

The Role of Taxation in a Developing Economy: A Case Study of Some Enterprises in Delta State

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Structured Abstract:

Purpose: Taxation plays a crucial role in promoting economic activity and growth. Through taxation, government ensure that resources are channelled towards important projects in the society. This paper investigates the role of taxation in a developing economy: a case study of some enterprises in Delta State as it affects the provision of basic amenities.

Design / Methodology / Approach: The study adopted the use of descriptive sampling techniques to elicit response from the respondents.

Findings: government should provided quality public goods and social amenities to encourage tax payer to continue to pay their taxes which will provide more funds for government in the provision of basic amenities. The respondents are of the opinion that the lack of transparency of government in the use of revenue derived from tax could be a major cause for the avoidance and evasion of tax

Practical Implications: Funds realised from tax is considered to be used to provided amenities like electricity, roads, hospitals, schools, housing and so on

Originality / Value: This paper deals with role of taxation in a developing economy: a case study of some enterprises in Delta State as it affects the provision of basic amenities. Tax should be used to provide the needed infrastructure to encourage tax payers in paying tax.

Keywords: Taxation, Developing Economy, Tax.

Paper Type: Case Study.

Introduction

It is duty bound that government are responsibly to the development of their countries through the provision of basic infrastructures like roads, electricity, housing, schools hospitals, pipe-borne water and so on. In the midst of providing this scarce resource the government has to source for fund to take care of these needs hence the introduction of tax on its citizens to earn income to provide basic amenities to its citizens. Tax is a major source of funding and it also helps the government to curb inflation, creates job for its citizens, and curb excessive taste for foreign goods which encourages its citizens to patronize goods produced within the country, thereby increasing the per capital income of the country. Within the last decade, the issue of domestic resources mobilization has attracted considerable attention in many developing countries such as Nigeria (kiabel and Nwokah, 2009).

According to Olorundare, (2016) taxation can be defined as the imposition of an obligatory levy or contributions of an individual or corporate donate by recipient, public authority. Two important attributes of taxation are that the levying authority posses the legal capacity to do so since taxation is a legal policy and it evolves an element of compulsion as opposed to voluntaries.

The bedrock of industrialization and economic development of any country is government revenue. How much of this revenue is contributed by tax? According to Olorundare (2016) in all, taxes constitute about (75%) seventy five percentage of regular government revenue and about $\frac{3}{4}$ of public expenditure is founded from tax revenue. As a major instrument of public policy, taxation can be used as protective, allocation, and distributive or stabilization instrument. Taxation may be employed to expand, stimulate, restrict, or regulate the economy depending on the direction the government wants to.

Taxation plays a crucial role in promoting economic activity and growth. Through taxation, government ensures that resources are channelled towards important project in the society while giving succour to the masses through the provision of basic facilities needed to improve the lives of citizens. Unfortunately, in today's Nigeria, the economic development is nothing to write home about. The role of taxation in promoting economic development, activities and growth is not felt primarily because of its poor administration. According to Abiola, & Asiweh (2012), the economy has remained in deep slumber. For these services to be adequately provided, government should have enough revenue to finance them. The task of financing them is an enormous responsibility and is one of the major problems facing the government, according to Ajakaiye (2002), clearly stated that with the limited resources of

the government, there is need to carry the citizens along hence the imposition of taxable individuals and companies which should be properly utilize to encourage the tax payers.

For the purpose of this study, the researcher would be concerned with the role of taxation in developing economy of Delta State Nigeria.

Literature Review

Tax Revenue and Federal Government Expenditure

A tax is a fee charge or levy by government on a products, income, or activity (Worlu and Nkoro, 2012). Tax represent potent instrument of fiscal policy adopted by the government of a nation to control the economic development of the nation (FIRS, 2002). Government expenditure includes all governments transfer payment made by state (Golit, 2008). It is the expenditure incurred by the government of any nation to satisfy the social needs of its citizens.

Amossoma, Nwosu and Ajisafe (2011) stated that over the past thirty years there has been a continuous contention between economic growth and public expenditure.

Administration and Collection of Tax in Nigeria

Adegbie (2007) defined tax administration as the legal system approved by the government body to have the changes, to have the direction, to manage on to provide various policies, laws and regulations for over tax system to ensure all applicable taxes are collected and remitted to the appropriate authorities. Ogbonna & Ebimobowei (2012) stated that tax administration involves all the strategies and principles employed by a government to plan, impose, collect, account, control and coordinate personnel changed with the responsibility of taxation. From his observations, it can be inferred that tax administration has been placed with the responsibility of tax authorities and agencies of tax administration.

Abiola and Asiwah (2012), stated that efficiency and effectiveness should be the main factors to be considered when designing a tax administration structure that will give a desired result. Tax administration can be said to be effective if high compliance by tax payers is ensured, on the other hand, it is said to be efficient for administrative costs are low relatively to revenue collected. Also, Ogbonna, & Ebimobowei (2012) stated that should there be effective and

efficient tax administration in Nigeria government will achieve its objectives of developing the economy.

Failure of Tax Administration in Nigeria

Benedicta (2009), stated that, tax administration in Nigeria today does not measure up to appropriate standards. In her review of literature she identified some reasons that have led to the failure of tax administration in Nigeria. One that is most prominent with other researchers is the problem faced by individual agencies who suffer from limitations in manpower, money, tools and machinery. Okafor (2008) stated that failure in tax administration is evident in delayed assessment and late collection of taxes. It has been observed that there is a high rate of late firmly returns as well as alteration of accounting information of such returns.

In the same vein, Enahoro and Olabisi (2012), stated that, another failure of tax administration is eminent in the inadequacy of personnel in terms of quality and quantity that is, there is shortage of qualified tax personnel which has led to poor enforcement. Therefore more tax personnel should be trained to improve tax administration in Nigeria.

Structure of Nigeria Economy

Ola, (2001) described the structure of Nigeria's economy to be largely enterprise based. The economy has experienced so many challenges over the years, however economic reforms of the past decade is putting Nigeria gradually on track towards achieving its full potentials (Oluba, 2008). Ola, (2001) explained both verbally and graphically the structure of the Nigeria economy based on the composition of GDP, agriculture, industry and service. It stated that agriculture was previously Nigeria's centre of attraction until the early 90's being the major source of foreign currency. It stated that according to the 2009 estimate agriculture sector provides employment to more than 70 percent of the total labour force but generates only about 33.1 percent. It shows that agriculture is becoming a grey area of the economy of Nigeria.

It also stated that the industrial sector primarily depends on oil extraction and refining, employ 10 percent of total labour force contributes about 34 percent GDP.

The service sector is emerging, employs 20 percent of total population and account for 32.5 percent of the GDP. **See Chart 1:** Nigeria: GDP Composition by sectors.

Challenges Hindering the Growth and Development of Nigeria's Economy

The present state of Nigeria economy is very appalling. For a country endowed with numerous natural resources. Nigeria should be among the leading economies of the world today. Some writers has compared the present state of Nigeria's economy to economies of other countries that were at the same level with Nigeria as at one point in time, but now have their economy to be among the world's leading economies.

Sanni, (2011) stated that the Asian countries, such as Singapore and Malaysia, butes with Nigeria and that they even possess about the same natural resources endowment, yet they have recorded significant successes in the development of their various economies since 1965 when they were at par or even behind Nigeria. Economic transformation, Nzotta, (2007) explained the human development challenge, corruption challenge, infrastructural challenges and political parties without ideology. This corrupt tendency has affected the taxation system in Nigeria. This is imminent in the corrupt nature of tax officer's and those in authorities.

Tax Avoidance and Evasion in Enterprise Companies

Tax avoidance is the process whereby an individual plans his or her finances so as to apply all exemptions and deductions provided by tax laws to reduce taxable income (Salami, 2011).

Tax evasion in the other hand is usually illegal means to avoid paying taxes. Tax evasion schemes involve s any individual or corporation misrepresenting their income to the internal revenue service (Auriol & Michel, 2005).

Tax evasion and avoidance affect the economic growth of an economy, in this case, the Nigeria economy. Hence, it is of utmost importance that this study delves into the intricacies of this subject matter and how it affects the economic development and growth of the nation such as Nigeria. The issue of tax evasion and avoidance has become a critical one in developing nations, this include Nigeria according to Enahoro and Olabisi (2012), this issue of tax evasion and avoidance may not only arise from dearth of voluntary compliances by tax payers but it may also arise from the fact that multi-national companies in Nigeria are depriving the economy from development as huge chunks of money leaves the country through tax havens. Mann, (2002) stated that multinational companies that use tax havens could be costing Nigeria a great deal.

Reason for Avoidance or Evading Tax

According to Abiola, (2002), the reason for tax evasion and avoidance especially in developing nations can be categorised into two. The first category consist compliance of tax payer with tax legislation while the second category consist of reasons for which the capability of tax administration and fiscal courts in enforcing tax liabilities. **See Fig. 2:**

1. **Low tax morale:** Tax morale is the intrinsic motivation to pay taxes. If their morale is low due to lack of provision of amenities that will not be interested and willing to pay tax (Pfister, 2009).
2. **Low quality of the services in return for tax:** Pfister, (2009) stated that good governance implies the provision of basic infrastructure, such infrastructure in exchange for tax paid, tax payer become reluctant to pay taxes which can generally mean tax evasion.
3. **Low transparency and accountability of public institution:** Tax payer will pay taxes voluntary if government is perceived as accountable. Hence, companies, individual may not be willing or motivated to remit their taxes if they sense that their government is not accountable and transparent in the use of public funds.
4. **High level of corruption:** The major reason to justify tax evasion and avoidance includes government corruption of the political leaders will also encourage the payment of tax (Lekan & Sunday, 2006).
5. **Insufficiencies in tax collection:** This refers to the problem associated with the administration and collection of taxes from firms that are liable to taxes as well as identification of these firms. When even responsibilities regarding collection and administration of taxes are not clearly defined there tends to be inefficiencies and losses there by requiring a re-organisation of the tax administration. Also, insufficiency as in tax collection can arise as a result of the inadequacy of qualified tax officials. Inadequacy in motivation could because by poor remunerations of tax officials, therefore in order to motivate tax officials to work in line with the interest of the state and reduce vulnerability to corruption among tax officials, proper attention should be given to salaries and other incentives.

Weak Capacity in Detecting and Prosecuting Tax Violator

An effective body involving tax investigators is necessary for the detection of tax avoidance and evasion. The inadequacies of capacities in tax administration reduces the tendency of detecting which in turn influences tax payers decision as to whether to evade tax or not. Also, tax laws are most times unstable and not transparent. This is caused by rapid changes in tax laws. Hence the complicated tax legislations and tax payer's thereby making tax avoidance and evasion most times possible.

Related Empirical Studies

Several empirical studies have been carried out relating to the impact of tax on the economy of Nigeria. A study, carried out by Ogbonna and Ebimobowei(2012) and Modugu, Eragbhe, & Ledonmif (2012) investigating that impact of tax on the development of economy of Nigeria using relevant data accumulated from CBN and FIRS from 1970 to 2012 and 1970 to 2011 respectively showed that there exists a long run equilibrium relationship between economic growth and tax. Based on their analysis, they concluded that tax appears to be one of the most important effects the economic development of the nation. They suggested that it should be properly managed to reduce the level of evasion, government should be more accountable in the management of revenue derived from and that the rate of corruption among tax officials and government of Nigeria at large should be reduced in order to ensure voluntary tax compliance by companies and individuals. Chigbu, Ahujuobi, & Ebimobowei (2011) observed that taxation generally has been a very important instrument of fiscal policy that contributed to the economic development of Nigeria.

Statement of the Problem

The problem of poor administration of tax in Nigeria has led to the lack of basic amenities for its citizens after the collection of tax from individuals and companies alike. The government those not effectively directs the funds collected on tax to effective provide roads, hospitals, electricity, housing and so on hence the citizens feel cheated and most time are discouraged from paying tax and in most case to are engaged in tax avoidance and evasion.

This research study shall examine direct and indirect tax, principles of taxation, solution to taxation problem in Nigeria, tax evasion, tax legislation in Nigeria and analysing the role of taxation in delta state economy over the years.

Purpose of the Study

The general purpose of the study is to access the contribution of taxes towards the growth of delta state economy.

1. To examine the relevance of taxation in delta state.
2. To determine why people feel cheated when it comes to tax payment.
3. To determine the extent government has been using revenue generated from tax proceeds.

Research Question

Based on the aforementioned problems, the researcher is constrained to ask the following questions:

1. To determine the extent revenue generated from tax has positively impacted in the economic development of delta state.
2. To determine that tax evasion and avoidance do not affect tax revenue.
3. To determine that revenue generated from tax is meagre compared to revenue from other sources.

Research Hypothesis

For the purpose of this study, the hypothesis testing shall be stated thus:

Hypothesis 1:

H0: revenue generated from tax does not make any impact on the economic development in delta state

H1: revenue generated from tax has positive impact on the economic development of delta state.

Hypothesis 2:

H0: that tax evasion and avoidance do not affect tax revenue.

H1: tax evasion and avoidance affect tax revenue.

Hypothesis 3:

H0: that revenue generated from tax is meagre compared to revenue from other sources; as such government can do with tax.

H1: that revenue generated from tax is not meagre compared to other sources.

Research Methodologies

The study made use of the following methods for the purpose of the studies:

1. Method of Data Collection

The study was carried out in Delta State of Nigeria. Some selected enterprises were used for data collections such as Emedos Enterprise, Warri, S.O. Oletu Companies, Osubi, Amek Attik Resources Limited Asaba, and MACSUTE Enterprise, Udu, while the Federal Inland Revenue service and Central Bank of Nigeria officials were used for the study.

2. Population of Study

The population for the study consist of 150. This consists of 105 tax officials of the Federal Inland Revenue Services (FIRS) and Central Bank of Nigeria. While 45 were extracted from some major enterprise company in Delta State.

3. Sample Size and Sampling Techniques from All Items in A Given

The study will use the descriptive sampling techniques to elicit response from the respondents. This sampling method is used by the researcher because the technique enables the researcher to gather sufficient data from respondents.

4. Instrument for Data Collection

As it has been stated earlier, both primary and secondary data were used in testing the hypothesis and answering the research question. The primary data was derived through the administration of questionnaires to respondents which consists mainly tax officials in Federal Inland Revenue Service (FIRS), Accounting Practitioners in some Enterprise Companies in Delta State. For secondary data, relevant statistics required for this research work, such as tax statistic were obtained from internet, journals, and Central Bank of Nigeria (CBN) bulletins.

5. Description of Questionnaire

The questionnaire was divided into two (2) main section namely , the cover letter and the main questionnaires which is for the sub divided into two sections namely, section A, which is for personal details of the which is for personal details of the respondents bio data which will includes age, sex, occupational category and educational qualifications. And section B, which contains question which relates to the issues on the topic being investigated. The questions were drawn based on the research questions, aims and hypothesis that are to be tested. The questionnaire was based on close ended questions designed to generate concise and precise answer from the respondents. The respondents shall be provided with opinions to answer from, which shall take this form. Strongly agree (SD), agree (A), undecided (u), disagree (D) and strongly disagree (SD) having their scales to be 5, 4,3,2,1 respectively.

6. Analysis and Interpretation of Data

Analysis and interpretation of secondary data obtained from CBN statistical bulletins, Federal Inland Revenue Service (Secondary data) and primary data obtained through the distribution of questionnaires to various Enterprise companies in Delta State, Federal Inland Revenue, CBN.

Table 1: Rate of Response by Respondent

A total number of 150 questionnaires distributed. 142 questionnaires were returned which represents (94.67%) while the remaining 8 which represents (5.33%) were not returned. Therefore analysis will be based on 142 questionnaires.

Table 2: Sex

The table shows that 35.2% of the respondents are female and 64.8% of the respondents are males. Note that the researcher did not initially have an equally distributed representation of both sexes required to give answers to the questions.

Table 3: Ages

The table shows the different age group of total respondents. It shows that majority of the respondents (42.3%) fall within the age group of 30-39, while 28.2% of total respondents are within the age group of 40-49 and finally 4.7% of respondents fall within the age group of above 50 years.

Table 4: Marital Status

This table shows the marital status of all the respondents in the survey. It shows that majority of the respondents (66.9%) are married, while (33.1%) of total numbers of respondents are still single.

Table 5: Educational Qualification:

This table shows the highest academic qualification of all the respondents. It shows that majority of the respondents which represents (49.3%) have the highest level of education. 18.3% respondents have MBA, HND 9.9%, ND 3.5%, while 2.8% have other qualifications.

Table 4.6: Analysis of Responses, the Quality of Public Goods or Social Amenities, Provided by the Nigeria Federal Government is Low

The table shows that 95.1%, (61.7% + 34.0%) of respondents are of the opinion that the low quality of public goods of social amenities provided by the Nigeria government could be a major cause for avoidance of tax. While 3.5% (2.8% + 0.7%), are in disagreement to this premise, while 0.14% of respondents remain undecided.

The good should provided quality public goods and social amenities to encourage tax payer to continue to pay their taxes which will provide more funds for government.

Table 4.7: The Government of Nigeria is not Transparent in the use of Revenue Derived from Tax.

The above table shows that 92.2% (38.7% + 53.5%), of respondents are of the opinion that the lack of transparency of government in the use of revenue derived from tax could be a major cause for the avoidance of tax. While 4.2% (1.4%+2.8%), are in disagreement to this premise and 3.5% of respondents remain undecided.

Table 4.8: The Administration of Tax in Nigeria is Ineffective

The above table shows that 39.4% (23.9% + 15.5) of respondents believe that the ineffectiveness in the administration of tax in Nigeria is a major cause of tax avoidance and evasion in Nigeria. 16.2% of respondents remain undecided with regards to this premise. While 42.9% (7.7% + 35.2%), of respondents are of the opinion that the ineffectiveness in the administration of tax is not a major causes for the evasion and avoidance of tax.

Table 4.9: The Corruption among the Tax Officials in Nigeria is Very High

The above table shows that 39.5% (25.4% + 14.1%), of respondents are of the opinion that the high rate of corruption among tax officials in Nigeria could be a major cause for the avoidance and evasion of tax. While 38.8%, (10.6% + 28.2%), are in disagreement to this premise and 21.8% of respondent remain undecided.

Table 4.10: The Federal Government of Nigeria is not Accountable to the Citizen in the use of Revenue Derived from Tax.

The above table shows that 71.1%, (31.7% + 39.4%) of respondents are of the opinion that the federal government is not accountability to citizens in the use of revenue derived from tax and could be a major cause for avoidance and evasion of tax. While 24.9% (18.35 + 6.6%) are in disagreement to this premise and 4.2% of respondents remain undecided.

Discussion of Findings

The finding of the study shows that government should provided quality public goods and social amenities to encourage tax payer to continue to pay their taxes which will provide more funds for government in the provision of basic amenities. The respondents are of the opinion that the lack of transparency of government in the use of revenue derived from tax could be a major cause for the avoidance and evasion of tax. This implies that the government should show responsibility in providing the necessary infrastructure to build confidence on the parts of the citizens. This will lead to transparency on the part of the government. The tax administration has been compromised by the tax official, that are in most cases involved in corruption, they also dupe the government in conniver with the tax payer to reduce their tax liabilities, while in some cases they collects money from the enterprise for their own benefit at the detriment of the government their making the government not to be accountable to the citizens.

Conclusion

In view of the foregone research work, analysis and interpretation, it is no doubt that tax is an important source of revenue generation which aids economy growth of Nigeria. The research work showed that economic growth will be enhanced if tax is effectively and efficiently administered and collected. The main objective of this research work was to determine if

there is a significant relationship between tax and economic growth in Nigeria, this was duly achieved. Also, the objectives of determining if tax has had an impact on the economic growth of Nigeria and if there is a significant difference in the perceptions of group respondents' tax authorities, enterprise companies on the major causes of tax avoidance were achieved. Finally, the objective of determining of the tax authorities have been effective in the collection of tax was achieved.

Recommendation

Based on the analysis carried out and the findings deduced in addition to the review of relevant literature, the following recommendations are deemed necessary to ensure that tax boost the economy of Nigeria.

1. The federal Government should attend to the issues of tax avoidance and evasion by enterprise companies and individuals. This study has laid down some of the major causes of tax avoidance and of all it was observed that respondent groups believe that the low quality of public goods provided by federal government reduces the tax morale of enterprise companies and individual when it comes to the issue of tax. Some other causes as identified by respondent group include the non transparency of government in the use of revenue derived from tax. Therefore, the federal government should begin to provide high quality public goods to boost tax morale of tax payers and they should be transparent in the use of tax revenue derived from tax.
2. The administration of the tax should be made better by training tax personnel in the area of tax.
3. In addressing the issue of corruption among tax officials, code of conduct should be made available and mechanisms must be provided by government to follow strictly to this code of conducts.
4. To achieve economic growth, government should not only rely on the tax alone. They should also focus on the issue of exporting agricultural produce.

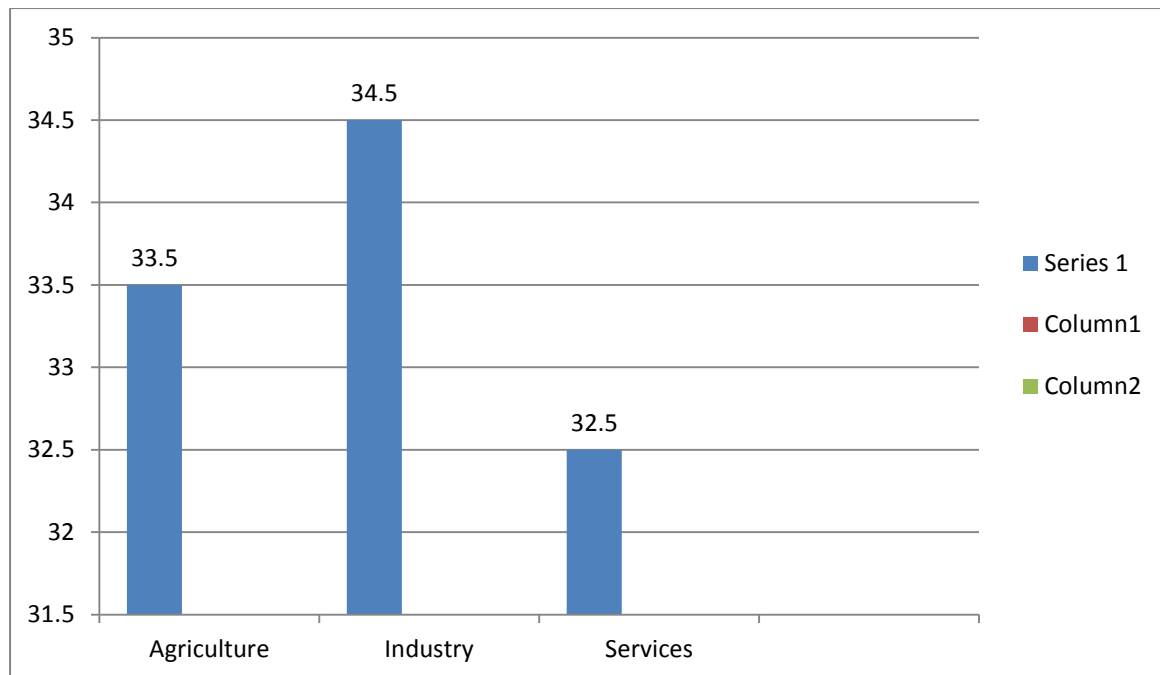
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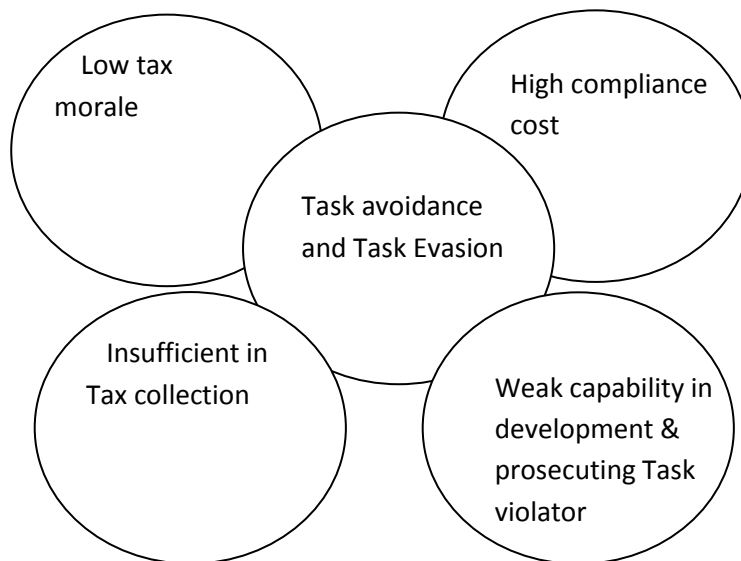
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Nigeria: GDP Composition by Sectors



Source: Economy Water (2010)

Figure 1:



Tables: Analysis and Interpretation of Data

Table 1: Rate of response by Respondent

Questionnaire	Respondents	Percentage
Returned	142	94.67%
Not Returned	8	5.33%
Total Distributed	150	100

Source: Field Survey 2016

Table 2: Sex

Sex	Frequency	Percentage
Female	50	35.2
Male	92	64.8
Total	142	100

Source: Field Survey 2016

Table 3: Ages

Age	Frequency	Percentage (%)
20-29	40	28.2
30-39	60	42.3
40-49	35	26.6
Above 50	7	4.7
Total	142	100

Source: Field Survey 2016

Table 4: Marital Status

Marital status	Frequency	Percentage
Single	47	33.1
Married	95	66.9
Total	142	100

Source: Field Survey 2016

Table 5: Educational Qualification

Educational Qualification	Frequency	Percentage
OND	5	3.5%
HND	14	9.9
BSC	70	49.3
MBA	26	18.3
MSC	23	16.2
Others	4	2.8
Total	142	100

Source: Field Survey 2016

Table 4.6: Analysis of Responses, the Quality of Public Goods or Social Amenities, Provided by the Nigeria Federal Government is Low

Likert Scale Analysis	Frequency	Percentage
Strongly disagree	1	0.7
Disagree	4	2.8
Undecided	2	0.14
Agree	48	34.0
Strongly agree	87	61.7
Total	142	100

Source: Field Work 2016

Table 4.7: The Government of Nigeria is not Transparent in the use of Revenue Derived from Tax.

Likert Scale Analysis	Frequency	Percentage
Strongly disagree	2	1.4
Disagree	4	2.8
Undecided	5	3.5
Agree	55	38.7
Strongly agree	76	53.5
Total	142	100

Source: Field Work 2016

Table 4.8: The Administration of Tax in Nigeria is Ineffective

Likert Scale Analysis	Frequency	Percentage
Strongly disagree	12	9.3
Disagree	50	35.7
Undecided	23	16.4
Agree	34	24.3
Strongly agree	22	15.7
Total	142	100

Source: Field Work 2016

Table 4.9: The Corruption among the Tax Officials in Nigeria is Very High

Likert Scale Analysis	Frequency	Percentage
Strongly disagree	15	10.6
Disagree	40	28.2
Undecided	31	21.8
Agree	36	25.4
Strongly agree	20	14.1
Total	142	100

Source: Field Work 2016

Table 4.10: The Federal Government of Nigeria is not Accountable to the Citizen in the use of Revenue Derived from Tax.

Likert Scale Analysis	Frequency	Percentage
Strongly disagree	26	18.3
Disagree	9	6.6
Undecided	6	4.2
Agree	45	31.7
Strongly agree	56	39.4
Total	142	100

Source: Field Work 2016