

THE EFFECT OF TAX POLICY ON COMPLIANCE AMONG SMALL AND MEDIUM-SCALE ENTERPRISES IN SOUTHWESTERN, NIGERIA

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Abstract

Major objective of Nigeria National tax policy is to ensure a robust tax system that will promote voluntary compliance with tax policy by taxpayers and enhance constant revenue generation by governments at all levels. However, the objective has not been achieved in Nigeria due to the alarming level of SMEs' non-compliance with tax policy. This study specifically determined the level of awareness of tax policy among SMEs in Southwestern Nigeria; examined the extent of compliance with tax policy among SMEs; and analysed challenges encountered by the SMEs on compliance with tax policy. The study employed primary data. The population of the study comprised 730 registered SMEs in Southwestern Nigeria. Using Yamane's formula, a sample of 452 SMEs was selected. Structured questionnaires were used to obtain data on voluntary compliance and taxpayers' awareness. Data collected were analysed using percentage, mean, least square method and Chi-square test of independence. The results showed that the operators of SMEs in the Southwestern Nigeria have low level of awareness of tax policy ($\bar{X} = 2.88$). The study also revealed low level of compliance with tax policy among SMEs ($\bar{X} = 2.87$). Furthermore, the results revealed that awareness of tax registration ($t = 6.755, p < 0.05$), awareness of taxpayers' right and obligation ($t = 7.861, p < 0.05$), and awareness of correct tax liabilities to be paid ($t = 4.782, p < 0.05$) had significant effect on the compliance of SMEs with tax policy. Finally, the study showed that high level of corruption in the tax administration (81.8%), attitude of members of staff of revenue authorities (77.8%), lack of financial capacity to pay tax liability when loss is made (73.2%), and cumbersome compliance process (65.3%) were the most prevalent challenges faced by SMEs on compliance with tax policy. The study concluded that awareness of tax policy has the propensity to drive compliance among SMEs in the country.

Key words: Tax policy, SMEs, Taxpayer's awareness, Compliance level, Southwestern Nigeria

Introduction

Tax is one of the sources by which revenue is being generated by government in Nigeria like most countries of the world, both developed and developing. It is a means by which the governments of all tiers generate revenue to perform her fundamental responsibilities of ensuring the public are catered for in the areas of provision of public goods and basic infrastructure for the citizens and people living in the country.

Tax Policy is a fiscal policy instrument geared towards smooth running of economies of countries, this is done by ensuring tax policies are developed such that constant tax revenue is being generated to fund government expenditure, control of consumption of certain goods and services and to

control inflation level. Tax policy which is a jurisdictional and national issue creates and reflects the relationship between the state and people living in such a State (Gbonjubola, 2018). Recent tax policies around the world are influenced by both internal factors such as equity, progressiveness, macro-economic consideration, political factors and level of infrastructural development and external factors such as international competitiveness in investment and tax revenue; foreign relations as to membership of regional economic co-operations and demands of international tax bodies.

Nigerian Tax Policy provides a framework for a sustainable system that would ensure a reliable source of revenue to government and support economic development of Nigeria (Nigeria National Tax Policy, 2016). One of the primary essence of Nigerian tax policy is that, it is expected to provide a direction for Nigeria's tax system and establish a framework that all stakeholders would subscribe to and which they would be held accountable (Deloitte, 2013). Given the pressure put on government of President Muhammadu Buhari's financial position as a result of continued slump in price of crude oil, the prospects of tax as a source that can guarantee sustainable revenue to government are linked to the stability and certainty of tax system (Deloitte, 2013). Tax policy is so important to economic development that any country that does not get her tax policy right may face economy challenges ranging from balance of payment deficit to paucity of fund to run government activities and inability to protect local industries from being liquidated as a result of importation of foreign goods.

Many Countries in Sub-Sahara Africa are moving towards improving the level of tax compliance as part of government's plans to improve on infrastructural and economic development. The fall in prices of goods in the International market, for example, the fall in international price of copper has a devastating effect on Zambian economy, also the decline in prices of cocoa and crude oil in the international market has an adverse effect on the economy of Ghana and Nigeria respectively, this was because of over dependent on revenue from these sources by those countries, they did not give the issue of tax compliance the seriousness it deserved which had resulted to low level of tax compliance over the years.

Having identified the importance of ensuring tax compliance to economic development, Nigerian Government in her quest to encourage more people to comply with tax policy by filing their returns and pay tax liabilities due, on June 29, 2017, Nigerian Acting President, Professor Yemi Osinbajo, formerly lunched the Voluntary Assets and Income Declaration Scheme (VAIDS). The scheme as planned, commenced on 1st July 2017 and lasted for a period of one year including a three months' extension from the initial period of nine months. This Scheme is an initiative of Federal Government of Nigeria designed to encourage voluntary disclosure of assets and income that were not previously disclosed so that outstanding tax liabilities on such assets or income could be paid. The Scheme would be carried out by the Federal Inland Revenue Service (FIRS) in conjunction with all 36 States Internal Revenue Services and the Federal Capital Territory Inland Revenue Service (FCT IRS).

The main objective of the scheme is to increase the number of active taxpayers and increase revenue generation through tax. Specifically, to ensure Nigeria's current tax to GDP ratio of 6% is increased to between 10% and 15%, thereby increase the Nigerian national tax base, discourage non-compliance with existing tax laws and discourage illegal monetary flows and tax evasion. The Scheme is applicable to all persons (individuals, companies, executors, trustees, partnerships etc.) liable to tax in Nigeria. Taxes covered by the scheme include Companies Income Tax, Personal

Income Tax, Petroleum Profits Tax, Capital Gains Tax, Value Added Tax, Stamp Duties, and Tertiary Education Tax. Taxpayers who make full and true disclosure of their undisclosed income and assets will enjoy waiver of interest and penalty, they will not be prosecuted for their initial failure to disclose their revenue and assets, their identity will not be disclosed, they will be exempted from tax audits for the periods covered by the scheme and they will enjoy flexible payment of tax liability due (Pricewaterhouse corper, 2017). Taxpayers who failed to declare their assets and income in order to participate in the scheme while it lasted were investigated and those found guilty were subjected to criminal prosecution (FIRS, 2017).

Statement of the Problem

Awareness of tax policy by taxpayers is shown to have significant effect on voluntary tax compliance. Studies (Palil, 2010; OECD, 2016) have shown high level of awareness of tax policies among taxpayer in America and Europe with high level of voluntary tax compliance as the resultant effect. Studies have shown low level of revenue generation from tax sources because of non-compliance as a result of high level of illiteracy in sub-Sahara Africa. High illiteracy rate and lack of proper awareness of tax policy and tax education are major part of factors causing non-compliance among taxpayers in Nigeria (Festo and Isaac, 2013). Taxpayers do not clearly understand tax laws and are not properly aware of tax policy. The level of understanding and awareness of tax policy significantly influence the attitude of taxpayers. Inability of taxpayers to understand their tax obligation in Nigeria may be a major reason why the level of voluntary compliance is low in Nigeria. In order to educate, ensure taxpayers and other stakeholders are aware of the tax policy in Nigeria, seven thousand five hundred (7,500) Community Tax Liaison Officers (CTLO) were recruited and trained for this purpose by Nigerian Government. In year 2017, Government also declared every Thursday as 'Tax Thursday' to focus on tax matters. This sensitisation was jointly carried out with all States Internal Revenue service and FCT Inland Revenue Service. However, there is no empirical evidence that shows the level of taxpayer's awareness of tax policy in Nigeria.

Voluntary tax compliance is a current, dynamic phenomenon in developed and developing countries, irrespective of their level of economic development. Studies have shown that, in sub-Saharan Africa, untapped tax revenues are monumental. The level of compliance is so low that even if it were bumped up by just a few percentage points, it would have a huge impact on the economies of these countries. Tax revenue as a percentage of Nigeria's GDP is 3.1% as at year 2017; this is very low for a country considered to be a major hub of commercial activity in sub-Saharan Africa and the biggest economy on the continent. Compare this with the US (25.4%), the UK (32.9%) and Canada (30.6%), and it becomes evident that there is a huge pot of gold lying untouched. In spite of regulations and policies put in place in Nigeria by Federal Inland Revenue Service and various States Inland Revenue Services, the rate of tax evasion among SMEs in Nigeria is still a major concern. Studies have shown factors that affect compliance among SMEs in Nigeria but failed to investigate the level of awareness of tax policy, extent of compliance with tax policy and challenges faced by non-compliance among SMEs, hence this study.

Objectives of the Study

The major objective of this study was to examine the impact of tax policy on compliance among SMEs in Southwestern Nigeria. To achieve this objective, the following specific objectives were addressed which were to:

- i. determine the level of awareness of tax policy among SMEs in Southwestern Nigeria;
- ii. examine the extent of compliance with tax policy among SMEs in the region; and
- iii. analyse challenges encountered by the SMEs on compliance with tax policy in Southwestern Nigeria.

Hypotheses of the Study

The following hypotheses were formulated for this study:

Ho₁: The level of awareness of tax policy has no significant effect on the compliance with the policy by SMEs.

Ho₂: The challenges faced by SMEs and the extent of compliance with tax policy are independent.

LITERATURE REVIEW

Taxpayer

According to Nigeria New National Tax Policy (2016) a Taxpayer is a corporate body, an individual person or group of person that is presently paying tax or potentially liable to pay tax. The taxpayer is the major stakeholder and is the primary focus of the tax system, therefore, taxpayers should always be informed, updated and aware of tax information so as to perform their tax obligations as and when due.

Tax Compliance

James and Alley (2000) as cited in Mohammed et al. (2016) describe tax compliance as a situation whereby a taxpayer is willing to perform his tax obligations in compliance with tax laws and tax administrative requirements without being forced. Voluntary tax compliance could be said to exist when tax returns is filed timely, reporting accurate taxable income and due tax liabilities and payment of tax liabilities as and when due (Plumley 1996 as cited in Festo & Isaac, 2013) and (Chukwumah, 2017). However, small and medium taxpayers always fail to register voluntarily, while some of them who register as at when due fail to keep adequate records which makes it difficult for them to make adequate tax returns and timely settlement of their tax liabilities.

Taxpayers' Education and Awareness

The major objective of most tax awareness programs is skewed towards taxpayers' behavioural change (Clifford & Jairus, 2013). Change Theory is used to predict behaviour change, it assumes that, for every problem that relates to behaviour, there is always a factor that contributes to the problem, and this factor is a modifiable factor which include knowledge, attitudes, intentions, interpersonal support, organisational and environmental conditions. The Theory assumes that

education is a critical factor that brings about change in the modifiable factors, and tax education is expected to change this behaviour (Clifford & Jairus, 2013).

Tax awareness would help taxpayers to understand tax law by providing the necessary tax knowledge to change the perceptions and attitudes towards tax compliance by creating more positive attitudes. Tax awareness involves understanding of tax policy, which includes knowing when to register for tax, understanding of provisions of tax laws on when to file tax returns and when to pay tax liability. It also involves understanding of penalty for non-compliance and benefit of voluntary compliance, knowledge of these provisions of law makes a taxpayer to be seen as having tax awareness. Taxpayers could be sensitised by using different media of communication such as billboard on which tax obligations to government could be written, it could also be disseminated through mass media, such as television, radio and newspaper. It could also be relayed to taxpayers through tax conferences and seminar where issues about tax will be discussed and through the use of social media such as Facebook, WhatsApp, Instagram and LinkedIn. Tax authority could also directly educate taxpayers as they have encounter with them.

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Tax Policy

Tax policy is government's decision on how tax is to be administered, the type of tax to be levied, who the taxpayers should be, the tax bases and the amount to be levied. It has both microeconomics and macroeconomic aspects. Overall quality of tax to be collected which can inversely affect the level of economic activities form part of macroeconomic aspect. This is a component of fiscal

policy. Who to tax, how to allocate tax resources efficiently and effectively and fairness issues form part of microeconomic.

Policy makers debate the nature of the tax structure they plan to implement, whether progressive or regressive and how they might affect individual and businesses, by this, tax policy is an important part of fiscal policy, therefore, sound tax policy has an important role in ensuring that public finance is sustainable in the long term in order to support social objectives of government and promotes economic development. "Tax policy provides a framework for a sustainable system that would ensure reliable sources of revenue to government and support economic development of Nigeria" (Nigerian New National Tax Policy, 2016).

Nigeria tax system has been dominated by oil revenue over the years. Most taxes with the probability of generating high revenue are administered by the federal government while lower ones are administered by state government. This development has brought not less than 90% of the overall revenue in the hand of federal government but only accounted for about 70% of total government expenditure. Tax policies were always geared towards ensuring effective protection of local industries, enhancing the value-added goods produced locally and products classified as primary, encouraging greater use of raw materials produced locally, promotion of greater geographical dispersion of locally manufactured goods and generation of more revenue for government.

Tax system in Nigeria before colonialism

There were series of taxes being collected during Pre-Colonialism Northern Nigeria for the smooth administration of the region. This brought about a sustained period of economic development. The administrator of the region developed various forms of taxes such as; zakat which was levied for Islamic religious and educational purposes and was only levied on Muslims; Land tax called kudinkasa, jangali was a cattle tax, shukhashukka was a plantation tax, kudlin sarauta was an ascension duty paid every chief and holder of an office on appointment and also gado which was a death levy on deceased's estate paid to the Emir when there was no proven or recognised heir. In the North-eastern Nigeria, there were very impressive tax systems. There was hakki binimram collected by the land owners in cash and in kind; kaleram collected from peasant farmers for permission to till the land; there was Kofelo which is an obligatory gift to the ruler by merchants and kasasairan tax paid by nomads as grazing fees and is similar to the shede hudo paid by the Fulani. These taxes among others were collected and used judiciously for proper administration of different communities in the northern part of Nigeria before colonialism. Although there were instances of enforcement through punitive action such as imprisonment or slavery, it was very rare to see anybody being punished for non-compliance because compliance was voluntary due to the legitimacy of government in operation. The heads of government then were respected religion leaders with authority. This shows that there was sophisticated tax system in Northern Nigeria which was mostly dependent on sense of religious obligation of the ruled for compliance.

In Western Nigeria, Yoruba communities developed a tax system where annual levies and special contribution were being collected through head of each family for the administration of communities by the community heads. In Oyo for instance, collection was usually attached to provision of services. Provision of market for interaction of traders all over the world and provision of security in such markets are part of services which collections are tied to. Ibadan communities' subjects are saddled with the responsibilities of maintaining the rulers and his troops of servants,

messengers and other people serving the ruler. A proportionate tax was levied on every house and has to be paid weekly or fortnightly to the head of the community. There were three major tax types collected in Yoruba community; Owo Ode is a kind of tribute paid in cash or in kind by both men and women, those who defaulted would be asked to leave their land. Owo Asingbu; which is paid by rendering personal services that may be in form of building and repairing of town walls, working in the farm of chiefs and Ishakole was a rent charge. This is an indication that there was simultaneous appeal to religious and communal obligation, provision of services as basis for levelling of taxes and also a threat of sanction, such as exile for the enforcement of compliance in Yoruba communities. The compliance was voluntary because community people realised the services being rendered which collections were attached to.

Eastern Nigeria was dominated by the Igbos, the Igbos did not run a monarchical system of government like the Westerners and the Northerners therefore no systematic system of collecting tax was in force. They levied voluntary contributions on a clan basis where each clan, village or group of villages which were used for provision of welfare services for the benefit of all the community members. Egbunkwu was about the only compulsory tax levied and paid before palm oil is harvested. The Igbo were the one that had the most persuasive and inclusive tax system among the major ethnic groups that form the present Nigeria.

When colonialism came into Nigeria through the British in 1851, the British replaced the tax system they met with a new system that made payment of tax compulsory and they charge taxes as they deemed fit without recourse to the traditional belief on tax imposition and payment, although they retained some of the taxes they met. This met with stiff opposition from the communities' people because they did not want to be identified with an alien tax system, those that did not comply were imprisoned. This was greeted with a series of violence, one of such was the Aba women riot of 1929 (CITN 2014).

Objectives of Tax Reforms in Nigeria since 1978

There have been several tax reforms from 1978 till 2018 with other ministerial and administrative reforms. There are eleven major objectives of the reforms. The federal Government has been anchoring these reforms with eleven major objectives as follows;

1. ensuring tax authorities are repositioned for effective and efficient performance especially Federal Inland Revenue Service;
2. in ensuring that administrative objectives are met, the tax authority should ensure capacity-building at all levels of tax administration, career structures that are skewed towards attracting and retaining high quality staff, put in place IT driven modern organisation structure that is taxpayers focus;
3. to ensure tax administration integrity and operating standard is improved;
4. achieve reasonable and administrative autonomy for tax authority;
5. ensure taxpayers' rights protection through professionalism and taxpayers' education
6. ensure fair hearing and adjudication of cases and prompt refund mechanism;
7. achieve other fiscal objectives and improved service delivery to taxpayers;
8. provide linkage to other government regulatory agency such as Corporate Affairs Commission(CAC) and the Central Bank of Nigeria(CBN);
9. expand the tax net;
10. attain an improved policy regime;
11. amend tax law (CITN 2014)

Empirical Review

The result of the study carried out on tax awareness and perception of taxpayers and the effect on voluntary compliance of individual taxpayers in Ethiopia where descriptive research design with both primary and secondary sources of data were used to collect data from 377 individual taxpayers revealed that tax awareness was the major problem for voluntary compliance attitude and that most taxpayers see the current tax rate, penalty rate as too high and that the existing tax system is not fair. The result of the study also showed that taxpayers' positive perception towards tax system and government spending encourages voluntary compliance. (Niway and Wondwossen, 2017).

Abubakari and Christopher (2013) studied evaluating taxpayers' attitude and its influence on tax compliance among operators of SMEs in Tamale, Ghana. ANOVA was used to analyse the data collected through Questionnaire that was administered on operators of SMEs. The study identified low level of understanding of tax law and low level of awareness as cause of non-compliance among SMEs. Akubo, Achimugu and Ayuba (2016), studied compliance behaviour in Bassa Local Government Area of Kogi state in the Northcentral Nigeria. The study uses a descriptive statistic, a statistical instrument was used to analyse 197 questionnaire distributed among small and medium scale enterprises. The study revealed that taxpayers' social psychological factors such as tax complexity, tax fairness, tax burden and compliance cost showed a significant influence on the level of taxpayers' compliance. The study also revealed that taxpayer's demographical factors have significant effect on compliance. It shows high risk of non-compliance among younger taxpayer than old tax payer and high risk on non-compliance among male taxpayers than female taxpayers.

John, Emmanuel and Kennedy (2014). Studies effects of deterrent tax measures on tax compliance in Nigeria. Ordinary Least Square Regression Technique was used for data analysis for the study. It was observed that the most important parts of any tax system are tax policy and tax administration, the most critical objective of tax policy is to ensure all taxpayers comply maximally. Unfortunately, many developing countries have weak tax policies that are characterised by abuse, corruption and coercion. Largest proportion of revenue being spent on provision of social amenities are being generated from tax, therefore, the importance of voluntary compliance cannot be overemphasized. The worrisome aspect of it is the tax gap, the difference between the correct and due tax liability, the amount paid by taxpayers, the time of payment and the amount they supposed to pay in accordance with tax law. The study observed that the deterrent tax measures operating presently in Nigeria are inadequate and have not helped in any way in promoting tax compliance. The study showed that encouraging voluntary compliance and enhancing taxpayer's morale will enhance tax compliance.

Chukwumah (2017) studied the effect of taxation barriers on government revenue generation in Nigeria. The study was limited to SMEs located in Port Harcourt metropolis. 297 copies of questionnaire were administered on operators of SMEs, Staff of Federal Inland Revenue Service, Auditors and Tax Practitioners were analysed using mean, standard deviation, simple regression and correlation analysis. The study revealed a database that is non- workable and not reliable and the dominance of transactions on cash basis that could be very difficult to trace as problems that are mitigating against government's internally generated revenue in Nigeria. (Samuel, 2016) and Viswannadham (2015), studied business income taxpayers, tax complexity and tax compliance in Amhara regional state of Ethiopia. A cross-sectional survey research design and quantitative research approach were adopted in the study. Purposive sampling method was employed to select

24 samples using semi-structured questionnaire. The data collected were analysed using thematic analysis. The result of the study shows that the technical knowledge and ability of taxpayers to understand tax laws and complexity is not adequate, therefore they see tax system as being complex.

Imam, Sugeng and Yuli (2014), examined factors that may affect tax compliance from SMEs entrepreneurs. They also designed a tax compliance model through tax education for SMEs entrepreneurs in East Java, Indonesia. Data collection methods used includes questionnaire, field observation and document analysis. Data collected from Sixty-one (61) respondents was analysed using both qualitative and quantitative approaches. Dissertation tables with relevant explanation were used for quantitative approach while qualitative approach was done through the process of data reduction, data presentation and drawing conclusion/verification. The study concluded that tax compliance can be inculcate in taxpayers' attitude if the tax system is fair and non- ambiguous. Then, tax fairness can be built through increasing the understanding and awareness about taxes for the SMEs entrepreneur. The awareness helps in knowing the benefits associated with tax rates and tax penalties, tax types, tax administration, and the tax service.

In improving the understanding of tax, it is necessary to create awareness for the SMEs businesses primarily through socialisation in the form of formal or informal. Based on the result of data analysis, it was concluded that basically the SMEs operators were able to know their tax obligations in form of tax when there is fairness and they can receive in real term benefit of paying their tax. The study suggested that relevant tax authorities should embark on aggressive tax educational activities through dissemination of information on taxation issues and the associated benefits for SMEs operators.

Theoretical Framework

Psychology Theory of Taxation

Psychology Theory states that psychological factors are what influence taxpayers' decision to comply with their tax obligations without being forced to do so. The theory posits that even when the chances of detection of non- compliance by tax authority is slim, taxpayers will still comply if influenced by psychological factors. This work was anchored on psychology theory.

Methodology

Research Design and Sample Size

This research employed primary data in order to find answer to the research questions and for the achievement of the research objectives. Primary data was collected through the use of a semi-structured questionnaire. The questionnaire was administered to the respondents by the researcher.

The population of this study consisted of 730 SMEs in Southwestern Nigerian States of Osun, Ekiti and Ondo as obtained from Ministries of commerce in the states in February, year 2019. Osun, Ondo and Ekiti States comprise of 232 registered SMEs, 284 registered SMEs and 214 registered SMEs respectively. Using Yamane's formula, 452 SMEs were selected as the sample size. Employing proportionality, 147, 166, 139 SMEs were selected in Osun, Ondo and Ekiti States respectively. The owners/managers of the SMEs were engaged to fill in copies questionnaire. Convenient sampling technique was used to select the SMEs in the areas of study. This sampling technique was chosen because the SMEs are not located in the same area in each of the States.

Measurement of Variable

The variables for the study were voluntary compliance and awareness of tax policy. Proxies used in measuring voluntary compliance were registration for tax as and when due, tax returns filing as and when due, payment of due tax liability as and when due. The proxies used in measuring awareness of tax policy were awareness of tax registration, awareness of returns filing, awareness of payment of tax liability. Five-point Likert scale was used for the study. A ‘strongly agreed’ response was coded as 5, agreed 4, strongly disagree was coded as 2, agreed 1 and ‘neutral’ was coded as 3.

Research Instrument and its Validation

The structured questionnaire was used to collect data for this study. The questionnaire was divided into two sections (A and B). The questionnaire was designed such that it would obtain information for analysis of the research hypotheses and the questions. The section as divided had socio-demographic characteristics of respondent as section A Section B were designed towards obtaining information on each of the specific objectives. The questionnaire was administered by the researcher with the help of research assistants.

Being a quantitative research, questionnaire for the study was given to experts in the area of study to examine the content and ascertain its ability to achieve the objectives of the study. In addition to this, a pilot study was carried out to ascertain the adequacy and reliability of the instrument. Twenty-five (25) copies of questionnaire were pre-administered among operators of SMEs in order to determine if its content convey the information the research was intended to pass to the respondents. Cronbach’s Alpha test was done to ascertain the reliability of the instrument (see Table 1); the coefficients range from 0.961 to 0.939. These results showed that the question items were reliable and adequate to achieve the study objectives because a result of 0.70 and above is generally agreed to be adequate.

Table 1: Reliability Statistics

Construct	Cronbach's Alpha	Number of Items
Level of Taxpayers’ awareness of tax policy	0.961	12
Extent of taxpayers’ compliance with tax policy	0.939	9
Challenges faced by SMEs for non-compliance	0.961	8

Source: Author’s Computation (2019)

Data Analysis and Discussion

Four hundred and seventy copies of questionnaire were distributed, this was to give room for those that would not return theirs, eventually four hundred and sixty-two copies of the questionnaire were returned by respondents of different age, tribe, religion, education and sex. Four hundred and fifty-two questionnaires were analysed and interpreted according to the objectives of the study. Frequency Table, Percentages, Mean and Standard Deviation were the Descriptive Statistics used while Chi-Square and OLS Multiple Regression Analysis were the Inferential Statistics used.

Level of Taxpayers' Awareness of Tax Policy

The analysis in Table 2 shows the level of taxpayers' awareness of tax policy in the selected survey unit. The level of awareness was visualised in the selected states by estimating the average weighed value of all the items. The result of the analysis was reported in Tables 2 and 3. The average

weighted value indicates that the respondents exhibit mid-level of awareness of tax policy in their respective states. The respondents were emphatic that they don't always attend taxation seminar/workshops to update themselves with tax knowledge and they are aware of the fact that taxpayers must register within six months of registration of business (AWV= 3.80). Similarly, the average weighed value indicated that the taxpayers were aware of their right and obligation (AWV=3.90). In the same manner, the taxpayers claimed to be aware of penalties to be paid for non-compliances with average weighted value of 2.92.

It was crystal clear that the respondents were not ready to be informed and also understand the tax rule, this could be deduced from their inability to always attend taxation seminar/workshops to update themselves with tax knowledge (AWV=1.90). This corroborated the earlier submission of Abubakari and Christopher (2013) who identified low level of understanding of tax law and low level of awareness among the taxpayers. More so, their poor understanding and lack of awareness of tax rule was made obvious in their submission of low level of awareness in paying correct tax liabilities (AWV=2.67). However, the taxpayers' low level of awareness could also be attributed to the unavailability of information on tax issue from any source (AWV=2.88). This is asserted in the claim of Clifford and Jairus (2013) on the study of taxpayer awareness. They submitted that unavailability of information impaired the taxpayer's knowledge and understanding of tax policy. The percentage distribution of the respondents indicates that 74% can't interpret income tax laws and compute tax liabilities. 59.1% were aware of taxpayers' right and obligation and also 58.6% were aware that Taxpayer must register within six months of registration of business. In confirming the low level of awareness among the taxpayers, 72.5% don't receive information on tax issues through tax consultants. 100% of the respondents don't always attend taxation seminar/workshops to update themselves with tax knowledge. Furthermore, 70.5% were not aware of correct tax liabilities to be paid.

In related form, there exist low level of agreement among the respondents on regular availability of information on tax issues through tax authorities' enlightenment campaign (AWV=2.51). The view of the taxpayers shows their average level of awareness of tax policy, especially in term of enforcement drive by the tax authority. Generally, it was obvious that the respondents across the selected states were aware of tax policy in their respective states, although the level of awareness seem to be mild by reporting a grand average weighted value of 2.88, with a slight proportion claiming that they understand taxpayers' right and obligation and also understand when to register for tax. Taxpayers could be sensitised by using different media of communication such as billboard on which tax obligations to government could be written. Tax policy could also be relayed to taxpayers through conferences and seminar where issues about tax will be discussed and through the use of social media such as Facebook, WhatsApp, Instagram and LinkedIn. Tax authority could also directly educate taxpayers as they have encounter with them.

The Table 3 reported the average weighted value of level of taxpayer's awareness of tax policy on state by state basis in selected Southwestern states of Osun, Ekiti and Ondo. The report showed that taxpayers were much aware of tax policy in Osun state compared to other selected states. Ondo state taxpayer reported the lowest level of awareness of tax policy, while Ekiti was between Osun and Ondo in terms of taxpayer awareness of tax policy. The situation in Ondo state could be attributed to the state reliance on 13% oil derivation being an oil producing state and therefore neglected the non-oil revenue such as tax.

Table 2: Level of Taxpayers' Awareness of Tax Policy

Level of taxpayers' awareness of tax policy	SA (%)	A (%)	N (%)	SD (%)	D (%)	AWV
I can interpret income tax laws and compute tax liabilities	103(22.7)	14(3.1)	0(0.0)	300(66.4)	35(7.7)	2.66
I am aware of taxpayers' right and obligation	267(59.1)	37(8.1)	0(0.0)	136(30.1)	12(2.7)	3.90
I am aware that Taxpayer must register within six months of registration of business	265(58.6)	36(7.9)	0(0.0)	102(22.6)	49(10.8)	3.80
I am aware that Taxpayer should file returns six month after year end of business or 18 months after registration of business whichever is earlier	146(32.3)	20(4.4)	0(0.0)	199(44.0)	87(19.2)	2.86
I am aware of when to pay tax liabilities and the correct liability to pay	106(23.5)	14(3.1)	0(0.0)	291(64.4)	41(9.1)	2.67
I am aware of correct tax liabilities to be paid	117(25.9)	16(3.5)	0(0.0)	298(65.9)	21(4.6)	2.80
I am aware of penalties to be paid for non-compliance	131(28.9)	18(3.9)	0(0.0)	294(65.0)	9(1.9)	2.92
There is regular availability of information on tax issues through tax authorities' enlightenment campaign	101(22.3)	16(3.5)	7(1.5)	239(52.9)	89(19.7)	2.55
I always attend taxation seminar/workshops to update myself with tax knowledge.	0(0.0)	0(0.0)	0(0.0)	408(90.3)	44(9.7)	1.90
I received information on tax issues through my tax consultants.	154(34.1)	21(4.6)	0(0.0)	269(59.5)	8(1.8)	3.09

There is no availability of information on tax issue from any source	128(28.3)	18(3.9)	9(1.9)	270(59.7)	27(5.9)	2.88
I know about tax policy through tax authority's enforcement drive	151(33.4)	21(4.6)	2(0.4)	16(57.9)	262(57.9)	2.51
Mean value						2.88

SA= *strongly agree* A= *Agree*, D=*Disagree*, SD= *strongly disagree*, N=*Neutral*, AWV=*average weighted value*.

**percentages are in parentheses*

Source: Field Survey (2019)

Table 3: Level of Taxpayers' Awareness of Tax Policy in Selected States

Awareness of Tax Policy	Osun	Ondo	Ekiti
Level of taxpayers' awareness of tax policy	AWV	AWV	AWV
I can interpret income tax laws and compute tax liabilities	2.26	2.60	3.17
I am aware of taxpayers' right and obligation	3.85	4.12	3.71
I am aware that Taxpayer must register within six months of registration of business	4.04	3.58	3.83
I am aware that Taxpayer should file returns six month after year end of business or 18 months after registration of business whichever is earlier	3.29	2.43	2.92
I am aware of when to pay tax liabilities and the correct liability to pay	3.01	2.53	2.48
I am aware of correct tax liabilities to be paid	2.90	2.72	2.78
I am aware of penalties to be paid for non-compliance	2.92	2.60	3.31
There is regular availability of information on tax issues through tax authorities' enlightenment campaign	2.87	2.46	2.33
I always attend taxation seminar/workshops to update myself with tax knowledge.	1.81	1.93	1.95
I received information on tax issues through my tax consultants.	3.00	3.07	3.23
There is no availability of information on tax issue from any source	2.73	2.68	3.30
I know about tax policy through tax authority's enforcement drive	2.51	2.75	2.24

Mean value **2.93** **2.79** **2.94**

*AWV= *Average Weighted Value*
 Source: Field Survey (2019)

Extent of Taxpayers' Compliance with Tax Policy

The extent of taxpayers with tax policy was reported in Tables 4 and 5 which report taxpayer’s compliance with tax policy in the selected Southwestern States. Average weighed value (AWV) was computed for all the item. The grand average weighed value of 2.87 indicates the extent of taxpayer’s compliances with tax policy in the surveyed states. The value shows an average level of compliances with tax policy. It implies that slight above average of the taxpayers comply with tax policy in the selected states. 78.5% do not registered for tax within the period stipulated by law, while 21.3% stated otherwise. The AWV of 1.93 report the extent of tax registration within the stipulated law. It was obvious that many of the taxpayers do not comply with the tax policy. However, the main reason why some SME registered was revealed by 51.9% of the respondents who asserted that they registered because of the fact that they need TIN to open bank account, while 48% claimed otherwise. This was reaffirmed by the AWV of 3.22. It shows that taxpayers only register for a reason not because it is obligatory as stipulated by laws.

Furthermore, the extent of tax compliances by taxpayers in the selected states was further revealed by the percentages of taxpayers who filed annual returns. The study revealed that 73.8 % of the respondents do not filed their annual returns within the time stipulated by law every year. 82.1% of taxpayers do not pay their tax liability within the time stipulated by law every year. In the same vein, high proportion of the respondents failed to pay correct tax liability within the time stipulated by law for payment every year, this represent about 65.2% of them. More so, 83.2% registered as a result of enforcement by tax authorities, while 16.9% agreed. Similarly, 60.0% of the respondents don’t pay correct liability as a result of tax audit and enforcement. From the analysis it is obvious that the taxpayers hardly comply with the tax policy and if they do, it often attributed to compulsion as indicated in percentages of the respondents who paid penalty for failure to file returns within time stipulated by law and also high proportion of the taxpayers who were penalised for failure to register within the time stipulated by law.

Table 4: Extent of Taxpayers' Compliance with Tax Policy

Extent of taxpayers' compliance with tax policy	SA (%)	A (%)	N (%)	SD (%)	D (%)	AWV
I registered for tax within the period stipulated by law.	79(17.5)	16(3.5)	2(0.4)	55(12.1)	300(66.4)	1.93
I registered because I need TIN to open bank account	199(44.0)	36(7.9)	0(0.0)	100(22.1)	117(25.9)	3.22
I file annual returns within the time stipulated by law every year	100(22.1)	17(3.8)	1(0.2)	42(9.3)	292(64.6)	2.09

I pay tax liability within the time stipulated by law every year	69(15.3)	9(1.9)	3(0.7)	298(65.9)	73(16.2)	2.34
I pay correct tax liability within the time stipulated by law for payment every year	150(33.2)	6(1.3)	1(0.2)	268(59.3)	27(5.9)	2.96
I registered as a result of enforcement by tax authorities	69(15.3)	7(1.5)	0(0.0)	304(67.3)	72(15.9)	2.32
I pay correct liability as a result of tax audit and enforcement.	167(36.9)	12(2.7)	2(0.4)	72(15.9)	199(44.0)	2.72
I pay penalty for failure to register within the time stipulated by law	298(65.9)	56(12.4)	0(0.0)	26(5.8)	72(15.9)	4.06
I pay penalty for failure to file returns within time stipulated by law	296(65.5)	74(16.4)	0(0.0)	54(11.9)	28(6.2)	4.23

Mean value**2.87**

SA= strongly agree A= Agree, D=Disagree, SD= strongly disagree, N=Neutral, AWV= Average Weighted Value

**percentages are in parentheses*

Source: Field Survey (2019)

The Table 5 shows that Ondo State taxpayer has highest level of compliance with tax policy, while Ekiti State reported lowest level compliance. It is obvious that taxpayers in Osun state are more aware of tax policy but tend to exhibit average level of compliances compare with other selected state. Ekiti state taxpayers were informed and aware of the policy but failed to corroborate that with reasonable level of compliance. The awareness of tax policy does not always lead to tax compliance. In most cases, people registered their business with board of internal revenue in order to have access to TIN. The level of compliance was clearly highlighted with affirmative response of the respondents to the question of “I pay tax liability within the time stipulated by law every year”. Almost all the respondents disagreed. It implies that they do not pay their tax liability within the time stipulated by law every year and also indicative of the fact that low level of compliance exists in the surveyed areas. It shows high risk of non-compliance among younger taxpayer than old tax payer and high risk on non-compliance among male taxpayers than female taxpayers. The study recommended that tax authority make sure tax education is being done on routine basis, so as to enable taxpayers know the need to pay tax.

Table 5: Extent of taxpayers' compliance with tax policy in Selected States

Extent of taxpayers' compliance	Osun	Ondo	Ekiti
Extent of taxpayers' compliance with tax policy	AWV	AWV	AWV
I registered for tax within the period stipulated by law.	2.21	1.58	2.06
I registered because I need TIN to open bank account	3.68	3.39	2.52
I file annual returns within the time stipulated by law every year	1.97	2.38	1.87
I pay tax liability within the time stipulated by law every year	2.21	2.19	2.64
I pay correct tax liability within the time stipulated by law for payment every year	2.97	3.02	2.88
I registered as a result of enforcement by tax authorities	2.28	2.13	2.60
I pay correct liability as a result of tax audit and enforcement.	2.12	3.07	2.93
I pay penalty for failure to register within the time stipulated by law	4.47	4.26	3.39
I pay penalty for failure to file returns within time stipulated by law	4.19	4.29	4.18
Mean value	2.90	2.92	2.79

*AWV=*Average Weighted Value*

Source: Field Survey (2019)

Challenges Faced by SMEs on Compliance with Tax Policy

In identifying the challenges facing SME for non-compliance with tax policy, the study ranked the various items of challenges using relative importance index as reported in Tables 6 and 7. Presence of high level of corruption in the tax administration with average weighted value of 4.12 was ranked the most important factors facing the SME in complying with tax policy in the sampled states. This factor was asserted by about 81.8% of the taxpayers. It is in line with Chukwumah (2017) who opined corruption in tax administration in Nigeria discourages potential taxpayers in complying with tax policy especially by filing returns in time. Discouraging attitudes of staffs of tax authorities was ranked second as challenges facing the SMEs for non-compliances with tax policy with AWV of 3.98. This factor was asserted by about 77.8% of the respondents. Next to that is the lack of financial power to pay tax when the firm makes loss with AWV of 3.91 and 73.2% of the respondents were in strong support of the factor.

The lack of relevant information to make compliance decision was the lowest ranked challenges facing the SMEs in complying the policy with AWV of 3.14. In another great term the cumbersome compliance process in Nigeria discourages tax compliances among the taxpayers as submitted by about 65.2% of the respondents with AWV of 3.74. It is in agreement with Samuel, (2016) who

opined that difficult process in filing tax returns undermine tax compliances and also failure to understand the technical process involved. Oladipupo and Obazee (2016) claimed that tax laws are ambiguous in certain respects, taxpayers are always willing to reduce their tax liabilities through tax evasion or by tax avoidance.

Table 6: Challenges faced by SMEs on Compliance with Tax Policy (Descriptive Statistics)

Challenges faced by SMEs	SA	A	N	SD	D	AWV	Rank
The compliance cost is too high for me to bear	197(43.6)	78(17.3)	0(0.0)	104(23.0)	73(16.2)	3.49	7 th
The compliance process is too cumbersome	291(64.4)	4(0.9)	0(0.0)	65(14.4)	92(20.4)	3.74	4 th
The tax system is not fair to taxpayers	292(64.6)	1(0.2)	0(0.0)	15(3.3)	144(31.9)	3.62	5 th
The Firm has no financial power to pay tax when the Firm makes loss	293(64.8)	38(8.4)	0(0.0)	31(6.9)	90(19.9)	3.91	3 rd
There is no availability of relevant information to make compliance decision	179(39.6)	17(3.8)	0(0.0)	201(44.5)	55(12.2)	3.14	8 th
Tax rules are too complicated to comply with	99(21.9)	196(43.4)	0(0.0)	150(33.2)	7(1.5)	3.50	6 th
There is high level of corruption in the tax administration	298(65.9)	72(15.9)	0(0.0)	3(0.7)	79(17.5)	4.12	1 st
The attitudes of staffs of tax authorities are not encouraging	199(44.0)	153(33.8)	0(0.0)	96(21.2)	4(0.9)	3.98	2 nd
Remark						3.69	High

SA= strongly agree, A= Agree, D=Disagree, SD= strongly disagree, N=Neutral, AWV= Average Weighted Value

*percentages are in parentheses

Source: Field Survey (2019)

Table 7: Challenges Faced by SMEs on Compliance with Tax Policy in Selected States

challenges faced by SMEs	Osun	Ondo	Ekiti
Challenges faced by SMEs for non-compliance with tax policy	AWV	AWV	AWV
The compliance cost is too high for me to bear	3.59	3.03	3.92
The compliance process is too cumbersome	3.82	3.60	3.82
The tax system is not fair to taxpayers	3.24	3.65	3.98
The Firm has no financial power to pay tax when the Firm makes loss	3.97	4.39	3.26
There is no availability of relevant information to make compliance decision	3.11	3.13	3.17
Tax rules are too complicated to comply with	3.66	3.48	3.39
There is high level of corruption in the tax administration	4.21	4.15	3.98
The attitudes of staffs of tax authorities are not encouraging	3.95	3.98	4.02
Mean Value	3.69	3.67	3.69

AWV= Average Weighted Value

Source: Field Survey (2019)

Test of Hypotheses

H₀₁: The level of awareness of tax policy has no significant effect on the compliance with the policy by SMEs.

The analysis in Table 8 shows the results of the multiple regression of level of awareness of tax policy on SMEs' compliance. Multiple linear regression technique was used to test whether or not the level of awareness of tax policy has significant effect on the compliance of SMEs. The results revealed that awareness of tax registration ($t = 6.755$, $p < 0.05$), awareness of taxpayers' right and obligation ($t = 7.861$, $p < 0.05$), and awareness of correct tax liabilities to be paid ($t = 4.782$, $p < 0.05$) had significant effect on the compliance of SMEs with tax policy. The analysis of variance (ANOVA) showed that all the measures/variables of awareness of tax policy had significant effect on SMEs' compliance with tax policy ($F = 157.053$, $p < 0.05$). Furthermore, the coefficient of determination (R square) showed that the level of awareness of tax policy explained about 68% change in compliance of SMEs with the policy. Therefore, the analysis affirmed that the level of awareness of tax policy had significant effect on the compliance of SMEs with the policy. Therefore, the hypothesis H_{01} is rejected. This implies that the more the level of awareness of tax policy increases, the more the compliance of SMEs with the tax policy.

Table 8: Multiple Regression of Level of Awareness of tax Policy on SMEs' Compliance

Analysis of Variance				
Source	Sum of squares	df	Mean square	F (sig.)
Regression	461.778	6	76.963	157.053 (0.000)
Residual	218.069	445	0.490	
Total	679.847	451		
Coefficient				
Independent Variable	Beta	s.e	t	Sig.
(Constant)	0.609	0.219	2.785	0.006
Awareness of tax registration	0.273	0.040	6.755	0.000
Interpret income tax laws & compute tax liabilities	0.046	0.041	1.146	0.253
Attend tax seminars/workshops	0.015	0.067	0.231	0.817
Awareness of taxpayers' rights & obligation	0.473	0.060	7.861	0.000
Awareness of correct tax liabilities to be paid	0.618	0.129	4.782	0.000
Receive information on tax issues regularly	0.007	0.045	0.156	0.876
Correlational statistics				
Dependent variable	R square	Adjusted R square	S.E of the estimate	Durbin Watson
Compliance with tax policy by SMEs	0.679	0.675	0.70	1.623

Source: Author's Computation (2019)

H₀₂: SMEs' challenges and the extent of compliance with tax policy are independent

The analysis in Table 9 shows the results of the Chi-Square Analysis depicting the relationship between challenges faced by SMEs and the extent of compliance with tax policy. Chi-square analysis was used to test whether or not the challenges faced by SMEs and the extent of compliance with tax policy are independent. The contingency table of both the observed and expected values were computed using cross tabulation of key variables of challenges faced and extent of compliance. The Chi-square statistic showed that the challenges faced by SMEs and the extent of compliance with tax policy was dependent ($\chi^2 = 677.708$, $p < 0.05$). Thus, the results revealed that the challenges faced by SMEs and the extent of compliance with tax policy are dependent. Cramer's V revealed the extent of the dependence which in this case happened to be as high as about 71%. Therefore, the hypothesis H₀₂ is rejected.

Table 9: Chi-Square Analysis showing the Relationship between Challenges faced by SMEs and the Extent of Compliance with Tax Policy

Contingency table for observed and expected values							
		Extent of compliance				Total	
		SD	D	A	SA		
SMEs	SD	Count	28	46	5	0	79

		Expected Count	4.9	9.4	12.9	51.7	79.0
	D	Count	0	2	1	0	3
		Expected Count	.2	.4	.5	2.0	3.0
	A	Count	0	6	59	7	72
		Expected Count	4.5	8.6	11.8	47.2	72.0
	SA	Count	0	0	9	289	298
		Expected Count	18.5	35.6	48.8	195.2	298.0
Total		Count	28	54	74	296	452
		Expected Count	28.0	54.0	74.0	296.0	452.0
Results							
Statistic			Value			Sig.	
Pearson Chi-square			677.708			0.000	
Cramer's V			0.707			0.000	

5. CONCLUSION AND RECOMMENDATION

The study revealed that there was awareness of tax policy among SMEs in the selected states, although the level of awareness seems to be mild by reporting a grand average weighted value of 2.88. The study also revealed low level of compliance among SMEs in the southwestern Nigeria. The study also revealed a number of challenges faced by SMEs in Southwestern Nigeria for non-compliance with tax policy. The study revealed high level of corruption in the Tax System as mostly contributed to non-compliance among SMEs in Southwestern Nigeria. Discouraging attitude of members of staff of tax authorities, lack of financial power to pay tax and cumbersome compliance process are other high ranking factors that discouraged taxpayers from complying with tax policy as revealed by the study, failure to understand the technicalities in the process and ambiguous tax laws discouraged compliance. Lack of relevant information to make compliance decision was the least ranked among challenges faced by SMEs in Southwestern Nigeria that discouraged them from complying with tax policy.

The study also showed that level of taxpayers' awareness of tax policy have a positive significant effect on level of compliance with tax policy, this means if level of awareness increases then level of compliance will also increase. This was shown by the hypotheses testing where all the variables for awareness showed positive and significant relationship with all the variables for compliance.

The study also revealed that the challenges faced by SMEs and extent of their compliance with tax policy were dependent. This means if challenges are minimized then level of tax compliance will increase.

Based on the findings of this study, the following recommendations were made:

- i. Tax authorities should ensure taxpayers get constant and timely tax enlightenment to increase taxpayers' awareness level so as to increase the level of compliance with tax policy.
- ii. Tax authorities should ensure conferences and seminar on tax matters are arranged and ensure taxpayers are in attendance so as to increase their knowledge of tax matters.
- iii. Information on how to determine tax liability to be paid by taxpayers should be available to them at all time so as to serve as a guide for taxpayer to compute their tax liability. This will invariably reduce cost of compliance.

- iv. Government should develop a framework for tax amnesty in order to bring more taxpayers to tax net.
- v. Relevant tax Authorities should focus on taxpayers' service. Government should ensure that periodic evaluation of tax system is done.
- vi. Relevant tax authorities should establish a compliant system, honour and recognise taxpayers who comply with their tax obligations timely.

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