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Does History Matters in Tax Administration Performance?

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Abstract

This study aims to understand the important of history as the required input for a tax administration to achieve greater revenue generation. In achieving this, a case study was conducted on the Federal Inland Revenue Service (FIRS) Nigeria. The study collected data using face-to-face interviews on ten FIRS tax officers and the data was analyzed using thematic analysis. The major finding of the study shows that FIRS performance is affected by its history of insufficient tangibles and intangibles resources among which include knowledge of previous FIRS decisions, web portal, virtual library, monthly circulars and resources center. This study recommends Nigerian government to provide FIRS with basic tangible and intangible resources in order to improve tax administration performance.

Keywords: tax administration, history, achievements, challenges, performance

1. INTRODUCTION

One of the major functions of any government especially in developing countries like Nigeria is the provision of infrastructural services such as electricity, water, hospital, school and roads as well ensuring a rise in per capita income and poverty alleviation (Mansour & Keen, 2009). For these services to be adequately provided, the study of Abata (2014) states the need for government to have enough revenue to finance them. The task of financing these enormous responsibilities is one of the major problems facing the Nigerian government. Based on the limited resources of the government, there is a need for the imposition of tax on all taxable individuals and companies to augment government financial position (Bariyama & Nwokah, 2009).

The body in charge in imposing tax liability to individuals and companies is the tax authority (Okafor, 2012). According to Gill (2003), the history of a tax administration is an important input for an efficient and effective tax authority. History has a major impact on current performance of a tax administration. It also often restricts the degrees of freedom available for future action. As such, a good understanding of at least the recent history of the tax administration is essential. The tax authority requires adequate knowledge of the previous achievements and challenges of the tax administration. History is very important in every tax administration because it gives ideas on how to reconsider the previous decisions that yielded negative results and give room for maintaining and enhancing the previous decisions that yielded positive results.

Despite the importance of history, the tax administrators in Nigeria are lacked of knowledge of history on their previous achievements and challenges, which resulted in low tax revenue collection. Inadequate attention given to the history of tax administration has resulted in the ineffectiveness of several tax system reforms implemented in Nigeria. According to Abiola and Asiweh (2012), Nigerian tax administration is affected by the lack of necessary inputs required to carry out its functions effectively. This is because the tax administrators ignore the

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history of previous achievements and challenges as important inputs for improvement. The study of Abiola and Asiweh (2012) also shows that the tax administration system is affected by inadequate inputs and inexperienced tax personnel. Deficiency of the required inputs resulted in the inability of Nigerian tax administration to attain its targeted objectives, which negatively affects government revenue.

The studies of Ogbonna and Appah (2012) as well as Aminu and Eluwa (2014) stated that serious attention has been highlighted on how the Federal Government of Nigeria has continued to increase the cost of tax administration, yet the sum of tax revenue collected has remained insignificant. This reflected that the tax authority does not learn from history in order to improve its performance. With regards to this, the present study aims to investigate the importance of tax administration history in the forms of previous achievements and challenges as the required inputs for efficient and effective tax administration performance.

2. LITERATURE REVIEW

The study of Ogbonna and Ebimobowei (2012) argue that there is no country or state that can survive without imposition of taxation for the purpose of boosting revenue generation. There are many definitions of the concept of taxation given by various researchers. Ebeke and Ehrhart (2011) defined tax as a compulsory levy imposed by the government through its agents and for which is not bound to offer service and consideration. Adebisi and Gbegi (2013) see taxation as the transfer of resources from the private to the public sector to accomplish some of the nation's economic and social goals. Taxation has been described as a compulsory payment to a government for a common benefit with a known formula to a known and distinct beneficiary (Kiabel & Nwokah, 2009).

Afubero and Emmanuel (2014) further claim that tax is an important source of government revenue to every nation including developing economies like Nigeria. In addition, Adenugba and Ogechi (2013) put forward that such income is collected by tax administration and used to finance public utilities and perform other social responsibilities. Government has always used taxation as an important fiscal tool for economic development and the alleviation of poverty (Mansour & Keen, 2009). It also used to encourage savings and investments, redistribution of income and curb social problems. The tax administration therefore needs to be vibrant to ensure that the objectives of the tax system are achieved. Tax administration is a body or authority in charge with the process of assessing and collecting taxes from individuals and companies. In such a way, that correct amount assessed is collected efficiently and effectively with minimum tax avoidance or tax evasion (Kiabel & Nwokah, 2009).

Gill (2000) argues that for a tax administration to successfully carry out its functions, one of the major inputs namely history is required. History has a significant effect on current tax administration efficiency and effectiveness. History involves the nature of previous tax amnesties that might have created an expectation of such amnesties in the near future, thereby resulting in failures. History in tax administration might involve previous court decisions that have created prohibitions and make it difficult for tax administration to manage tax laws effectively. The behaviors of top management officers of tax administration and political leaders have affected the deterrent effects of tax administration actions to solve the problem of evasion (Gill, 2003). Essential resource commitments should be done to rule out basic alternative strategies for enhancing performance. Tax employees should have knowledge of the previous achievements and challenges recorded by the tax administration. This may include previous crisis and management responses, core norms and the value evaluation of the tax administration. Therefore, the present study explores the importance of history in tax administration by using a case study approach.

3. METHODOLOGY

This study is based on a case study and the data was collected using semi-structured interviews carried out with ten tax officers of the Federal Inland Revenue Service (FIRS) Nigeria. There are a total of five departments in FIRS where two tax officers from each department were selected for the interviews, therefore making the total of ten participants. Semi-structured interview is an interview that lies between the organized (structure) and unorganized (unstructured) interviews (Guba & Lincoln, 1994). It contains components of both, with some being closer to the structured interview and others to unstructured interview which allowed the participants to provide answers beyond the probe (Ritchie, Lewis, Nicholls & Ormston, 2013).

Additionally, the research further used documentary studies to verify the data collected from face-to-face interviews. This is because record and written documents are vital sources of data that empower the researcher to gain an insider's point of view, providing a deeper knowledge of the setting in which the events happened (Marshall & Rossman, 2010). According to Ritchie *et. al.* (2013), there are different sources of documentation among which include journals and diaries, brochures and books, background papers, manuals, minutes of meetings, attendance registers, agendas, advertisements, event programs, organizational reports, application

forms, television and radio program scripts, forms and summaries, press release, photo album and scrapbooks. The next section discusses the result collected from the face-to-face interviews data.

4. RESULT OF THE INTERVIEW

The history of tax administration has a great impact on its present performance. The interview findings demonstrate the two most important history components that have an impact on tax revenue generation in FIRS Nigeria. These components are adequate knowledge on previous FIRS achievements and challenges that are paramount for future revenue generation. The details of how each category of history impacts on tax administration success and failure are discussed next.

4.1 Achievements of FIRS

The purpose of tax administration is to assess, collect and account for tax on behalf of the government. Improvement and enhancement in tax administration capacity is always needed. It is imperative to look at how previous decisions work in order to be able to restructure the policies towards greater achievements. An interviewee (Informant 8, *Tax Officer I*) supported the above statement by saying that: "History matters a lot. Even our revenue target settings are based on the previous ones". Another interviewee also agreed with the view: "Yes, the past history and present history are required before you build on the future" (Informant 4, *Tax Officer I*). An example of how previous achievement impacted on the current and future performance was highlighted in a session with Informant 3:

In 2015, we recorded about 3 trillion Naira. Therefore, our target in 2016 is 4.957 trillion Naira. This ensures increases by at least 25% of what was generated in 2015. As an insider I can tell you from January 2016 to September of the same year, we recorded over what was generated last year. (Informant 3, Tax Officer II)

The opinion of another informant shows that history from both tax administration and taxpayers is required for successful tax administration:

Yes, it is because companies exist as going concern entities. There are companies that have existed for more than 100 years. So if you do not have the history of such companies' operations, you need previous knowledge to be able to get the required tax details. (Informant 2, Tax officer I)

In addition to the above statement, Informant 1 gave further explanation:

Yes, previous knowledge allows us to know where we were, where we are now, and what we need to do to get to where we want to go. For example, every tax administrator in the world wants to see 100% compliance in tax payment thus, we have to refer back to previous compliance record to allow us to set a new current and future compliance target. History matters in this situation (Informant 1, Tax Officer I)

Interestingly, Informant 5 with the academic qualification of BA History was of the view that: "It has, because before you start anything, you have to look at what has been done overtime, for example the revenue generated last year can serve as a yardstick of measuring this year's performance in term of tax collections" (Informant 5, *Tax Officer I*). Informant 7 (*Tax Officer I*) supported the above view that: "... to me, history is very important in tax administration, it makes you know what has been achieved and how it was done".

In the real practice of FIRS, available documents that can educate tax administrators on previous years achievements on the revenue generated (for example, the rate of compliance) are inadequate, even though FIRS employees expressed that previous tax administration achievements are very fundamental. They predict the tax administration ability to perform better than what it was. However, it is not only those previous achievements that matter, but also the challenges that confront the system of tax administration as discussed in the next section.

4.2 Challenges for IFRS

Tax administration might have encountered a certain number of challenges in the past. These might include challenges such as increase in taxpayers without a corresponding increase in tax officers, macroeconomic shocks and strikes, sudden changes in management, corruption cases, tax avoidance and tax evasion. The analysis of such challenges and the tax administration's response to the cases might have different shapes. Some of them have worked out, while others might have not. In order to avoid the reoccurrence of mistakes, tax administration must make known such challenges and the management team must respond to them. Informant 9 (*Tax Officer II*) narrated the importance of history, especially when it comes to the previous challenges encountered in serving taxpayers: "History helps us to identify causes of tax revenue weaknesses for corrective measures to be taken".

Another interviewee's expression to the same issue is that: "Yes, history matters most, because if you do not know the history of previous challenges, you will not be able to accurately predict the future" (Informant 6, *Tax Officer I*).

Meanwhile, another interviewee explained that:

History is very vital especially now that we are using self-assessment system, which gives taxpayers the opportunity to assess themselves, bring the assessment to the tax authority, and where there are no defaults, the assessment is being welcomed by the tax authority. But where there are defaults, the tax authority will re-assess the taxpayers, with this, it has great impact on revenue generation. (Informant 10, Tax Officer I)

The view is supported by another interviewee who said that:

Yes, you need to look at the past. What previously hinders tax collection process? Having knowledge of challenges will help you to proffer solutions to improve the quantum of revenue collection. If you want to improve on the collection month-by-month or year-by-year, you must look at the challenges. (Informant 2, *Tax Officer I*)

In the same point of view, one interviewee commented that: "Yes, we look at what hinders us from growing last year or from last month to the other. History, is therefore necessary for every tax administration in order to improve its revenue base" (Informant 3, *Tax Officer II*).

In recognizing the importance of history, one of the interviewee stated that:

The FIRS has a department called Planning, Research and Statistics (PRS). They gather all our challenges to help us to know where we are heading. The management has equally emphasized on the department to record employees' successes and failures. (Informant 5, Tax Officer I)

On the same issue, another interviewee pointed out that: "Here in FIRS, we ensure a routine check on our history especially the challenges. It has always been communicated to affected employees" (Informant 7, *Tax Officer I*). When the participants of the study were asked to express some of the previous challenges that affected FIRS, one interviewee narrated that: "The major challenge FIRS had was the inadequate knowledge of tax administrators to cover informal business settings" (Informant 4, *Tax Officer I*).

In a well coherent way, one interviewee stated that: "previous challenges so far have been identified and studying these challenges had enabled the government to create new policies that paved way to a better tax administration" (Informant 2, *Tax Officer I*).

Additionally, Informant 18 mentioned some of the previous challenges were an ill-motivated workforce and revenue leakages as well as lack of qualified tax collectors (Informant 8, *Tax Officer I*).

Having obtained evidence on the importance of previous FIRS achievements and challenges, the participants were further asked on the availability of a database for knowledge management in FIRS. In responding to the questions, all of them pointed that there was availability of a knowledge management database in FIRS. Informant 4 (*Tax Officer I*) was quoted saying that: "Yes, we have database like employee web portal, Virtual Library, FIRS website, etc."

Another interviewee expressed that:

FIRS have a strong database where all information of previous activities is stored. If you want to know which tax the government receives most in a particular year, you should visit our database repository. More so, you use the database to communicate with other organizations from home. The management also uses the database to communicate with staff whenever the need arises. In addition, in every unit there is an IT staff that is, a staff in charge of updating the database with the activities done by each employee in a day. (Informant 6, Tax Officer I)

In another development, Informants 1 and 7 commented that:

Yes, there is database for knowledge management. In addition to the database there are circulars that come up on a daily or monthly basis to offer clarification on certain principles or where the understanding of individuals falls short of what the law is saying. These circulars, laws and policies are being updated into the database of FIRS and staffs have access to it daily. (Informant 1, Tax Officer I)

Yes, there is. We have a website. Public circulars are always updated and you can ask questions on tax administration twenty-four hours every day (24/7). We have Resource Centre on the website

where you can read circulars. We have toll-free lines or you can walk into any of our offices nationwide to ask questions. (Informant 7, Tax Officer I)

In the real practice, the researcher reviewed back monthly FIRS bulletins of at least five months to look at the available information on the FIRS website. However, it did not spell out the previous challenges or achievements of FIRS, lack of regular and routine updates on the relevant information and it was scanty to educate tax administrators on the previous achievements and challenges. Therefore, there is a need for FIRS to provide its employees with multiple sources of information that will keep employees up to date with regards to FIRS previous achievements and challenges for tax administration improvement.

5. DISCUSSION AND CONCLUSION

Based on the data collected from the interviews and document studies, FIRS is affected by the lack of required tangible resources (computers, tax circulars and compendium) and intangible resources (knowledge and skills to use database), which might be due to the lack of history of previous achievements and challenges as found by this study. Previous knowledge is very important in any organization because it gives ideas on how to reconsider the previous decisions that yielded negative results and gave room for maintaining and enhancing the previous decisions which resulted in good results.

Therefore, the present study recommends the executive arm of government to provide FIRS with basic tangible and intangible resources. In that case, employees would be able to know about the previous FIRS achievements and challenges, which would guide employees' functions. Along this line, there is a need for FIRS to keep updating its web portal, virtual library, monthly circulars and resources center as well as ensuring employees are utilizing them because the availability of knowledge management instruments is worthless if employees are not ready to learn.

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