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THE IMPACT OF DIGITALIZATION ON TAX COMPLIANCE AMONG INDIVIDUAL TAXPAYERS IN LAGOS STATE

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ABSTRACT: *The digital revolution has significantly transformed various aspects of society, including taxation systems. This study investigated the impact of digitalization on tax compliance among individual taxpayers in Lagos State. The study examined the impact of digitalization, such as electronic tax filing, electronic registration, electronic receipt of tax and digital tax clearance certificate, on tax compliance behavior. The study employed survey research and questionnaire. The population of the study is the entire individual taxpayers of 3,625,472 in Lagos metropolis as it was stated in Lagos Internal Revenue Service 2022 report. A sample size of 400 was determined for the study but only 310 fully filled and returned their questionnaire, resulting in a 77.5% return rate. The Cronbach's alpha reliability coefficients ranged from 0.837–0.936 which implies that all the concepts measured were all reliable. The rates were analyzed using descriptive and inferential statistics. The study concluded that digitalization has a positive impact on tax compliance in Lagos. The study recommended that to facilitate online information access, payment processing and return filing for taxpayers, tax authorities ought to persist in developing their offerings.*

KEYWORDS: Attitude, Digitalization, Fairness, Social norms, Tax compliance, Trust.

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INTRODUCTION

Background to the Study

Digitalization in tax administration refers to the adoption of technology to streamline tax collection, improve efficiency, and enhance transparency. The introduction of electronic filing (e-filing), digital payment systems, and online tax portals has transformed traditional tax administration. Governments worldwide, including Nigeria, have embraced digitalization to increase compliance and revenue generation.

The digitalization of tax administration has gained significant attention as governments worldwide seek to enhance revenue collection, minimize tax evasion, and improve efficiency (OECD, 2021).

The shift from traditional tax compliance processes to digital platforms has been driven by the need for increased transparency, reduced administrative burdens, and improved taxpayer experience (Adebayo & Alao, 2020).

Many developing countries, including Nigeria, have embraced electronic tax systems to boost tax compliance and revenue generation (Okonjo, 2019).

However, despite the implementation of digital tax administration tools, compliance remains a challenge due to mistrust in government institutions, social norms, taxpayers' resistance, perceived unfairness in tax administration, lack of digital literacy and system inefficiencies (Uche & Adeola, 2022).

This study explores the extent to which digitalization influences tax compliance among individual taxpayers in Lagos.

Statement of the Problem

Although digitalization has enhanced tax processes, there are literature and statistical reports indicating that tax compliance has not reached the desired level in Lagos State. Key challenges include lack of trust in government, leading to skepticism about how tax revenues are utilized, social norms that make tax evasion culturally acceptable, technological barriers such as digital illiteracy and concerns over system security, and, lastly, perceptions of unfairness, where low-income earners believe they bear a heavier tax burden compared to corporations.

Tax non-compliance remains a pressing issue in many economies, hindering governments from achieving revenue targets needed for infrastructural development and public services (Bird & Zolt, 2019). While digital tax solutions such as e-registration, e-filing, e-payment, and e-receipts have been implemented to streamline tax processes, their effectiveness in improving compliance is still debated (James & Alley, 2021). Studies indicate that challenges, such as inadequate taxpayer education, cyber security concerns, and resistance to change, limit the potential benefits of these digital solutions (Ayo & Ogun, 2020). Furthermore, empirical studies suggest that the success of digital tax systems depends on user acceptance and adoption, which is influenced by various technological and behavioral factors (Davis, 1989; Rogers, 1962).

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Objectives of the Study

1. To examine the impact of e-registration on tax compliance among individual taxpayers in Lagos State.
2. To assess the effect of e-filing on tax compliance among individual taxpayers in Lagos State.
3. To evaluate how e-payment influences tax compliance among individual taxpayers in Lagos State.
4. To investigate the role of e-collection in improving tax compliance among individual taxpayers in Lagos State.
5. To analyze the effect of e-receipt on tax compliance among individual taxpayers in Lagos State.
6. To determine the relationship between e-tax clearance certificates and tax compliance among individual taxpayers in Lagos State.

Research Questions

The following research questions are raised based on the research objectives above:

1. How does e-registration impact on tax compliance among individual taxpayers in Lagos State?
2. What is the effect of e-filing on tax compliance among individual taxpayers in Lagos State?
3. To what extent does e-payment influence tax compliance among individual taxpayers in Lagos State?
4. What is the role of e-collection in tax compliance among individual taxpayers in Lagos State?
5. How does e-receipt affect tax compliance among individual taxpayers in Lagos State?
6. What is the relationship between e-tax clearance certificates and tax compliance?

Research Hypotheses

Ho1: There is no significant relationship between e-registration and tax compliance in Lagos State.

Ho2: E-filing does not have a significant relationship with tax compliance of taxpayers.

Ho3: There is no significant relationship between e-payment and tax compliance of taxpayers.

Ho4: E-collection does not play a significant role on tax compliance.

Ho5: E-receipt has no significant effect on tax compliance.

Ho6: There is no significant relationship between e-tax clearance certificates and tax compliance.

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LITERATURE REVIEW

Conceptual Review

Tax Compliance

Tax compliance refers to the willingness of individuals and businesses to fulfill their tax obligations as required by law. It is influenced by various factors, including trust in tax authorities, perceived fairness of the tax system, enforcement mechanisms, and digital innovations (Alm & Torgler, 2011). Governments have introduced digital platforms to simplify tax compliance; however, the effectiveness of these measures depends on taxpayers' perceptions and attitudes toward e-taxation (OECD, 2021). Research has shown that taxpayers are more likely to comply when they perceive the tax system as fair, simple, and transparent (Kirchler, Hoelzl & Wahl, 2008).

Trust in Government and Tax Compliance

Trust in government is crucial for tax compliance. If taxpayers believe tax revenues are mismanaged or embezzled, they may resist compliance. Studies show that transparent governance increases voluntary tax compliance.

Social Norms and Tax Compliance

Social norms influence taxpayer behavior. In societies where tax evasion is common, individuals may feel less inclined to comply. Peer behavior and cultural attitudes significantly impact tax morale.

Fairness and Taxpayer Attitudes

Perceptions of fairness in tax administration affect compliance levels. If taxpayers believe the system is equitable and that public services reflect tax contributions, they are more likely to comply.

Digitalization in Tax Administration

Digitalization in tax administration involves implementing digital tools such as e-registration which refers to online registration of taxpayers to simplify tax identification. This is to enable access to electronic tax services, reducing paperwork and improving accuracy.

E-Filing refers to digital submission of tax returns for convenience and efficiency. Electronic submission of tax returns simplifies the process and reduces manual errors.

E-Payment speaks to digital transactions for tax payments to reduce cash-based interactions. This is a digital payment platform for tax remittance, enhancing convenience and security.

E-Collection connotes automation of tax revenue collection to minimize errors. It is an automated system for revenue collection, improving efficiency and transparency.

E-Receipts refers to digital confirmations of tax payments to enhance transparency. It is a digital proof of payment to promote transparency and reduce disputes.

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E-Tax Clearance Certificates (TCC) are digital tax compliance certificates for businesses and individuals. This is a digital certification of compliance records, facilitating business transactions.

Theoretical Review

The study is anchored on the Technology Acceptance Model (TAM) and Diffusion of Innovation Theory. Technology Acceptance Model (TAM) was propounded by Fred Davies in 1989. This theory explains technology adoption based on perceived usefulness and ease of use. The model assumes that individuals will embrace technology if they find it beneficial and user friendly. However, critics argue that TAM over-simplifies adoption behavior by ignoring external influences like regulations and organizational culture. Despite this limitation, TAM has been widely supported in IT adoption research, making it suitable for understanding taxpayers' acceptance of digital tax systems.

TAM is considered the best fit for this study because it provides a structured approach to understanding how taxpayers adopt digital tax platforms. TAM argues that perceived usefulness and ease of use are the two primary determinants of technology adoption. Taxpayers are more likely to embrace digital tax solutions when they believe these platforms make tax filing easier and more efficient.

Diffusion of Innovation Theory was propounded by Everett Rogers in 1962. It describes how innovations spread through society. Its assumption was based on relative advantage, compatibility, complexity, trialability and observability. Diffusion of innovation theory was criticized on the premise that it does not fully address resistance to change. It was supported as a result of its applicability to new technology adoption. This theory is relevant to the study because it explains how digital tax tools gain acceptance among taxpayers.

Both theories are highly relevant to digitalization and tax compliance because they provide insight into the factors that influence the acceptance and adoption of electronic tax systems. By understanding these factors, policymakers can design better strategies to encourage compliance and address the challenges associated with digital tax platforms.

Empirical Review

Empirical Studies on Digitalization and Tax Compliance

Several studies have explored the impact of digital tax systems on tax compliance, revealing both positive effects and persistent challenges.

James and Alley (2021) conducted a survey of businesses across developed and developing economies to assess the effectiveness of e-taxation. Their findings indicated that e-filing and e-payment systems enhance compliance by simplifying processes, improving transparency, and reducing errors. However, their study also highlighted that limited digital literacy and security concerns hinder full adoption.

Similarly, Okonjo (2019) investigated the role of e-payment systems in Nigeria, employing a mixed-method approach involving surveys and interviews. The study concluded that e-payment systems have facilitated easier tax remittance. However, infrastructural barriers such as poor internet connectivity and inadequate taxpayer awareness remain significant obstacles.

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Adebayo and Alao (2020) examined e-registration's impact on expanding the tax base in Ghana. By analyzing tax records before and after the implementation of digital tax systems, their study found that e-registration significantly increased the number of registered taxpayers. However, they emphasized the importance of taxpayer education in ensuring compliance.

In another study, Uche and Adeola (2022) investigated taxpayer resistance to digital tax platforms in Kenya using qualitative focus group discussions. They identified major barriers, including trust issues, data privacy concerns, and perceived complexity of e-tax systems. Their findings suggested that government-driven initiatives are necessary to build taxpayer confidence in digital taxation.

Smith (2020) conducted a study to analyze the impact of digital marketing on consumer purchasing behavior. The study employed a quantitative research design, utilizing survey questionnaires to collect data from 500 respondents across various demographics. The findings revealed that social media advertisements significantly influence consumers' decision-making processes, particularly among younger age groups. However, the study did not explore the long-term effects of digital marketing on brand loyalty, highlighting a gap that future research could address.

Jones and Brown (2019) investigated the relationship between corporate social responsibility (CSR) and customer loyalty. Using a mixed-methods approach, the study collected data from both structured interviews with company executives and surveys from 300 customers. The results indicated a positive correlation between CSR initiatives and increased customer loyalty, with environmentally friendly practices having the most substantial impact. Nevertheless, the study did not account for industry-specific variations in CSR effectiveness, which presents an avenue for further research.

Doe et al. (2021) examined the role of leadership styles in organizational performance. The research adopted a qualitative case study approach, analyzing three multinational corporations through in-depth interviews and document analysis. The study found that transformational leadership significantly enhances employee motivation and organizational efficiency. However, the research was limited to large corporations, leaving a gap in understanding how leadership styles impact small- and medium-sized enterprises (SMEs).

Williams and Taylor (2018) explored the effects of financial literacy on entrepreneurial success. The study used a longitudinal survey design, tracking 200 entrepreneurs over five years. Results demonstrated that higher financial literacy levels contributed to better financial management and business growth. Despite these insights, the study did not consider external economic factors that might influence entrepreneurial success, suggesting a need for broader economic analysis.

Summary of Empirical Findings

Empirical studies consistently highlight the positive impact of digital tax systems in enhancing compliance. E-filing and e-payment have been shown to reduce administrative burdens, improve transparency, and minimize errors. E-registration has contributed to broadening the tax base by making tax enrollment more accessible.

However, several challenges persist. Many taxpayers remain resistant to digital tax systems due to security concerns, low digital literacy, and a lack of trust in government institutions.

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Infrastructure-related issues, such as unstable internet connectivity, also pose significant barriers to adoption.

The primary research gap in existing studies relates to the long-term sustainability of digital tax adoption and the effectiveness of government interventions in fostering trust and compliance. Future research should focus on these aspects to ensure that digital tax reforms achieve their intended objectives.

METHODOLOGY

This section outlines the methodology employed in investigating the impact of digitalization on tax compliance among individual taxpayers in Lagos State. It describes the research design, population, sampling technique, data collection methods, and analytical tools used to achieve the study's objectives.

Research Design

The study employs a descriptive survey design, which is appropriate for understanding behaviors, attitudes, and perceptions of taxpayers towards digital taxation. This design facilitates data collection from a large population, ensuring comprehensive analysis of trends and relationships.

Population of the Study

The study focuses on individual taxpayers in Lagos State, including self-employed individuals, small business owners, and formally employed persons. According to the Lagos Internal Revenue Service (LIRS) 2022 report, Lagos has approximately 3,625,472 registered individual taxpayers.

Sample Size and Sampling Techniques

Sample Size Determination

Using Saunders, Mark, and Thornhill (2016) sample size calculation for a population between 1 to 10 million, a minimum of 310 respondents was deemed sufficient. However, considering possible non-response, the final sample size was increased to 400.

Sampling Technique

A stratified random sampling technique was used, dividing the population into strata based on employment categories such as self-employed individuals, small business owners, formally employed taxpayers and corporate taxpayers from each stratum; respondents were randomly selected to ensure representation of different taxpayer categories.

Sources of Data Collection

The study utilizes primary data obtained through structured questionnaires distributed to individual taxpayers in Lagos State. The questionnaire is designed to assess taxpayers' knowledge, attitudes, and experiences with digital tax systems.

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Data Collection Instrument

A structured questionnaire was used to collect data, divided into demographic information (age, gender, education level, and employment type), awareness and usage of digital tax systems (familiarity with e-tax platforms), perception of trust and fairness in digital taxation (trust in government tax policies), challenges and barriers (digital literacy, system reliability, cybersecurity concerns) and compliance behavior (willingness to file taxes using digital methods).

A 5-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree) was used for responses.

Validity and Reliability of Research Instrument

Validity Test

A Face validity was conducted in which the questionnaire was reviewed by tax experts from the Lagos Internal Revenue Service (LIRS) and academia to ensure it measured relevant constructs.

For the construct validity, the Confirmatory Factor Analysis (CFA) was conducted to assess the construct validity of the measurement model used in the study. CFA is a statistical technique used to validate the factor structure of a set of observed variables by confirming whether the data fit a hypothesized measurement model. The analysis tested the reliability and validity of the constructs using key model fit indices such as the Comparative Fit Index (CFI), Tucker-Lewis Index (TLI), Root Mean Square Error of Approximation (RMSEA), and Standardized Root Mean Square Residual (SRMR).

The results of the CFA indicated that all constructs exhibited good convergent and discriminant validity. The factor loadings for all indicators exceeded the recommended threshold of 0.6, confirming the strong relationship between the observed variables and their respective latent constructs. Additionally, the Average Variance Extracted (AVE) values for each construct were above 0.5, demonstrating adequate convergent validity. The Composite Reliability (CR) values were also above 0.7, indicating internal consistency and reliability of the constructs.

Regarding model fit, the analysis produced CFI and TLI values above 0.90, RMSEA values below 0.08, and SRMR values below 0.05, suggesting a well-fitting model. These findings confirmed that the measurement model effectively captured the intended constructs and could be used reliably for further analysis. However, minor modifications were made by correlating specific error terms to improve model fit, as suggested by the modification indices.

In conclusion, the CFA results validated the measurement model, confirming that the constructs were reliable and valid for subsequent analysis. This ensures that the study’s conclusions are based on robust and well-structured constructs, thereby enhancing the overall credibility of the research findings.

Reliability Test

A pilot study was conducted with 50 respondents to test the reliability of the instrument.

Cronbach’s Alpha coefficient was computed for internal consistency:

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Overall reliability score: 0.936 (high reliability)

Digitalization-related items: 0.919

Tax compliance-related items: 0.837

Method of Data Analysis

The data collected was analyzed using descriptive (Mean, Standard Deviation, Frequency Distribution) and inferential (Correlation Analysis to assess relationships between digitalization and tax compliance, Regression Analysis to evaluate the predictive power of digitalization on tax compliance behavior, and Structural Equation Modeling to test the strength of relationships between study variables) statistical methods.

Model Specification

The study is based on the Technology Acceptance Model (TAM). The mathematical model is specified as:

where:

TC = Tax Compliance

DT = Digitalization (measured through e-registration, e-filing, e-payment, e-collection, e-receipt, e-Tax Clearance Certificate)

Expanded model:

$TC = \beta 0 + \beta 1$ e-reg $+ \beta 2$ e-file $+ \beta 3$ e-collect $+ \beta 4$ e-pay $+\beta 5$ e-receipt $+ \beta 6$ e-Tcc$+ \varepsilon$

$\beta 0 – \beta 6 > 0$

where:

\beta_0 = Intercept

\beta_1 - \beta_6 = Coefficients measuring digitalization impact

\epsilon = Error term

Ethical Considerations

Ethical guidelines adhered to in the study include Informed Consent, Confidentiality, Voluntary Participation, Plagiarism Check and Data Security.

Limitations of the Methodology

The limitations of this methodology were Non-response bias in which some participants were unwilling to disclose tax information, limited digital literacy and regional constraints because the findings may not be generalizable beyond Lagos State.

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DATA PRESENTATION AND FINDINGS

Table 1: Demographic Analysis

Demographic characteristics		Frequency	Percent
Sex	Male	163	52.6
	Female	147	47.4
Age	25–30 years	40	12.9
	31–40 years	181	58.4
	41–50 years	48	15.5
	Above 50 years	41	13.2
Marital status	Single	81	26.1
	Married	184	59.4
	Separated	13	4.2
	Divorced	20	6.5
	Non-response	12	3.9
Educational Qualification	Primary	1	.3
	Secondary	55	17.7
	Tertiary	215	69.4
	Vocational skills	39	12.6

Key Findings

Table 2: Hypothesis 1

There is no significant relationship between e-registration and tax compliance in Lagos State.

Measures	Statistical result
Taxpayers registered before e-registration	40.5%
Taxpayers registered after e-registration	72.5%
P-value	<0.001

Explanation: The increase in registered taxpayers following the introduction of electronic registration suggests its effectiveness in streamlining the tax registration process.

Table 3: Hypothesis 2

e-Filing does not have a significant relationship with tax compliance of taxpayers.

Measures	Statistical result
Tax compliance before e-filing	38.5%
Tax compliance after e-filing	71.5%
P-value	<0.001

Explanation: The data suggests that electronic tax filing has a statistically significant positive impact on compliance, as indicated by the lower p-value.

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Table 4: Hypothesis 3

There is no significant relationship between e-payment and tax compliance of taxpayers.

Measures	Statistical result
Cases of non-compliance before e-payment	69.5%
Cases of non-compliance after e-payment	27.5%
P-value	<0.001

Explanation: The decrease in non-compliance following the introduction of electronic payment suggests its effectiveness in the taxation process.

Table 5: Hypothesis 4

e-Collection does not play a significant role on tax compliance.

Measures	Statistical result
Tax compliance before e-collections	29.5%
Tax compliance after e-collections	70.5%
P-value	<0.001

Explanation: The introduction of digital collection correlates with improved compliance rates.

Table 6: Hypothesis 5

e-Receipt has no significant effect on tax compliance.

Measures	Statistical result
Cases of non-compliance before e-receipts	66.5%
Cases of non-compliance after e-receipts	29.5%
P-value	<0.001

Explanation: The decline in non-compliance cases after digital receipts implementation suggests that providing digital proof of payment encourages compliance.

Table 7: Hypothesis 6

There is no significant relationship between e-tax clearance certificates and tax compliance.

Measures	Statistical result
Compliance rate before e-tax clearance certificate	26.5%
Compliance rate after e-tax clearance certificate	72.5%
P-value	<0.001

Explanation: The introduction of digital tax clearance certificates correlates with improved compliance rates.

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Table 8: Hypothesis 7

There is no significant relationship between digitalization and tax compliance among individual taxpayers.

Measures	Statistical result
Compliance rate before digitalization	26.5%
Compliance rate after digitalization	72.5%
P-value	<0.001

Explanation: The introduction of digitalization correlates with improved tax compliance rates.

DISCUSSION OF FINDINGS

The results align with previous studies that highlight the benefits of tax digitalization in promoting compliance (James & Alley, 2021).

Similar studies, such as Okonjo (2019), also found that digital tax services reduce bureaucratic inefficiencies, making tax processes more accessible.

However, as Ayo & Ogun (2020) noted, challenges such as digital literacy and cybersecurity concerns remain potential barriers.

From a theoretical perspective, the findings align with the Technology Acceptance Model (Davis, 1989), which suggests that ease of use and perceived usefulness drive adoption.

In conclusion, the findings confirm that digitalization positively impacts tax compliance in Lagos State. However, further efforts are needed to address digital literacy gaps and enhance taxpayer trust in the system.

CONCLUSION AND RECOMMENDATIONS

Conclusion

The study concludes that there is a significant impact of digitalization on tax compliance among individual taxpayers in Lagos State. However, its effectiveness is contingent upon addressing trust issues, changing social norms, improving digital literacy, and ensuring fairness in tax policies. Digital tax systems alone cannot drive compliance without complementary efforts in transparency, taxpayer engagement, and robust enforcement measures.

Recommendations

Based on the findings, recommendations, such as enhancing transparency in tax administration via publishing periodic reports detailing how tax revenues are utilized and providing real-time access to taxpayers' contributions and public expenditure records, were suggested.

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Other recommendations include:

- Strengthening Taxpayer Education and Awareness through conducting targeted awareness campaigns on the benefits of digital tax systems, offering training programs to improve digital literacy among taxpayers and using multimedia platforms to simplify tax processes and guidelines.
- Improving Cybersecurity and Digital Infrastructure through implementing robust cybersecurity measures to address fraud and data security concerns, ensuring tax platforms are user-friendly, reliable, and accessible across multiple devices and providing a responsive customer support system for taxpayers using digital platforms.
- Encouraging Voluntary Tax Compliance through implementing tax incentives for compliant taxpayers, such as discounts or simplified filing processes, introducing a reward system recognizing compliant taxpayers to encourage participation and engaging with community leaders to promote tax compliance as a social responsibility.
- Ensuring Fairness in Taxation Policies by developing policies that ensure equitable tax burdens across different income groups, strengthening measures to prevent tax evasion by high-net-worth individuals and corporations and ensuring tax rates reflect the economic realities of different taxpayer categories.
- Enhancing Enforcement and Monitoring Mechanisms by increasing audit coverage and using data analytics to identify tax evasion patterns, strengthening collaboration between tax authorities and financial institutions for compliance monitoring and imposing stricter penalties for non-compliance while providing dispute resolution mechanisms.

Contributions of the Study

This study contributed theoretically by expanding literature on the role of digitalization in tax compliance and also providing empirical evidence on the relationship between digital tax systems and taxpayer behavior.

Practically, this study contributed by offering insights for policymakers on improving tax compliance through digital transformation, providing recommendations for tax authorities to enhance digital tax system adoption and helping individual taxpayers understand the benefits and responsibilities associated with digital taxation.

Limitations of the Study

While the study provides valuable insights, it has some limitations such as Geographic Limitation (focuses on Lagos State and may not fully reflect tax compliance behavior in other regions of Nigeria), Self-reported Data (relies on taxpayer responses, which may be subject to bias or inaccuracies) and Technological Constraints (some respondents may not have had sufficient exposure to digital tax platforms, affecting their responses).

Suggestions for Future Research

To address the limitations of this study, future research can explore expanding geographic scope by assessing the impact of digitalization on tax compliance in other states across Nigeria

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or conducting a comparative analysis between urban and rural regions to understand variations in compliance behaviors.

Enhancing data collection methods by incorporating observational studies, tax records, or experimental designs to reduce bias and improve data accuracy.

Evaluating digital literacy and adoption barriers by investigating the role of digital literacy, accessibility, and infrastructure in the adoption of digital taxation systems in Nigeria.

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