The Perception of Corporate Taxpayers' Compliance Behaviour under Self-assessment System in Nigeria

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Abstract

This study examines the perception of corporate taxpayers on compliance behaviour under self-assessment system in Nigeria. Data was gathered using questionnaire survey method. The questionnaires were distributed to the 267 public listed companies in Nigeria. Out of which 53 were returned and analyzed using the multiple regression statistical method of analysis. The findings in the study revealed that the corporate taxpayers perceived the tax laws to be complex for their understanding. The result also indicated that tax complexity, tax fairness, tax responsibility and compliance behaviour were found to be positively and significantly related. Therefore, the study recommended that the relevant authorities should review and simplify the tax laws for the taxpayers' understanding.

Keywords: Compliance Behaviour, Tax Complexity, Tax Fairness, Tax Responsibility, Corporate Taxpayers.

1. Introduction

Taxation has been a common phenomenon all over the world (Reckers, Sander & Roark 1994). Countries impose tax to boost their revenue generation and enhance economic stability (Omoigui 2007). Every government is expected to perform various functions, some of which are the day to day general administration, the maintenance of law and order, and to provide essential services to the people. On the other hand, government is also concerned with the formation and implementation of the socio-economic programmes aimed at promoting the welfare of its citizens. Moreover, the government needs fund to be able to discharge its functions to the governed. It has been observed by Fjeldstad (2013) that an "effective tax system in most countries has been considered as essential for suitable development because it can mobilize domestic revenue and avoid dependency on single natural resources especially in emerging economies". This has made it possible for government to use taxation as a tool to achieve its objectives.

Self-assessment system (SAS) is one of the major ways of tax collection which stands as a contemporary trend of tax administration (Sarker 2003). The reason for adopting SAS is because it is considered as a major means of tax collection in some countries, this is to better the tax administration (CATA 2003 and Doran 2009). The objective of SAS heavily relies on voluntary compliance that is for taxpayers to voluntary comply with SAS, they have to understand the tax laws and the changes in the legislation (Choong 2009 and Loo, Mckerchar & Hansford 2010). The purpose of this study is to examine the perception of corporate taxpayers on compliance behaviour under self-assessment system in Nigeria. Nigeria adopted SAS in 2011 and making it compulsory for corporate taxpayers to compute their tax liability using self assessed (FIRS 2012).

2. Literature Review

Taxpayers are expected to take responsibility of their assessment and ensure that they compute their tax liability themselves (Choong 2009, Loo et al 2010, FIRS 2012 and Isa 2012). The aim of SAS is not restricted to voluntary compliance alone. Isa (2012) extended the objectives of SAS to be driven by reduction in administrative costs and simplifying the assessment system. Voluntary compliance has been an issue to self-assessment system. Moreover, taxpayers are expected to intentionally comply with their tax responsibilities in accordance to the tax laws as specified.

2.1 Tax Complexity

Tax complexity is another identifiable important corporate taxpayers' compliance variable that influences compliance behaviour and it may be the genesis of tax avoidance (Isa 2012 and Sapiei & Kasipillai 2013). Moreover, Loo et al (2010) stresses that tax laws are too complicated for taxpayers to keep abreast considering the frequent changes in the tax law. The authors perceived tax complexity as complication in the tax law and frequent changes in the law. These issues may possibly be the reason why some corporate taxpayers deploy the services of external tax professional when they experienced difficulties in tax issues (Sapiei 2012).

However, Isa (2010) found that corporate taxpayers perceived tax computation, tax ambiguity and record keeping as tax complexity. Even though, Massarrat-Mashhadi & Sielaff (2012) stress that taxpayers understands the tax complexity. In another study conducted by Saad (2012) contended that taxpayers are aware and compliant with their respective responsibilities.

However, the argument by Loo et al (2010) indicates that the tax laws are difficult and tedious to understand and taxpayers have it difficult to comprehend. The possible reason for this is that the taxpayers have no knowledge on tax related issues. In the other argument by Isa (2012) which pointed out that tax computation, record keeping and ambiguity are complicated to the taxpayers also seem logical. Because they have to understand the process before they would be able to do the tax computation as well as record keeping. If both arguments are critically analysed it all lies on tax knowledge because both tax law and computation of tax and others cannot be feasible without tax knowledge. Moreover, Pope (1993) found that "simplification of tax is likely to lead to significant economic resource saving". The taxpayers and the tax authority need to stand up to these challenges and face it squarely. Tax education is important for tax compliance, it is also important for the tax authority to seriously look into the issues of tax knowledge and other compliance variables for effective tax compliance. However, Doran (2009) found that tax complexity has a positive relationship with tax knowledge and compliance behaviour. The literatures indicated inconsistences, therefore it is hypothesized that:

H1: There is a positive and significant influence between tax complexity and compliance behaviour.

2.2 Tax Fairness

Tax fairness as perceived by prior literatures could either be vertical or horizontal fairness. According to Erich, Niemirowski & Wearing (2006) vertical tax fairness is when taxpayers are being treated or taxed with different rate based on their different business activities. On the other hand horizontal tax fairness is the instances where taxpayers are being treated equally in terms of their taxes (Michael 1978). Horizontal tax fairness indicated that taxpayers that are into same business activities and earned same income should probably pay same taxes.

Mukasa (2011) found that improved tax fairness would lead to the enhancement of compliance behaviour. The impact of tax fairness which the taxpayers perceived may possibly influence their tax compliance behaviour. Taxpayers' knowledge on tax could be another means that may affect both tax fairness and tax compliance. The attitude of taxpayers such as tax knowledge and tax complexity influences tax fairness (Saad 2010).

According to Tan & Chin-Fatt (2000) stress that compliance behaviour and tax fairness have been significantly influenced by the increase in tax knowledge. While Reference [19] found that tax fairness have a positive and significant influence on compliance behaviour. Based on the consistency of the literatures, it is therefore hypothesized that:

H2: There is a positive and significant influence between tax fairness and compliance

behaviour.

2.3 Tax Responsibility

The responsibilities of taxpayers include obligations to comply with the relevant tax laws (OECD 2004). Tax law specifies the process and procedures which taxpayers need to follow in order to voluntarily comply. Freedman (2004) noted that tax laws should give more emphasis on taxpayers' responsibilities. Because, taxpayers need to understand the relevant laws before they would be able to comply effectively. However, there may be more compliance if the taxpayers understood their responsibilities. Massarrat-Mashhadi & Sielaff (2012) found that taxpayers are aware and do understand their tax responsibilities. In another study conducted by Saad (2012) contended that taxpayers in Malaysia, are aware of their responsibilities and influences compliance behaviour. The possible reason for this is that the taxpayers have knowledge and understand their responsibilities. The responsibilities of taxpayers should be made simple for the taxpayers to easily understand. However, there is a positive and significant relationship between tax responsibility and compliance behaviour (Massarrat-Mashhadi & Sielaff 2012, Saad 2012 & Yahaya 2014). Based on the prior studies, this study hypothesized that:

H3: There is a positive and significant influence between tax responsibility and compliance behaviour.

Below is the conceptual framework for the study which summarized the relationship between the independent variables and the dependent variable. It also indicated the three hypotheses formulated based on the relationships between these variables namely; tax complexity, tax fairness, and tax responsibility and compliance behaviour.
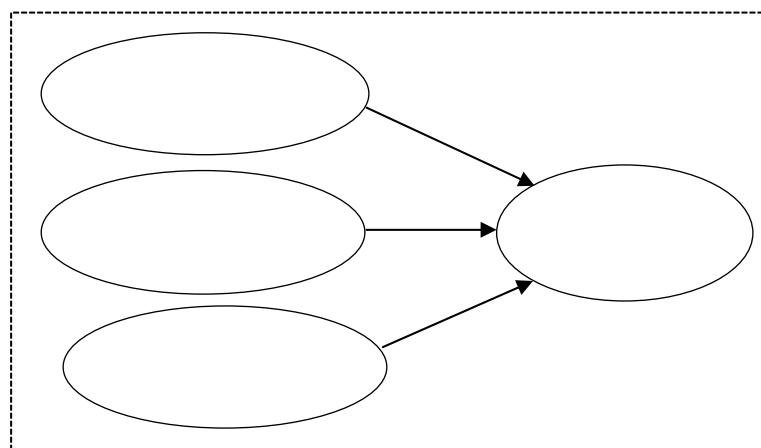

Figure 1. Conceptual Model

3. Research Methodology

The study utilized a self-administered survey as the research method. It is a type of primary data, of which is consistent with the research objectives and it is an effective tool to get the perception from the corporate taxpayers (Cooper & Schindler 2013). The advantages of

self-administered survey are able to cover wider population, getting higher response rate and time saving. This gave the respondents ability to answer the questions on time, even though corporate respondents find it difficult at times to respond appropriately.

The respondents and the population of the study are the public listed companies in Nigeria. The total number of public listed companies in Nigeria is 267 which were listed on the Nigerian stock exchange (CMB 2013). As the population of the study is not much (267). Therefore, the researcher conducted a census study by using all the 267 companies as the respondents. Out of the two hundred and sixty seven (267) questionnaires administered to the respondents, fifty three (53) were returned which represent 20% of the total questionnaires distributed. The respondents are the Auditors and Tax Accountants of each of these companies. They have been categorized according to the twelve (12) sectors which are Agriculture, Banking, Insurance, Natural gas and crude oil, Telecommunication, Transport, Computers and Technology (IT), Health care, Building material, Hotel and resorts, Food, Trading and service sector.

3.1 Explanatory Factor Analysis (EFA)

The table below presents the result of Factor analysis for the variables tax complexity, tax fairness and tax responsibility. Majority of the items computed correlated on at least 0.3 indicating absence of multi-collinearity with Kaiser-Meyer-Olkin measure of sampling adequacy which was 0.546, slightly above the recommended value of 0.5 (Hair 2005 and Tabachnick & Fidell 2007). The KMO value of 0.5 and above is acceptable and that sample size of 100 to 200 with communality of 0.5 acceptable. The Bartlett's test of sphericity was significant (χ^2 (91) = 701.921, (p < .05). Majority of the diagonals of the anti-image correlation matrix were all over 0.5 and those with below requirement were removed from the analysis. Finally, the communalities were all above 0.5 further confirming that most of the items shared some common variance with other items.

The principle components analysis was used because the primary purpose was to identify and compute composite involvement scores for the factors underlying the questionnaire. The initial eigen values showed that the first factor explained 4.084% of the variance, the second factor 2.434% of the variance and the third factor 2.018% of the variance. The factor solutions were examined using varimax rotations of the factor loading matrix and the 3 factor solution, which explained 60.97% of the variance. The alpha coefficient for tax complexity is 0.832, while alpha coefficient 0.926 is for tax fairness and tax responsibility is having a coefficient of 0.867. The summary is shown in the table below.

Table 1. The Reliability and validity

Variables	Code	Number of items	Alpha Coefficient
Tax Complexity	TC	7	0.832
Tax Fairness	TF	8	0.926
Tax Responsibility	TR	6	0.867

4. Results and Discussions

4.1 Results

In this section, a multiple regression was used to assess the significant level and the contribution between three (3) variables and compliance behaviour. The services of Variance-Inflation-Factor (VIF) was employed in order to test whether multi-collinearity problem exist among the variables. The result shows that all the tolerance indicators were higher than 0.1 with VIF values lower than 10. Therefore, multi-collinearity problem does not exist in this research (Neter, Kutner, Nachtsheim & Wasseman 1996). The F-test is statistically significant with ($p = 0.000$), which means that the model is statistically significant. The regression equation predicted R square of 0.420 approximately (42%) contribution of the three (3) variables to compliance behaviour. In the case of tax complexity, the t-value for tax complexity equals 2.783, and is statistically significant with ($p < 0.05$), meaning that the regression coefficient for tax complexity is significantly related to compliance behaviour. The Beta coefficient for tax complexity is 0.338, meaning that for a one unit increase in tax complexity, would yield 0.3 unit increases in compliance behaviour. It was also found that tax complexity is positively related to compliance behaviour.

The regression model was used to test the second variable tax fairness. The t-value for tax fairness equals 3.668, and is statistically significant with ($p < 0.05$), meaning that the regression coefficient for tax fairness is significantly related to compliance behaviour. The standard coefficient for tax fairness is (Beta = 0.416), meaning that for a one unit increase in tax fairness, would yield 0.4 unit increases in compliance behaviour. It was also found that tax fairness is positively related to compliance behaviour.

Finally, the regression table shows a significant relationship between tax responsibility and compliance behaviour. The t-value for tax responsibility is equals 1.973, and is statistically significant with ($p < 0.05$), meaning that the regression coefficient for tax responsibility is significantly related to compliance behaviour. The Beta coefficient for tax responsibility 0.305, meaning that for a one unit increase in tax responsibility, would yield 0.3 unit increase in compliance behaviour. It was also found that tax responsibility is positively related to compliance behaviour. The significance of the overall model with all three (3) variables, and the F value for that is 5.690 and is significant. The Summary of the result is shown in the table below.

Table 2. The Attitude of corporate taxpayers

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	3.796	0.849		4.469	0.000		
Tax Complexity	0.515	0.185	0.338	2.783	0.007	0.560	1.787
Tax Fairness	0.558	0.154	0.416	3.668	0.000	0.694	1.006
Tax Responsibility	0.456	0.146	0.305	1.973	0.000	0.746	1.217
R = 0.607 R^2 = 0.42 (42%) F = 5.690 F Sig = 0.000							

a: Dependent Variable: Compliance behaviour

4.2 Discussions

Tax complexity is one of the variables used in this study in the hypothesis testing, the result of the multiple regression shows that there is positive and significant relationship between tax complexity and compliance behaviour. This has found to be consistent with the prior research such as (Cuccia & Carnes 2001). The possible implication of this finding is that the corporate taxpayers perceived the tax complexity as an attitude that is magnitude enough to influences compliance behaviour.

The second variable which is the tax fairness depict a positive and significant relationship with compliance behaviour in the regression results. This has found to be in support of previous studies such as (Tan & Chin-Fatt 2000 & Mukasa 2011). In their study it was found that the tax fairness is positively and significantly related to compliance behaviour. This is made possible in such way that perceived tax fairness is valued enough to have effect on compliance behaviour.

Tax responsibility is the final variable in this study. The result of the multiple regression shows that tax responsibility is positively and significantly related to compliance behaviour. This finding is consistent with the results of (Massarrat-Mashhadi & Sielaff 2012, Saad 2012, Yahaya 2014 and Palil 2010). The possible implication to this result is that awareness of taxpayers' responsibilities plays vital role in corporate taxpayers' compliance behaviour. As such, the FIRS could possibly improve its awareness campaign so that the taxpayers would be more enlightened thereby improving their compliance behaviour. This is logical in the sense that some corporate taxpayers find it difficult to comply with their responsibility as such some engage in tax evasion or avoidance. Some literatures have found that the reason

why some taxpayers find it difficult to comply with their responsibility could be as a result of high tax rate (Alm, Jackson & McKee 1992 and Alabede, Ariffin & Idris 2011).

5. Conclusion

The perception of corporate taxpayers' compliance variables in this study are the tax complexity, tax fairness and tax responsibility under SAS in Nigeria. The SAS is system whereby the taxpayers are given the privilege by law to compute their tax liability and remit the taxes to the FIRS through the designated banks. The corporate taxpayers perceived tax laws as complicated for their understanding. They perceived tax fairness as a variable that can aid tax compliance and also they perceived tax responsibility as a basis for tax compliance.

The study examined the perception of corporate taxpayers' compliance behaviour under SAS in Nigeria. The study gathered data through the survey method by administering questionnaires. The respondents of the study are the auditors and accountants of the public listed companies in Nigeria. Out of the two hundred and sixty seven questionnaires distributed fifty three were retuned and analysed using SPSS statistical tools (Multiple regression).

The results indicated that corporate taxpayers perceived tax laws as complicated, tax fairness and tax responsibility as a basis for tax compliance in Nigeria. The finding also shows that there is a positive and significant effect among tax complexity, tax fairness, tax responsibility and the compliance behaviour. The direction for future research is that other compliance variables should be looked into such as tax equity, tax knowledge and tax audit of corporate taxpayers in Nigeria. Other direction is to increase the size of the respondents.

Acknowledgement

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