

## Effect of Tax Audit and Tax Amnesty on Tax Yield in Southwest, Nigeria

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### Abstract

The study aimed at investigating the effect of tax audit and tax amnesty on tax yield in southwest Nigeria. Tax audit and tax amnesty are part of the tax administration programmes which serves as government's instrument for determining and monitoring tax collection. Residents have a natural urge to reduce their tax obligations by intentionally overstating their expenses and producing fraudulent entries and falsehoods in their accounting records. Without a doubt, this shows a lot about Nigeria's tax administration. The study was carried out in southwest Nigeria which comprises of Ekiti, Ondo, Osun, Oyo, Ogun and Lagos States. Survey research method was used for the study and 302 staff of the audit and risk departments from the State Board of Internal Revenue (SBIR) and Federal Inland Revenue Service (FIRS) formed the population of the study. Taro Yamane sampling technique was adopted to get the sampling size of 172 respondents. The researcher created a closed-ended questionnaire called Tax Administration and Tax Yield (TATY) to gather relevant data for the study. The study found that tax audit has significantly positive link with tax yield while tax amnesty has a negative and substantial correlational influence on tax yield significant relationship with tax yield. It was recommended that tax audits should be undertaken on a regular basis and tax amnesty should be fairly play down because it may reduce future tax revenue.

Key words: Tax Audit, Tax Amnesty, Tax Yield, tax administration, tax obligations

### 1.0 Introduction

World over, it is the responsibility of the government to harness all the available resources and judiciously use them for the benefit of the citizens. The available revenue sources underscore the extent to which the government improves the living standard of the populace and engender increase in the growth and development of the nation. Revenue generation is central to every government of any country in that it determines its functionality. Thus, the government, through the appropriate agencies, comes up with modalities through which the expected yearly revenues are generated and properly managed to achieve the overall objective of the agenda of the government. In Nigeria, one of the prominent means with which the government generates money is through tax yield.

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

The payment of tax has no direct benefits for individuals since the idea behind taxation is to pull resources together from the private sector to the public revenue pool with a singular aim of achieving the stated

objectives of the government. Some of these objectives are but are not limited to stability of the general price level, equitable income redistribution, a favourable balance of payments position, higher employment level, increased gross national product, free-market economy and promotion of infant industries. Hence, the willingness of people and organizations to pay tax as and when due should not generate any concern. Despite the laudable objective of tax, it is observed that the compliance level of taxpayers is low in Nigeria and this has affected the infrastructural development of the nation.

Tax compliance is a problem that faces every tax system. When compared to the scale of corruption that exists in Nigeria, the Nigerian scenario appeared to be exceptional. Despite tax regulations designed to close loopholes that allow taxable persons to reduce their tax liability, self-employed people use a variety of avoidance strategies to reduce or avoid tax liability, leaving one to wonder whether tax authorities still exist. People naturally desire to lower their tax responsibilities by purposefully overstating their expenses and making fraudulent entries and falsehoods in their accounting books. This, without a doubt, reveals a great deal about Nigeria's tax administration system, both in terms of its architecture and the attitudes of some consumers regarding taxation.

Tax administration is the activity that is focused on the enforcement and execution of tax rules, policies and regulations (Animasaun, 2016). Some of these activities include the processing of tax returns, assessment of tax obligations, tax collection and provision of services to taxpayers, identification and registration of taxpayers, evaluation of third-party information, and examination of the totality and accuracy of tax returns (Animasaun, 2016). Ogbonna and Appah (2016) asserted that tax administration consists of machinery put in place to determine, monitor and enforce the collection of taxes by the government of a country. Some of the machinery include; tax audit, and tax amnesty.

Tax audits are examinations of a taxpayer's company data and financial authorities to guarantee that the percentage of tax disclosed is paid in conformance with tax laws and regulations; tax amnesty programs provide non-compliant tax paying citizens with a window of opportunity to pay an outstanding tax debt in exchange for redemption of a liability relating to a prior period without fear of enforcement or litigation returns. (Adesina & Uyioghosa, 2016; Bassey & Oluwafemi, 2017; Dada & Taiwo, 2020). Bassey and Oluwafemi (2019) noted an effective and efficient tax administration with respect to tax audit, and tax amnesty will engender increase in tax yield and therefore afforded the government adequate revenue to defray expenditures.

The problem of this study is the way many parts of Nigeria, citizens are averse to paying any kind of tax or rate since the government has been unfair in providing the facilities for which the tax is largely collected. Also, the machinery and procedures for implementing a good tax system in Nigeria are seems not to be adequate. And tax administration in Nigeria appeared not to be effective and efficient at all. Despite the several studies that have been carried out on how tax yield/revenue could be influenced by tax administration in Nigeria. The available studies in Nigeria show that only a few studies captured tax administration with tax audit, and tax amnesty. Tax audit officers are responsible to ensure that the reported amount is correct and that the amount of tax paid corresponds with tax laws and regulations. Studies like Adediran, Alade, and Oshode (2013), Onoja and Iwarere (2015), Olaoye and Ekundayo (2018), Nwaiwu and Okoro (2018), Wuyah, Aku and Ahmad (2018) and Nwaiwu and Macgregor (2018) reported that tax audit has significant effects on revenue generation. Tax amnesty eliminates the fines or sanctions that would otherwise be imposed on tax late payments (Agumas, 2016). According to Richard (2018), tax pardons have been used by numerous developed and developing nations, including the United States, Italy, and Argentina, and have had the desired effects. The concern is that despite different measures of compelling taxpayers to pay tax as examined by the previous studies, the level of tax payment seems to be low and based on the previous findings, it was evidenced that there are different reactions to the influence of tax administration on tax revenue. This is the reasons why this current study was undertaken, to assess the effect of tax administration in terms of tax audit and tax amnesty on tax yield in Nigeria.

## **1.1 Objectives of the Study**

The primary objective of this study is to assess tax administration and tax yield in Nigeria. Specifically, this study examined:

- i. assess the correlational effect of tax audit on tax yield in Southwest, Nigeria;
- ii. evaluate the correlational effect of tax amnesty on tax yield in Southwest, Nigeria;

## **1.2 Research Questions**

The following research questions are raised to guide this study:

- i. What is the correlational effect of tax audit on tax yield in Southwest, Nigeria?
- ii. What is the correlational effect of tax amnesty on tax yield in Southwest, Nigeria?

## **1.3 Research Hypotheses**

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

H<sub>0</sub>1: There is no significant correlational effect of tax audit on tax yield in Southwest, Nigeria

H<sub>0</sub>2: There is no significant correlational effect of tax amnesty on tax yield in Southwest, Nigeria

## **2.0 Literature Review**

In Jakarta, Indonesia, Waluyo (2017) investigated the influence of tax amnesty and the tax management system (e-billing and e-filing systems) on compliance behaviour. Tax amnesty, e-billing system, and e-filing system are all independent factors in this study. The compliance of taxpayers is the dependent variable. The study employs a quantitative technique to conduct a causal investigation (causal study). Multiple regression analysis was utilized to analyze the data in this study. The findings of this study show that tax amnesty has no impact on tax compliance in Jakarta, that e-billing has a favorable impact on tax compliance, and that e-filing has a good impact on tax compliance.

Bright, Joseph, Kadane, and Nagin (2018) investigated whether statistical sampling for tax audits provides a sufficient foundation for estimating the taxpayers' outstanding responsibility rather than analyzing all transactions to identify the precise amount of tax owing in the United States of America (USA). The research used a content analysis model. The findings indicated that audit evaluations based on properly generated and processed statistical samples do not suffer from the flaws that courts have rightly determined plague non-statistical sample assessments.

Rhoades (2019) also conducted research in the United States on the influence of multi-component reporting on tax compliance and audit techniques. The data was analyzed using descriptive statistical techniques in this study. The study's findings revealed that the impact of multicomponent disclosure rules on individual taxpayers is highly dependent on their evading opportunity set. According to the study, in the multi-component model, taxpayers with numerous evasion chances made misstatements across income components to reduce both the direct and indirect impacts of detection, whereas those with fewer evasion possibilities pursued them less aggressively.

Adediran, Alade, and Oshode (2015) also investigated the impact of tax audits and surveys on revenue generation in Nigeria, collecting data from respondents via structured questionnaires, testing hypotheses with Pearson Correlation Coefficient using SPSS output data, and concluding that tax audits and investigations can increase the government's revenue base while also stamping out tax evasion. The procedures employed in this investigation were different from those used in James, Abioala, and Mose (2015).

Onoja and Iwarere (2015) investigated the impact of tax audit on revenue creation in the Federal Inland Revenue Service, as well as the link between tax audit and increasing revenue in the Federal Inland Revenue Service. Analysis of Variance was used to examine the hypotheses (ANOVA). Tax audit has substantial effects on revenue creation in the Federal Inland Revenue Service, and tax audit has a favorable association with income generation in the Federal Inland Revenue Service, according to the findings.

In Ekiti State, Nigeria, Olaoye and Ekundayo (2018) investigated the impact of tax audit on tax compliance. The estimate approach used was Multinomial Logistic Regression analysis. The results showed that the multinomial logistic regression model matching parameters was significant, implying that the tax audit can have an impact on tax compliance. Moreover, multinomial regression likelihood ratio tests revealed that tax correctness and present returns had no significant impact on tax compliance, that tax law has an impact on tax compliance, and that tax process had no impact on tax compliance throughout the research period. According to the findings, tax audits have yet to have a significant impact on tax compliance. Both of the studies are on Nigerian taxes. Both, however, focused on distinct aspects of Nigerian taxes.

The moderating impact of government regulation on tax audit and government tax revenue collection is experimentally established by Nwaiwu and Okoro (2018). With the help of SPSS version 22, the data was examined using descriptive analysis, Pearson product moment of coefficient of correlation, ordinary least square regression analysis, and partial correlation. The findings indicated that in Nigeria, government regulation has a considerable moderating influence on tax audit and government tax revenue production.

Wuyah, Aku, and Ahmad (2018) investigate the influence of tax audits and investigations on the generation of value added tax in Kaduna. The data gathered through the use of a questionnaire was analyzed using percentages, graphs, and the Pearson Correlation Coefficient (SPSS). Tax audits and investigations have the ability to improve value added and minimize VAT avoidance, according to the findings. Regardless of the different methods of research used, both studies clearly indicated that tax audit had a substantial impact on revenue production at both the state and federal levels.

### 3.0 Methodology

In this study, a survey research design was employed. All 302 audit and risk management department workers from the State Board of Internal Revenue (SBIR) and the Federal Inland Revenue Service (FIRS) in the states of Ekiti, Osun, Ondo, Ogun, Lagos, and Oyo participated in the survey. The Taro Yamane technique from 1967 was used to choose a sample size of 172 respondents. A close ended questionnaire designed by the researchers tagged Tax Administration and Tax Yield (TATY) was used to collect relevant data for this study. The validity methods used were face and content validity. The reliability of the instrument was determined through Cronbach Alpha. In doing this, a pilot study was conducted at the Ekiti State Board of Internal Revenue Service where 15 questionnaires were administered on procurement officers. The data collected were subjected to statistical analysis using Cronbach Alpha. The Cronbach Alpha coefficient of 0.772 and 0.881 respectively, which mean the instrument is reliable. Data collected was analyzed using descriptive and inferential statistics. Descriptively, frequency, percentage, and mean were used to analysis research questions. Thereafter, mean and standard deviation will be used to analysis the research questions and all the formulated hypotheses will be tested with Pearson Correlation.

### 4.0 Result of Findings

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

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

S/N	Item	SA	A	U	D	SD	Mean	Remarks
1	The prospect of being subjected to a tax audit necessitates proper reporting.	105 (63.6%)	44 (26.7%)	16 (9.7%)	0(0%)	0(0%)	4.54	Agreed
2	Taxpayers complete proper tax returns due to the threat of a tax audit.	113 (68.5%)	43 (25.5%)	10 (6.1%)	0(0%)	0(0%)	4.62	Agreed
3	Regular tax audits have an impact on tax	66 (40%)	99 (60%)	0(0%)	0(0%)	0(0%)	4.40	Agreed

	compliance.							
4	Tax authorities have established programs that help in the successful completion of tax audits.	142 (86.1%)	23 (13.9%)	0(0%)	0(0%)	0(0%)	4.86	Agreed
	<b>Grand Mean</b>						<b>4.60</b>	<b>Agreed</b>

Mean greater than 3.00 "Agreed" otherwise "Disagreed"

Source: Author's Computation 2021

The effect of tax audit on tax yield presented in the table 1 revealed that (90.3%) of the respondent indicated that there is possibility of been exposed by tax audit and this compels accurate reporting, (94%) revealed that tax payers file adequate tax returns because of fear of tax audit, (100%) of the respondents agreed that regular tax audit influence tax compliance, and 100% of the respondent also showed that tax authorities have standardized program that aid successful tax audit. The result implies that tax audit of the corporate firms has effect on the tax yield. The grand mean values of the respondents in the table is greater than 3.00. This further confirm the level of agreement of the respondents to the effect of tax audit on the tax yield in southwest, Nigeria.

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

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

S/N	Item	SA	A	U	D	SD	Mean	Remarks
1	Tax pardon promotes taxpayers to declare all of their income and assets voluntarily.	96 (58.2%)	61 (37%)	2 (1.2%)	2 (1.2%)	4 (2.4%)	4.47	Agreed
2	Exemption from prosecution for tax evasion requires taxpayers to pay any outstanding tax bills.	10 (6.1%)	21 (12.7%)	22 (13.3%)	75 (45.5%)	37 (22.4%)	2.35	Disagreed
3	Penalty and interest costs are waived to encourage taxpayers to comply with their tax obligations.	43 (26.1%)	22 (13.3%)	3 (1.8%)	57 (34.5%)	40 (24.2%)	2.82	Disagreed
4	Following tax amnesty, the notion of already being in the tax net discourages tax avoidance.	81 (49.1%)	68 (41.2%)	10 (6.1%)	4 (2.4%)	2 (1.2%)	4.35	Agreed
	<b>Grand Mean</b>						<b>3.49</b>	<b>Agreed</b>

Mean greater than 3.00 "Agreed" otherwise "Disagreed"

Source: Author's Computation 2021

The result presented in table 2 showed the responses of the respondents on the effect of tax amnesty on tax yield as (95.2%) revealed that tax pardon encourages tax payer's voluntary declaration of all their income and assets, (90.3%) of the respondents agreed that after tax amnesty, the perception of being already in tax net deters tax evasion. However, (67.9%) of the respondents disagreed that exclusion from prosecution for tax offence causes tax payer to pay their outstanding tax liabilities as well as (58.7%) disagreed that waiver of penalties and interest charges encourage tax payer to comply with tax obligation. The result indicated that tax amnesty affect tax yield. The grand mean value is greater than 3.00 which further justify the claim that tax amnesty affect tax yield as agreed by the respondents.

#### 4.1 Test of Hypotheses

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

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

		Tax_Yield	Tax_Audit
Tax_Yield	Pearson Correlation	1	.792**
	Sig. (2-tailed)		.000
	N	165	165
Tax_Audit	Pearson Correlation	.792**	1
	Sig. (2-tailed)	.000	
	N	165	165

$P < 0.05$  (Significant)

Source: Author's Computation 2021

The result of analysis presented in table 3 revealed that there a high correlation between the independent variable (tax audit) and dependent variable (tax yield) as the correlation coefficient of 0.792 was obtained. The P-value of 0.000 was less than 0.05 level of significance. This make the null hypothesis which state that there is no significant relationship between tax audit and tax yield in Southwest, Nigeria to be rejected. This connote that there is correlation between tax audit and tax yield

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

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

		Tax_Yield	Tax_Amnesty
Tax_Yield	Pearson Correlation	1	-.150**
	Sig. (2-tailed)		.034
	N	165	165
Tax_Amnesty	Pearson Correlation	-.150**	1
	Sig. (2-tailed)	.034	
	N	165	165

$P < 0.05$  (Significant)

Source: Author's Computation 2021

The result presented in table 4 indicates that tax amnesty and tax yield are negatively correlated as the correlation coefficient of -0.150 was obtained and the P-value of 0.034 which is less than 0.05 level of significance. This shows that the null hypothesis which state that there is no significant relationship between tax amnesty and tax yield in Southwest, Nigeria to be rejected.

#### 4.2 Discussion of Finding

An attempt has been made to evaluate tax administration and tax yield in Nigeria. The study revealed that tax audit has a positive and significant correlation with tax yield in Southwest, Nigeria. This could be attributed thorough investigation of whether taxpayers have properly reported their tax liabilities and meet other requirements brings more taxpayers into the tax net, thereby increase the total tax revenue generated. This finding relates to the conclusion of Olaoye and Ekundayo (2018) that the tax audit can influence the tax compliance. Also, the study is similar to that of Wuyah, Aku and Ahmad (2018) who revealed that Tax audit

and investigations have the potential to increase value added and reduce VAT evasion. The finding also support Adediran, Alade, and Oshode (2015) who concluded that Tax audit and investigations could increase the government revenue base and can also stamp out the incidents of tax evasion in the country. Also, the regression result showed that tax amnesty has a negative and significant correlational effect with tax yield in Southwest, Nigeria. This result could be that if a tax amnesty is given to the taxpayer, it will affect the tax revenue the supposed to be generated in a particular state. The study contradicts the findings of Theobald (2018) that tax amnesty program encourages tax payers to comply with the tax administration. The study of contradict Waluyo (2017) who found that tax amnesty does not influence tax compliance in Jakarta, E-billing has a positive effect and significance on tax compliance.

## 5.0 Conclusion and Recommendations

According to the data, tax auditing has a strong correlational influence on tax yield in Nigeria. Tax amnesty, on the other hand, has a negative impact on tax yield. Based on the results, the following suggestions were made: regular tax audits should be performed, particularly on big tax payers and high net worth citizens who frequently engage in tax evasion. Constant tax auditing will aid in the detection of fraudulent, inaccurate, or underreported taxable income. Although conducting tax audits on all taxpayers is not practical, the dread of a frequent tax audit instills the fear of tax defaulters being arrested one day. Furthermore, tax amnesty should be discouraged for the time being since it may lower future tax yield. Tax education is advised to further enlighten individuals on the need of fulfilling tax duties, including in schools.

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