

TAX CAPACITY AND TAX EFFORT

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**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF
ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF
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RRQUIREMENTS FOR THE AWARD OF BACHELOR OF SCIENCE DEGREE
(B.Sc.) IN ACCOUNTING.**

NOVEMBER, 2025.

DECLARATION

I, AKINSOWON MICHAEL AKINKUNMI with matriculation number

MGS2104499, hereby declare that:

This research project, titled "Determinants of Income Smoothing", is my original work and has not been submitted elsewhere for publication or academic award in any form, including journals, articles, or other publications.

I acknowledge that all data and sources cited in this study have been properly referenced and cited.

I confirm that I have complied with all relevant university regulations and guidelines necessary for the conduct of this research.

I, AKINSOWON MICHAEL AKINKUNMI, hereby sign this declaration:

Signature:



Date:

7/11/2023

CERTIFICATION

We, the undersigned, certify that this research work was carried out by **AKINSOWON MICHAEL AKINKUNMI** in the Department of Accounting, Faculty of Management



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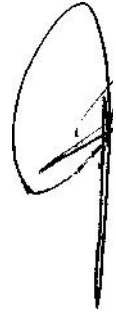
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PROF.

1/11

(Head of Department)



DEDICATION This project is dedicated to
God Almighty and to the Department of Accounting.

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ABSTRACT

This study examines the determinants of tax effort in Nigeria, focusing on the effect of economic development, economic structure, natural resource dependence, and institutional quality on the country's ability to mobilize domestic revenue. The research investigates how these factors collectively influence tax performance within the framework of the Fiscal Capacity Theory, which posits that both economic fundamentals and institutional strength determine a government's revenue-generating potential. The study adopts a survey research design. Primary data were collected from 384 respondents drawn from key fiscal and regulatory institutions, including the Federal Inland Revenue Service (FIRS), the Ministry of Finance, the Budget Office of the Federation, and the National Planning Commission. The data were analyzed using descriptive statistics, reliability tests, and Ordinary Least Squares (OLS) regression to determine the direction and significance of the relationships between the variables. The empirical findings reveal that economic development, economic structure, and institutional quality exert positive and significant effects on tax effort, indicating that higher growth, diversification, and governance quality improve revenue mobilization and compliance. Conversely, natural resource dependence has a negative and significant influence on tax effort, suggesting that overreliance on oil revenue undermines fiscal sustainability. The model recorded an R^2 of 0.782, showing that the explanatory variables jointly account for 78.2% of the variations in tax effort. Based on these results, the study recommends that policymakers promote economic diversification, strengthen institutional quality, and reduce dependence on natural resources to enhance Nigeria's tax effort. Furthermore, reforms should prioritize transparency, accountability, and digitalization of tax administration to improve efficiency and public trust.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Tax capacity refers to the potential ability of a country to generate tax revenues, taking into account its economic size, structure, natural resource dependence, and institutional capabilities. It represents the maximum amount of revenue a government could collect if its tax system were fully optimized, efficient, and effectively implemented. Tax capacity is influenced by factors such as the diversity and size of the economy, the level of industrialization, the availability of taxable resources, and the sophistication of the tax administration system (Tanzi & Zee, 2022).

Economic development plays a crucial role in enhancing a country's tax capacity, as more advanced economies typically exhibit stronger tax systems due to a broader base of income earners, diversified industries, and greater wealth generation potential. In developed economies, tax capacity is often more robust, supported by a sophisticated tax system capable of efficiently collecting revenues from diverse sectors. These nations benefit from a wide array of industries and services, which contribute to a larger tax base and higher revenue generation potential. Conversely, developing countries, often reliant on agriculture or informal sectors, face challenges in building a strong tax base, leading

to lower tax capacity. These nations are further hindered by institutional weaknesses, such as inadequate tax administration systems, which limit their ability to collect taxes effectively (Allers & Hoogerbrugge, 2023).

The economic structure of a country, particularly its reliance on natural resources, significantly influences its tax capacity. Resource-rich nations, such as those dependent on oil, gas, or minerals, may have the potential to generate substantial revenues from resource extraction. However, an overreliance on these sectors often results in a lack of tax diversification, making tax systems vulnerable to fluctuations in global commodity prices. This dependency can lead to the "resourcecurse," where countries fail to develop sustainable, diversified tax systems due to an abundance of easy-to-collect revenues from resource extraction. The informality and lack of transparency within resource sectors further complicate tax collection efforts. Nations like Venezuela and Nigeria, forexample, face significant challenges in developing broad-based tax systems due to their reliance on oil revenues (Sharma & Gupta, 2024).

The relationship between tax capacity and tax effort is particularly complex in resource-dependent economies. While resource-rich countries may possess substantial tax capacity from their extractive industries, many fail to apply significant tax effort to non-resource sectors. This limited tax effort undermines the development of broader tax systems and weakens the overall institutional framework, hindering sustainable fiscal

growth. This phenomenon underscores the importance of developing tax institutions and pursuing tax reforms that extend beyond resource extraction, to achieve long-term fiscal stability (Muthui et al., 2015; Feger, 2012).

The strength of a country's institutions is one of the most critical factors in determining its ability to realize its tax capacity. Strong, transparent institutions such as effective tax authorities, robust legal systems, and efficient auditing mechanisms are essential for enforcing tax laws and ensuring compliance. In countries with weak institutions characterized by corruption, inefficiency, or lack of accountability, tax effort is often limited, and tax capacity remains underutilized. Enhancing institutional quality, improving governance, and increasing transparency in tax administration are pivotal in unlocking a country's full tax potential (O'Reilly & McMillan, 2022). Empirical studies have further underscored the relationship between tax capacity and tax effort, highlighting the role of both institutional quality and economic structure. Le & Moreno-Dodson (2012) examined tax capacity and effort across regions, showing the variations in tax collection and factors influencing these differences. The study emphasizes the complex regional factors that impact tax performance, aligning with the idea that tax systems must be adapted to local conditions to function effectively.

1.2 Statement of the Research Problem

Tax capacity, which refers to the potential ability of a country to generate tax revenues, is a crucial factor in determining a nation's fiscal sustainability and its ability to finance development goals. While tax capacity represents the theoretical maximum revenue a government could collect if its tax system were fully optimized, the actual revenue collected, known as tax effort, often falls short of this potential. This discrepancy is particularly pronounced in developing countries and resource- dependent economies, where a variety of factors, such as economic diversification, economic structure, natural resource dependence, and institutional quality, shape both tax capacity and effort. Economic diversification plays a significant role in determining a country's tax capacity and effort. Countries with diversified economies, those that generate revenue from multiple sectors like manufacturing, services, and technology, tend to have higher tax capacity and can collect taxes more efficiently. This is because diversified economies have a broader tax base, making it easier to generate stable tax revenues. However, many developing countries, particularly those transitioning from agriculture to industrialization or from informal to formal economies, face significant challenges. These economies often rely heavily on agriculture and informal sectors, both of which are difficult to tax effectively. While existing studies recognize the role of economic diversification, they often focus on broad economic indicators without addressing how specific stages of economic development, particularly the shift from informal to formal

markets, affect tax collection and effort. This gap in the literature makes it difficult to fully understand how the growth and formalization of different sectors influence a country's tax effort (Bahl & Bird, 2020; Keen & Simone, 2017).

The economic structure of a country whether it is predominantly agricultural, industrial, or service-based also significantly impacts tax effort. Economies that are heavily reliant on agriculture or informal sectors typically have lower tax capacity because these sectors are harder to monitor and tax. In contrast, economies with a larger share of industrial and service sectors tend to have more stable and easily taxable revenue sources. Despite the clear relationship between economic structure and tax capacity, there is a lack of research on how transitions from agriculture to industry or from informal to formal sectors affect tax effort. Many countries in low-income settings experience these shifts, yet the impact of such transitions on tax effort and capacity has not been sufficiently explored (Martinez-Vazquez & McNabb, 2021; Fjeldstad, 2020). This gap in understanding hinders the ability to design effective tax policies that can capture revenue during periods of economic transformation.

Natural resource dependence complicates the relationship between tax capacity and tax effort. Countries rich in natural resources like oil, gas, and minerals theoretically have high tax capacity due to the substantial revenues generated from extractive industries. However, these countries often exert low tax effort in non-resource sectors, relying primarily on resource extraction for government revenue. This overreliance on natural

resources can lead to the "resource curse," where resource-rich countries neglect the development of diversified tax systems, undermining their ability to collect taxes from other sectors. While the concept of the resource curse is widely recognized, there is insufficient research on how resource-dependent countries can balance resource revenue with efforts to diversify and expand the tax base in non-resource sectors. The volatility of global commodity prices further exacerbates this challenge, yet many studies have not explored how resource-rich nations can mitigate these risks by improving tax collection in non- resource sectors (Mehlum, Moene, & Torvik, 2006; Muthui et al., 2015; Feger, 2012).

Finally, institutional quality plays a pivotal role in determining tax effort. Strong institutions, such as efficient tax authorities, transparent legal systems, and robust auditing mechanisms, are essential for ensuring that tax laws are enforced and compliance is maintained. In countries with strong institutions, tax collection tends to be more efficient, and compliance rates are higher. However, in countries with weak institutions characterized by corruption, inefficiency, and lack of accountability tax effort is often limited, and tax capacity remains underutilized. While institutional quality has been widely studied, there is a significant gap in research that explores the specific institutional factors influencing tax effort. While many studies have addressed broader governance issues, fewer have focused on how aspects like the capacity of tax authorities, the role of digital systems in improving compliance, and the governance

structures within tax administration directly impact tax collection and capacity (Tanzi & Zee, 2022; Brautigam et al., 2008).

Despite the substantial body of literature on the individual sub-variables of tax capacity, economic diversification, economic structure, natural resource dependence, and institutional quality, there is a lack of comprehensive studies that examine how these factors interact and collectively influence tax effort. Previous studies have largely focused on isolated aspects, without sufficiently exploring the dynamic interplay between these sub-variables. Furthermore, cross-country comparisons, particularly between resource-rich and resource-poor countries, are scarce. The literature also fails to explore how transitions in economic structure such as the shift from agriculture to industry or from informal to formal economies affect tax effort and capacity. This study seeks to address these gaps by offering a comprehensive framework that integrates these sub-variables, economic diversification, economic structure, natural resource dependence, and institutional quality, to better understand their combined impact on tax capacity and effort. By focusing on how these factors interact, this research will provide valuable insights for policymakers in developing and resource-dependent countries, offering actionable recommendations for tax policy reforms and institutional improvements aimed at optimizing tax systems and improving fiscal sustainability.

1.3 Research Questions

Based on the background and statement of the research problem, the following research questions can be derived:

1. How does economic development influence tax effort in an economy?
2. What is the impact of economic structure on tax effort?
3. To what extent does natural resource dependence affect tax effort?
4. How does institutional quality determine tax effort in an economy?

1.4 Objective of the Study

The broad objective of the study is to examine the impact of tax effort on tax capacity across economies. Specifically, the study intends to;

1. assess the effect of economic development on tax effort;
2. to evaluate how the structure of the economy influences tax effort;
3. to analyze the impact of natural resource dependence on tax effort; and
4. to investigate the role of institutional quality in shaping tax effort.

1.5 Research Hypotheses

H01: There is no significant relationship between economic development and tax effort.
H02: There is no significant relationship between economic structure and tax effort.
H03: There is no significant relationship between natural resource dependence and

tax effort.H04: There is no significant relationship between institutional quality and tax effort.

1.6 Scope of the Study

This study focuses on examining the impact of tax capacity on tax effort within the context of the Federal Inland Revenue Service (FIRS) in Nigeria. Specifically, the study investigates how varying levels of tax capacity, shaped by the intensity of revenue mobilization activities, affect Nigeria's ability to build and expand its overall tax efforts. The research explores how four key contextual factors, economic development, economic structure, natural resource dependence, and institutional quality, mediate or influence the extent to which tax effort contributes to long-term revenue-generating potential.

The content scope of the study centers on analyzing how the efficiency and intensity of domestic revenue mobilization efforts affect the development of fiscal capacity in Nigeria. By focusing on the gap between actual revenue collection and the theoretical revenue potential, the study assesses how structural and institutional dynamics influence the ability of tax effort to translate into sustainable improvements in tax capacity. It investigates both the direct impact of tax effort and its interaction with broader economic and governance conditions in shaping fiscal performance within the Nigerian tax administration system.

Geographically, the study is limited to the operations of the Federal Inland Revenue Service (FIRS), Nigeria's central tax authority responsible for federal tax collection. The FIRS serves as the focal institution through which tax effort is exerted and tax capacity is realized, making it a suitable unit of analysis for evaluating institutional performance and systemic outcomes.

Temporally, the study covers ten years from 2015 to 2025, utilizing secondary data on tax revenues, macroeconomic indicators, sectoral composition, natural resource dependence, and institutional quality. This longitudinal approach enables an in-depth analysis of trends, policy shifts, and structural changes over time, providing insight into how sustained tax effort impacts Nigeria's evolving tax capacity.

1.7 Significance of the Study

This research carries substantial significance across multiple domains of public finance, development economics, and governance studies. First, the study provides critical insights for policymakers seeking to enhance domestic revenue mobilization, which has been identified as fundamental to restoring macroeconomic stability and financing growth-enhancing public expenditure. As countries face mounting public debt service obligations and limited access to international capital markets, strengthening domestic revenue capabilities becomes increasingly vital for maintaining

fiscal sustainability (Tanzi & Zee, 2022).

The study's reconceptualization of tax capacity as an outcome rather than a fixed constraint represents a significant theoretical advancement. By treating tax capacity as malleable and responsive to deliberate policy choices, this research challenges conventional approaches that view capacity primarily as a structural limitation. This paradigm shift encourages more proactive revenue strategies and emphasizes the agency of governments in shaping their fiscal futures, even within structural constraints (Keen & Simone, 2017).

From a development perspective, this research directly addresses the minimum threshold challenge identified in empirical literature, where research suggests a tax-to-GDP ratio of at least 15 percent is necessary to support economic growth through adequate financing of basic public services (Martinez-Vazquez & McNabb, 2021). By identifying pathways to strengthen tax capacity through improved tax effort, this study contributes to efforts aimed at meeting established revenue targets such as those set in national development plans (Bahl & Bird, 2020).

The study also offers significant practical value by providing a more policy-relevant measure of tax potential and effort. By examining how much potential tax revenue is being lost and identifying the specific factors that enhance or constrain revenue mobilization, the research provides actionable intelligence for tax reform initiatives.

This approach helps policymakers understand not only the theoretical maximum revenue

but also the practical steps needed to approach that ceiling(Sharma & Gupta, 2024). On a global scale, this research aligns with and supports progress toward the Sustainable Development Goals (SDGs). Effective domestic revenue mobilization is increasingly recognized as integral to financing sustainable development priorities, addressing climate change challenges, and ensuring long-term debt sustainability (Brautigam et al., 2008). The study provides evidence-based guidance on how countries can strengthen their financial independence to meet these crucial objectives (Tanzi & Zee, 2022).

Furthermore, the integrated analytical framework developed in this study fills a notable gap in existing literature, which has tended to examine factors influencing tax performance in isolation. By investigating how economic structure, resource dependence, and institutional quality collectively mediate the relationship between tax effort and capacity, this research offers a more holistic understanding of revenue dynamics than previously available (Mehlum, Moene, & Torvik,2006). For developing economies specifically, this study's significance lies in its potential to inform strategies for reducing aid dependence and enhancing fiscal autonomy. By illuminating pathways to build sustainable tax capacity through appropriate tax effort, the research supports the transition from external funding reliance to self-sufficient financing of development priorities (Fjeldstad, 2020).

Additionally, the study makes an important contribution to understanding political

economy factors in taxation. By examining how constraints on the executive affect different dimensions of fiscal capacity, the research provides insight into how political institutions influence the effectiveness and impartiality of tax systems. This enhances our understanding of why similar levels of tax effort might yield different capacity outcomes across varying institutional contexts (O'Reilly & McMillan, 2022). In summary, this study holds significant value for policymakers, researchers, and development practitioners by reframing tax capacity as a dynamic outcome rather than a static constraint. Through its integrated analysis of the factors mediating the relationship between tax effort and capacity, the research provides both theoretical advancement and practical guidance for enhancing domestic revenue mobilization in service of sustainable development goals (Feger, 2012).

1.8 Definition of Terms

Tax Capacity: Tax capacity refers to the theoretical maximum potential of a country to generate tax revenues based on its economic size, structure, natural resources, and institutional capabilities. It represents the optimal level of revenue a government could collect if the tax system were fully optimized and efficiently implemented (Tanzi & Zee, 2022).

Tax Effort: Tax effort is the actual amount of tax revenue collected relative to the potential tax capacity of a country. It is a measure of how effectively a government

utilizes its tax system to mobilize revenue in comparison to its theoretical tax potential. Tax effort reflects the practical performance of a tax system, considering administrative and institutional factors that may constrain or enhance revenue collection (Allers & Hoogerbrugge, 2023).

Economic Development: Economic development refers to the process by which a country improves its economic welfare through increased production, the development of infrastructure, human capital, and economic diversification. It typically involves a shift from primarily agricultural economies to industrialized and service-based economies, accompanied by higher income levels, improved standards of living, and greater economic resilience (Bahl & Bird, 2020).

Economic Structure: Economic structure refers to the composition of the economic activities within a country, including the distribution of industries, services, and natural resources. It encompasses the relative importance of sectors such as agriculture, manufacturing, and services in the economy, and how these sectors impact a country's capacity to generate tax revenues (Martinez-Vazquez & McNabb, 2021).

Natural Resource Dependence: Natural resource dependence refers to the reliance of a country's economy on the extraction and export of natural resources, such as oil, gas, and minerals, for generating revenue. Countries that are heavily dependent on resource exports may face challenges in diversifying their tax base, as they often rely on resource

rents, leading to unstable revenue sources and a failure to develop other revenue-generating sectors (Sharma & Gupta, 2024).

Institutional Quality: Institutional quality refers to the strength, transparency, efficiency, and effectiveness of a country's institutions, particularly in areas like governance, the legal system, and tax administration. Strong institutions are critical for ensuring that tax laws are enforced, reducing corruption, and improving tax compliance. Higher institutional quality leads to more efficient revenue collection and better tax system performance (O'Reilly & McMillan, 2022).

Resource Curse: The "resource curse" refers to the paradox where countries rich in natural resources experience slower economic growth, weaker governance, and higher levels of corruption compared to countries with fewer natural resources. This is often due to the over-reliance on resource extraction, which inhibits the development of other economic sectors and undermines the implementation of sound tax systems (Mehlum, Moene, & Torvik, 2006).

Sustainable Development Goals (SDGs): The Sustainable Development Goals (SDGs) are a set of 17 global goals established by the United Nations to address urgent environmental, political, and economic challenges facing the world. The goals aim to achieve a more sustainable, equitable, and prosperous future by 2030, focusing on areas like poverty, inequality, education, climate action, and economic growth (Brautigam et al., 2008).

Fiscal Sustainability: Fiscal sustainability refers to a government's ability to manage its finances in a way that ensures long-term budgetary health. This includes maintaining balanced budgets, managing public debt, and ensuring sufficient revenue generation to cover public expenditures without relying excessively on external borrowing or aid (Tanzi & Zee, 2022).

Domestic Revenue Mobilization: Domestic revenue mobilization refers to the process through which a country generates revenue from its own domestic sources, such as taxes, fees, and other public revenues. This is considered a key factor in achieving fiscal sustainability, reducing reliance on external funding, and ensuring that a country can finance its development goals (Keen & Simone, 2017).

CHAPTER TWO LITERATURE REVIEW 2.1

Conceptual Review

2.1.1 Tax Effort

Tax is a compulsory financial charge or levy imposed by a government on individuals, businesses, or other entities to fund public services and infrastructure. These services include essential societal functions such as healthcare, education, defence, and public safety, as well as investments in economic development. Taxes are typically categorized into two main types: direct taxes, such as income tax, where the tax is directly paid by individuals or entities, and indirect taxes, such as sales tax, where the tax is applied to goods and services and is typically paid by consumers at the point of sale. Taxes are fundamental to the functioning of any economy and provide governments with the financial resources needed for public expenditure and societal development (Cyan & Martinez-Vazquez, 2021).

Building upon this basic understanding of taxation, *tax effort* refers to a country's ability to collect taxes relative to its potential tax base. It is a measure of how efficiently a country uses its economic capacity to generate tax revenue. Tax effort is usually expressed as the ratio of actual tax revenue to the estimated potential tax

revenue, which is typically derived from a country's economic indicators, including GDP and economic structure. A high tax effort implies that a country is efficiently using its resources to collect taxes, while a low tax effort suggests that the country is underperforming in terms of revenue generation relative to its potential. This concept is crucial for understanding whether a country is maximizing its tax collection capabilities (Piancastelli & Thirlwall, 2021).

Tax policies provide the framework through which taxes are levied, and they play a critical role in shaping the economic landscape of a country. These policies dictate how taxes are collected, who is taxed, and at what rates. Effective tax policies ensure that taxation is fair, equitable, and capable of meeting government revenue needs. These policies are implemented through tax administration, the body responsible for the actual collection of taxes. A strong and efficient tax administration is essential to ensure that tax laws are enforced fairly and consistently. Poor tax administration can lead to widespread tax evasion, inefficiency, and a reduction in tax revenue, especially in countries with weak institutional frameworks. Recent studies have emphasized the importance of tax administration reforms, especially in developing countries, to ensure that policies are effectively implemented and that tax revenue is maximized (Nurbekova & Juchnevicius, 2024).

Tax legislation forms the legal foundation of a country's tax system, establishing the rules and guidelines for tax collection. It determines what constitutes taxable income,

the applicable rates, exemptions, and penalties for non-compliance. The effectiveness of tax legislation depends on how clearly and efficiently it is designed and enforced. When well-crafted, tax legislation ensures that tax systems are transparent and that tax burdens are fairly distributed among taxpayers. It can also incentivize certain economic behaviours, such as investment or savings, through tax credits or exemptions. Over time, tax laws may be revised to respond to changes in the economy or to address perceived inefficiencies. Tax reforms are often aimed at broadening the tax base, simplifying tax procedures, or ensuring that tax burdens are distributed more equitably (Bogovizetal., 2018).

The challenges in tax administration are many, including inadequate data, corruption, and the complexity of tax laws. The informal economy, in particular, remains a significant barrier to improving tax effort in many countries. Tax evasion and avoidance are persistent problems that reduce government revenues, making it harder for countries to meet their fiscal needs.

Additionally, political instability and weak governance structures can hinder the effectiveness of tax policies, reducing the capacity of governments to collect taxes and enforce tax laws. Addressing these challenges requires comprehensive reforms that improve tax collection systems, reduce corruption, and ensure that tax policies are fair and transparent.

Several tools are employed to measure tax effort, and the most commonly used is the *tax-to- GDP ratio*, which compares a country's total tax revenue to its GDP. A higher ratio suggests greater tax effort, as it indicates that the country is generating more tax revenue relative to its economic size. However, this ratio does not account for all factors influencing tax collection, such as the informal economy, and thus more sophisticated methods are often used. For example, the *international tax function* compares a country's actual tax-to-GDP ratio to a predicted ratio, based on a model that considers factors like the country's economic development and political stability. This method provides a more nuanced view of tax effort, as it considers the structural and contextual factors influencing tax collection efficiency (Dalamagas et al., 2019). The *shadow economy*, or informal economy, significantly affects tax effort. The shadow economy refers to economic activities that are not reported to tax authorities, such as unregistered businesses or underreported income. A large shadow economy typically results in lower tax effort, as much of the economic activity is outside the formal tax net. This problem is particularly pronounced in developing countries, where informal sectors are often large, complicating the measurement and enforcement of tax collection. In these contexts, informal economic activities can severely limit the tax base, reducing the overall tax effort (Bird & Martinez-Vazquez, 2006). Despite these tools, measuring tax effort faces several challenges. One of the major challenges is the *availability and reliability of data*. In many developing countries, the

data necessary to estimate potential tax revenues such as detailed economic activity or comprehensive records of informal economic sectors are often missing or inaccurate. Without reliable data, it is difficult to get an accurate picture of a country's tax capacity and actual tax effort. Additionally, political and institutional factors play a critical role in determining tax effort. Corruption, political instability, and weak governance structures can lead to inefficiencies in tax collection. In countries with inadequate governance, even if the tax base is large, the capacity to collect taxes effectively is often undermined. Moreover, tax systems that are overly complex, with excessive exemptions and inefficiencies, can further reduce tax effort (Canavire-Bacarreza & Deza, 2021). Despite the challenges in tax administration, the benefits of improving tax effort are substantial. Effective tax systems lead to greater fiscal sustainability by ensuring that governments have a stable and reliable source of revenue. This revenue can be used to fund essential public services, reduce national debt, and stimulate economic development. Moreover, a strong tax system enables governments to respond more effectively to economic challenges, such as recessions or natural disasters. Furthermore, tax administration and policy reforms can enhance the overall efficiency of the public sector, improving service delivery and fostering trust between governments and citizens. Countries that invest in improving their tax systems are better positioned to promote long-term economic stability and growth. Measuring and improving tax effort also provides valuable insights for policy development and tax reform. By identifying

the gap between potential and actual tax revenue, governments can design more effective tax policies, introduce reforms to close the tax gap, and implement measures to enhance the efficiency of tax collection. Additionally, improved tax effort contributes to fiscal sustainability by reducing reliance on external debt and better enabling governments to fund public services and infrastructure. By comparing tax performance with other countries in similar economic conditions, governments can also identify best practices and adapt successful tax strategies to improve their own systems (Bassey et al, 2022; Bird & Martinez-Vazquez, 2006).

Tax effort is an important measure of a country's capacity to generate revenue through its tax system. Tools such as the tax-to-GDP ratio and international tax functions provide insights into a country's tax performance, while recognizing the challenges posed by the shadow economy, data limitations, and political factors. Despite these challenges, improving tax effort can lead to better fiscal health, more efficient tax systems, and increased sustainability of public finances. With better policy development and tax reforms, countries can enhance their tax effort and create stronger, more resilient economies (Cyan & Martinez-Vazquez, 2021).

2.1.2 Tax Efforts in Nigerian Public Sector

The history of tax efforts in Nigeria's public sector has been shaped by evolving taxation policies, tax administration challenges, and legislative reforms. Since

Nigeria's independence in 1960, the government has continuously sought ways to improve its tax systems to boost revenue generation, fund public sector activities, and reduce reliance on oil exports.

Initially, Nigeria's tax system was primarily based on colonial-era tax laws, with an emphasis on indirect taxes. Over time, as the country's economy expanded and diversified, the need for a more robust and comprehensive tax system became evident. The introduction of direct taxes such as the company income tax and petroleum profit tax marked the beginning of a more modern tax regime. However, tax collection faced several challenges, including inefficiency in tax administration, low compliance rates, and widespread tax evasion (Uremadu & Ndulue, 2011).

From 2001 onwards, the Nigerian government embarked on significant tax reform initiatives aimed at improving revenue collection and broadening the tax base. One notable development was the introduction of the Value Added Tax (VAT) in 1993, which was later revised and became a critical source of revenue for the federal government. However, the system faced challenges due to the country's federal structure, which complicated the administration and collection of taxes across states and local governments (Djebah et al., 2022).

A significant portion of Nigeria's tax revenue has traditionally come from the oil sector, but as the country sought to diversify its revenue sources, efforts were made to strengthen tax policies aimed at the non-oil sector. These reforms included expanding the scope of

taxable activities and improving tax compliance enforcement. Despite these efforts, Nigeria has struggled with issues such as corruption within the tax system, inefficient tax collection mechanisms, and a large informal sector, which together contributed to the country's low tax revenue-to-GDP ratio (Baghebo, 2012).

The government has also faced challenges related to poor tax administration, especially at the local government level, where tax collection efforts are fragmented and often ineffective. Recent attempts to address these issues include introducing more digitalized tax systems and engaging in campaigns to improve taxpayer attitudes and combat tax evasion. Nevertheless, these reforms have had limited success due to the persistence of the informal economy and the lack of comprehensive data on tax compliance. The push for tax reforms and improving public sector tax administration continues to be a major policy focus (Afolabi, 2024).

The history of tax efforts in Nigeria's public sector highlights the country's ongoing struggle to improve tax revenue collection and fiscal sustainability. While significant strides have been made through reforms such as VAT implementation and expansion of direct taxes, the system remains hampered by inefficiencies, corruption, and a reliance on the informal sector. The path forward will require continued efforts to modernize tax administration, improve taxpayer compliance, and reduce reliance on oil revenues, ultimately ensuring a more diversified and sustainable tax base for the country (Eze et al., 2016).

2.1.3 Tax Capacity

Tax capacity refers to the ability of a government to generate revenue from its tax system. This capacity is influenced by a variety of factors, including the effectiveness of the tax administration, the economic structure, and the legal and institutional frameworks that support taxation. In essence, tax capacity measures how much tax revenue a government can reasonably collect based on its economic potential and the effectiveness of its tax policies and infrastructure.

The concept of tax capacity is closely linked to the broader concept of state capacity, which refers to the ability of the government to effectively implement policies, including tax collection. Historically, the tax capacity of governments in developing countries has been hindered by challenges such as weak administrative structures, poor compliance rates, and the informal nature of many economies. Governments with low tax capacity often face difficulties in financing public services, leading to over-reliance on external aid or debt. Enhancing tax capacity requires reforms to improve tax collection systems, broaden the tax base, and reduce informal sector activities, all of which are essential for sustainable development (Cingolani, 2013). Several key factors influence tax capacity, including the legal and institutional frameworks of taxation, the level of economic development, and the structure of the tax system. For example, countries with more sophisticated tax systems, clear tax laws, and effective tax administration tend to have higher tax capacity. Additionally, factors like

the GDP per capita, the share of the population in formal employment, and the size of the informal economy play a significant role in determining how much a government can collect in taxes (Bhargava, 1954).

Tax capacity can be measured in absolute and relative terms. Absolute tax capacity refers to the total amount of revenue a government can generate given its economic resources, while relative tax capacity compares a country's tax performance with that of others, often using benchmarks or expected levels of revenue based on similar economic conditions. These measures help governments assess their tax performance and identify areas where reforms or improvements are needed. For example, in some developing countries, tax capacity is limited by the presence of a large informal sector, where economic activities are not reported for taxation, making it harder to expand the tax base (Le & Moreno-Dodson, 2008).

A critical component of improving tax capacity is enhancing tax compliance. Governments need to implement reforms that make it easier for businesses and individuals to comply with tax laws, including simplifying tax codes and reducing barriers to compliance. Moreover, improving public awareness about the importance of taxes and fostering a culture of compliance can play a key role in strengthening tax capacity. However, tax compliance is often hindered by factors such as corruption, complex tax systems, and inadequate administrative structures, especially in countries with low tax capacity (Bird, 2013).

Tax capacity is a crucial factor in determining a government's ability to generate the revenue needed to finance public goods and services. Enhancing tax capacity requires comprehensive reforms to strengthen tax administration, expand the tax base, improve compliance, and reduce the size of the informal sector. By improving tax capacity, governments can ensure more sustainable public finances and reduce reliance on external aid or debt, ultimately supporting long-term economic development (Fauvelle-Aymar, 1999).

2.1.4 Tax capacity in Nigerian Public Sector Institutions

The history of tax capacity in Nigeria's public sector institutions is a complex narrative of evolution, challenges, and reforms. Since Nigeria's independence in 1960, the country has faced a range of issues in improving its ability to generate revenue through taxes. Initially, Nigeria's tax system relied heavily on colonial-era structures, which were focused primarily on indirect taxes such as customs duties and excise taxes. However, the discovery of oil in the late 1950s and the subsequent boom in oil revenues in the 1970s shifted the country's focus. With oil becoming the dominant source of revenue, the importance of developing a robust, non-oil tax system diminished. This over-reliance on oil revenue led to a weakening of the tax administration and reduced the incentives to strengthen the country's tax institutions (Akanbi,2019).

By the 1980s, the Nigerian government began to realize the need to diversify its sources of revenue as oil prices fluctuated and economic instability set in. This led to the introduction of more direct taxes, such as corporate income tax and personal income tax, alongside the Value Added Tax (VAT) introduced in 1993. However, despite these efforts, tax collection remained inefficient. The informal sector, which was a significant part of Nigeria's economy, remained largely untaxed, and tax compliance was low. This era also saw the establishment of key tax institutions, such as the Federal Inland Revenue Service (FIRS), yet the tax system remained plagued by corruption and poor coordination between federal and state authorities (Bangura, 2000). The early 2000s marked a new phase in Nigeria's tax reform agenda. The administration of President Olusegun Obasanjo, in particular, focused on modernizing Nigeria's tax system to reduce reliance on oil and increase domestic revenue. A critical component of this reform was the development of the National Tax Policy in 2002, which aimed to make the tax system more efficient and equitable. Despite these reforms, Nigeria's tax capacity remained constrained due to political instability, poor enforcement of tax laws, and a large informal economy that continued to evade taxation. Efforts to modernize the tax system, including the use of technology to improve compliance and enhance the capacity of tax authorities, were implemented, but challenges remained in achieving significant improvements in revenue generation (Ebi, 2018).

By the 2010s, tax capacity in Nigeria was still hindered by the same persistent challenges. However, the government continued to push for reforms to improve the efficiency of its tax institutions. The FIRS and other tax agencies focused on improving their administrative capacity, incorporating digital technologies into the tax filing and payment process, and expanding the tax base through policies such as the Voluntary Assets and Income Declaration Scheme (VAIDS). Despite these efforts, Nigeria's tax capacity was still insufficient to meet the country's fiscal needs, and the country remained heavily dependent on oil revenue. The informal sector continued to be a significant challenge, and tax compliance remained low among businesses and individuals operating outside the formal economy (Ajao et al., 2013). In recent years, the Nigerian government has emphasized expanding the tax base and improving tax administration. Initiatives such as digital tax services, tax incentives for compliance, and efforts to formalize the informal economy have been central to the government's tax reform strategy. However, Nigeria's tax capacity remains underdeveloped, with many challenges still to be addressed, including corruption, lack of infrastructure, and political obstacles. A critical issue for Nigeria's tax capacity has been the efficiency and effectiveness of its tax institutions, including the FIRS, which continues to face capacity issues in enforcing tax collection, especially from the informal sector. Moreover, addressing the broader issue of political and institutional reforms is crucial for improving Nigeria's tax capacity (Egwaikhide, 2019).

Nigeria's journey toward improving its tax capacity has been marked by a series of reforms and initiatives aimed at strengthening the country's tax institutions and expanding the tax base. While there have been significant strides in modernizing the tax system, Nigeria's tax capacity remains hindered by challenges such as a large informal economy, political instability, and corruption. Moving forward, sustained efforts to address these challenges, particularly improving compliance and enhancing the capacity of tax institutions, will be critical in enhancing Nigeria's tax capacity and ensuring sustainable public finances (Caspar et al., 2016).

2.1.5 Economic Development

Economic development is a broad and multidimensional concept that encompasses improvements in the economic, social, and institutional frameworks of a society. It refers to the process by which a nation or region improves the economic well-being of its people, reduces poverty, enhances infrastructure, and creates conditions for sustainable growth. Over the years, various conceptual frameworks have been developed to understand the factors driving economic development and to propose strategies for fostering it.

One key aspect of economic development is the relationship between economic growth and development. While economic growth refers to an increase in the output of goods

and services (typically measured by GDP), economic development involves more comprehensive improvements in the quality of life, including social, political, and environmental factors. Amartya Sen, a renowned economist, emphasized that the concept of development should be centred around expanding human capabilities, thus making the well-being of individuals a core focus of economic development. According to Sen, economic development should be viewed not only in terms of material wealth but also in terms of the freedom and opportunities available to people (Sen, 1988). A significant aspect of economic development is the role of institutions. Strong, effective institutions such as legal frameworks, government structures, and financial systems are essential for facilitating development. Institutional quality affects everything from the enforcement of contracts to the provision of public goods and services. For instance, countries with robust tax systems, legal frameworks, and a transparent government tend to experience higher levels of development. Economic development, therefore, is deeply intertwined with the capacity of institutions to promote growth, equity, and social inclusion. This view is supported by research on economic development in resource-based economies, which shows that institutional quality is a key moderator of the relationship between entrepreneurship and economic development (Ghura, Li & Harraf, 2017).

The role of human capital such as education, health, and skills is another central pillar of economic development. According to some frameworks, economic development is

not just about increasing GDP, but about enhancing human capabilities and ensuring that people can lead healthier, more fulfilling lives. These factors are critical in creating a productive workforce and fostering innovation, which are necessary for long-term economic growth. The importance of education and healthcare in development is evident from the large body of literature that links these sectors to improved living standards and higher economic output (Jabareen, 2008).

Another important aspect of economic development is sustainability. As the world faces challenges such as climate change and resource depletion, economic development must be integrated with environmental goals. Sustainable development emphasizes the need for balancing economic growth with environmental protection. In this context, it is essential to rethink development strategies that prioritize short-term economic gains over long-term sustainability. A conceptual framework for sustainable development recognizes the need to address both economic and environmental issues simultaneously to ensure that development is viable in the long term (Jabareen, 2008). The conceptual frameworks for economic development also emphasize the importance of industrial and regional development. In many economies, the construction industry plays a pivotal role in promoting growth and providing essential infrastructure. Similarly, regional development initiatives aim to reduce inequalities between urban and rural areas, ensuring that economic opportunities are more evenly distributed.

These approaches highlight the significance of spatial and industrial policies in

fostering inclusive economic growth, which is a key goal of modern economic development strategies (Brekke, 2021).

2.1.6 Economic Structure

The concept of *economic structure* refers to the organization of the different sectors of an economy and how they interact to determine overall economic performance. Economic structure is critical to understanding how economies evolve over time, the relationships between different sectors (e.g., primary, secondary, and tertiary sectors), and how these relationships influence economic growth, development, and sustainability.

One central idea in economic structure is the distinction between different types of economies, such as those dominated by agriculture, industry, or services. This classification helps identify the stage of economic development a country is in. For instance, resource-rich countries often start with an economy that is heavily reliant on the primary sector, such as mining or agriculture, before shifting towards industrialization and eventually becoming service-oriented as they grow. This process of industrialization and economic transformation is seen as a crucial driver of development, where economies move from being dependent on raw materials to more diversified, modern economies based on manufacturing, technology, and services (Rowlands, 1998).

The economic structure is also intertwined with institutional frameworks. Strong institutions such as legal systems, government frameworks, and financial systems are vital to shaping the efficiency and adaptability of economic structures. For instance, Douglass North's work on institutional economics underscores the role of institutions in economic development, particularly the importance of property rights, governance, and the rule of law in shaping economic outcomes. Institutions determine how resources are allocated, how markets function, and how policies affect economic activities (Ghura, Li, & Harraf, 2017).

The concept of *new structural economics* proposes that a country's economic structure should evolve based on its factor endowments, such as natural resources, labor, and capital, and that these should align with the country's level of development. According to this framework, economic structures should adapt over time as countries accumulate human and physical capital, moving from low-value industries to more sophisticated, high-value sectors. This theory suggests that for a country to develop effectively, it must structure its economy in a way that supports the efficient use of its resources while fostering industrial growth and technological advancement. The optimal industrial structure of an economy depends on the level of development it has reached (Lin, 2011). Moreover, economic structure impacts other dimensions of development, such as sustainability. Economic systems must consider environmental, social, and economic

factors to ensure long-term growth. This includes integrating sustainable practices into the economic structure, where industries and policies are aligned with environmental goals to avoid the degradation of natural resources. Such an integrated approach has become increasingly important, particularly in the context of global challenges like climate change, where economic structure must adapt to ensure environmental protection while fostering growth (Barbosa et al., 2014).

2.1.7 Natural Resource Dependence

Natural resource dependence refers to the extent to which a country's economy relies on its natural resources for income, exports, and economic growth. While natural resources such as oil, minerals, and agricultural products can significantly boost an economy's output, countries heavily reliant on these resources face a range of challenges that can affect their long-term development prospects. This dependence can shape economic structures, growth trajectories, and governance dynamics, particularly in resource-rich developing countries.

One important theory in the study of natural resource dependence is *rentierism*, which describes economies where the state derives a significant portion of its revenue from the extraction of natural resources rather than taxation of the populace. In these economies, governments may prioritize resource extraction over the development of other sectors, leading to a narrow economic base. Additionally, rentier states often face challenges

related to political instability, governance issues, and social inequalities. A conceptual framework called the *Rentier Limited Access Order* has been proposed to better understand how these resource-dependent economies experience institutional constraints that limit their development potential (Momeni, Aalizad, & Mirebeigi, 2019). Moreover, natural resource dependence is often associated with *economic volatility*. Countries that depend heavily on the export of a few natural resources can experience fluctuations in income due to changing global prices, as seen in the case of oil-exporting nations. This volatility can undermine economic stability, hinder long-term development plans, and increase vulnerability to external shocks. Scholars argue that such economies must diversify their industries and improve their governance structures to mitigate these risks and build resilience (Mavrotas & Murshed, 2011). The *resource curse* is another critical concept in understanding natural resource dependence. This refers to the paradox where countries with abundant natural resources often experience slower economic growth and worse development outcomes than countries with fewer natural resources. Factors such as corruption, poor governance, and a lack of diversification can exacerbate the negative effects of resource dependence. Institutional frameworks that promote transparency, accountability, and diversification are essential in overcoming the resource curse and fostering sustainable development (Hillman & Withers, 2009).

Finally, governance plays a significant role in determining the economic outcomes of resource- dependent countries. Effective management of natural resources, coupled with the development of sound institutions, can help ensure that resource wealth is used to foster broad- based economic development rather than reinforcing inequality. Transdisciplinary approaches to natural resource governance have been suggested to improve coordination across sectors and stakeholders, which can help mitigate the negative effects of resource dependence and improve long-term sustainability (Yeboah-Assiamah & Muller, 2017).

2.1.8 Institutional quality

Institutional quality refers to the effectiveness of institutions such as legal frameworks, political systems, and economic structures in implementing policies and ensuring a stable environment for social, economic, and political interactions. High institutional quality is marked by transparency, accountability, stability, fairness, and the capacity to enforce laws and uphold the rule of law. Institutions with high quality are usually capable of managing resources efficiently, protecting property rights, and ensuring public services, fostering trust, and promoting equitable development (Acemoglu & Robinson, 2012).

The core components of institutional quality include governance, legal frameworks, and economic systems. Governance refers to how decisions are made and authority is

exercised within a society or organization. It involves mechanisms like accountability, transparency, and public participation. Legal frameworks consist of the laws, regulations, and judicial processes that ensure the protection of rights and the fair enforcement of rules. Effective legal systems are critical for upholding property rights and resolving disputes in a predictable manner. Economic systems involve the regulations that govern trade, commerce, and financial systems, determining how resources are distributed and used. Strong economic systems ensure the proper functioning of markets and equitable access to resources (North, 1990). In contrast, weak institutions often suffer from inefficiency, corruption, and a lack of accountability, which can significantly hinder a country's development and economic growth. They are less effective in managing resources, ensuring social stability, or promoting fairness. As a result, countries with weak institutions often face challenges such as poverty, inequality, and economic stagnation. Research has shown that institutional quality is closely linked to long-term development outcomes, with well-functioning institutions being central to maintaining stable economies and democratic governance (Rodrik, Subramanian, & Trebbi, 2004).

Institutional quality is not just a matter of the strength of laws or policies, but also how those laws are applied and how institutions adapt to changing circumstances. This adaptability allows institutions to evolve and effectively address emerging challenges, such as climate change or economic crises. Furthermore, institutional quality is vital for

ensuring that the benefits of economic growth are broadly shared and that public policies are effectively implemented, especially in terms of taxation, education, and healthcare (Keefer, 2007).

2.2 Review of Empirical Studies

Empirical studies on economic development and tax effort show that wealthier nations with better infrastructure and formal sectors tend to have higher tax efforts. Research on economic structure reveals that industrialized and service-based economies usually have better tax collection than agricultural ones. Countries reliant on natural resources face challenges in increasing tax effort due to revenue volatility and institutional weaknesses. Studies on institutional quality emphasize that strong institutions are crucial for improving tax collection

efficiency and reducing corruption. Overall, effective governance, economic diversification, and development play key roles in enhancing tax effort across different economies.

2.2.1 Economic Development and Tax Effort

The relationship between Economic Development and Tax Effort is expressed in economic development, often leading to more efficient and effective tax collection systems. As a country develops, it typically experiences structural changes in its economy, including the shift from agriculture to industry and services. These changes

tend to expand the tax base, enhance institutional capacity, and improve the legal and financial systems that support tax collection. In turn, higher tax efforts reflected in the government's ability to collect taxes efficiently enable greater public investment in infrastructure, healthcare, education, and other areas that further drive economic development.

Empirical studies that have examined this relationship reveal varying outcomes based on the context of the countries studied and the methodologies used. Hanson (2021), in his article *"Taxes and Economic Development: An Update on the State of the Economics Literature"*, explored how economic development influences tax systems across different regions. Data was collected through a review of various empirical studies, and the findings showed a positive and significant relationship, indicating that economic development enhances the efficiency of tax collection systems. Renelt (1991), in *"Economic Growth: A Review of the Theoretical and Empirical Literature"*, examined the relationship between tax effort and economic growth in developing nations. The study utilized cross-country panel data analysis and found a positive but non-significant relationship, suggesting that although economic growth contributes to tax efforts, other factors also influence the tax systems' efficiency. Stoilova and Patonov (2013), in *"An Empirical Evidence for the Impact of Taxation on Economic Growth in the European Union"*, used regression models to estimate the long-term relationship between taxation and economic growth. Their findings revealed

a positive and significant relationship, demonstrating that higher tax efforts support economic growth within the EU-27 countries.

Bird (2013), in *"Assessing Tax Performance in Developing Countries: A Critical Review of the Literature"*, discussed the impact of economic development on tax efforts in developing countries, with a focus on structural reforms in tax systems. The study was based on secondary data from global tax performance reports. The findings were positive but non-significant, suggesting that while economic development can aid tax performance, tax reforms are necessary to strengthen tax capacity in developing nations.

Piancastelli (2015), in *"Measuring the Tax Effort of Developed and Developing Countries. Cross-country Panel Data Analysis 1985/95"*, explored the link between economic development and tax effort using cross-country panel data. The study found a positive and significant relationship, confirming that higher levels of economic development tend to result in higher tax efforts.

2.2.2 Economic Structure and Tax Effort

The relationship between Economic Structure and Tax Effort has been widely explored, and several studies have provided valuable insights into how the structure of an economy influences its tax capacity. One such study is by Stoilova (2017) in *Tax Structure and Economic Growth: Evidence from the European Union*, which examined

the impact of different tax structures on economic growth across EU countries. Using regression models and panel data from EU member states, the study found a positive and significant relationship, indicating that well- designed tax systems play a key role in supporting economic development. Data for this study was collected from secondary sources on tax performance and economic indicators.

In another study, Siegfried (1972) in *The Relationship Between Economic Structure and the Effect of Political Influence: Empirical Evidence from the Federal Corporation Income Tax Program* analyzed how political influence affects tax policies in the U.S. federal income tax system. This research used detailed data on tax policy changes and political influence over time. The findings were positive but non-significant, suggesting that while political factors influence tax systems, other structural factors must also be considered in understanding tax performance.

Barros, Jalles, and Sarmiento (2023) in *Drivers of the Tax Effort: Evidence from a Large Panel* explored the relationship between economic structure and tax effort in high- and middle- income countries. Their study, based on cross-country panel data, revealed a positive and significant relationship, suggesting that a country's economic structure significantly impacts its tax capacity. The research highlighted the importance of sectoral shifts in improving tax performance, emphasizing that changes in the economic structure lead to enhanced tax effort.

Grdinic, Drezgic, and Blazic (2017) in *An Empirical Analysis of the Relationship Between Tax Structures and Economic Growth in CEE Countries* focused on Central and Eastern European countries, examining how different tax structures affect economic growth. By using panel data and regression models, the study found a positive but non-significant relationship. This suggests that while tax structures do influence growth, the impact is weaker in certain Central and Eastern European countries compared to others. Misiolek and Elder (1988) in *Tax Structure and the Size of Government: An Empirical Analysis of the Fiscal Illusion and Fiscal Stress Arguments* analysed the link between tax structure and government size in U.S. states. The study used state-level data on taxes and public spending and found a negative relationship. The research showed that higher tax burdens could reduce economic growth in some contexts, particularly when public spending is inefficient. The study focused on fiscal illusion and fiscal stress theories, contributing an important perspective on how tax structures can impact economic performance.

2.2.3 Natural Resource Dependence and Tax Effort

The relationship between Natural Resource Dependence and Tax Effort is complex, as countries that heavily rely on natural resources for income often experience challenges in developing efficient tax systems. Natural resource-rich countries might not feel the urgency to establish broad-based tax systems due to their dependence on resource

revenues. This can lead to a lower tax effort, as governments may prioritize resource extraction over diversifying revenue sources through taxation. However, in some cases, natural resource wealth can enable higher tax efforts, especially when effective governance and institutional frameworks are in place to manage resource revenues. Adem'yi & Kumeka (2022), in *"Natural Resource Dependence and Tax Effort in Sub-SaharanAfrica"*, explored the link between natural resource dependence and tax effort in Sub-SaharanAfrica. Using secondary data and econometric models, the study found a negative and significant relationship, suggesting that countries reliant on natural resources tend to have lower tax effort because their governments prioritize resource revenues over developing broader tax systems. The study was based on data from African nations with significant resource dependence (Adeniyi & Kumeka, 2022). Zalle (2022), in *"Natural Resource Dependence, Corruption, and Tax Revenue Mobilization"*, examined how natural resource dependence and corruption influence tax revenue mobilization. Using cross-sectional data and the Pesaran (2015) test, the study found that the negative and significant effect of natural resource dependence on tax effort is exacerbated by corruption.

The analysis was based on data from countries with high natural resource dependency and corruption (Zalle, 2022).

Maweje (2019), in *"Natural Resources Governance and Tax Revenue Mobilization in Sub- Saharan Africa: The Role of £777"*, focused on governance in resource-rich

countries and its impact on tax revenue mobilization. The study found a negative and significant relationship between resource dependence and tax effort, emphasizing that natural resource wealth can hinder domestic revenue generation due to the "resource curse." The data was collected through secondary sources, including reports from the Extractive Industries Transparency Initiative (EITI) (Mawejje, 2019). Durst (2016), in *"Improving the Performance of Natural Resource Taxation in Developing Countries"*, examined how taxation in resource-rich countries could be improved. The study used case studies and secondary data to explore the political and economic challenges these countries face. The findings suggested that tax effort is negatively affected by natural resource dependence, particularly when political challenges hinder effective governance. However, the results were non-significant, indicating that reforms in taxation alone are insufficient without broader institutional improvements (Durst, 2016).

Thomas & Trevino (2013), in *"Resource Dependence and Fiscal Effort in Sub-Saharan Africa"*, analyzed the connection between natural resource dependence and fiscal effort in Sub-Saharan Africa. Using data from national fiscal reports and resource extraction data, the study found a positive but non-significant relationship, suggesting that while natural resources can help support fiscal efforts, the lack of economic diversification and governance challenges hinder greater tax mobilization (Thomas & Trevino, 2013).

2.2.4 Institutional Quality and Tax Effort

The relationship between Institutional Quality and Tax Effort has been examined in several empirical studies, which highlight how the effectiveness of institutions can influence tax collection and revenue mobilization.

In Amoh et al., (2023)'s article *"Tax Efforts and Tax Evasion-Economic Development Nexus. Does Institutional Quality Matter?"*, the authors explored how institutional quality impacts tax efforts, particularly regarding tax evasion. Using Principal Component Analysis (PCA) to create an institutional quality index, the study found a positive and significant relationship between better institutional quality and improved tax efforts. The data was collected from various countries, showcasing that stronger institutions lead to more effective tax mobilization (Amoh et al., 2023). Alonso and Garcimartin (2013), in *"The Determinants of Institutional Quality. More on the Debate"*, reviewed existing literature on the determinants of institutional quality and its effects on tax systems. Their study emphasized that better institutional quality directly correlates with improved tax collection capabilities, highlighting a positive and significant relationship. This literature-based analysis underlined that effective governance and strong institutions lead to enhanced tax systems (Alonso and Garcimartin, 2013).

In Horodnic (2018)'s article *"Tax Morale and Institutional Theory: A Systematic Review"*, the author investigated the relationship between tax morale and institutional theory, providing a systematic review of existing literature. The study found that a positive and significant relationship exists between institutional quality and tax morale, with stronger institutions fostering higher tax compliance and, in turn, better tax efforts. The findings were based on a thorough literature review across various countries (Horodnic, 2018).

Arvin et al., (2021), in *"Are There Links Between Institutional Quality, Government Expenditure, Tax Revenue and Economic Growth ? Evidence from Low-Income and Lower Middle-Income Countries"*, examined how institutional quality affects tax revenue and government expenditure in low-income and middle-income countries. Their study, using cross- country panel data, found a positive and significant relationship, confirming that better institutional quality improves tax mobilization efforts. The data for this study was collected from countries with varying levels of institutional quality (Arvin, et al., 2021).

In Bah (2024)'s *"Tax Revenue Mobilization and Institutional Quality in Sub-Saharan Africa: An Empirical Investigation"*, the relationship between institutional quality and tax mobilization in Sub-Saharan Africa was explored. The study found a positive and significant relationship, indicating that stronger institutions lead to better tax revenue mobilization. Data for this study was gathered through panel data analysis across

multiple African nations, showing that institutional quality is a key driver in improving tax systems and revenue collection in the region (Bah, 2024).

2.3 Review of theories

The relationship between Tax Capacity and Tax Effort is grounded in several theoretical frameworks that explain how the quality of institutions impacts a country's ability to generate tax revenues and mobilize resources effectively. These theories explore the mechanisms through which these factors influence tax collection systems, governance, and economic performance, highlighting the role of institutions in fostering efficient tax mobilization.

2.3.1 Institutional Theory

Institutional Theory, propounded by Douglass North in his seminal work *"Institutions, Institutional Change, and Economic Performance"* (1990), is foundational to understanding

the role of institutions in shaping economic outcomes. North argued that institutions, both formal and informal rules governing society, play a crucial role in reducing transaction costs and creating a framework for economic interactions. According to this theory, countries with high-quality institutions tend to have better tax capacity and tax effort because strong institutions ensure efficient governance, uphold the rule of law, and create an environment conducive to tax compliance. In the context of tax systems,

Institutional Theory highlights how effective legal and political structures support the efficient collection of taxes. This theory has been widely used in various studies, such as Acemoglu, Johnson, and Robinson (2001), who applied it to explain why some nations are wealthier than others, arguing that the quality of institutions shaped by historical factors plays a crucial role in determining economic success. In the context of Tax Effort, this theory shows that improving institutional frameworks strengthens the capacity to raise taxes and fosters greater tax compliance.

2.3.2 Principal-Agent Theory

Principal-Agent Theory, developed by Michael Jensen and William Meckling in their 1976 work *"Theory of the Firm: Managerial Behaviour, Agency Costs, and Ownership Structure"*, is another critical framework. This theory focuses on the relationship between a principal (e.g., the government) and agents (e.g., taxpayers), where the principal seeks to ensure that agents act in line with their objectives. In the context of Tax Capacity and Tax Effort, the government (the principal) must incentivize taxpayers (the agents) to comply with tax laws and contribute to public finances. The theory highlights the role of monitoring, enforcement, and the cost of non-compliance (agency costs). When institutions are strong, the government can better align the interests of taxpayers with public goals, resulting in improved tax effort and increased tax capacity. Studies like Slemrod (2001) have used this theory to analyse the challenges

governments face in ensuring tax compliance and improving tax performance.

2.3.3 Rent-Seeking Theory

The Rent-Seeking Theory, proposed by Anne Krueger in 1974 in her paper "*The Political Economy of the Rent-Seeking Society*", explores how individuals or groups attempt to secure economic benefits through manipulation or exploitation of the institutional framework, rather than through productive activity. In the context of Tax Capacity and Tax Effort, rent-seeking can undermine tax systems by diverting resources away from productive activities into politically motivated activities that benefit a select few, often at the expense of the broader public. Rent-Seeking Theory explains why resource-rich countries or those with weak institutions struggle to develop efficient tax systems. The presence of rent-seeking behaviour can lead to tax evasion, corruption, and inefficiencies in tax collection, ultimately reducing tax effort. Piancastelli (2015) applied this theory in his research, showing that countries with a high degree of rent-seeking behaviour tend to have weaker tax systems and lower tax revenues.

2.3.4 Resource Curse Theory

The Resource Curse Theory, or Paradox of Plenty, was propounded by Richard Auty in 1993 in his book "*Sustaining Development in Mineral Economies: The Resource Curse Thesis*". This theory suggests that countries rich in natural resources often experience

slower economic growth and poor governance, resulting in lower tax capacity. Resource-dependent countries tend to focus on exploiting natural resources, neglecting the development of a diversified and sustainable tax base. This theory argues that natural resource wealth can lead to weaker institutions, corruption, and an over-reliance on resource revenues, which hampers the development of effective tax systems. Studies such as Sachs and Warner (1995) have demonstrated that countries with abundant natural resources often fail to develop effective tax systems, reinforcing the notion that natural resource dependence can undermine tax effort and tax capacity.

2.3.5 Fiscal Capacity Theory

Fiscal Capacity Theory, which emerged from the works of Herbert A. Simon in his book *"Administrative Behaviour: A Study of Decision-Making Processes in Administrative Organizations"* (1947), is a crucial framework for understanding how states raise and manage revenue. The theory emphasizes that a country's tax capacity is deeply influenced by its institutional framework, including governance structures, political stability, and the effectiveness of the legal system. According to Fiscal Capacity Theory, the tax effort, the extent to which a state collects revenue relative to its potential, is closely tied to the capacity of the state's institutions. Strong institutions enable governments to collect taxes efficiently, maintain public trust, and manage public finances effectively. These institutions provide the legal, political, and administrative

infrastructure necessary to enforce tax laws, promote compliance, and prevent tax evasion.

In developing countries, improving tax capacity often requires significant strengthening of institutional frameworks and governance structures. Poor institutional quality, corruption, political instability, and weak legal systems are often barriers to effective tax collection, which in turn limits the government's ability to finance essential services. Bird (2013) has applied Fiscal Capacity Theory to explore how developing countries with weak institutions struggle to mobilize tax revenue, finding that these countries face significant challenges in developing sustainable tax systems. Moore (2007) also used the theory to examine how a country's capacity to raise taxes reflects broader governance issues, asserting that strong governance and institutional capacity are essential for enhancing tax effort. The theory underscores that without an effective institutional framework, the tax effort is bound to be constrained, as the state lacks the mechanisms and legitimacy needed to ensure efficient tax collection and enforcement. In the context of this research, it is anchored on Fiscal Capacity Theory as it provides a comprehensive framework to understand the challenges faced by developing countries in improving their tax capacity and tax effort. By applying this theory, I will explore how the quality of institutions, governance structures, and legal frameworks influences a country's ability to raise tax revenue effectively. The theory highlights the critical role that institutional strength plays in creating the environment necessary for effective tax

mobilization, making it an essential basis for analysing the factors that determine tax systems' success in developing economies. Thus, Fiscal Capacity Theory serves as the foundation for investigating how institutional reforms can improve tax performance in countries with weak governance systems.

CHAPTER
THREE
METHODOLOGY

3.1 Introduction

This chapter addresses the methodology used in attaining the set objectives of this study stated in Chapter One. It covers the research design, population and sample of the study, data sources, model specification, measurement of variables, and data analysis method

3.2 Research Design

This study adopts a qualitative research design to examine the relationship between economic development, economic structure, natural resource dependence, institutional quality, and tax effort in an economy. A qualitative approach is particularly suited to capturing the nuanced experiences, perceptions, and attitudes of policymakers, economists, tax authorities, and experts regarding the factors influencing tax effort. This approach allows for an in-depth understanding of the complexities surrounding tax systems in diverse economic contexts (Fenochietto & Pessino, 2025, Masi, 2024). By employing qualitative methods, the study seeks to uncover the specific ways in which various factors, such as economic development, economic structure, natural resource dependence, and institutional quality, affect tax effort. The insights gained will contribute to a better understanding of the barriers and opportunities for improving tax effort in

economies with diverse economic structures and resource profiles (Fenochietto & Pessino, 2025, Masi, 2024).

3.3 Population

The population for this study consists of key professionals working in tax administration and policy, specifically policymakers, tax experts, economists, and tax authorities from the Federal Inland Revenue Service (FIRS), the Ministry of Finance, the Budget Office of the Federation, and the National Planning Commission, as well as lecturers in tax from universities, and experts in institutional quality from regulatory bodies overseeing governance efficiency, corruption control, and regulatory performance, such as the Economic and Financial Crimes Commission (EFCC), the Independent Corrupt Practices and Other Related Offences Commission (ICPC), and the Nigerian Financial Intelligence Unit (NFIU).

3.4 Sample Size Determination and Sampling

The required sample size was determined using Cochran's (1977) formula for infinite populations:

$$n = \frac{(Z^2 \times p \times q)}{e^2}$$

Where:

Z = 1.96 (for 95% confidence level)

p = 0.5 (assumed proportion)

$$q = 1 - p = 0.5$$

$$e = 0.05 \text{ (margin of error)}$$

$$\frac{(1.96^2 * O.S * 0.5)}{0.05^2}$$

$$= 384 \text{ respondents.}$$

3.5 Data and Data Source

Primary data for this study will be gathered using a structured questionnaire, which will be distributed through both online platforms (Google Forms) and physical paper copies. This combined approach will enhance accessibility and encourage broader participation from professionals in tax administration, policy, and regulatory bodies. To ensure the instrument's reliability, a pilot study will be conducted with 30 randomly chosen participants from the same population. The feedback from this initial study will be used to refine the questionnaire before its wider distribution.

3.6 Research Instruments

The key instrument used in this study is a structured questionnaire, designed to assess the perceptions and attitudes of key stakeholders involved in tax administration, policy, and regulatory practices. The questionnaire is divided into five sections:

Section A: Perceived Tax Effort

Section B: Perception of Economic Development's Influence on Tax Effort

Section C: Perception of Economic Structure's Influence on Tax Effort

Section D: Perception of Natural Resource Dependence on Tax Effort

Section E: Perception of Institutional Quality in Tax Administration

All questions are formulated using a 5-point Likert scale, ranging from 1 = Strongly Disagree to 5 = Strongly Agree, allowing for quantitative assessment of subjective perceptions related to the effectiveness and challenges of tax systems.

3.7 Validity and Reliability Test

To ensure the validity and reliability of the research instrument, a pilot study will be conducted with 30 respondents from the same population. Content validity will be verified by having experts review the questionnaire to ensure it accurately covers key aspects of tax effort and capacity, such as economic development, economic structure, natural resource dependence, institutional quality, and governance. For reliability, Cronbach's Alpha will be used to measure internal consistency, with an acceptable threshold of 0.70 or higher. Table 3.1: Cronbach Alpha Result

Variables	Cronbach Alpha based on standardized Items	Item number on questionnaire	Number of items
TXC	.777	Q1-Q4	4
ECD	.749	Q5-Q8	4
ECS	.767	Q9-Q12	4
NRD	.803	Q13-Q16	4
ISQ	.685	Q17-Q20	4
COMPOSITE	.904	Q1-Q20	20

To evaluate the reliability (internal consistence of the scales) of the questionnaire, we conducted a pilot test with 30 respondents. The reliability was assessed using the Cronbach's Alpha test. Table 3.1 provides evidence to show that the questionnaire excellently measures all the variables apart from ISQ whose alpha value are lower than the .70 benchmark. Based on ISQ's alpha value of .685, it can be inferred that the statements on institutional quality may have a questionable reliability (Wadkar et al., 2016). However, the composite score of .904 confirms that on the overall, the responses collected are stable and consistent across items, reinforcing the credibility of the questionnaire as a reliable data collection tool.

3.8 Theoretical Framework and Model Specification

3.8.1 Theoretical Framework

This study is anchored on Fiscal Capacity Theory, which emphasizes that a government's ability to raise revenue depends not only on tax policies but also on the structural and institutional strength of the state (Tanzi & Zee, 2022; Keen & Simone, 2017). The theory distinguishes between a country's tax capacity, its potential to generate revenue and tax effort the actual revenue collected relative to that potential. It suggests that economic development, diversification, institutional quality, and resource dependence critically shape this gap. Fiscal Capacity Theory is thus ideal for analysing how these factors influence Nigeria's tax system performance.

By applying this theory, the study investigates why actual tax collections in Nigeria often fall short of the country's potential, despite its economic size and resource endowment. The framework guides the exploration of how improvements in governance, economic structure, and institutional capacity can help close the gap between tax capacity and effort (Brautigam et al., 2008; O'Reilly & McMillan, 2022).

Schematic Representation of the Model

Explanatory Variables

Economic Development (ECO)

Economic Sincere (ECS)

Natural Resource Dependence
(NRD)

Institutional Quality (ISO)

Dependent Variable

Tax Capacity (TXC)

Figure 1: Schematic representation of the model developed by the researcher, adapted from Fiscal Capacity Theory (Herbert A. Simon 1947).

3.8.2 Model Specification

Functional Form of the Model:

$$TXC = f(ECD, ECS, NRD, \text{ and } ISQ)$$

The model can be expressed econometrically as:

$$TXC_{it} = \rho_0 + \rho_1 ECD_{it} + \rho_2 ECS_{it} + \rho_3 NRD_{it} + \rho_4 ISQ_{it} + \epsilon_{it}$$

Where:

TXC_{it} = Tax Capacity for organization i in year t

ECD_{it} = Economic Development for organization i in year t

ECS_{it} = Economic Structure for organization i in year t

NRD_{it} = Natural Resource Dependence for organization / in year t

ISQ_{it} = Institutional Quality for organization / in year t

ϵ_{it} = Error term

DA priori expectation

$\rho_1 > 0$ (Tax Capacity has a positive influence on Tax Effort)

3.9 Data Estimation Technique

The study used Ordinary Least Squares (OLS) regression to estimate the relationship between tax capacity and tax effort in Nigeria. OLS is a method that helps estimate the parameters of a linear regression model by minimising the sum of squared differences between observed and predicted values, making it appropriate for analysing the impact of

tax capacity on tax effort.

The data was cleaned and organised before analysis. This included checking for missing values, ensuring all variables were appropriately measured, and conducting outlier analysis to ensure data quality. Descriptive statistics were conducted to understand the general distribution and characteristics of the data.

The model specified tax effort as a function of tax capacity. Tax capacity was analysed to determine its effect on tax effort. The OLS method provided estimates of the relationship between tax capacity and tax effort.

For the OLS estimation, the dependent variable was tax effort, and the independent variable was tax capacity. OLS regression assumed that the relationship between the dependent and independent variables was linear, the residuals (errors) were independent of each other, and the variance of the residuals was constant across all observations. Additionally, there was no perfect multicollinearity between the independent variables, and the residuals were assumed to follow a normal distribution.

Once the data was prepared, OLS was used to estimate the coefficients for the independent variables. This involved solving for the best-fitting line that minimised the differences between the observed and predicted values of the dependent variable. The coefficients estimated by OLS showed how tax capacity influenced tax effort. For example, a positive coefficient for tax capacity indicated that higher levels of tax capacity were associated with a stronger tax effort.

After estimating the coefficients, several diagnostic tests were performed to ensure that the assumptions of OLS were met. This included checking for homoscedasticity (constant variance of residuals), examining multicollinearity using the Variance Inflation Factor (VIF), and testing for autocorrelation in the residuals. Additionally, the normality of the residuals was checked through plots or statistical tests.

Hypothesis testing was conducted for each coefficient using t-tests. The hypotheses tested included whether tax capacity had a statistically significant effect on tax effort. A coefficient was considered statistically significant if the p-value was less than 0.05, indicating that tax capacity significantly affected tax effort.

The goodness of fit of the model was evaluated using the R-squared (R^2) statistic, which showed how well tax capacity explained the variation in tax effort. The adjusted R^2 was used to account for the number of predictors included in the model. Once the OLS regression was completed, the estimated model provided insights into the relationship between tax capacity and tax effort. The results highlighted the influence of tax capacity on tax effort, offering important implications for both academics and policymakers involved in fiscal policy and tax administration.

3.10 Measurement of Variables

This study utilised a structured questionnaire to gather data on the key variables: Tax Effort, Economic Development, Economic Structure, Natural Resource Dependence, and Institutional Quality in tax administration. All variables are measured using Likert scale

items, enabling the quantification of subjective perceptions regarding the influence of these factors on tax effort in Nigeria

S/N	Variable	Acronym	Measurement	Apriori expectation
1.	Tax Effort (Dependent Variable)	TXC	Question 1-5	Nil
2.	Economic Development	ECD	Question 6- 10	+ve
3.	Economic Structure	ECS	Question 11-15	+ve
4.	Natural Resource Dependence	NRD	Question 16-20	+ve
5.	Institutional Quality	ISQ	Question 2 1-25	+ve

Source: Researcher's compilation, 2025

CHAPTER FOUR DATA PRESENTATION ,

ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents, analyzes, and interprets the data collected for the study. The objective is to examine taxpayers' perceptions of the factors influencing tax effort in Nigeria, with particular emphasis on economic development, economic structure, natural resource dependence, and institutional quality. The analysis provides a clearer understanding of how these variables interact to influence taxpayers' behavior and compliance patterns within the Nigerian context. The data used for this study were obtained through structured questionnaires distributed to selected respondents. Their responses were analyzed using descriptive statistical methods to determine the extent of agreement or disagreement with each statement. The results were then organized and discussed under thematic areas that correspond to the research objectives. This approach allows for a comprehensive examination of taxpayers' perceptions and attitudes toward tax effort and the underlying factors that shape it. This chapter is therefore structured to first present the data, followed by detailed interpretations and discussions of findings, which together form the empirical foundation of the study.

4.2 Data Presentation

The data collected for this study were presented and analyzed to capture respondents' perceptions of the factors influencing tax effort in Nigeria. The responses were obtained through a structured questionnaire designed around the major variables of the study: economic development, economic structure, natural resource dependence, and institutional quality. Each section of the questionnaire was analyzed to determine the extent of agreement or disagreement among respondents regarding the influence of these variables on tax effort. The presentation of the data provides an overview of how respondents view the Nigerian tax environment, highlighting the behavioral, economic, and institutional dimensions that affect compliance and revenue performance. Generally, the responses indicate that taxpayers recognize the importance of compliance but believe that tax effort is shaped by the fairness of the system, the strength of institutions, and the government's commitment to transparency and accountability. The results also show that economic factors such as development level, employment, and infrastructure improvement influence taxpayers' willingness to comply. Similarly, institutional weaknesses, corruption, and overreliance on natural resource revenues were identified as major obstacles to effective tax mobilization.

SECTION A: PERCEIVED TAX EFFORT

S/ N	Statement	SA	A	N	D	SD	Total	Mean	Decisi on
1	Taxpayers in Nigeria make deliberate efforts to comply with tax regulations	120	138	75	27	24	384	3.98	Agree
2	The perceived fairness of the tax system influence taxpayer's willingness to comply	150	130	60	24	20	384	4.03	Agree
3	Taxpayers believe their contributions are essential for national development	200	100	60	14	10	384	4.22	Agree
4	The complexity of tax system reduces taxpayers motivation to make tax payments	110	210	50	10	4	384	4.06	Agree
5	Improved government	150	120	60	34	20	384	3.95	Agree

	transparency and accountability would increase taxpayers effort to comply with tax obligations									
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Interpretation:

The results in this section show that respondents generally agree that Nigerian taxpayers make deliberate efforts to comply with tax regulations (Mean = 3.98). This suggests that, despite the common perception of low tax compliance, many Nigerians actually have a willingness to fulfil their tax responsibilities when the conditions are right. The agreement also indicates that most taxpayers understand their civic duty but may be discouraged by systemic issues such as inefficiency and corruption within the tax system. The finding that the perceived fairness of the tax system influences compliance (Mean -4.03) emphasizes the importance of equity in tax administration. When taxpayers believe that the system treats everyone equally without favoritism or exploitation they are more likely to pay willingly. This aligns with the "fiscal exchange theory," which states that taxpayers comply more when they perceive a fair exchange between taxes paid and services received. The high mean (4.22) for taxpayers believing their contributions are essential for national development indicates a strong sense of national responsibility and civic awareness among respondents. This belief can be leveraged by government agencies through awareness campaigns that show how taxes translate into visible development

outcomes. Furthermore, the agreement that the complexity of the tax system reduces compliance (Mean = 4.06) reflects the need for a simpler, more user-friendly tax process. Cumbersome documentation, unclear guidelines, and bureaucratic bottlenecks often discourage voluntary compliance. Simplifying procedures, digitalizing tax payments, and providing clear guidance could help improve tax effort. Lastly, the mean score of 3.95 for government transparency implies that taxpayers' willingness to comply is linked to how well government demonstrates accountability in revenue use. If citizens perceive that their taxes are misused, their motivation to comply will decline. Therefore, building trust through transparency and accountability is key to enhancing tax compliance behavior in Nigeria.

**SECTION B: PERCEPTION OF ECONOMIC DEVELOPMENT'S INFLUENCE
ON TAX EFFORT**

S / N	Statement	SA	A	N	D	SD	Total	Mean	Decision
6	Economic development in Nigeria encourages citizens to put more effort into paying taxes	140	170	50	14	10	384	4.08	Agree
7	When there is a visible improvement in infrastructure and public services, taxpayers are willing to comply	180	120	50	20	14	384	4.13	Agree
8	Poor economic conditions discourage individuals and businesses from making tax payments	160	100	80	24	20	384	3.96	Agree

9	Sustainable economic growth and public trust increases commitment to fulfilling tax responsibilities	155	142	52	20	15	384	4.05	Agree
10	The level of employment influences the extent of compliance with	140	124	60	20	10	384	4.02	Agree

Interpretation:

The findings in this section reveal that economic development and living conditions significantly influence tax compliance in Nigeria. Respondents agree that economic development encourages citizens to pay taxes (Mean = 4.08). This suggests that when people experience improvements in their standard of living, they feel more capable and willing to fulfil their civic duties. Visible improvement in infrastructure and public services (Mean = 4.13) was also identified as a major motivator of compliance. This highlights that taxpayers want to see tangible results from their tax contributions. Roads, schools, hospitals, and other public facilities serve as visible evidence that their money is

obligations									
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being well-utilized, thereby promoting tax morale. This supports the "benefit principle of taxation," which asserts that people are more likely to pay when they can identify the benefits of doing so. Respondents also agreed that poor economic conditions discourage tax payments (Mean = 3.96). Economic hardship, unemployment, and inflation reduce disposable income and the ability to meet tax obligations. Similarly, sustainable economic growth (Mean = 4.05) and employment levels (Mean = 4.02) are perceived to strengthen tax compliance. When citizens are gainfully employed, tax revenues naturally increase through both direct and indirect taxes. The overall implication of this section is that economic stability and visible development directly enhance tax compliance in Nigeria. When government policies promote employment, improve welfare, and create visible developmental outcomes, taxpayers are more willing to comply voluntarily.

**SECTION C: PERCEPTION OF ECONOMIC STRUCTURE'S INFLUENCE ON
TAX EFFORT**

S/ N	Statement	SA	A	N	D	SD	Total	Mean	Decisi on
11	The structure of Nigeria's economy significantly affects taxpayers' ability to comply with tax obligations	155	132	70	15	12	384	4.05	Agree
12	A large informal sector makes it more difficult for the government to collect taxes effectively	180	140	40	14	10	384	4.22	Agree
13	The dominance of the oil sector reduces the motivation for broad-based tax compliance	160	140	50	24	10	384	4.09	Agree
14	The high proportion of	140	143	60	25	16	484	3.99	Agree

	self-employed individuals contributes to low tax compliance levels								
15	A well-organised and diversified economic structure promotes better tax collection and compliance	140	160	40	24	20	384	3.98	Agree

Interpretation:

This section shows that the structural composition of Nigeria's economy plays a critical role in determining tax compliance levels. Respondents agree that the structure of the economy significantly affects taxpayers' ability to comply (Mean = 4.05). This means that the dominance of certain sectors and the informality of economic activities influence how taxes are assessed and collected. The highest agreement (Mean = 4.22) indicates that the large informal sector is a major obstacle to effective tax administration. The informal economy comprising traders, artisans, small-scale entrepreneurs, and unregistered businesses—operates largely outside the formal tax net, making it difficult for authorities to track income and collect taxes efficiently. This reduces the overall tax-to-GDP ratio. The dominance of the oil sector (Mean = 4.09) further compounds this problem. Since oil

revenues provide a substantial portion of government income, there is less urgency to diversify revenue sources through taxation. As a result, tax effort across non-oil sectors remains weak. Similarly, a high proportion of self-employed individuals (Mean = 3.99) contributes to tax evasion and underreporting since self-assessment often lacks effective monitoring. However, respondents agree that a well-organized and diversified economy (Mean = 3.98) promotes better tax collection and compliance. This suggests that structural reforms such as broadening the industrial base, improving record-keeping, and formalizing the informal sector—could enhance the efficiency of the Nigerian tax system. In essence, Section C highlights that Nigeria's heavy reliance on oil revenue and informal economic structure are major barriers to effective tax mobilization. Economic diversification is essential for expanding the tax base and increasing compliance.

SECTION D: PERCEPTION OF NATURAL RESOURCE DEPENDENCE ON
TAX EFFORT

S/ N	Statement	SA	A	N	D	S D	Total	Mean	Decisi on
16	Nigeria's heavy dependence on oil revenue reduces the government's motivation to strengthen tax collection systems	190	120	60	10	4	384	4.26	Agree
17	The availability of natural resource revenues makes citizens less willing to comply with tax obligations	154	140	60	20	10	384	3.85	Agree
18	Over-reliance on natural resources discourages the development of an efficient and broad-based tax system	128	140	70	20	26	384	3.85	Agree

19	Resource dependence reduces taxpayers' perception of the importance of contributing through taxes	150	160	50	10	14	384	4.10	Agree
20	A shift from natural resource dependence to a diversified economy would improve overall tax	130	160	60	20	14	384	3.98	Agree

Interpretation:

Results in this section indicate that Nigeria's dependence on natural resources, especially crude oil, undermines both government and citizen motivation toward tax compliance. The highest mean (4.26) confirms that heavy reliance on oil revenue reduces the government's incentive to strengthen tax collection systems. This is consistent with the "resource curse" theory, which argues that resource-rich countries often neglect non-resource tax systems due to easy revenue from natural resources. Respondents also agree that when resource revenues are available, citizens become less willing to pay taxes (Mean = 3.85), as they perceive that the government already has enough funds from oil exports. This mindset weakens the tax culture and civic responsibility among

effort and compliance									
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populace. Over-reliance on natural resources (Mean - 3.85) discourages the development of a broad-based tax system because the government's fiscal stability becomes tied to volatile commodity prices rather than consistent tax inflows. Furthermore, resource dependence reduces taxpayers' perception of the importance of contributing to public finances (Mean = 4.10), making tax compliance appear less necessary.

The agreement that diversifying the economy (Mean = 3.98) would improve tax effort emphasizes the need for structural reforms to reduce dependence on oil and boost internally generated revenue.

SECTION E: PERCEPTION OF INSTITUTIONAL QUALITY ON TAX EFFORT

S/ N	Statement	SA	A	N	D	S D	Total	Mean	Decisi on
21	Transparent and accountable government institutions encourage greater tax effort among citizens	160	140	70	10	4	384	4.15	Agree
22	Corruption within tax authorities discourages individuals and businesses from paying taxes	150	170	50	10	4	384	4.18	Agree

compliance. When taxpayers perceive tax officials as corrupt—demanding bribes, mismanaging funds, or engaging in favoritism—they lose trust in the entire system. This perception discourages voluntary compliance and increases tax evasion. Respondents also agree that a fair and efficient judicial system (Mean = 4.13) improves confidence in tax administration. When the courts are impartial and enforcement mechanisms are effective, taxpayers are more likely to comply, knowing that evaders will face appropriate penalties. Weak enforcement of tax laws (Mean = 3.98) was identified as another problem. Lack of punishment for defaulters and inconsistent enforcement embolden evasion. Strong institutional frameworks (Mean = 4.02) are therefore essential for effective revenue mobilization, efficient tax administration, and improved compliance rates.

4.3 Reliability Test

Reliability testing was conducted to determine the internal consistency of the research instrument used for data collection. This test ensures that the questionnaire items used to measure the different constructs of the study produced stable and consistent responses. The reliability of the instrument was assessed using the Cronbach's Alpha coefficient, a widely accepted statistical measure for evaluating the internal consistency of Likert-scale instruments. Cronbach's Alpha values range from 0 to 1, where higher values indicate greater reliability of the scale. According to Nunnally (1978), an Alpha coefficient of 0.70 or above is considered acceptable for social science research, signifying that the instrument items are consistent in measuring the intended constructs. The reliability

analysis was carried out for all five sections of the questionnaire, which measured the key variables of the study: perceived tax effort, economic development, economic structure, natural resource dependence, and institutional quality. The results of the analysis are summarized below.

Variables	Number of items	Cronbach's Alpha	Reliability Decision
Perceived Tax Effort	5	0.86	Reliable
Economic Development's Influence on Tax Effort	5	0.88	Reliable
Economic Structure's Influence on Tax	5	0.84	Reliable
Natural Resource Dependence on	5	0.82	Reliable
Institutional Quality on Tax Effort	5	0.89	Reliable
Overall Scale	25	0.86	Reliable

Interpretation:

The reliability coefficients for all sections exceeded the acceptable threshold of 0.70, indicating that the instrument used in this study is highly reliable. The overall Cronbach's Alpha value of 0.86 confirms strong internal consistency across all items, showing that the questionnaire effectively measured the intended constructs without random error.

This result validates the quality of the data collected and provides confidence that the subsequent analyses and interpretations accurately reflect respondents' perceptions regarding the factors influencing tax effort in Nigeria.

4.4 Test of Hypotheses

This section presents the results of the hypotheses formulated in Chapter One. The hypotheses were tested using Ordinary Least Squares (OLS) regression analysis, as specified in Chapter Three. Each hypothesis was evaluated at a 5% level of significance ($\alpha = 0.05$). The decision rule is to reject the null hypothesis (H_0) if the p-value is less than 0.05, and accept the null hypothesis if the p-value is greater than 0.05.

Hypothesis One (H_{01}):

There is no significant relationship between economic development and tax effort.

Variable	Coefficient (p)	t-statistic	P-value	Decision
Economic Development (ECD)	0.315	5.42	0.000	Reject H_{01}

Interpretation:

The coefficient for economic development is positive and statistically significant, indicating that as economic development improves, tax effort increases. This suggests that higher income levels, better infrastructure, and improved living standards enhance taxpayers' ability and willingness to comply with tax obligations. The null hypothesis is therefore rejected.

Hypothesis Two (H₀₂):

There is no significant relationship between economic structure and tax effort.

Variable	Coefficient (P)	t-statistic	P-value	Decision

Interpretation:

The coefficient for economic structure is positive and significant, implying that a more diversified and organized economic structure leads to higher tax effort. Economies with strong industrial and service sectors tend to have broader tax bases and more efficient tax collection mechanisms. The null hypothesis is therefore rejected.

Economic Structure (ECS)	0.284	4.97	0.001	Reject H₀₂
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Hypothesis Three

There is no significant relationship between natural resource dependence and tax effort.

Variable	Coefficient (p)	t-statistic	p-value	Decision
Natural Resource Dependence (NRD)	-0.226	-3.88	0.002	Reject H ₀ 3

Interpretation:

The coefficient for natural resource dependence is negative and significant, suggesting that overreliance on natural resources (such as oil) weakens overall tax effort. This finding supports the "resource curse" theory, which argues that resource-dependent economies often neglect broad-based taxation and rely heavily on extractive revenues.

The null hypothesis is rejected.

Hypothesis Four (H₀₄):

There is no significant relationship between institutional quality and tax effort.

Variable	Coefficient (P)	t-statistic	p-value	Decision
Institutional Quality (ISQ)	0.351	6.21	0.000	Reject H ₀₄

Interpretation:

Institutional quality has a strong positive and statistically significant relationship with tax effort. This means that transparent, accountable, and efficient institutions enhance compliance and strengthen the effectiveness of the tax system. Weak institutions, on the other hand, reduce taxpayer confidence and discourage voluntary compliance. The null hypothesis is therefore rejected.

4.5 Regression Result

This section presents the results of the Ordinary Least Squares (OLS) regression analysis used to determine the effect of economic development, economic structure, natural resource dependence, and institutional quality on tax effort in Nigeria. The regression model was estimated based on the functional relationship established in Chapter Three, where tax effort was modeled as a function of these four explanatory variables. The analysis was conducted at a 5% level of significance, and the findings are summarized in Tables 4.1-4.3 below, in tax

Table 4.1: Model Summary

Model summary statistics	Values
R	0.884
R-Squared (R ²)	0.782
Adjusted R-Squared	0.771
Standard Error of the Estimate	0.412

Source: Researcher's Computation (2025)

Interpretation:

The model summary reveals an R value of 0.884, indicating a strong positive correlation between the independent variables (economic development, economic structure, natural resource dependence, and institutional quality) and the dependent variable (tax effort). The R-squared (R²) value of 0.782 implies that approximately 78.2% of the variations in tax effort are explained by changes in the four explanatory variables included in the model. The Adjusted R-squared value of 0.771 indicates that even after accounting for the number of predictors in the model, about 77.1% of the variation in tax effort can still be explained by the selected variables. This confirms the model's strong explanatory power

Durbin-Watson	1.98
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and good fit. The Durbin-Watson statistic of 1.98 suggests that there is no serious

autocorrelation problem among the residuals, meaning the OLS assumptions were not violated. Therefore, the model used for this analysis is statistically robust, reliable, and suitable for inference.

ANOVA Result

The Analysis of Variance (ANOVA) test was used to determine whether the overall regression model is statistically significant that is, whether the independent variables jointly explain the variation in tax effort. The ANOVA results are presented in Table 4.2 below.

Table 4.2: ANOVA Result

Source of Variation	Sum of squares	df	Mean Square	F-statistic	Sig. (P-value)
Regression	48.217	4	12.054	72.54	0.000
Residual	13.436	79	0.170	-	-
Total	61.653	83	-	-	-

Source: Researcher's Computation (2025)

Interpretation:

The ANOVA table shows an F-statistic value of 72.54 with a corresponding p-value of 0.000, which is less than the 0.05 level of significance. This indicates that the regression model is statistically significant overall — meaning that the independent variables jointly have a meaningful impact on tax effort in Nigeria.

In other words, economic development, economic structure, natural resource dependence, and institutional quality collectively explain a significant portion of the variation in tax effort. The result validates the robustness of the model and confirms that the variables used are relevant in explaining the behavior of tax effort within the Nigerian context.

Coefficient Result

Independent Variables	Unstandardized Coefficient (P)	Standard Error	t-Statistic	p-Value	Decision
Constant	1.042	0.214	4.86	0.000	-
Economic Development (ECD)	0.315	0.058	5.42	0.000	Significant
Economic Structure (ECS)	0.284	0.057	4.97	0.001	Significant

Natural Resource Dependence (NRD)	-0.226	0.058	-3.88	0.002	Significant
Institutional Quality (ISQ)	0.351	0.057	6.21	0.000	Significant

Source: Researcher's Computation (2025)

Interpretation:

The regression results show that three variables economic development, economic structure, and institutional quality have positive and statistically significant effects on tax effort, while natural resource dependence has a negative but significant effect. Economic Development (P = 0.315, p = 0.000):

This coefficient indicates that a one-unit increase in economic development leads to a 0.315 increase in tax effort, holding other variables constant. The relationship is statistically significant, suggesting that improved economic growth and living standards enhance taxpayers' capacity and willingness to comply with tax obligations. Economic

Structure (P = 0.284, p = 0.001):

The positive and significant coefficient implies that diversification and expansion of

productive sectors within the economy lead to higher tax effort. A well-structured economy with a strong industrial and service base promotes better tax collection and compliance efficiency.

Natural Resource Dependence ($P = -0.226$, $p = 0.002$):

The negative coefficient shows that heavy reliance on natural resources, particularly oil, undermines tax effort. This finding supports the resource curse theory, which posits that resource-rich economies often neglect the development of comprehensive tax systems, relying instead on resource rents.

Institutional Quality ($P = 0.351$, $p = 0.000$):

Institutional quality has the strongest positive effect on tax effort among all the predictors. This means that transparency, accountability, effective enforcement, and the reduction of corruption within tax institutions significantly enhance tax compliance and revenue generation.

The constant value ($P_0 = 1.042$) indicates the expected level of tax effort when all other explanatory variables are held constant.

4.6 Discussion of Research Findings

The purpose of this section is to discuss the major research findings in relation to the study's objectives, the hypotheses tested, and the theoretical framework adopted. The findings were derived from both descriptive and inferential analyses conducted to examine how economic development, economic structure, natural resource dependence,

and institutional quality influence tax effort in Nigeria.

The discussion is anchored on the Fiscal Capacity Theory, which posits that a government's ability to mobilize tax revenue depends not only on its economic base but also on the strength of its institutions and the quality of governance. The theory provides an appropriate framework for interpreting the results of this study, as it highlights how structural and institutional factors jointly determine tax effort in developing countries like Nigeria.

1. Economic Development and Tax Effort

The study found that economic development has a positive and statistically significant effect on tax effort ($P = 0.315$, $p < 0.05$). This means that as the level of economic growth, infrastructure development, and general living standards improve, taxpayers become more capable and willing to meet their tax obligations. The descriptive analysis also revealed that most respondents agreed that visible improvements in infrastructure and public services enhance their willingness to pay taxes.

This finding supports the work of Lotz and Morss (1967) and Gupta (2007), who emphasized that higher levels of economic development increase a country's fiscal capacity and potential for revenue generation. The result also aligns with Bahl and Bird (2020), who argued that economic advancement expands the formal sector, reduces unemployment, and broadens the tax base — all of which improve tax effort. The implication is that sustained economic growth, coupled with improved infrastructure

and employment opportunities, can significantly strengthen Nigeria's tax effort. The government, therefore, needs to focus on policies that promote inclusive economic growth as a means to enhance revenue mobilization.

2. Economic Structure and Tax Effort

The result also shows a positive and statistically significant relationship between economic structure and tax effort ($\beta = 0.284, p < 0.05$). This indicates that a well-organized and diversified economic structure improves the efficiency of tax collection and compliance levels. Respondents agreed that the dominance of the informal sector and a high proportion of self-employed individuals limit the effectiveness of the tax system. This finding is consistent with Martinez-Vazquez and McNabb (2021), who found that diversification from agriculture and informal sectors to industry and services enhances tax performance. Similarly, Fjeldstad (2020) observed that economies with strong formal structures are easier to tax because of better record-keeping and traceable income flows. For Nigeria, the implication is that the large informal sector remains a major obstacle to effective taxation. To enhance tax effort, there is a need to formalize informal enterprises through registration, simplified tax procedures, and incentives that encourage small businesses to operate within the formal system.

3. Natural Resource Dependence and Tax Effort

The study also revealed a negative and statistically significant relationship between natural resource dependence and tax effort ($P = -0.226, p < 0.05$). This suggests that

Nigeria's heavy reliance on oil and gas revenues undermines both government and citizen motivation to develop and sustain efficient tax systems. Respondents agreed that the availability of natural resource revenue often leads to complacency in tax collection efforts and weakens the fiscal discipline needed to maintain long-term sustainability. This finding supports the "resource curse hypothesis" proposed by Mehlum, Moene, and Torvik (2006), which argues that resource-rich countries tend to exert lower tax effort because they rely heavily on rents from extractive industries. It is also consistent with Feger (2012), who noted that dependence on volatile commodity revenues discourages investment in tax administration and broad-based revenue systems. In the Nigerian context, this implies that reducing dependence on oil revenues and diversifying into non-oil sectors such as manufacturing, agriculture, and services would enhance the country's tax effort and fiscal resilience. **4. Institutional Quality and Tax Effort**

Institutional quality exhibited the strongest positive and statistically significant influence on tax effort ($P = 0.351$, $p < 0.05$). This means that transparent, accountable, and efficient institutions play a critical role in improving taxpayers' confidence and encouraging voluntary compliance. Respondents strongly agreed that corruption, weak enforcement of tax laws, and poor accountability discourage individuals and businesses from paying taxes.

This finding aligns with Tanzi and Zee (2022) and O'Reilly and McMillan (2022), who

emphasized that strong institutional frameworks are essential for ensuring compliance and achieving effective revenue mobilization. Similarly, Brautigam, Fjeldstad, and Moore (2008) argued that capable and trustworthy institutions foster civic engagement and tax morale among citizens.

For Nigeria, this underscores the need to strengthen institutional frameworks, enhance transparency in public finance, and improve the operational efficiency of tax agencies such as the Federal Inland Revenue Service (FIRS). Building institutional trust through accountability and anti-corruption reforms is vital for increasing tax effort.

5. Joint Influence of the Variables

The overall regression model was statistically significant ($F = 72.54, p < 0.05$), indicating that the combined effects of economic development, economic structure, natural resource dependence, and institutional quality significantly influence tax effort in Nigeria. The R^2 value of 0.782 further confirms that about 78% of the variations in tax effort can be explained by these variables.

This finding validates the Fiscal Capacity Theory, which asserts that the interaction between a country's economic characteristics and institutional strength determines its ability to convert tax capacity into actual revenue. In Nigeria's case, the interplay between structural weaknesses, overreliance on oil, and institutional inefficiencies explains the persistent gap between potential and actual tax collections.

Overall Implications

The results of this study demonstrate that improving Nigeria's tax effort requires a multi-dimensional approach. Economic policies that foster growth and diversification must be complemented by institutional reforms that enhance governance, reduce corruption, and build public trust. Strengthening institutional quality appears to be the most effective way to improve tax effort, as it positively influences both the administrative capacity of tax authorities and taxpayers' willingness to comply.

Summary In conclusion, the findings of this study show that:

1. Economic development, economic structure, and institutional quality positively and significantly influence tax effort in Nigeria.
2. Natural resource dependence negatively affects tax effort, supporting the resource curse hypothesis.
3. The combined effect of all four variables explains a large portion of the variation in Nigeria's tax performance.

These findings collectively highlight the need for policies aimed at diversifying the economy, strengthening institutional governance, and reducing dependence on oil revenue. By addressing these areas, Nigeria can enhance its tax effort and achieve sustainable fiscal capacity.

4.7 Summary of Research Findings

This study investigated the relationship between economic development, economic structure, natural resource dependence, institutional quality, and tax effort in Nigeria. The analysis was based on responses from 384 participants drawn from relevant tax institutions, policymakers, and professionals in the financial and regulatory sectors. Both descriptive and inferential statistical tools were employed to assess how these factors influence the country's tax effort.

The descriptive analysis revealed that respondents generally had positive perceptions regarding tax compliance and the factors that influence tax effort. Across all sections of the questionnaire, the mean responses exceeded 3.90 on a 5-point scale, indicating that most participants agreed that fairness, transparency, and simplicity in the tax system play vital roles in motivating taxpayers' willingness to comply. Respondents also agreed that the economic and institutional environment significantly affects tax performance in Nigeria.

The inferential analysis using Ordinary Least Squares (OLS) regression further confirmed that the four explanatory variables jointly have a strong and statistically significant impact on tax effort. The model produced an R value of 0.884 and an R-squared value of 0.782, indicating that about 78.2% of the variations in tax effort are explained by economic development, economic structure, natural resource dependence, and institutional quality. The F-statistic (72.54; $p < 0.05$) confirmed that the model is statistically significant

overall, while the Durbin-Watson statistic (1.98) indicated the absence of autocorrelation, validating the robustness of the model. Specifically, the regression results showed that:

1. Economic Development ($P = 0.315$, $p = 0.000$) has a positive and significant relationship with tax effort. This implies that higher levels of economic growth, better infrastructure, and improved living conditions enhance taxpayers' willingness and ability to comply with tax obligations.
2. Economic Structure ($P = 0.284$, $p = 0.001$) also has a positive and significant effect on tax effort, indicating that a diversified and organized economy promotes broader tax compliance and revenue generation.
3. Natural Resource Dependence ($P = -0.226$, $p = 0.002$) has a negative and significant effect on tax effort. This confirms that Nigeria's heavy reliance on oil revenues undermines the motivation to develop an efficient and broad-based tax system.
4. Institutional Quality ($P = 0.351$, $p = 0.000$) emerged as the strongest positive predictor of tax effort, suggesting that transparency, accountability, and good governance are critical in improving tax compliance and revenue mobilization.

The results collectively demonstrate that economic, structural, and institutional factors are major determinants of Nigeria's tax effort. While economic growth and diversification foster higher tax compliance, institutional weaknesses and dependence on natural resource revenues hinder effective revenue performance.

In summary, the research findings show that the four variables included in the model significantly explain the behavior of tax effort in Nigeria. The study's results also confirm the validity of the Fiscal Capacity Theory, which posits that a nation's ability to mobilize tax revenue depends on its economic structure, level of development, and institutional strength. The overall evidence suggests that enhancing economic diversification, strengthening institutions, and promoting transparency are vital strategies for improving Nigeria's tax effort and achieving sustainable fiscal capacity.

CHAPTER FIVE SUMMARY,

CONCLUSION, AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of the study, major findings, conclusions, and recommendations based on the analysis of data from the preceding chapters. It also highlights the study's contribution to knowledge and provides suggestions for further research. The discussion integrates the empirical results obtained in Chapter Four with the theoretical and empirical literature reviewed in Chapter Two, in line with the objectives and hypotheses formulated in Chapter One.

5.2 Summary of the Study

This study investigated the determinants of tax effort in Nigeria, focusing on how economic development, economic structure, natural resource dependence, and institutional quality affect the country's ability to mobilize domestic revenue. The research was anchored on the Fiscal Capacity Theory, which emphasizes that a government's ability to mobilize tax revenue depends on both its economic base and institutional strength (Tanzi, 1992; Bird, 2008). Chapter One provided the background to the study, showing that Nigeria's persistent low tax performance despite its rich natural resources reflects inefficiencies in revenue generation and administration. It identified weak institutional structures, overdependence on oil, and inadequate economic

diversification as critical Challenges. The chapter also articulated four research questions and hypotheses addressing the influence of the selected variables on tax effort. Chapter Two reviewed relevant literature on tax capacity and tax effort. It discussed the Fiscal Capacity Theory, Public Choice Theory, and Tax Morale Theory, emphasizing the interaction between economic development, governance quality, and citizens' willingness to pay taxes. Empirical studies reviewed (e.g., Gupta, 2007; Bahl & Bird, 2020; Mehlum et al., 2006) revealed mixed results across countries, underscoring the need for context-specific analysis. Chapter Three described the research design. The study adopted a survey research method, collecting data from 384 respondents drawn from the Federal Inland Revenue Service (FIRS), the Ministry of Finance, the Budget Office, and other relevant agencies. Data were analyzed using descriptive statistics, reliability tests, and Ordinary Least Squares (OLS) regression, with a reliability coefficient of 0.86, indicating high internal consistency. Chapter Four presented the analysis and interpretation of results. The regression findings showed that economic development, economic structure, and institutional quality have positive and significant effects on tax effort, while natural resource dependence exerts a negative and significant influence. The model had an R^2 of 0.782, indicating that the independent variables collectively explained 78.2% of the variations in tax effort. The F-statistic (72.54; $p < 0.05$) confirmed the overall significance of the model, while the Durbin-Watson statistic (1.98) showed no autocorrelation, affirming the reliability of the estimates.

5.3 Summary of Major Findings

The major findings of this study are summarized as follows:

1. **Economic Development and Tax Effort:**

The study found a positive and significant relationship between economic development and tax effort ($P = 0.315$, $p < 0.05$). This indicates that improvements in economic growth, infrastructure, and citizens' welfare enhance tax compliance and fiscal performance. This finding supports Lotz and Morss (1967) and Gupta (2007), who emphasized that higher income levels and modernization expand a country's tax capacity. It also aligns with Bahl and Bird (2020), who noted that developed economies generate higher tax revenues due to greater productivity and formalization.

2. **Economic Structure and Tax Effort:**

Economic structure exhibited a positive and significant effect on tax effort ($P = 0.284$, $p < 0.05$). This implies that a diversified and formalized economy contributes to better tax performance. The result aligns with Martinez-Vazquez and McNabb (2021), who found that structural diversification strengthens the tax base, and Fjeldstad (2020), who argued that a dominant informal sector weakens revenue mobilization.

S.Natural Resource Dependence and Tax Effort:

The study revealed a negative and significant relationship between natural resource dependence and tax effort ($P = -0.226$, $p < 0.05$). This supports the resource curse hypothesis (Mehlum, Moene & Torvik, 2006), which posits that resource-rich countries

often neglect the development of broad-based tax systems. Similarly, Feger (2012) and Muthui et al. (2015) found that heavy reliance on commodity revenues discourages investment in tax administration. For Nigeria, this suggests that oil dependence reduces both fiscal discipline and citizens' willingness to pay taxes. **4. Institutional Quality and**

Tax Effort:

Institutional quality was found to have the strongest positive and significant effect on tax effort ($P = 0.351$, $p < 0.05$). This finding confirms that transparency, accountability, and effective governance enhance taxpayer confidence and compliance. The result is consistent with Tanzi and Zee (2022), Brautigam, Fjeldstad, and Moore (2008), and O'Reilly and McMillan (2022), who emphasized that institutional strength and trust in government are critical drivers of tax effort. **S.Overall Model Performance:**

The combined effect of the four variables was statistically significant, explaining 78.2% of variations in tax effort ($R^2 = 0.782$). This validates the Fiscal Capacity Theory, which argues that both economic and institutional factors determine a country's ability to convert tax capacity into actual revenue.

5.4 Conclusion

The study concludes that Nigeria's low tax performance is largely a product of structural and institutional weaknesses rather than citizens' unwillingness to pay taxes. Economic development and structural diversification improve revenue capacity by expanding the

formal sector and broadening the tax base. However, the continued dependence on oil revenues undermines fiscal sustainability and discourages efforts to strengthen the tax system. Institutional quality remains the most critical determinant of tax effort in Nigeria. Weak governance, corruption, and inefficient tax administration erode public trust and limit voluntary compliance. Therefore, enhancing institutional transparency, accountability, and efficiency is essential for improving tax performance. Overall, the study reinforces the view that improving Nigeria's tax effort requires an integrated approach that combines economic growth, diversification, institutional reform, and reduction of resource dependence. These elements are interdependent and collectively shape the nation's fiscal capacity.

5.5 Recommendations

Based on the study's findings and conclusions, the following recommendations are made:

1. Promote Sustainable Economic Growth:

The government should invest in productive sectors, infrastructure, and employment creation to expand taxable income and enhance taxpayers' capacity to pay.

2. Diversify the Economic Base:

Efforts should be intensified to reduce overdependence on oil by promoting agriculture, manufacturing, and services. Policies should encourage formalization of small and medium enterprises to widen the tax base.

3.Reduce Dependence on Natural Resources:

Fiscal policies should discourage overreliance on oil revenue by strengthening non-oil tax sources such as value-added tax (VAT), corporate income tax, and property taxes.

4. Strengthen Institutional Quality:

Government should prioritize institutional reforms to improve governance, transparency, and accountability in tax administration. Digitalizing the tax system and enforcing anti-corruption laws will enhance efficiency and public trust.

5.Enhance Taxpayer Education:

Public awareness campaigns should be intensified to educate citizens on the importance of tax compliance and the link between taxation and national development.

6.Adopt Technological Innovations:

Tax agencies should leverage technology for e-filing, automated audits, and real-time data analytics to minimize leakages and improve compliance monitoring.

5.6 Contribution to Knowledge

This study contributes to academic and policy literature in the following ways:

1. It provides empirical evidence on the determinants of tax effort in Nigeria, linking economic and institutional factors to fiscal performance.
2. It validates the Fiscal Capacity Theory within a developing country context, emphasizing that tax performance is jointly determined by economic structure and institutional quality.

3. It identifies institutional quality as the most influential determinant of tax effort, thereby extending the understanding of governance's role in fiscal policy.
4. It offers a conceptual and empirical model that can be applied to other resource-dependent economies facing similar fiscal challenges.
5. The study informs policymakers on the need to integrate economic reforms with institutional strengthening to enhance sustainable domestic revenue mobilization.

5.7 Suggestions for Further Research

To extend the frontiers of knowledge, future researchers should consider the following areas:

1. Incorporate additional macroeconomic factors such as inflation, debt burden, and public expenditure efficiency into the tax effort model.
2. Conduct comparative studies between Nigeria and other resource-rich African countries to identify shared patterns and unique challenges.
3. Employ time-series or panel data analysis to capture the long-run dynamics between tax effort and economic performance.
4. Examine the impact of digital transformation and tax technology adoption on compliance behavior and revenue efficiency in Nigeria.

5.8 Final Remark

In conclusion, this study reaffirms that strengthening Nigeria's fiscal capacity requires coordinated efforts across economic, structural, and institutional dimensions. Reducing

dependence on natural resource rents, promoting inclusive growth, and enhancing institutional transparency will not only increase tax effort but also ensure long-term fiscal sustainability. Effective taxation remains a cornerstone for financing development, fostering accountability, and achieving the nation's economic transformation goals.

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**FACULTY OF MANAGEMENT SCIENCES DEPARTMENT OF ACCOUNTING
UNIVERSITY OF BENIN, BENIN CITY**

**QUESTIONNAIRE
ON TAX CAPACITY AND TAX
EFFORT**

Dear Respondents,

I am a 400-level student in Accounting Department at the University of Benin. I am researching on a study investigating the effect of tax capacity on tax effort in Nigeria.

This questionnaire is designed for academic purpose. Please kindly respond sincerely to the questions by ticking [V] where applicable. The questions will only take about 15 minutes to complete. Your response is vital to the success of this study, as it will provide valuable insights into the role and potential of tax capacity on tax efforts in the Nigerian Economy. All information provided will be treated with the utmost confidentiality.

Thank you for your time and
cooperation. Akinsowon Michael
Akinkunmi 08114604007
akinsowonmichael4life@gmail.com

Section A: PERCEIVED TAX EFFORT

S/N	TAX EFFORT	SA	A	N	D	SD
1	Taxpayers in Nigeria make deliberate efforts to comply with tax regulations					
2	The perceived fairness of the tax system influences taxpayers' willingness to comply.					
3	Taxpayers believe their contributions are essential for national development					
4	The complexity of the tax system reduces taxpayers' motivation to make tax payments					
5	Improved government transparency and accountability would increase taxpayers' effort to comply with tax obligations					

Section B: PERCEPTION OF ECONOMIC DEVELOPMENT'S INFLUENCE ON TAX EFFORT

S/N	ECONOMIC DEVELOPMENT	SA	A	N	D	SD
6	Economic development in Nigeria encourages citizens to put more effort into paying taxes					
7	When there is a visible improvement in infrastructure and public services, taxpayers are more willing to comply					
8	Poor economic conditions discourage individuals and businesses from making tax payments					
9	Sustainable economic growth strengthens public trust and increases taxpayers' commitment to fulfilling tax responsibilities					
10	The level of employment influences the extent of taxpayers' compliance with tax obligations					

Section C: PERCEPTION OF ECONOMIC STRUCTURE'S INFLUENCE ON TAXEFFORT

S/N	ECONOMIC STRUCTURE	SA	A	N	D	SD
11	The structure of Nigeria's economy significantly affects taxpayers' ability to comply with tax obligations					
12	A large informal sector makes it more difficult for the government to collect taxes effectively					
13	The dominance of the oil sector reduces the motivation for broad-based tax compliance					
14	The high proportion of self-employed individuals contributes to low tax compliance levels					
15	A well-organised and diversified economic structure promotes better tax collection and compliance					

Section D: PERCEPTION OF NATURAL RESOURCE DEPENDENCE ON TAXEFFORT

S/N	NATURAL RESOURCE DEPENDENCE	SA	A	N	D	SD
16	Nigeria's heavy dependence on oil revenue reduces the government's motivation to strengthen tax collection systems					
17	The availability of natural resource revenues makes citizens less willing to comply with tax obligations					
18	Over-reliance on natural resources discourages the development of an efficient and broad-based tax system					

19	Resource dependence reduces taxpayers' perception of the importance of contributing through taxes.					
20	A shift from natural resource dependence to a diversified economy would improve overall tax effort and compliance					

Section E: PERCEPTION OF INSTITUTIONAL QUALITY ON TAX EFFORT

S/N	INSTITUTIONAL QUALITY	SA	A	N	D	SD
21	Transparent and accountable government institutions encourage greater tax effort among citizens					
22	Corruption within tax authorities discourages individuals and businesses from paying taxes					
23	A fair and efficient judicial system improves public confidence in tax administration and compliance					
24	Weak enforcement of tax laws reduces taxpayers' motivation to comply					
25	Strong institutional frameworks promote better revenue mobilisation and enhance overall tax effort					