Effect of Tax Fairness on Personal Income Tax Compliance in Nigeria

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ABSTRACT
The broad objective of this study is to investigate the effect of tax fairness on personal income tax compliance in Nigeria. Data for analysis were gathered through the administration of questionnaires using the cluster sampling technique, four hundred (400) questionnaires were distributed to taxable persons in Edo and Anambra states, representing South-south zone and South-east zone respectively. Two hundred questionnaires were distributed in each state. Ordinary Least Square (OLS) was applied in testing the hypothesis. The study found a positive and statistically significant relationship between the independent variable (tax fairness) and the dependent variable (personal income tax compliance) in Nigeria. The study concluded that tax fairness is positively and statistically related to personal income tax compliance in Nigeria which is an indication that the independent variable increases personal income tax compliance. The study recommended that tax payers who engage in non-tax compliance should be penalized equally so as to fairly implement the tax system. Tax authorities should maintain horizontal and vertical fairness in the assessment and collection of taxes so as to enhance personal income tax compliance in Nigeria.

Keywords: horizontal, tax authorities, tax compliance, tax fairness, vertical.

INTRODUCTION
A well-structured tax legislation and tax administration is not sufficient in itself, because of the importance of human factors over the organisational factors of the tax system (Helhel & Ahmed, 2014). Factors affecting tax payers’ behaviour must be analysed so that regulating legal arrangement that will enhance tax payers’ compliance becomes easy. The primary aim of taxation is to generate revenue with which to finance public administration and provide economic and social services for the public (Egwaikhide & Udoh, 2012). The government needs to change the method of enforcement by considering the attitude aspect of tax payers in addition to the application of tax laws to sanction and fine tax defaulters so as to increase the amount of taxes collected. Thus, using adequate strategies that will motivate compliance decisions are more appropriate than strictly applying laws and regulations. Efforts have to be made by the tax authority to ascertain the factors that determine tax compliance to solve the problems of not complying. In Nigeria, the issue of the determinants of tax compliance in the informal sector has not received robust empirical consideration, hence the motivation to explore this line of research.

The main problem with the Nigerian personal income tax lies in the assessment and collection process particularly from those in self-employment such as contractors, entrepreneur, lawyers, accountants, doctors, crafters and traders among others. Consequently, this study addresses the gap by focusing on determinants of personal income tax compliance taking South-south and South-east geo-political zones of Nigeria as a reference point, thus providing more exhaustive discourse on the theoretical and empirical linkages among the determinants of personal income tax compliance. This study seeks to contribute to the
growing tax compliance knowledge by examining the determinants of personal income tax compliance in Nigeria.

Against this backdrop, the research question, research objective and research hypothesis were put forward to guide the direction of the study:

1. How is tax fairness related to personal income tax compliance in Nigeria?
2. Establish if there is a significant relationship between tax fairness and personal income tax compliance in Nigeria.
3. There is no significant relationship between the perception of tax fairness and personal income tax compliance in Nigeria.

LITERATURE REVIEW

Conceptual Review

Tax is a compulsory levy that must be paid without regards to equivalent return of goods or services rendered by the government (Akalu, 2016). Taxation is usually used as a major instrument for revenue generation which is important to any economy. Taxes are the underlying factors that may assist the government in its attempts to build societies, and indeed nations (Ibadin & Eiya, 2013). According to Kiabel and Nwokah (2009) the proportion of personal income taxes to the Nigerian government’s total revenue has been on the decline and one of the reasons for this has been attributed to tax non-compliance. Taxation is a means of pooling resources needed for the operationalization of government policies and developmental agendas.

Achieving high levels of voluntary tax compliance and increasing the marginal levels are issues of concern to fiscal policy makers in developed and developing countries alike. A country’s tax system is a major determinant of other macroeconomic indices for both developed and developing economies, there is a link between tax structure and the level of economic growth and development (Akenbor & Arugu, 2014 and Nwadiolor & Ekezi, 2016). However, taxation can only perform these important functions efficiently where tax payers are willing to comply with tax laws of a country (Alabede, 2014).

An essential objective of tax administration is to ensure the maximum possible compliance by tax payers in their respective tax responsibilities. Regrettably, in many developing nations such as Nigeria, the administration of tax is usually weak and characterized by extensive evasion, corruption and coercion (Loveday & Eiya, 2016). In spite of the numerous tax reforms used by Nigerian government to increase tax revenue over the years, prior research has shown that the proportion of income taxes to total government’s revenue has remained consistently low (Adebisi & Gbegi, 2013 and Kiabel & Nwokah, 2009). However, from all the taxes in Nigerian tax system, personal income tax has remained the most discouraging, inefficient, unproductive and problematic (Loveday & Eiya, 2016 and Nzotta, 2007).

Classification of taxes

There are several bases used in the classification of taxes. However, we shall recognize three broad classifications as classified by the Institute of Chartered Accountants of Nigeria (ICAN) (2013) as follows:

Classification based on tax base: this is the object or item on which tax is collected within the context of the Nigerian Tax Laws, three (3) bases are identifiable. These are income tax, capital tax and consumption tax. Classification based on incidence of tax: this is the impact of tax on the person who pays tax to the government. Under this classification of tax, two forms of taxes are evident which are direct tax and indirect tax. Classification based on tax rate: this is the portion of tax base paid as tax. Under this classification, there are progressive tax, proportional tax and regressive tax.

Personal Income Tax compliance

The issue of tax non-compliance cuts across all economies of the world. From developed economies with organized financial markets such as United Kingdom, France, Germany, United States of America, Spain, Italy, Japan down to fast developing (emerging) markets such as the Russia, India, Brazil, China and South-Africa to other Less Developed (frontier) markets such as, Ethiopia, Ghana, Zimbabwe, Cameroun and Nigeria amongst others where financial activity is relatively low (Muhtaralal & Ogundeji, 2013).

Tax compliance is the degree to which a tax payer complies with the tax rules of his country (Ahmed & Kedir, 2015). The payment of tax is an obligatory duty for all citizens as their civic responsibility, which
they are expected to comply willingly with, but that is not the case with some citizens. The understanding of the factors that influence tax payers’ decision to comply with relevant tax laws is essential to the relevant tax authorities (Feyitimi & Yusuf, 2014). Tax compliance is described as the process of accomplishing the tax payer’s civic responsibility for tax payment and filing of tax returns including the provision of the required documents and the necessary explanations as required by the tax authority in a timely manner (Oyedele, 2009).

Kirchler (2007) defines tax compliance is the ability of a tax payer to report the actual income, claim deductions and pay the correct amount of tax due to the tax officials at the appropriate time. The assurance of a high level of tax compliance is the heart of tax collection process advocated by the tax authorities. Some tax payers voluntarily comply with personal income tax laws while others do not comply. The effect of those that are not complying undermines equity and efficiency of the tax system by increasing the administrative costs and by unfairly shifting the tax burden on those who comply (Liucija, 2013).

Tehulu and Dinberu (2014) defined tax non-compliance as failure to comply with tax laws and report incorrect income, the act of claiming incorrect deductions and exemptions and/or paying incorrect amount of tax beyond the stipulated time frame. Tax non-compliance is socially destructive, as it can reduce revenue, distorts labour market and weakens the economic stability of a country thereby enhancing perception of cheating and fraud (Ahmed & Kedir, 2015). Reducing non-compliance can be effective if the reasons for non-compliance by tax payers are investigated, detected and addressed.

Adebisi and Gbegi (2013) defined personal income tax as a compulsory levy on employment income and any other income received by individuals. Individuals here are those in paid employment and those in self-employment. The current law guiding the taxation of personal income in Nigeria is the Personal Income Tax (Amendment) Act 2011. Personal income tax is a levy charged on the income of individuals. Taxable persons are required to file the returns of statutory income earned with the relevant tax authority where they are resident in the prescribed form from which they will be assessed (government assessment) or the individual carries out the assessment on himself taking cognizance of his reliefs, computes the amount expected to be paid as tax based on the current rate, and goes ahead to make payments i.e. self-assessment. Compliance is not just about filing returns and paying the tax, rather it is about filing the right returns and paying the right amount of tax, which was honestly disclosed and accurately computed.

Personal Income Tax (PIT) is a tax that is imposed on individuals who are either in employment or are running their own small businesses under a business name or partnership (Samuel, 2011). Collection of personal income tax is a federal and states responsibility, this tax is generally collected by state governments from their respective states, irrespective of whom they are working with whether federal, state, local government, or private sector workers. The Federal Inland Revenue Service, however, also collects personal income tax from residents of Abuja as well as what may be described as highly mobile federal workers – staff of the Ministry of Foreign Affairs, non-residents, expatriate workers resident in Nigeria, Police Officers, and Military Officers.

The existence of tax system encourages individuals and organizations to give part of their income to the government as taxes. Tax system that is made up of tax laws, tax policies and tax administration is put in place so as to ensure that tax payers comply with tax rules and regulations (Ngerebo & Masa, 2012). Personal income tax serves as an instrument of income redistribution (in addition to revenue raising), but caution is to be taken to ensure that this does not create undue burden and barrier to formalization especially salary income earners end up being ‘trapped’ in the system while others could have opportunity to stay out of formality and pay no taxes (Le, 2016). Verboon and Dijke (2011) explained that tax compliance is a matter of will, which they describe as willingness on the part of tax payers to comply with relevant tax laws and authorities by paying the right amount of taxes without being forced.

In the opinion of the researcher, having examined some of the definitions as put forward by other researchers, personal income tax compliance would be described as total obedience both wilful and forced, to the relevant personal income tax laws and regulations by both tax payers and tax authorities.
Prior Empirical Studies

The objective of this sub-section is to review the relevant prior empirical literature on determinants of personal income tax compliance in order to ascertain the current status of the empirical studies on determinants of personal income tax compliance. As a result of the importance associated with tax compliance, various studies have been carried out on tax compliance. These studies attempt to consider factors responsible for tax compliant behaviour. Such studies include among others: Alabede, 2014; Alabede, Ariffin & Idris, 2012; Ching, 2013; Helhel & Ahmed, 2014; Machogu & Amayi, 2013 and Nurlis, 2015.

Alabede (2014) carried out exploratory analysis of individual tax payers’ compliant behaviour in Nigeria using age grouping, income level, employment status and ethnicity as variables of tax compliance. The findings demonstrate that tax payers’ age grouping, income level, employment status and ethnic background significantly affect tax compliant behaviour in Nigeria. Alabede et al, (2012) investigated non-compliance opportunities and tax compliant behaviour in Nigeria using financial condition. They found that financial condition has significant effect on the influence of non-professional occupation of the tax compliant behaviour.

Ching (2013) investigated the determinants of tax non-compliance in Malaysia using gender, age, marital status, education level, public governance quality, tax education, tax morale and personal income of respondents, tax rate and expected future tax costs. He found that there is no difference in gender towards the level of tax non-compliance, but there are differences between age group, marital statuses, income level and educational levels towards tax non-compliance. Tax education and tax rate have significant positive relationship with level of tax non-compliance among tax payers in Malaysia; the effect of tax morale and future tax costs on tax non-compliance was negative and insignificant.

Helhel and Ahmed (2014) investigated the factors affecting tax attitudes and tax compliance in Yemen using tax rate, unfair tax system and tax audit as variables for tax compliance. They found that high tax rates and unfair tax system have significant negative relationship with tax compliance. They also found that low tax audit has significant negative relationship with tax compliance. Machogu and Amayi (2013) examined the effect of tax payer education on tax compliance among SMES in Tanzania using tax education as variable of tax compliance. The study found that the level of tax payer education affects the tax compliance which indicates that there is a significant positive relationship between the level of tax knowledge and tax compliance.

Nurlis (2015) investigated the effect of tax payer awareness, tax penalties and tax authorities’ services on the tax compliance in Indonesia using tax payer's awareness and tax penalties as variables for tax compliance.

Tax fairness and personal income tax compliance

Tax fairness can be described as a tax platform based on an ideal that aims to create a system of taxation that is clear, fair and just to all tax payers. Tax fairness limits the amount of tax legislation and rules that benefit one segment of the tax-paying population over another. Tax fairness, as perceived by Akubo, Achimugu & Ayuba (2016), could either be horizontal or vertical. Horizontal tax fairness is the instance where tax payers are being treated equally in terms of their taxes while vertical tax fairness is when tax payers are being treated or taxed with different tax rates as a result of their different tax bases. Afuberoh and Okoye (2014) opined that horizontal equity ensures equal treatment of equal individuals; Nigerian tax system should therefore seek to avoid discrimination against economically similar entities. While vertical equity on the other hand addresses the issue of fairness among different income categories. In this regard, the Nigerian tax system shall recognize the ability to pay principle, in that individuals should be taxed according to their ability to bear the tax burden.

Furthermore, an individual’s attitude towards the tax system may predict his tax compliant behaviour. A tax payer who has a favourable attitude towards tax evasion is expected to be less compliant, and equally, a tax payer with an unfavourable attitude towards tax evasion is likely to be more compliant (Alabede, Ariffin, & Idris, 2011). The increasing dissatisfaction with the fairness of the tax system is the major cause for tax non-compliance (Chan, & Lemong, 2009). Gillingham and Richardson (2005) opined that a tax system that is assumed to be unfair will discourage people to engage in compliant behaviour. Perceived
fairness of the tax system is an important factor that is likely to affect individuals’ tax compliant
decisions.
Tax is adjudged to be fair by tax payer, if it could be justified by the level of services provided by the
government. Similarly, it is deemed to be equitable if the entire population qualified to pay the tax is
effectively brought into the tax net. The level and quality of infrastructural and social/welfare services
provided by governments in Nigeria do not elicit voluntary tax compliance.
The studies of (Akubo et al, 2016; Bojuwon, 2010; Fadjar, 2012; Gberegbe, Idornigie & Nkanbia-Davies,
2015; and Tehulu, & Dinberu, 2014) observed that tax fairness has a direct relationship with tax payers’
willingsness to comply with the payment of personal income tax. The study of Akubo et al, (2016) that
investigated tax compliance behaviour of small scale enterprises in Nigeria found that tax fairness has a
positive significant relationship with tax compliance. Bojuwon (2010) in his study investigated the impact
of tax fairness on tax compliance in Nigeria, and found that tax fairness has a significant influence on tax
compliance.
Fadjar (2012) investigated the influence of tax fairness and communication on voluntary compliance in
Indonesia using fairness, communication and trust as variables of tax compliance. The study found that
the effect of tax fairness on voluntary compliance is positive and significant. He however, found that the
effect of communication on voluntary compliance is insignificant. In a study conducted by Gberegbe et
al, (2015) which examined the perception of tax fairness and personal income tax compliance in Nigeria,
it was found that a significant positive relationship exists between fair treatment of tax payer and tax
compliance. Tehulu and Dinberu (2014) investigated the determinants of tax compliant behaviour in
Ethiopia, and found that the perception of tax equity and fair tax system significantly influence tax
compliant behaviours. From the studies stated above, it could be seen that fairness of tax plays a
significant role in enhancing the level of tax compliance.

METHODOLOGY
Theoretical Framework and Model Specification
The study anchored on the theoretical framework of equity theory that was introduced in 1963 by John
Stacey Adams which states that fairness and equity are key components of a motivated individual. Adams
suggested that if someone perceives an unfair environment, he will be de-motivated, while his perception
of fair environment will motivate him (Douglas, 2015). The theory is based on the idea that individuals
are motivated by fairness, and if they identify inequities in the ratios of input/output of themselves and
also with their referent group, they will try to adjust their input to reach their perceived equity.
The easiest way to see the equity theory at work, and probably the most common way it does impact tax
payers, is when a tax payer feels over assessed, then that tax payer will experience hostility towards
the tax official and perhaps co-tax payers, which may result in the tax payer's reduced performance
thereby resulting to non-tax compliance (Verboon & Dijke, 2007). Equity may also be based on how
equal or unequal the tax law treats them vis-à-vis others (distributive justice).
Going by this theory, personal income tax payers ought to have been encouraged by fairness in the
Nigerian tax system so as to enhance their tax compliance, while the government on their own part ought
to be fair in the assessment, collection and distribution of tax.
Model Specification
In the same vein, it is expected that tax fairness will encourage personal income tax compliance. It is
therefore expected that tax fairness may determine tax compliance (Akubo et al, 2015; Bojuwon, 2010;
Gberegbe et al, 2015 and Tehulu, & Dinberu, 2014). Hence, a functional relationship is expected between
tax fairness and personal income tax compliance

Personal income tax compliance = f(Tax fairness) ........................................ (i)

This equation is transformed into econometric form as

\[ PITC = \beta_0 + \beta_1 TF + \epsilon \] ........................................ (ii)

Where:
- \( PITC \) = Personal Income Tax Compliance
- \( TF \) = Tax Fairness
- \( \beta \) = Unknown Coefficient of the Variables
- \( \epsilon \) = Error Term
Research Design
The survey research design was employed in order to elicit information from the sampled respondents selected for the study. The choice of this method stems from its high reliability of engaging more honest response than other research methods and the descriptive nature of the study. The research population includes all personal income tax payers in Nigeria, but it would not be possible to collect data from all the personal income tax payers in Nigeria due to the size of the population. Therefore, a cluster sampling technique was used to choose the South-south zone and South-east zone out of the six zones in Nigeria. The choice of South-south zone and South-east zone of Nigeria was based on concentration of businesses, high level of education and simple convenience.
For the purpose of picking our sample, the purposive sampling technique was employed due to the size of the population under study. From all the six states (Akwa-Ibom State, Bayelsa State, Cross River State, Delta State, Edo State and Rivers State) in South-south zone and from all the five states (Abia State, Anambra State, Imo State, Ebonyi State and Enugu State) in South-east zone, Edo State and Anambra state were randomly chosen. Two hundred respondents were chosen from each of the two selected states.
To gather relevant primary data, a survey method with self-structured questionnaire was used. Close ended questionnaire was prepared in the form of five Likert-Scale, where: Strongly Agree (SA) = 5; Agree (A) = 4; Neutral (N) =3, Disagree (D) = 2; and Strongly Disagree (SD) = 1; the use of likert scale is to make it easier for respondents to answer questions in a simple way.

Table 1: Measurement of variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Acronym</th>
<th>Measurement</th>
<th>Expected Sign</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax Compliance</td>
<td>PITC</td>
<td>Five questions covering reporting, timing, payment and cost of compliance.</td>
<td></td>
</tr>
<tr>
<td>Tax Fairness</td>
<td>TF</td>
<td>Five questions bothering on equity and fair play in the Nigerian tax system.</td>
<td>+</td>
</tr>
</tbody>
</table>

Source: Researcher’s Compilation (2018)

The research instrument used is the structured Likert scale questionnaire consisting of ten (10) questions: Five questions for the dependent variable and five questions for the explanatory variable. The first sub section relates to tax compliance and deals with the issues that concern reporting, timing, payment and cost of compliance and the second sub section deals with the perception of tax payers on tax fairness. The Spearman Rank correlation coefficient (R) was applied to explain the strength of the relationship between the factor in the hypothesis of this research and income tax compliance. Ordinary Least Square (OLS) was applied in testing for significant relationship between the means of the variables and personal income tax compliance. These tools were primarily employed to explain the causal relationship between tax fairness personal and income tax compliance decisions of tax payers. Personal income tax compliance was taken as the dependent variable against the independent variable of tax fairness. The study was carried out in South-south zone and South-east zone, Nigeria.

ESTIMATION RESULTS AND DISCUSSION OF FINDINGS
The dependent variable used in this study is personal income tax compliance while the independent variable is tax fairness. However, this section seeks to present and give detailed empirical analysis of the data gathered specifically for this study.
Descriptive Statistics

Preliminary Analyses of Determinants of Personal Income Tax Compliance

Table 2: Frequency distribution of responses on the variable of tax fairness

<table>
<thead>
<tr>
<th>Tax Fairness</th>
<th>SA</th>
<th>A</th>
<th>N</th>
<th>D</th>
<th>SD</th>
<th>MEAN</th>
</tr>
</thead>
<tbody>
<tr>
<td>Since so many other people are not tax compliant, I cannot be blamed for not complying.</td>
<td>98</td>
<td>121</td>
<td>53</td>
<td>73</td>
<td>42</td>
<td>3.41</td>
</tr>
<tr>
<td>There is no need to be tax compliant since you are not getting your fair share of benefits, services and amenities that you are paying for.</td>
<td>58</td>
<td>135</td>
<td>81</td>
<td>68</td>
<td>45</td>
<td>3.24</td>
</tr>
<tr>
<td>As several businessmen pay no income taxes et all, if someone like you understate a little, it is not non-compliance.</td>
<td>106</td>
<td>154</td>
<td>78</td>
<td>34</td>
<td>15</td>
<td>3.78</td>
</tr>
<tr>
<td>Tax payers’ perceived fairness in the tax system enhances tax compliance level.</td>
<td>55</td>
<td>79</td>
<td>78</td>
<td>118</td>
<td>57</td>
<td>2.89</td>
</tr>
<tr>
<td>Overall, I think personal income tax system in Nigeria is fair.</td>
<td>51</td>
<td>123</td>
<td>56</td>
<td>85</td>
<td>72</td>
<td>2.99</td>
</tr>
</tbody>
</table>

Source: Researchers Computation (E-views 8) 2018

Note: SA is strongly agree, A is agree N is Neutral, D is disagree, and SD is strongly disagree. The mean value is based on a five point scale of SA(5), A(4), N(3), D(2), and SD(1). The population mean is thus 3. Frequency distribution was used to describe the sample. The sample means were calculated as: \( \frac{1}{387} * 5(98) + 4(121) + 3(53) + 2(73) + 1(42) = 3.41 \). The null hypothesis is \( H_0 = \mu_o = 3 \) while the alternate is \( H_1 = \mu_1 \neq 3 \). Where \( \mu \) is the sample mean.

Table 2 presents the result of the frequency distribution of the variable of tax fairness. The variable reported an average sample mean of 3.26 which exceeds the population mean of 3.00. Hence, we rejected the null hypothesis of \( H_0 = \mu_o = 3 \) and accepted the alternative hypothesis. Against this backdrop, we came to a preliminary conclusion that the respondents perceived good governance as a determinant of personal income tax compliance in Nigeria.

Table 3: Results of the Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>ITC</th>
<th>TF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>17.70801</td>
<td>16.30233</td>
</tr>
<tr>
<td>Median</td>
<td>18.00000</td>
<td>16.00000</td>
</tr>
<tr>
<td>Maximum</td>
<td>25.00000</td>
<td>25.00000</td>
</tr>
<tr>
<td>Minimum</td>
<td>9.00000</td>
<td>5.00000</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>3.04527</td>
<td>3.350674</td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.228441</td>
<td>-0.159028</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>2.761136</td>
<td>3.041339</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>4.285982</td>
<td>1.658757</td>
</tr>
<tr>
<td>Probability</td>
<td>0.117303</td>
<td>0.436320</td>
</tr>
<tr>
<td>Sum</td>
<td>6853.000</td>
<td>6309.000</td>
</tr>
<tr>
<td>Sum Sq. Dev.</td>
<td>3580.005</td>
<td>4333.628</td>
</tr>
<tr>
<td>Observations</td>
<td>387</td>
<td>387</td>
</tr>
</tbody>
</table>

Source: Researchers Computation (E-views 8) 2018

Where: ITC is Income tax compliance and TF is Tax Fairness

The result of the descriptive statistics is presented in Table 3. The data used in this study are subset of tax payers in the informal sector of the South-south and South-east geopolitical region of Nigeria. The survey was conducted in the year 2018, with a response rate of 97% approximately. The total number
of observations is 387. The results of the descriptive statistics provide information on the mean, median, standard deviation, skewness, kurtosis, and Jarque-Bera statistic of both the dependent and the explanatory variables. The mean tax compliance (TC) is 17.70801 representing about 18% of the total respondents sampled for the study. The median value is 18.00000 with maximum and minimum values of 25.00000 and 9.000000 respectively. The mean value of the variable of tax fairness (TF) is 16.30233, with maximum and minimum values of 25.00000 and 5.000000 respectively. The standard deviation of the regression variables is relatively small which shows that the variables are not widely dispersed from the sample mean. Low dispersion is a conventional wisdom of the quality of the regression variables. The Jarque-Bera values are relatively small which indicates a mixed normality situation. The probability associated with the Jarque-Bera values of the variables of TF (0.436320) is significant and indicative of the standard Gaussian distribution.

Table 4: Result of the Robust Model

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>9.974793</td>
<td>1.554407</td>
<td>6.417103</td>
<td>0.0000</td>
</tr>
<tr>
<td>TF</td>
<td>0.097858</td>
<td>0.045937</td>
<td>2.130275</td>
<td>0.0338</td>
</tr>
</tbody>
</table>

R-squared       0.568251 Mean dependent var 17.70801
Adjusted R-squared 0.436742 S.D. dependent var 3.045427
S.E. of regression 2.958891 Akaike info criterion 5.022888
Sum squared resid 3335.668 Schwarz criterion 5.084259
Log likelihood   -965.9289 Hannan-Quinn criter. 5.047223
F-statistic      5.581641 Durbin-Watson stat 1.702536
Prob(F-statistic) 0.000056

Source: Researchers Computation (E-views 8) 2018

Where: ITC is tax compliance, TF is tax fairness.

The results of the robust model reported an adjusted R-squared value of 0.436742. The result signifies that about 44% of the systematic variation in the dependent variable of tax compliance is accounted for by the explanatory variable of tax fairness (TF). The F-value of 5.581641 and the associated probability value of 0.000056 is indicative of the presence of a significant linear relationship between the dependent and the explanatory variable. The Durbin statistic of 1.702536 approximates to the benchmark of 2.000000 and indicative of the absence of autocorrelation in the regression variables.

The explanatory variable of tax fairness is positive, with a t-value of 2.1302275 and a significant probability value of 0.0338 at the 5% level of significance. The implication of the result, is that tax fairness increases the level of tax compliance. Where there is transparency and equity in the tax system, there seem to be increased level of tax compliance.
Test of Hypothesis

Hypothesis Restated: Ho: There is no significant relationship between tax fairness and personal income tax compliance in Nigeria.

Table 5: Result of the Simple Linear Regression of Tax Fairness as Explanatory Variable.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>15.64592</td>
<td>0.763397</td>
<td>20.49514</td>
<td>0.0000</td>
</tr>
<tr>
<td>TF</td>
<td>0.126491</td>
<td>0.045871</td>
<td>2.757524</td>
<td>0.0061</td>
</tr>
</tbody>
</table>

R-squared 0.719368  Mean dependent var 17.70801
Adjusted R-squared 0.715685  S.D. dependent var 3.045427
S.E. of regression 3.01975  Akaike info criterion 5.053350
Sum squared resid 3510.668  Schwarz criterion 5.073807
Log likelihood -975.8232  Hannan-Quinn crit. 5.061462
F-statistic 7.603937  Durbin-Watson stat 1.699629
Prob(F-statistic) 0.006102

Source: Researchers Computation (E-views 8) 2018

Table 5 presents the result of the linear regression between tax fairness and personal income tax compliance. The adjusted coefficient of multiple determination of 0.715685 shows that 71% of the systematic variation in personal income compliance is caused by tax fairness. The robust F-statistic of 7.603937 and the associated probability value of 0.006102 show a significant linear relationship between tax fairness and personal income tax compliance. The result of the regression reported a t-value of 2.757524 and a probability value of 0.0061, which indicates a significant linear relationship between tax fairness and personal income tax compliance. The result of the analysis could not sustain the null hypothesis of no significant relationship between tax fairness and personal income tax compliance. We therefore accepted the alternative hypothesis.

DISCUSSION OF FINDINGS

The objective of the study is to examine the relationship between tax fairness and personal income tax compliance in Nigeria. The result of both the robust and simple linear regression analyses reported a positive and statistically significant relationship between tax fairness and personal income tax compliance in Nigeria. Extant literature reported a predominant positive relationship between tax fairness and personal income tax compliant. The studies of (Akubo et al, 2015; Bojuwon, 2010; Fadjar, 2012; Gberegbe et al, 2015; and Tehulu, & Dinberu, 2014), all reported a positive relationship between tax fairness and personal income tax.

The justification for the consensual positive relationship between tax fairness and personal income tax compliance is not far-fetched. Intuitively, a tax system that is fair, transparent and upholds the tenets of equitable distribution will no doubt discourage dysfunctional behaviour that maybe inimical to effective tax compliance. The finding is in line with the equity theory which is based on the idea that individuals are motivated by fairness and justice in the tax system to determine their level of compliance (Akubo et al, 2015).

CONCLUSION AND RECOMMENDATION

The main thrust of this study was to examine the effect of tax fairness on personal income tax compliance in Nigeria. Specifically, the study tested the significant relationship between tax fairness and personal income tax.
income tax compliance in Nigeria. The study found that there is a positive and statistically significant relationship between tax fairness and personal income tax compliance in Nigeria. From the empirical analysis, the study revealed that tax fairness is positively and statistically related to personal income tax compliance in Nigeria. This shows a significant linear relationship between tax fairness and tax compliance. The implication of the result is that tax fairness increases tax compliance.

The study therefore recommended that:

1. The tax payers always expect fair treatment from the tax authorities, which simply means that they should be treated without discrimination and bias. Similarly, tax payers who engage in non-tax compliance need to be penalized equally so as to fairly implement the tax system.
2. The tax authorities should maintain horizontal and vertical fairness in the assessment and collection of taxes, the distribution of tax revenue should be done fairly by the government.

REFERENCES


**APPENDIX I**

**Effect of Tax Education on Personal Income Tax Compliance in Nigeria**

Kindly tick (✓) the preferred option as appropriate

<table>
<thead>
<tr>
<th>S/N</th>
<th>Tax Compliance</th>
<th>SA 5</th>
<th>A 4</th>
<th>N 3</th>
<th>D 2</th>
<th>SD 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>High cost of tax compliance reduces tax payers’ compliant level.</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>2</td>
<td>When one pays his/her tax even at the expiration of the payment period, such person is compliant.</td>
<td></td>
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<tr>
<td>3</td>
<td>Personal income tax generation has not been impressive.</td>
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<tr>
<td>4</td>
<td>I would still accept a job if the employer offers not to deduct any income tax even though, by law, the employer should.</td>
<td></td>
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<tr>
<td>5</td>
<td>Paying tax even when the actual amount of tax is not paid to the tax authority can still be regarded as tax compliance.</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Tax Fairness**

<table>
<thead>
<tr>
<th>S/N</th>
<th>Tax Compliance</th>
<th>SA 5</th>
<th>A 4</th>
<th>N 3</th>
<th>D 2</th>
<th>SD 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>6</td>
<td>Since so many other people are not tax compliant, I cannot be blamed for not complying.</td>
<td></td>
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<tr>
<td>7</td>
<td>There is no need to be tax compliant since you are not getting your fair share of benefits, services and amenities that you are paying for.</td>
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<tr>
<td>8</td>
<td>As several businessmen pay no income taxes et al, if someone like you understate a little, it is not non-compliance.</td>
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<tr>
<td>9</td>
<td>Tax payers’ perceived fairness in the tax system enhances tax compliance level.</td>
<td></td>
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</tr>
<tr>
<td>10</td>
<td>Overall, I think personal income tax system in Nigeria is fair.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Keys:** Strongly Agree (SA) = 5, Agree (A) = 4, Neutral (N) = 3, Disagree (D) = 2, Strongly Disagree (SD) = 1.