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Performance-Governance Tax Administration Reform Model as an Instrument for Tax Revenue Generation in Nigeria

Abdurrahman Adamu Pantamee
Ph.D. Candidate, Tunku Puteri Intan Safinaz School of Accountancy, Universiti Utara Malaysia, Sintok, Malaysia
Assistant Lecturer, Department of Accounting and Business Administration, Federal University Kashere, Gombe, Nigeria
Muzainah Binti Mansor
Associate Professor, Tunku Puteri Intan Safinaz School of Accountancy, Universiti Utara Malaysia, Sintok, Malaysia
Zaleha Othman
Senior Lecturer, Othman Yeop Abdullah, Graduate School of Business, Universiti Utara Malaysia, Sintok, Malaysia

Abstract:
The paper aims to developed tax administration reform model for revenue generation in Nigeria. To achieve this, literatures on the previous tax administration models and principles were reviewed and analysed. It can be concluded that an excellent tax policy in every economy is worthless if it cannot be effectively and efficiently implemented. One method of improving tax administration undertaking on revenue generation is to introduce a good model of how it is supposed to be and then compare the actual tax administration operations in the economy to examine how it deviates from the model. Along this, the paper developed a model called "Performance-Governance tax administration model" which aim to enhance tax administration efficiency and effectiveness in Nigeria.

Keywords: *Administration, inputs, outcomes, outputs, revenue, and transformation*

1. Introduction

Nigerian tax system had experienced several tax system reforms like other developing countries in the world, for instance between 1970 to 2013 Company Income Tax (CIT) was subjected to reform 16 times, Custom and Exercise Duties (CED) 28 times, Personal Income Tax (PIT) 19 times, Petroleum Profit Tax (PPT) 21 times, Educational Tax (EDT) 5 times, and Value Added Tax (VAT) 7 times. On the other hand, despite the previous tax system reforms embarked by Nigerian government, the country's tax system remains in a lopsided situation. This is because all the previous tax reforms were on the tax system. According to Aminu and Eluwa (2014) a good tax system cannot produce excellent result without proper implementation. Proper implementation of tax system relied on tax administrators (Gill, 2000).

Furthermore, researchers and tax experts like Afuberoh and Okoye (2014); Alli (2009); and Odusola (2006) express significant effects of the previous tax reforms and recommend Nigerian government to restructure and reform its existing tax administration especially with the recent international oil market volatility, there is need for the country to diversify source of its revenue in order to avoid over reliance in the oil sector. The significance of the present study is that for Nigeria to generate adequate revenue from non-oil tax sources, the method of collecting non-oil tax revenue and administration system need to be transform as recommended by Alli (2009). The study of Alli (2009) further states that one way of increasing government revenue generation is through tax administration reform since previous structural tax system reform failed to succeed. Bird, Martinez-Vazquez and Alm (2003) stresses that tax administration reform will manage tax avoidance and evasion for feasible improvement in revenue generation and in turn increase government expenditure on national projects. On this note, the central objective of this study is to developed tax administration model from performance and governance theories, hoping to solve the problems of tax administration and revenue generation in Nigeria.

2. Literature Review

Literature provides several models aimed to improved tax administration effectiveness, efficiency, and revenue generation. Among these includes system-based model. System-based model has been widely used in the context of tax administration; the model requires the use of econometrics program logic (Australian National Audit Office [ANAO], 1998). According this model, to ensure administrative objectives in been achieve the following questions should be taking into co consideration: (1) what type of resources will be used by tax administration? (2) What strategy can achieve tax administration tasks? (3) How tax administration result be evaluated at individual, unit and organizational level? (4) What benefits does the action of tax administration undertaking have to the general public?

However, the limitation of the system-based model is that it has not been break down issues in details as a result, Organization of Economic Cooperation and Development (OECD) in 1999 expanded the system based-model through logic model, according to OECD (1999) the thought of checking taxpayers' compliance is directly significant to the terminology of 'outputs and outcomes' and 'efficiency and effectiveness' when utilized in the context of evaluating tax administration. The extended model failed also to break down issues into more specific that will systematically identify accurate functions of tax administration thus a more details and comprehensive model called congruence model is considered more appropriate in tax administration functions.

The congruence model for diagnosing revenue administration, the model detailed out the description of a systematic procedure that can be adopted in order to get to the remote cause for revenue administration inefficiencies. The model takes inputs, which then passes through series transformational processes that will convert the input to an output. Consequently, Gill's (2000 and 2003) congruence model can be concluded as quite interesting and comprehensive that offered to diagnose causes or revenue administration weaknesses and strengthens tax administration reform but however, there are few areas need further research. To be specific, there is a need for more details model that will incorporate taxpayers' inputs and outcome that will increase taxpayers voluntarily compliance, and finally, the outcomes from the perspective of administration need to be incorporated. To address this, the present study utilizes two theories namely performance indicators theory and governance theory.

2.1. Performance Indicators Theory

Performance assessment in public sector was developed in the 1980s under the Thatcher Administration, which changed the administration style of government. Schacter (1999) said that performance assessment in the public sector is very difficult to determine unlike in the private sector where profit determine the performance assessment. The study further recommended that public sector measures comprise of inputs, outputs, efficiency, and outcome measures.

Several studies like James, Svetalekth and Wright (2007); Globadian and Ashworth (1994); as well as Gallagher (2005) have criticized performance indicator in the public sector. It is seen as more difficult than the private sector. Gallagher (2005) and Globadian and Ashworth (1994) further state that measurement in public sector was very complicated because, technical challenges, variety of tasks, and attitude. Several studies argue on the performance indicators of tax administration, for instance Frampton (1993) considered performance indicator of tax administration to be efficient to resource utilization approach, ability to pay approach, ability to collect approach, and comparison with average performance. Moreover, the study of Gill (2000 & 2003) as well as OECD (2001) stated that a successful tax administration should be assess from the three requirements of equity, efficiency, and effectiveness. James, Svetalekth and Wright (2007) state that the indices that performance measure in tax administration in the Sub-Sahara African countries are minimizing compliance cost, maximization of tax revenue collection, and taxpayer satisfaction as measured by surveys. Nevertheless, other precise objectives are to promote staff development, enhance efficiency, enhance taxpayer services and encourage innovation, reduce levels of tax avoidance and tax evasion therefore to achieve the objective of the present study performance indicators theory will be use to guide the development of model. More so, governance theory will be utilized to support the former theory in bringing the model into existence.

2.2. Governance Theory

Rakner and Gloppen (2003) see governance as the process of making decision and the process by which decisions are executed. For tax administration to achieve efficiency and effectiveness, or implement decision in an appropriate manner, good governance may play a vital role. The study of Stoker (1998) states that tax administration is considered as a formal government structures by which decisions are arrived at and implemented, therefore in the absence of good governance mechanism, tax administration decisions making may leads to corrupt practices.

There are eight major characteristics of a good governance, these are consensus oriented, participatory, transparent, accountable, equitable and inclusive, responsible, effective and efficient, and follow the rule of law (Aguilera Cuervo-Cazurra, 2004 & Stoker, 1998). In the present study, only five (namely Accountability, transparency, equity, rule of law as well as efficiency and effectiveness) out of the eight characteristics of good governance will be used. It believes that corruption will be minimized if these qualities are observed by tax administration.

Accountability as a mechanism of good governance implies that government establishment and private sectors must be accountable to their institutional partners (Fjeldstad, 2006 & Shah, 2006). However, the question of who is accountable to whom varies from one organization to another, depending upon whether actions or decisions made are external or internal to administration. According to Shah (2006) tax administration is accountable to government and taxpayers that will be influenced by its actions or decisions taken. However, it is important to note that accountability cannot be achieved without transparency.

Rule of law implies that enforcement and decisions taken are done in a manner that follows organization's rules and regulations (Therkildsen, 2004). Transparency implies that information is freely accessible and specifically available to the individuals who will be influenced by such decisions and their authorization (Prasopoulou, 2011 & Sabates & Schneider, 2003). Therefore, tax administration is expected to provide enough information to government and taxpayers in effectively understandable structures. Moreover, tax administration cannot observe rule of law and achieve transparency unless there is fair treatment of taxpayers in other word equity.

Equity in good governance states that general public's prosperity relies on upon ensuring that every one of its members feel that they have a stake in it and don't feel cheated from the standard of society or administration (Aguilera Cuervo-Cazurra, 2004).

From the above discussion, it ought to be clear that good governance is an ideal, which is hard to accomplish in its totality. Very few tax administration in the world have come close to achieving good governance in its totality (Mba, 2012). Notwithstanding, to ensure tax administration generates adequate revenue, good governance characteristics must be fully observed in tax administration.

3. Method and Model Development

The Performance-Governance Tax Administration model based on the methodology of critical review of literature has both the components of system based model, extended sequence of program logic model, and congruence model form part of the basis to develop tax administration model for revenue generation for this study as presented in figure 1.

The Performance-Governance Tax Administration model believe that in order to understand tax administration efficiency and effectiveness, we most to first of all appreciate tax administration as a system that involves some basic components as: (1) The inputs from the perspectives of taxpayers and tax administration. (2) The strategy that tax administration adopts to define its vision about community results i.e. when, how, and who to complete the vision. (3) The significant transformation process within which formal, informal, people, and task that combines input resources into outputs. (4) The output, i.e. the individual, unit, and system results toward achieving the strategic objectives and, (5) The outcome from the perspectives of tax admin including accountability, transparency, as well as equity and from the view of taxpayers including social, economic and political benefits

4. Discussion

The important aspect of Performance-Governance Tax Administration model is how the interface and communication of these components brings for increase in tax revenue generation. In this note, it is significant to understand the role of each component and its nature in the tax administration. An input is the first stage for Performance-Governance Tax Administration model it concerns with taxpayer and tax administration. For taxpayers to comply voluntarily to tax system there are three basic things required namely environment, resources, and history. In the first step, Government should as much as possible provide safety environment to taxpayers. The study of Gordon and Li (2009) state that extent to which government provide it citizens with the basic amenities determine the level of taxpayers' compliance.

Secondly, taxpayers pay tax from the available resources at their hand; as a result, government, should be able to provide employment to it citizens, although government alone cannot have the capacity to employ all and sundries. That brings about the integration between environment and resources, where government provide enabling environment foreign investment may come into the economy thereby reducing the unemployed personals. Furthermore, the final input of taxpayers is history, which is the extent to which taxpayers are aware about previous government effort in providing them with the basic amenities, government effort in changing the pattern of it environment and taxpayer's life may determine the extent of tax payment.

In the other hand, for tax administration to function effectively there are three inputs that serve as a determinant for revenue administration. First, is the immediate environment of its operations. Range of external stakeholders, conditions and forces persistently impinging on the administration of revenue (Gill, 2000). The second major input in respect to tax administration constituted of resources, which are intangible and tangible. The tangible resources include employees, yearly grant budget, etc. While on the other hand, the intangible resources include skills, honesty, integrity, legal rights given to revenue administrators for administering tax laws and policies as well as morale and commitment of the tax administrators. The final major input of the revenue administration is history, which is to be analyse as (i) impact of past efficiency and effectiveness on future or current operation (ii) method(s) followed in solving past crisis (iii) core norms and value evaluation of the organization and (iv) employees experience with respect to previous reform effects if any (Gill, 2000 & 2003).

The result of inputs stage gave birth to the second stage of Performance-Governance Tax Administration model called transformation process. This is an interaction of informal setting or culture of the organization, formal organizational setting, task, and the individuals involved. The informal settings are traditional culture generally unwritten and implicit but to a great extent significantly affect employees' efficiency and effectiveness within the organization (Gill, 2000). The task consisting of operational task and managerial task guiding the implementation of tax rules and regulations (Gill, 2003). Finally, transformation processes involve individuals that posses required skills, experience, training, commitment and moral to perform revenue administration tasks.

The end of the transformation process begins the third stage of the Performance-Governance Tax Administration Model that is outputs at the system, unit, and individual level. The activities of the outputs at the system, unit, and individual explain the result achieved which lead us to the final stage of the Performance-Governance Tax Administration model and is called outcomes.

Outcomes can be seen differently from tax administration and taxpayer's perspective. From the perspective of tax administration, it is believed that for tax system to generate adequate revenue, the tax administrators most be able to accountable it undertakings to the general public, public accountability can be achieved only if the tax administration is transparent and ensure equity to everyone. Therefore, a good tax administration most develops strategies for achieving accountability, transparency, and equity.

In the other hand, a good tax administration system must be able to provide social, economics, and political benefits to taxpayers (Bird, Martinez-Vazquez & Alm, 2003). This is because the first outcome that taxpayers expect from tax payment are social benefits among which include the provision of infrastructural amenities like road, electricity, water, education etc. Secondly, for the fact that taxation is used to solve economic problems affecting a particular country (Gill, 2003). Therefore, a good tax administration should be able to ensure price stability, equality distribution of economic resources and solve the problem of inflation, deflation, unemployment rate, and interest rate. Finally, a good tax administration should be able to maximize tax revenue and minimize cost of administration including political cost of running government (Alli, 2009). In the long run, the Performance-Governance Tax Administration model required continuous feedback from outcome to the inputs, then from inputs to the transformation process, moreover from transformation process to inputs. It also requires direct feedback from outcomes to inputs.

5. Conclusion

The Performance-Governance Tax Administration model developed in this study will enhance tax revenue generation effectiveness and efficiency. The model if adopted by developing countries like Nigerian tax administration will solve problems of tax evasion and avoidance and all other problems affecting tax administration thereby increasing government revenue and in turn its public expenditure.

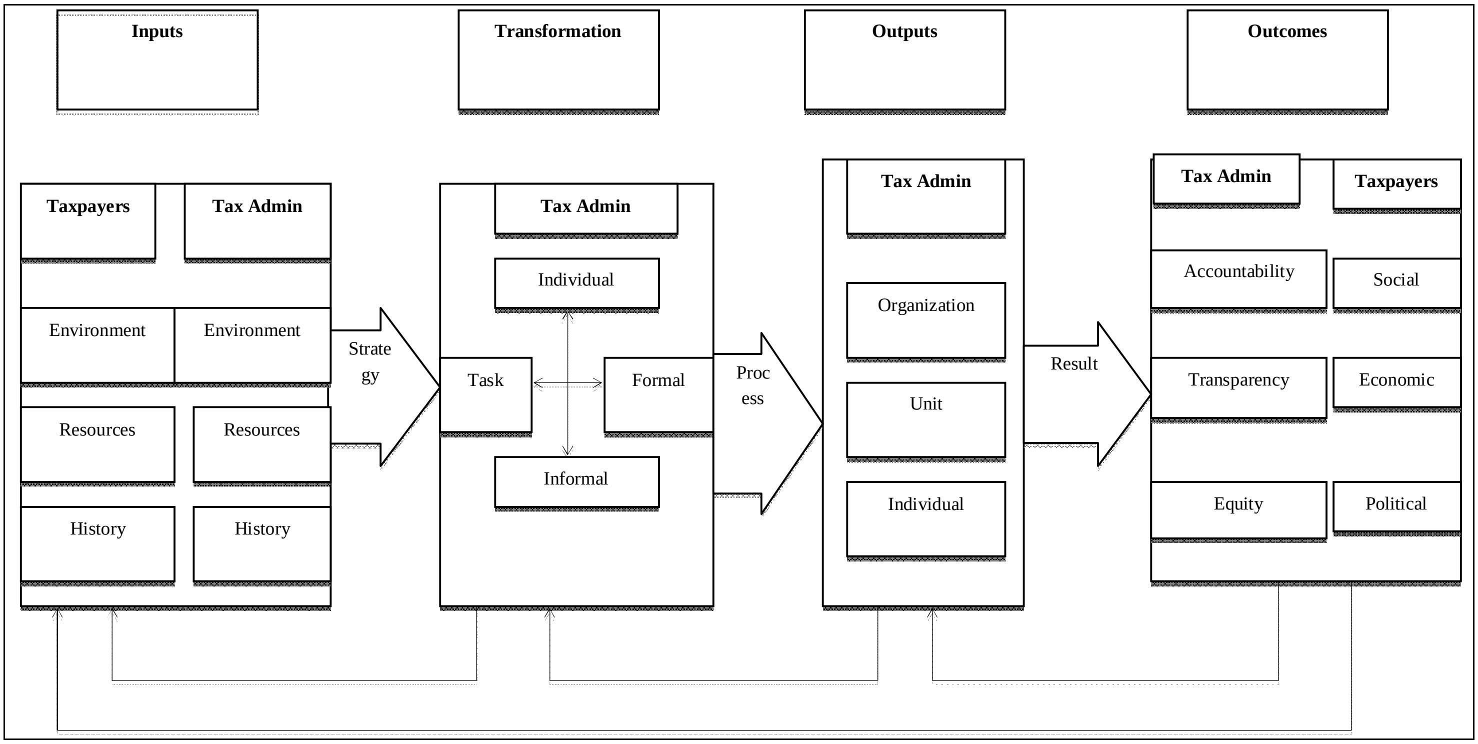

Figure 1: Performance-Governance Tax Administration Model
Source: Author

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