

Tax Compliance among Small and Micro Enterprises: A Case Study of Small and Microenterprises in Abuja, Nigeria

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Abstract

Aim: The purpose of this study was to investigate the compliance of tax by among small and micro enterprises in Abuja, Nigeria.

Methods: The study utilized a descriptive survey research design utilizing quantitative and qualitative approaches. The target population to be selected was 540 TOT registered SME tax payers within the Abuja city central business district (CBD) dealing with Information Communication Technology products. The present study adopted a stratified random sampling technique to proportionately select a sample of 54 SMEs from the target population of 540 SMEs.

Results: Tax compliance was strongly correlated with taxpayers' attitudes (Pearson correlation coefficient = 0.595), tax payers understanding of the tax structure (Pearson correlation coefficient = 0.465), cost of compliance (Pearson correlation coefficient = 0.607) and audits & penalties (Pearson correlation coefficient = 0.609).

Conclusion: There exist less tax compliance among small and micro enterprises in Abuja CBD due to less information about taxation and importance of paying taxes.

Recommendation: The study recommended the government to increase civic education about taxation and importance of paying taxes in schools and colleges so as to foster tax compliant citizens. The study also recommended further research to be done on the implications of increased regional trade by SMEs on tax compliance.

Keywords: *Tax compliance, tax payers, tax structure.*

1.0 INTRODUCTION

1.1 Background of the Study

Revenue collection is an important determinant of the economy of any country (Malima, 2013). The adequacy of government revenues allows the government to support its operations ranging from administrative activities, infrastructure constructions and service provision. The study by Ebeke (2010) commented on the importance of developing countries to adequately manage its sources of revenue to enhance the speed of developments. This is because sufficient revenue decreases the degree of dependence of the government to donors for its developments (Knack, 2001). It also offers the government with the ability to make different developmental decisions (Lubua, 2014). Taxation is often the most important source of state revenue. However, many developing countries lack effective tax administration structures and processes. Technological innovations have not filtered through to the daily working reality of tax officials. Paperwork and loose leaf systems still dominate tax administration and prevent more effective tax processes. As a consequence, some developing countries capture as little as 40% of their tax potential (Bahl & Martinez-Vazquez, 2007).

Economic theories of tax compliance are also referred to as deterrence theory. According to Trivedi and Shehata (2015), economic theories suggest that taxpayers make calculations of the economic consequences of different compliant alternative, such as whether or not to evade tax; the probability of detection and consequences thereof, and choose the alternative which maximizes their expected after tax return/profit (possibly after adjustment for the desired level of risk). The theories suggest that taxpayers are utility maximizers hence; economic theories emphasize increased audits and penalties as a solution to compliance problems. Economic based studies suggest that taxpayers' behaviour is influenced by economic motives such as profit maximization and probability of detection (Trivedi et al., 2015), underreporting as well as business income taxpayers operating in informal economy.

Psychology theories of tax compliance assume that psychological factors including moral and ethical concerns are also important to taxpayers and so taxpayers may comply even where the risk of audit is low. Psychology theories de-emphasize audits and penalties and instead focus on changing individual attitudes towards tax system. Trivedi *et al.* (2015) concluded that some taxpayers' behavior may follow economic theories while others may follow the psychological theories and a mixture of the two is also possible. Jayawardane and Low (2016) advocates dividing compliance into categories in considering definitions of tax compliance. These categories are administrative compliance and technical compliance where the administrative compliance refers to complying with administrative rules of lodging and paying otherwise referred to as reporting compliance, procedural compliance or regulatory compliance. Technical compliance refer to complying with technical requirements of the tax laws in calculating taxes or provisions of the tax laws in paying the share of the tax.

There are varied reasons wherever there is high non-compliance among taxpayers but they can basically be divided into two; economic and behavioral. Weber (2010) argues that the assumption of risk aversion that underlies economic rationality as propounded by Sandmo (2012) cannot explain all the compliance behaviours of taxpayers. Social and psychological deterrence proponents of tax compliance models argue that decision concerning tax compliance is more than just a cost-benefit calculation but other factors like morality, characteristics of the taxpayer and

perceptions of fairness of tax systems among other factors play a part in understanding of tax compliance decisions (Jayawardane et al., 2016). This models moves away from the economic self-interest that had been outlined by Sandmo *et al.* (2012) which hold that people are motivated entirely by economic welfare where they calculate all associated risks and opportunities and disobey the law when they anticipate the probability of being got are lower than the economic gain that would result from non-compliance (Sandmo *et al.*, 2012). Sandmo *et al.* (2012) developed a theory known as A-S models to explain tax compliance behaviour. This theory was derived from Becker's (1968) deterrence theory. The general conclusion of the theory is that compliance depends largely on tax audit and penalty. However, the theory had been criticized for paying more emphasis on economic factors and ignoring completely social and psychological perspective of tax noncompliance (Fischer, 2013).

1.2 Statement of the Problem

The government's ability to collect taxes depends on peoples' and businesses' willingness to pay them. Understanding how taxpayers think about and experience taxation may provide an essential diagnostic of the political realities for reform and for the implementation of effective policy and administrative measures. Measures to enhance tax compliance and build a taxpaying culture need to be tailored for the different segments of taxpayers and the specific constraints they face (Kari, 2012). There are certain unique challenges that tax administrators all over the world face in an effort to net the informal sector into the tax bracket. For example, since a majority of the players in this sector are unlicensed and/or unregistered, the revenue potential of the sector remains hazy. Tax administrators face the challenge of creating systems that will enhance compliance at the lowest cost to the tax payer (McKerchar & Evans, 2009). The burden of tax compliance to the SMEs has been said to be higher than that of larger companies when one considers the percentage of tax paid to turnover. (Institute of Economic Affairs, 2011) Smaller firms are significantly weighed down by their limited administrative resources, uncertain cash flows, and limited understanding of their obligations and rights regarding tax matters.

1.3 General Objective

The general objective of the study was to investigate the compliance of tax by among small and micro enterprises in Abuja, Nigeria.

1.3.2 Specific Objectives

The specific objectives that guided this study were; 1. To establish the effect of tax payers' attitude on tax compliance among small and micro enterprises in Abuja, Nigeria. 2. To establish the effect of tax payers' understanding on tax compliance among small and micro enterprises in Abuja, Nigeria. 3. To establish the effect of tax payers' cost of compliance on tax compliance among small and micro enterprises in Abuja, Nigeria.

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Deterrence model theory

This model assumes that behavior is influenced by factors such as, tax rate (which determine the benefit of tax evasion) and penalties for fraud and probability of detection (which determine costs). The economic deterrence model in its basic form views the individual taxpayer as a rational

economic agent, who assesses the costs (determined by probability of detection and penalties for fraud) and benefits (determined by tax rate) of evading taxes, and thus chooses not to pay, if the benefit of non-compliance outweighs the costs (McKerchar et al., 2009). The model thus reduces the problem to that of rational decision making under uncertainty whereby tax evasion either pays off in terms of lower taxes or taxpayer is subjected to sanctions. The implication of this assumption is that when there are low audit probabilities and low penalties, the tendency for evasion will be higher, while if there is a high tendency for detection and penalties are severe, fewer people will evade taxes (Slemrod, 2012). It is on the basis of this assumption that the model advocates stricter audit and heavy penalties for offenders as a basis for reducing non-compliance. Deterrence can be achieved through a number of approaches, punitive and persuasive. That is, deterrence may take on the form of increasing the probability of detection, increasing the tax rate or by the imposition of tougher penalties. Alternatively, it may take on the form of better education, increased advertising/publicity and incentives. The general contribution of this theory to the study was that compliance depends largely on tax audit and penalty. The implication of the theory is that taxpayers will pay taxes only because of the fear of sanctions.

2.1.2 Prospect theory

Prospect theory assumes that people make decisions under uncertainty on the basis of their individual value functions and in some instances, select alternatives which are inconsistent with maximizing the expected utilities of their choices. Prospect theory suggests a taxpayer is willing to incur a risk for the purpose of avoiding filing and having to pay tax, which he or she would be unwilling to incur for the purpose of obtaining a larger refund. The taxpayer chooses the option that is safe and certain to standard deduction (Kirchler, Rodler, Holzl, & Meier, 2013). Most individuals will prefer a certain outcome to a gamble even if the gamble has a higher mathematical expectation because people are generally risk averse. So, an event with low probability of occurring is over-weighted compared to a probable event of high probability” and that according to prospect theory, the taxpayer chooses the option which is safe and certain, to the standard deduction.

2.1.3 Theory of reasoned action

A common proposition of the theory of reasoned action is that individuals form their behavioral intentions on the bases of two basic determinants: personal factors and social influences. In the context of taxpayer behavior, personal norms reflect the taxpayers’ values, tax ethics, tax mentality, and tax morale, all of which influences attitudes towards taxes/compliance. Bello and Danjuma (2014) contended that engagement in acts of evasion may induce feelings of anxiety, guilt or negative self-image in taxpayers. A contention that is in line with the findings of Taylor (2011), who observed that the (internal) fear of experiencing feelings of guilt, along with the risk of social stigmatization have greater deterrent effect than such external factors as the risk of detection and punishment. The fear of social stigmatization as a possible deterrent factor is a confirmation of the belief that tax compliance takes place within a social context (Kogler et al., 2013) and the existence of the social norms effect on compliance behavior. Social norm, according to Alm, Bernasconi, Laury, Lee, and Wallace (2017) is a pattern of behavior that is judged in a similar way by others and that therefore is sustained in part by social approval or disapproval. This affects tax compliance since it is common for people to discuss their tax affairs with friends, family members, and at their jobs (Bello et al., 2014). It therefore follows that an individual is most likely

to comply with tax requirements if he believes members of his reference groups also comply, just as he is also likely not to comply if he believes that members of his referent group do not comply. The theory was relevant to this study as it informed on the taxpayer's morals and ethics. The theory suggested that a taxpayer may comply even when the probability of detection was low. The theory put emphasis on changing individual attitudes towards tax systems

2.2 Empirical Review

Luttmer and Singhal (2014) investigated taxpayers' attitudes, behavior, and perception of fairness with respect to taxation using data drawn from a survey among German employees. It is shown that there is a large gulf between subjects' attitudes towards taxation and their behavior. Although most subjects profess that their own taxation is either too high or far too high, up to 60 percent of them judge tax burdens to be fair which exceed actual taxation by far. Moreover, the great majority of those subjects opting for a proportional tax scale implicitly state tax burdens which are consistent with a progressive tax scale only. Finally, we find overwhelming rejection of one of the core elements of the German income tax system, namely spouse tax splitting. Jaidi, Noordin, and Kassim (2013) attempted to explore the taxpayers' acceptability towards a self-assessment system and also to investigate taxpayers' perception on the present tax system. A survey was undertaken in Kota Kinabalu, Sabah, involving 195 individual salaried taxpayers. Results of the study revealed that the Malaysian taxpayers are satisfied with the present tax system. They see it as a simple and easy system. However, the study also revealed that the taxpayers welcome the change from the present system to the self-assessment system. They perceive that they are ready for it. Despite the taxpayers' readiness toward a self-assessment system, most of the taxpayers did not know their responsibility under the new system. Moreover they are unable to compute their own tax. However, most of them are interested in learning more about the Malaysian Income Tax System if they have the opportunity to do so. The taxpayers surveyed had a poor understanding of the tax laws.

Mwakabungu (2016) sought to establish the effect of taxpayer education on voluntary tax compliance, among Small and Micro-Enterprises (SMEs) in Mwanza City-Tanzania. Specifically, the study establishes the level of taxpayer education among SMEs, the level of voluntary tax compliance among the SMEs and the effect of taxpayer understanding on the level of voluntary tax compliance, among entrepreneurs in Mwanza City. A cross-sectional descriptive research design was used. Both primary and secondary data were collected using a questionnaire. 85% of the respondents, admitted to have gained understanding on the basic tax laws and procedures, while 15% showed that there was no improvement in understanding the basic tax laws. 78.7% of the respondents agreed that through the taxpayer education, they had been able to understand and become aware of their taxpayer rights and obligations. 21.3% of the respondents stated that taxpayer education had not been able to help them in understanding and becoming aware of their tax rights and obligations. 83% of the respondents agreed that taxpayer education helped them in understanding clearly the procedure of paying taxes, while 17% claimed that despite the tax education they received, they did not understand clearly the procedure of paying taxes. Responses from the staff indicated that 80% of the returns were lodged timely, while the remaining 20% were not lodged within statutory periods and would attract penalties and fines for late filling. Of the returns lodged 67% declared accurate tax liability, while the remainder contained errors. Additional taxes were assessed through auditing. 78% of those who were required to pay taxes actually paid within the stipulated time frame according to the law, while the remaining 22% were

late in paying taxes, which necessitated the use of enforcement strategies. It is thus recommended that taxation should be taught at all levels of education, starting from primary schools upwards with an emphasis on promoting voluntary tax compliance.

Henderson, (1992) conducted a study on Criminal Liability Under the Internal Revenue Code. He found out that revenue carries out a programme of compliance interventions that aim to minimize the burden on the compliant taxpayer and tackle, in a thorough and effective way, the noncompliant taxpayer. This approach involves taking account of all the risks that apply to a taxpayer across all taxes and duties. Revenue priority is to recover any unpaid tax or duty along with interest and penalties as efficiently as possible. In some instances, taxpayers in a sector will be asked to “self-review” prior to receiving an audit notification. They are asked to review their returns, paying particular attention to certain areas of risk that Revenue has identified. Revenue treats any qualifying disclosures received as a result of self-review as “unprompted qualifying disclosures” with a significant reduction of penalties. Revenue Audit is carried out at the taxpayer’s place of business. The taxpayer (and agent) is expected to attend. Where there are a number of businesses or locations, the audit is undertaken at the principal place of business. As part of the audit process, Revenue may visit some or all of the locations where the business is carried on.

3.0 METHODOLOGY

The study utilized a descriptive survey research design utilizing quantitative and qualitative approaches. The target population to be selected was 540 TOT registered SME tax payers within the Abuja city central business district (CBD) dealing with Information Communication Technology products. The present study adopted a stratified random sampling technique to proportionately select a sample of 54 SMEs from the target population of 540 SMEs.

4.0 FINDINGS AND DISCUSSION

4.1 Demographic Characteristics

The respondents were told to indicate their number of years in operation. Majority (64%) of the respondents indicated that they had operated between 2 and 5 years, 22% of the respondents indicated they had operated between 1-2 years, 9% of the respondents indicated that they had operated between 5-10 years and 5% of the residents indicated that they had operated for more than 10 years. The respondents were also told to indicate their level of Annual Turnover in Naira. Majority 73% of the respondents indicated that their annual turnover was between 1,785,000 and 17,850,000 Naira, 18% of the respondents indicated that their annual turnover was less than 1,785,000 Naira while 9% of the respondents indicated that their annual turnover was above 17,850,000. The respondents were asked to indicate their number of employees. Majority 67% of the respondents indicated that they had between 10 and 50 employees, 22% of the respondents indicated that they had between 1 and 9 employees and 11% of the respondents indicated that they had more than 50% employees.

4.2 Descriptive Analysis for SME’s

4.2.1 Tax compliance

The study had one dependent variable (Tax compliance) and four predictor variables. Table 1 displays results of responses regarding tax compliance. Majority (82.3%) of the respondents indicated that timely filling of the tax returns was very poor. About 8.8% of the respondents felt

that keeping records accurately and using them to compile taxes payable was poor. About 84.5% of the respondents stated that payment of taxes on time was poor. This was supported by a mean score of 1.81 in a 5-point scale and a standard deviation of 0.99. This implied that tax compliance among the respondents was poor.

Table 1: Tax compliance statement

Statement	Very poor	Poor	Neutral	Good	Excellent	Mean	Std Dev
Timely filling of tax returns	46.7%	35.6%	6.7%	8.9%	2.2%	1.84	1.04
Keeping records accurately and using them to compile taxes payable	64.4%	24.4%	2.2%	6.7%	2.2%	1.58	0.99
Payment of taxes on time	26.7%	57.8%	8.9%	4.4%	2.2%	1.98	0.87
Average						1.81	0.99

4.2.2 Tax payers' attitudes

The first objective of the study was to establish the effect of tax payers' attitude on tax compliance. Results on table 2 show that 80% of the respondents agreed that Nigeria's tax system was not favorable to small businesses, 80% of the respondents indicated that the Nigeria's tax system was not fair compared to the tax systems of other countries they were aware about, 75.6% of the respondents indicated that the Nigeria's tax revenue was not put to good use by the government while 66.6% of the respondents agreed that it was not wrong to evade tax if other people were also avoiding tax. These findings were supported by a mean of 4.01 and a standard deviation of 1.13. This suggested that a significant number of the tax payers perceived the Nigerian tax system as unfair and thus evading payment was acceptable.

Table 2: Tax payers' attitudes

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std Dev
Nigeria's tax system is not favorable to small businesses.	0.0%	8.9%	11.1%	26.7%	53.3%	4.24	0.98
Nigeria's tax system is not fair compared to the tax systems of other countries I am aware about.	2.2%	8.9%	8.9%	31.1%	48.9%	4.16	1.07
Nigeria's tax revenue is not put to good use by the government.	4.4%	11.1%	8.9%	35.6%	40.0%	3.96	1.17
It is not wrong to evade tax if other people are also avoiding tax	4.4%	15.6%	13.3%	33.3%	33.3%	3.76	1.21
Average						4.01	1.13

4.2.2.1 Opinion on non-tax payers

The respondents were told to express their opinion on the action of people who do not pay their business income. Majority (67%) of the respondents indicated that it was wrong but understandable, 22% of the respondents indicated that it was not wrong at all and 11% of the respondents indicated that it was wrong and punishable. This implied that the respondents supported the tax evasion is not wrong at all.

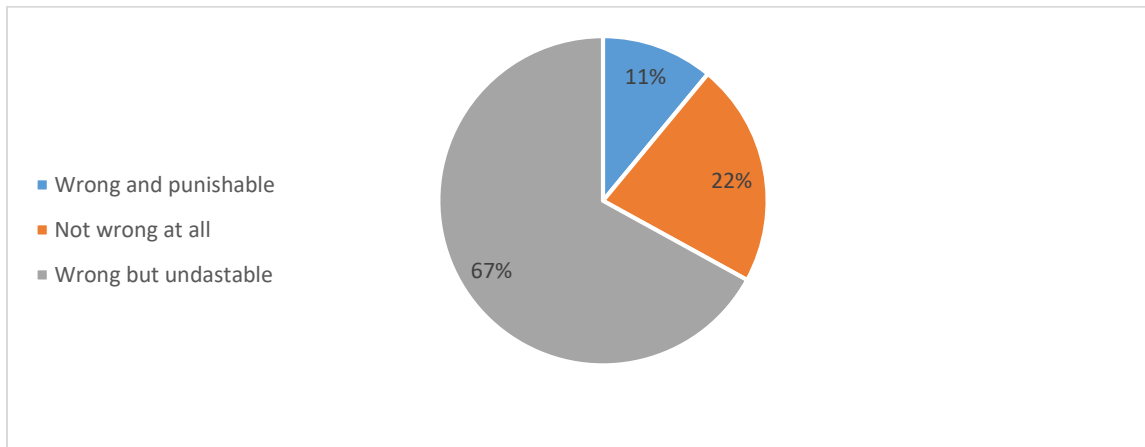


Figure 1: Tax compliance

4.2.3 Tax payers' understanding

4.2.3.1 Knowledge about tax compliance

The respondents were told to indicate how they obtained knowledge about tax compliance. Majority (44%) of the respondents indicated that they obtained knowledge about tax compliance from Federal Inland Revenue Service (FIRS) website, 31% of the respondents indicated that they obtained the knowledge for tax consultants, 7% of the respondents indicated that they obtained the knowledge about tax compliance from friends and newspapers, 5% of the respondents obtained the knowledge from FIRS' seminars, 4% of the respondents obtained the knowledge from Radio while 2% of the respondents obtained knowledge about tax compliance from college syllabus. This implied that the respondents had knowledge about tax compliance thus reliable for the study.

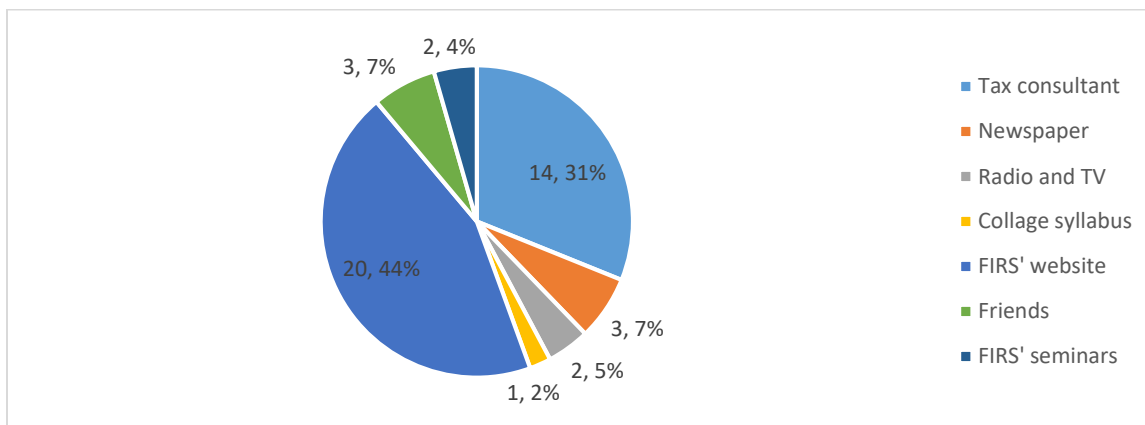


Figure 2: Knowledge about tax compliance

4.2.3.2 Understanding of tax compliance

The second objective of the study was to establish the effect of tax payers' understanding on tax compliance. Results in table 3 indicate that majority (93.3%) of the respondents assented that they did not understand the Nigeria's tax structure very well and that constrained them to comply in tax payments, 91.1% of the respondents indicated that if FIRS would make the understanding of the tax code clearer, they would pay their taxes more willingly, 84.4% of the respondent agreed that the information on tax law was not readily available to SME practitioners, while 86.7% of the respondents indicated that the tax rules were too complicated to understand. These results were supported by a mean of 3.9 and a standard deviation of 0.84. This implied that the tax payers have no understanding of the Nigeria taxation system.

Table 3: Tax payers' understanding

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std Dev
I do not understand Nigeria's tax structure very well and that constrains me to comply in tax payments.	0.0%	0.0%	6.7%	62.2%	31.1%	4.24	0.57
If FIRS would make the understanding of the tax code clearer, I would pay my taxes more willingly.	2.2%	6.7%	0.0%	71.1%	20.0%	4.0	0.83
Information on tax law is not readily available to SME practitioners.	0.0%	15.6%	0.0%	73.3%	11.1%	3.8	0.84
Tax rules are too complicated to understand.	2.2%	11.1%	0.0%	77.8%	8.9%	3.8	0.84
Average						3.9	0.84

4.2.4 Tax payers' cost of compliance

Table 4 presents results of responses that addressed the third objective of the study. Results indicated that 93.3% of the study participants assented that complying to the SME tax regime posed a significant cost to their business, all the respondents (100%) indicated that the cost of complying with taxes interrupted with the cash flow of their business, 91.1% of the study participants agreed that the cost of compliance made them to think of evading or avoiding tax payments, 80% of the study participants indicated that the cost of hiring an accountant to compute tax posed a significant cost to their business and 91.2% of the respondents agreed that the cost of maintaining books of accounts posed a significant cost to their business. These findings show that most of the tax payers perceived the tax system to be oppressive in terms of cost and they agreed with most of the statements as supported by a mean score of 4.16 and standard deviation of 0.86.

These results allude to the fact that the costs of tax compliance discourage the tax payers to comply with tax payment.

Table 4: Tax payers' cost of compliance

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std Dev
Complying with the SME tax regime poses a significant cost to my business.	0.0%	6.7%	0.0%	71.1%	22.2%	4.09	0.7
The cost of complying with taxes interrupts with the cash flow of my business.	0.0%	0.0%	0.0%	84.4%	15.6%	4.16	0.37
Cost of compliance makes me to think of evading or avoiding tax payments.	2.2%	6.7%	0.0%	82.2%	8.9%	3.89	0.75
Cost of hiring an accountant to compute tax poses a significant cost to my business.	2.2%	11.1%	6.7%	20.0%	60.0%	4.24	1.13
Cost of maintaining books of accounts poses a significant cost to my business.	2.2%	0.0%	6.7%	15.6%	75.6%	4.62	0.81
Average						4.16	0.86

4.2.5 Tax payers' audits and penalties

Table 5 presents results of responses that addressed the fourth objective of the study. Results indicated that 82.2% of the respondents agreed that the fear of enforcement measures such as mock purchases had made their business strive to comply with tax obligations, 88.9% of the respondents agreed that the fear of enforcement measures such as raids on premises had made their business strive to comply with tax obligations, 71.1% of the respondents indicated that the threat of penalties had made their business strive to comply with tax obligations while 88.9% of the respondents indicated that the fear of enforcement measures such as audits and penalties had made their business strive to comply with tax obligations. The findings were supported by a mean score of 4.20 and standard deviation of 1.03 which implied that majority of the respondents agreed with the statements.

Table 5: Tax payers' audits and penalties

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Mean	Std Dev
Fear of Enforcement measures such as mock purchases, have made my business strive to comply with tax obligations	2.2%	8.9%	6.7%	28.9%	53.3%	4.22	1.06
Fear of Enforcement measures such as raids on premises have made my business strive to comply with tax obligations.	2.2%	4.4%	4.4%	33.3%	55.6%	4.36	0.93
The threat of penalties have made my business strive to comply with tax obligations	6.7%	13.3%	8.9%	31.1%	40.0%	3.84	1.28
Fear of Enforcement measures such as audits and penalties have made my business strive to comply with tax obligations	2.2%	6.7%	2.2%	42.2%	46.7%	4.24	0.96
Average						4.20	1.03

4.3 Inferential Statistical Analysis

4.3.1 Pearson's bivariate correlation

Bivariate correlation indicates the relationship between two variables. It ranges from 1 to -1 where 1 indicates a strong positive correlation and a -1 indicates a strong negative correlation and a zero indicates lack of relationship between the two variables. The closer the correlation tends to zero the weaker it becomes. The correlation between tax compliance and tax payers attitude was strong and positive (0.595) and significant (0.000). This shows that a change in tax payers' attitude and tax compliance changed in the same direction (0.595). However the relationship is statistically significant at a p value of 0.000. The correlation between tax compliance and tax payers understanding, tax payers cost of compliance, and tax payers audits and penalties was 0.465, 0.607 and 0.609 respectively and all had statistically significant relationships.

Table 6: Correlations variable tax compliance attitude understanding cost of compliance audits and penalties

Variable		Tax compliance	Attitude	Under-standing	Cost of compliance	Audits and penalties
Tax compliance	Pearson Correlation	1				
	Sig. (2-tailed)					
Attitude	Pearson Correlation	0.595	1			
	Sig. (2-tailed)	0.000				
Understanding	Pearson Correlation	0.465	0.471	1		
	Sig. (2-tailed)	0.001	0.000			
Cost of compliance	Pearson Correlation	0.607	0.572	0.441	1	
	Sig. (2-tailed)	0.000	0.000	0.000		
Audits and penalties	Pearson Correlation	0.609	0.609	0.527	0.578	1
	Sig. (2-tailed)	0.000	0.000	0.000	0.000	

4.3.2 Regression analysis

The study employed multiple linear regression analysis in testing the influence of the predictor variables on the dependent variable. Table 7 shows the results for testing the robustness of the regression model. The results indicate that the regression model best fits in explain tax compliance. This is supported by a composite strong and positive correlation of 0.749 and a coefficient of determination (R Square) of 0.562. This means that the predictor variables of the study can explain at least 56.2% of the variation in tax compliance. The standard error of estimate (0.38743) is negligible which shows that the sample is close representative of the study population.

Table 7: Regression model fitness

Indicator	Coefficient
R Std.	0.749
R Square	0.562
Error of the Estimate	0.38743

Table 8 shows the results on analysis of variance (ANOVA). Table 9 revealed that the combined effect of the predictor variables is significant in explaining tax compliance with an F statistic of 12.809 and a p value of 0.000.

Table 8: Analysis of Variance (ANOVA)

Indicator	Sum of squares	Df	Mean square	F	Sig.
Regression	7.691	4	1.923	12.809	0.000
Residual	6.004	40	0.15		
Total	13.695	44			

Table 9 displays the regression coefficients of the independent variables. The results reveal that tax payers attitude, tax payers understanding, tax payers cost of compliance, and tax payers audits and penalties are positively and statistically significant in explaining tax compliance. The findings imply that all the independent variables were strong determinants of tax compliance. The beta coefficient indicates the direction and degree of influence of the predictor variable on the dependent variable. For example, a beta coefficient of 1.185 of tax payers' attitude means that a unit change in tax payers' attitude causes or leads to a 1.185 positive unit change in tax compliance.

Table 9: Regression coefficients

Variable	Beta	Std. Error	T	Sig.
(Constant)	0.852	0.233	3.654	0.001
Attitude	1.185	0.267	4.438	0.000
Understanding	1.172	0.145	8.083	0.000
Cost of compliance	1.205	0.234	5.149	0.000
Audits and penalties	0.296	0.073	4.069	0.000

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusion

From the study, it has been found that the Nigerian SME tax payer is generally non-compliant in meeting their tax obligations. The attitudes of SME tax payers towards tax payment have been found to be negative. The SME tax payer lacks sufficient knowledge about their obligations and rights. Audits and penalties are effective in enhancing tax compliance.

5.2 Recommendations

Policy recommendations that may be derived from this study include: There is need for the government to be more accountable with the use of tax money. The study shows that poor attitudes towards compliance to tax structures may result when the government is perceived to be corrupt and inefficient. There is need for the FIRS to increase on its outreach programmes and teach about the need for being tax compliant. This may involve schools, colleges, and universities. From the findings of this study, penalties and increasing possibilities of audit have been found to increase compliance. FIRS should institute such measures. From the study, a number of study recommendations can be derived. First, it would be important to conduct a similar study focusing on non-IT entrepreneurs. As more and more SMEs get engaged in regional trade, it would be

important to investigate whether such a move in the SME patterns in East Africa has any effect on tax compliance.

Sometimes tax compliance can be enhanced when the government insists on tax compliance for SMEs engaged in government funded activities. Such SMEs include those that are beneficiary of constituency development fund (CDF) tenders and Uwezo fund beneficiaries. It would be important to investigate whether such provisions to SMEs increase their compliance to tax obligations.

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