

# **TAX REFORM, DIGITALIZATION, AND TAX COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES IN NIGERIA: A CASE STUDY OF ONDO STATE**

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## **ABSTRACT**

Effective tax compliance is crucial for improved economic growth and development. The increasing focus on taxes has led to tax reform and digitalization throughout the Nigerian system. This study, therefore, examined the effect of tax reform proxied by value-added tax reform, online tax payment platforms (OTPP), integrated tax administration systems (ITAS), and digitalization on tax compliance among Small and Medium Enterprises in Ondo State, Nigeria. This study employed the survey research design using primary data. The study population is comprised of seven thousand eight hundred ninety-nine (7899) registered SMEs across the eighteen (18) local government areas in Ondo state as of 2023 (SMEDAN, 2023). Questionnaires were administered to a sample of three hundred and eighty SMEs obtained using the Taro Yamane Formula. The demographic information was analyzed with frequency distribution, and the ordinary least square regression method was used to examine the relationship between the variables and tax compliance using E-view 13. The findings revealed that the variables of value-added tax reform, online tax payment platforms (OTPP), and integrated tax administration systems (ITAS) were statistically significant at 1%. The study, therefore, concluded that value-added tax reform, online tax payment platforms, and integrated tax administration systems positively and significantly affect the tax compliance of SMEs in Ondo State. The study recommends that for improved tax compliance among SMEs in Ondo State, SME Managers should incorporate value-added tax reform into their business strategy since it impacts their businesses and benefits tax compliance. Also, the government should further improve and expand online tax payment services to enhance tax compliance. Similarly, at all levels, the government should invest further in improving and expanding the integrated tax administration system through the relevant tax authorities.

**Keywords:** Value Added Tax Reform, Digitalization, Online Tax Payment Platform, Integrated Tax Payment System, Tax Compliance.

**JEL Classification:** H21; H24; M48.

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## **1.0 INTRODUCTION**

Tax compliance is a critical global issue that has an impact on governments and economies all over the world. Ensuring complete tax compliance is a global challenge with significant ramifications for revenue generation. The Organization for Economic Co-operation and

Development (OECD) created the Global Income Statistics Database, which shows that non-compliance will cost countries approximately \$427 billion in lost tax income by 2022. This startling statistic highlights the scope of the issue and its implications for global economic stability and public services. Likewise, the International Monetary Fund (IMF) projects that multinational firms lose between \$100 billion and \$240 billion in income yearly due to aggressive tax planning (Bojuwon et al., 2022; Amon et al., 2022). Titailla and Fidiana (2022) posited that robust measures and international cooperation are required to combat tax compliance and ensure a fair and sustainable fiscal environment for all nations. These statistics, supported by evidence, emphasize the urgency to address tax compliance issues on a global scale.

Tax compliance may give rise to several issues. The tax system's intrinsic complexity is one regular issue. Since tax regulations are frequently complex and dynamic, it can be difficult for taxpayers to comprehend and correctly file their taxes. Errors, misinterpretations, and inadvertent non-compliance may result from this complexity. Also, loopholes and unclear regulations can facilitate tax evasion and avoidance, undermining efforts to comply with tax laws (Efuntade & Efuntade, 2023). Limited resources and ineffective enforcement by tax authorities also contribute to the problem. Insufficient personnel, outdated technology, and inadequate training can hamper the ability of tax agencies to detect and address non-compliance effectively. The high cost of tax compliance, including the time and effort required to prepare and file tax returns, can be burdensome for individuals and businesses (Bojuwon et al., 2022), which may lead to frustration and even a temptation to engage in non-compliant behavior.

The global nature of business transactions and the increasing complexity of international tax rules pose additional challenges to tax compliance. According to Oluyombo and Olayinka (2018), tax authorities face challenges in ensuring compliance due to the manipulation of earnings and reduction of tax liabilities through cross-border transactions, transfer pricing, and offshore tax havens. The aforementioned tax compliance issues underscore the need to simplify tax policies and enhance enforcement procedures and taxpayer education to foster a voluntary compliance culture. The digitalization of tax policies may simplify tax policies and compliance procedures. Digital tax payment portals can simplify tax payments and lessen the administrative burden on taxpayers by providing an easy-to-use means to meet their duties (Ajetunmobi, 2022).

Amon et al. (2022) have also noted the benefits of digital tax payment systems, particularly in increasing transparency. They found that digital tax payments offer real-time tracking and verification of payments, thereby reducing the risk of fraud and boosting the confidence of both

taxpayers and tax authorities. Taxpayers also stand to gain from the convenience of online payments, eliminating the need for physical visits to tax offices. The ease and efficiency of online payments can also incentivize more individuals and businesses to comply with their tax obligations voluntarily. Furthermore, online systems empower tax authorities to collect and analyze data more effectively, enhancing their ability to monitor and enforce tax compliance. Tax compliance issues might best be addressed through digitalizing tax payments and introducing various tax reforms. Some of these tax reforms include the Value Added Tax (VAT) reform and the Integrated Tax Administration System (ITAS) reform. This study, therefore, investigates the effect of the online tax payments platform (OTPP), VAT reform, and ITAS adoption on tax compliance in Nigeria. Adopting digital platforms and tools can automate routine tasks, such as record-keeping, data entry, and calculations, thus minimizing the risk of human errors. Electronic filing systems and online portals can simplify the submission of tax returns, making it more convenient for taxpayers. Moreover, digitalization allows tax authorities to collect and analyze data more effectively, enabling them to identify discrepancies and potential non-compliance more efficiently. The extent to which digitisation and tax reform have influenced tax compliance among small and medium enterprises (SMEs) remains low, as there seem to be insufficient studies in this area. It is, however, worth noting that there seem to be more SMEs in Nigeria than the listed companies; hence, this category of companies cannot be left out when determining how the various tax reforms affect tax compliance in Nigeria.

The relationship between tax compliance, digitalization, and reform might not have been sufficiently explored in Nigeria, particularly among the SMEs. Many studies have examined the relationship between tax compliance and different tax reforms in Nigeria. Efuntade and Efuntade (2023) investigated tax compliance and non-oil revenue in Nigeria, while Bojuwon et al. (2022) investigated the effect of the Integrated Tax Administration System (ITAS) adoption on tax compliance. Also, Osolafia (2021), Francisca (2022), and Alawode and Adegbe (2022) provided information that could enhance tax compliance through effective tax reform strategies and digitization. This study, however, takes a departure from previous studies by investigating the effect of tax reforms and digitalization on tax compliance among SMEs in Ondo State, Nigeria, with emphasis on Value-added tax, Online tax payment platform, and the Integrated tax administration system holistically in Ondo state, and how these reforms have affected tax compliance of SMEs across the eighteen (18) local government areas of Ondo State, Nigeria.

The broad objective of the study is to investigate the tax reforms and digitalization on tax compliance among small and medium enterprises in Nigeria, using Ondo State as a case study. The specific objectives are to assess the effect of value-added tax reform on tax compliance in Nigeria, determine the effect of online tax payment platforms on tax compliance in Nigeria, and examine the effect of integrated tax administration system adoption on tax compliance in Nigeria. Based on this study's objectives, the following hypotheses were formulated and stated in null form:

H0<sub>1</sub>: There is no significant relationship between value-added tax reform and tax compliance among SMEs in Nigeria.

H0<sub>2</sub>: There is no significant relationship between online tax payment platforms and tax compliance among SMEs in Nigeria.

H0<sub>3</sub>: Integrated tax administration system adoption has no significant relationship with tax compliance among SMEs in Nigeria.

This study is restricted to SMEs in Ondo State as of December 2022 due to the large number of nationwide SMEs. Ondo State has virtually all the major SMEs in the country's southwestern region. Also, there seems to be a knowledge gap on the effect of digital tax payments and the various tax reforms on tax compliance among SMEs in Nigeria. The findings of this study would provide managers of SMEs with useful information on improving their tax compliance using the digital tax payment system and the various tax reforms. Also, tax authorities will be better informed on how these reforms can improve tax compliance and thus enhance tax revenues from the SMEs. Also, the government and policymakers would be better informed on the effect of the tax reforms on SMEs and how they can be protected from unfavorable tax reforms, especially for a growing economy like Nigeria. By identifying barriers and challenges to compliance and implementing targeted solutions, managers can raise compliance rates and revenue collection through taxpayers' voluntary compliance.

## **2.0. LITERATURE REVIEW**

This section discusses the concepts of tax compliance, digitalization, and the various tax reforms, namely the VAT reform, the Online Tax Payment Platform (OTPP), and the ITAS system.

### **2.1 Conceptual Review**

#### **Tax Compliance**

Tax compliance refers to the adherence of individuals and businesses to the rules, regulations, and laws governing taxation within a particular jurisdiction (Adekoya et al., 2023). It involves accurately reporting and paying taxes owed to the government on time. Successful tax compliance relies on understanding tax codes, maintaining proper financial records, and fulfilling obligations such as filing tax returns, making estimated payments, and disclosing relevant financial information (Azaka, 2022). Non-compliance can lead to penalties, fines, and legal consequences. Furthermore, tax compliance encompasses ethical and legal dimensions, reflecting a broader social contract wherein citizens contribute their fair share to fund public services, infrastructure, and government operations. Effective tax compliance systems strike a balance between simplifying tax procedures for taxpayers while ensuring adequate revenue collection for the government's functioning (Oluyombo & Olayinka, 2018).

### **Digitalization**

Tax digitalization is a tool of tax administration, but it has been given a special status because of its vital role in ensuring efficient and effective tax administration. Tax digitalization increases transparency in tax administration, reduces compliance and administrative costs, simplifies tax compliance and administration processes, and enhances tax compliance (Bojuwon et al., 2022). Tax digitalization is the comprehensive integration of digital technologies and tools into a country's tax administration and collection processes. This transformative shift aims to enhance the efficiency, accuracy, transparency, and accessibility of tax-related activities. Tax authorities can streamline tax compliance, minimize errors, and reduce tax evasion by adopting digital platforms, electronic filing systems, and data analytics. Additionally, digitalization facilitates the real-time exchange of information between taxpayers and authorities, enabling quicker responses to inquiries and better management of resources (Audu & Ishola, 2021). Augustine (2023) noted that tax digitalization is important in reforming property tax administration in Nigeria and Africa. Despite the important roles digitalization plays in tax administration, it should not be taken as a replacement for a sound tax policy, tax laws, and competent and honest tax administration.

The role of political leadership in reforming a tax system and enhancing tax compliance is also valuable. While the benefits of tax digitalization are significant, challenges such as data security, infrastructure readiness, and the digital divide must be carefully addressed to ensure equitable access and effective implementation for all stakeholders, including individuals, businesses, and government entities (Ajetunmobi, 2022). It is therefore considered a rational

decision to study the impact of tax digitalization on tax compliance alongside other variables, which serves as the basis of the tax digitalization itself (Amon et al., 2022).

### **Tax Reform**

Tax reform is the comprehensive restructuring of a country's taxation system to achieve various economic and social objectives. It typically involves changes in tax rates, tax bases, exemptions, deductions, and overall tax policies. The primary goal of tax reform is to create a fair, efficient, and transparent tax system that supports economic growth, reduces inequalities, and ensures fiscal sustainability (Kassaw, 2023). These reforms may involve simplifying the tax code, broadening the tax base, and adjusting tax rates to better align with a nation's economic priorities. A successful tax reform program can result in lower tax evasion, greater government revenue, better economic performance overall, and a fairer distribution of taxes across various income groups (Ajetunmobi, 2022).

There are often trade-offs and difficulties with tax reform initiatives. Modifying tax rates is one of the main elements of tax reform. Changes in income tax rates, corporation tax rates, and consumption tax rates such as sales tax or value-added tax (VAT) may be necessary to achieve this. The aim is to strike a balance between generating sufficient government revenue and maintaining an environment conducive to business activity and investment (Udezo & Onuora, 2021). Lowering tax rates can incentivize economic growth by encouraging spending, investment, and entrepreneurship, while higher rates may be necessary to fund essential public services and social programs.

### **Value Added Tax Reform**

Value Added Tax (VAT) reform fundamentally restores a country's indirect taxation system to enhance economic efficiency, revenue generation, and equity. Such reforms typically involve adjusting the VAT rates, expanding the tax base, and streamlining the administrative procedures (Geringer, 2023). VAT reforms create a fairer and more sustainable tax system that minimizes distortions, encourages investment and consumption, and reduces the burden on lower-income households. Successful VAT reform necessitates thorough analysis, stakeholder engagement, and transparent communication to ensure its positive impact on economic growth, fiscal stability, and social welfare. VAT reform has gained prominence in recent years as governments seek innovative ways to boost revenue and address fiscal challenges. Digitalization might have added complexity to VAT collection, prompting discussions on cross-border taxation and international cooperation. VAT reform reflects a dynamic process

that reflects evolving economic circumstances and policy priorities, ultimately contributing to more effective and equitable fiscal management (Udezo & Onuora, 2021).

### **Online Tax Payment Platform**

An online tax payment platform is a digital system that enables taxpayers to pay their taxes electronically through the Internet, and it represents a transformative advancement in modern taxation systems, offering a seamless and efficient channel for individuals and businesses to fulfill their tax obligations. By leveraging the power of digital technology and secure online interfaces, this platform simplifies the traditionally complex and time-consuming tax payment process (Oloyede et al., 2023). Taxpayers can now access their tax accounts, calculate liabilities, and submit payments conveniently from the comfort of their homes or workplaces, reducing the need for physical visits to tax offices. Furthermore, the platform's integration with various financial institutions enables real-time verification and processing of transactions, minimizing errors and delays. Such a platform enhances overall tax compliance rates and improves government revenue collection and a more transparent, accountable, and technologically advanced tax administration system (Mustapha et al., 2021). The online tax payment platform stands as a symbol of the evolution towards more modern, accessible, and citizen-centric public services, positioning taxation systems at the forefront of technological progress.

The platform is crucial in streamlining government operations and reducing administrative burdens. Tax authorities can allocate resources more efficiently toward value-added tasks such as taxpayer support, enforcement, and policy development by automating payment processing and data management.

### **Integrated Tax Administration System**

Integrated Tax Administration System (ITAS) is a comprehensive and advanced technological solution governments employ to streamline and enhance the management of tax-related processes and activities (Audu & Ishola, 2021). By consolidating various tax functions into a single integrated platform, ITAS facilitates efficient tax collection, assessment, compliance, and reporting. This integrated approach enables tax authorities to gather and analyze data from multiple sources, automates routine tasks, minimizes duplication of efforts, and improves accuracy in tax calculations and revenue forecasting. Additionally, ITAS often includes online portals for taxpayers, making it easier for individuals and businesses to file their taxes, access information, and communicate with tax authorities (Bojuwon et al., 2022). Implementing ITAS

represents a shift towards a more transparent, user-friendly, and effective tax administration, fostering better compliance, reducing tax evasion, and ultimately contributing to enhanced revenue generation for government coffers.

Integrated Tax Administration System (ITAS) enables real-time insights into taxpayer behavior, revenue trends, and economic indicators by centralizing tax-related data and harnessing advanced analytics and reporting tools. It supports data-driven decision-making for tax authorities. This data-driven approach equips governments with the ability to formulate targeted tax policies, identify potential areas of tax evasion or fraud, and respond swiftly to changing economic conditions (Oyedokun et al., 2018). The integration of ITAS fosters collaboration among different government departments, enabling a holistic view of taxpayer activities and financial transactions. This enhances the effectiveness of tax collection, promotes a more equitable distribution of tax burdens, and contributes to a fairer and more efficient taxation system overall. In addition to its operational and analytical benefits, ITAS significantly improves the taxpayer experience and contributes to a modernized, user-centric approach to taxation.

### **VAT Reform and Tax Compliance**

VAT reform can significantly impact tax compliance behavior through its effects on transparency, simplicity, and economic incentives. A well-designed VAT reform aimed at streamlining processes, reducing complexity, and minimizing loopholes can enhance tax compliance by fostering an environment of greater trust between taxpayers and tax authorities (Ojo & Shittu, 2023). It can also promote a sense of fairness and equity among taxpayers as it distributes the tax burden more evenly and transparently (Okeke & Saluadeen, 2021). An efficient VAT system can also align economic incentives for businesses and individuals to accurately report their transactions, as non-compliance becomes costlier or easily detectable. However, the success of such a relationship hinges on effective implementation, enforcement mechanisms, taxpayer education, and the overall socio-economic context, as these factors collectively shape the extent to which VAT reform influences tax compliance behaviors. Also, the relationship between VAT reform and tax compliance is not unidirectional, as compliance behavior can also influence the effectiveness of VAT reform.

### **Online Tax Payments Platform and Tax Compliance**

The online payment platform acts as a technology link, streamlining the payment and filing of taxes and eliminating the obstacles and friction that come with conventional approaches



(Oladele et al., 2020). It enhances convenience, effectiveness, and accountability, which positively impacts tax compliance. The availability of a user-friendly interface and real-time accessibility improves taxpayer involvement and promotes prompt and correct filings. Additionally, the platform's facilitation of transparency and traceability promotes a sense of accountability on both ends. Taxpayers are given the tools to understand their responsibilities, and tax authorities can monitor and audit more efficiently. With improved participation rates and revenue collection, this digital synergy ultimately enhances tax compliance and a more equitable distribution of fiscal responsibilities (Oladele et al., 2021). The advent of an Online Tax Payments Platform significantly reshapes the landscape of tax compliance by revolutionizing how taxpayers interact with their fiscal obligations. The online Tax Payments Platform is pivotal for nurturing a compliant and economically resilient society, contributing to sustainable development and equitable growth (Adekoya et al., 2023).

### **Integrated Tax Administration System and Tax Compliance**

An Integrated Tax Administration System (ITAS) represents a technological framework that streamlines and centralizes various tax-related processes within a country's revenue collection system. It encompasses taxpayer registration, return filing, payment processing, audit selection, and data analysis. The relationship between an ITAS and tax compliance is intricate and symbiotic (Bojuwon et al., 2022). A robust ITAS can significantly enhance tax compliance by simplifying procedures, reducing administrative burdens, and improving transparency. It provides taxpayers with user-friendly platforms for filing returns and making payments, reducing the likelihood of errors and making the process more convenient. Additionally, the data analytics capabilities of an ITAS enable tax authorities to identify potential non-compliance patterns and target enforcement efforts more effectively. Conversely, enhanced tax compliance through an ITAS contributes to a more efficient revenue collection process, bolstering the government's capacity to fund public services and development initiatives (Audu & Ishola, 2021).

## **2.2 Theoretical Framework: Economic Impact Theory**

The Economic Impact Theory was developed by Robert Solow in 1956. It is a foundational concept in economics that posits that various economic activities have wide-ranging effects on an economy, often extending beyond their initial scope. This theory underscores the interconnectedness of economic agents and sectors within a market system and the theory is most appropriate because it helps in informs policymakers, businesses and organizations about

the potential economic outcome of their decisions. An economic event or action can generate a ripple effect, triggering subsequent spending, production, and employment rounds. This phenomenon, known as the multiplier effect, amplifies the initial impact and creates a more extensive economic influence.

The economic impact theory has been pivotal in guiding policy decisions, especially in assessing the potential consequences of various fiscal and monetary interventions. In recent years, the economic impact theory has gained renewed attention in the context of global events. For instance, using the economic impact theory, Walmsley et al. (2022) analyzed the effects of the pandemic-related stimulus on the U.S. economy. They observed that direct financial assistance to households supported consumer spending, bolstered local businesses, and preserved jobs, showcasing the theory's practical relevance. This study adopts this theory to showcase the effect of digitalization and the various tax reforms of governments and tax authorities on taxpayers. Such effects often span beyond the intended immediate aim of such reforms.

### **2.3 Empirical Review**

Alawode and Adegbe (2022) investigated how Tax Justice affected taxpayer behavior and ensuing tax compliance. The study included both primary and secondary sources of data. They found a substantial positive association between tax justice and voluntary, revenue, and integrity compliance outcomes. Titailla and Fidiana (2022) also used meta-analysis to compile previous research findings about the factors influencing tax compliance in Indonesia. Data were gathered using international databases and publications approved by the Indonesian government. Unlike the conventional enforcement paradigm, their findings suggested that a penalty may not be the best way to address compliance issues. However, punishment alone may not be sufficient to account for compliance.

Haerani et al. (2023) investigated what tax practitioners understand by complying with tax laws. The study employs a phenomenal methodology in qualitative research, and its respondents are partners who are tax consultants with a combined fifteen years of expertise. The findings of the study revealed that both the tax officials, the courts resolving tax disputes, the tax consultants themselves, and the taxpayers must all comply with tax laws to improve tax compliance. Similarly, Adekoya et al. (2023) examined local government tax compliance, taxpayer voices, and property taxes using an explanatory research design. The study's results showed that the populace's ability to voice their opposition to laws and government policies

negatively impacts tax revenues and compliance, which in turn causes noncompliance, apathy, and a loss of tax revenue.

ea and Adepehin (2023) used secondary data to examine the effects of tax audits and investigations on enterprises' tax compliance with Lagos State as a case study. The findings showed that tax audits and investigations are positively connected with the level of tax compliance of businesses in Lagos State. Also, Efuntade and Efuntade (2023) conducted a study on Nigeria's non-oil revenue and tax compliance, specifically focusing on active taxpayers in relation to the fiscal exchange theory and expectation proposition. The study used an annual time series analysis ex post facto research design. The results showed that tax default can significantly affect government income and that tax compliance has a major impact on increasing tax revenue collection.

Azaka (2022) investigated the relationship between tax attitude and compliance to ascertain the association between Lagos taxpayers' perceptions of tax justice and compliance and the relationship between tax knowledge and compliance. Data were collected using a cross-sectional approach for this survey-based investigation. Tax attitude was found to be a major predictor of tax compliance. Also, Ajetunmobi (2022) examined how tax income and digitalization affected the revenue streams of the federal and state governments. The study used an ex-post facto research design, and the proposed associations were analyzed descriptively and inferentially. The findings suggested that tax reforms have a greater impact on federal revenue outcomes than state revenue outcomes since they are primarily developed and implemented by the federal government.

Amon et al. (2022) explored how tax compliance was impacted by many factors, including taxpayers' expectations of future tax amnesty, audit probability, tax penalty, and wealth. Because using normal approaches is not practicable, this behavioral economics study employed an experimental approach. The findings indicated that wealthy taxpayers are less likely to comply with tax laws and would rather take advantage of tax amnesty schemes that offer the lowest tariff rates.

Based on the empirical reviews, it could be deduced that various tax reforms by governments and tax authorities often affect tax compliance at various levels. However, extant literature has yet to ascertain the effect of Digitalization and the tax reform of VAT, OTTP, and ITAS, particularly on SMEs, hence the focus of this study.

### 3.0 METHODOLOGY

The study employed a survey research design. Primary data were collected using a self-developed structured questionnaire to elicit information from the respondents, who are owners or managers of selected SMEs in Ondo state, Nigeria. The questionnaire was simple, close-ended questions that aligned with the research objectives. The five (5) point Likert-scale questionnaire had scales ranging from strongly disagree, denoted by 1, to strongly agree, represented by 5. The questionnaire was also divided into two sections (A and B), where section A consisted of the respondents' demographic information that aligned with the focus of the study. Section B consisted of carefully structured questions addressing the study's objectives. The study population comprised registered SMEs across the eighteen (18) local government areas of Ondo State, Nigeria. According to the Small and Medium Enterprise Development Agency of Nigeria (SMEDAN) Survey report on MSMEs, there are seven thousand eight hundred ninety-nine (7899) registered SMEs in Ondo state as of 2021 (SMEDAN, 2021).

A sample size of three hundred and eighty (380) was selected using the Taro Yamane (1967) formula. An e-view statistical tool was employed to analyze the data. Data were analyzed using descriptive and inferential statistics for easy presentation and interpretation. Likewise, Cronbach's alpha was used to prove the questionnaire's reliability, revealing an alpha level of 82%, which is above the threshold of 75%, suggesting the questionnaire's reliability.

| Cronbach's Alpha | Number of Items |
|------------------|-----------------|
| 0.822            | 18              |

Source: Researcher's Computation, 2023.

#### 3.1. Model Specification

The model employed for this study was adopted from the work of Ajetunmobi (2022) and modified to suit the study's objectives.

$$TCO = \beta_0 + \beta_1 VAR_{it} + \beta_2 OTTP_{it} + \beta_3 ITAS_{it} + \varepsilon$$

**Where:**

VAR stands for Valued Added Tax Reform, OTTP stands for Online Tax Payment Platform, ITAS stands for Integrated Tax Administration System, and TCO stands for Tax Compliance.

$\beta_0$  and  $\beta_1$ -  $\beta_3$  are the Constant and the Regression coefficients, respectively.

$\varepsilon$  = error term.

The Apriori expectation of the model is that VAT reform, the Online Tax Payment Platform (OTPP), and the Integrated Tax Administration System (ITAS) will positively affect tax compliance. This suggests that every tax reform by the government and tax authorities should be geared toward improving SMEs' tax compliance. The mathematical expression is represented as  $\beta_0, \beta_1 > 0$ , implying that a unit increase in the independent variable will lead to a corresponding increase in the dependent variable.

#### 4.0. RESULTS AND DISCUSSIONS

##### Descriptive Statistics

Table 4.1 shows the descriptive analysis of the variables.

**Table 4.1 Descriptive Statistics**

|              | MTC       | C        | MVAR       | MITAS     | MOTPP      |
|--------------|-----------|----------|------------|-----------|------------|
| Mean         | 2.33305   | 1.0000   | 2.416447   | 2.317763  | 2.370394   |
| Median       | 2.125     | 1.0000   | 2.2        | 2.15      | 2.2        |
| Maximum      | 5         | 1.0000   | 5          | 5         | 5          |
| Minimum      | 1.125     | 1.0000   | 1.1        | 1         | 1          |
| Std. Dev.    | 0.803930  | 0.0000   | 0.838434   | 0.779123  | 0.828214   |
| Skewness     | 1.546134  |          | 1.3469119  | 1.55445   | 1.189975   |
| Kurtosis     | 5.464297  |          | 4.573295   | 5.869394  | 4.490905   |
| Jarque-Bera  | 99.020969 |          | 61.635663  | 113.35901 | 49.950750  |
| Probability  | 3.146803  |          | 4.130339   | 2.4232791 | 1.423417   |
| Sum          | 354.625   | 152.0000 | 367.3      | 352.300   | 360.3      |
| Sum Sq. Dev. | 97.5920   | 0.0000   | 106.148881 | 91.662039 | 103.576776 |
| Observations | 152       | 152      | 152        | 152       | 152        |

**Source:** Researcher's Computation (2024)

The mean of VAT reform on tax compliance is 2.416447. The maximum and minimum values are 5.00 and 1.00, respectively, suggesting that about half of the respondents agree with the questions raised on tax compliance and VAT reforms. Also, ITAS and OTPP, with a mean of 2.317763 and 2.370394, respectively, suggest that less than half of the respondents agree with the intended responses. Again, the standard deviation of 0.838334, 0.779123, and 0.828214 for VAR reform, ITAS, and OTPP, respectively, also imply a moderate variation in the responses to the questions on VAT reforms, ITAS, and OTPP and their relationships with tax compliance.

Also, information on tax considerations is vital when deciding on the impact of VAT reform on tax compliance. With a median of 2.20000 and a kurtosis of 4.573296 correspondingly, this suggests that value-added tax reform might not be followed without adequate tax compliance. SMEs in Ondo state can seize to be going concerns with Jarque-Bera of 61.6356. The implication is that tax compliance is mandatory for SMEs to carry out their obligation to the government and not risk being liquidated.

The average and standard deviation of online tax payment platforms on tax compliance of SMEs is 2.370395 and 0.828214, respectively, showing that Online Tax Payments Platform (OTPP) has a significant effect on tax compliance of SME firms with grave changes in the respondents' responses with other connected maximum and minimum value of 5.000000 and 1.000000 analyzing online tax payment platforms have reduced the time and effort required to file and pay taxes. This means that the ability of SMEs to maximize their tax compliance depends on online tax payment platforms. Skewness of 1.189975 with a median of 2.20000 and kurtosis of 4.49090 showed that online tax payment platforms are affected by government investment in furthering, improving, and expanding online tax payment services, convenience, and user-friendliness of online tax payment platforms for fulfilling tax obligations. The implication is that online tax payment platforms help in the quick tax remittance of SME firms in Nigeria.

The maximum and minimum values of 5.000000 and 1.000000 explained the relationship between the integrated tax administration system and tax compliance of SME firms in Ondo state, respectively. Other connected standard deviations of 0.779123 and the mean scores of 2.317763, indicate that the responses of respondents on integrated tax administration systems vary as they are far from the mean. The significant effect of integrated tax administration system on tax compliance of SME firms with 91.66204 of sums squared deviation and skewness of 1.554459 and Kurtosis 5.869394 indicated that strategic implementation of integrated tax administration system (ITAS) could improve tax compliance in SME firms in Ondo state.

#### 4.2. Demographic Distribution of Respondents

Table 4.2. shows the demographic distribution of the respondents

**Table: 4.2 Demographic Distribution of Respondents Information**

| S/No | Variables | Classifications of variables | Frequency | Percentage (%) |
|------|-----------|------------------------------|-----------|----------------|
| 1    | Gender    | Male                         | 84        | 55.26%         |
|      |           | Female                       | 68        | 44.74%         |

|   |                           |                       |    |         |
|---|---------------------------|-----------------------|----|---------|
| 2 | Age                       | Below 20yrs           | 28 | 18.42 % |
|   |                           | 21 – 25yrs            | 33 | 21.71%  |
|   |                           | 26 – 30yrs            | 28 | 18.42%  |
|   |                           | 31 – 35yrs            | 27 | 17.76%  |
|   |                           | 36 and above          | 36 | 23.68%  |
| 3 | Business sector           | Wholesale/retail      | 11 | 7.24%   |
|   |                           | Manufacturing         | 11 | 7.24%   |
|   |                           | Professional services | 32 | 21.05%  |
|   |                           | Education sector      | 43 | 28.29%  |
|   |                           | Agriculture business  | 26 | 17.11%  |
|   |                           | Other business        | 29 | 19.08%  |
| 4 | Educational Qualification | WASC                  | 27 | 17.76%  |
|   |                           | OND/NCE               | 63 | 41.45%  |
|   |                           | HND/BSC               | 26 | 17.11%  |
|   |                           | M.Sc/M.BA/Ph.D        | 36 | 23.68%  |

**Source:** Researcher's Computation (2024)

Information on the distribution of respondents by gender revealed that 44.74% were females, and 55.26% were male of the owner or managers of SMEs in Ondo state, implying that there are more males than females in SME firms in Ondo state. Information on the distributions of respondents by age was grouped into five and was presented thus: 18.42 % of the respondents were in the age group below 20 years, 21.71% of the respondents were between 21-25 years, representing a frequency of 33, 18.42% of the respondents between 26-30 years, 17.76% of the respondents were between 31-35 years old and 23.68% were 36 years and above representing a frequency of 36. This result implies that the age group of respondents of SMEs with the highest percentage of 23.68% is more than the rest in the four categories of respondent age group in SME firms in Ondo state.

The distributions of the respondents by business sector were classified into six categories. 7.24% in both the wholesale/retail and the manufacturing sectors, representing 11 frequency each, 21.05% with 32 frequency in the professional services sector, 28.29% (43 frequency) in the education sector, 17.11% (frequency of 26) in the Agricultural sector, and 19.08% (29) of the respondents were in other businesses. This implies that more respondents, 28.29%, were in the education sector, while the wholesale/retail and manufacturing sectors shared the least.

The distributions of the respondents by educational qualification were classified into four categories. 17.76% (27) of the respondents had WASC or equivalent O'level results, 41.45% (63) had OND/NCE results, and 17.11% (26) had HND/B.Sc. holders, while 23.68% (36) of the respondents were MSC/MBA or Ph.D. holders. This suggests that more respondents had OND/NCE certificates.

### Effect of Value-Added Tax Reform on Tax Compliance in Nigeria

Table 4.3. shows the regression results of the Value Added Tax Reform on Tax Compliance

Table 4.3 Regression Analysis on the Effect of Value Added Tax Reform on Tax Compliance

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.      |
|--------------------|-------------|-----------------------|-------------|------------|
| C                  | 0.847267569 | 0.15360045            | 5.516048743 | 0.0000     |
| VAR                | 0.614866129 | 0.06007377            | 10.23519492 | 0.0000     |
| R-squared          | 0.411208737 | Mean dependent var    |             | 2.33305921 |
| Adjusted R-squared | 0.407283462 | S.D. dependent var    |             | 0.80393075 |
| S.E. of regression | 0.618930897 | Akaike info criterion |             | 1.89142433 |
| Sum squared resid  | 57.46131837 | Schwarz criterion     |             | 1.93121223 |
| Log likelihood     | 141.7482492 | Hannan-Quinn criter.  |             | 1.90758756 |
| F-statistic        | 104.7592151 | Durbin-Watson stat    |             | 2.20408429 |
| Prob(F-statistic)  | 0.000000000 |                       |             |            |

**Source:** Researcher's Computation (2024)

The regression results indicated that the effect of VAT reform on tax compliance among SMEs in Ondo state promotes organizational tax compliance. This means that strict tax compliance by ensuring fair and equitable tax reform for all income groups, simplified tax system, and increase in value-added tax among SMEs in Ondo state through VAT reform led to 0.614866129 increases in tax compliance, and it was statistically significant at 1% due to the P-value of 0.000. This means that VAT reform led to a significant increase in Ondo state tax compliance of SME firms. The coefficient 0. 0.614866129 attained in VAT reform explained the control variable. It indicated that a unit increase led to 0. 0.614866129, that is, 62 % increases in tax compliance of SME firms in Ondo state.



The Adjusted  $R^2$  of 0.4072834 indicates that VAT reform as a variable explained 41% of the variation in the dependent variable. The Durbin-Watson stat. of 2.20408 indicates the absence of first-order serial autocorrelation. Hence, we can have confidence in the model in predicting the tax compliance of SME firms in Ondo state with a Standard Error of 0.618930897, the t-stats 10.23519492, and Hannan-Quinn criteria 1.90758756. This result showed a positive relationship between VAT reform and tax compliance of SMEs in Ondo state. The effect of VAT reform on tax compliance of SMEs in Ondo state is significant at 1 percent. Firms that do not comply with tax via VAT reform may fail to meet their current financial obligations, resulting in insolvency.

This study, therefore, rejected the earlier hypothesis (1) and accepted the alternate hypothesis that there is a positive significant relationship between VAT reform and tax compliance of SME firms. This finding supported the study of Alawode and Adegbe (2022), which found a substantial positive association between tax justice and outcomes of voluntary compliance, revenue compliance, and integrity compliance. The finding of this study also aligned with the study by Azaka and Balogun (2022) whose study found that tax attitude was a strong predictor of tax compliance among SMEs and was positively correlated with tax compliance. However, this study's result contradicts the study of Adekoya et al. (2023), who found that the ability of the populace to voice their opposition to laws and government policies has a negative impact on tax revenues and compliance, which in turn causes noncompliance, apathy, and a loss of tax revenue.

### **Effect of Online Tax Payments Platform (OTPP) on Tax Compliance**

Table 4.4 shows the regression results of the effect of Online Tax Payment Platform (OTPP) on tax compliance.

**Table 4.4 Regression Analysis on the Effect of Online Tax Payments Platform and Tax Compliance**

| Variable | Coefficient | Std. Error | t-Statistic | Prob.     |
|----------|-------------|------------|-------------|-----------|
| C        | 0.732540    | 0.1429180  | 5.125598    | 0.0000000 |
| OTPP     | 0.675211    | 0.0569390  | 11.85850    | 0.0000000 |

|                    |             |                       |            |
|--------------------|-------------|-----------------------|------------|
| R-squared          | 0.4838695   | Mean dependent var    | 2.33305921 |
| Adjusted R-squared | 0.4804286   | S.D. dependent var    | 0.80393075 |
| S.E. of regression | 0.0583182   | Akaike info criterion | 1.75971220 |
| Sum squared resid  | 50.370206   | Schwarz criterion     | 1.79950010 |
|                    | -           |                       |            |
| Log likelihood     | 131.7381272 | Hannan-Quinn criter.  | 1.77587542 |
| F-statistic        | 140.6241862 | Durbin-Watson stat    | 1.86089856 |
| Prob(F-statistic)  | 0.0000000   |                       |            |

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**Source:** Researcher's Computation (2024)

The result indicated that online tax payment platforms significantly affect the tax compliance of SMEs in Ondo State. It also revealed that online tax payment platforms stimulate an important factor that promotes SMEs' tax compliance, suggesting that using them significantly affects the firms' tax compliance. Increasing tax compliance of SME firms through online tax payment platforms led to 0.675211 increases in tax compliance, and it was statistically significance at 1% due to the P- P-value of 0.000. This means that, as an organization's tax compliance increases through online tax payment platforms, it could significantly increase tax compliance by 68%.

The Adjusted  $R^2$  of 0.4804286 indicates that the online tax payments platform as a variable explained 48% of the variation in the dependent variable. The Durbin-Watson stat. of 1.860898 indicates the absence of first-order serial autocorrelation. Hence, we can have confidence in the model in predicting the tax compliance of SME firms with a Standard Error of 0.058318. The t-stats 11.85850 and Hannan-Quinn criter 0.792792 shows a positive relationship between online tax payment and tax compliance. The effect of online tax payment platforms on the tax compliance of SMEs is significant at 1%. Therefore, an online tax payments platform is a strategy for achieving the security and privacy of my financial information and gaining a competitive advantage over competitors.

This study also rejects the hypothesis (11) formulated earlier and thus accepts the alternate hypothesis that a significant positive relationship exists between online tax payment platforms and SMEs' tax compliance. This finding agrees with the study by Umanhonlen (2022), which showed that tax audits, tax amnesty, and tax deterrence policies had positive and significant relationships with tax compliance and, consequently, influenced the deterrence of tax fraud measures and enhanced tax compliance. This study's finding, however, contradicted the study

of Amon et al. (2022), who observed that wealthy taxpayers are less likely to comply with tax laws and would rather take advantage of tax amnesty schemes that offer the lowest tariff rates.

### Effect of Integrated Tax Administration System Adoption on Tax Compliance

Table 4.5 shows the regression results of the effect of Integrated Tax Administration System (ITAS) Adoption on Tax Compliance.

**Table 4.5 Regression Analysis on the Integrated Tax Administration System Adoption and Tax Compliance**

| Variable           | Coefficient | Std. Error            | t-Statistic | Prob.      |
|--------------------|-------------|-----------------------|-------------|------------|
| C                  | 0.586412436 | 0.1406739482          | 4.1685930   | 0.00001    |
| ITAS               | 0.753591568 | 0.0575496028          | 13.094644   | 0.00000    |
| R-squared          | 0.533393045 | Mean dependent var    |             | 2.33305921 |
| Adjusted R-squared | 0.530282332 | S.D. dependent var    |             | 0.80393075 |
| S.E. of regression | 0.550981591 | Akaike info criterion |             | 1.65883986 |
| Sum squared resid  | 45.53710709 | Schwarz criterion     |             | 1.69862777 |
| Log likelihood     | 124.0718300 | Hannan-Quinn criter.  |             | 1.67500309 |
| F-statistic        | 171.4697047 | Durbin-Watson stat    |             | 1.82895585 |
| Prob(F-statistic)  | 1.313779653 |                       |             |            |

**Source:** Researcher's Computation (2024)

The result of the regression analysis revealed that the effect of an integrated tax administration system on SMEs' tax compliance is that it stimulates an essential factor that promotes compliance in an organization. It shows that compliance with ITAS has a significant effect on the financial statement of an organization and is a vital tool that has a significant effect on the performance of firms. An increase in ITAS adoption by SMEs through tax compliance led to 0.7535915 increases in tax compliance, and it was statistically significance at 1% due to the p-value of 0.000. This means that as an organization's tax compliance increases in ITAS, it significantly increases compliance.

The coefficient 0.7535915 accomplished in an integrated tax administration system explained the control variable and designated that a unit increase led to 0.7535915, i.e., 75% increases in an organization's tax compliance. The Adjusted R<sup>2</sup> of 0.530282332 indicates that the integrated tax administration system as a variable explained 53% of the variation in the

dependent variable. The Durbin-Watson stat. of 1.82895585 indicates the absence of first-order serial autocorrelation. Hence, we can have confidence in the model in predicting the tax compliance of SMEs with a Standard Error of 0.550981591, which means ITAS can influence an organization's tax compliance. The t-stats 13.094644 imply that the sophistication of ITAS affects SMEs' tax compliance as increases in their compliance result in organizational proficiency. Hannan-Quinn criteria 1.67500309 showed a positive relationship between ITAS and SMEs' tax compliance. The idea of receiving electronic notifications and reminders about tax obligations through ITAS is open to all taxpayers. The effect of ITAS on SMEs' tax compliance is significant at 1%. Therefore, ITAS is a strategy for better tax collection through tax compliance.

This study does not accept the earlier hypothesis (III) and thereby accepts an alternate hypothesis that there is a positive significant relationship between ITAS and tax compliance of SME firms. The finding of this study supports the study of Bojuwon et al. (2022), who opined that tax education and knowledge play a role in tax compliance behavior as well as an indicator of its impact, but negated the study of Abidemi et al. (2018) who revealed *that tax education stimulates small businesses tax compliance behavior. The result of this study is robust for both business and personal taxes.*

## 5.0. CONCLUSION AND RECOMMENDATIONS

The ensuing conclusion and recommendations from the findings of this study are discussed in this section.

### **Conclusion**

The study concluded that the effects of value-added tax reform, online tax payment platforms, and integrated tax administration systems on the tax compliance of SMEs in Ondo state are significant. Value-added tax reform, the Online Tax Payments Platform (OTPP), and the Integrated Tax Administration System (ITAS) all have positive significant effects on the tax compliance of SMEs in Ondo State. Hence, they affect the tax compliance of SMEs in Ondo State.

### **Recommendation**

Based on the findings of this study, it is recommended that SME Managers incorporate value-added tax reform into their business strategy since it impacts their businesses and benefits tax compliance. Also, the online tax payment platform has an affirmative effect in every case, so the government should further improve and expand online tax payment services to enhance tax compliance. Similarly, since findings revealed that the integrated tax administration system has

a positive and significant effect on the tax compliance of SMEs in Ondo state, the government should invest further in improving and expanding the integrated tax administration system through the relevant tax authorities. This will involve government at all levels.

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