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IMPACT OF TAX PENALTY ON GOVERNMENT REVENUE IN NIGERIA

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ABSTRACT:

The objective of the study is to examine the impact of the tax penalty on government revenue in Nigeria. The study filled the gap by identifying how tax penalties could increase government revenue in the country as a result of inability of other authors to examine the effects of tax penalty on government revenue. The study used multiple-regression model and revealed that there was a positive relationship between tax penalty and government revenue in Nigeria. The variables were integrated and found that the tax penalty had a significant contribution to the government revenue at a 1% level of significance. The study concluded that new economic policy should be formulated, tax should be paid through e-payment and proper accountability should be done by the government agency in Nigeria.

Keywords: Government Revenue, Multi Regression Model and Tax Penalty.

1.0 INTRODUCTION

The nature of revenue generation in Nigeria can be traced to discovering of petroleum in the country. As a result of reduction in exported oil to other countries and decrease in total revenue generated in the country led government to device how country revenue could be improved by focusing on non-oil revenue. The revenue from non-oil was not forth coming and later discovered that tax payers evaded their

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responsibility in tax payment to the government which prompted the government to introduce tax penalty.

The tax penalties are imposed on taxpayers in order to encourage them to obey tax payment which directly increases revenue generated by government (Doran, 2009).

Palil (2010) reported that the essence of tax law is to enforce tax defaulters to comply with the government rule and regulations; and the major activity of taxation is to generate revenue that can be used to improve the welfare of citizens and economic growth through provision of amenities to the members of public. Abiola and Asiweh (2012) confirmed that for social and economic sectors of the economy to be available, the government should find ways of imposing tax penalty.

Sanni (2007) advocated issues on tax penalty in Nigeria and said it is a good tool for improving government revenue as it forces the tax payers to fulfill their obligation to the government. Jakir (2011) stated that tax revenue is majorly derived from the measures put in place by government in order to discourage tax evasion in the country.

Adereti, Sanni and Adesina(2011) stated that petroleum as being the major sources of revenue that government could use to solve economic problem and as at now in Nigeria, the revenue from oil has reduced to lowest level which led to further examination of tax performance especially in the current economic dispensation of recession where taxation has been the essential revenue generation to government. Sanni (2012) said that people failed to honour tax payment as a result of inability by government to enforce tax law in the country. Allingham and Sandmo (1972) said that tax payers would always fulfil their obligation to the government when there is check and balance in tax collection.

In the study of Adereti et al (2011) above, they discussed how government revenue could be increased but failed to examine how tax penalty could influence taxpayers to voluntary render his or her tax payment that would have produced positive multiplier effect on government revenue.

Therefore, the study filled the gap by identifying how tax penalties could increase government revenue in improving economic growth, wealth distribution, poverty reduction and promotion of socio-economic development in Nigeria.

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2.0 LITERATURE REVIEWS

The literature was done through conceptual, theoretical and empirical reviews.

2.1Conceptual Review

Kirchler, Muehlbacher, Kastlunger, and Wahl, I. (2007) argued that tax compliance is the act of rendering a proper record of account to tax authority at an appropriate time and tax penalty is a punishment imposed for violating tax payment.

Government revenue is the total funds generated from various sources in a country especially tax revenue.

2.2Theoretical Review

2.2.1 Economic Deterrence Theory

McKerchar (2002) propounded the theory and stated that taxpayers are expected to fulfil their obligation to the government by rendering tax payment underwise punishment or sanction will be enforced. The variables discussed when propounded the theory are tax penalties, tax rate, tax payer income level and tax system complexity.

2.2.2 Psychology theory

Usman and Anao (2015) propounded the theory and stated that punishment and sanction could not encourage tax payers' compliance but moral attitude and ethics of the tax payers would ensure their compliance. Several authors have argued that moral attitude and ethics were better than economic deterrence theory because of huge amount needed for its execution.

Despite the short coming of deterrence theory, it has been the major theory applied in Nigeria by tax policy makers. As a result of this, the study adopted economic deterrence theory.

The study formulated below hypotheses:

H_o: Penalty Tax has no significant effect on Government Revenue in Nigeria.

H_i: Penalty Tax has significant effect on Government Revenue in Nigeria.

2.3Empirical Review

Macek (2014) discussed the impact of the tax penalty on revenue generation in Organisation for Economic Co-operation and Development (*OECD)* countries and used co-integration analysis. He discovered that there was a positive relationship between tax penalty and tax compliance. The study concluded that countries should reduce corporate and personal income tax.

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Poulson and Kaplan (2008) investigated the impact of tax on revenue generation in the United States of America and used correlation analysis. The study discovered negative relationship between the variables and concluded that heavy tax would harm revenue generation in the states.

Oladipupo and Obazee (2016) carried out a study on influence of tax penalties and tax compliance in Nigeria and used regression model. They discovered that there was a relationship between the variables. Ogbonna and Appah (2012) discussed on tax reforms of revenue generation in Nigeria and used regression model. They discovered that tax had a significantly positive impact on revenue generation in Nigeria. Umoru and Anyiwe (2012) studied on the national tax policy and revenue generation in Nigeria and used correlation analysis. They concluded that there was a positive relationship between the variables.

Sheikh (2014) carried out impact of tax penalties on taxpayers' compliance and used regression model for the analysis. The result showed that tax penalty had a great influence on tax compliance. Ihenyen and Mieseigha (2014) argued on the financial instrument as taxation for economic growth and used correlation analysis. They concluded that there was a positive relationship between corporate income tax and value-added tax. Edame and Okoli (2014) investigated impact of investment taxation on economic growth in Nigeria and used co-integration. They concluded that there was a relationship between taxation and government expenditure. Chude and Chude (2015) explained the impact of taxation on profit of a company in Nigeria and used regression analysis. They discovered that there was a positive relationship between taxation and profitability in Nigeria.

Ayuba (2014) discussed on impact of non-oil tax revenue on economic growth in Nigeria and used co-integration analysis. They discovered that there was a positive relationship between the variables. Adereti et al (2011) carried out a study on value-added tax on economic growth in Nigeria and used co-integration analysis. They found out that there was a positive relationship between value-added tax and gross domestic product.

3.0 RESEARCH METHOD

The study adopted the ex-post facto research design as data for the study as already established data. The study area covered in this study is Nigeria while the study sample size is equivalent to its population as Nigeria is still taken as an entity. The data are secondary and sourced from publications of Central Bank of Nigeria (CBN) Statistical Bulletin and National Bureau of Statistics 2014-2018.

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The study used error correction and multi-regression models to analyse the impact of tax penalty on government revenue.

The correction model was used in line with Tawose (2012) and stated as follows:

Y= f(X1, , -------- Xn) ..…… (1)

Furthermore, the above functional form is presented in a statistics form as in the below.

$Y= \beta 0 + \beta 1\ X1+ \varepsilon_t$…….(2)

Where Y is the dependent variable and Xi such that I = (1,…n) is the explanatory variable.

More specifically;

$GRt=\beta 0+ + \beta 1(TP)1t + \beta t(\varepsilon_t)\ t$ ---------- $\beta nt+ \varepsilon_t t$. ------3

Y = Government Revenue (GR)

X1 = Tax Penalty (TP)

ε_t = Error terms (ε_t)

The Result Interpretation is as follows:

Probability (P-value)

R^2 (Co-efficient of determination)

Durbin Watson

F-Statistics

Decision Rule: Null Hypothesis is accepted if the P-value is greater than statistical level of significance (5%), under wise null hypothesis is rejected and the alternate hypothesis is accepted.

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4.0 RESULTS AND DISCUSSION

4.1 TABLE 1: Tests of Unit Root

	Test of Augmented Dicky Fuller			Test of Phillip Perron		
VARIABLES	LEVEL	FIRST DIFFERENCE	ORDER OF INTEGRATION	LEVEL	FIRST DIFFERENCE	ORDER OF INTEGRATION
TP			$I(1)$			$I(1)$
	-0.15487	-0.162987*		-0.123903	-3.453644****	
GR	5.246689	3.249443*	$I(1)$	3.041412	-4.477767****	$I(1)$
ERROR			$I(0)$			$I(0)$
	-3.908686			-4.752848*		

*, **, and *** stand for significant at 1%, 5% and 10% respectively

Source: Researcher's Computation, 2021

The table showed the unit root test of tax penalty (TP) and was not stationary at a level but it became stationary when differencing at 1% level of significance.

The unit root test was integrated by one.

Co-integration test and Engel and Granger (EG) were for long-run association of variables.

The EG co-integration test is as follows:

$TPt=\beta0+\beta1GRt+et$ (1)

Government Revenue (GR) is the total funds generated from various sources in a country especially tax revenue.

Tax Penalty (TP) is a punishment imposed for violating tax payment.

$et=TPt-\beta0-\beta1GRt$

$et=\delta0+\delta1et-1+vt$

$\Delta et=\delta0+(\delta1-1)et-1+vt$

Or

$\Delta et=\delta0+\alpha et-1+vt$where $\alpha = (\delta1-1)$

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The implication from this is that, the variable has long run association and co-integration in the long run in common.

The Result Interpretation is as follows:

Probability (P-value)

R^2 (Co-efficient of determination)

Durbin Watson

F-Statistics

Decision Rule: Null Hypothesis is accepted if the P-value is > statistical level of significance (5%), under wise null hypothesis is rejected and the alternate hypothesis is accepted.

GR= 3.249443* when differentiated and greater than 5%, therefore null hypothesis was accepted.

4.2 TABLE 2: Post Estimation Tests

	Test Statistics		p-values
Jacque-Bera Test for Normality	0.7789		0.6774
Breusch-Pagan-Godfrey Heteroskedasticity Test:	0.556152		0.6557
Breusch-Godfrey Serial Correlation LM Test:	0.0316		0.9690

Source: Researcher's Computation, 2021

The table above presents the post estimation test results. To test for the normality of the error term in our regression estimation, the Jacque-Bera test for normality is performed. The probability value of the test statistic is 0.7789. This probability value is too high for us to reject the null hypothesis of normality of the error term. The implication of this is that the error is statistically normally distributed with zero mean and a constant variance. This also satisfies the standard OLS assumption.

The conclusion derivable from this section is that our estimated model satisfies the important assumptions of OLS. Hence, the parameters obtained are best, linear unbiased estimates (BLUE)

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4.3 TABLE 3: Long-Run Relationship (Dependent Variable is Government Revenue)

Variable	Coefficient	t Statistic	p Statistic
D(TP)	0.424674***	2.246704	0.0626
ERROR(-1)	-0.780878*	-4.410289	0.0066

Adjusted R squared = 81%

F Statistic = 9.857, Prob(F Statistic) = 0.015

Durbin Watson Stat = 1.454

*, ** and *** imply significance at 1%, 5% and 10% respectively.

Source: Researcher's Computation, 20201

The table presents the long-run of the variable and the coefficient of the variable with exception of co-efficient of the lagged value error term which is significant at the 10% level. The co-efficient of the lagged value of the error term is negative and significant at 1% level. The co-efficient of the lagged value of the error term is also known as the error correction mechanism (ECM).

The long-run coefficient of tax penalty (TP) is positive and significant. However, its impact is stronger on government revenue.

The R-Squared and Adjusted R-Squared are approximately 81%. This strongly suggests that the long variation in the dependent variable (government revenue) is explained by variation in the independent variable.

The F-Statistics is significant at 5% level; implying that all the long-run co-efficient of the estimated regression result is significant.

The Durbin Watson statistics of 1.454 suggests that the model is free from the problem of serial correlation. That is the error terms in estimated regression which is not correlated.

5.0 CONCLUSION AND RECOMMENDATIONS

The findings showed more light on tax penalty and government revenue in Nigeria. It showed that tax penalty had a significant positive effect on government revenue in Nigeria.

It is recommended that new economic policy should be formulated in the country, tax should be paid through e-payment and proper accountability should be done by the government agency in Nigeria.

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