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Acceptability of e-Filing of Taxes by Micro-Entrepreneurs in Northwestern Nigeria

Summary of ICTD Working Paper 96 by Abdulsalam Mas'ud

With the first implementation of e-filing by the US in 1986, many countries in Europe, Asia and Africa followed suit. E-filing for certain tax payments was introduced at the federal level in Nigeria in 2013. However, none of the Northwestern State Internal Revenue Services have made the system available for the collection of personal income taxes from micro-entrepreneurs – a major source of their revenue. This research was designed to investigate the acceptability of e-filing for micro-entrepreneurs in northwestern Nigeria.

Micro-enterprises and the tax system in Nigeria

The Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) described micro-enterprises as having assets (excluding land and buildings) totaling less than five million naira (>NGN 5,000,000) or less than 10 employees. Where conflict exists between employment and assets, employment-based classification takes precedence. The micro-enterprise sector has been a major contributor to GDP and employment in Nigeria of 39.15% and 81.34% respectively. In terms of taxation, micro-enterprises that operate through sole proprietorship and partnership pay tax through their owners to state governments in the form of personal income tax. More than 99% of micro-enterprises fall under this category, while the remaining less than 1% who operate as

limited liability companies pay taxes under company's income tax to FIRS.

Adoption of e-filing

E-filing has been described as the process of submitting tax returns over the internet using tax preparation software that has been pre-approved by relevant tax authorities (Kumar and Gupta (2017)). The system has been adopted by developed economies (the US and the UK), transition economies (Taiwan, India and Malaysia) and developing economies (Uganda, Rwanda, and Kenya). In Nigeria, the system first emerged in 2013 by FIRS, and is currently applied to almost all taxes under its jurisdiction. At the state levels, the system is yet to be introduced by most of the states particularly in Northwestern Nigeria but there is a call recently by the President of Chartered Institute of Taxation of Nigeria (CITN) on the use of technology for tax collection among state governments in Nigeria. Hence, the need to know the actual factors that would likely affects the acceptability e-filing by the potential users.

Theoretical insights on e-filing acceptance

Unified theory of acceptance and use of technology (UTAUT) has been applied as the underpinning theory in e-filing research. This theory has four main determinants of usage of information systems alongside moderating

“The majority of micro-entrepreneurs are unaware of the existence of e-filing despite it being introduced at the federal level.”

variables such as age, gender, experience and voluntariness of use. The determinants are; performance expectancy, effort expectancy, social influence, and facilitating conditions. Voluntariness of use is applied when data is collected from two settings - voluntary and mandatory, while facilitating conditions is used when the research is examining actual usage. Consequently, these two variables were omitted as intention is the focus here. Nevertheless, as a theoretical contribution two additional predictors; trust and awareness of e-filing software were integrated. The aim was to complement the area of research where internet fraud and need for awareness exist.

Data collection and analytical procedure

The research design was mixed method. Data was collected through survey questionnaires with 384 micro-entrepreneurs and interviews with 3 tax consultants in the region. The survey data from the questionnaires was analysed through descriptive and inferential statistics while that of the interviews was analysed through an interpretivist approach.

Factors that would affect willingness to use e-filing

Performance expectancy is the strongest predictor of acceptability of e-filing for micro-entrepreneurs in northwestern Nigeria. It indicates that the use of technology will assist micro-entrepreneurs to comply with their tax obligations. Effort expectancy is the second major predictor. Micro-entrepreneurs believe that e-filing will assist them to file their tax return with less effort. Social influence is the third major predictor. Trust in e-filing software was found to be a positive but insignificant predictor of e-filing acceptability. Lastly, awareness of e-filing was a negative predictor. It implies that despite good acceptance intention, micro-entrepreneurs have weak knowledge on operating modalities of the system. The findings from the interview revealed that tax consultants only use e-filing on request by micro-enterprises registered as limited liability companies.

Policy considerations

E-filing implementation

The results suggest that the state government in Nigeria should introduce an e-filing system for the collection of taxes from micro-entrepreneurs.

Language

When introducing e-filing systems for micro-entrepreneurs, it is suggested that such software should be bilingual. This policy recommendation is based on the finding that a significant number of the micro-entrepreneurs would prefer to use the software in Hausa.

Based on judgment assessment

E-filing could still be relevant even when assessment is based on judgment. We learnt from the respondents that it is not the method of assessment that matters but ensuring that the taxes collected reach government coffers avoiding corrupt practices by tax officials.

Intermediation

The results from the demographic analyses suggest the need for intermediation by some micro-entrepreneurs. Further interaction with respondents revealed that such intermediation would be more desirable at the early stages of implementation.

Creating awareness

Majority of micro-entrepreneurs are unaware of the existence of e-filing despite that it was introduced at federal level and some few other states. Moreover, significant numbers of the sampled micro-entrepreneurs are unaware of the differences between e-filing and manual filing and underlying principles or concepts applied to e-filing. However, opined that when e-filing is fully implemented, it will be used by all categories of taxpayers. This indicates the need for creating awareness on e-filing before and after the implementation through posters, flier, manuals and pamphlets.

Building trust

Trust is an important issue in user acceptance of new technology. Whilst introducing e-filing, SBIR/SIRS should ensure that they build confidence and trust in the application of the software – such that it will be reliable, will not fail the user or malfunction. Otherwise, the user will later lose confidence and the usage rate will eventually decline.

Further reading

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Credits

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