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TAX COMPLIANCE IN NIGERIA: A FOCUS ON "PAYE" OF EMPLOYEES

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Abstract

In Nigeria, the only way citizens relate with the tax system is through Pay-As-You-Earn (PAYE). Over the years, PAYE has become a great contributor to IGR in many states in Nigeria. However, for most salaried workers, PAYE appears only as a line of deduction on a payslip because many employees do not fully understand how their tax is calculated, what reliefs apply to them, or how their contributions translate into public services. This study provided deeper insight into how awareness and understanding of PAYE, fairness perceptions, and trust in government, shape everyday tax compliance in Nigeria using Qualitative methodology where data was collected using structured in-depth interview. The study found out that workers in the public sector had slightly higher awareness about PAYE than their private sector counterparts but their understanding of tax rates, allowances, and reliefs was limited, employees who perceived deductions as fair are usually those with clear explanations from employers. The study then concluded that employees' experiences reveal a spectrum of reactions from passive acceptance to cautious engagement largely influenced by awareness, perceived fairness, and trust. It was recommended that more awareness should be ensured for private sector employees, education about PAYE should be emphasized for both sector employees to ensure understanding.

Keywords:
Awareness, Employees, PAYE, Tax, Understanding

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Introduction

Pay-As-You-Earn (PAYE) is one of the most visible ways Nigerians interact with the tax system (Federal Inland Revenue Service [FIRS], 2023). Under the Personal Income Tax Act, employers are required to deduct tax directly from employees' salaries and remit it to the relevant State Internal Revenue Service on their behalf (Hlwatika, 2024). In simple terms, workers do not physically "pay" their tax; it is deducted before they receive their net salary. This system was introduced to make tax payment easier, reduce tax evasion, and ensure steady government revenue (FIRS, 2023). Over the years, PAYE has become a major contributor to internally generated revenue (IGR) in many states. For instance, Lagos State continues to record strong revenue performance largely driven by PAYE collections, which account for a significant proportion of its annual IGR (Lagos State Internal Revenue Service [LIRS], 2023; National Bureau of Statistics [NBS], 2024). The steady growth in PAYE revenue suggests that the system is administratively effective, at least from the government's perspective (Egedegbe, 2025). However, for most salaried workers, PAYE appears only as a line of deduction on a payslip because many employees do not fully understand how their tax is calculated, what reliefs apply to them, or how their contributions translate into public services. PAYE is however a lived monthly reality for millions of Nigerian workers. Every payday, employees open their payslips and see deductions made before their salaries reach their accounts. For some, this deduction is accepted quietly as a normal civic duty. For others, it raises questions: How was this calculated? Why is it higher this month? Is my employer actually remitting it? These everyday questions are rarely captured in official statistics, yet they shape how people feel about the tax system (Mohammed *et al*., 2024).

Recent Nigerian studies on tax compliance highlight that tax knowledge, perceived fairness, and trust in government significantly influence compliance behaviour (Ajibola & Lateef, 2025; Okoye & Gbegi, 2023). Understanding these experiences matters because compliance is not only about enforcement; it is also about perception, trust, and fairness. Scholars argue that when taxpayers perceive the system as transparent and fair, voluntary compliance improves (Kirchler, 2022; OECD, 2023).

Against this backdrop, this research aims to provide deeper insight into how awareness and Understanding of PAYE, fairness perceptions, and trust in government, shape everyday tax compliance in Nigeria.

Tax Compliance in Nigeria

Tax compliance in Nigeria has attracted increasing scholarly attention in recent years, particularly in response to the country's persistent revenue challenges and growing dependence on internally generated revenue. Several studies argue that when taxpayers understand how tax is calculated, what reliefs apply to them, and how revenue is utilised,

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they are more likely to comply voluntarily. Okoye and Gbegi (2023) found that awareness significantly predicts voluntary compliance among salaried workers, particularly in urban areas where exposure to financial literacy campaigns is higher. Similarly, Ajibola and Lateef (2025) reported that limited understanding of tax laws contributes to confusion and passive compliance, especially among formal sector employees who rely entirely on their employers for PAYE deductions. These findings suggest that knowledge does not only improve technical compliance but also strengthens citizens' sense of responsibility.
Beyond knowledge, socio economic conditions also shape tax behaviour in Nigeria. High unemployment rates, inflation, and rising living costs affect taxpayers' willingness to comply. Nigerian tax laws, including provisions under the Personal Income Tax Act, contain technical language and detailed procedures that many employees find difficult to understand. Ajibola and Lateef (2025) further observed that complexity reduces transparency and weakens trust in tax institutions.

PAYE in the Nigerian Context

A key component of Nigeria's personal income tax system is the Pay As You Earn (PAYE) system. Employers must lawfully deduct income tax from employees' pay at source under the Personal Income Tax Act and submit these deductions to the appropriate State Internal Revenue Service on a monthly basis (Federal Inland Revenue Service, 2023).
This structure is intended to limit potential for tax fraud, increase efficiency, and decrease direct interaction between employees and tax authorities. When taxpayers feel that the system is operated transparently, fairly, and procedurally, they are more inclined to comply (Kirchler, 2022). The clarity and consistency of tax procedures is referred to as procedural fairness. Whether the tax burden is distributed fairly among income categories is a matter of distributive justice. Respectful communication and sufficient justification from authorities or employers are essential components of interactional fairness. Perceptions of fairness in Nigeria are frequently influenced by worries about corruption, governance, and unequal public service delivery. According to empirical research, tax morale decreases when taxpayers believe that public finances are wasted or that the system favours particular groups (Okoye & Gbegi, 2023).

Research Methodology

This study adopted a qualitative research design. The choice of a qualitative method is deliberate since previous studies on tax compliance in Nigeria have largely relied on quantitative surveys and statistical modelling, such approaches often reduce compliance to numerical variables and measurable determinants. They rarely capture how individuals interpret, feel about, and make meaning of tax deductions in their everyday lives. A

qualitative approach provides a richer basis for examining these subjective dimensions than a purely numerical survey.

Study Area

The study was conducted in Lagos State and the Federal Capital Territory, Abuja. These two locations were selected for several reasons. First, they represent major economic and administrative centres in Nigeria. Lagos is widely regarded as the commercial hub of the country, with a high concentration of private sector organisations and strong PAYE revenue performance. Abuja, as the administrative capital, hosts numerous federal ministries, departments, and agencies where public sector employment is dominant. Second, both locations have structured payroll systems and active State Internal Revenue Services, making them suitable environments for examining PAYE compliance experiences. The diversity of employment structures in these areas also allows for meaningful comparison between public and private sector workers.

Population and Sampling

The population of the study consists of salaried employees in the formal sector who are subject to PAYE deductions. This includes workers in government institutions, private companies, financial institutions, educational institutions, and medium to large enterprises. A purposive sampling technique was employed to select participants who met specific criteria. Participants had to: Be formally employed in either the public or private sector, have been subject to PAYE deductions for at least one year and be willing to share their experiences openly.

A total of fifty participants were selected, comprising twenty-five public sector employees and twenty-five private sector employees. The sample size is considered adequate for qualitative inquiry because the focus is on depth rather than statistical generalisation. Data collection continued until thematic saturation was reached, meaning that no substantially new themes were emerging from additional interviews. Efforts were made to ensure diversity within the sample in terms of age, gender, educational background, and income level. This diversity enhances the richness of the findings and allows for broader interpretation of experiences

Data Collection Methods

Data was collected through semi structured, in depth interviews. Semi structured interviews were chosen because they provide flexibility while ensuring that key themes are covered. An interview guide was developed based on the theoretical framework and existing literature on tax compliance.

The interview questions explored the following areas:

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1. Participants' understanding of PAYE and how it is calculated
2. Their experiences with salary deductions and payslip transparency
3. Communication with employers regarding tax matters
4. Perceptions of fairness in tax deduction and public spending
5. Trust in government institutions and tax authorities
6. Feelings about enforcement, penalties, and compliance

Interviews lasted between forty-five minutes to one hour. With participants' consent, interviews were audio recorded and later transcribed verbatim. Where recording was not permitted, detailed notes were taken during and immediately after the session to preserve accuracy. The use of open ended questions allowed participants to express their experiences in a natural and conversational manner. This approach aligns with the human centred focus of the study and ensures that the findings reflect authentic employee voices rather than researcher assumptions.

Data Analysis

Thematic analysis was used to analyse the data. Finding patterns, meanings, and recurrent themes in qualitative data is suitable for thematic analysis (Kiger & Vapio, 2020). There were six steps in the process: familiarisation with the information by reading the transcripts several times, first coding of significant phrases and utterances, grouping related codes into more general categories; creating central themes; reviewing and improving themes; and interpreting themes in light of the theoretical framework.

To enable close interaction with the data, coding was done by hand. Both deductive and inductive methods were used to build themes. The theoretical concepts of power, justice, and trust served as the foundation for deductive coding. New themes were able to surface straight from participant accounts thanks to inductive coding. Limited comprehension of tax computations, dependence on employer openness, mechanical compliance, perceived disparity between tax contributions and public benefits, and emotional responses to deductions are a few examples of rising issues.

Trustworthiness and Rigor

Several tactics were used to guarantee credibility and reliability. Member checking was done first. In order to verify correctness and elucidate interpretations, a subset of participants were asked to reread summaries of their answers. By guaranteeing that the results accurately represent the viewpoints of the participants, this procedure increases trustworthiness. Peer debriefing was employed as a second strategy. To reduce bias and improve analytical depth, the researcher explored developing ideas with colleagues who are experienced on taxation and qualitative research. Third, in order to help readers

comprehend the context and participants' lived situations, detailed descriptions were included during the analysis. Authenticity is ensured by direct quotations and in-depth narratives. Fourth, during the entire study process, reflexivity was upheld. While interpreting the data, the researcher was conscious of their own presumptions regarding tax compliance and deliberately bracketed them.

Ethical Considerations

Ethical principles guided all stages of the study. Participation was voluntary, and informed consent was obtained before interviews commenced. Participants were assured of confidentiality and anonymity. Pseudonyms were used in place of real names, and identifying organisational details were removed from transcripts. Participants were informed that they could withdraw from the study at any time without consequence. Data were stored securely and used solely for academic purposes. Given that discussions about taxation may touch on sensitive issues such as employer practices or perceptions of government, care was taken to create a respectful and non-judgmental interview environment.

Awareness and Understanding of PAYE

When the question of Awareness and understanding was asked, it was found that awareness and understanding of PAYE varied considerably among employees. Many participants knew that tax was deducted from their salaries but had limited knowledge of how the deductions were calculated or how the funds were used. This was particularly pronounced in the private sector.

One participant stated:

"I just see the deduction on my payslip every month. I don't know how it is calculated or if it is even being remitted. I just assume it is correct." Private sector employee, Lagos

Participants in the public sector displayed slightly higher awareness, often because their payroll systems were structured and linked to human resource departments that provided basic guidance. However, even among public servants, understanding of tax rates, allowances, and reliefs was limited.

These findings align with earlier research indicating that tax knowledge is a critical determinant of compliance (Ajibola & Lateef, 2025; Okoye & Gbegi, 2023). Lack of knowledge can reduce the internalisation of compliance and increase dependence on external authority for assurance, highlighting the relevance of the Slippery Slope Framework. When knowledge is low, employees rely on enforcement power rather than voluntary trust to guide behaviour.

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Perceptions of Fairness

Perceived fairness was a recurring theme in the narratives. Many employees felt that while PAYE was a legal requirement, there was limited transparency in the deduction process and uncertainty about whether funds were appropriately used by the government.

"They deduct from my salary every month, but I don't see it translate into better services. Sometimes I wonder if paying more tax even makes a difference." Public sector employee, Abuja

Fairness Theory suggests that individuals comply more readily when they perceive the system as equitable and transparent (Kirchler, 2022). In this study, employees who perceived deductions as fair usually those with clear explanations from employers or those who could relate deductions to public benefits expressed higher satisfaction and a sense of civic duty. Conversely, employees who felt the process was opaque reported frustration and passive compliance. This theme underscores the importance of procedural fairness, as employees' experiences of PAYE are influenced not just by the act of deduction, but by how well they understand and trust the process.

Trust in Government and Employers

Trust emerged as a central factor shaping employee experiences. While PAYE deductions are legally enforced, employees' perception of government integrity and employer transparency influenced how they interpreted compliance.

Participants expressed mixed sentiments:

"I trust my employer to remit the tax because I see it on my payslip, but I cannot say the same about the government. I don't feel the money is used for our benefit." Private sector employee, Lagos

"In the ministry, I see the deductions, but the roads are bad and public services are slow. It makes me question if my taxes are making any real impact." Public sector employee, Abuja

These insights reflect the Slippery Slope Framework, which posits that trust interacts with enforcement power to shape compliance. Employees may comply because the employer has legal power to deduct PAYE, but voluntary compliance is stronger when trust exists at both the employer and government levels. Low trust in public institutions reduces the intrinsic motivation to comply, even when deductions are automatic.

CONCLUSION

This research which aimed to provide deeper insight into how awareness and Understanding of PAYE, fairness perceptions, and trust in government, shape everyday tax compliance in Nigeria was carried out using structured interview. The study concluded

that workers in the public sector had slightly higher awareness about PAYE than their private sector counterparts but their understanding of tax rates, allowances, and reliefs was limited, employees who perceived deductions as fair are usually those with clear explanations from employers. Furthermore, workers in both private and public sector do not trust the Government at making judicious use of remitted taxes because there are not much to show for it.

In general, Employees' experiences reveal a spectrum of reactions from passive acceptance to cautious engagement largely influenced by awareness, perceived fairness, and trust.

RECOMMENDATION

Based on the findings of this study, it is recommended that more awareness should be ensured for private sector employees, education about PAYE should be emphasized for both sector employees to ensure understanding and Government should provide and maintain infrastructures so as to encourage Tax payers to pay taxes willingly.

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