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IMPACT OF EDUCATION AND GENDER ON PERSONAL INCOME TAX COMPLIANCE IN KWARA STATE, NIGERIA

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Abstract

This study investigates the impact of educational qualification and gender on personal income tax compliance in Kwara State. A questionnaire was administered to 450 respondents in the three local government areas in Ilorin metropolis. Mann-Whitney U test and Analysis of Variance statistical techniques were employed to analyze the data collected. The results reveal that both educational qualification and gender affect personal income tax compliance. As such, the study recommends that the Kwara State Board of Internal Revenue should target the taxpayers with lower level of educational qualifications and male; with a view to directing its audit strategies in respect of the evaders and bridge the tax gap also to create awareness about the penalty attached to tax evasion.

Keywords: Compliance; Education; Gender; Tax Compliance.

Introduction

Tax payment is one of the civic duties of a citizen. Over the years, it has been very difficult to persuade all eligible taxpayers to comply with the requirements of a tax system. According to James and Alley (2004), tax compliance is likely to become a significant aspect of tax policy as most of the old problems remain and new considerations are raised by developments such as self-assessment, the emergence of global economy and electronic commerce. Tax payment compliance seems to be the main problem confronting all revenue authorities worldwide. This is more pronounced in transition and developing economies than the developed economies because most of these economies do not have appropriate information about the taxpayers.

Taxation as a potential source of revenue generation to governments in Nigeria is beset with the problem of evasion. Tax evasion is the minimization of one's tax liability by methods that are not inconsonant with the provisions of tax laws. According to Abdulkareem (2005), more than seventy percent of the Kwara State total revenue is

derived from the Federation Account allocation. In order to harness the available taxable resources in the state, which would enable it to provide the quality and quantity of public goods and services needed by its citizens, rather than relying heavily on the Federation Account allocation, it is important for the Kwara State government through the Kwara State Board of Internal Revenue to know the issues involved in taxpayers compliance. One of the ways by which this could be done is by examining the demographic factors such as gender and education of taxpayers closely and identify their particular compliance traits.

The main objective of this study is to investigate the impact of gender and educational qualification on Personal Income Tax compliance in Kwara State, with a view to enabling the Kwara State Board of Internal Revenue to direct its auditing strategies in respect of the tax evaders and bridge the tax gap. To achieve this objective, the following hypotheses were formulated and tested:

- HO₁ The is no difference between Personal Income Tax Compliance and educational qualification of taxpayers in Kwara State;
- HO₂ There is no difference between Personal Income Tax Compliance and the gender of taxpayers in Kwara State.

The paper is organized into five sections. Section one is the introduction. Section two deals with the conceptual framework and literature review. The third section discusses the methodology used for the study. The fourth section presents the results of the study and the fifth section concludes the paper.

Conceptual Framework and Literature Review

Tax and Taxation

Agbetunde (2004) defines tax as "a compulsory levy imposed by the government authority through its agents on its subjects or his property to achieve some goals". It is paid 'quid pro quo' that is, with the taxpayers expecting something specific in return. Tax is defined as a compulsory (but non-penal) levy imposed by the government through its agents on the income, capital and consumption of its subject citizenry (Akabike, 2005). As set forth by Ola (2001), it is a compulsory levy imposed on a subject or upon his properties by the government to meet government expenditures.

Akabike (2005) defines taxation as the concept and the science of imposing tax on the citizen. Dandago and Alabede (2000) define taxation as a compulsory contribution made by individuals and organizations towards defraying the expenditure of the government. Agbetunde (2004) defines taxation as the process of imposing, assessing and collecting of a country compulsory payment of money by the citizens of the country.

Tax Compliance

The meaning of tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law. James and Alley (2004) put it succinctly that, like many such concepts, the meaning of compliance can be seen almost as a continuum of definitions. This ranges from the narrow law enforcement approach, through wider economic definitions and on to even more comprehensive versions relating

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to taxpayers' decisions to conform to the wider objectives of society as reflected in tax policy. James and Alley (2004) further explains that taking the narrow end of the continuum, one suggestion is that the degree of non-compliance may be measured in terms of 'tax gap'. Tax gap represents the difference between the actual revenue collected and the amount that would be collected if there were 100 per cent compliance. Therefore, James and Alley (2004), define tax compliance as the willingness of individuals and other taxable entities to act in accordance with the spirit as well as the letter of tax law and administration without the application of enforcement activity.

Roth, Scholz, and Witten (1989) define taxpayer compliance as an agreement with reporting requirements, meaning that the taxpayer files all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the internal revenue code, regulations and court decisions applicable at the time the return is filed. Andreoni, Erard and Feinstein (1998) explained tax compliance by including a time dimension. As they put it, a popular indication of the magnitude of evasion is the tax gap - the difference between the federal income taxes households actually owe, and what they report and pay voluntarily on a timely basis. Bergman (1998) suggests that tax compliance is what the state assumes is legally owed by taxpayers. However the state and taxpayers do not necessarily share the same interpretation. Tax evasion is said to occur when individuals deliberately fail to comply with their tax obligation (Franzoni, 1998).

Factors affecting Tax Compliance

Tax compliance is one of the problems usually battled with by revenue collecting authorities worldwide. For example, in the United State of America, the Internal Revenue Service has taken pain to estimate the amounts of tax revenue, which are not collected under the American system of self-assessment. One measure is the 'net tax gap.' This is the difference between 'true' individual income tax liability and that finally collected on a voluntary basis or by enforcement action. It has been estimated to be between \$US 78.3billion to 80.4 billion or 14.2 to 15 per cent of US personal income tax liability in 1992 (IRS, 1996). The majority of this loss consisted of the underreporting of income, with smaller proportions attributable to the non-filing of returns and overstating the tax deductions. Self-assessment is also one of the factors affecting tax compliance. Where Self-assessment is practiced, it is the responsibility of the taxpayer rather than the revenue authority to calculate the relevant tax liability and to ensure that the requirements regarding payment are met (Barr, James and Prest, 1977).

Empirical Studies on the Impact of Education and Gender on Tax Compliance Gender

Several studies have been conducted on the attitudes of men and women towards tax compliance. For instance studies by Akaah (1989), Boyd (1981) and Hoffman (1998) found that women are more ethical than men. However, the studies conducted by Barnett and Karson (1987), Weeks, More, McKinney and Longenecker (1991) expressed contrary views and they found that men are more ethical than women. Oxley (1993), conducted a comprehensive study and reported that women in New Zealand were more

often compliers in comparison than men and were often less tax evaders or tax avoiders than men.

A common finding amongst studies reviewed by Richardson and Sawyer (2001) and Jackson and Milliron (1986) was that female taxpayers were more compliant than their male counterparts. However, Richardson and Sawyer noted that this compliance gap between males and females appears to be narrowing with the emergence of a more independent, non-traditional generation of women. In a survey of American taxpayers, Hite (1997) focused on the interaction between gender and education. Female respondents with College degrees tended to be more tolerant of non-compliance than females without College degrees.

According to Andreoni and Vesterlund (2001) and Eckel and Grossman (2001), the experimental research findings by Spicer and Becker (1980), Spicer and Hero (1985), Baldry (1987), Jackson and Jaouen (1989) showed that gender may influence various behaviours for example, charitable giving, bargaining, and household decision making. Researches carried out using survey method such as Vogel (1974), Minor (1978), Aitken and Bonneville (1980), Tittle (1980), Torgler and Schneider (2007) showed the tendency that men are less compliant and have lower tax morale than women. However, the research carried out by Houston and Tran (2009) showed a higher proportion of tax evasion committed by women than men.

Oxley (1993) surveyed 16,000 randomly selected taxpayers in New Zealand, with 52 percent of respondents being women. The respondents were asked to assess on a five-point Likert scale the seriousness of a \$500 tax evasion and five other offences involving the same amount of money, two of which were property-related crimes and three were white collar crimes. The findings from this study indicated that ten percent of women respondents felt that tax evasion was not serious. They found that 53 percent of women respondents considered that tax evasion was an extremely serious offence compared to cashing a cheque from a stolen cheque book (80 percent), theft from employer (78 percent), shoplifting (77 percent), social welfare benefit fraud (74 percent), and receiving a fraudulent insurance claim (67 percent). The results revealed that males considered evading \$500 of tax to be less serious than females.

McIntosh and Veal (2001) surveyed tertiary students to investigate the relationship between gender and attitudes of New Zealanders towards small businesses and individual tax evasion. They found 16 percent of respondents felt that tax evasion was totally acceptable, and 30 percent felt that tax evasion was totally unacceptable. The results indicate a high level of public acceptability for minor tax evasion offence and when compared with females, males viewed understating income for tax purposes as acceptable.

Eicher, et al. (2002) surveyed men and women respondents regarding their perception of various crimes, including cheating on their tax return. The study reports that 49 percent of men and 59 percent of women said that it is not at all acceptable to cheat on one's income taxes. The findings also revealed that overstating tax deductions was acceptable to 44% of males and 36% of females. Richardson (2004) carried out a survey of postgraduate business students to investigate the impact of demographic variable of gender on perceptions of fairness of tax system in Hong Kong; and the data

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were analyzed using the Analysis of Variance (ANOVA) statistical technique. He found that females perceived the Hong Kong tax system to be fairer than males.

Devos (2006) investigated the relationship between demographic variable of gender and the attitudes of Australian and New Zealand tertiary students towards tax evasion. The research indicates that for Australian respondents, gender variable was statistically significant at the five percent level with regard to the incidence of tax evasion. It may be inferred from the foregoing that females comply more than males and this is based on the fact that females tend to be more conforming, conservative, more dependent and more traditional, usually bound by moral restraints than their male counterparts. However, the level of compliance is gradually reducing in the environment where females are more independent and non-traditional.

Education

According to Jackson and Milliron (1986) education as a demographic variable relates to the taxpayer's ability to comprehend and comply or not comply with tax laws. Groenland and Veldhoven (1985) distinguished two aspects of education: the general degree of fiscal knowledge and the degree of knowledge involving evasion opportunities. The effect of education on taxpayer compliance is also unclear, based on the study of Wallschutzky (1993) in which he indicated that education is the variable likely to improve compliance. Beron, Tauchen and Witte (1992) indicated that inconsistent results are produced as education is highly correlated with income level.

The reasons given for these conflicting findings are varied. First, there can be difficulty in determining which aspect of education is being measured. Jackson and Milliron (1986) and Richardson and Sawyer (2001) identified four measures of education: the general degree of fiscal knowledge, knowledge involving evasion opportunities, general education attainment and specific tax knowledge. These different dimensions may assist in explaining the confusion surrounding the effect that the education variable has on taxpayer compliance. Correlations between education and other compliance variables may also have contributed to the inconsistent results found.

Chartered Institute of Taxation in Nigeria (2002) reported that there is very little tax education in Nigeria; taxpayers are ignorant of the laws regulating their taxation, and this makes disclosure difficult. Owing to this communication gap most taxpayers see taxes as a mere legal hindrance rather than their civic responsibility. Chan, Troutman and O'Bryan (2000) conducted a survey to compare compliance behaviour between Hong Kong and US taxpayers. They found that the US respondents' decisions to comply with tax laws were primarily driven by their education, which in turn positively influenced moral development and attitude. In contrast, Hong Kong respondents have shown a negative link between education, moral development, attitude and compliance. Although Hong Kong subjects felt the tax system was generally fair, lower levels of education and moral development moderated such a positive perception, which both contributed indirectly to a less favorable attitude.

Houston and Tran (2009) using randomized response technique for a mail questionnaire survey of Australian found that taxpayers without tertiary education do have lower proportion of tax compliance than their counterparts with tertiary education.

Song and Yarbrough (1978) in their experiment found that those with more fiscal knowledge had more positive tax ethics scores than those with lower fiscal knowledge.

Birch *et al* (2003) surveyed New Zealand tertiary education students to investigate the relationship between demographic variables and New Zealanders' attitude towards tax evasion. They found 14 percent of respondents felt that tax evasion was totally acceptable and 25 percent said tax evasion was totally unacceptable. The findings revealed that eight out of ten demographic variables analyzed: course, age, ethnicity, qualification, employment status, occupation, income, work experience and tax return filing experience, held statistically significant relationships at the five percent level with the acceptability and incidence of tax evasion behaviour. The two demographic variables that failed to show a statistically significant relationship were gender and employment status. Their results indicated that respondents with a taxation qualification and those with a higher qualification are least likely to have understated their taxable income. The results also showed that younger respondents were significantly more likely than respondents with several years' work experience to consider over-claiming of deductions as acceptable.

Eriksen and Fallan (1996) also found that specific tax knowledge was positively linked to taxpayers' attitude. Richardson (2004) carried out a survey of postgraduate business students to investigate the impact of demographic variable of education on perceptions of fairness of tax system in Hong Kong and the results were analyzed using the ANOVA statistical technique. The results revealed that education was found not to be statistically significant at five percent.

Methodology

A cross sectional survey research design was used to collect data; study the problem; pursue the objective and finally, to test the hypotheses of the study. The target population for this study consisted of all eligible personal income taxpayers in Kwara State. That is, those that are liable to payment of Personal Income Tax in Kwara State.

A total of five hundred (500) copies of questionnaire were administered randomly on various taxpayers ranging from paid employment (this consisted the respondents in the government ministries and parastatals, financial institutions and manufacturing companies), the self-employed (such as contractors/ business men, Artisans, Professional Practitioners – lawyers, doctors, accountants and so on and Traders in shops) and the others (such as the unemployed and the retired) across the three local government areas chosen. The purposive sampling technique was employed in this study.

The data for this study was drawn from primary source. The data collection instrument used in this study was a survey questionnaire that was administered by the researcher on the respondents. Out of a total of 500 copies of questionnaires administered, 450 copies were completed given the response rate of 90 percent. All the 450 copies of questionnaire fully completed and returned were analyzed.

In this study, both descriptive and inferential statistics were used. The descriptive statistics such as percentages, tables and frequency counts were used. In respect to inferential statistics, the analysis of variance (ANOVA) statistical technique and independent-samples t-test were used to analyze the association between the demographic variables and personal income tax compliance. ANOVA statistical technique was used to

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test hypothesis one while the Independent-samples t-test was used to test the hypothesis two. The analysis of data for this study was carried out using the statistical package called Statistical Package for Social Sciences (SPSS version 15.0) of 2006.

To test for the hypotheses of this study, the alpha is equal to 0.05 that is 5% level of significance.

Decision Rule:

If $P\text{-value} \leq \alpha$, reject the null hypothesis.

If $P\text{-value} > \alpha$, do not reject the null hypothesis.

Post Hoc test of Duncan Multiple Range Test (DMRT) was used to further indicate where the difference lies, in a situation where there is significant difference. The choice of Duncan Multiple Range Test (DMRT) is based on the fact that it can be used to compare a wide range of treatment means while maintaining a low level of Type 1 error rate at the prescribe α level. These techniques are non-parametric.

Data Analysis and Discussion of Results

This section shows the analysis of the data collected, the analytical procedures performed on the data to test the hypotheses of the study and also the interpretation and discussion of findings. The study revealed that male respondents constitute more than 50% of the respondents while the female respondents constitute over 40% of the respondents (Table 1).

Table 1: Gender of Respondents

Gender	Frequency	Percentage
Male	229	50.9
Female	221	49.1
Total	450	100.0

Source: Author's Field Survey, 2011.

The respondents who have University Degrees constitute the highest number of the total respondents followed by Higher National Diploma holders. The highest level of education of the respondents is Postgraduate Degrees and over 8% of the total respondents are in this category. NCE/OND and Secondary constitute over 17% and 12% of the total respondents respectively (Table 2).

Table 2: Educational Qualification of Respondents

Educational Qualifications	Frequency	Percentage
Secondary	55	12.2
NCE/OND	78	17.3
HND	120	26.7
University degrees (BA/B.Ed/B.Sc)	157	34.9
Post Graduate (MA/MBA/M.Sc/M.Phil/Ph.D)	40	8.9
Total	450	100.0

Source: Author's field survey, 2011.

Impact of Educational Qualification of Taxpayers on Personal Income Tax Compliance

The first hypothesis (H_{01}) of the study which states that there is no difference between personal income tax compliance and educational qualification of taxpayers was tested using ANOVA Statistical technique. This revealed a statistically significant difference in the perceptions of tax compliance across educational qualifications Table 3). This suggests that educational qualification affects people's attitude towards tax compliance. Post hoc tests using DMRT was done to in order to observe where the differences occurred within the educational qualifications. The result of the Post-Hoc test, presented in the Table 4, shows the level of differences between educational qualifications and tax compliance. The Duncan Multiple Range Test (DMRT) result indicates that taxpayers who have secondary education (mean of 1.73) and NCE/OND education (mean of 1.76). HND holders (mean of 1.90) and University degrees (mean of 2.17) have higher compliance to tax and Post graduate degrees holders (mean of 2.45) have the highest level of compliance to the payment of tax. This suggests that with higher level of education, the level of taxpayer compliance tends to increase.

Table 3: ANOVA Result on the Impact of Educational Qualification on Tax Compliance

	Sum of Squares	df	Mean Squares	F	Sig
Between Groups	22.660	4	5.665	5.778	.000*
Within Groups	436.338	445	.981		
Total	458.998	449			

($p < 0.05$)

Source: Author's computations.

Impact of Education and Gender on Personal Income Tax Compliance in Kwara

Table 4: Post-Hoc Test (DMRT) Reporting the Mean Difference between Mean Levels

Educational Level	No	Subset for alpha = 0.05		
		1	2	3
Secondary	55	1.73		
NCE / OND	78	1.76		
HND	120	1.90	1.90	
University Degrees	157		2.17	2.17
Post Graduate	40			2.45
Sig		.332	.103	0.96

Source: Author's computations.

Impact of Gender of Taxpayers on Personal Income Tax Compliance

The second hypothesis of the study which states that there is no difference between personal income tax compliance and gender of taxpayers was also tested using Mann-Whitney U test. The result of Mann-Whitney U test shown in Table 5 revealed that the calculated significant value of 0.000 is far less than p value of 0.05 assumed. This shows that a statistically significant difference exists in the mean perception of male and female on the need to be tax compliant. Thus, it is inferred that female taxpayer are more compliant than their male counterparts.

Table 5: Mann-Whitney U test Result on the Impact of Gender on Tax Compliance by Gender

	Tax Compliance
Mann-Whitney U test	12804.000
Z	-10.014
Asymp. sig. value	0.000

Source: Author's computations.

The mean score for the level of compliance to tax was 1.61 for Male and 2.40 for Female (Table 6). This suggests that female comply to tax more than male. Therefore, the hypothesis is rejected and it is concluded that female are compliant to tax more than male.

Table 6: Descriptive Statistics

Gender	No	Mean	Std. Deviation	Std. Error Mean
Male	229	1.61	.671	.044
Female	221	2.40	1.138	.077

Source: Author's computations.

Conclusion and Recommendations

Based on the analysis of responses generated from the questionnaire administered, this study concludes thus:

- i. Educational qualifications of taxpayers have effects on their attitude towards tax compliance. With higher level of education, the level of compliance tends to increase because they are better informed and acquainted with the activities of government.
- ii. Female taxpayers comply with tax payment more than male taxpayers.

Based on the above conclusions, the following are recommendations of this study:

- i. The Kwara State Board of Internal Revenue should monitor the taxpayers with lower educational qualifications.
- ii. Special attention should be given to male taxpayers to enable them pay their taxes as and when due, and to inform them about the penalty attached to tax evasion.

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