JOURNAL OF ACCOUNTING AND MANAGEMENT

ISSN 1119-2454



Volume 1, Issue 2, December, 2018

Journal of Accounting and Management
ISSN 1119-2454 Volume 1, Number 2
www.nda.edu.ng
December, 2018

Factors Influencing Tax Compliance among Small and Medium Enterprises in Kwara State

Mubaraq Sanni[1] Abdulrasaq Mustapha[2] Taofeeq Abdulazeez[3]
[1,2,3]Department of Accounting and Finance, Kwara State University, Malete
mubaraq.sanni@kwasu.edu.ng[1] abdulrasaq.mustapha@kwasu.edu.ng[2] abdulazeeztaofeeq22@gmail.com[3]

Abstract
The proportion of income taxes from small and medium enterprises in Kwara State has been on the decrease. This is due to low tax compliance. This study investigates the factors underlying individual taxpayers' compliance of SMEs owners in Kwara State. Primary data were collected through self-administered questionnaire. The population of the study is the 365 owners of SMEs registered with the Kwara State Internal Revenue Service. The sample size is 186 obtained through stratified sampling technique. The data was analyzed using multiple regression technique. Results of the study show that tax awareness has positive significant effect on tax compliance. Results also show that taxpayers' perception about government responsibilities has significant positive effect on tax compliance. The study concluded that tax awareness and taxpayer's perception on government responsibilities are important considerations as far as tax compliance by SMEs owners in Kwara State is concerned. The study therefore recommends that government should further increase public awareness on tax matters and endeavor to increase the provision of social amenities and infrastructural facilities such as good health services among others.

Keywords: small and medium enterprises, tax awareness, tax compliance, taxpayers' perception.

1. Introduction

Tax noncompliance is a universal phenomenon that hinders efficient tax revenue generation by government in both developed and developing countries. Globally, the increasing incidence of tax noncompliance has led to the loss of huge amount of tax revenue to the various levels of government and this has become a matter of great concern to the government, tax authorities and as well as researchers on the consequences it has on economic sustainability, growth and development (Internal Revenue Services, 2016). Tax noncompliance is even more severe problem in developing and transitional countries. In developing countries, New Zealand for instance, Statistical evidence shown that as much as US$285 Billion tax revenue was loss annually due tax noncompliance (Cobham, 2005). In Also, in Ghana, the informal sector and Small and Medium Enterprises (SMES) owners account for over 80 percent of the total employment (Ghana Living Standard Survey, 2010). This means that, any policy aimed at maximizing tax collection should target the SMEs owners. Moreover, developing appropriate tax system that effectively cordage SMEs owners into the tax nets as many as possible is always difficult. Even if the appropriate tax policy is formulated, there always been difficulties on the part of tax administration in reaching out to the SMEs owners which make them highly noncompliance to tax regulations (Ihuronyi, 2013).

Nigeria specifically, at federal government level, severity of tax compliance problem as recorded by federal inland revenue service (FIRS) indicates that 654 tax cases were audited in 2008 and this resulted to ₦92.2 Billion tax revenue loss to the federal government (Federal Inland Revenue Service, 2009). At state government level, governments had also recorded huge amount of loss of tax revenue to tax noncompliance. Problem associated with tax revenue generation nationwide is the reaction of taxpayers to factors such as tax awareness and taxpayer's perception on government responsibilities that shape compliance attitudes of taxpayers. These reactions may have effects on the government ability to generate tax revenue. This is particularly more prominent among Small and Medium Enterprise (SMEs) owners (Fagbemi & Abogun, 2013).

Small and Medium Enterprises (SMEs) occupy a center stage in the transformational activities of most national economic, developed and developing countries all over the world. This is not unconnected with the fact that SMEs owners are no doubt important catalysts in tax revenue generation to the government for economic growth and development (Ahiawoddzi & Adade, 2012). Administration and collection of income tax from taxable individuals has been major concern most especially from non-paid individuals (SMEs) owners. Most SMEs owners refuse or indulge to pay tax because they are unaware of process of taxation and magnitude effect that taxes have on growth and development of economy (Ihuronyi, 2013). Low level of tax awareness by the taxable income earners discourage them to fulfill their tax obligations such as to register with tax authority as taxpayer, reporting and paying their taxes properly as at when due. It has been argued that, provision of handbill on periodic basis that contain information about tax management by the government, the right and duties of taxpayers and government seems not to engage the taxpayer in town hall meeting for sensitization on tax matters, jingles, radio and television programme.

Small and Medium Enterprises owners see and perceive on how government utilizes the taxpayers money on 'white elephant' projects that has no positive direct impact to them, and they see tax officers as instrument of oppression that's live above their means. This serves as bedrock, basis for non-paid individuals to refuses to pay tax because they perceives that the taxes paid to government has no benefit to them and are not encouraged on how taxpayer's money is being used by the government. Based on

this premise, this study investigates factors influencing tax compliance among Small and Medium Enterprises in Kwara State, Nigeria. In order to achieve this, the following hypotheses in their null form will be tested.

H_1: Tax awareness has no significant effect on tax compliance of SMEs owners' in Kwara State.

H_2: Taxpayers' perception on government responsibilities has no significant effect on tax compliance of SMEs owners' Kwara State.

2. Literature Review

The definition of tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law. However like many such concepts, the meaning of compliance can be seen almost as a continuum of definitions. This ranges from the narrow law enforcement approach, through wider economic definitions and to even more comprehensive versions relating to taxpayer decisions to conform to the wider objectives of society as reflected in tax policy (Torgler, 2015). Franzoni, (2009) notes that tax compliance means true reporting of the tax base, correct computation of tax liabilities (accuracy), timely filling of tax return, and timely payment of the amount due i.e., timeliness. Also, Marti (2014) in his opinion defines tax compliance as simply put; tax compliance refers to filling all tax obligations as specified by the law freely and completely. Tax compliance in respect to income tax is defined as the ratio of declared income to actual income (Chang, Troutman & Bryan 2015).

Looking at the narrow end of these approaches, one suggestion is that the degree of non-compliance may be measured in terms of the 'tax gap'. This represents the difference between the actual revenue collected and the amount that would be collected if there were 100 per cent compliance (Torgler, 2015). Andreoni, Erard and Feinstein (2008) include a time dimension to compliance but are still mainly concerned with tax evasion as the central part of the tax gap definition. As they put it: 'A popular indication of the magnitude of evasion is the tax gap - the difference between the federal income taxes households actually owe, and what they report and pay voluntarily on a timely basis.' Regarding time dimension, James (2014) states that a taxpayer might eventually pay his/her full liability but, if the payment is late, the taxpayer cannot be considered to have been compliant.

A fuller economic definition of compliance should also take into account other possible economic effects of the tax system and its enforcement. There has been some economic analysis of such possibilities, for example, Cowell (2015) considered the case where a worker can chose not just between working in the legal or illegal sectors but how much time to spend in work of any sort as opposed to leisure. In all the expressions, compliance can be understood as acting in accordance with the law and noncompliance is deviation from the law. Based on the above expressions the definition of tax compliance can be shortly refined as the desire or willingness of the taxpayers to act in accordance with the tax law and the voluntary effort they exercise to pay their tax liability on timely basis. Given the arrays of definitions of tax compliance from different researchers, Franzoni's (2009), definition of tax compliance was used to guard this paper. Thus; variables discussed in this definition was operationalized to measure tax compliance.

Taxpayers' awareness has been described as a method of educating the people about the whole process of taxation and why they should pay tax (Fjeldstad & Ranker, 2003). Taxpayer awareness assists taxpayers in meeting their tax obligations to the government. The primary existence of taxpayer education is to encourage voluntary compliance amongst taxpayers. Taxpayer awareness is one of the strategies of improving service delivery to the taxpayers. Improving service delivery is critical to enhance voluntary tax compliance (Fjeldstad & Ranker, 2003). The tax awareness component is expected to deal with non-compliance practice among the taxpayers especially in the informal sector. This is based on the possibility of non-compliance being unintentional, where the taxpayer is not aware of his/her tax obligations or fails to fulfill his/her tax obligations due to ignorance of tax laws and procedures or may be intentional due to the compliance attitudes. Taxpayer awareness program create taxpayer awareness of tax laws and procedures, educate taxpayers on their tax responsibilities and rights, assist and motivate taxpayer to comply voluntarily, assist taxpayers on reporting the correct income and amount of tax, maintaining close relationship between the tax authority and the taxpayer continuously, and instill public confidence in taxation system (Oyedele, 2009).

James (2014) argued that the norm is usually to comply rather than not to comply. Many taxpayers might be willing to comply with tax law in full, but are unable to do so because they are not aware of, or do not understand their tax obligations. Even if such taxpayers understand their tax obligations, they may not know how to perform such obligations or may be unable to do so for other reasons. From the forgoing, it is observed that previous studies have evidenced that tax awareness play an important role in increasing tax compliance. However, Oyedele's (2009) definition of tax awareness was used to guard this study. The presence of government expenditures may motivate tax compliance level from taxpayers (Alm, Jackson, & Mckee, 1992; Andreoni, *et al.*, 2008). Individuals may pay tax because they value the public goods and services provided by the government, recognizing that their payments are necessary both to help finance the goods and services and to get others to contribute. A taxpayer therefore is seen as exchanging purchasing power in the market in return for the government services (Levis, 1998).

Alm and Torgler (1992) opined that positive benefits from government social activities and provisions of infrastructural development by government may increase the probability that taxpayers will comply voluntarily, without direct coercion. Without a material benefit, compliance becomes less assured. Although most taxpayers cannot assess the exact value of what they receive from the government in return for taxes paid, it can be argued that they have general impressions and perspectives concerning their

own and other's terms of trade with the government. It is then reasonable to assume that a taxpayers' behavior is affected by his satisfaction or lack of provision of social amenities by the government. Similarly, Due (2001) argued that, perspectives toward the general level of taxation and increases of taxes are dependent, of course, on perspective about the desirability of governmental programs and on attitudes toward the government itself. On the other hand, Fjeldstad, (2003) posit that citizens' willingness to pay taxes voluntarily rests on the government's capacity to provide services and its demonstrated readiness to secure the compliance of the otherwise non-compliant satisfaction with his terms of trade with the government. Thus, if the government responsibility perceived to be unjust, tax evasion may, at least partly, be considered as an attempt by the taxpayer to adjust his terms of trade with the government. However, from foregoing definitions of taxpayer's perception, Fjeldstad's (2003) definition of taxpayer's perception was employed to guard study.

This study is anchored on two theories which Social Capital Theory and Expectancy Motivation Theory. The theory of social capital propounded by Bourdieu, (1972) makes a distinction between three types of capital: economic, social, and cultural-symbolic (Bourdieu, 1972). Economic capital is characterized by the power of direct conversion into money, and is institutionalized in the form of property rights. This theory affirms that, tax compliance by citizens is specifically influenced by their individual behavior and social norms. The theory assumes that individual behavior in taxation is basically influenced by social interaction like other forms of behavior. The theory follows that an individual is most likely to comply with tax requirements if he believes members of his reference group also comply, just as he is also likely not to comply if he believes that members of his reference group do not comply (Ali, 2013).

The Expectancy Theory provides an explanation of why individuals choose one behavioural over others and classified as a process theory of motivation because it emphasizes individual perceptions of the environment and subsequent interactions arising as a consequence of personal expectations(Redmond, 2009).However, this theory affirms that government expenditure serves as a motivating factor for taxpayer compliance, especially when the taxpayers value the goods and services they perceive to be receiving from the government (Bello, 2014). Thus, the taxpayers will be more willing to comply when they are satisfied with provision of services from government, even in the absence of detection and punishment. A study by Ajzen and Fisbein (2012) carried out research work on effect of taxpayer's perception on trust in government and tax compliance. Secondary data were analyzed with ordinary lease square method. The results of study found that taxpayers' behavior is directly determined by their intentions that are a function of their attitude towards government and perception of social norms. The research findings also indicated that tax compliance behavior is influenced by peers and community standards, which thereby impact upon taxpayer thinking and actions on whether to comply with tax payment or not.

Torgler and Murphy (2014) which sought to identify factors that shape or have an impact on tax morale in Australia. The study used the 1981 and 1995 WVS data sets. Research surveys variables relating to changes in values such as politics economic life, religion, gender, family norms and sexual norms. The 1981 survey had total of 1228 Australian respondents, where there were 20048 Australian respondents in the 19905 survey. The findings of the study revealed that trust in government has positive impact on tax compliance in Australia. In another study by Torgler (2015) investigated which factors have an impact or tax morale at the national level. The researcher analyzed the cross-section of individuals throughout Switzerland, using the WVS data of 1996 and the ISSP data sets of 1999. The findings of the study shows that trust in government and trust in the courts and the legal system have positive effect on tax morale in Switzerland.

Musau (2015) assessed factors influencing tax compliance among SMEs in Nairobi County. Sample size of the study was 398 respondents and data was analyzed with binary probit regression model. The findings of the study revealed that when an individual perception about difficulties of evading taxes increases, the high likelihood of being tax compliant among SMEs in Nairobi County. The findings of the study also revealed those individuals who are satisfied with what the government is offering as public goods and service from taxes; have enough tax information; trust government officials in handling their taxes; and have the perception that if tax filing procedures are less complex, taxpayers are likely to comply with tax payment. Adesina and Obazee (2016), which examined Tax awareness, Penalties and tax compliance in small and medium scale enterprises in Nigeria. The study was conducted using research survey design, data were collected through questionnaire and the data were analyzed using least square regression method. The results of the study shows that tax knowledge had positive significant impact on tax compliance while tax penalty had insignificant positive impact on tax compliance.

In furtherance to the above review, Clement, Abiodun and Abiola (2017) examined the impact of tax Awareness and knowledge on taxpayers' compliance of Block Maudling Firms in Ekiti State, using a survey research design. The data obtained through questionnaire, were analyzed using the ordinary least square regression method. The results of their study shows that tax information and knowledge had positive significant impacts on tax compliance while tax administration had an insignificant impact on tax compliance accordingly. Thus, the study indicated that tax information, tax knowledge has higher tendency to promote tax compliance level than tax administration.

3. Methodology

For this study, survey research design was used. Self-administered questionnaire is used to collect data from literate respondents (SMEs owners in Kwara State), A total number of 365 SMEs owners were obtained from the records of Kwara State Internal Revenue Service (KWIRS) as population for this study. Out of this population, 186 SMEs owners were selected as determined by Krejcie and Morgan (1970) table. This number was selected using stratified sampling technique to achieve fairly representative of the population. This sampling method was informed by the relative homogeneity of SMEs characteristics of the enterprise under the study. To achieve this, the researcher categorized all the SMEs owners in Kwara State that make up the sample size into homogeneous strata based on the nature of their business such as (i.e., Manufacturing/agro-allied, Trading, Service and Others). Descriptive statistics of the variables as well as Multiple regression analysis was carried out to assess the relative predictive power of the independent variable tax awareness and taxpayers' perception on government responsibilities on the dependent variable that is tax compliance.

The model for this study was adopted from Richardson (2006), but was however modified in order to provide an insight about the habit of SMEs owners in Kwara State towards tax awareness (TAWR) and taxpayers' perception on government responsibilities (TPG) both as a function of tax compliance. The functional relationship is shown in equation (1).

$$TCOMP = F(TA, TR) \quad \ldots\ldots\ldots\ldots (1)$$

Where tax awareness (TAWR) and taxpayers' perception on government responsibilities (TPG) are used as function of tax compliance (TCOM). This can be further expressed in a multiple regression form as follows:

$$TCOMP_i = \beta_0 + \beta_1 AWR_i + \beta_2 TPG_i + E_i \quad \ldots\ldots\ldots\ldots (2)$$

Whereas: TAWR =Awareness
TPG = Taxpayer perception on government responsibilities
TCOMP =Tax compliance
β_0 = Constant
E=error term
β_1-β_2 = Parameters of the regression

4. Results and Discussion

The final questionnaires sent to a random sample of 186 SMEs owners, 177 copies were returned which represent 95.1% response rate. Out of these 177 questionnaires returned, a total of 166 were usable for data analysis. The remaining 11 questionnaires were excluded due to the issue of unproductive responses and outliers. Descriptive statistics for the independent and dependent variables (tax awareness, perceived government responsibilities and tax compliance level) are presented in table .The mean score for each variable indicates a general agreement by the respondents in relation to their opinion or perception since the standard deviation score shows a moderate variability of each individual responses from the mean scores. The Cronbach's alpha scores as shown in table 1 exceeded the acceptable) 0.40 threshold. The graphical test of normality conducted suggested that the data is normally distributed to an appreciable degree.

Table 1
Descriptive statistics of the variables

Variables		Mean	Standard Deviation	Minimum	Maximum	Cronbach's Alpha
Tax compliance	166	3.46	1.60	1	5	.831
Tax awareness	166	3.46	1.60	1	5	.828
PerceivedGovt Respsb.	166	3.40	1.70	1	5	.838

Source: SPSS Outputs

Table 2
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.910	0.828	0.825	0.330	2.2

a. Predictors: (Constant), TA, TP
b. Dependent Variable: TC

Source: SPSS Outputs

As shown in Table 2 (Model summary), multiple correlation coefficients (R) of 0.910 indicated a strong relationship between the dependent and the set of predictors as a whole. The coefficient of determinant (R^2) is 0.825 which means that 83 Percent of variation

in the dependent variable can be explained by the independent variables while 17 percent are taken care of by the error term and may be attributed to other factors influencing tax compliance but not included in this study. The F-Statistics (33.00) is equally significant at 1% which indicates that overall regression model is fit. The analysis also shows Durbin Watson statistics of 2.2 which seems slightly higher than average benchmark of 2 (Field, 2005). However, the model is devoid of autocorrelation concern. Therefore, the model possesses an averagely higher predictive power.

Table 3
Regression Results

TC	Coefficient	Std. Error		
(Constant)	0.404	0.113	3.589	0.000
TA	0.446	0.065	6.833	0.000
TR	0.443	0.066	6.724	0.000

Source: SPSS Outputs

Based on the result in Table 3, the first objective and hypothesis of the study examined the impact of tax awareness and tax compliance of SMEs owners in Kwara State. Tax awareness which has significant effect on tax compliance of SMEs owners in Kwara State as indicated by coefficient of 0.446, (t = 6.833, p-value< 0.000) showed that there is positive and significant effect between tax awareness and tax compliance at 0.05% level of significant. This result is consistent with the findings of prior research study such as Devos (2008; 2012); Gupta, *et al.,* (2010); Randlane (2012); Rose, *et al.,* (2012) and Al- Mumun *et al.,* (2014).All the studies had earlier reported a positive effect between tax compliance level and tax education and awareness. The importance of tax education awareness decrease the negative perception about the taxes as instruments of oppression by government and in the long run motivate tax payers to perform his/her social obligations. However, the finding is in contrast with the results of Ibrahim and Abdualhanan (2015) and Nymwanza, *et al.,* (2014) as their studies shows that tax awareness has negative effect on tax compliance level. This may be attributed to how the variables are being measured or the nature of measurement questions used to collect responses, since awareness is expected to serve as motivating factors. But this study's finding support the assumption and prediction of the social capital theory that tax behavior of individual is affected by social interaction like other forms of behavior. In this respect, tax awareness may categorized as instrument of social interaction and thus individual is most likely to comply with tax requirements. The *a-priori* expectation that, tax awareness would extremely reduce the problem of tax noncompliance is therefore empirically affirmed.

The positive effect between taxpayer's perception on government responsibilities and tax compliance predicted in hypothesis two is also confirmed by this study's result as shown by the regression coefficient of 0.443 of the independent variables (taxpayers' perception of government responsibilities) indicating the extent to which the variation in tax payers level of compliance is explained by the level of the perception of the degree of government responsibilities. The positive relationship between the tax compliance level and perceived level of government responsibility is also significant (t = 6.724, p < 0.000) at 0.05 level of significance as indicated in Table 3. Also, similarity is achieved between this study's findings and that of (Casal, *et al.,* 2016; Murphy, 2013 and Abubakar, *et al., 2013*) whose studies have also shown the influencing effect of perceived government responsibilities on tax compliance level. Thus, this research evidence may be suggestive of the fact that high taxpayer's perception on government responsibilities play important role of tax compliance level. The empirical evidence also lend credence to the expectancy motivation theory prediction that fulfillment of government responsibility in term of provision of physical infrastructure and other social supports is a motivation factors for citizenry to perform their social obligations such as payment of taxes regularly.

5. Conclusion and Recommendations

In this study, we present empirical evidence linking tax compliance level, the tax awareness and perceived level of government responsibility among SMEs owners in Kwara State. The study finds that tax awareness and perceived government responsibilities are useful factors for predicting level of tax compliance among SMEs owners in Kwara State. In other words, tax awareness and Individual taxpayer's perception to government responsibilities on infrastructural development in the state has great influence on the level of taxpayer's tax compliance behaviour of SMEs owners. Thus, the research work support the argument that tax compliance behavour is related to level of tax awareness through tax education and physical presence of infrastructural facilities. Given the observed evidences from this study and hypotheses tested, the study concluded that, tax awareness and taxpayer's perception on government responsibilities have significant effect on tax compliance. We encourage government to reinvigorate their efforts in the area of tax education that must be consistently pursued to create adequate awareness on the various taxes laws on Pay –As –You – Earned (PAYE) taxes and their importance the sustainable economic development. Government is also enjoyed to effectively prioritize their spending to favour capital expenditures as this will go a long way to justify and motivate tax payers to live up to their social obligation of tax payment. Finally, further research is recommended to test the accuracy and reliability of the relationship between tax compliance, tax awareness and perceived government responsibility in another setting apart from Kwara State.

Krejcie, R.V., & Morgan, D. W. (1970). Determining Sample Size for Research Activities. *Educational and Psychological Measurement,* 3(2), 607-610

Lewis, A. (1998). *The Psychology of Taxation.* Oxford, Martin Robertson

Marti, L. O. (2014). Taxpayers' attitudes and tax compliance behaviour in Kenya. *African Journal of Business & Management,* (34)1, 112-122.

Musau, N. (2015). *Determinants of Tax Compliance Among Small and Medium Enterprises in Kenya*: A case of Nairobi county. University of Nairobi, Kenya.

Murphy, K., & Harris, N. (2013). Shaming, shame and recidivism: A test of re integrative shaming theory in the white-collar crime context. *British Journal of Criminology.* 47(2), 900-917.

Nyamwanza, T., Marhiki, S., Mapetere, D., & Nyamwanza, L. (2014). An analysis of SME's attitudes and practices toward tax compliance in Zimbabwe. *Journal of SAGE open, 4(3), 240-251.*

Oyedele, A. E. (2009). "Unity Value of Internal Audit Report to Management in Nigeria" GIMPA Journal of Leadership Management and Administration, 4(1), 92-101

Randlane, K. (2012). Tax compliance ant tax attitudes: The case of Estonia. *Journal of Management and Change, 29(1), 89-103.*

Rose, A. M. & McGee, (2012). Attitudes toward tax evasion: A demographic study of South African attitudes on tax evasion. *Journal of Economics and Economics Education Research, 13*(3), 678-704.

Richardson, G. (2006). Determinants of tax evasion: A cross country investigation. *Journal of International Accounting, Auditing and Taxation, 15*(2), 150-169.

Small and Medium Enterprises Development Agency of Nigeria (2007). *National Policy on Micro, Small and Medium Enterprises.* Federal Republic of Nigeria, SMEDAN, Abuja, Nigeria.

Torgler, B. (2015). Theory and empirical analysis of tax compliance. *University of Basel Journal, 21*(3), 335-417.

Torgler, B. & Murphy, (2014). What do we know about tax fraud? An overview of recent developments. *Social Research, 75*(4), 1239-1245.

Wahlund, R. (1992). Tax changes and economic behavior: the case of tax evasion. *Journal of Psychology, 13*(4), 450-401.