

Influence of Corporate Taxpayers Knowledge on Tax Compliance Behaviour under Self-assessment System in Nigeria

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Abstract

Self- assessment system (SAS) is system under tax administration that encourages voluntary compliance. This system make it possible for taxpayers to self-assessed themselves and file in accurate tax returns authoritatively. This right could only be exercised if the taxpayers have appropriate knowledge on tax and the system as a whole. This paper intend to explore relationship between corporate taxpayers' knowledge on SAS and compliance behaviour. A survey questionnaire was distributed to domestic companies in Nigeria whose number were 196 and listed in the Nigerian Stock Exchange. Out of 196 companies, 83 responded and were analyzed using a multiple regression model. The findings in the study, suggest that there is a positive relationship between knowledge on SAS and compliance behaviour which is also significant. The tax authority should increase its education programmes on SAS, to give the taxpayers more knowledge of SAS in the country.

Keywords: Tax Knowledge, Tax compliance behavior; Self-assessment system; corporate taxpayers; Nigeria.

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Introduction

Many tax jurisdictions now rely on self-assessment system (SAS) as the major means of tax collection; which is another form of a tax modern administration trend (Sarker, 2003; Michelle, Kho, Lai & Ng 2015; Terrefe 2016). Indeed it is now a measure of how up-to-date a tax authority is. By way of definition, Self-assessment system can be explain as a “tax system whereby the taxpayer is granted the right, by law, to compute his/her own tax liability” (FIRS, 2012; Yahaya, Lawal & Ahmed, 2013; Sapiei & Kasipillai 2016). The reasons behind implementing SAS in most countries is to better the tax administration system and to eliminate disputes, reduce workload involved in the official assessment system (OAS) (CATA, 2003; Okello 2014; Terrefe 2016). However, “SAS entice taxpayers to preserve good records thus reducing administrative cost and improving revenue collection to enhance developmental planning” (Doran, 2009; Sapiei & Kasipillai 2016). It is necessary for the effectiveness and compliance of SAS by taxpayers to fully understands tax laws (Choong 2009; Loo., McKerchar & Hansford 2010; Yahaya 2015; Michelle et al 2015). The aim of the paper is determine the relationship between corporate taxpayers’ SAS knowledge and compliance behaviour. In Nigeria under SAS it is mandatory for companies to file in their tax returns based on SAS.

Generally, this SAS principle had made possible to a shift from the traditional way of government assessment to modern way of voluntarily assessment in providing help and assistance to the taxpayers. The system also provides a systemic verification of reported tax liabilities through risk-based desk, field audits and computerised matching of income reports (CATA, 2003; Terrefe 2016). In countries where self-assessment are in operation, these was largely characterised by enhancing total compliance with the tax laws and increasing operational efficiency by collection of tax revenue on time, streamlining the system of returns processing and reducing the incidence of disputed assessment (Choong, 2009; Okello 2014; Michelle 2015; Terrefe 2016).

The FIRS introduced SAS in the year 1992 through the enactment of 1991 appropriate law in Nigeria (FIRS, 2012; Yahaya el al 2013; Yahaya 2015). This introduction was part of the powers given to the FIRS Board by Section 61 of FIRS (Establishment) 2007 Act which was gazetted on 19th December 2011 amending the process for self-assessment returns (FIRS 2012). The “Regulations cover tax returns under the Companies Income Tax Act (CITA), Education Tax Act (ETA), Petroleum Profit Tax Act (PPTA), Personal Income Tax Act (PITA), National Information Technology Development Act (NITDA), and Value Added Tax Act (VATA)” (FIRS, 2012; Yahaya el al 2013). In Nigeria it was found that taxpayers produces evidence of tax payment at designated bank to tax authority under SAS at the time of filing tax returns (FIRS, 2006; Yahaya 2015). This study uses non-compliance behaviour and compliance behaviour interchangeably.

Literature Review

The concept of self-assessment system has found to be encouraging voluntary compliance and ensure that the taxpayer takes responsibility for his/her assessment (Doran 2009; Loo et al 2010; FIRS 2012; Isa 2012; Yahaya et al 2013; Michelle 2015; Terrefe 2016). This SAS principles has said to be more than voluntary compliance. Isa

(2012) stressed that more to the reason of SAS include simplifying assessment system and administrative cost reduction.

Tax knowledge has been prove to be a variable that influences compliance behaviour significantly (Isa, 2012). Corporate taxpayers' knowledge has been vital for both Authority responsible for administering tax and the organization (Sapiei & Kasipillai 2016). Literatures such as Palil (2010) noted that taxpayers' knowledge had found to significant on tax compliance. According to Tukur & Onyegbule (2011) taxpayer education is the foundation of understanding tax laws which ensure filing tax returns/payments promptly. Tax knowledge enhances tax compliance, it also assists tax authority in designing tax education programmes and developing the understanding of taxpayers' behaviors (Palil & Mustapha, 2011; Okello 2014). Although, Sapiei & Kasipillai (2013a) noted that taxpayers have knowledge on SAS as seminars and training are being facilitated by the tax authority to fulfill its responsibilities to the taxpayers. Lai, Zalilawati, Amran & Choong (2013) stressed that studies on tax education among emerging economy are rare. This is because tax awareness in most developing countries may possibly be below average.

However, Atawodi & Ojeka (2012) stressed that lack of proper awareness affect tax compliance among SMEs in Zaria north central Nigeria. Even though in Nigeria, tax practitioners which include: accountants, tax agents and professionals do embrace the system based on their tax knowledge. They also perceived the benefits of the system in the administration of tax in the country (CATA, 2003; Okello 2014). The official responsible for administering of tax have to understand that the more knowledgeable taxpayers are the easier it would be for them to comply effectively. So, it is paramount for tax officials to design continuous programmes in educating the taxpayers.

Moreover, Sapiei & Kasipillai (2013b) noted that lack of knowledge and expertise from corporate taxpayers has the possibility of influencing compliance behaviour. The tax knowledge gained by the taxpayers would be a determinant factor towards the behavior of the taxpayers. Akintoye & Tashie (2013) stressed on the tax education which is significantly associated with tax compliance behavior in Nigeria. Tax officials have to understand that the more knowledgeable taxpayers are the easier it would be for them to comply effectively. Hasseldinea, Hollandb & Rijt (2011) found that revenue authorities and taxpayers in UK have a relationship to market tax knowledge under the three categories a knowledge seller, broker and a buyer for effective tax compliance. So, it is paramount for tax officials to design continuous programmes in educating the taxpayers. Tan & Fatt (1999) argued that more tax knowledge does not significantly impact on perception of tax fairness attitude.

Prior literatures have found inconsistent result in relation to knowledge on tax whether it significantly related to compliance behaviour. However, the researcher believed that tax knowledge under SAS on corporate taxpayer could have possible effect on tax compliance. This is as a result that taxpayers need to have knowledge of the system (SAS) for them to be fully comply with the system (Okello 2014; Michelle 2015; Terreffe 2016; Sapiei & Kasipillai 2016). This is because the system (SAS) allows taxpayers to assess

themselves, and for effective self-assessment taxpayers need to have proper knowledge. These reasons could have effect on the taxpayers' compliance behaviour.

The model for the study indicated on how the independent and the dependent variables. The independent variables are the SAS awareness and SAS objective which are related to non-compliance behaviour. The model also depicted the hypotheses and it was hypothesized that

H₁: *There is significant negative relationship between SAS awareness and non-compliance behaviour*

H₂: *There is significant negative relationship between awareness of SAS objective and non-compliance behavior*

The summary of the model as indicated in the figure below.

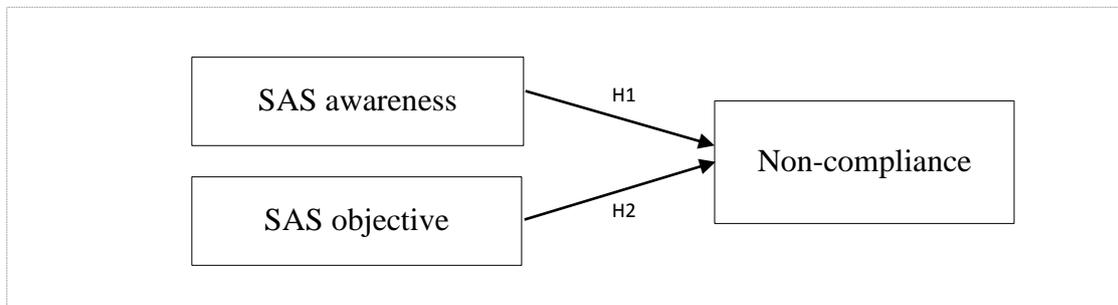


Figure 1 Conceptual Framework

Research Methodology

The methodology deployed in this study is the survey where the researcher used questionnaire as an instrument to administer to the respondents. The questionnaire was designed based on the five (5) point Likert scales and it was based on SD= strongly disagree, D= disagree, N= neutral, A= agree and SA= strongly agree. This type of questionnaire gives the ability to have detailed responses from the respondents appropriately.

Sample Size

The sample size in the study was based on the census as a result of the population of the study is just one hundred and ninety six (196) companies. According to Uwuigbe (2015) the domestic listed companies on the Nigerian stock exchange are 196. A census study was deploy for the paper which allows for the use of the whole population. The questionnaires were distributed to the one hundred and ninety six (196) corporate taxpayers which were the domestic list companies in Nigeria. Out of the total (196) questionnaires administered to the respondents (corporate taxpayers) by the researcher, eighty three (83) were returned. With this, it was ascertained that only thirty five were returned and forty eight of the respondents could not return theirs. The responses provided in the questionnaires by the Accountants who were used as respondents in the study. The

industry were been categorized according to the twelve (12) sectors in the economy which are Agriculture, Banking, Health, Trading and services, Insurance, Natural gas and crude oil, Building material, Telecommunication, Food, Transport, Computers and Technology (IT), Hotel and resorts sector.

Descriptive Analysis

Table 1. Profile of the Respondents

Education	Frequency	Percentage
Certificate	3	3.6
Diploma/NCE	15	18.1
Bsc/HND	53	63.9
Msc/MBA	9	10.8
PhD	3	3.6
Work Experience		
Less than one year	19	22.9
1-5 years	55	66.3
6-10 years	7	8.4
more than 10 years	2	2.4
Total Assets Estimate2015		
₦1-100million	61	73.5
₦101-500million	7	8.4
₦501-1000million	15	18.1
Company Classification		
Agriculture	8	9.6
Insurance	4	4.8
Telecommunication	11	13.3
Trading & Service	36	43.4
Natural gas and crude oil	3	3.6
Trading and Manufacturing	3	3.6
Did not indicate	4	4.8
Others	14	16.9
Company HQT location		
Abuja	51	61.4
Lagos	28	33.7
Kano	4	4.8

The analysis were categorized into two segment the descriptive and the regression section. The descriptive were meant to analyze the respondents' profile as presented in the table below. It shows respondent's level of education is Bsc/HND and their working experience ranges between 1-5 years. The respondents company's estimated total assets as at 2015 financial year of ₦1-100million has the highest percentage of 73.5%. Majority were from the service sector accounted for 43.4% and 61.4% of their company's head quarter which is within Abuja the federal capital.

Research Instruments

The study used questionnaires based on five points Likert-scale as was stated in (3) research methodology. The questionnaire was partly adapted and partly adopted with the categories of strongly disagree, disagree, neutral, agree and strongly agree. Generally, the statements in the questionnaire are related to knowledge on SAS as well as corporate taxpayers.

Reliability Test

In assessing the reliability of the data all the sub variables using Cronbach's alpha coefficients. Having examined each compliance variable's underlying dimensions. According to Field (2013) "the same entity with different measurement denote consistency using Cronbach's alpha coefficients".

Explanatory factor analysis (EFA) deals with items and the purpose is to reduce the data and place each statement into appropriate factors. For each research question, separate factor interpretation to be spell out. For SAS awareness in Nigeria, three factors were explored but only two were used. The last factor was rejected based on its low internal consistency (reliability) of 0.205 although the construct fulfilled the communalities and the requirement of component matrix.

The table below show that alpha coefficient of the variable as indicated SAS education is having 0.651, SAS objective 0.687 and SAS law 0.205. The SAS law was rejected because of its low loadings. The other variables were accepted based on the recommendation of above 0.5 (Hair 2010, Tabachnick, 2007), Kaiser (1974) cited in Andy 2005, KMO value of 0.5 as presented below.

Table 2 Reliability test

Compliance Variables	Sub variables	Code	Number of items	Alpha Coefficient
Tax knowledge	SAS education	TK1	5	0.651
	SAS objective	TK2	5	0.687
	SAS laws	TK3	2	0.205

The data collection procedures had been face to face viability and meeting directly with the respondents. The survey instrument was based on items on knowledge on SAS among corporate taxpayers. However, in the questionnaire, there is also a section on the measure the tax non-compliance behaviour among the respondents, which was further

used to compare the results of the attitude of corporate taxpayers. Data was collected from taxpayers and was keyed in the SPSS statistical software tool for the analysis using a multiple regression model for the computation. The statistical features of the variables were evaluated with areas having strong tendencies that might not probably affect the analysis. However, in conducting the analysis, no abnormal issues were observed. Nonetheless, missing data was thoroughly investigated.

Results and Discussion

The respondents of the various companies are the Accountant the company they represent. These respondents are presumably believed to be at the apex of knowledge regarding financial and tax-related matters in their corporate organizations. Considering the caliber of the respondents' involvement in the financial affairs of the companies they belong to, we can rightly conclude that they are in a better position to respond to the statements and the researchers believes in responses provided by them are true and correct as at the time of this study.

A multiple regression method of analysis was deployed to measure significant level and the contribution between two (2) sub variables and non-compliance behaviour. In measuring the problem of multi-collinearity variance inflation factor was used. The analysis indicated that tolerance indicators are higher than 0.1 with VIF values lower than 10. Therefore, there is no problem of multi-collinearity in the data (Neter, 1996).

The F-test is equal to ($p = 0.000$) which mean the model is statistically significant. The model or equation predicted R square of 0.21 approximately (21%) contribution of the two (2) sub variables to non-compliance behaviour. In the variable SAS objective, the t-test for SAS objective equals 0.651, and is significant with ($p < 0.05$), meaning that the regression coefficient for SAS objective is significantly related to non-compliance behaviour. The Beta coefficient for SAS objective is -0.076, meaning that for a one unit increase in SAS objective, would yield 0.07- unit decrease in non-compliance behaviour. The result also indicated that awareness of SAS objective is negatively related to non-compliance behaviour. Therefore, the finding suggested that awareness of SAS objective is negatively and significantly related to non-compliance behaviour. This result is in support of the finding of Tan & Fatt (1999) that argued that more awareness of SAS objective is insignificantly have impact on non-compliance behaviour.

Table 3 shows a significant and negative relationship between the attitude awareness of SAS objective and non-compliance behaviour. This finding has implication on the respondents regarding the SAS in Nigeria. The possible implication indicates that taxpayers' knowledge on SAS objective is magnitude enough to have effect on compliance behaviour. This is because SAS main objectives include encouragement of voluntary compliance and which awareness of this objective by the taxpayers could possibly enhance compliance behaviour. The negative relationship of the variables indicated that the more corporate taxpayers' are aware of SAS objectives, the less their non-compliance behaviour. It is also interpreted as the more awareness of SAS objective, the higher compliance of the taxpayers.

Table 3. Relationship between Knowledge on SAS and Compliance Behaviour

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	3.796	.849		4.469	.000		
SAS awareness	-.195	.174	-.130	-1.120	.266	.906	1.104
SAS objective R = 0.129 R ² = 0.21 F = 0.679	-.116	.178	-.076	.651	.017	.906	1.104

a: Dependent Variable: Non-compliance behaviour

However, the results indicated that awareness of SAS in general is negatively but insignificantly related to non-compliance behaviour. The basic reasons for lack of significant relationships between SAS awareness and non-compliance behaviour could be highlighted below.

Firstly, SAS general could be more technical because it involves calculation tax liabilities and knowledge of SAS laws which could need some time. However, these category of taxpayers may not find it easy with knowledge of tax laws and also to be able compute their tax liabilities.

Secondly, the tax authority's attitude towards educating the taxpayers is not sufficient enough that the taxpayers would have understands SAS better. If FIRS do not increase its educational programme and awareness campaign to enhance the scope of the programme, taxpayers may not understand the tax knowledge that could impact compliance behaviour.

Conclusion

In conclusion, it is paramount to understand that SAS in most country is characterized by moving away from OAS which is aimed at reducing the use of paper work and reduction of time taken to file in tax returns. Self-assessment system encourages voluntary compliance. This is a system that allows taxpayers to compute their tax liabilities. In order for the taxpayers to make accurate payment of tax returns, they are to declare their true business income for the relevant year of assessment. However, tax complexities in tax assessment procedures cannot be accomplished except for proper knowledge on how to accomplish it.

Therefore, it is appropriate for the taxpayers to have relatively knowledge on how to assess themselves. Knowledge on SAS is the main construct of the study. The Federal Inland revenue service in Nigeria took virtually twenty (20) years to implement SAS in 2012 after the introduction in 1992. The tax authority had organized programmes to enlighten the taxpayers such as organizing seminars and workshops to educate the

taxpayers during the long period. However, the educational programmes organized by FIRS for enlighten the taxpayers should make the taxpayers have knowledge on SAS.

The paper determined the relationship between knowledge on SAS and compliances behaviour, and also to determine the influences between these variables. There are two (2) sub variables namely: SAS EDU and SAS OBJ this enable the study understand the aim of the research. The constructs were tested against compliance behaviour using the multiple regression model.

The findings reveal that awareness of SAS objective has positive and it is significant to compliance behaviour. While, the findings also indicates an insignificant relationship between SAS awareness and compliance behaviour. The possible reason could be that the relevant tax authority's awareness campaign were is insufficient and also the information mechanisms used to disseminate information are inadequate. The researcher recommendation to the FIRS is to strengthen its educational programmes and device other meaningful means of passing information to taxpayer. This would assist and enhance the knowledge on SAS to the taxpayers and the general public at large.

The direction for future research, is that increase in sizes of the sample and also different methodology would be require to expand the study.

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