UNIZIK Journal of Marketing (UJofM), Vol. 1(2), Oct. 2024 ISSN xxxx-xxxx

https://journals.unizik.edu.ng/ujofm

Sustainable Tax Compliance: A Conceptual Framework and Policy Implications

Gwatyap, Mathias Gabriel and Daddau, Haruna

Article Information

Keywords:
Sustainable tax compliance, tax authorities
Taxpayer Education
Tax System Complexity

Article History

Received: 12 Aug. 2024
Accepted: 17 Sept. 2024
Published: 15 Oct. 2024

Abstract

This paper proposes a conceptual framework for sustainable tax compliance, integrating behavioral, institutional, and environmental determinants. Using recent literature, this framework identifies key factors influencing compliance, including trust in tax authorities, perceived fairness, the impact of digital technologies, and the role of environmental taxes. The paper emphasizes the need for robust policy implications, providing recommendations for policymakers on enhancing sustainable tax compliance through evidence-based strategies. Visual representations, including a conceptual framework diagram and graphs, illustrate the interactions among these determinants. The framework aims to support policymakers in designing interventions that foster voluntary compliance while aligning with broader environmental and economic goals.

Introduction

Tax compliance remains a critical issue for governments worldwide as it directly impacts revenue generation needed to fund public goods and services. In Nigeria, tax compliance has been persistently low, posing a significant challenge to the nation's economic stability and growth (Adediran et al., 2016). This issue is exacerbated by factors such as a lack of trust in tax authorities, corruption, complex tax laws, and inadequate taxpayer education (Olowookere & Fasina, 2013). Despite various reforms, including the introduction of digital tax systems and compliance incentives, sustainable tax compliance remains elusive (Ezenwa & Zakari, 2020).

The concept of sustainable tax compliance extends beyond traditional tax compliance measures by emphasizing the need for long-term, voluntary compliance that is resilient to economic, social, and political changes. It involves creating a tax system that is perceived as fair, transparent, and capable of adapting to the evolving needs of the taxpayer population (Kirchler et al., 2019). In the Nigerian context, achieving sustainable

affiliation: [1,2]Department of Accountancy, Kaduna State University

email: gabrielmathias120@gmail.com.

† *corresponding author*

tax compliance is crucial for reducing dependence on oil revenues, diversifying the economy, and promoting fiscal self-reliance (Okoye & Ezejiofor, 2014). Nigeria's tax-to-GDP ratio remains one of the lowest globally, averaging around 6%, compared to the African average of 17.2% (OECD, 2021). This low ratio is symptomatic of widespread non-compliance and evasion, which undermine government efforts to raise sufficient revenue for development projects. Factors contributing to non-compliance include inadequate enforcement mechanisms, complex and ambiguous tax laws, high levels of corruption, and a lack of trust between taxpayers and the tax authorities (Ayuba et al., 2016). As a result, the government faces persistent budget deficits, which hamper the delivery of essential public services and infrastructure development.

The scholarly debate on tax compliance has evolved significantly, with researchers exploring various approaches to enhance compliance rates. Traditional approaches, such as deterrence through audits and penalties, have been criticized for being costly and often ineffective in the long term (Slemrod & Weber, 2018). Recent studies advocate for a shift towards a more cooperative approach, emphasizing the role of trust and legitimacy in encouraging voluntary compliance (Gangl et al., 2020). This shift reflects a growing recognition that sustainable tax compliance cannot be achieved solely through coercion but requires building a positive relationship between taxpayers and tax authorities. In the context of Nigeria, studies have shown that taxpayers' perceptions of fairness, transparency, and the quality of public services significantly influence their compliance behavior (Olaoye & Ashaolu, 2020). However, there is limited empirical evidence on how these factors interact to affect sustainable compliance over time. The current study seeks to fill this gap by examining the interplay between trust, taxpayer education, and system complexity in shaping sustainable tax compliance in Nigeria.

The existing body of literature indicates that tax compliance is influenced by various economic, psychological, and institutional factors (Luttmer & Singhal, 2014). However, there is limited research on the determinants of sustainable tax compliance, particularly in developing economies like Nigeria. This study addresses this gap by examining the factors that influence sustainable tax compliance and proposing policy recommendations for improving compliance rates in Nigeria.

The primary objective of this study is to identify the determinants of sustainable tax compliance in Nigeria. Specific objectives include:

a. To explore the influence of trust in tax authorities on taxpayer compliance behavior.
b. To assess the impact of taxpayer education and awareness on compliance rates.
c. To analyze the role of tax system complexity and transparency in shaping taxpayer attitudes towards compliance.
d. To provide policy recommendations for enhancing sustainable tax compliance in Nigeria.

Literature Review
Theoretical Foundations of Tax Compliance

Tax compliance has been extensively studied through various theoretical lenses. The *Economic Deterrence Theory* posits that compliance is influenced by the likelihood of detection and the severity of penalties (Allingham & Sandmo, 1972). However, in Nigeria, the effectiveness of this theory is often undermined by systemic corruption and inefficiencies in the enforcement of tax laws (Olaoye & Ashaolu, 2020). Scholars argue that, while deterrence can reduce evasion, it is not a standalone solution in contexts where governance challenges persist. *Fiscal Psychology Models*, such as the Theory of Planned Behavior, emphasize the importance of attitudes, subjective norms, and perceived behavioral control in shaping tax compliance (Ajzen, 1991). In Nigeria, trust in government is particularly low, which significantly impacts taxpayer attitudes (Adebisi & Gbegi, 2013). Studies suggest that improving transparency and demonstrating the effective use of tax revenues can positively shift these attitudes and enhance compliance rates. *Behavioral Economics* provides a nuanced understanding of compliance by incorporating psychological factors and biases (Thaler & Sunstein, 2008). In Nigeria, factors such as low financial literacy and socio-economic pressures influence taxpayer behavior (Obara, 2019). Scholars argue that interventions need to consider these behavioral nuances, rather than solely focusing on punitive measures.

Scholarly Debates on Determinants of Tax Compliance

Trust in Authorities: Trust in tax authorities is a critical determinant of compliance globally (Kirchler, Hoelzl, & Wahl, 2008). In Nigeria, this trust is particularly fragile due to perceptions of corruption and mismanagement of public funds (Ayuba et al., 2016). The debate centers on whether efforts should be focused on improving enforcement or on building trust through better governance and service delivery.

Perception of Fairness and Equity: The perceived fairness of the tax system significantly influences compliance. In Nigeria, there is a widespread belief that the tax system is inequitable, with the poor disproportionately bearing the tax burden, while the wealthy often evade taxes through loopholes (Oladipupo & Obazee, 2016). This perception of inequity erodes the willingness to comply voluntarily, leading scholars to argue for reforms that address these disparities.

Social Norms and Peer Influence: In many societies, social norms play a significant role in compliance. In Nigeria, however, tax evasion is often normalized within certain communities, particularly in the informal sector (Dalu et al., 2012). Scholars suggest that shifting these norms requires targeted community engagement and education efforts to highlight the benefits of compliance and the social costs of evasion.

Global Perspectives and Comparative Analysis

Tax compliance dynamics vary significantly between developed and developing countries. In developed economies, high compliance rates are often attributed to robust tax administration systems, high levels of trust in government, and a strong culture of compliance (Alm & Torgler, 2006). In contrast, Nigeria faces challenges such as a large informal economy, limited taxpayer education, and inconsistent enforcement, which complicate compliance efforts (Fagbemi, Uadiale, & Noah, 2010).

Comparative analyses reveal that while developed countries can rely on sophisticated digital tax systems and comprehensive taxpayer databases, Nigeria must contend with infrastructure limitations and varying levels of digital literacy among taxpayers (Adediran, Alade, & Oshode, 2016). As a result, policy recommendations for Nigeria emphasize the need for scalable solutions that consider local constraints, such as mobile tax platforms that are accessible even in low-infrastructure settings (Ezenwa & Zakari, 2020).

Emerging Trends and Technological Impacts

The role of technology in enhancing tax compliance is increasingly recognized worldwide. In Nigeria, the introduction of digital tax administration platforms, such as the Integrated Tax Administration System (ITAS), is a step towards modernizing the tax system (Owolabi & Okwu, 2021). However, challenges such as low internet penetration and resistance to change within tax agencies hinder the full realization of these benefits.
Artificial Intelligence and Big Data are emerging as powerful tools for identifying non-compliance patterns and targeting audits more effectively (OECD, 2020). Nigeria has begun exploring these technologies, but their deployment is limited by data quality issues and a lack of technical expertise (Okoye & Ezejiofor, 2014). Scholars advocate for investment in digital space.

Policy Approaches and Their Impacts

Policy approaches to tax compliance can broadly be categorized into voluntary and coercive measures. In Nigeria, voluntary compliance initiatives, such as tax amnesties and awareness campaigns, have had mixed success (Okoye & Ezejiofor, 2014). While these initiatives temporarily boost compliance, their long-term sustainability is questioned, particularly in the absence of ongoing enforcement.
Nudging and Behavioral Interventions: Recent studies suggest that behavioral interventions, such as personalized communication, simplified tax forms, and reminders, could improve compliance rates in Nigeria (Olowookere & Fasina, 2013). However, these approaches are still in their infancy, and further research is needed to understand their effectiveness in the Nigerian context.

Research Methodology

This study adopts a conceptual research design, supplemented by a qualitative approach to explore the determinants of sustainable tax compliance in Nigeria. The conceptual design allows for the synthesis of existing literature and theoretical frameworks to develop a comprehensive understanding of the factors influencing tax compliance. Additionally, qualitative methods, such as content analysis, are employed to examine relevant academic articles, policy documents, and reports from international organizations like the OECD and IMF. This approach is particularly suitable for addressing the complex, multi-dimensional nature of tax compliance, which involves economic, psychological, and institutional factors.

Data Collection

The data collection process for this study involves a systematic review of academic literature, policy documents, and government reports. The following steps were undertaken:

Literature Search and Selection: A comprehensive search was conducted in academic databases such as JSTOR, Google Scholar, and Scopus to identify relevant articles published between 2010 and 2023. Keywords used in the search included "tax compliance," "sustainable tax compliance," "tax evasion," "trust in tax authorities," and "Nigeria tax system." The selection criteria focused on peer-reviewed articles, books, and reports that specifically address the determinants of tax compliance in both global and Nigerian contexts.
Inclusion and Exclusion Criteria: Articles were included if they provided empirical or theoretical insights into the factors affecting tax compliance, particularly in developing countries. Studies that were outdated or did not focus on tax compliance determinants were excluded. A total of 50 articles and reports were selected for detailed review.
Data Extraction: Key information was extracted from the selected articles, including definitions of tax compliance, identified determinants, theoretical frameworks, and empirical findings. This information was systematically organized into themes relevant to the study's objectives, such as trust in tax authorities, taxpayer education, and tax system complexity.

Results

Trust in tax authorities

Trust in tax authorities emerged as a critical determinant of sustainable tax compliance. The literature consistently highlights that higher levels of trust in tax authorities correlate with increased voluntary compliance (Gangl et al., 2020). Trust is fostered through transparent and fair tax policies, effective communication, and perceived integrity of the tax administration.

Taxpayer Education

The role of taxpayer education in enhancing compliance was strongly supported in the literature. Educated taxpayers are more likely to understand tax laws, perceive them as fair, and comply willingly (Olowookere & Fasina, 2013). Education efforts that focus on the rights and responsibilities of taxpayers, as well as the importance of tax compliance for societal development, were found to be particularly effective.

Tax System Complexity

A complex tax system with numerous exemptions, loopholes, and frequent changes was identified as a significant barrier to compliance. The literature indicates that when tax systems are perceived as overly complex or burdensome, taxpayers are more likely to evade taxes or comply only minimally (Luttmer & Singhal, 2014).

Enforcement Mechanisms

Enforcement mechanisms, including audits, penalties, and legal action, play a crucial role in ensuring tax compliance. However, the effectiveness of these mechanisms depends on the perceived fairness and consistency of their application (Slemrod & Weber, 2018). Inconsistent enforcement can lead to perceptions of unfairness and undermine compliance.

Local Perspectives: Nigerian Context

In the Nigerian context, socio-economic factors, such as poverty, unemployment, and informal sector dominance, significantly influence tax compliance. The literature highlights that many Nigerians operate within the informal economy and are often outside the tax net (Adediran et al., 2016). Cultural attitudes towards tax, shaped by historical distrust in government, also play a significant role in compliance behavior.

Discussion

In Nigeria, limited awareness and understanding of tax laws contribute significantly to non-compliance (Oladipupo & Obazee, 2016). The lack of robust taxpayer education programs means that many individuals and businesses remain uninformed about their obligations and the benefits of tax compliance. Comparatively, countries with comprehensive taxpayer education initiatives report higher compliance rates, supporting the argument that informed taxpayers are more likely to comply (OECD, 2021). In Nigeria, trust in tax authorities is generally low due to widespread corruption, inconsistent enforcement of tax laws, and lack of transparency in the utilization of tax revenues (Olowookere & Fasina, 2013). This lack of trust undermines voluntary compliance, as taxpayers are less willing to pay taxes when they perceive that the funds will not be used effectively or fairly (Ayuba et al., 2016). The findings align with the broader academic debate that emphasizes the role of relational dynamics between taxpayers and authorities in compliance decisions (Kirchler et al., 2019).

Nigeria's tax system is often criticized for its complexity, which includes multiple taxes at the federal, state, and local levels, and frequent changes in tax rates and regulations (Olaoye & Ashaolu, 2020). This complexity not only confuses taxpayers but also increases the cost of compliance, especially for small and medium enterprises (SMEs). The findings corroborate global research that suggests simplifying tax codes and reducing administrative burdens can significantly enhance compliance (Gupta et al., 2017). In Nigeria, enforcement of tax laws is often seen as inconsistent and subject to manipulation (Umar et al., 2017). This inconsistency not only erodes trust but also creates opportunities for tax evasion and avoidance. Effective enforcement requires not just punitive measures, but also supportive actions such as taxpayer assistance and dispute resolution mechanisms. The current literature emphasizes a balanced approach that combines deterrence with measures that promote voluntary compliance (Kirchler et al., 2019). Nigeria's unique socio-economic landscape necessitates tailored approaches to tax compliance. For instance, integrating informal sector players into the tax system through incentives rather than punitive measures can gradually improve compliance rates. Local studies also suggest that improving public perception of tax utilization can drive compliance (Olowookere & Fasina, 2013). Engaging community leaders and leveraging local networks to promote tax compliance can also be effective.

Conclusion

The proposed conceptual framework provides a comprehensive tool for understanding and enhancing sustainable tax compliance. By integrating behavioral, institutional, and environmental determinants, the framework offers a holistic approach that can inform the design of effective tax policies. The findings underscore the importance of trust, fairness, and transparency in achieving sustainable compliance, as well as the potential of digital technologies and environmental taxes to support these objectives. Future research should focus on empirical testing of the framework and exploring the impact of specific policy interventions on compliance behavior. Policymakers are encouraged to use this framework as a guide for designing evidence-based interventions that foster voluntary compliance while aligning with broader environmental and economic goals.

Policy Implications

The findings from the literature suggest several practical policy implications for enhancing sustainable tax compliance in Nigeria:

Strengthening Trust and Accountability: Building trust in tax authorities is crucial. This could be achieved through transparent communication of how tax revenues are used, regular audits, and visible improvements in public services funded by taxes (Obafemi, 2014). Engaging citizens through participatory budgeting processes could also enhance perceptions of fairness and trust. *Tailoring Compliance Strategies to the Informal Sector:* Given the significant size of Nigeria's informal economy, policies should focus on simplifying tax compliance for informal sector operators. This could include presumptive taxes, mobile tax payments, and targeted education campaigns that highlight the benefits of formalization (Umar, Derashid, & Ibrahim, 2017).
Leveraging Technology: Expanding the use of digital tax platforms and analytics can help streamline tax administration and identify non-compliance patterns. However, this requires significant investment in infrastructure, as well as capacity building within tax authorities to effectively utilize these technologies (Owolabi & Okwu, 2021***).*** *Addressing Perceptions of Fairness**:*** Reforms should focus on making the tax system more equitable, such as progressive taxation measures and closing loopholes that allow high-income earners to evade taxes. Publicizing enforcement actions against high-profile evaders can also help to shift perceptions and reinforce the notion that tax laws apply equally to all (Oladipupo & Obazee, 2016).

To enhance trust, Nigerian tax authorities should prioritize reforms that improve transparency and accountability. This includes regular public reporting on how tax revenues are utilized and ensuring that tax policies are applied uniformly across all taxpayers. Additionally, building a positive relationship with taxpayers through regular engagement and feedback mechanisms can help to rebuild trust. The Nigerian government should invest in comprehensive taxpayer education programs that are accessible to all segments of the population. These programs should leverage digital platforms, social media, and traditional media to reach a wider audience. Collaboration with educational institutions to include tax education in school curricula could also promote early awareness of tax responsibilities. Simplifying Nigeria's tax system should be a priority. Streamlining taxes to reduce redundancies and clarifying tax regulations can help lower the compliance burden. Implementing user-friendly digital tax filing systems can also reduce the perceived complexity and make it easier for taxpayers to fulfill their obligations.

Policymakers should develop targeted strategies to bring the informal sector into the tax net, such as simplified tax regimes or presumptive taxes that are easier for small businesses to comply with. Community engagement and localized education campaigns can also help change cultural perceptions towards tax compliance. Nigerian tax authorities should aim for consistent and fair enforcement of tax laws. Establishing independent oversight bodies to monitor tax administration practices can help reduce corruption and ensure that enforcement actions are applied equitably. Additionally, enhancing taxpayer support services, such as help desks and dispute resolution mechanisms, can encourage compliance by addressing taxpayer concerns promptly.

Future Directions

Despite progress, there remain critical gaps in understanding the full spectrum of factors influencing tax compliance in Nigeria. Future research should adopt an interdisciplinary approach, integrating insights from economics, psychology, sociology, and technology. Additionally, exploring the impact of recent digital tax initiatives, such as electronic invoicing and mobile tax payments, could provide valuable insights into the evolving compliance landscape (Nwezeaku, 2020). There is a need for more empirical studies on the effectiveness of behavioral interventions in the Nigerian context. Similarly, research exploring the role of cultural factors, such as societal attitudes towards taxation and governance, could offer new perspectives on improving compliance (Obara, 2019)

References

Adebisi, J. F., & Gbegi, D. O. (2013). Effect of multiple taxation on the performance of small and medium scale business enterprises: A study of West African Ceramics Ajeokuta, Kogi State. *Mediterranean Journal of Social Sciences, 4*(6), 323-334.

Adediran, S. A., Alade, S. O., & Oshode, A. A. (2016). The impact of tax administration on government revenue in a developing economy: A case study of Nigeria. *Journal of Business Management & Social Sciences Research, 5*(6), 637-642.

Ajzen, I. (1991). The theory of planned behavior. *Organizational Behavior and Human Decision Processes, 50*(2), 179-211.

Alm, J., & Torgler, B. (2006). Culture differences and tax morale in the United States and Europe. *Journal of Economic Psychology, 27*(2), 224-246.

Ayuba, A., Saad, N., & Ariffin, Z. Z. (2016). The impact of institutional factors on tax evasion in Nigeria: A multidimensional analysis. *International Journal of Business and Social Science, 7*(1), 96-109.

Carattini, S., Carvalho, M., & Fankhauser, S. (2018). Overcoming public resistance to carbon taxes. *Wiley Interdisciplinary Reviews: Climate Change, 9*(5), e531.

Dalu, T., Maposa, V. G., Dalu, T., & Pabwaungana, S. (2012). The impact of tax evasion and avoidance on the economy: A case of Harare, Zimbabwe. *African Journal of Economic and Sustainable Development, 1*(3), 284-295.

Ezenwa, U., & Zakari, M. A. (2020). Digitalization of tax administration in Nigeria: Challenges and prospects. *Journal of Accounting and Taxation, 12*(3), 147-155.

Gangl, K., Hofmann, E., & Kirchler, E. (2020). Tax authorities' interaction with taxpayers: A conception of compliance in social dilemmas by power and trust. *New Ideas in Psychology, 58*, 100778.

Gupta, S., Keen, M., Shah, A., & Verdier, G. (Eds.). (2017). *Digital revolutions in public finance.* International Monetary Fund.

Kirchler, E., Kogler, C., & Muehlbacher, S. (2019). Cooperative tax compliance: From deterrence to deference. *Current Directions in Psychological Science, 28*(3), 273-278.

Luttmer, E. F. P., & Singhal, M. (2014). Tax morale. *Journal of Economic Perspectives, 28*(4), 149-168.

OECD. (2021). *Tax administration 2021: Comparative information on OECD and other advanced and emerging economies*. OECD Publishing.

Okoye, E. I., & Ezejiofor, R. A. (2014). The impact of e-taxation on revenue generation in Enugu, Nigeria. *International Journal of Advanced Research, 2*(9), 449-458.

Oladipupo, A. O., & Obazee, U. (2016). Tax knowledge, penalties and tax compliance in small and medium scale enterprises in Nigeria. *iBusiness, 8*, 1-9.

Olaoye, C. O., & Ashaolu, T. O. (2020). The determinants of tax compliance among Nigerian SMEs. *Journal of Social and Management Sciences, 15*(1), 45-56.

Olowookere, J. K., & Fasina, H. T. (2013). Taxpayers' education: A key strategy in achieving voluntary compliance in Lagos State, Nigeria. *European Journal of Business and Management, 5*(10), 146-154.

Owolabi, S. A., & Okwu, A. T. (2021). Big data analytics and tax compliance: Emerging issues in Nigeria. *International Journal of Economics and Financial Issues, 11*(2), 87-94.

Slemrod, J., & Weber, C. (2018). Evidence of the invisible: Toward a credibility revolution in the empirical analysis of tax compliance. *American Economic Review: Papers and Proceedings, 108*, 345-349.

Umar, M. A., Derashid, C., & Ibrahim, I. (2017). Income tax non-compliance in Nigeria and the moderating effect of public governance quality: A suggested framework. *Mediterranean Journal of Social Sciences, 8*(6), 55-65.