently. This theory is relevant to the study in that tax reform is expected by Internal Revenue Services in North Central Nigeria to enhance revenue collection by creating an enabling environment that facilitate efficient assessment and revenue collection process. Equally, the expediency theory has been criticized for the proposition that the economic and social objectives of the government should be treated as irrelevant is not practical as there are pressures from economic, social and political groups. Every group tries to protect and promote its own interests and government is often forced to reshape tax structure to accommodate these pressures (Bhartia, 2009). In addition, the administrative set up may not be efficient to collect the tax at a reasonable cost of collection. Taxation provides a powerful set of policy tools to the authorities and should be effectively used for remedying economic and social ills of the society such as income inequalities, regional disparities, unemployment, cyclical fluctuations and so on (Bhartia, 2009).

Therefore, tax reform revolves around a notion of some movement away from a given state of tax structure, administration or both. More generally, a tax reform is beneficial if it increases both revenue and social welfare.

The expediency theory of taxation is therefore relevant to the present study in that, it seeks to explain influence of administrative set up, such as tax law reforms, information and communication technology, and administrative strategies in revenue generating capacity by

Internal Revenue Services in North Central Nigeria. In line with this theory, the study postulates that tax reform will increase revenue generation capacity of Internal Revenue Services in North Central Nigeria.

## 2.3 Empirical Review

### 2.3.1 Tax Knowledge and Revenue Generation Capacity

Kasippilai and Jabbar (2013), documented that possessing tax knowledge would lead to higher compliance rates. Their research indicated that 97% of the respondents possessed tax knowledge and that firms in Malaysia comply with tax regulations. Harris (2013) investigated tax knowledge level of SMEs in UK, divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. His findings revealed that SMEs in UK have tax knowledge and almost all of them are aware of the tax regulations. Studies in New Zealand by Ritsema, Thomas and Ferrier (2013) revealed that tax payers in New Zealand have enough knowledge of tax and they comply with the tax regulations of the country. Saad (2014) also added that information about tax regulations is provided through free public lectures in Malaysia. In support of the above findings, Mckerchar and Hansford (2015) argued that the absence of tax knowledge might lead to non-compliance behaviour among taxpayers, either intentionally or unintentionally. This was noted in a study in Australia among small business taxpayers where he construed that small business taxpayers are not even aware of their tax knowledge shortfalls and this may lead to unintentional non-compliance behaviour.

Bautigam, Fjeldstad and Moore (2015) used the specification model in analysing tax knowledge among tax payers and the results of the model were not conclusive as their findings indicated an equal existence of tax payers with knowledge and those without, their studies were based in

Hungary, Dubai and Spain respectively. On a comparable note Adam and Webly (2012) revealed that the tax knowledge in Nigeria could not be measured accurately from their findings, which were based on the systematic theory and contemplated that some people have education and others have tax knowledge. Out of the one hundred questionnaires distributed by the researchers, the result could not distinguish whether the respondents had just been exposed to tax education or knowledge existed amongst the tax payers and therefore failed to conclude if indeed knowledge influenced compliance.

The above-mentioned studies were not consistent with an earlier study by Harris (2012), who claimed that tax knowledge has no direct significant effect on taxpayers' compliance behaviour. One possible explanation for such inconsistent results is the difference in tax jurisdictions. The studies mentioned above were conducted in either Malaysia or Australia, while Harris conducted the research in the US. According to Nyamwanza, Mavhiki, Mapetere, and Nyamwanza (2014), tax payers in Zimbabwe do not comply with legislation despite having the relevant information indicating that tax knowledge exists among them and is not the contributor to noncompliance behaviour.

Bird (2014) also argues that the existence of tax knowledge, which consists of general knowledge, legal knowledge and technical knowledge did not significantly affect tax compliance behaviour of tax payers. His findings indicated that knowledgeable taxpayers were not necessarily compliant taxpayers. Research conducted by Alm, Kirchler and Muehlibacker. (2012) reported insignificant change in attitude toward tax and tax behaviour due to increased level of tax knowledge. It was also found that tax knowledge has no impact on tax compliance in Indonesia. Maseko (2013) found no correlation between tax knowledge and tax registration compliance but a weak negative correlation with tax compliance. He claims that the level of tax knowledge among tax payers has no influence on their decision to either register or not register for tax. Registration for PAYE in Zimbabwe has been found not to depend on any level of tax knowledge according.

Cuccia (2013) inversely argues that “higher knowledge and understanding of the taxpayer did not lead to a better conformance with the tax regulations”. Taxpayers who do understand the tax laws are still likely not to obey the tax. Thus, a better understanding of the taxpayer's tax rules only leads to more awareness of the sanctions that will be imposed when shirking the tax obligations. Bird (2014) supported him who argued that taxpayers, who understand the rules properly, usually do not abide tax rules in accordance with what is stated in the tax laws. Moreover, Widayanti and Nurlis (2012) suggest that understanding and knowledge of taxes have no significant effect on the willingness to pay taxes. Taxpayers who have attended a tax course would be expected to have better tax knowledge and tax compliance attitude in comparison with taxpayers who have never attended a tax course, but findings in his research showed no relationship between the two variables.

### 2.3.2 Tax law Reforms and Revenue Generation Capacity

In China, the mechanism of how economic growth and tax reform affect total tax revenue and structure was investigated by Zeng, Li and Li (2013). The empirical results show that economic growth has a significant impact on the total tax revenue and structure changes. In addition, every tax reform shows a clear impact on the tax structure. Osoro (1995) examined the revenue productivity implications of tax reforms in Tanzania for the period 1967-1990. The empirical results suggest that measured productivity is influenced by tax policies in place during a specific period.

Kusi (1998) dealt with the revenue productivity of Ghana’s overall tax system and of individual taxes on the basis of estimates of tax buoyancies and elasticity. It also looks at the links between the tax reform of 1983-1993 and revenue performance, as well as at ways of mobilizing additional revenue. The analysis shows that the tax reform has had significant impact on the productivity of both the individual taxes and the overall tax system. In Kenya, Muriithi and Moyi (2003) examined the impact of tax reform programme in light of the in-built revenue mobilization capacity of the tax system. Specifically, the study analyzed the trend of tax reforms for each tax category, and evaluates the impact of tax reform on the flexibility of the overall tax system and on individual tax handles using the concept of buoyancy and elasticity. The results from the regression analysis shows that tax reforms had a positive impact on the overall tax structure and on the individual tax handles, even though the impact of the reforms was not always uniform.

Daba and Mishra (2014) compared tax revenues performances of tax reforms in Ethiopia during the last 39 years. Descriptive analysis was used to compare pre and post-tax reforms during the period 1991/92 to 2012/13, the ratios of different categories of tax revenues show insignificant change for post comprehensive tax reform period. The overall analysis reveals that tax reforms failed to boost total tax revenues and to bring tax structure change from indirect tax to direct tax. Omondi, Wawire, Manyasa and Kiguruthuku (2014) in a quantitative investigation of the effects of tax reforms on tax buoyancy and elasticity of the tax system in Kenya between 1963 and 2010. The study revealed that both revenue administration reform and tax modernization programme were important in explaining the variations in buoyancy and elasticity of the tax system in Kenya and both variables have positive effect on both tax buoyancy and elasticity.

Oriakhi and Ahuru (2014) investigated the impact of tax reforms on tax revenue generation in Nigeria and also to verify the relationship between federally collected revenue and specific tax revenue generation sources. The study employed annual time series data spanning the years (1981 -2011). The results also show that various income taxes were statistically significant and have positive relationship with federally collected revenue. Ashaolu, Dopemu and Monday (2015) conducted research on the impact of tax reforms on revenue generation in Lagos State Nigeria from 1999 to 2012. The study concludes that there exists a long run equilibrium relationship between the revenue generated and tax reforms of Lagos State.

Using tax elasticity and buoyancy approach, Ifurueze and Odesa (2014) examined the productivity of the Nigerian tax system as a source of revenue generation. The study finds a linear relationship between tax base and tax revenue and also reveals that VAT is the most buoyant of all source. Eneojo and Gabriel (2014) conducted a study on taxation and revenue generation of selected states in Nigeria. The research discovered among others that, taxation has a positive significant contribution on revenue generation in Nigeria. Ndunda (2015) evaluated the relationship between tax compliance and revenue collection, and found positive and significant relationship between tax compliance and revenue collection, and the study also found that the level of competence of revenue clerks/staff affected revenue collection where the tax officials were corrupted and they lacked adequate training facilities and opportunities which led to inexperience employees in the Country.

### 2.3.3 Information and Communication Technology and Revenue Generation Capacity

Researches on e-payment system adoption had been studied across the globe both in developed and the developing countries while this study reviewed various global, regional, and local studies on effects of e- payments on revenue collection performance For instance, a study conducted by Danchev, Demian, Papadakis, Paratsiokas, Peppas, Thomaidou and Valavanioti (2015) investigated the role of digital payments in curbing the shadow economy and boosting tax revenues in Greece, the study also attempts to quantify the impact on tax revenues from adopting incentives for the use of digital payments. The study found a positive and significant effect. Danchev and

Demian (2015) investigated the role of digital payments in curbing the shadow economy and boosting tax revenues in Greece. The result shows that there is a positive impact of the Electronic Means of Payment (EMP) diffusion on tax revenues. It was estimated that the tax revenues increase by 0.24 percentage points for every percentage point growth of the use of payment cards.

Okiro (2015) examined the effects of e-payment system on revenue collection by the Nairobi city county government, and found that e-payment system has positive significant effect on revenue collection. Mosomi (2015) assessed the effect of using electronic payment methods on tax efficiency by Kenya revenue authority through the adoption of simple regression and found that electronic payment has positive and significant effect on tax efficiency. Muita and Mukanga (2010) conducted a study on the adoption of technology as a strategic tool for enhancing tax compliance in Kenya. The case study was based on SMEs and large companies. The study found that that technological knowledge influences acceptance of e-filing and compliance among SMEs. Some people would generally not be interested in e-filing because of a lack of computer knowledge. This was confirmed by Bird (2014), with references to some of the lawyers in Florida who did not want to use e-filing in their law firms due to lack of basic computer knowledge.

Berger (2011) said that South Africa improved its ranking on tax payments from number 32nd to 11th, largely due to the success of e-filing and the way in which returns are filed. She further points out that in South Africa it takes 200 hours for a company to complete and file its tax return, compared to a global average of 268 hours. He further argues that most of the SMEs in South Africa are capable of using e-filing. Mongwaketse (2015) in a study on the effects of e-filing on tax compliance found that only 58.3% of the respondents said they know and understand how to use e-filing indicating a lack of knowledge on the part of the tax payers. The findings also revealed that the majority of respondent had basic tax knowledge, though an unusually big percentage still opted for the use of tax consultant as opposed to e-filing personally. The taxpayer requires access to a computer, the tax software, a reliable internet connection and the knowledge to utilize the electronic filing.

According to Bird (2014), lack of ability to use the e filing system quickly and efficiently or lack of understanding the type of information required by the online tax filing system forces taxpayers to engage third parties or ignore tax obligations. There is a significant relationship between computer literacy, tax knowledge and tax compliance knowledge. Jaidi (2013) confirmed that despite the heavy investment that the Malaysian tax authority put in new online system, only 20% of the targeted taxpayers were able to use it after three years of implementation. This was mainly attributed to lack of necessary user skills like computer literacy; however, taxpayer's behaviour also played a role. A study of South Korea and Turkey on user evaluation of tax filing web sites was done by Loo et al. (2014), to compare the design and the complexity of the web sites and the ease with taxpayers are able to file tax returns and queries on their tax status. While Turkey had a complex online system, to the contrary Turkish users did not find tax filing system difficult to use. Cuccia (2013) did a study on the antecedents of paperless income tax filing by young professionals in India. The objective of his study was to study how young Indian professionals will adopt or behave towards paperless or online filing of tax returns with the aim of enhancing compliance. The regression analysis carried out found that the antecedents of young Indian professionals depended on the perceived ease of the tax system, personal innovativeness in information technology, relative advantage, performance of filing service, and compatibility.

### 2.3.4 Administrative Strategies and Revenue Generation Capacity

Ndekwa (2013) argues that tax payers in Uganda lack trust in their government and that the lack of accountability and honest on the revenue collected drives the non-compliant gear among tax payers in Uganda”. He further argues that government should show some degree of accountability to make people understand the connection between tax revenue and expenditure. Djawadi and Fahr (2013) proposed that tax payer’s perception on government expenditure can only be improved by involving the public on what public goods they want their tax dollars to be spent on. Their findings showed that compliance could be increased by 18% if the public perceived the government to be fair. Lack of trust in the fairness of a tax system and the legitimacy of the government increases the likelihood of tax evasion among business owners.

In a study by Fisher (2016) assimilated that taxpayers in Uganda alleged the government to be involved in unnecessary costs using their hard earned dollars. This view influenced their non-compliance behaviour. According to Shamrodi (2016), non-accountability by the government did not influence non-compliance among tax payers in Uganda, but it is the ways the taxpayer perceives government expenditure that significantly influences noncompliance behaviour. He argued that taxpayers are aware of the uses of tax money but they still perceive that some of the funds are not used for their intended purposes.

Bird (2014) studied the tax fairness in developing countries and concluded that lack of fairness in tax authorities causes most of tax payers to relax attaining tax knowledge and cause a short fall in revenue collected by government. Statistical calculations done in China showed a trend of negative correlation between tax fairness to tax compliance behaviour. However, Bird (2014), still argues that tax payers are only concerned in making their businesses successful by minimising their costs and they are not concerned about the government.

Dube (2014) in his research on tax payer perception discovered there were mixed opinions on how the government spends which resulted in mixed compliance behaviours in Canada. While people who mistrust government may be less inclined to pay taxes, people who are un-inclined to pay taxes might also rationalise this impulse by invoking their mistrust of government. Conversely, studies in Chile, Rothberg (2014) revealed that small business understood that government should utilise tax money and believed their money was being put to best use. Perception of fairness in tax administration and the perceived equity of government spending overall level of trust in the government are some of the reasons why Americans comply so readily.

## 2.4 Summary and Gaps Identified in the Literature

This chapter provides a review on conceptual, theoretical and empirical issues relating to the research area. The empirical review showed that a very large number of the previous studies reported that tax reforms (tax knowledge, tax law reform, information and communication technology and administrative strategies of Tax Reform) improve the revenue generation capacity in various studies (Kasippilai and Jabbar (2013), Harris (2013), Ritseme, Thomas and Ferrier (2013), Cussia (2013), Maseko (2013), Saad (2014), Bird (2014), McKerchar and Hansford (2015), Bautigam, Fjeldstad and Moore (2015) and Adam and Webly (2015) were on Tax knowledge and revenue generation). Furthermore, studies like Zeng, Li and Li (2013), Osoro (1995), Murithi and Moji (2003), Daba and Mishra (2014), Oriakhi and Ahuru (2014) and Ashaolu, Dopemu and Monday (2015) were on Tax law reform and revenue generation). Studies like Miuta & Mukanga (2010), Okiro (2015), Mosomi (2015) and Danchev, Demain, Papadakis, Paratsiokas, Pappas, Thomaidou & Valavamoti (2015) were on information, communication and technology (ICT)). Whereas studies like Ndekwa (2013), Djawadi &Fahr (2013), Fisher (2016), Shamrodi (2016), Dube (20140 and Chile & Rothberg (2014) were on administrative strategies of tax reforms).

Conceptually, the literatures reviewed focused on how the components of the tax reform could be used in achieving revenue generation of the states which would subsequently lead to improvement in the revenue generation capacity of the states under study. However, it was discovered that little or no literature have examined the aggregate tax reform on revenue generation capacity of State Internal Revenue Service in North Central Nigeria. In addition, previous studies on tax reform were conducted on Nigeria or focus on a state without putting much emphasis on geopolitical zone of Nigeria. This study also fills this gap by evaluating the effects of the aggregate tax reforms on revenue generating capacity of states internally generated revenue in North Central Nigeria. This study intends to extend its searchlight on reforms in the areas of tax knowledge, tax law reform, information and communication technology, and administrative strategies of tax reforms.

## 2.5 Theoretical Framework

This study was guided by the assumptions Theory of public expenditure, optimal theory of taxation, resource-based theory and expediency theory. The public expenditure theory which was based on the political theory of public expenditure determination which states that the government likes to spend more money, citizens do not like to pay more taxes, and that government needs to be more attentive to the aspiration and wishes of its citizenry. The theory sought to explain the circular trend or time pattern of change in government expenditure in response to development in the political economy while at the same time, the taxable capacity of the citizens is a constraint (Kanyi, 2014). In the context of customs reforms, modernization and tax revenue, the theory of public expenditure can be employed to explain the link between the government's efforts to raise the tax collected from its citizens in order to address its development agenda and its capacity to raise the desired tax revenue.

The optimal theory postulates that in any economic system where equality is valued, the assumption is, income taxation would be a vital instrument of policy. It is further stated that the redistributive progressive taxation is often linked to a man's income (Aminu & Eluwa, 2014).

Optimal theory of taxation can be used to analyze tax reform within a normative framework whereby given a government revenue objective, an optimal tax reform seeks to maximize an explicit social welfare function that balances vertical equity gains against tax-induced losses in the efficiency of resource allocation.

A fundamental assumption of this view is that organizations can be successful if they gain and maintain competitive advantage (Porter, 1985). A resource is a kind of production factor which is at the firms' disposal, that is, each one is controlled by the firm in spite of having no property right to it. Competitive advantage is gained by implementing a value creating strategy that competitors cannot, easily copy and sustain (Barney, 1991) and for which there are no ready substitutes. For tax organization, the resources included in the organization are physical and human resources such as, Buildings or offices, electronic, internet, employees, management team and directors. It is important, however, to recognize all of these resources, including managerial services, as resources for revenue generation. Tax reform revolves around utilization or renew of the tax structure, administration or both. More generally, a tax reform is beneficial if it increases both revenue and social welfare.

The expediency theory of taxation states that tax revenue collection system must pass the test of practicability, which must be the only consideration when the government is choosing a revenue collection system. Proposition of the theory is that the economic and social objectives of the government should be treated as irrelevant, since it is useless to have a tax which cannot be levied and collected efficiently. This theory is relevant to the study in that tax reform is expected by Internal Revenue Services in North Central Nigeria to enhance revenue collection by creating an enabling environment that facilitate efficient assessment and revenue collection process.

The expediency theory of taxation is therefore relevant to the present study in that, it seeks to explain influence of administrative set up, such as tax law reforms, information and communication technology, and administrative strategies in revenue generating capacity. In line with this theory, the study postulates that tax reform will increase revenue generation capacity of Internal Revenue Services in North Central Nigeria.

## 2.6 Conceptual Framework

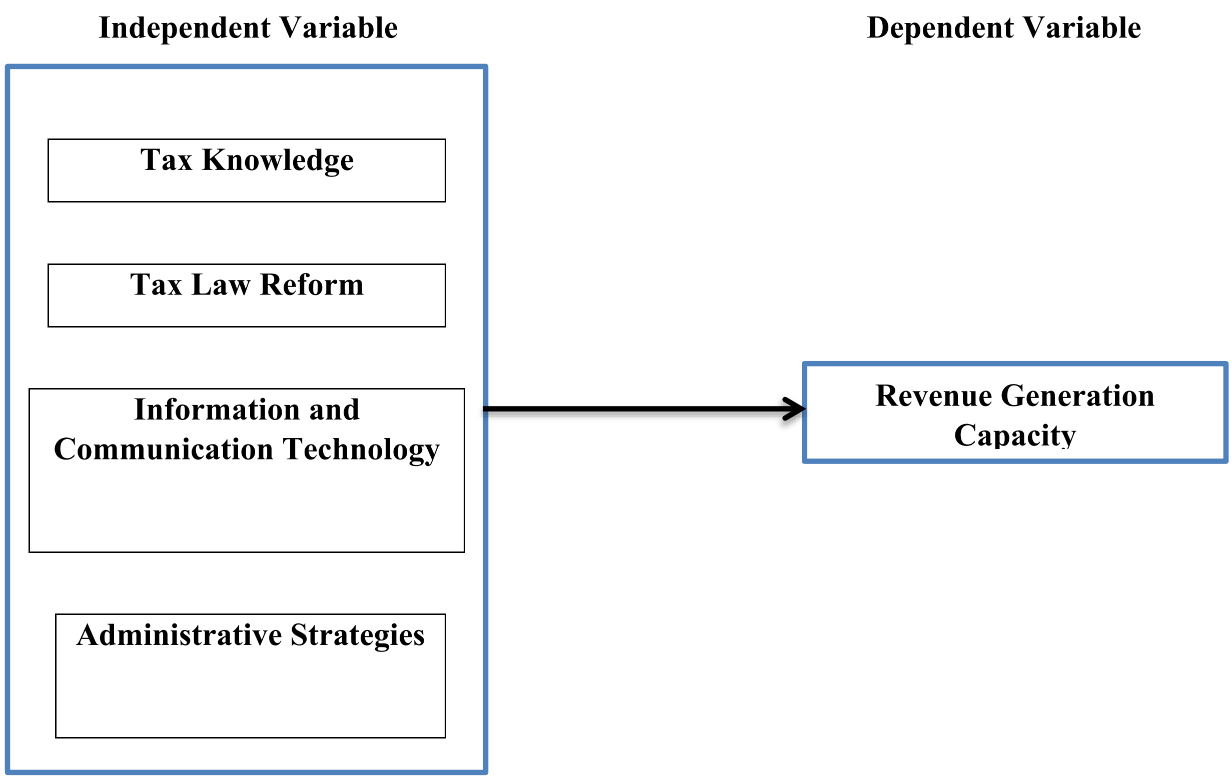


**Fig 2.1 Source: Author's Conceptualization, (2021)**

The conceptual framework in figure 2.1 shows the dependent and the independent variables used in the course of the study. The dependent variable is the revenue generation while the independent variable are tax reforms components proxy with tax knowledge, tax law, information and communication technology and administrative strategies.

# CHAPTER THREE

# METHODOLOGY

This chapter provides discussion on the research methods and procedure employed in this study. It discusses research design especially with respect to the choice of design, the population of the study, sample size and sample techniques, data collection methods, model specification as well as a priori-expectation.

## 3.1 Research Design

The cross-sectional research design in form of survey design was used for this study. Cross-sectional research design is the collection of information across entity at a point in time. Most time data collected using this design are perception in nature. It is useful in obtaining data on issues that cannot be subjected to secondary data or not measurable in real numbers. Survey research is a method of obtaining research information by asking a set of pre-determined questions from a given sample of individuals drawn from a defined population. Also, primary source of data is adopted for this study which is in line with the survey research design. The cross sectional research design is considered appropriate for this study because it allowed the researcher to collect personal and general information for the purpose of explaining the impact of tax reform on revenue generation capacity of State Internal Revenue Service in North central of Nigeria.

## 3.2 Population of the study

For the purpose of this study, the population consists of State Internal Revenue Service in North central of Nigeria. Given the research questions raised in chapter one, the appropriate unit of analyses are the Kwara State Internal Revenue Service, Kogi State Internal Revenue Service, Niger State Internal Revenue Service, Nasarawa State Internal Revenue Service, Plateau State Internal Revenue Service and Benue State Internal Revenue Service. The sample frame which form the population for this study are the 5185 staff which comprises of Directors, Managers, Accountants, Assessment officers and field officers of the State Internal Revenue Service in North central of Nigeria. This is presented in the table**:** Staff Population of the State Internal Revenue Service

**Table 3.1: Staff Population of the State Internal Revenue Service**

| Position / States | Directors | Managers | Accountant | Auditors | Field Officer | TOTAL |
|---|---|---|---|---|---|---|
| Kwara | 10 | 30 | 45 | 40 | 1250 | **1375** |
| Kogi | 5 | 17 | 32 | 30 | 768 | **852** |
| Niger | 7 | 24 | 39 | 34 | 874 | **978** |
| Nasarawa | 6 | 19 | 27 | 25 | 647 | **724** |
| Plateau | 5 | 16 | 24 | 20 | 592 | **657** |
| Benue | 5 | 15 | 22 | 18 | 539 | **599** |
| **TOTAL** | **38** | **121** | **189** | **167** | **4670** | **5185** |

### 3.3 Determination of Sample Size and Sampling Techniques

For the purpose of this study, the target population is 5185 staff of which comprises of Directors, Managers, Accountant, Auditors and field officers of the selected State Internal Revenue Service in North central of Nigeria. Hence, the sample size was calculated using Taro Yamani Formula:

$$n = \frac{N}{1 + N(e)^2}$$

Where n = Sample size

N = Population of the study

e = Tolerable error (5%)

$$n = \frac{5185}{1 + 5185\ (0.05)^2}$$

n = 371

The sample size of this study was 371, the number was chosen using stratified sampling techniques to attain reasonably representation of the population.

**Table 3.2: Computation of sample size from each nature of duties**

| State | Population | Computation of Sample | Number of sample |
|---|---|---|---|
| Kwara | 1375 | 1375/5185 x 100 =26.51; 26.51% x371 = 98 | 98 |
| Kogi | 852 | 852/5185 x 100 =16.43; 16.43% x371 = 61 | 61 |
| Niger | 978 | 978/5185 x 100 =18.86; 18.86% x371 = 70 | 70 |
| Nasarawa | 724 | 724/5185 x 100 =13.96; 13.96% x371 = 52 | 52 |
| Plateau | 657 | 657/5185 x 100 =12.67; 12.67% x371 = 47 | 47 |
| Benue | 599 | 599/5185 x 100 =11.55; 11.55% x371 = 42 | 43 |
| **TOTAL** | **5185** | | **371** |

**Source: Researcher's Computation, (2021).**

This sampling method was informed by relative homogeneity in attributes to states under the study. this was achieve by categorized all the states that make up the sample size into homogenous strata based on the nature of their location such as Kwara State Internal Revenue Service, Kogi State Internal Revenue Service, Niger State Internal Revenue Service, Nasarawa State Internal Revenue Service, Plateau State Internal Revenue Service and Benue State Internal Revenue Service. Proportionate sampling technique was used to select respondents from each stratum and simple random sampling technique was used to select 98 respondents from Kwara, 61 respondents from Kogi, 70 respondents from Niger, 52 respondents from Nasarawa, 47 respondents from Plateau and 43 respondents from Benue. Systematically, 371 respondents were selected for this study.

**Table 3.3: Questionnaires Return Analysis**

| Questionnaires | Frequency | Percentage |
|---|---|---|
| Returned | 300 | 80.9 |
| Non-return | 71 | 9.1 |
| Total | 371 | 100 |

**Source: Author's Computation, 2021**

The table presents the result of questionnaires and number of questionnaires received from the respondents. 371 questionnaires were administered to the respondent and 300 questionnaires were return consist of 80.9%.

### 3.4 Model Specification

The model of this study was used to identify the relationship between the four variables tax reform which are: tax knowledge, tax law reform, information and communication technology and administrative strategies of tax reforms as independent variables and the dependent variable which is the revenue generating capacity in the study area. This model was adopted from Ashaolu, Dopemu and Monday (2015) and stated below:

$TGR = \alpha + \beta_1 TPY + \beta_2 TED + \mathcal{E}_i$

Where, TGR = Total Revenue Generated, TPY = Tax Payers Law Reform, TED = Tax Education and Programmes.

This study then modified the model by inclusion of information, communication & technology and administrative strategies on tax reform, as stated below:

$RGC = f(TRF)$

$RGC = f(TK, TLR, ICT, AS)$

$RGC = \alpha + \beta_1 TK_i + \beta_2 TLR_i + \beta_3 ICT_i + \beta_4 AS_i + \mathcal{E}_i$ ....................................... (1)

Where:

RGC = Revenue Generating Capacity

TK = Tax Knowledge

TLR = Tax Law Reforms

ICT = Information and Communication Technology

AS = Administrative Strategies

$\alpha$ = Intercept

$\beta_1 - \beta_4$ = Parameters of estimate

$\varepsilon_i$= error term or stochastic term

**A-Priori Expectation**

The a-priori expectation of the model is a positive relationship between the dependent and independent variable, i.e. tax reform, and revenue generating capacity.

(i) It is expected that there will be increase in the level of revenue generating capacity as a result of tax knowledge in states internal revenue service in North central of Nigeria.

(ii) It is expected that there will be increase in the level of revenue generating capacity as a result of tax law reform in states internal revenue service in North central of Nigeria.

(iii) It is expected that there will be increase in the level of revenue generating capacity as a result of adoption of information and communication technology in states internal revenue service in North central of Nigeria.

(iv) It is expected that there will be increase in the level of revenue generating capacity as a result of administrative strategies on tax reforms in states internal revenue service in North central of Nigeria.

### 3.5 Source of Data Collection

Data for this study were obtained from primary source through the use of questionnaire that was carefully design to obtain opinions from respondents, that is, selected sample size. Primary data gathered specifically for this research work were questionnaire administered to Directors, Managers, Accountants, Assessment officers and other staff of the States Internal Revenue Service in North central of Nigeria.

The questionnaires were divided into two main sections. The first section was designed in nominal scale, capturing the demographic characteristics of the respondents and second section which was designed in ordinal scale of 5 Likert scale range from strongly agreed to strongly disagreed to obtain responses on operational questions relating to the study.

### 3.6 Validity and Reliablity Instrument

The validity of the instrument has to do with whether the instrument is measuring what it is intended to measure. Both content and construct validity of this instrument were ascertained with the use of Kaiser-Meyer-Olkin (KMO) and Bartlett's tests. The KMO is a measure of sampling adequacy and ranges between 0 and 1. The Barlett's Test of Sphericity value should be significant (i.e. the Sig. value should be .05 or smaller).

To determine the reliability of the instrument, the researcher adopted a Cronbach's Alpha test. Generally, Cronbach's alpha measures the average of measurable items and their correlation. The general consensus of the scholars is that a coefficient of more than 70% suggests some degree of reliability and internal consistence.

### 3.7 Method of Data Analysis

The data for this study were analyzed with the use of descriptive and inferential statistical techniques. The descriptive statistics of frequency counts and percentage, while inferential statistics of Ordinary Least square Regression (OLS) were used to test the null hypotheses at 0.05 alpha level. Before testing of hypotheses, preliminary analysis tests was conducted such as, reliability and validity tests. Given a snapshot of the data gathered, it was considered that employing OLS analysis was appropriate to explore the relationship between the variables. Therefore, the hypotheses formulated were tested using OLS.

## CHAPTER FOUR

## DATA ANALYSIS AND PRESENTATION OF THE RESULTS

This chapter presents and interprets the results of data collected for the study through questionnaire. This Chapter is divided into three. First, data on demographic variables are presented and interpreted followed by the presentation and interpretation of data on operational variables. The last section covers the presentation and interpretation of estimated parameters from the regression models specified in Chapter three.

### 4.1 Demographic Variables presentation

Table 4.1 shows the result of demographic information of the respondents to whom questionnaires were administered to in the North central Nigeria

**Table 4.1: Demographic Characteristic**

| Variables | Frequency | Percent | Cumulative Percent |
|---|---|---|---|
| **Gender** | | | |
| Female | 144 | 48 | 48 |
| Male | 156 | 52 | 100 |
| **Total** | **300** | **100** | |
| **Educational Qualification** | | | |
| Ph.D | 24 | 08 | 08 |
| MBA / M.Sc | 33 | 11 | 19 |
| B.Sc / HND | 147 | 49 | 68 |
| OND/NCE | 21 | 07 | 75 |
| ACA/ACTI | 75 | 25 | 100 |
| **Total** | **300** | **100** | |
| **Year in Experience** | | | |
| 5-10 years | 132 | 44 | 44 |
| 10-15 years | 114 | 38 | 82 |
| 15 -20 years | 39 | 13 | 95 |
| Above 20 years | 15 | 5 | 100 |
| **Total** | **300** | **100** | |
| **Department** | | | |
| Administrative | 42 | 14 | 14 |
| Tax Assessment | 51 | 17 | 31 |
| Account | 45 | 15 | 46 |

| | | | |
|---|---|---|---|
| Management | 48 | 16 | 67 |
| Revenue Collection | 114 | 38 | 100 |
| **Total** | **300** | **100** | |

**Source: Field Survey, 2021**

From the responses obtained, there were 156 males constituting 52% of the respondents and 144 females which constitute 48%. In this vein, this shows that information provided for this study is reliable because the respondents that filled the questions are not gender biased.

Based on the data collected, 21 of the respondents have OND certificate 7%; 147 of the respondents have HND/B.Sc constitute 49%; 33 respondents representing 11% of the total respondents have MBA/M.Sc/, 24 respondents representing 8% of the total respondents have Ph.D, while the remaining 75 respondents constituting 25% of the respondent have ACA/ACTI certificates. The educational qualification of the respondents give assurance on whatever information was provided by them.

The table shows that 132 respondents with a percentage of 44% have worked between 5-10years, 114 respondent constituting 38% have worked between 10-15years, 39 respondents constituting 13% have worked between 15-20years, while 15 respondents constituting 5% have worked above 20years. The experience of the respondents is very important in this study as it shows the respondent possess the adequate knowledge and understanding of the subject matter in providing answer to the questions given in the questionnaires.

The result also provides information on the department where the respondents work; this is considered because it will be complementing this study as the respondents have different experience in their respective departments. The 42 respondents constitute 14% are in administrative department, 51 respondents constitute 17% are tax assessment department, 45 respondents with percentage of 15% are in account department, 48 respondents with percentage of

16% are in management, while the remaining 114 respondents constitute 38% are in revenue collection. This implies that the respondents have intensive knowledge, experience and understanding of the questions on the subject matter.

## 4.2 Preliminary Test

### 4.2.1 Validity Test

The validity of the instrument has to do with whether the instrument is measuring what it is intended to measure. Both content and construct validity of this instrument will be ascertained with the help of the researcher's supervisor and three (3) other research experts from Department of Accounting and finance, College of Humanities Management and Social Sciences, Kwara state University, Malete, Kwara state, Nigeria. The comments, corrections and suggestions will be incorporated before the final draft is produced for administration.

**Table 4.2: Validity Tests**

| Variables | KMO | Bartlett's Test of Sphericity | | |
|---|---|---|---|---|
| | | Chi-square | Df | P-value |
| RGC | 0.778 | 276.003 | 28 | 0.000 |
| TK | 0.699 | 201.933 | 36 | 0.000 |
| TLR | 0.760 | 293.528 | 36 | 0.000 |
| ICT | 0.673 | 217.578 | 20 | 0.000 |
| AS | 0.705 | 285.760 | 20 | 0.000 |

**Source: Author's Computation, 2021**

As regards the construct validity in term of convergent validity, confirmatory factor analysis was performed. Kaiser-Meyer-Olkin (KMO) and Bartlett's tests were performed. The KMO is a measure of sampling adequacy and ranges between 0 and 1. The Barlett's Test of Sphericity value should be significant (i.e. the Sig. value should be .05 or less). The results of this test in table 4.2 shows that the measurement items of each variables are significant at level 0.01 based on the

Barlett's Test of Sphericity test p-value of 0.000 each. The KMO value of each construct is greater than 0.5. The implication of these results is that the measurement scales used in this study are valid.

### 4.2.2 Reliability Test

To determine the reliability of the instrument, the researcher adopted a test-retest method of reliability where 300 copies of the Questionnaire will be administered to the staff of Kwara State Internal Revenue Service, Kogi State Internal Revenue Service, Niger State Internal Revenue Service, Nasarawa State Internal Revenue Service, Plateau State Internal Revenue Service and Benue State Internal Revenue Service. The results of the administered questionnaire will be correlated using PPMC at 0.05 alpha level to determine the reliability coefficients.

The reliability of the scale used for the operational variables was determined using Cronbach's Alpha test, which indicate that there is internal consistency in measuring each variables items as (0.751, 0.760, 0.690, 0.805 and 0.710) respectively.

**Table 4.3: Reliability Test**

| Variable | Number of question | Cronbach's Alpha |
|---|---|---|
| RGC | 8 | 0.751 |
| TK | 10 | 0.760 |
| TLR | 10 | 0.700 |
| ICT | 6 | 0.805 |
| AS | 6 | 0.710 |

**Source: Author's Computation, 2021**

Generally, Cronbach's alpha measures the average of measurable items and its correlation. The general consensus of the scholars is that a coefficient of more than 70% suggests some degree of reliability and internal consistence. Therefore, since the coefficient obtained is close to 100%, we can say the data obtained for revenue generating capacity and tax reforms in North Central Nigeria are highly reliable and have internal consistency.

### 4.3 Restatement and Test of Hypotheses

Table 4.4 shows the linear relationship between tax reform and internally generated revenue capacity of state internal revenue service in North Central Nigeria, with the use of ordinary least square regression analysis

**Table 4.4: Tax Reforms and Revenue Generation Capacity (RGC)** Dependent variable: RGC

| Variables | Coefficient | Std Error | T-stat | Prob |
|---|---|---|---|---|
| Constant (C) | 0.759 | 0.708 | 1.072 | 0.347 |
| Tax Knowledge (TK) | 0.312 | 0.066 | 4.727 | 0.000 |
| Tax Law Reforms (TLR) | 0.394 | 0.142 | 2.775 | 0.002 |
| Information & Communication Technology (ICT) | 0.439 | 0.192 | 2.286 | 0.001 |
| Administrative Strategies (AS) | 0.296 | 0.203 | 1.458 | 0.149 |
| R Square | 0.720 | | | |
| Adj R square | 0.702 | | | |
| Std error of regression | 0.019 | | | |
| F- stat | 21.706 | | | |
| Prob (F-stat) | 0.000 | | | |

**Source: Author's Computation, 2021**

The results obtained from the static model indicates that the overall coefficient of determination R-squared ($R^2$) shows that the equation has a good fit with 72 percent of variations in internally generated revenue capacity of state internal revenue service in North Central Nigeria is explain by the variables in the equation.

In terms of the sign of the coefficient that signify the influence of tax reform on internally generated revenue capacity of state internal revenue service in North Central Nigeria, it shows that the four variables such as Tax knowledge (TK), Tax Law Reform (TLR), Information &

Communication Technology (ICT) and Administrative Strategies on Tax Reform (AS) concur with *a priori* expectation with positive sign and, this implies that there is direct relationship between Tax knowledge (TK), Tax law reform (TLR), Information & Communication Technology (ICT) and Administrative Strategies on Tax Reform (AS) and Revenue generation capacity (RGC).

The hypothesis of the study was achieved with the sign and magnitude of the coefficient that signifies the influence of tax reform and internally generated revenue capacity of state internal revenue service in North Central Nigeria.

The first hypothesis of the study was achieved with the sign and magnitude of Tax knowledge (TK) which has positive significant effect on internally generated revenue capacity of state internal revenue service in North Central Nigeria, as indicated by coefficient (0.312) with P-value (0.000) less than 0.05 significance level. The null hypothesis was rejected; this implies that tax knowledge contribute 31.2% improvement in internally generated revenue capacity of state internal revenue service in North Central Nigeria.

The second hypothesis of the study was achieved with the sign and magnitude of Tax law reform (TLR) which also has positive significant effect on internally generated revenue capacity of state internal revenue service in North Central Nigeria, as indicated by coefficient (0.394) with P-value (0.002) less than 0.05 significance level. The null hypothesis was also rejected; this implies that application of tax law reform bring about 39.4% influences on internally generated revenue capacity of state internal revenue service in North Central Nigeria.

The third hypothesis of the study was achieved with the sign and magnitude of information & communication technology (ICT) which also has positive significant effect on internally generated revenue capacity of state internal revenue service in North Central Nigeria, as indicated by coefficient (0.439) with P-value (0.012) less than 0.05 significance level. The null hypothesis was also rejected; this implies that introduction of ICT to tax lead to about 43.9% influences on internally generated revenue capacity of state internal revenue service in North Central Nigeria.

The hypothesis of the study was achieved with the sign and magnitude of administrative strategies of tax reform (AS) which may not have significant effect on internally generated revenue capacity of state internal revenue service in North Central Nigeria, as indicated by coefficient (0.296) with P-value (0.149) higher than 0.05 significance level. The null hypothesis was accepted; this implies that administrative strategies may not significantly impact on internally generated revenue capacity of state internal revenue service in North Central Nigeria.

Overall, the result of F-stat of (21.706) with prob (F-stat) 0.000 at 5% level of significant. This revealed that overall tax reform has significant influence on internally generated revenue capacity of state internal revenue service in North Central Nigeria.

## 4.4 Discussions of Findings

This study assessed the influence of tax reform on internally generated revenue capacity of state internal revenue service in North Central Nigeria. From the result of the analysis, the findings were as follows;

**Effect of Tax Knowledge on Revenue Generation Capacity**

Tax knowledge has significant influence on internally generated revenue capacity of state internal revenue service in North Central Nigeria. Hence, the null hypothesis was rejected. This is consistence with works of previous researchers like Adam and Webly (2012), Harris (2013), Kasippilai and Jabbar (2013), Ritsema et al (2013), McKerchar and Hansford (2015) and Bautigam et al (2015), as they found positive significant of tax knowledge on revenue generation. The result also supports optimal theory of taxation and Expediency theory of taxation, but against the findings of Harris (2012), Widayanti and Nurlis (2012), Alm et al (2012), Maseko (2013), Cuccia (2013), Bird (2012) and Nyamwanza et al (2014) as they found no significant influence of tax knowledge on revenue generation.

This implies that understanding of the essential tax policy concepts implemented within a state, level of awareness or sensitivity of the taxpayer to tax legislation, understanding of the taxpayer in applying the tax rules particularly on income tax, tax payer and public are aware of the risk of noncompliance, collaborate with banks, churches, institution and other third party sources to collect information on potential tax payers to be used to update and ensure comprehensive tax payers data base, etc. contribute positively to the internally generated revenue capacity of state internal revenue service in North Central Nigeria.

**Effect of Tax Law Reform on Revenue Generation Capacity**

Tax law reform also has significant influence on internally generated revenue capacity of state internal revenue service in North Central Nigeria. Hence, the null hypothesis was also rejected. This is consistence with works of previous researchers like Kusi (1998), Osoro (1995), Muriithi and Moyi (2003), Zeng et al (2013), Omondi et al (2014), Oriakhi and Ahuru (2014) and Ashaolu et al (2015), as they found positive significant of tax law reform on revenue generation. The result also supports optimal theory of taxation and Expediency theory of taxation, but against the findings of Daba and Mishra (2014), as they found no significant influence of tax law reform on revenue generation.

This implies that tax law reform that cuts across the tax administrative machinery, tax policy and tax laws and the driving force towards these reforms, tax law reform that stem from a well thought out program of action and a clear perception of the problems of the pre-reform tax system, tax law reform that diversify the country's revenue portfolio, tax law reform supported by leading policy makers and technocrats, tax law reform that are carefully and systematically implemented and monitored, tax law reform that make some effort to reduce the burden of tax on the poor, tax law reform that recognize the importance of revenue adequacy, contribute positively to the internally generated revenue capacity of state internal revenue service in North Central Nigeria.

**Effect of Information and Communication Technology (ICT) on Revenue Generation Capacity**

Information & communication technology also has significant influence on internally generated revenue capacity of state internal revenue service in North Central Nigeria. Hence, the null hypothesis was also rejected. This is consistence with works of previous researchers like Muita and Mukanga (2010),Berger (2011), Loo et al (2014), Danchev et al (2015), Okiro (2015), Mosomi (2015) and Mongmketse (2015), as they found positive significant of information & communication technology on revenue generation. The result also supports optimal theory of taxation and Expediency theory of taxation, but against the findings of Jaidi (2013) and Brod (2014), as they found no significant influence of information & communication technology on revenue generation.

This implies that Introduction of tax payers identification number (TIN) which enhances smooth payment procedure and reduces the incidence of tax touts, adoption of electronic tax for revenue administration, collection and payment system, adoption of Electronic Revenue Management System (ERMS) to be integrated with the Nigerian Inter Bank Settlement System (NIBSS) as their payment platform etc. contribute positively to the internally generated revenue capacity of state internal revenue service in North Central Nigeria.

**Effect of Administrative Strategies of Tax Reform on Revenue Generation Capacity**

Administrative Strategies of tax reform has no significant influence on internally generated revenue capacity of state internal revenue service in North Central Nigeria. Hence, the null hypothesis was accepted. This is consistence with works of previous researchers like Ndekwe (2013), Bird (2014), Dube (2014), Shamrodi (2016), and Fisher (2016), as they found no significant influence of administrative strategies of tax reform on revenue generation. The result also supports public expenditure theory, but against optimal theory of taxation and expediency theory of taxation, and also against the findings of Djawadi and Fahr (2013) and Rothberg (2014), as they found significant influence of administrative strategies of tax reform on revenue generation.

This implies that taxpayer understanding tax and perception, when myths and misperceptions are replaced by knowledge, misperception about the tax reform, taxpayers perception on their relationship with the state not only as a relationship of coercion but also as one of exchange, etc. contribute less to the internally generated revenue capacity of state internal revenue service in North Central Nigeria.

# CHAPTER FIVE

# SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter is divided into three major parts which are summary of findings, conclusions and recommendations. It is very important to note here that the summary presented here is a review of the findings of the research, while the conclusions represent the inferences made from the summary of the findings and lastly, the recommendations are suggestions emanating from the conclusions the study. The study also includes limitation of study, contribution to knowledge and area of further study.

## 5.1 Summary

The study evaluate the tax reform and internally generated revenue capacity of State Internal Revenue Services in North Central Nigeria. Four specific objectives were developed to proffer answers to the research questions and they include: assessment of the effect of tax knowledge on revenue generating capacity of State Internal Revenue Service in North Central Nigeria; determination of the impact of tax law reform on revenue generating capacity of State Internal Revenue Services in North Central Nigeria; examination of the impact of information and communication technology on revenue generating capacity of State Internal Revenue Service in North Central Nigeria and finally determination of whether the administrative strategies of tax reforms has influence on revenue generating capacity of State Internal Revenue Services in North Central Nigeria.

The study reviews substantial literatures on tax reform and revenue generating capacity across the World. The reviews were divided into three: conceptual review; theoretical review and empirical review. Conceptually, variables in the research questions were clarified while relevant theories with assumption and prediction in context of the relationship between dependent and independent variables were reviewed. The review on previous study focused on tax practice and management with few or no previous research effort in the area of tax reform.

Also in chapter two of this work, theoretical framework for the study were established. In specific term theory of public expenditure, resource based theory, optimal theory of taxation and expediency theory were used as basis of prediction of expected finding.

To achieve the study objective, cross sectional design were employed to obtain primary data from staff of State Internal Revenue Service in the North Central Nigeria while obtained data were analysed through both descriptive (mean, median and mode) and inferential statistics (OLS).

Through the employed research method, the study revealed that tax knowledge, tax law reform, information and communication technology have significant influence on internally generated revenue capacity of state internal revenue service and thus contribute positively to the internally generated revenue capacity of state internal revenue service in North Central Nigeria. However, administrative strategies on tax reform may not significantly have influence on internally generated revenue capacity of state internal revenue service.

## 5.2 Conclusion

Based on finding of the study, the following conclusion were identified:

i. Tax knowledge contribute positively to internally generated revenue capacity of state internal revenue service in North Central Nigeria;
ii. Tax law contributes positively to internally generated revenue capacity of state internal revenue service in North Central Nigeria;
iii. Information and communication technology contribute positively to internally generated revenue capacity of state internal revenue service in North Central Nigeria;

## 5.3 Recommendations

Base on the findings and conclusion above, this study recommends the following:

i. State Internal revenue Service in North Central Nigeria should improve more on the tax payers knowledge such as ensuring understanding of the essential tax policy concepts implemented within a state, level of awareness or sensitivity of the taxpayer to tax legislation, understanding of the taxpayer in applying the tax rules particularly on income tax, tax payer and public should be aware of the risk of non-compliance, collaborate with banks, institution and other third party sources to collect information on potential tax payers to be used to update and ensure comprehensive tax payers data base .

ii. State Internal Revenue Service in North Central Nigeria should ensure that tax law reform should: stem from a well thought out programme of action and a clear perception of the problems of the pre-reform tax system, to diversify the country's revenue portfolio, supported by leading policy makers and technocrats, carefully and systematically implemented and monitored, make some effort to reduce the burden of tax on the poor, recognize the importance of revenue adequacy, tax administrative machinery, tax policy and tax laws and the driving force towards these reforms,.

iii. State Internal Revenue Service in North Central Nigeria should improve more on the application of information and communication technology (ICT) such as: Tax Identification Number (TIN), electronic tax for collection and payment system, Electronic Revenue Management System (ERMS) to be integrated with the Nigerian Inter Bank Settlement System (NIBSS).

## 5.4 Contribution to Knowledge

This study contributes significantly to knowledge in several ways. Firstly this study significantly differs from previous works by aggregating tax reforms and its effect on revenue generating capacity, thereby contributing significantly to literature by emphasizing on aggregate tax reforms rather than focusing on one element of tax reform at a time. This study therefore enriched the existing literature by bringing into the conventional discourse and testing the hypotheses concerning the relationship between aggregate tax reform and the revenue generation capacity among State Internal Revenue Services in North Central Nigeria.

Secondly, to the extent of literature reviewed, the researcher found out that previous studies focused on Nigeria or a State without putting much emphasis on geopolitical zone of Nigeria. This study therefore contributed to the existing body of knowledge by evaluating the effects of the aggregate tax reforms on revenue generating capacity of states internally generated revenue in North Central Nigeria.

## 5.5 Limitations of the Study

The study examine the effect of tax reform on revenue generating capacity of State Internal Revenue Service in North Central Nigeria. The following are the limitations of the study: first, the fact that the adoption of most tax reforms such ICT, tax laws, administrative and financial autonomy in State Internal Revenue Service in Nigeria is still at its embryonic stage and that the achievement of regression line requires a wide range of data, the use of samples for the study did not permit taking all the variables the study intends to examine into consideration. However, the sample is a good representative of all the State internal revenue service in Nigeria at the time of the study.

Second, the study adopts only primary data which are directly collected from the staff of State Internal Revenue Service in Nigeria through the administration of questionnaires. Notwithstanding the above listed limitations, the validity of the findings and the reliability of the methodology followed to arrive at the study‘s conclusions are not affected. Users can rely on the findings for their various applications.

## 5.6 Areas for Further Studies

In this study we attempted to examine the effect of tax reform on internally generated revenue capacity of State Internal Revenue Service in North Central Nigeria. The research design, therefore, was specifically focused to address, the specific State Internal Revenue Service in North Central Nigeria. The areas such as e-banking, taxation of e-commerce and digital economy that were not at the center of this study‘s design are good avenues for future research. These are, amongst others; the applicability of the findings in this study to State Internal Revenue Service in North Central geopolitical zone in Nigeria.

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**APPENDICE**

**KWARA STATE UNIVERSITY**

**FACULTY OF HUMANITIES, MANAGEMENT AND SOCIAL SCIENCES**

**DEPARTMENT OF ACCOUNTING AND FINANCE**

**QUESTIONNAIRE**

Department of Accounting and Finance,
Faculty of Humanities, Management and Social Sciences,
Kwara State University,
Malete, Kwara,
Nigeria.

Dear Respondent,

I am a post graduate student of the Kwara State University, Malete conducting a research on the topic '**Tax Reforms and Revenue Generating Capacity of State Internal Revenue Services in North Central Nigeria'** towards the partial fulfilment of the requirements for the award of Master of Science in Accounting.

I therefore solicit your cooperation in providing opinion on the attached questionnaire. Please feel free to give your opinion as all information will be treated in confidence.

Thanks for your anticipated cooperation.

Yours faithfully,

**ALABI, Taofiq Taiwo**
**08023922792**

## SECTION A

**Instruction:** Kindly tick [√] appropriately in the space provided to indicate your response.

1. Name of State: Kwara [ ] Niger [ ] Kogi [ ] Nasarawa [ ]
   Plateau [ ] Benue [ ]

2. Department: Administration & Operations [ ] Accounts & Finance [ ]
   Internal audit [ ] Income Tax [ ] Others [ ]

3. Gender: Male [ ] Female [ ]

4. Academic/Professional Qualification: Ph.D [ ] MBA/M.Sc [ ]
   B.Sc/HND [ ] OND/NCE [ ] ACA/ACTI/CNA [ ]

5. Working Experience: 1 - 5 years [ ] 6 - 10 years [ ] above 10 years [ ]

## SECTION B

**Instruction:** Kindly tick [√] the column which indicates your response to each of the items.

SA = Strongly Agree A = Agree RA = Rarely Agree D = Disagree

SD = Strongly Disagree

i. **Tax knowledge**

| S/N | ITEM | SA | A | RA | D | SD |
|---|---|---|---|---|---|---|
| 1 | The taxpayer's knowledge shows the understanding of the taxpayer in applying the tax rules particularly on income tax | | | | | |
| 2 | Tax payer and public are aware of the risk of noncompliance | | | | | |
| 3 | There is Continue and improve upon the current tax payer education programme | | | | | |
| 4 | Organization of workshops with trade groups, civil organizations, etc are in place | | | | | |
| 5 | Collaborate with banks, churches, institution and other third party sources to collect information on potential tax payers to be used to update and ensure comprehensive tax payers data base are put in place | | | | | |
| 6 | High level dialogue and education are in place | | | | | |
| 7 | There is dialogue with business organizations including public institutions to compel their customers and clients to disclose their TINs for business transactions | | | | | |
| 8 | An increase in the number of enlightened tax payers increase tax compliance level. | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| 9 | Those with a higher education level are more likely to have a higher level of moral development and higher-level attitudes toward compliance and thus will tend to comply more | | | | | |
| 10. | an important factor affecting tax knowledge is the level of education | | | | | |

ii. **Tax Law Reform**

| S/N | ITEM | SA | A | RA | D | SD |
|---|---|---|---|---|---|---|
| 11. | The primary objective of tax reform process is to ensure an increase in the revenue base of the government | | | | | |
| 12 | Tax law reforms become necessary in Nigeria is to reduce the dependence on oil revenue by the government and to achieve other fiscal objectives as well as improved service delivery to the taxpayers | | | | | |
| 13 | Tax law reform cuts across the tax administrative machinery, tax policy and tax laws and the driving force towards these reforms | | | | | |
| 14 | Tax reform improved efficiency of tax administration, stimulate the non-oil sector of the economy, reduce effective tax rates and simplify tax regime reduce tax incentives (by eliminating those that are unnecessary), redistribute wealth and entrench a more equitable tax system as well as to develop a tax policy for Nigeria | | | | | |
| 15 | One of the reasons why Nigeria embarked on the reform of her tax system is the need to diversify the country's revenue portfolio. | | | | | |
| 16 | A successful tax reform process should stem from a well thought out program of action and a clear perception of the problems of the pre-reform tax system | | | | | |
| 17 | A successful tax reform process should be supported by leading policy makers and technocrats | | | | | |
| 18 | A successful tax reform process should be carefully and systematically implemented and monitored | | | | | |
| 19 | A successful tax reform process should make some effort to reduce the burden of tax on the poor | | | | | |
| 20 | A successful tax reform process should recognize the importance of revenue adequacy | | | | | |

iii. **Information and Communication Technology**

| S/N | ITEM | SA | A | RA | D | SD |
|---|---|---|---|---|---|---|
| 21 | Introduction of TIN (Tax Payers Identification Number) enhances smooth payment procedure and reduces the incidence of tax touts | | | | | |
| 22 | E-tax adoption for revenue administration, collection and payment management thereby bringing accountability. | | | | | |
| 23 | The implementation of e-payment is paramount in ensuring optimal revenue collection | | | | | |
| 24 | States internal revenue service in Nigeria has adopted an Electronic Revenue Management System (ERMS) to be integrated with the Nigerian Inter Bank Settlement System (NIBSS) as their payment platform | | | | | |
| 25 | Automate collection systems eradicate cash/cheque payments made by and to MDAs. | | | | | |
| 26 | Taxpayers can pay their bills without having to actually move to the bank's premises | | | | | |

iv **Administrative Strategies**

| S/N | ITEM | SA | A | RA | D | SD |
|---|---|---|---|---|---|---|
| 27 | Staff capacity building has a significant impact on revenue yield | | | | | |
| 28 | Simplification and reduction in tax form has increase tax compliance | | | | | |
| 29 | Strengthening the tax administration information systems operation will have impact on internally generated revenue | | | | | |
| 30 | Minimization of human and physical interference between staff and taxpayer has effect on tax compliance and revenue yield | | | | | |
| 31 | A special focus needs to be placed on tax authorities for they are the ones who maintain direct contact with tax payers, offer services, implement controls and impose punishments argued | | | | | |
| 32 | A good tax system is expected to provide appropriate incentives to protect the environment. | | | | | |

v **Revenue Generation Capacity**

| S/N | ITEM | SA | A | RA | D | SD |
|---|---|---|---|---|---|---|
| 33 | There are wideness of the revenue sources in your state | | | | | |
| 34 | The tax internal revenue department is the main income generating organ for the state | | | | | |
| 35 | There are tactical plans required by state revenue service to get grip of harnessing resources to enable more collections | | | | | |
| 36 | The internal revenue service faced with the herculean task of collecting taxes in various forms from the public | | | | | |
| 37 | An improved revenue base is tantamount to the attainment of improved infrastructure | | | | | |
| 38 | There are significant improvement in the revenue generating capacity in your state as a result of tax system reform | | | | | |
| 39 | There is an improvement in the revenue generating capacity level in your state as a result of introduction electronic tax system | | | | | |
| 40 | There are improvement in the revenue generating capacity level in your state as a result of reform of the tax administration system. | | | | | |