Impact of Tax Audit and Investigation on Value Added Tax Generation in Kaduna State

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Abstract

This study examines the impact of tax audit and investigations on value added tax (VAT) generation by the federal Inland Revenue service in Kaduna State. The aim is to determine if tax audit and investigations can actually increase value added tax generation and if it can also reduce tax evasion. Data were collected through structured questionnaire administered to ninety staff of the Federal Inland Revenue Service in Kaduna State. Simple descriptive statistics with the use of percentages and graphs were used in analysing the data, Pearson Correlation Coefficient using SPSS output data was also used in testing the hypothesis of the study. The findings revealed that Tax audit and investigations can increase value added tax generation in Kaduna state and can also reduce VAT evasion. It was recommended proper, frequent and thorough Tax auditing and investigation so as to increase value added tax and also bring down the rate of VAT evasion.

1. Introduction

The history of taxation in Nigeria can be traced to the Northern part of Nigeria where there was a reasonably systematic form of taxation during the early years and this was due to the fact that the Emirs had a more organized system of administration unlike in the other parts of the country [1, 2, 3]. The Islamic religion also preached stringent adherence to payment of taxes as one of the principles of forthrightness in the religion and this brought about a more stringent enforcement of payment of taxes and levies in the part of the country, more so that the organized structure assisted in no small means to effective tax administration in the region [4].

Taxation is a means by which governments finance their expenditure by imposing charges on citizens and corporate entities. Governments use taxation to encourage or discourage certain economic decisions [5]. For example,

reduction in taxable personal (or household) income by the amount paid as interest on home mortgage loans results in greater construction activity, and generates more jobs. The major source of government revenue is taxation and to deter evasion and maximize compliance with tax laws is key in government's Revenue Policy [5]. Therefore, Tax Audit and investigation becomes very important. One of the important of Tax Audit and investigation is to drive the taxpayer to comply with the outcome of tax audit investigation and also to make him become compliant with the provisions of tax laws in future. That is why the terms have become synonymous with the efforts of government to generate Revenue.

The question is to what extent has tax audit and investigation contribute to value added tax (VAT) revenue generation in Nigeria? This study aims at investigating the impact of tax audit and investigation on value added tax revenue generation by the Federal Inland Revenue Service in Nigeria

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with particular reference to Kaduna State along. The paper is structure into five sections: general introduction on tax matter is in section one. The second section deal with Literature review, methodology is handled in section three. Presentation and analysis of results in the fourth section while conclusion and recommendations in the last section.

2. Literature Review and Theoretical Framework

2.1. Conceptual Issues

Tax Audit: A tax audit is an examination of an organization's or individual's tax return to verify that financial information is being reported correctly [6, 7, 8]. While the chances of being singled out for closer scrutiny are statistically low, there are factors that could increase your odds of receiving an audit notice. Fortunately, there are measures you can take now to minimize future problems.

[9] defined an Audit as the examination of accounting documents and of supporting evidence for the purpose of reaching an opinion concerning their propriety. It is an examination intended to serve as a basis for an expression of opinion regarding the fairness, consistency, and conformity with accepted accounting principles of statement prepared by a corporation or other entity for submission to the public or to other interested parties. Tax audit is therefore a means of ensuring compliance with the tax laws. The primary purpose of tax audit is to maintain the confidence in the integrity of the self-assessment system. It helps to improve voluntary compliance by detecting and bring to book those who do not pay the correct amount of tax. Tax audits can be broken down into four different types:

i. Correspondence Audit: This is the least serious type of tax audit. A correspondence audit refers to the IRS request of additional information to verify the accuracy or details of your tax return. ii. Office Audit: An office audit refers to the in-person interview with an IRS manager to process your audit. To avoid making statements that can be used against you, it's highly advisable to consult with an attorney or a tax professional before you attend the interview. iii. Field Audit: This is the most serious type of audit because the IRS agents will visit you at home or business. They may ask to see things that are related to the tax you've reported. iv. Random Audit: As mentioned above, tax returns can be randomly selected for an audit. A random audit is made without any particular reason. The IRS auditor will review the entire tax return to make sure the information was entered correctly. Investigation: Investigation involves inquiry into facts behind the books and accounts, into the technical, financial and the economic position of the business or organisation.

Investigation is an examination of books and records preliminary of financing or for any specified purpose, sometimes differing in scope from the ordinary audit. Investigation implies an examination of and record for some special purpose [10].

Investigation is an enquiry into the financial statements of a number of past years with a view to know the real financial position or earning capacity. It is in fact a kind of special audit with predetermined scope depending upon the purpose to be achieved. Investigation is neither accounting nor auditing. Investigation is carried out not in substitution of audit, but in addition to audit. The investigating auditor may even have to investigate the audited accounts. Value Added Tax: A value-added tax (VAT), known in some countries as a goods and services tax (GST), is a type of general consumption tax that is collected incrementally, based on the increase in value of a product or service at each stage of production or distribution. VAT is usually implemented as a destination-based tax, where the tax rate is based on the location of the customer. VATs raise about a fifth of total tax revenues both worldwide and among the members of the Organisation for Economic Co-operation and Development (OECD) [11]. As of 2018, 166 of the world's approximately 193 countries employ a VAT, including all OECD members except the United States, which uses a sales tax system instead [10].

2.2. Theoretical and Empirical Review

Classical Theory of Tax Compliance

This theory of tax compliance is also called the A-S models based on the deterrence theory. The theory states that the taxpayer is assumed to maximize the expected utilities of the tax evasion gamble, balancing the benefits of successful tax cheating against the risky prospect of being caught and punished by tax authorities [12].

Adediran, Alade and Oshode [13] examine the impact of tax audit and investigations on revenue generation in Nigeria. The aim is to determine if tax audit and investigations can actually increase the revenue base of the government and if it can also stamp out the incidence of tax evasion. Data were collected through the primary sources from four hundred and ten respondents who are staff of the Federal Inland Revenue Service and Edo State Board of Internal Revenue. Hypotheses formulated were tested with Pearson Correlation Coefficient using SPSS output data. The findings are that Tax audit and investigations can increase the revenue base of the government and can also stamp out the incidents of tax evasion in the country.

Onoja and Iwarere [14] examine the effects of tax audit on revenue generation in Federal Inland Revenue Service and to

determine the relationship between the tax audit and revenue generation in Federal Inland Revenue Service. The population of the study consists of the staff of the Federal Inland Revenue Service, Abuja and Taro Yamane sampling technique was used to determine the sample size. The questionnaire was used to generate the data. The hypotheses were tested using Analysis of Variance (ANOVA). Finding revealed that: tax audit has significant effects on revenue generation in Federal Inland Revenue Service and tax audit has a positive relationship with the revenue generation in Federal Inland Revenue Service.

Apere and Durojaiye [15] empirically investigated the relationship between value added tax government total revenue and gross domestic product; as a means of assessing the impact of value added tax on government revenue generation ant the impact of value added tax on economic performance of the Nigerian economy between 1994 and 2014. Using secondary data obtained from the Central Bank of Nigeria (CBN) statistical bulletin [6]. Relevant econometric techniques were adopted in analysing the data for this study and it was observed that all the variables were stationary at their first differences, using the Phillip-Perron unit root test; Correlation test was also conducted to ascertain the strength of their relationship; they further conducted the Descriptive Statistic test, then the regression result showing the empirical relationship between the investigating variables and the direction of causality between the variables was ascertained using the Pairwise Granger Causality test. The study revealed that there is a long -run significant positive relationship between value added tax and each of government total revenue and gross domestic product in Nigeria over the period under review.

Onaolapo, Aworemi and Ajala [17] examine the impact of value added tax on revenue generation in Nigeria. The Secondary Source of data was sought from Central Bank of Nigeria statistical Bulleting [18], Federal Inland Revenue Service Annual Reports and Chartered Institute of Taxation of Nigeria Journal. Data analysis was performed with the use of stepwise regression analysis. Findings showed that Value Added Tax has statistically significant effect on revenue generation in Nigeria.

3. Research Methodology

The data for this study were generated from primary sources through the use of structured questionnaires administered to the staff of the Federal Inland Revenue Service (FIRS) in Kaduna State. Stratified random sampling was adopted and 90 staff was selected. 83 questionnaires were properly filled and returned. The returned questionnaires were then analysed using Pearson's correlation coefficient with the Statistical Package for Social Sciences (SPSS). When the correlation figure is negative, we accept the null hypothesis. However, if the figure is positive and tends to 1, it means that there is a correlation between both variables and the null hypotheses should be rejected. The result of the analysis and the hypotheses tested are presented in the next section.

4. Presentation and Analysis of Results

4.1. Discussion of Questionnaire Results

In order to analysis the impact of tax audit and investigation on value added tax in Kaduna State, Pearson's correlation was used and the results presented and analyse below:

The respondents were asked whether there is any positive relationship that exists between increase in value added tax (VAT) and tax audit and investigation in Kaduna State. Table one below shows the response to the question

Table 1. Is there any positive relationship between tax audit, investigation and Value added tax in Kaduna State?

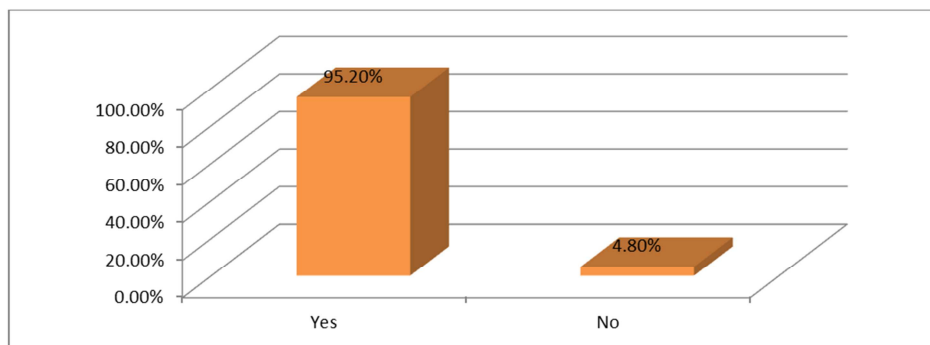| Response	Frequency	Percent	Valid percent	Cumulative Percent
Yes	79	95.2	95.2	95.2
No	4	4.8	4.8	
Total	100	100	100	100

Source: field survey, 2018

Figure 1. Relationship between Tax Audit, Investigation and Value Added Tax.

Table one above revealed that 95.5% of the respondents are of the view that there is a positive and significant relationship between increase in value added tax and tax audit and investigation in Kaduna State. While only 4.8% of the respondents are of the opinion that there is no positive and significant relationship increase in value added tax and tax audit and investigation in Kaduna State (see figure 1). To test the null hypothesis that there is no positive and significant relationship between increase in value added tax and tax audit and investigation in Kaduna State, the response were subjected to Pearson's correlation and the result presented in table two below:

Table 2. Correlations of the Relationship between increase in VAT and Tax Audit and Investigation.

Variables	VAT	Tax Audit and Investigation
Increase in VAT Pearson Correlation	1	0.387
Sig. (2-tailed)		0.013
N	61	60
Tax Audit and Investigation Pearson Correlation	0.387	1
Sig. (2-tailed)	0.013	
N	60	60

Source: SPSS output

Table two above shows that the correlation figure is positive (0.387), therefore, the null hypothesis is rejected and the alternative accepted that there exist a positive relationship between increase in value added tax and tax audit and investigation in Kaduna State.

The researcher asked the respondent the second question of whether tax audit and investigations reduce VAT Evasion in Kaduna State. The response is presented in table three below:

Table 3. Can tax audit and investigations reduce VAT Evasion in Kaduna State?

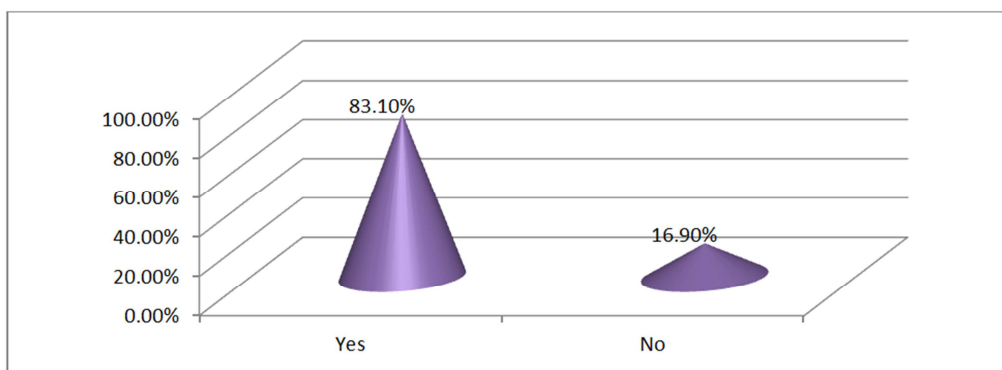| Response	Frequency	Percent	Valid percent	Cumulative Percent
Yes	69	83.1	83.1	83.1
No	14	16.9	16.9	
Total	100	100	100	100

Source: field survey, 2018

Figure 2. Tax Audit and Investigation can reduce VAT Evasion.

The above table three revealed that 83.1% of the respondents were of the view that proper tax audit and investigations can reduce VAT Evasion in Kaduna State. The remaining 16.9% of the respondents are of the view that tax audit and investigations cannot reduce VAT Evasion in Kaduna State (see figure 2). To test the null hypothesis that tax audit and investigation do not reduce VAT Evasion in Kaduna State, the response were subjected to Pearson's correlation and the result presented in table four below:

Table 4. Correlation of the Relationship between tax audit, investigation and VAT Evasion.

Variables	VAT	Tax Audit and Investigation
Tax Audit and Investigations Pearson Correlation	1	0.385
Sig. (2-tailed)		0.062
N	61	58
VAT Evasion Pearson Correlation	0.385	1
Sig. (2-tailed)	0.062	
N	58	58

Source: SPSS output

Table four above shows that the correlation figure is positive (0.385), therefore, the null hypothesis is rejected and the alternative accepted that there tax audit and investigation can reduce VAT Evasion in Kaduna State.

4.2. Summary of Findings

The study shows that Tax Audit and Investigation has positive relationship with value added tax and can therefore increase revenue generation through value added tax. The study also revealed that proper tax audit and investigation can reduce VAT evasion in the State thereby result to an increase in Government Revenue to a great extent. These findings are in line with the work of [17]. In the study, it was discovered that it is necessary to pay taxes and that the Tax system in Nigeria is not efficient.

5. Conclusion and Recommendations

Value added tax (VAT) is a consumption tax, levied at each stage of the consumption chain and borne by the final consumer of the product or service. The administration of VAT is relatively easy, unselective and difficult to evade. Countries all over the world, look for ways to boost their revenue, this facilitated many nations to introduce value added tax on goods and services. Tax audit and investigation is to determine a true and fair view of the business records for tax purposes. The tax audit officer is responsible to ensure that the reported amount is correct and that the amount of tax paid is correct accordance with tax laws and regulations. The other purpose of tax audit is to achieve the voluntary compliance with the tax laws and regulations and to ensure that a higher tax compliance rate is achieved under the Self-Assessment System. Based on the findings, the study recommends proper, frequent and thorough Tax auditing and investigation so as to increase value added tax and also bring down the rate of VAT evasion.

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