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The Effect of Multiple Taxation on Household Finance

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ABSTRACT

The main aim of this study was to examine the effect of multiple taxation on household finance. The problems faced are in the area of negative relationship between taxes and the household' ability to sustain itself. Many households in Nigeria are faced with the problem of high tax rates, multiple taxation, complex tax regulations and lack of proper enlightenment or education about tax related issues. 270 households in South West geopolitical zone Nigeria (Lagos, Osun, Ekiti, Ogun, Oyo and Ondo) were selected using stratified sampling method. Data from the questionnaire were coded,and results show that there is a statistically significant correlation between income and multiple taxation (Sig. = 0.015, p<0.05). There is no statistically significant correlation between savings and multiple taxation (Sig. = 0.705, p>0.05) or speeding and multiple taxation (Sig. = 0.240, p>0.05).This study concludes that multiple taxation has no significant impact on savings and spending and also affirmed that there is a significant relationship between multiple taxation and household income. To improve household finance, this study recommends that government should make judicious use of tax revenue for social and economic development of the nation so as to alleviate the sufferings of the masses and thereby reduce poverty which is eating deep and deeper in Nigeria. The study also recommends that Nigerians should endeavour to pay their taxes as at when due

Keywords: Multiple taxation, household spending, household saving, household income

1.0 INTRODUCTION

Taxes are important to finance public expenditure and maintain the machinery of the government which includes infrastructure and public services such as roads, health, education, security. The imposition of taxes helps the government to achieve macroeconomic objectives such as economic growth, revenue generation and revenue redistribution. Furthermore, taxation helps in resource mobilisation for the government, reduces the degree of inequality between the rich and the poor, promotes public welfare by financing public goods and fiscal stabilisation.

"The main reason for taxation is to finance government expenditure and to redistribute wealth which translates to financing development of the country" (Jhingan, 2004; Musgrave & Musgrave, 2006; Bhartia, 2009). Unegbu and Irefin (2011) noted that "whether the taxes collected are enough to finance the development of the country will depend on the needs of the country and, countries can seek alternative sources of revenue to finance sustainable development". Tax revenue is the receipt from tax structures. However, Holban (2007) posited that "taxation can contribute to development and welfare through three sources; It must be able to generate sufficient funds for financing public services and social transfers at a high level of quality; it should offer incentive for more employment and for an efficient and lasting use of natural resources; finally, it should be able to reallocate income".

Household financing is a term used to describe the borrowing of funds to finance needs related to the home. This could include taking out a loan to buy a home, refinancing, home improvement projects, or even debt consolidation. Household financing is a very popular way for individuals to manage their finances, as it offers flexibility and access to funds that are needed to cover costs related to a home (Akinyede, Owolabi, & Akinola,. 2019). Tax is used to raise money for the provision of services such as defense, health services, education, etc; to re-distribute income and wealth. That is, the rich pay more tax than the poor. This is achieved by the graduation or "progressiveness" of the rates at which the taxes are levied; to discourage the consumption of harmful goods such as alcohol and cigarettes; to harmonize diverse trade or economic objectives of different countries so as to provide for the free movement of goods/services, capital and people between member states; for the management of the economy".

The effect of multiple taxation on personal finance also affects the consumption of personal goods; consumption is the total goods and services consumed by a household at particular time or period, it refers to the final purchase made by the residents of personal goods to meet their everyday needs which include food, clothing, housing, services, transport, health, leisure etc (Akinyede, Ayodele, & Lasupo, 2022). When referring to the personal sector, it does not only include the people that live in traditional homes but those also living in communal homes like prison, boarding house, retirement houses. It is measured using the purchasers' price which means the price the consumer actually pays for the goods consumed. Personal final consumption expenditure (formerly private consumption) is the market value of all goods and services, including durable products (such as cars, washing machines, and home computers) purchased by personal sector. It excludes purchases of dwellings but includes imputed rent for owner-occupied dwelling. It also includes payments and fees to government to obtain permits and licenses. Here, personal consumption expenditure includes the expenditures of nonprofit institutions serving personal s, even when reported separately by the country (World Bank national accounts data).

These challenges have made it difficult for the Nigerian economy to raise the much needed revenue . There is need then for the government to review its taxation system in order to make it more equitable, efficient and effective. The government should also provide incentives for those who are up-to-date in their tax payments and increase education and awareness campaigns to educate people about tax related matters. The use of technology can also be explored in order to simplify taxation and increase compliance. Finally, there is no government synergy between the federal, state and local governments on taxation and no good communication between the various tax and non tax institutions. There is no known study to the knowledge of the researcher, conducted to analyse the effects of multiple taxation on household finance in Nigeria. The majority of extant research takes the form of surveys examining the success and advantages of taxation, and the disadvantage of multiple taxation. The broad aim of this study is to examine the effect of multiple taxation on household finance (Spending, Savings and income).

2.0 LITERATURE REVIEW

Taxation plays an essential part in the economic life of a developing country like Nigeria. Nigeria needs a proficient tax system to have the capacity to work well. Taxation is viewed as a weight which every citizen must bear to sustain his or her government on the grounds that the government has certain functions to perform for the benefits of those it governs. Taxation is the most imperative source of income to the government, it represents at least 90% of their income. As indicated by Soyode and Kajola (2006), "tax is a compulsory levy imposed on a subject or upon his property by the government to generate the needed revenue for the provision of basic amenities and create enabling condition or the economic wellbeing of the society. These levies are made on personal income, such as salaries, business profits, interests, dividends, discounts and royalties. It is also levied against company's profits, petroleum profits, capital gains and capital transfer". Ojo (2003) stresses that, "taxation is a concept and the science of imposing tax on citizens. According to him, tax is itself a compulsory levy which is required to be paid by every citizen. It is generally considered as a civic duty".

The imposition of taxation is expected to yield income which should be utilied in the provision of amenities, both social and security, and creates conditions for the economic wellbeing of the society. Bariyiman and Gladson (2009) note that, "tax administration in Nigeria is carried out by the various tax authorities as established under the relevant tax laws". According to the report of the Presidential Committee on National Tax policy (2008), The National tax policy provides a set of rules, modus operandi and guidance to which all stakeholders in the tax system must subscribe. Tax policy formulation in Nigeria is the responsibility of the Federal Inland Revenue Services (FIRS), Customs, Nigerian National Petroleum Corporation (NNPC), National Population Commission (NPC), and other agencies but under the guidance of the National Assembly i.e. the law making body in Nigeria (Presidential committee on National tax policy, 2008). Suffice it to say that if there must be any effective implementation of the Nigerian tax system or attainment of its goal, the use of the national tax policy document remains absolutely essential. According to the Presidential Committee on Tax Policy (2008), "Nigeria needs a tax policy which does not only describe the set of guiding rules and principles, but also provides a stable point of reference for all the stakeholders in the country and upon which they can be held accountable".

James and Nobes (2008) decried "the inability of tax policy to meet up with efficiency and equity criteria against which it is being judged". It was further noted that "tax policy is continually subjected to pressure and changes which most time does not guarantee outcome that are in line with the overall goal" (James and Nobes 2008). Unfortunately, most policy changes in Nigeria are without adequate consideration of the taxpayers, administrative arrangement and cost plus the existing taxes. This has in no small measure hindered the effective implementation and goal congruence of the nation's tax system. James and Nobes (2008) stated as follows "the best approach to reforming taxes is one that takes into account taxation theory, empirical evidence and political and administrative realities and blend them with good dose of local knowledge and a sound appraisal of the current macroeconomics and international situation to produce a feasible set of proposals sufficiently attractive to be implemented and sufficiently robust to withstand changing times, with reason and still produce beneficial results".

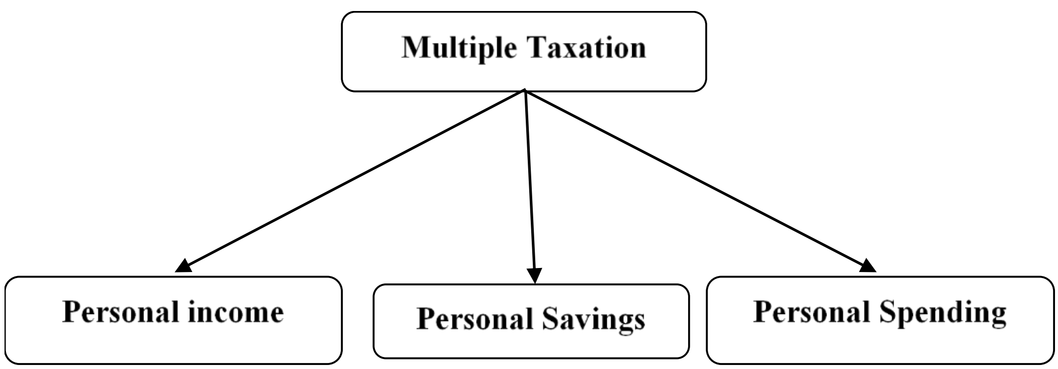

Figure 1: Conceptual Framrwork
Source: Author Computation 2023

Figure 1 shows the effect of multiple taxation on personal spending, personal savings and personal income; personal spending is the total amount spent on goods and services by a person at particular time or period, it refers to the final purchase made by the residents of a personal sector to meet their everyday needs which include food, clothing, housing, services, transport, health, leisure etc. When referring to the personal sector, it does not only include the people that live in traditional homes but those also living in communal homes like prison, boarding house, retirement houses. It is measured using the purchasers' price which means the price the consumer actually pays for the goods consumed. Personal final consumption expenditure (formerly private consumption) is the market value of all goods and services, including durable products (such as cars, washing machines, and home computers) purchased. It excludes purchases of dwellings but includes imputed rent for owner-occupied dwelling. It also includes payments and fees to government to obtain permits and licenses.

2.1 Theoretical Review

This study adopted the fiscal federation theory as the basis for this work as reviewed in Ajibola (2017). Fiscal federalism in the contemporary framework entails the "distribution of economic activities and resources between the central government and the regional sub-governments to achieve a balanced and efficient economic performance and development" (Ola, 1988).

The central government is responsible for ensuring fair income distribution, preserving macroeconomic stability, and providing national-level public goods. The central government is anticipated to provide targeted grants in circumstances where there are jurisdictional spillovers connected with local public goods, whereas decentralised levels of government are expected to focus on providing local public goods.

Modern Consumption Theory: Keynes argued that the level of aggregate consumption is determined by two factors: the current level of income and the marginal propensity to consume (MPC). The MPC is the fraction of an extra unit of income that is spent on consumption goods and services. By multiplying the level of disposable income by the MPC, Keynes argued, one could derive the aggregate level of consumer spending. Since Keynes, economists have sought to explain why households choose to consume the amounts of goods and services they do. To this end, economists have proposed numerous theories of consumption, which build upon and extend Keynes' analysis.

2.2 Empirical Review

James and Moses (2012) on the study of the impact of tax administration on government revenue in a developing economy with a case study of Nigeria economy, applied descriptive statistics method to analyse 93 usable responses. The study found out among other things that increasing tax revenue is a function of effective enforcement strategy. Their study further recommended that "the government should review and restructure the nation's tax policy and administrative system". Desai, Foley and Hines (2004) stated that "governments have at their disposal many tax instruments that can be used singly or in concert to finance their activities. These tax alternatives include personal and corporate income taxes, sales taxes, value added taxes, capital gain taxes and numerous others. It is not uncommon for a country to impose all of these taxes simultaneously. In choosing what tax instruments to use and what rates to impose, governments are typically influenced by their expectations of the effects of taxation on investment and economic activity, including Foreign Direct Investment (FDI). They stated that there is extensive empirical study that high corporate income tax rates are associated with low levels of FDI.

Sani (2005), the Executive Governor of Zamfara State, stated that "tax system as a whole is an embodiment of contention and controversy whether in its policy and formulation, legislation or administration. Similarly, the objectives of the tax system are multidimensional in nature which includes revenue generation, resources allocation, fiscal tool for stimulating economic growth and development, social function, like redressing the rural urban population drift as well as making everybody to be a responsible citizen in the society. However, the potency of the tax system will depend greatly on the tax measures and policies adopted". Sani (2005) opined at "prompting ambition, rewarding success, encouraging private savings and investments needed to create new jobs and kindling in the people that spirit of enterprise. The regulation of Nigerian economy should also be the basic function of the tax system. Taxes should in the main be aimed at creating the proper atmosphere for economic growth". Sani concluded that "tax concessions must be given and framed so as to ensure the companies actually carry out the underlying intention of increased economic development if the tax authority is to avoid the criticism that tax concessions only offer tax loopholes through which the agile tax prayer can maneuver. Nigeria is richly blessed with oil and gas among other mineral resources, but the over dependence on oil revenue for the economic development of the country has left much to be deserved".

It was the view of Popoola (2009) that "Nigerian tax administration and practice be structured towards economic goal achievement since government budget for the year centers on the oil sector. While decrying the low productivity of the Nigerian tax system, deficiencies in the tax administration and collection system, complex legislations and apathy on the part of those outside the tax net" were identified as some of the root causes. Those working in the informal sector of Nigerian economy do not see the need to pay tax whereas they dominate the economy. To them, only civil servants should pay tax on their earnings and this amounts to over flogging the willing horse". Besides, "the activities of the strong union in the formal sector do not even pave way for a successful tax policy implementation in the formal sector" (Ayodele 2006). Even revenue collection officers seem to be lenient or even connive with those in the informal sector during enforcement of tax policies. All this leads to revenue loss. In order to reawaken the consciousness of Nigerian government and citizens on the effective use of taxation as a developmental tool, and examine the effect the tax system has so far on the economy; this research becomes very relevant.

Mohammed and Mohammed (2012) affirmed that "tax avoidance is the legal utilization of the tax regime to one's own advantage, to reduce the amount of tax that is payable by means that are within the law. By contrast, tax evasion is the general term for efforts not to pay taxes by illegal means. It is also perceived that both tax avoidance and tax evasion are linked with shadow economy, shadow economy is that economy in which people do not show their real income and taxable income that they have earned through legal activities including batter and monitory activities in order to avoid paying tax". According to them (2012), "government has protested against these two above mentioned evils for number of times but corporations and all other persons whose income is taxable, they make use of tax avoidance strategies to get away or curtail the taxes or they willfully employ fake techniques with the support of tax officials to evade the total tax".

On the other hand, in Francias and Pierre work on household consumption, they said that "the Micro-economic theory essentially considers the household as the basic decision unit. The usual tools of consumer theory are applied at the household level; in particular, the latter is described by a single utility function which is maximized under a budget constraint. This traditional framework, however, has recently been challenged by several authors, who have developed so-called 'collective' approaches to household behavior. The various contributions that follow the collective line share a fundamental option, namely that a household should be described as a group of individuals, each of whom is characterized by particular preferences, and among whom a collective decision process takes place".

Mannheim also in his study said that "although there is a long history of research on patterns of household expenditures and their changes across time, which goes back to the 19thcentury and the famous work by Ernst Engel and others, research questions have attracted surprisingly little attention in recent years". Those studies available are usually focusing on single countries and are addressing levels and structures of consumption and respective trends of change e.g. Blow, Laura, Leicester, Andrew, Oldfield, Zoë (2004); van Deelen, Schettkat (2004), Herpin, Verger (2000); Gardes, Starzec (2004); Kutsar, Trumm (2006). Another strand of research addresses questions of how consumption patterns are being determined by household income, household composition and other household's characteristics (Langlois 2003) as well as related methodological issues (Blowet 2004). A new and innovative aspect of research on expenditure patterns concerns the allocation of expenditures within the household. This question on "who buys and gets what' has been addressed in a recent Danish study (Bonke andBrowning 2006), reporting on data that were collected as a supplement to the Danish Expenditure Survey. International comparative studies on household expenditure patterns are quite rare, although Houthakker (1957) has addressed this issue as early as in the 1950s. As it seems, more analytical comparative research has been done as part of very few projects only.

3.0 METHODOLOGY

The descriptive-inferential survey design was used for this research. As noted by Boohene, Marfo-Yiadom and Yeboah (2012), this is deemed appropriate for a study of this nature because; the study involves the investigation of the impact of multiple taxation on household finance. Lewis and Thornhill (2007) noted that "the survey strategy is perceived as authoritative by people in general and is both comparatively easy to explain and to understand". Survey is a non-experimental, descriptive research method that can be useful when a researcher wants to collect data on phenomena that cannot be directly observed such as opinions of auditors concerning the issue of multiple taxation and household finance. Finally, "data obtained through the survey with a questionnaire are standardized, allowing ease comparison" (Boohene et al., 2012).

The target population was made up of all the households in the six geo political zone in Nigeria. The population comprised of all private and public workers in each households in Nigeria at different locations and other key personnel who multiple pay tax. The subjects surveyed were unaffected by environmental qualities that may skew results.

3.1 Sample and Sampling Techniques

In this study, stratified sampling method was used to select the household in Nigeria. This is the process of dividing Nigeria into geo political zones, using existing strata into homogeneous subgroups before sampling. The strata were mutually exclusive: every element in the population was assigned to only one stratum. Then a purposive selection of respondents was done based on the accessibility and readiness to participate in this study. The head of the family was the major respondent but in the absence of the household head, an adult from the family was allowed to participate in the study.

The sample size was statistically determined by applying the formula for an infinite population (Cochran, 1963:75)

$$n_0 = \frac{Z^2 pq}{e^2}$$

Where:

n = Sample size:

Z = Standard score corresponding to a given confidence level (in this case 95%);

e= Desired level of precision

P= the estimated proportion of an attribute that is present in the population

q =1-p.

Thus using the formula we derived our sampling size thus:

$$n_0 = \frac{1.28^2(0.5 * 0.5)}{0.05^2}$$

$$n_0 = 270.6025$$

= 270.6025 approximately 270

This study is based on the administration of 270 questionnaires across South West of Nigeria. The study was therefore based on 270 structured questionnaires of Likert type administered on respondents from South West Nigeria; (Lagos, Osun, Ekiti, Ogun, Oyo and Ondo).

3.2 Tool for Data Collection

A self- designed and structured questionnaire was considered as the data collection instrument for the study. It was designed and constructed to gather information from the respondents. The questionnaire was drafted in English language. The questionnaire was designed to measure the effect of multiple taxation on household finance. The questionnaire was made up of five parts: Section ‘A’ focused on personal data of selected households in South west Nigeria, B information on household spending, C information on household savings, D information on household income and E information on multiple taxation. The construction of the questionnaire was based on the five point standardised Likert scale. The direct method approach was used in the opinion survey. The copies of questionnaire were administered to respondents and the respondents were asked to tick the options in order to reflect their opinion.

3.3 Model Specification

The multivariate Linear Regression model was used to model the relationship between a multiple response variable, y, and a single explanatory variable, x.

Given the equation $Y=f(X)$,

Where;
Y is the dependent variable
X is the independent variable of the study.
The Specific models are:

$$HSP+ HSV+HIN =\beta_0+ \beta_1 MTA+ \varepsilon_1 \quad (1)$$

Where:
HSP = household spending
HSV = household savings
HIN = household income
MTA = Multiple taxation
β_0 = Intercept
β_1, = coefficient
ε = Error

3.4 Testing of Hypotheses

The research hypothesis was formulated to enable the researcher subject some important aspects of the data to statistical verifications. Research hypothesis "multiple taxation has no significant impact on household financing" is stated in the null form and the results are stated below:

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
SAV	0.023[a]	0.001	-0.003	2.93806
SPD	0.072[a]	0.005	0.001	6.07085
INC	0.150[a]	0.022	0.019	5.40587

a. Predictors: (Constant), MAT
Researcher Field Survey 2023

The table provides a summary of three different models, each represented by an abbreviation (SAV, SPD, and INC) and their corresponding statistics. Let us analyse the information given, specifically focusing on the values of R and R-squared. The very low values of R and R-squared 0.023 and 0.001 for the SAV model suggest that there is a weak and nearly negligible linear relationship between the Multiple Taxation and Savings. The values of R 0.072and R-squared 0.005 for the SPD model are slightly higher than those for the SAV model but are still relatively low showing a weak linear relationship.

Compared to the previous two models, the INC model shows a higher value for both R =0.150 and R-squared=0.022. The correlation coefficient of 0.150 suggests a moderate positive correlation between the predictor variable(s) and the response variable. Additionally, the R-squared value of 0.022 indicates that the predictor variable(s) explain a small amount of the variance in the response variable.

Table 2

Dependent Variable	Unstandardized Coefficients		Standardized Coefficients	F	t	Sig.
	B	Std. Error				
SAV	-0.135	0.356	-0.135	0.144	-0.380	0.705
SPD	0.866	0.735	0.072	1.386	1.177	0.240
INC	1.609	0.655	0.150	6.039	2.457	0.015

a. Dependent Variable: INC
Researcher Field Survey 2023

The table you provided contains the coefficients, standard errors, and related statistics for the predictors in relation to the dependent variable. The standard error of 0.356 suggests a moderate level of variability in the estimated coefficient for SAV. The t-value of -0.380 and the non-significant p-value of 0.705 indicate that the estimated coefficient is not significantly different from zero. This implies that the relationship between SAV and the dependent variable is not statistically significant.

The spending model has a standard error of 0.735 which suggests a relatively high level of variability in the estimated coefficient for SPD. The t-value of 1.177 and the non-significant p-value of 0.240 suggest that the estimated coefficient is not significantly different from zero. Therefore, the relationship between SPD and the dependent variable is not statistically significant.

The third model of Income and multiple taxation, The standard error of 0.655 suggests a moderate level of variability in the estimated coefficient for INC. The t-value of 2.457 and the significant p-value of 0.015 indicate that the estimated coefficient is significantly different from zero. This implies that the relationship between INC and the dependent variable is statistically significant.

In terms of the interrelationship of variables, the standardised coefficients can provide insights into their relative importance.

In summary, the standard errors provide information about the precision of the estimated coefficients. While the standard errors for SAV and SPD are relatively large, the standard error for INC is comparatively smaller. Only the INC predictor shows a statistically significant relationship with the Multiple Taxation, as indicated by its significant t-value 2.457 and p-value 0.015. This suggests that changes in income are associated with changes in multiple taxation, and this relationship is unlikely to be due to random chance.

4.0 CONCLUSIONS AND RECOMMENDATIONS

4.1 Conclusion

The main aim of this study is to examine the effect of multiple taxation on household finance in Nigeria. The results of the simple linear regression analysis used in testing the impact of Multiple taxation on household finance reveal a positive relationship between Multiple taxation and household financing. The results indicate that SAV, SPD, and INC models explain a small, moderate, and substantial amount of variation in the dependent variable, and the models accurately predict the values of the dependent variable better. The t-value of -0.380 and the non-significant p-value of 0.705 indicate that the estimated coefficient is not significantly different from zero. This implies that the relationship between SAV and multiple taxation is not statistically significant. Therefore, the relationship between SPD and the multiple taxation is not statistically significant. This implies that the relationship between INC and the multiple taxation is statistically significant.

4.2 Recommendations

It is therefore appropriate to highlight some recommendations which, if implemented, could play an important role in improving the household finance. The following policy considerations are recommended:-

Government should make judicious use of tax revenue for social and economic development of the nation so as to alleviate the sufferings of the masses and thereby reduce poverty which is eating deep and deeper in Nigeria.

Nigerians should endeavor to pay their taxes as at when due. This should be done by Government providing an environment for household to operate and see it as one of the benefits accrued to such payment of taxes to the Government.

Government should adequately create awareness on the need for Nigerians to pay their taxes appropriately. Government should consider increasing tax incentives and exemptions as this will not only attract investors who are potential tax payers, it will encourage voluntary compliance and ultimately lead to better life for households.

Tax collection should be defined with respect to which government should collect certain taxes from Nigerians. This will avoid the three tiers of government collecting taxes of the same type from the same organization. Government should also put a policy in place to avoid illegal taxes, such as community levy, boys or youth levy as well as association or union levy.

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