Impact of Deterrent Tax Policies on Tax Compliance: The Nigerian Experience

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Abstract

This paper examines the effects of deterrent tax policies on tax compliance in Nigeria. Following the introduction, we reviewed the existing tax policies and reforms in Nigeria. This is followed by a discussion of the various compliance strategies prescribed in the literature from where we developed our hypotheses. The method of data analysis used in the study is the ordinary least square (OLS) regression technique. This method was adopted because of its properties of consistency, unbiasedness and efficiency. The OLS regression technique was estimated using a computer software (Microfit 4.1). It was observed that the existing deterrent tax policies in Nigeria are inadequate and have not helped to promote tax compliance in the country. It was also discovered that fostering voluntary compliance and enhancing taxpayer's morale will enhance tax compliance. We recommend that the Nigerian revenue authorities should strive to adopt the approach that will encourage voluntary compliance and prescribe appropriate sanctions for defaulters.

Keywords: Tax; Tax system; Deterrent; Tax Policy; Tax Return; Tax Liability

1. Introduction

Tax plays a pivotal role within the concept of generating revenue for the government while enabling it (government) to provide the citizens with such welfare goods and service. According to Margaret and Chris (2009), taxes and tax systems are fundamental components of any attempt to build nations and this is particularly the case in developing nations. Taxes underwrite the capacity of states to carryout their goals; they form one of the central arenas for the conduct of state-society relations and they shape the balance between accentuation and redistribution that gives state their social characters. In summary, taxes build capacity, legitimacy and consent. The key components of any tax system are tax policies and tax administration. No tax is better than its policies. An essential objective of tax policy is to ensure the maximum possible compliance by tax payers of all types with their taxation obligation. Unfortunately in many developing countries, tax policies are usually weak and characterized by extensive abuse, corruption and coercion. The puzzle of the economic theory of tax compliance is why do people pay taxes? Allingham and Saundmo (1972) basing their argument on Becker's (1968) economic theory of crime, sees the extent of deterrence as the product of the probability of being detected and concludes that the size of the fine imposed determines the amount of income invaded. However, in view of the low deterrence applied in most countries, either because of a low intensity of control or small penalties, tax payer's evasion rate appears to be on the increase.

The whole essence of governance is to advocate the welfare of an increasing number of people. The 1999 constitution of the Federal Republic of Nigeria, in many of its provisions affirms this position. This presupposes that the largest proportion of the resources with which the welfare of the citizens are advocated, are raised through taxation. Hence the relevance of tax cannot be overemphasized. What is worrisome, however, has been the tax gap; the difference between the tax amount tax payers pay voluntary and on time and what they should pay under the law has been a long-standing problem despite several efforts to reduce it. When most tax payers fail to comply, the burden of funding the nation's commitment falls heavily on the few compliant taxpayers. Globally a colossal amount of money is lost to non-compliance of taxpayer. This trend makes it predictably impossible for successive governments to deliver the electoral promises to the electorates. In reaction to this anomaly, governments (both in developed and developing economies) adopt deterrence policies to combat this ugly trend in order to boost their revenue base to enable them fulfill their electoral promises.

Deterrence tax policies in this study are viewed as compliance strategies employed by the government to boost tax compliance. These policies are grouped into four broad categories: creating a more effective tax administration, fostering voluntary compliance and enhancing taxpayers' morale and strengthening and enforcing compliance.

For decades, tax researchers have investigated why some people pay taxes and others do not. Through experiments, random surveys, and available tax data bases, researchers have identified characteristics of non-compliance and factors that inhibit tax compliance. This study, in contributing to the existing literature, examines the relationship between effective tax administration and tax compliance in Nigeria. Specifically it examines the effect of the various deterrence tax policies of government on tax compliance in Nigeria with a view to finding out whether strengthening and enforcing compliance induces tax compliance. To do this, structured questionnaires were administered to randomly selected sample of tax payers in the country. The responses were used to test the formulated research hypotheses using the OLS regression model

2. Literature Review

Nigeria's fiscal policy measures have been largely driven by the need to promote such macroeconomic objectives as promoting rapid growth of the economy, generating employment, maintaining price levels and improving the balance-of-payment conditions of the country.

In line with its federal structure, Nigeria operates a three-tier government, with certain fiscal responsibilities and powers delineated to each level. To avoid conflict among the three levels, the 1999 Constitution classified governmental responsibilities and powers into exclusive, concurrent and residual categories or lists. The National Assembly is empowered to issue legislation on the taxation of incomes, profits and capital gains. It is also authorized to legislate on matters classified in the concurrent list, particularly those related to the 'division of public revenue'—tax collection. The State Houses of Assembly, on the other hand, may prescribe the collection of any tax, fee or rate, or the administration of a law to provide for such collection by a local government council (1999 FRN: A1060-63). It is illegal for consultants, other than those recognized by the authorities, to collect taxes on behalf of the state and local governments. Thus, the federal government controls most of the buoyant tax handles, an issue that has been severely criticized over the years. As pointed out by the Study Group on Tax Reform (2003), the federal government accounts for 99 per cent of the tax revenue in Nigeria, but the concentration of fiscal power with the central government conflicts with the tenets of fiscal federalism, where some degree of autonomy is assumed.

The major tax laws in existence as of September 2010, and various related amendments include the Personal Income Tax Act of 1993; Company Income Tax Act of 1990; Petroleum Profits Tax Act of 1990; The Petroleum Act of 1990; Value-Added Tax Act of 1993; Education Tax Act of 1993; Capital Gains Act of 1990; Customs and Excise Management Act of 1990; Minerals and Mining Act of 1999; Stamp Duties Act of 1990; Taxes and Levies (Approved List for Collection) Act of 1998; and 1999 Constitution of the Federal Republic of Nigeria.

In line with fiscal federalism, court jurisdiction over tax matters reflects the three tiers of government. The federal high courts have jurisdiction over company income tax, petroleum profit tax, custom and excise duties as well as stamp duties and corporate capital gains tax, and education tax. Personal income tax (PIT), capital gains tax and stamp duties payable by individuals are legislated by the Federal Government, but collected by state authorities. Since the Federal Government is not a party to these taxes, their adjudication should fall on the state.

The fact that any appeal to the VAT tribunal is handled by the Court of Appeal confirms that VAT adjudication is levied by the Federal Government. Taxes collected by the local government are under the jurisdiction of the magistrate courts. Below are the various composition of taxes in Nigeria.

Personal Income Tax (PIT)

This is the oldest tax in the country. In Nigeria, personal income tax for salaried employment is based on a pay as you earn' (PAYE) system. It is applicable under the provisions of the Personal Income Tax Act (PITA) No. 104.4 of 1993. The current deterrence measures for non compliance include a penalties up to N 25,000 for employers who fail to register their employees and to remit such taxes to relevant authorities. The employers are also liable for the payment of all tax arrears. Employers failing to keep proper records would also face a penalty of N 5,000. Adekanola (1997) opines this small fine tends to encourage tax evasion since the penalty for being caught is lower than the cost for non-compliance and that in spite of the fact that the self-employed outnumber paid workers and that they earn as much as four times that of the formal sector employees, the bulk of PIT is paid by employees whose salaries are deducted at source. CITN (2002) identified some problems confronting PIT administration in Nigeria. They say that "tax administration is particularly hard here because literacy level is low and record keeping is not yet a popular culture. There are not enough tax officials to cover the field. Most of the officials are little trained, ill equipped, badly remunerated and corrupt… Governments in Nigeria are perceived as a corrupt and selfish lot, to whom money should not ever be voluntarily given. Taxes paid are expected to end up in private pockets, not in public utilities".

The foregoing does not only makes compliance difficult, but also enforcement problematic.

Company Income Tax (CIT)

Company income tax (CIT) in Nigeria is currently codified as the Company Income Tax Act 1990 (CITA). The Federal Board of Inland Revenue, whose operational arm is the Federal Inland Revenue Services (FIRS), is empowered to administer the tax. The current tax rate is 30%. There is, however, a 20 per cent tax concession for certain companies: i.e., those engaged in agricultural production or mining of solid minerals with a maximum turnover of N 0.5 million and those in manufacturing or the export promotion sector with a turnover not exceeding N1 million.(Presidential Committee on National Tax Policy, 2008). The rates on capital allowances have been reduced continually to reflect the economic reality of the country. In the spirit of global competitiveness, the 30 per cent tax rate for corporate bodies in Nigeria is still one of the highest in the world. The allocation of all categories of corporate tax to the federal government negates the spirit of decentralization, particularly in a federal system such as Nigeria's. The taxation of companies operating at a loss is not only grossly inequitable but also destructive to business enterprises. The penalty for non-compliance within the provision of the Act is too low and counter-productive to the goals of the Act.

Education Tax

Education tax was introduced in 1993 (Education Tax Act No. 7). To prevent the educational system from total collapse due to the financial crisis that had affected the sector for years, this federally collected tax imposed a 2 per cent charge on the assessable profits of Nigerian companies. It was geared towards providing the education sector with the opportunity for survival and renewal. The tax is applied to companies' net profits, and is deducted from net profits before tax, thus it is not subject to company income tax. The introduction of this tax has added to the list of multiple taxes that eats away the profit margins of companies. It is a double tax on company profits, and is argued to be a major disincentive to foreign investment in Nigeria. At the technical level, the term assessable profits' causes confusion and is considered to be misleading. This, with regard to education tax, could lead to a situation where companies under-report profit margins.

Petroleum Profit Tax (PPT)

The petroleum profit tax (PPT) is applicable to upstream operations in the oil sector. It is particularly related to rents, royalties, margins and profit-sharing elements associated with oil mining, prospecting and exploration leases. It is the most important tax in Nigeria in terms of its share of total revenue, contributing 95 and 70 per cent of foreign exchange earning and government revenue, respectively. The PPT covers oil and gas taxation but is complemented with two different contractual relationships not formally covered by tax legislation.

The first constitutes joint ventures between international oil companies and the Nigerian National Petroleum Company structured under a joint operating agreement (JOA) as set out in the memorandum of understanding (MOU). The Nigerian statutory rate is 85 per cent (effective rate, however, is 70-80 per cent because of the MOU). The PPTA stipulates that oil-producing companies must render accounts annually, while remittance of the tax is done on a monthly basis as required by the CIT Act.9. Over 95 per cent of Nigeria's crude oil production is covered by the PPT/MOU system, and taxation is calculated according to two different formulas. The first one is based on PPT and royalties without adjustments while the second is based on the MOU. In order to guarantee an after-tax margin based on crude oil levels, or operating and capital expenditure, the taxpayer is expected to choose the lower of the two taxes. However, the failure to ratify the MOU into law makes the administration of the petroleum profit tax cumbersome. The limitation on capital allowances eliminates the incentives offered by the accelerated capital depreciation policies and discourages investment: a PPT tax rate of 85 per cent in the form of royalties is being imposed (Section 19(1) of PPTA) while indigenous firms producing less than 50,000 barrels pay a rate ranging between 85 per and 30 per cent. Paragraph 6 of the Second Schedule of PPTA stipulated a 65.75 per cent taxation rate for this category of companies.

Value-Added Tax (VAT)

An important landmark in tax reform in Nigeria was the adoption of the value-added tax (VAT) in 1993 through the VAT Act No. 102 of 1993 but its implementation actually began in January 1994. The Act designated the FIRS as the body responsible for implementing VAT. An important challenge to administering VAT is the Nigerian business environment. Written records are crucial for VAT. Not only do invoices need to be issued, but recordkeeping is also important (Taliercio 2004). Apart from the fact that keeping records is not common in Nigeria yet, the economy is dominated by informal activities where traders are continually on 'the move'. African rating activities hinge on bargaining, and a commodity is sold at different prices, depending on the haggling powers of each buyer. This complicates the ascertainment of VAT

Capital Gains Tax (CGT)

This tax is imposed on any gain accruing to any person in connection with the disposal of assets during the assessment year. It also covers profits accruing from sold stocks and shares, and is applicable to both residents and non-residents. It is a concurrent tax, implying that the federal government, which has jurisdiction over corporate bodies and over residents of Lagos (now Abuja), administers it through FIRS. The states are empowered to tax individuals within their territories and the board of internal revenue of each state is responsible for capital gains tax with regard to individuals. Capital gains arising from the acquisition of companies' shares through a merger or takeover are exempted from CGT provided that no cash was paid for the acquired shares. It is currently at 10 per cent of the total proceeds. CGT is hindered by problems such as the unwieldy scope of the Act, clumsy process of determining taxable gain, the inability to discount for inflation, and the inability of loss relief within transactions. As pointed by the Study Group on Tax Reform (2003) and CITA (2002), the complex provisions of the Act made the implementation of the tax impractical. There is also confusion regarding the target of the tax; records and disclosures are scarce, and the inequitable tax burden is on the buyer rather the asset owner. These problems have reduced the significance of the tax, which by 2002 accounted for about 0.1 per cent of the revenue of FIRS.

The OECD (2004) guidelines on managing and improving tax compliance suggest that effective application of compliance strategies depend on a revenue authority being strong in "three key capabilities: resources, design and execution." Researchers have suggested some compliance strategies can address the needs of the Nigerian revenue authorities at the operational level and allow them to creating a more effective tax administration; fostering voluntary compliance and enhancing taxpayer morale and strengthening and enforcing compliance. From these compliance strategies, we develop our hypotheses.

Creating a More Effective Tax Administration

There are a number of possible strategies that can help to achieve a more effective tax administration. These include strategies related to organizational and institutional reform; management strengthening; nuts and bolts reform; and building integrity and tackling corruption.

Recently, many developing countries have established their tax departments into autonomous or semi-autonomous revenue authorities ("ARAs"). Fjeldstad and Moore (2008) note that there were about 30 ARAs in the developing world, largely in Africa and South America and including Uganda (1991), Kenya (1995), South Africa (1997), Ethiopia (2002) and Gambia (2005). The defining feature of an ARA is some degree of autonomy whereby the revenue collection function is removed, either partly or wholly, from the Ministry of Finance. Taliercio (2004) argues that if one compares the pre- and post- reform state of affairs in countries where ARAs have been introduced, there is improvement in most cases along most dimensions of performance. Moreover, he suggests, the relatively more autonomous revenue authorities (such as Peru, Kenya and South Africa) have been more adept at increasing performance than the less autonomous ones (such as Uganda, Mexico and Venezuela). Fjeldstad and Moore (2008) suggest that many of the perceived advantages may have been short term and identify a number of conceptual and practical problems with ARAs that suggest they are not always the panacea that the World Bank may have suggested.

Regardless of whether the revenue authority is constituted as an autonomous or semi-autonomous body, the way in which it is internally organised can have a significant impact upon the effectiveness of the tax administration. Vehon and Brondolo (1999) suggest that "A well-designed organizational structure can provide a foundation for effective tax administration, which minimizes tax evasion opportunities and fosters voluntary compliance". Strong internal controls, is suggested, as essential part of any strategy designed to address corruption in a revenue authority. Managers must be proactive and conduct desk and office inspections, and design procedures and systems that deter integrity lapses and make them easier to spot. Taxpayers access to designated taxpayer service areas may be restricted so that they cannot access other revenue authority work spaces.

H_1 The existing of deterrent tax policies in Nigeria has not helped to enforce tax compliance.

Fostering Voluntary Compliance

This has been an area where significant developments have taken place in recent years. There has been a very substantial shift in the attitudes of tax administrations towards taxpayers. OECD (2004) suggests that compliance is most likely to be optimised when a revenue authority pursues a citizen-inclusive approach to compliance through policies that encourage dialogue and persuasion, combined with an effective mix of incentives and sanctions". Gill (2003) noted that voluntary tax compliance does not have a long history in many developing countries. Tax administrations have come to recognise that a cooperative and positive engagement with taxpayers and their advisers in a customer-service focused and user-friendly environment will be more productive and efficient than more traditional adversarial and antagonistic approaches.

As a result, the strategies designed to foster voluntary compliance have taken two broad and mutually supportive directions: building positive taxpayer and tax community morale; and making compliance easier and cheaper for taxpayers (Mckerchar & Evans, 2009). To achieve the above will involve: making taxpayer obligations clear; Smoothing transactions and interactions, making it easier and cheaper to be complied with.

The OECD (2004) pointed out that "if taxpayers do not understand what their obligations are, any intervention to enforce compliance will be perceived as unfair". It is therefore vital to make taxpayers' obligations clear – in the sense of being transparent, easy to understand, simple and non-confusing. A number of questions need to be asked in this regard such as: Is the law clear? Are the authority's administrative requirements clear? Are clear interpretative products, such as interpretive rulings, readily accessible? Are there clear information products available, in the language of the taxpayer? Are these products accessible in the taxpayers' channels of choice? Has there been adequate communication and marketing of the information available? Has this included publication in relevant industry or community vehicles? Are effective support services available to meet taxpayers' needs? (e.g. telephone enquiry services, web services, educational field visits etc) Have opportunities been taken to remind those potentially at risk of what their obligations are?

H_2 Fostering voluntary compliance and so on will not affect tax compliance.

Strengthening and Enforcing Compliance

The overall strategy of a revenue authority should always be to encourage voluntary compliance wherever possible, and to facilitate such compliance by whatever means it can make available. But not all taxpayers are compliant, and many who are compliant some of the time are not compliant at other times.

Taxpayers move up and down the compliance pyramid, or adopt different position on the compliance — non-compliance continuum, for a variety of reasons. The revenue authority must therefore have a range of tools, graduated in severity, to deal with non-compliance. These must be applied and seen to be applied as appropriate, in relation to the level of risk. The OECD has identified a number of strategies that progressively escalate the level of sanctions including: Customised letters alerting taxpayers to the fact that information they have reported is unusual for their industry or appears not to include income of which the authority is aware from third parties; walk-in (unannounced) visits to businesses. Such visits may provide the opportunity for a quick check of basic registration, record-keeping and reporting requirements; income/sales reviews which focus on the income of a business, recording processes, business procedures, matching of purchases and sales. Another issue is comprehensive audits. These are in-depth investigations seeking to identify the omission of income or overstatement of expenses, usually across more than one reporting period; serious evasion audits. Such audits may involve a range of compliance checks and lead to relatively higher penalties; and prosecution for cases of non-compliance involving large sums, persistent evasion or criminal activity.

According to Mckerchar and Evans (2009), Some commentators suggest that a dedicated tax fraud unit should be established to tackle such cases, as it requires special skills including knowledge of the tax fraud legislation, knowledge of the courts and appeals systems, and law enforcement expertise and ability to liaise with other governmental offices. This appears to be a better idea than the introduction of a separate "Tax Police" introduced in some Eastern European and South American regimes which has a sub-optimal effect as it artificially splits tax law enforcement between two organisations . Gill (2003) noted that this "is perhaps still the weakest area in revenue administrations in most developing countries". It is therefore an area that deserves closer attention, by reference to specific further strategies (involving registration, verification, investigation and sanctions) that can ensure revenue authorities enforce compliance in the most efficient and cost-effective fashion.

H_3 Strengthening and enforcing compliance does not affect tax compliance.

3. Methodology

The study attempted to empirically examine the effect of deterrent tax measures on tax compliance in Nigeria. The quota sampling method was used. The data used in the study was mainly primary data. A total of two hundred questionnaires were administered. Only one hundred and fifty questionnaires were returned and used for the analysis. Thus, the response rate was 75 percent. The questionnaires were administered to a cross section of Nigerian taxpayers in the private and public sectors respectively. The private sector establishments in focus include banking, manufacturing and construction industries. Organisations in the public sector considered for this study consist of Federal Government Ministries, Departments and Agencies in Nigeria. The questionnaires were administered to employees of these establishments to elicit responses on the perception of deterrent tax measures. The questions were structured on a five-point Likert scale ranging from Strongly Agreed to Strongly Disagreed. The administration procedure was by direct contact with the respondents. The method of data analysis used in the study is the ordinary least square (OLS) regression technique. This method was adopted because of its properties of consistency, unbiasedness and efficiency. The OLS regression technique was estimated using a computer software (Microfit 4.1).

In order to capture the effect of deterrence tax policies on tax compliance in Nigeria a model was built by the researcher. The variables used in the model were obtained from the questionnaires distributed. The model in its econometric form is specified as follows:

$$\text{Tax\_Comp} = \beta_0 + \beta_1\text{Vol\_Comp} + \beta_2\text{Acc\_Trans} + \beta_3\text{Penalty} + \beta_4\text{TaxDP} + Ut$$

Where:

$\beta 0$ = Intercept
$\beta_1 - \beta_4$ = Parameters to be estimated
Tax_Comp = Tax Compliance with Tax Administration
Vol_Comp = Enforcing Voluntary Compliance
Acc_Trans = Accountability and Transparency in the use of public funds
PENALTY = Introduction of Stiff Penalties
TaxDP = Tax Deterrence policy
Ut = Stochastic error term

4. Results and Discussion

The results obtained from the ordinary least square estimation technique is presented below:

Table 1: Ordinary Least Square Regression Result

Dependent Variable	Regressors	Coefficient	Standard Error	T-Ratio
TAX_COMP	ACC_TRANS	.067499	.083573	6.8767(0.24)
	PENALTY	-2.2351	.10290	-3.4218(.001)
	Vol_Comp	.044390	.078747	.56371(.574)
	TAXDP	-.026872	.069108	-.38885(.698)

Source: Researcher's Computation (2013)

R-Squared = .63 R-Bar-Squared = .57

F-stat. F(5, 144) = 7.28

DW-statistic = 2.0284

Equation1

VOL_COMP = 2.36 + 0.07ACC_TRANS -2.23PENALTY + 0.044Vol_Comp - 0.026TAXDP

5. Discussion of Result

The coefficient of determination (R^2) with a value of 0.63 shows that about 63% of the total systematic variations in the dependent variable (Tax_Comp), have been explained by the explanatory variables taken together. The adjusted R-square shows that after adjusting for the degree of freedom, the model could still explain about 57% of the total systematic variations in Tax_Comp, while about 43% of the systematic variation in Tax_Comp was left unaccounted for, which has been captured by the stochastic disturbance term in the model. This indicates a good fit of the regression line and also the model has a high forecasting power. On the basis of the overall statistical significance of the model as indicated by the F-statistic, it was observed that the overall model was statistically significant since the calculated F- value of 7.28 was greater than the critical F- value of 2.2 at 5% level of significance. This shows that there exist a linear relationship between the dependent variable (Tax_Comp) and all the explanatory variables taken together.

Furthermore, on the basis of the individual statistical significance, as shown by the t-ratios, it was observed that PENALTY, and ACC_TRANS, were statistically significant since their calculated t-values of 6.8 and -3.4 respectively was greater than the critical t-value of 1.96 at 5% level of significance under the two-tailed test. This means that PENALTY, and ACC_TRANS have a significant impact on Tax_Comp. While Vol_Comp, and TAXDP do not have any significant impact on Tax_Comp. The result also showed that ACC_TRANS and Vol_Comp had the expected *a priori* sign while PENALTY and TAXDP did not have the expected a priori sign. This means that an introduction of the stiff penalties would lead to a decrease in tax compliance. The reason for this result may be because in Nigeria, the laws are not fully implemented to the latter; hence tax compliance may not be enhanced even if stiff penalties are put in place. This appears inconsistent with the position of Gill (2003) who has suggested that the introduction of stiff penalties will boost tax compliance. The result also showed that the Durbin Watson statistic of 2.0 indicates the complete absence of first order autocorrelation in the model, hence we can have confidence in the model in predicting the tax compliance in Nigeria.

In order to test the hypotheses of the study, the t-ratios obtained from the regression result was used. The study adopted 5% level of significance under the two-tailed test.

H_1: The existing deterrence tax policies in Nigeria have not helped to enforce tax compliance.

From the empirical analysis it was observed that TAXDP with a calculated t-value of 0.388 is less than the critical t-values of 1.96 at 5% level of significance. We therefore reject the null hypothesis and accept the alternative hypothesis which states that the existing deterrence tax policies in Nigeria have not helped to enforce tax compliance.

H_2: Fostering voluntary compliance and enhancing tax payers' morale does not affect tax compliance.

The empirical analysis shows that Vol_Comp with an observed t-value of 0.563 is less than the critical t-value of 1.96 at 5% level of significance. We therefore accept the null hypothesis and reject the alternative hypothesis which states that fostering voluntary compliance and enhancing tax payers morale does not affect tax compliance.

H_3: Strengthening and enforcing compliance does not affect tax compliance.

The empirical analysis shows that PENALTY with a calculated t-value of -3.4218 is lesser than the critical t-value of 1.96 at 5% level of significance. Therefore, we reject the null hypothesis and accept the alternative hypothesis which states that. Strengthening and enforcing compliance will affect tax compliance.

Conclusion and Recommedations

This paper examined the effects of deterrence tax policies on tax compliance in Nigeria. Questionnaire was designed and administered to a cross section of Nigerian tax payers. The responses from the field study were analysed using the OLS regression model and the hypotheses were tested therefrom.

The results of our analysis revealed that the existing deterrence tax policies in Nigeria are inadequate and have not helped to promote tax compliance in the compliance. It was also discovered that fostering voluntary compliance and enhancing taxpayer's morale will enhance tax compliance in the country and finally that strengthening and enforcing taxpayers morale will enhance tax compliance. These findings appear to be consistent with OECD (2004) prescription on ways developing countries can increase their revenue base through taxation. We can therefore say that there is no single appropriate tax compliance strategy for Nigeria or for any developing country. Nigeria as well as other developing economies should explore the existing body of researches and practical experience from both developed and developing countries in order to come up with a strategy that works for her and that can help to enhance the countries taxpayers compliance.

We recommend that the Nigerian revenue authorities should strive to adopt the approach that will encourage voluntary compliance and prescribe appropriate sanctions for defaulters. The OECD risk-based treatment strategy should be adopted. This provides a graduated response to compliance behaviour so as to make it easier for those who want to comply to do so and apply enforcement to those who do not. The Government should also ensure that taxpayers understand their tax obligations and find them easy to comply with. This may require that the government and revenue authorities should, at all times, act with integrity and in a manner that is perceived to be fair and reasonable.

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