A Modernize Tax Administration Model for Revenue Generation

Abdurrahman Adamu Pantamee¹,²*, Muzainah Binti Mansor³

¹Department of Accounting and Business Administration, Federal University, Kashere, Nigeria, ²School of Accountancy, College of Business, Universiti Utara Malaysia, ³School of Accountancy, College of Business, Universiti Utara Malaysia.

*Email: padamu@fukashere.edu.ng

ABSTRACT

Capacity of a government to finance its expenditure depend on the ability of tax system to generate adequate revenue, and the ability of tax system to generate significant revenue depend on the tax administration efficiency and effectiveness, however in most of the developing economies, tax administration is characterized by inefficiency and ineffectiveness. The objective of this paper is to develop a model, which will guide developing countries to reform their tax administration toward tax revenue generation. To achieve this, several previous tax administration models as well as theories of governance and performance were reviewed and analyzed. Moreover, the modernize tax administration model developed in this study consists of four components namely inputs, transformation process, output, and outcome, the paper concludes that significant reform means working through the entire modernize tax administration model. The limitation of the paper is that the model is not been tested.

Keywords: Tax Administration, Revenue Generation, Model

JEL Classifications: H20, H21, H29

1. INTRODUCTION

Government expenditure mostly in form of the provision of economic, political and social infrastructure of any given country depends on the amount of revenue generated by the government. One way of generating adequate revenue is through well-structured tax system. A tax plays a vital role in every nation economy and constitutes primary sources of revenue for developed countries (Abata, 2014). But in most developing economies, revenue from tax has been moderately low this is because the countries are characterized by inadequate personal and modern facilities (Ogbonna and Appah, 2012).

Furthermore, the study of Bird (2015) stated that weak tax revenue in most developing countries is as a result of so many reasons among which include: Inefficient tax administration; as well as corruption and distrust from tax administration; and inefficient outcome that change taxpayers’ attitude toward compliance. Several studies among which include Ogbonna and Appah (2012); and Aminu and Eluwa (2014) suggested that lower tax revenue can be addressed through tax administration reform.

Tax administration reform is a process by which government change the existing administration pattern, tax laws, and principles in order to enhance tax revenue collection (Owens, 2006). Several governments around the world embarked on tax administration reforms in order to increase government tax generated revenue (Taliercio, 2004). For instance, major tax administration reforms undertaken in various developed countries such as Canada, France, Germany, Japan, Spain, United Kingdom and USA. To be specific, a new administration was instituted with professional staff and organizational structures at Germany in the year 2000. These improvements brought about the fruitful implementation of the tax reform program and a dramatic advancement in tax collection (OECD, 2009). In addition, experience from Spain confirmed that with the higher tax administration efficiency, higher revenue could be generated or maintained. To be specific, enforcement, prosecution, and tax auditing in Spain, have resulted in an increase in the number of taxpayers from 1.7 million to 2.8 million between 1988 and 1991 (Hogue, 2000).

In Argentina, tax administration reform on taxpayers’ monitoring in 1993 resulted to huge increased in tax revenue by significant
However, despite the advantages of tax income over other revenue sources, there is no argument on the fact that the amount of tax revenue generated by a given country depends on the efficiency and effectiveness of tax administration. Several models were developed for tax administration purposes in order to maximize tax revenue generation as discussed in the following subsections.

2.1. System-based Models
A system-based model has been widely used in the context of tax administration; the model requires the use of econometrics program logic (Australian National Office, 1998). In the model, a program is characterized as a grouping of objectives. According to the model, the fundamental steps included: Inputs, process, outcome, and impact.

Inputs stand for the required resources that will smooth the organizational efficiency and effectiveness, process are the activities involved in turning inputs to outputs. In the other hand, output are the results achieved by the organization, units and individuals while outcomes stand for the overall goals achieved from the previous stages. However, the system base model has not been break down issues into details, as a result several questions were arised among which are: What are inputs required for good tax administration performances?

The OECD (2008) expanded the logic model, according to OECD (2008) the thought of checking taxpayers’ compliance is directly significant to the terminology of “outputs and outcomes” and “efficiency and effectiveness” when utilized in the context of measuring revenue administration. As these terms are frequently confused and sometimes utilized interchangeably. The brief explanation on expanded the logic model is discussed in the next section.

2.2. Extended Sequence of Program Logic Model
To overcomes some limitations of program logic model of administration measurement. OECD (2008) extended the model by bringing in efficiency and effectiveness in program logic model. The term “efficiency” commonly relates to minimizing or reducing the utilization of available resources to produce or deliver a given level of outputs for instance, increasing the volume of outputs for a given level of inputs or increasing the number of completed audits cases for a given level of staffing, all things being equal, would reflect enhanced efficiency (Therkildsen, 2004). Mansor and Tayib (2012) further states that the term “effectiveness” is regularly connected with the degree to which “outcomes” are being accomplished. In a tax administration context, the degree to which compliance for example payment, reporting, and filling has been enhanced as a result of tax administration activities, this would clearly be a sign of a tax administration effectiveness.

In the long run, despite the fact that the extended model failed also to break down issues into more specific that will systematically identify accurate functions of tax administration. As a result a more details and comprehensive model called congruence model is considered more appropriate in tax administration functions.

2.3. Congruence Model
Congruence model aimed to diagnose causes of revenue administration weaknesses. It introduced by Seiler (1967) further enhanced by Nadler and Tushman (1980). The model was further brought to tax administration area by Gill (2003) as a diagnostic
model that links organization inputs and outputs, the model provide helpful classification of internal organization components while discussion on the interaction effects among them.

Although Mansor (2010) described congruence model as quite interesting and comprehensive that offered diagnose causes or revenue administration weaknesses and strengthens tax administration reform however, there are few areas that need further research. To be specific, there is need for more details model that will incorporate taxpayer’s inputs and outcome that will result to a voluntarily compliance, furthermore the outcomes from the perspective of administrators need to be incorporated which the present study aimed to address.

3. MODERNIZE CONGRUENCE MODEL

The modernize congruence model is based on critical review of literatures, components of system based model; extended sequence of program logic model; congruence model; theory of governance; and performance theory form part of the modernize tax administration model developed in this study as presented in Figure 1.

The modernize congruence model presented in Figure 1 above believes that in order to understand tax administration efficiency and effectiveness, we must to first of all appreciate tax administration as a system that involves of some basic components as: (1) The inputs from the perspectives of taxpayers and tax administration, (2) the strategy that tax administration adopts to define its vision to community, or it plans to society i.e. when, how, and who to complete the vision, (3) the significant transformation process within which formal, informal, people, and task transforms inputs resources into outputs, (4) the output, i.e. individual, unit, and system results toward achieving the strategic objectives, (5) the outcome from the perspectives of tax admin including accountability, transparency, as well as equity and from the view of taxpayers covering responsibility, follow the rule of law, and participatory.

3.1. Guidelines for Applying Modernize Congruence Model

The modernize congruence model is more comprehensive and promising for tax administration effectiveness and efficiency. Its exact value depend on the usefulness of a model to be able identify the root causes of weak revenue generation within a given tax administration. As stated earlier, it delivers a comprehensive starting point on the path to fundamental tax administration reform. It provides the conceptual model for a reform process that comprises collecting information on tax administration undertakings, harmonizing actual result against goals, identifying the roots of problem, developing and selecting actions plans, and finally executing and then evaluating the efficiency and effectiveness of those plans. The guidelines of using modernize congruence model for solving tax administration problems include the following steps:

1. Identify the inputs. As stated in Abiola and Asiweh (2012) the reason(s) for weak tax revenue generation in developing countries is as a result of poor efficiency and effectiveness of tax administration, keeping this in mind, the first step of modernize tax administration model is to gather critical information concerning both taxpayers and tax administration’s environment, resources, and history. The information collected will identify the tax administration’s overall objectives, core vision and mission, and supporting strategies.

2. Define the administration transformation components. This is the second step where analysis goes far beyond just recognizing revenue generation weaknesses. It begins with a data collection process on each of the four transformation components of the administration. As stated in Abiola and Asiweh (2012) and Mansor (2010) some reasons of weak tax revenue generation may be as a result of lack of good

![Figure 1: Modernize tax administration model](image-url)
integration between the transformation components of tax administration, therefore, data should be collected on the best way to enhance transformation process.

3. Define the output. The third step is to investigate the organization’s output, which is at the individual, unit, and organizational levels (Gill, 2003). Output analysis includes describing absolutely what output is required at every level to meet the general strategic goals and after that collecting data to measure accurately whether the output is sincerely being accomplished.

4. Determine outcome. The fourth step is to pinpoint what the entire process achieved at the end and to precise determine gaps and holes between planned and actual outcomes in order to recognize the related problems with each individual behavior, unit functioning, or organizational efficiency and effectiveness. Outcomes require tax administrators to regularly account their actions in a transparent and equity manner Mba (2012).

4. SUMMARY AND CONCLUSION

In order for a given government to generate adequate revenue from tax system, tax administration is expected to work in the most effective and efficient manner, this paper developed a model called “modernize tax administration model” which aimed to guide developing tax administration in reforming existing tax administration. The modernize tax administration model developed in this study comprises of four main components namely inputs, transformation, outputs, and outcomes, it is important to note that transformation and outputs deals with tax administrators while inputs and outcomes deals with both taxpayers and tax admin.

In order for the tax administration to generate adequate revenue components are expected to work in an integrated approach. Endlessly, tax administration must be vigilant for wrong fit among the components. Therefore, inappropriate fit among any of the tax administration components can lead non-achievement of objectives. For instance, in the absence of good integration in the transformation components between informal structures and formal or between individuals and their task requirement etc. can create enormous problems. More so, reforming one or two components of the model while leaving others unreformed will bring about the others to fall. In conclusion, it is believe that tax administration can generate more revenue from tax system where modernize tax administration model is adopted. Moreover, the limitation of this study is the fact that the model is not been empirically test.

REFERENCES


