

DETERMINANTS OF TAX COMPLIANCE OF SMALL AND MEDIUM-SCALE ENTERPRISES (SMEs) IN EDO STATE

PETER OKOEGUALE IBADIN, *PhD*

Department of Accounting

Faculty of Management Sciences

University of Benin

Edo State, Nigeria

Email: prinadmutilink@yahoo.com/okoeguale.ibadin@uniben.edu

RUFUS SUNDAY OLORUNTOBA

Department of Accounting

Faculty of Social and Management Sciences

Adekunle Ajasin University

Akungba Akoko.

Ondo State, Nigeria

Email: olorutobasundayrufus@gmail.com

ABSTRACT

The small and medium scale enterprises (SMEs) represent the pivot of developments globally. To this end, interest is beginning to mount in activities that may suggest positive impact on the SMEs, and consequently, enhance economic growth and development of any country. This has become possible as the SMEs become alive to their responsibilities of meeting their tax obligations which in turn help to build infrastructures. It is in the light of this that this paper examines the determinants of tax compliance amongst SMEs in Edo State, in the South-South Nigeria. This State is a 'choice study' to examine the determinants of tax compliance amongst SMEs, given the full compliments of implemented Personal Income Tax (Amendment) Act, 2011. Some variables of interests in this study include Tax Compliance of Small and Medium Enterprises (TCSME), the dependent variable, regressed on the independent variables of Tax Audit (TAUDA), Tax Rate (TAR), Multiple taxation (MTC), Tax Procedures (TPRD), and Firm Age (FRMAGE) as a control variable. The Ordinary Least Square technique (OLS) was used for the analysis, having proven the diagnostic tests that were conducted on the OLS. The findings show that Tax Audit (TAUDA) and Tax Procedures (TPRD) have a positive relationship and a significant impact on Tax Compliance of Small and Medium Enterprises (TCSME) while Tax Rate (TAR), Multiple taxation (MTC) and Firm Age (FRMAGE) have a positive but with a non-significant impact on TCSME. On the strength of these findings, it was recommended that the tax rate in Edo State should be made competitive, and multiple tax rates eliminated just as the same laws operate in other states in Nigeria. Besides, the government should consider educating the small and medium enterprises as this can enhance their knowledge and increase their compliance behaviour.

INTRODUCTION

Small and medium scale enterprises (SMEs) form the core of majority of the world's economies (Ayanilo, 2015). The Federal Office of Statistics in Nigeria conducted a survey that

demonstrates that 90% of small and medium scale enterprises in Nigeria contributed employment chances (Anjorin, 2010). The small nature of SMEs does not affect their significance to the economy because of the multiplier impact and synergy which exceed those of the large companies because SMEs are known sources that can reduce unemployment amongst the small groups of job seekers and unhealthy rivalry, improve commercial activities that lead to the transmission of skills (Anjorin, 2010). But in spite of the potentials of small and medium scale enterprise (SME) and their potentials of enhanced economic activities, leading to economic development and good revenue generation, many governments have failed to achieve the desired economic development, using tax revenue from these business units (Ojochogwu & Stephen, 2012; Gitu & Ngugi, 2015). The failure to leverage on the enormous potentials of the SMEs in terms of revenue generation may not be unconnected with the seeming tax avoidance and evasion which are characteristic of the informal sector where a number of these businesses operate.

The issue of tax avoidance by small and medium scale enterprises has lingered for several decades and has been a huge challenge. Prior literature on tax compliance conducted especially in the developing countries, for instance in Ghana, Kenya, Zimbabwe, amongst others, show a high level of tax avoidance, high rate of tax with its consequential non-compliance effects as against the developed countries, such as the United Kingdom and the United States of America where incentives appear more attracted to SMEs (Ogoun, 2014). In consequence, the developing countries have had hindered expansion of SMEs and economic decline and other socio-economic problems amongst the developing nations.

It is argued that any government in dare need to harness the revenue-generating capacity of the SMEs, can generate enormous revenue if it so desires .To this end, some studies have linked tax conformity and tax knowledge with tax compliance of the Small and Medium-scale Enterprises (SMEs) (Djawadi & Fahr, 2013); tax rate with SMEs (Maseko, 2014), complex filing procedures and multiple taxation with SMEs (Ojochogwu & Stephen, 2012)), tax fairness and perceptions of SMEs operators (Gilligan & Richardson, 2005), the quality of tax services and recurrent expenditure with SMEs tax compliance decision (Ayanilo, 2015). These studies, no doubt represent a skewed view of isolated factors that might affect SMEs due to the variables considered in the studies. Some of these studies examined each of the individual factors. In specific terms, Ogoun (2014) examined the effective tax administration and institutionalization of accounting systems in small and medium scale enterprises in Nigeria. Some prior studies (Mutai (2013), Maseko (2014), Gitu and Ngugi (2015) examined tax compliance amongst SMEs. Other studies examined tax audit and tax compliance in Nigeria (Ebimobowei & Eze, 2013). But none of these studies had an array of factors in a specific zone of Edo State. Besides, given a plethora of factors that can likely impact the SMEs, the significant interest in this paper is to examine the critical factors that tend to affect tax compliance of SMEs on which stakeholders will place emphasis.

In the light of the foregoing, this paper focuses on the determinants of tax compliance of Small and Medium-scale Enterprises in Edo State, South-South Nigeria.

Conceptualizing Small and Medium-scale Enterprises

There is a subjective and qualitative definition of a SME in general terms because no economic situation exists everywhere. The USA, U.K., and Canada define small-scale business in

terms of annual turnover and the number of paid employees. In U.K., SME is defined as one with an annual turnover of 2 million pounds or less with fewer than 200 paid employees. In Japan, SME is defined according to the type of industry, paid-up capital and number of paid employees. Consequently, SMEs defined as: those in manufacturing with 100 million yen paid-up capital and 300 employees, those in wholesale trade with 30 million yen paid-up capital and 100 employees, and those in the retail and service trades with 10 million yen paid-up capital and 50 employees (David & Nyong, 1992).

In Nigeria, the Small and Medium Enterprise Equity Investment Scheme (SMEEIS) introduced in 2001 described the SME as any enterprise with a maximum asset base of N500 million (excluding land and working capital), and with no lower or upper limit of staff. The Central Bank of Nigeria's (1988) monetary Policy Circular No. 22, defined SME as an entity having an annual turnover not exceeding 500,000 naira. In the 1990 budget, the Federal Government of Nigeria defined an SME, for purposes of commercial bank loans, as an entity with an annual turnover not exceeding 500,000 naira. Section 37b(2) of the Companies and Allied Matters Decree of 1990, as amended (CAMA,1990) defines a SME as one with:(a) an annual turnover of not more than 2 million naira;(b) net asset value of not more than 1 million naira While Section 40(6) of the Companies Income Tax Act Cap C21 LFN 2004 defined SMEs in terms of companies with a turnover of N1 million and below operating in the manufacturing, agricultural production, solid mineral mining, and export trade sectors.

SMEs cannot be defined with one set of features. SMEs are varied; and their existence is born out of the economic features or characteristics that prevail in the country, and Nigeria is not an exception as such characteristics also find expression in the SMEs in Nigeria. However, these characteristics or features are defined by the economic evolution, innovation and history of the SMEs in the affected country where the SMEs take their roots.

SMEs in Nigeria have some defined features which, according to Aderemi (2003), are usually small-owner-based and family-centred, offering basic goods and services and tend to lack organizational and management structures (Hanefah, Ariff, & Kasipillai, 2002) .In sum, SMEs are dynamic (Olorunshola,2003) and predominantly, sole proprietorships, partnerships and, even, registered Limited Liability Companies (Udechukwu,2003), having low start-up capital, high tendency towards subjective decisions, labour- intensive production processes, few number of employees, low level of education of SMEs owners, and fused legal identity between the SMSs and their owners .The fused legal identity suggests that the lifespan of the SMSs is not separate with the lifespan of the owners. The SMSs also are shown to be at the lower end of the ladder in the supply chain, supplying principally raw materials to the larger companies. The consequence of these features will be an informal record keeping.

However, it is crucial that SMEs keep and maintain (a) Proper books and records to include the preparation and maintenance of full and accurate records accounts. These records should be sufficient to enable the relevant person, such as sole trader, partner or company to carrying on the business to calculate business profits and to make true and proper tax. (b) The Pay As You Earn (PAYE) System. This occurs if the business has employees; where the business is expected to operate the PAYE system of deductions at source of tax and the universal social charge from the payment of salary and wages to employees (c) Record Value Added Tax based on the turnover. However, where the turnover of a business exceeds a certain thresholds, then the business must (i) register with the revenue commissioners for VAT and (ii) operate the VAT

system. (d) Relevant Contracts Tax-tax (RCT) which should be a tax deduction at source system that applies to payments made by a principal contractor to a subcontractor under a relevant contract.

Tax Compliance and Small and Medium-Scale Enterprises

Generally, tax compliance by any entity, covers all the activities required to be carried out by the taxpaying public in order to meet the statutory requirement of the tax laws of a given country. These activities include: preparation of tax returns filed by individuals and organizations, report accurate income, calculate tax liabilities and file returns to relevant tax authority (Pyikison, 2013). In sum, tax compliance can be deduced as the filing and reporting of all the information required by the relevant tax authorities by a taxpayer, including the act of correctly self-assessing on tax owed, and making payment of the assessed amounts on a timely manner. When a tax payer does not file tax returns, or he wrongly reports his income, misreports the deductions or income tax amount, then non-compliance is said to have occurred.

Tax compliance can be voluntary and mandatory: it is voluntary when the tax system is based on taxpayers' compliance with the tax laws without being compelled by the tax authority to do so. In a voluntary compliance, the tax payer files his tax returns without the force of compulsion. On the other hand, mandatory tax compliance is based on the requirements of the law. The taxpayer files returns with the relevant tax authority as he or she is served with the notice. Beyond this, tax compliance is driven by some factors. However, Fischer, Wartick and Mark (1992) categorized the factors into tax system structure, made up of tax rate, attitude and perception, complexity of tax system, penalty, and probability of detection, noncompliance opportunity and demographic factors. In SMEs, the underlying factors in tax compliance include, but not necessarily restricted to, low efficiency, high tax rates, high collection charges, the low amounts of taxes collected, deviation of optimum allocation of resources (Farzbod, 2000), multiple taxation, weak tax planning, and high taxation cost (Yaobin, 2007), gender biases and moral restraints (Jackson & Milliron, 1986 and Brautigam, Odd-Helge, & Mick (2008).

In sum, tax compliance can be described as the process of fulfilling the tax payer's civic obligations for tax payments, beginning with the filing of correctly filled tax returns, submission of the necessary documents, and provision of required explanations on queried items in a timely manner. Therefore, failure to file a tax return or perform the contents, contained in the tax return, including ,understatement of income, overstatement of deductions and expenses, the failure to pay the assessed taxes by due date and in some case deliberate non compliance to pay the assessed levies can be termed tax non-compliance. This supports the views by Badara (2012) who described tax compliance as the ability of a taxable individual to submit accurate, complete and satisfactory returns in conformity with tax laws and regulations of the State

Tax compliance has various phases in its explanation. Some studies have been conducted to analyze the phases seen in the critical factors that deemed to affect tax compliance. These include taxpayers' education, tax knowledge, tax justice, among others.

Verboon and Dijke (2012) have argued that the individual taxpayer could be motivated to voluntarily submit to tax authorities by paying their tax obligations.

Determinants of Tax Compliance of SMEs

Generally, there are factors known to affect the tax compliance of SMEs. These factors are varied and appeared in the literature (Evans, Carlon, & Massey, 2005; Palil & Mustapha, 2011). The relationships that accrue from the interactions between these factors and tax compliance are defined by a number of circumstances, ranging from jurisdictions where the studies are carried out, to social- economic and environmental. The following factors are however examined.

Tax Audit and Assessment and Tax Compliance of SMEs

Tax audit is an examination of an individual or organization's tax report by the relevant tax authority in order to ascertain compliance with applicable tax laws and regulations of the state (Jemaiyo & Mutai, 2016). To this extent, a tax audit is a means of providing confidence or credibility to an entity's tax financial information and tax returns and to verify the accuracy of the income and deductions submitted to the tax authority in line with requirements of the relevant tax laws. In sum, tax audit requires an independent examination of accounts, tax returns, tax payments and other records of a taxpayer to confirm the correctness or otherwise of the tax paid in compliance with tax laws.

Evans, Carlon and Massey (2005) examined the record keeping practices and tax compliance of SMEs in Australia, revealing that low tax compliance among SMEs in Australia can be connected with poor record keeping by SMEs. The study concluded that tax compliance is encouraged when a good record keeping is practised and a good tax audit is carried through. Palil and Mustapha (2011) examined tax audit and tax compliance in Asia and found that tax audits could change compliance behaviour from negative to positive

However, the frequency of tax audits, in recent times, by the Federal Inland Revenue Service (FIRS) in Nigeria and the various State Boards of Internal Revenue (SBIR) has risen. This ensures that the taxpayer complies with the provisions of tax laws (Adediran, Alade, & Oshode, 2013 and Kayaga, 2007). It is further argued that tax audit normally subjects the individual's or organization's tax report to credibility test and appropriate tax laws and regulations of the State (Kircher, 2008). This, it is believed, will lead to voluntary tax compliance, the position of which was supported by Ola (2001) when he wrote that tax audit improves voluntary compliance by detecting and bringing into account those who do not pay the correct amount of tax.

Further studies in Nigeria (Badara, 2012) showed the effects of tax audit on tax compliance in Nigeria; indicating a positive association between tax audit and tax compliance. Such an association, explained further, suggests that a tax audit exercise leads to compliance habits by firms. In a similar study, Modugu and Anyaduba (2014) investigated the impact of tax audit on tax compliance in Nigeria. They found a positive relationship between tax audit and tax compliance. A study by Niu (2010), in his study, found a positive association between a tax audit and voluntary compliance.

Tax Rate and Tax Compliance of SMEs

A tax rate is a percentage that is applied on the income of a taxable individual or an organization as part of individual's or an organization's civic responsibility to assist the government in its effort to develop and provide infrastructures. Currently the tax rate for Small

and Medium Scale Enterprises stands at 20% as against 30% for large companies that are not as categorized as an SME in Nigeria.

However, in the academic and empirical literature, what constitutes an appropriate tax rate for large corporate organizations and SMEs has become an issue of discourse. It is argued that a high tax rate does not encourage the survival of SMEs. In a study conducted by Gitu and Ngugi (2015) in which tax rate, public awareness, high compliance cost and complex systems were found to have a great impact on tax compliance of the SMEs in Gikomba Open Market, Kenya. Rugy (2003) reported that changes in marginal changes in income tax rates cause individuals and businesses to change their tax compliance behaviour. The study provides an inverse relationship between high tax rate and taxable income and expanded businesses. De Mooij and Nicodème (2006) in their study found positive relationship between changes in tax rates and changes in prices of various goods and services. Rugy (2003), however, found a positive relationship between tax rate cuts and increased tax base and reduced tax avoidance.

Multiple Taxation and Tax Compliance of SMEs

Multiple taxation, also termed multiplicity of taxes, or multiple taxes in the context of this paper, is characterized by the imposition of more than one tax or tax rate on the same tax base by the same or different regulatory authorities. Stern and Barbour (2005) indicated that there is a significant connection between multiple taxation and SMEs' survival. In Nairobi, Kenya, Gathigia (2011) examined the effect of taxation on the growth of SMES and argued that stagnation of the growth of SMEs is a result of non-supportive tax laws. Studies in Nigeria (Ariyo, 1997; Ayodele, 2006; Popoola, 2009; Ahunwan, 2009) affirmed the position canvassed by Stern and Barbour (2005) and Gathigia (2011) that multiple taxation is truly a prevalent problem of companies. SMEs, being business entities, have been challenged with multiplicity of taxes which has been described as a very unfair dealing from the government and tax administration.

Multiple taxation is a huge burden that affects the growth and development of SMEs and individuals who run businesses for profit-making in Nigeria or elsewhere. Ojeka (2011) examined tax policy and the growth of SMEs in the Nigerian economy and found that multiple taxation affected SMEs negatively; and that it was one challenge of SMEs that allows the same tax base, the same income, to suffer multiple taxation either from the same or different tax authority. The study conducted by Ojochogwu and Stephen (2012) on the evaluation of the factors that affect tax compliance among SMEs in North-Central Nigeria, revealed that multiple taxation influences tax compliance behaviour negatively. In 2013, Adebisi and Gbegi examined the effects of multiple taxes on the performance of SMEs in Nigeria and found that multiple taxes are a common denominator for SMEs as a debilitating factor in the wheel of progress of SMEs development in Nigeria. In addition, Ocheni and Gemade (2015) investigated the effects of multiple taxation and performance of SMEs in Benue State in Nigeria. The study found that multiple taxation had negative effects on SMEs' survival, as the relationship between SMEs' size and its capacity to pay taxes in their study was significant. This study corroborates the studies by Adebisi and Gbegi (2013) and Gathigia (2011)

Tax Procedures and Tax Compliance of SMEs

Tax procedures involve all the activities taken by the taxpayers to file and document the actual amount computed as the taxpayer's tax liability to be paid to the relevant tax authority.

The ease of filing of returns and documentation with the relevant tax authority has been traced to the competency of staff in place, amongs other variables. Capable tax expertise can strengthen efficiency and the compilation of direct taxes (Junainah, 2002). Besides, good and efficient tax dealings are seen to enhance revenue generation, and can be a consequence of the ease of proper filing and documentation by the tax payer (Inland Revenue Board Annual Report, 2010). Tax procedures imply training of tax agents whose productivity will find expression in the level of relationship between the taxpayers and tax agents and improvement in the economies of scale' impact of paperwork and procedures required by tax authorities (Eichfelder & Schorn , 2008).

Firm Age and Tax Compliance of SMEs

Firm age reflects the age of a firm since it was incorporated. SMEs can be sizes defined in terms of the number of employees on its payroll (Ojochogwu & Stephen, 2012).), the total assets of the firm, profitability or turnover. SMEs are run as unregistered businesses, sole proprietorships, partnerships, and in rare cases, registered companies. It is argued that those younger businesses bear higher tax compliance costs when compared with older businesses (Eragbhe & Omoye, 2014). A study by Eichfelder and Schorn (2008) revealed that SMEs bear a higher tax cost by reason of the size of SMEs

Empirical Studies

Yong (2011) examined tax compliance and SMEs operators in New Zealand. The study employed qualitative approach by applying Hofstadter's (1980) cultural framework to examine the differences in the tax compliance behaviours, attitudes, and perceptions of European, Maori, Asian and Pacific SMEs' operators in New Zealand. Yong's (2011) aim was to gain rich and in-depth understanding of the tax compliance dynamics. To this end, additional perspectives were sought from tax practitioners and business experts to provide insights into the influences of networks, time, risk orientations and SMEs' operators' perceptions of the tax authority. Employing a survey method of data sourcing, using 59 ethnic SMEs' operators, tax practitioners, and business experts which were interviewed between 2006 and 2010, Yong (2011) found that collectivistic groups used their networks to lower their tax compliance costs, whereas others were required to fulfill their group's obligations, thereby hindering their ability to pay their taxes on time. Groups with higher uncertainty avoidance, long term time orientation and masculinity traits had better record keeping systems and fewer tax compliance problems.

Lignier and Evans (2012) examined the rise of tax compliance costs for the small business sector in Australia. In addition to the measurement and analysis of tax compliance costs, the study differentiated tax compliance activities from core accounting activities in order to identify the managerial benefits of tax compliance that may compensate taxpayers for some of the compliance costs. Lignier and Evans (2012) also investigated whether various small business concessional regimes are achieving their objectives of relieving some of the effects of the compliance burden. But the result was low.

Ojochogwu and Stephen (2012) examined the factors that affect tax compliance among small and medium scale enterprises (SMEs) in North Central Nigeria. Findings show that tax is an important stream of revenue for government's development projects. However, tax compliance among SMEs was found to be poor. Besides, multiple taxation was found to

impinge negatively on tax compliance in that study. The study recommended that a lower percentage of tax rates should be used for SMEs to allow for business development and better chances of survival in a competitive market.

Mutai (2013) investigated the determinants of tax compliance among small and medium scale enterprises in Uasin-Gishu County Nairobi, utilizing the survey method of interview and questionnaire. Findings indicated that SMEs face different business conditions from large companies which cause them to bear high tax compliance burdens. Results also indicated that the perceptions of SME operators about tax fairness, tax service quality and government spending priorities greatly affected their tax compliance decisions. Tax knowledge was discovered to have no correlation with tax registration compliance but had weak negative correlations with filing compliance. Compliance costs were discovered to have negative correlations with tax compliance.

Maseko (2014) investigated the determinants of tax compliance by small and medium scale enterprises in Zimbabwe, focusing on tax knowledge and compliance costs in Zimbabwe for the tax period 2009 to 2011. Results indicated that SMEs face different business conditions from large companies which cause them to bear high tax compliance burdens. The results further indicated that the perceptions of SME operators about tax fairness, tax service quality and government spending priorities greatly affect their tax compliance decisions. Tax knowledge was discovered to have no correlation with tax registration compliance but weak negative correlations with filing compliance. Compliance costs were discovered to have negative correlations with tax compliance. It was recommended that the current tax law should be amended to incorporate provisions that grant special tax incentives to SMEs in order to improve voluntary tax compliance by SME taxpayers. The study also recommended that the Zimbabwe Revenue Authority should disseminate information on tax updates more frequently in order to improve the levels of tax knowledge for voluntary tax compliance.

Akinboade (2014) investigated the determinants of tax compliance behaviour of small and medium size businesses in Cameroon with survey research method, using a sample of 575 small and medium size businesses operating in the manufacturing and wholesale sectors. The results indicated that tedious compliance process results in filing having significant relationship with non-compliance of SME owners. It was recommended that an unambiguous tax system be put in place such as will promote compliance level of SMEs. In a study by Abdulsalam, Almustapha and El-Maude (2014) on tax rate and tax compliance in Africa, findings reveal a correlation, as well as an effect of tax rate on tax compliance in Africa. Based on the findings, it was recommended that an affordable tax rate based on activities of the enterprise and the scale of the economic activities of the country affected should be achieved.

Gitu and Ngugi (2015) evaluated the determinants of non-tax compliance amongst small and medium scale enterprises in Gikomba Open Market, Nairobi County, Kenya. The target population comprised 4560 SMEs categorized into manufacturing, trade and services. Closed ended questionnaire was used for a sample of 456 SMEs and obtained through a multistage sampling technique. The data were purely qualitative and were analyzed for descriptive statistics, and the results presented in form of frequency tables charts. Results confirmed that high tax rate, lack of public awareness, high compliance cost and complex systems had a great influence on non-tax compliance amongst the SMEs in Gikomba Open Market. But, technology did not have any influence on non-tax compliance amongst the same

SMEs. It was however, recommended that tax payment systems that ease SMEs compliance be introduced. Similarly, tax rates are made based on the SMEs earnings.

In Ali, Iddrisu and Sebil's (2015) study on modeling the causes of tax default among small and medium scale enterprises (SMEs) in the Tamale Metropolis of Ghana, logistic regression was used to estimate the effect of some factors on tax default. Results revealed that the three most significant factors accounting for tax default among SMEs are: the kind of SMEs, inadequate tax education by tax authorities, and multiple taxation. The study therefore recommended that SMEs should be adequately educated on the importance of tax to the state and be encouraged to pay tax to internal revenue service and other mandatory agencies for the development of the nation.

Though the literature review suggests some form of uniformity in the factors that affect tax compliance, there is no doubt that there is lack of consistency in substantial terms of these factors, hence the continual search for factors that will serve as the fulcrum on which policy direction can assume. To this end, this study is an attempt to contribute to the copious literature on the determinants of tax compliance, using Edo State, Nigeria.

METHODOLOGY

The study adopted is a cross sectional research design and its use is premised on the derived data collected from the cross sections of SMEs at a specific point in time in one year in Benin City, Edo State. The population consists of the Nigerian SMEs located in Edo State, South-South Nigeria. A survey of three hundred (300) SMEs was made, serving each SME with a copy of the constructed questionnaire. The 300 SMEs were drawn from the registered 682 SMEs in Edo State as 31st December, 2016 (Finelib, 2016). Statistical formula by Yaro Yamane (Yamane, 1973) was used to derive the sample size, using random sampling method to derive the participating SMEs, with error limit of 0.05, indicating 95% confidence level. The questionnaire was used to elicit required responses from each of the 300 SMEs in Edo State. The questionnaire was adopted and the required questions structured for ease of response. The questionnaire was designed to reflect two sections. Section A comprises the demographic data and Section B was made of questions that related to the determinants of tax compliance of SMEs. Section A addressed the demographic information of respondents, while Section B was sub-dividend into sections A-F with focus on issues on the determinants of tax compliance of small medium scale enterprises in Nigeria.

Validity and Reliability

The research validity focused on the scope of the survey to provide confirmation regarding the responses from the SMEs in Edo State. To produce reliable results, credible qualitative research methods, like the interviews, focus group discussions and the questionnaire were used to obtain relevant responses. The likert-type scale was structured to allow for the maximum and reliable information to be obtained and in consonance with the objectives of the study. To achieve the validity and reliability, the questions were designed from accessible instrument, the questionnaire, to elicit the required information from the respondents. However, respondents' expressions and responses were validated by ensuring that all research questions covered are not only matched with the research topic and expert opinions but that the choices of questions asked in the questionnaire were confirmed to cross

match the purpose of the study. The average reliability coefficient was 0.75 which shows that the instrument is 75% reliable. The information collected after the pretest exercise was useful in revising the questionnaire with the main purpose of improving the reliability of instrument, after which the instrument was considered adequate and reliable for the study.

Model Specification

This paper evaluates the determinants of tax compliance of SMEs in Edo State. To achieve this, the following functional model is given, thus:

$$TSME = F (TAUDA, TAR, MTC, TPRD, FRMAGE),$$

The testable model is given, thus:

$$TCSME = B_0 + B_1TAUDA + B_2 TAR + B_3MTC + B_4TPRD + B_5FRMAGE + U$$

Where:

The Dependent Variable or Explained Variable:

TCSME = Tax Compliance of Small and Medium-Scale Enterprises

The following are the Independent Variables or Explanatory Variables.

TAUDA= Tax Audit over the cross sectional period of 1 year

TAR=Tax Rate over the cross sectional period of 1 year

MTC =Multiple Taxation over the cross sectional period of 1 year

TPRD= Tax Procedures over the cross sectional period of 1 year

FRMAGE =Firm Age over the cross sectional period of 1 year

U = Stochastic Error Term

$\beta_0, \beta_1, \beta_2, \beta_3$ = coefficient of regression model

β_0 = the intercept, ($\beta_1, \beta_2, \beta_3 \dots \beta_n$) coefficient of explanatory variables

Apriori expectation = $\beta_1 < \beta_0, \beta_2, \beta_3. \beta_n > 0$

DATA PRESENTATION AND ANALYSIS

Demographic variables of the respondents, as gender, age and highest educational level, were measured by asking respondents to appropriately tick their responses in respect to the bio-data.

Table 1: Gender of Respondents

Sex	Frequency	%	Valid %	Cum %
0	161	54.2	54.2	54.2
1	136	45.8	45.8	100
Total	297	100	100	

Source: SPSS Version 22

The table 1 provides an analysis with respect to gender attributes of the respondents. From the table it was observed that fifty four percent (54%) of the respondents were female while the remaining forty six (46%) percent were male respondents.

Table 2: Age of Respondents

	Frequency	%	Valid &	Cum. %
1	60	20.2	20.2	20.2
2	60	20.2	20.2	40.4
3	60	20.2	20.2	60.6
4	81	27.3	27.3	87.9
5	<u>36</u>	<u>12.1</u>	<u>12.1</u>	100
Total	297	100	100	

Source: SPSS Version 22

In table 2, it was observed that twenty (20) of the respondents were between the ages of 20-25, twenty (20) of the respondents also fell between the ages of 26-30 years of age. Respondent within the ages of 31-35 accounted for 20%. Twenty seven percent of the respondents that fall between the ages of 36-40 years account for 27%, while respondent between forty one (41) years and above account for only 12%.

Table 3: Marital Status of Respondents

	Frequency	%	Valid &	Cum. %
1	91	30.6	30.6	30.6
2	159	53.5	53.5	84.2
3	47	15.8	15.8	100
Total	297	100	100	

Source: SPSS Version 22

From the analysis of the respondents based on their marital status revealed that 31% of the respondents were single while 53% of the respondents were married. While those that belong to other class of individual who were once married but now single only sixteen percent (16%)

Table 3: Academic Qualifications Attained

	Frequency	%	Valid %	Cum %
OLEVEL	10	3.4	3.4	3.4
NCE/OND	46	15.5	15.5	18.9
HND / B.Sc/ACA	91	30.6	30.6	49.5
PGD	20	6.7	6.7	56.2

MBA	71	23.9	23.9	80.1
M.Sc.	27	9.1	9.1	89.2
PhD	32	10.8	10.8	100.0
Total	297	100.0	100.0	

Source: SPSS Version 22

The table 3 gives an analysis of the academic qualification attained by the respondents in the sample. From the table above it was observed that 3% (three percent) of the respondents were ordinary school certificate holders, fifteen percent of the respondents were NCE and OND holders, 30% (thirty percent) of the respondents were HND and BSc holders, 7% (seven percent) of the respondents were found to have attained an academic qualification of a post graduate diploma. 9% (nine percent) of the respondents are holders of a master's of science degree. 24% (twenty four percent) of respondent had master's degree in business administration. While the remaining 11% (eleven percent) of respondent were found to be holders of a PhD degree

Table 4 :Professional Qualifications of Respondents

	Frequency	%	Valid &	Cum. %
ICAN	162	54.5	54.5	54.5
ANAN	84	28.3	28.3	82.8
ACCA	51	17.2	17.2	100.0
Total	297	100.0	100.0	

Source: SPSS Version 22

Table 4 analyzes the respondents with respect to their professional qualifications. The table reveals that 54% (fifty four percent) of respondents are holders as well as members of the Institute of Chartered Accountants of Nigeria. 28% (twenty eight percent) of respondents belong to Association of National Accountants of Nigeria (ANAN). While 17% (seventeen percent) of the remaining respondents belong to the Association of chartered certified accountants

Table 5: Descriptive Statistics of Variables Used

	TCSME	TAUDA	TAR	MTC	TPRD	FRMGE
Mean	2.595745	2.657447	2.910638	3.072340	3.165957	2.991489
Median	2.000000	2.000000	3.000000	3.000000	3.000000	3.000000
Maximum	5.000000	5.000000	6.000000	5.000000	5.000000	5.000000
Minimum	1.000000	1.000000	1.000000	1.000000	1.000000	1.000000
Std. Dev.	1.508463	1.349286	1.461844	1.372546	1.323122	1.380620

Skewness	0.508240	0.446065	0.118220	0.008317	-0.157509	0.010402
Kurtosis	1.823478	2.078911	1.695556	1.815431	1.912701	1.746704
Jarque-Bera	47.34145	32.20086	34.41726	27.48481	25.09518	30.76900
Probability	0.000000	0.000000	0.000000	0.000001	0.000004	0.000000

Source: Eviews 8.0

The table 5 gives a summary of the data set with respect to the mean, minimum, maximum, standard deviation and Jarque-Bera statistics. From the table above the mean value reveals that tax compliance of small and medium scale enterprise, Benin City stood at a value of 2.5 therefore indicating that a total number of two hundred and fifty small scale enterprise in Benin city comply with the tax authority as regard payment of taxes. It was also found to have a high mean value of 5% and low mean value of 1% on the average. The standard deviation measuring the spread of the distribution stood at a value of 1.5%. The Jarque-Bera statistics which account for the normality of the distribution with an associate probability value of 0.00 therefore indicating that the variables are normally distributed and therefore the ignoring the possibility of the presence of an outlier.

Regression Analysis

The study used applied statistics to analyze the data. The Ordinary Least Square (OLS) regression was used to analyze research hypotheses. The OLS regression technique offers explanations on the impact of the independent (explanatory) variable(s) on the dependent (explained) variable. OLS statistical model is adopted to analyze the research hypotheses. To ensure that OLS was appropriate to the data, some diagnostic tests were conducted to ensure the reliability of the OLS. On the assurance of the appropriateness of the OLS technique, with the conduct Variance Inflation Factor, Heterogeneity and Dublin Watson tests (See the appendix).

Diagnostic Tests

Table 6: Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.730715	Prob. F(6,462)	0.6251
Obs*R-squared	4.40888	Prob. Chi-Square(6)	0.6215
Scaled explained SS	2.278818	Prob. Chi-Square(6)	0.8924

Heteroscedasticity is mostly encountered in cross sectional data. The test of heteroskedasticity was carried out using the Breusch-Pagan-Godfrey test of Heteroskedasticity. The results revealed moderate probability values of F statistic 0.6251, Obs*R-squared 0.6215, and Scaled explained SS 0.8924 respectively, which is an indication of rejection of heteroskedastic residuals.

Table 9: Variance Inflation Factor (VIF) for Higher-order Multicollinearity

Variables	Coeff. Variance	Uncentred.VIF	Centred VIF
TAUDA	0.002866	5.047409	1.134787
TAR	0.002164	4.516465	1.009702
MTC	0.002621	5.812275	1.063665
TPRD	0.002873	6.629830	1.076102
FRMGE	0.002422	5.199235	1.007779
C	0.090858	17.46149	NA
AR(2)	0.002192	1.009076	1.008984

Source: Eviews8.0

Multicollinearity is a common problem when estimating linear or generalized linear model including logistic regression. VIF, beyond the correlation matrix, addresses higher order multicollinearity and it reveals or estimates how much of the variance of a coefficient is inflated because of linear dependency with other predictors. Thus the coefficients revealed VIF values not greater than 10.0 with respect to the rule of thumb. This indicates that there is the absence of linear dependency among the variables.

Regression and Discussions

Table 6: Regression Results

Dependent Variable:TCSME					
Variables	Coefficients	T-statistics	Prob.	F-statistic	DW-statistic
TAUDA	0.150832	2.921774	0.0037		
TAR	0.044281	0.950278	0.3425		
MTC	0.010426	0.230956	0.8175		
TPRD	0.135746	2.587863	0.01		

FRMGE	0.071329	1.444478	0.1493	8.3205	2.00907
C	1.395004	4.959597	0		
AR(1)	0.200096	4.358979	0		
R-sqd				0.09752	
Adj. R-sqd				0.0858	

Source: Eviews 8.0

From table 6, Tax Audit (TAUDA) was found to have a positive relationship with the Tax Compliance of SMEs. Such a relationship implies that a-unit change in the level of tax audit among small and medium scale enterprise leads to a 15% unit increase in the level of tax compliance among SMEs. It was also found to be statistically significant when tested at 5% level of significance. This finding is consistent with Appah (2013) which found such a relationship and impact. This finding also agrees with the study Niu (2010) who found a positive relationship between tax audit and the tax compliance amongst SMEs.

Tax Rate (TAR) was found to show a positive relationship with Tax Compliance of SMEs. This connotes that the tax rate levied on small and medium scale enterprise encourages their level of compliance but at a degree that is not significant. The statistical non-significance at the level of 5%. may not be unconnected with the strict enforcement of tax compliance in Edo State by the government which at the time under consideration engaged in revenue drive through tax compliance. This finding is however at variance with Helhel & Ahmed (2014; Ojochogwu & Stephen, 2012)) and Gitu & Ngugi (2015) who found that high tax rates are associated with low tax compliance of SMEs.

Multiple Taxation (MTC) was also found to have a positive relationship with Tax Compliance SMEs in Edo State in Nigeria, though not at a significant level of 5%. This therefore indicates that though MTC increases the compliance rate of SMEs, such an increase is non-statistically significant when tested at 5% level. This finding does not support the studies of Adebisi and Gbegi (2013) and Ocheni and Gemade (2015); both studies found a negative relationship between multiple taxation and SMEs in Edo State in Nigeria. Again, this position may not also be unconnected with the rain of impunity that appears common in an attempt to implement strictly the income tax acts in the state in the period under consideration.

Tax Procedures (TPRD) was found to impact positively on Tax Compliance of SMEs in Edo State. The positive impact was also significant at 5% level of significance. This finding was in tandem with Fagbemi, Ajibolade, Arowomole and Ayadi's (2011) study which found that tax procedures can drive tax compliance.

Firm Age, as a control variable in this study, was found to have positive but not statistically significant relationship with Tax Compliance of SMEs in Edo State in Nigeria. This finding supports Eragbhe and Omoye's (2014) that found a positive relation with and impact on tax compliance with SMEs.

Further statistical and summarized revelations from the analysis are, thus discussed: the coefficient of determination (R^2) stood at a value of 0.097, giving a clear indication that the explanatory variables jointly accounted for 9.7% of the systematic variation exhibited by the dependent variable which is the Tax Compliance of SMEs (TASME) in Edo State, while 90.3% of

the systematic variation of the dependent variable was unexplained by the independent variables jointly. The F-statistic, which measures the overall significance of the model, stood at a value of 8.3 with an associate probability of 0.00. This gives a clear indication that the model was highly jointly statistically significant. The Durbin Watson statistic (DW. stat.) which tests for the presence or otherwise of autocorrelation in the model stood at a value of 2.0, indicating that the presence of first order spatial correlation does not exist in the model.

CONCLUSION AND RECOMMENDATIONS

This paper evaluates the determinants of tax compliance of SMEs in Edo State, South-South, Nigeria. To achieve the objective, three hundred (300) SMEs used were drawn from the registered 682 SMEs in Edo State. Each SME was served with a copy of filled questionnaire which captured the relevant research questions, with OLS applied on the data that arose from the respondents' responses. The results of the analysis show that Tax Audit and Tax Procedures had a positive and statistically significant relationship with Tax Compliance of SMEs in Edo State with other variables showing positive but not statistically significant relationship. From these findings, it is recommended that the tax rate in Edo State should be competitive, and multiple tax rates eliminated. This means that the Edo State Government should implement related tax laws with a human face just as the same laws operate in other states in Nigeria; after all the positive relationship of tax rate, multiple tax and tax compliance of SMEs is, to say the least, strange. Besides, the government should consider educating the small and medium-scale enterprises on the critical issues comprising of tax filings and voluntary compliance, as this can enhance their knowledge and increase their compliance behaviour. The government should establish a long term relationship that arranges tax audit in ways that will enhance compliance of the SMEs in Nigeria. There should be adequate enlightenment on the civic responsibility of tax payers to pay tax just as the need to train the tax agents who are deployed to implement the tax laws. This will help the taxpayers ease the bureaucratic bottlenecks which they usually suffer in the cause of filing their tax returns.

It is recommended for future studies, involving many states in a region or all geo-political regions, that large-scale studies be undertaken for ease of comparison

REFERENCES

- Abdulsalam, M., Almustapha, A, A., & El-Maude, J. G. (2014). Tax rate and tax compliance in Africa. *European Journal of Accounting Auditing and Finance Research*, 2 (3), 22-30
- Adebisi, J. F., & Gbegi, D. O. (2013). Effect of multiple taxation on the performance of small and medium-scale business enterprises: A Study of West African ceramics, Ajaokuta, Kogi State). *Mediterranean Journal of Social Sciences*, 4 (6), 223-234.
- Adediran, S. A., Alade, S. O., & Oshode, A. A. (2013). The impact of tax audit and investigation on revenue generation in Nigeria. *European journal of business and management*, 5 (26), 171-176.
- Aderemi, A. (2003). *Small and medium scale enterprises: The Nigerian situation*. [Power Point Slides] Capital Partners Limited. Retrieved from www.capitalpartnersltd.com/Small%20Medium%20Scale.ppt.

- Ahunwan, B. (2009). New national tax policy approval in late December '08 – Nigeria. HG. Org Worldwide Legal Directories. Available from <http://www.hg.org/article.asp?id=5944>.
- Akinboade, O. A. (2014). Determinants of tax compliance behaviour of small and medium size businesses in Cameroon's Littoral and Central Provinces. *Niğde University İİBF Dergisi*, 7 (1), 397-414.
- Ali, N. S., Iddrisu, W. A., & Sebil, C. (2015). Modeling the causes of tax default among small and medium scale enterprises (SMEs) in the Tamale Metropolis of Ghana. *European Scientific Journal*, 11 (1), 165-168.
- Ariyo, A. (1997). Productivity of the Nigerian tax system: African economic research consortium (AERC) Research Paper No. 67, Nairobi Kenya. AERC: 1970 – 1990.
- Ayanilo, S. D. (2015). The compliance level of small and medium scale enterprise in Nigeria. Brain Star ACADA Benin City.
- Ayodele, O. (2006). Tax policy reform in United Kingdom. United Nations University Research Paper No: 2003/06.
- Badara, M. S. (2012). The effect of tax audit on tax compliance in Nigeria: a study of Bauchi State Board of Internal Revenue, *Research Journal of Finance and Accounting*, 3(4), 74-81.
- Hanefah, M., Ariff, M., & Kasipillai, J. (2002). Compliance costs of Small and Medium Enterprises. *Journal of Australian Taxation*, 4(1), 73-97.
- Brautigam, D., Odd-Helge, F., & Mick, M. (2008). *Taxation and state-building in developing countries: Capacity and consent*, Cambridge University Press.
- Companies and Allied Matters Decree of 1990, as amended; Federal Government of Nigeria: Lagos
- Companies Income Tax Act Cap C21 LFN 2004. Retrieved from www.orandcconsultants.com/downloads/companies%20income%20tax
- David B.E., & Nyong, M. O. (1992) Small and medium-scale enterprises in Nigeria: Their characteristics, problems and sources of finance. *Paper 16 African Economic Research Consortium*. Retrieved from <https://www.africaportal.org/documents/6430/RP16.pdf>
- De Mooij., Ruud, A., & Nicodeme, G. (2006). *Corporate tax policy, entrepreneurship and incorporation in the EU*. CESifo Working Paper Series. Retrieved from http://ec.europa.eu/economy_finance/index_en.htm
- Djawadi, B. M. , & Fahr, R. (2013). The impact of tax knowledge and budget spending influence on tax compliance. Being a discussion paper, No. 7255, published by the Institute of Labor (IZA), Bonn, Germany. Retrieved from <http://www.ftp.iza.org/dp7255>
- Ebimobowei, A. (2013). A causality analysis between tax audit and tax compliance in Nigeria. *European journal of business and management*, 5 (2), 1-10.
- Eichfelder, S., & Schorn, M. (2008). Tax compliance costs and its determinants: Evidence from German businesses, *Institute of Accounting and Tax Management*.

- Eragbhe E., & Omoye, A.S.(2014) SME characteristics and value added tax compliance costs in Nigeria, *Mediterranean Journal of Social Sciences* 5(20),614-620
- Evans, C., Carlon, S., & Massey, D. (2005). Record keeping practices and tax compliance of SMEs, *eJournal of Tax Research*, 3 (2), 288-334.
- Farzbod, J. (2000). *Investigation of the effective factors in the tax efficiency*. Unpublished Master's Thesis, Governmental Management Training Center, Tehran
- Finelib, (2016). *Nigeria directory and search engine*. Nigeria business directory, Finelib.com
- Fischer, C. M., Wartick, M., Mark, M. (1992). Detection probability and tax compliance: A review of the literature. *Journal of Accounting Literature*, 11(2), 1-46.
- Gathigia, J. (2011). The effect of taxation on the growth of SMES: a study of small and medium plastic manufacturing enterprises in Nairobi Province, Kenya. Retrieved from <http://www.amazon.com/Effect-Taxation-Growth-SMEs-Manufacturing/dp/3846515965>.
- Gilligan, G.,& Richardson, G. (2005).Perceptions of tax fairness and tax compliance in Australia and Hong Kong: A preliminary study.*Journal of Financial Crime*, 12(4), 331-343.
- Gitu, B. K & Ngugi, K. (2015). Determinants of non-tax compliance amongst small and medium scale enterprises in Gikomba open market, Nairobi County, Kenya. *International Journal of Arts and Entrepreneurship* 4 (8), 1-16.
- Hofstede, G. (1980). *Culture consequences: Comparing values, behaviours, institutions, and organizations across nations* (2nd ed.). Thousand Oaks: Sage Publications.
- Jackson, B. R., & Milliron, V. C. (1986). Tax compliance research: findings, problems, and prospects, *Journal of Accounting Literature*, 5 (3), 125-165.
- Jemaiyo, B. , & Mutai, G. C. (2016). Determinants of tax compliance and their influence on the level of tax compliance in the real estate sector, Eldoret town-Kenya. *African PeerReviewed Journals*, 12(1), 555-584.
- Junainah, J. (2002). Self assessment system: A case study on perception of personal taxpayers in Kota Kinabalu, Sabah. Master of Accounting dissertation, University Kebangsaan Malaysia.
- Kayaga, L. (2007). Tax policy challenges facing developing countries: A case study of Uganda: *A thesis for the Master of Laws, Queen's University, Kingston, Ontario, Canada*.
- Kircher, E. E. (2008). Enforced versus voluntary tax compliance: The slippery framework. *Journal of Economic Psychology*, 29(2), 210 – 225.
- Lignier, P. ,& Evans, C. (2012). The rise and rise of small business tax compliance costs in Australia, *Australian Tax Forum*, 27 (3), 34.
- Maseko, N. (2014). The impact of personal tax knowledge and compliance costs on tax compliance behaviour of SMEs in Zimbabwe. *Elite research journal of accounting and business management*. Retrieved from <http://www.eliteresearchjournals.org>,2(3), 26-37.
- Modugu, K. P., & Anyaduba, J. O. (2014). Impact of tax audit on tax compliance in Nigeria. *International Journal of Business and Social Science*, 5(9), 207-215.

- Mutai, M. K. (2013). The determinants of tax compliance among small and medium scale enterprises in Uasin-Gishu County. A research project submitted in partial fulfillment of the requirements for the degree of master of business administration, of the university of Nairobi.
- Niu, Y. (2010). *Tax audit impact on voluntary compliance*, unpublished, Munich personal REPEC Archive.
- Ocheni, S. I., & Gemade, T. I. (2015). Effects of multiple taxation on the performance of small and medium-scale business enterprises in Benue State. *International Journal of Academic Research in Business and Social Sciences*, 5(3), 345-364.
- Ogoun, S. (2014). Effective tax administration and institutionalization of accounting systems in small and medium scale enterprises: evidence from Nigeria. *Journal of Empirical Studies*, 1 (2), 85-97.
- Ojochogwu W., A., & Stephen A. O. (2012). Factors that affect tax compliance among small and medium enterprises (SMEs) in North Central Nigeria, *International Journal of Business and Management*, 7(12), 87-96 Retrieved 03rd October, 2017 from www.ccsenet.org/ijbm
- Ojeka, S. A. (2011). Tax policy and the growth of SMES: Implications for the Nigerian economy. *Research Journal of Finance and Accounting*, 2 (2), 1-12.
- Ola, C.S. (2001). *Income tax law and practice in Nigeria*, Ibadan: Heinemann Educational Books (Nigeria) Plc.
- Olorunshola, J. A. (2003). Problems and prospects of small and medium scale industries in Nigeria. Paper presented at the Central Bank of Nigeria seminar on small and medium industries equity investment scheme (SMIEIS). Retrieved from www.cenbank.org/out/Publications/guidelines/dfd/2004/smieis.pdf
- Palil, M. R., & Mustapha, A. F. (2011). Tax audit and tax compliance in Asia: A case study of Malaysia. *European Journal of Social Sciences*, 24(1), 7-32.
- Popoola, N. (2009). A good tax system' enhance economic development. Punch. Available from <http://www.punchng.com/Articl.aspx?theartic=Art20090131654450> [Accessed 31st Jan].
- Pyikison, N. Y. (2013). Improving voluntary tax compliance within the informal sector. A Project submitted to School of Business Administration (MBA), Ahmadu Bello University, Zaria.
- Rugy, V. D. (2003). Tax rates and tax revenue: The Mellon income tax cuts of the 1920s. *Fiscal Policy Analyst, Cato Institute*.
- Small and Medium Enterprise Equity Investment Scheme(SMEEIS) (2001). Retrieved from <https://www.cbn.gov.ng/out/publications/.../smeeis%20guideline>
- Stern, R. E., & Barbour, P. A. (2005). Designing a small business tax system that enhances growth: Lesson from Africa. Retrieved from www.fias.netnsf.
- The Central Bank of Nigeria (1988). Monetary Policy Circular No. 22. Retrieved from <http://www.benchmarkince.net/small-medium-scale-enterprises-in-nigeria-initial-set-up>

- Udechukwu, F. N. (2003). *Survey of small and medium scale industries and their potentials in Nigeria*. Paper presented at the Central Bank of Nigeria seminar on Small and Medium Industries Equity Investment Scheme (SMIEIS). Retrieved from www.cenbank.org/out/Publications/guidelines/dfd/2004/smieis.pdf
- Verboon, P., & Van Dijke, M. (2012). The effect perceived deterrence on compliance with authorities: The moderating influence of procedural justice. *International Journal of Criminology and Sociology*, 1(2), 151-161.
- Yamane, Y. (1973). *Statistics: An introductory analysis*. 3rd ed. New York: Harper Row Publishers Inc.
- Yaobin, S. (2007). *Tax, small business, growth: Effect of taxation on investment and cross-border trade*. Paper presented at the ITD Conference on Taxation of SMEs
- Yong, S. (2011). Tax compliance and small and medium scale enterprise operators: *An intra-cultural study in New Zealand*