

## **EFFECT OF TAX ADMINISTRATION AND TAXPAYER EDUCATION ON TAX COMPLIANCE BEHAVIOUR**

**Obal Usang Edet Usang**

Department of Accounting, University of Calabar, Calabar, Nigeria

\*Corresponding author- usangobal@yahoo.com

**Udofia Aniekan Etim**

Department of Accounting, University of Calabar, Calabar, Nigeria

### **ABSTRACT**

**In order to generate more revenue from income taxes, the Cross River State government had embarked on intensive tax campaign across the state. It is not clear whether this has led to more compliance on the part of taxpayers. Therefore, the study examined the effect of tax administration and taxpayer education on tax compliance in Calabar Metropolis. It was specifically aimed at determining whether tax administration and taxpayer education (proxied by electronic taxpayer education, print media education, and stakeholder sensitization programme) affect tax compliance of registered small and medium enterprises (SMEs). The survey research design was adopted, and a self-reported questionnaire served as the means of gathering data from 213 registered SMEs. The multiple regression analysis was performed to aid in the test of hypotheses. The findings indicated that electronic taxpayer education had a significant relationship with tax compliance while the print media education had a significant but negative relationship on tax compliance behaviour of SMEs. Furthermore, tax administration and stakeholder's sensitization programmes had a non-significant effect on tax compliance behavior of SMEs. This has policy implications for the management of State Internal Revenue Service in their pursuit of increase tax revenues for government.**

**Keywords:** tax administration, taxpayer education, SME tax compliance behaviour

**JEL Classification:** *H25, M41, K34*

### **INTRODUCTION**

Tax is a compulsory levy which a government imposes on its citizens to enable it to obtain the required revenue to finance its activities (Adesola, 1986). It is generally considered as a civic duty aimed at raising revenue to meet the expenditure needs of government. Tax is also about building accountable relations between government and citizens through efficient utilization of tax proceeds. To a citizen, tax is a compulsory cost which the taxpayer seeks to minimize while the government on the other hand seeks to maximize tax revenue. Therefore, there is conflict between government's objective of maximizing revenue from taxes and those of the taxpayer who seeks to minimize his tax liabilities. To maximize tax revenues, government often resorts to diverse methods of enforcing compliance either through forceful means or persuasion. Tax compliance can be described as the process of fulfilling the taxpayer's civil obligation for tax payment and filing of tax returns including the provision of necessary documents and

explanations required by the tax authority in a timely manner (Oyedele, 2009). Tax compliance may be voluntary or involuntary. However, the problem of non-compliance pervades tax authorities across the globe, and it is also severe within the Nigerian tax system as understanding what prompts people towards voluntary compliance remains topical in literature.

Tax authorities have employed the forceful means of extracting taxes from citizens but with a largely underdeveloped economy, this strategy has not led to increased revenues for government. Hence the need to resort to persuasion to compel citizens to fulfil their civic responsibilities. Many previous empirical studies have delved into the subject of what and how voluntary tax compliance can improve. Therefore, some studies have examined predictors of tax compliance behaviour from the economic perspectives and psychological perspective (James, Alley, 2004). Despite the perspectives so far examined, the list of predictors of tax compliance behaviour is not exhaustive because human behaviour is evolving as circumstances within economies change. Irrespective of the many studies on how to increase voluntary tax compliance behaviour, low tax compliance remains a major concern for the policy makers in many developing countries including Nigeria. This is because non-compliance limits the capacity of governments to raise revenue for developmental and recurrent expenditure purposes (Togler, 2003).

In realization of the importance of persuading citizens to voluntarily fulfil their tax obligations, the Cross River State government had embarked on a state-wide tax awareness campaign. The objectives of the programme were to enlighten citizens on the various taxes due and the process of filling returns. Various means of educating the citizens were adopted including electronic, print, sensitization workshops and town hall meetings in the three senatorial districts of the state. Moreover, the state government needs to raise more revenue from alternate sources aside the federally allocated. One of the alternate sources is through taxes. Since the conclusion of the programme, it is unknown whether it has led to increase voluntary compliance or at least have taxpayer's intention to file their returns increase? Therefore, this study sets out to examine the effect of tax administration and taxpayer education on tax compliance behaviour. The study contributes to knowledge in two ways. Firstly, the study is beneficial to tax administrators who are constantly seeking effective ways of maximizing revenue for the government. Secondly, the study contributes to the growing literature on tax compliance especially in the appraisal of a government sponsored tax compliance programmes. The rest of the paper includes the literature review, methods, results and discussion and the conclusion.

## **LITERATURE REVIEW**

### **Tax compliance**

Tax compliance to a taxpayer's willingness to voluntarily attend to all tax obligations in accordance with the relevant provisions of the tax laws. It includes filing tax returns and actual payment of taxes as at when due. In carrying out this civic duty, it is assumed the taxpayer is fully knowledgeable about the whole process. Pangestu and Rusmana (2012) identified kinds of tax compliance namely: formal compliance and material compliance. Formal compliance describes the process where a taxpayer complies with all the legal requirements and provision

of the relevant Tax Act. Material compliance is condition in which a taxpayer not only complies with the formal provisions a Tax Act but does so in accordance with the contents and spirit of the Tax Act itself. In all tax compliance requires honest reporting on the side of the taxpayer. A more embracing definition by James and Alley (2004) describes tax compliance as the willingness of taxpayers to act in accordance with the “spirit’ and ‘letter’ of the relevant provisions of the tax laws.

Various factors in literature have been identified as antecedents of tax compliance. An earlier review of 43 studies on tax compliance by Jackson and Milliron,(1986) between the period 1974 to 1985 outlined fourteen variables associated with tax compliance behaviour to include: tax rates, detection rate, age sex, source of income, level of education, gender, ethics, complexity of tax law, tax authority contact, influence from peers, perceived fairness, probability of sanctions, and audit. Most of these studies were conducted in another context. In Nigeria, tax non-compliance remains a topic of concern as the country was identified as one with the lowest compliance levels in Africa (CITN, 2010). Also, subsequent studies reported an unsatisfactory tax yield especially from income taxes (Kibiel & Nwokah, 2009; Nzotta, 2017; Odusola, 2006). Within the Nigerian context several factors have been studied in relation to tax compliance. For example, taxpayer’s attitude, risk preference (Alabede, Ariffin, & Md Idris, 2011); tax knowledge, tax accountability by government, trust in government, ethics, and tax rate (Akintoye & Tashie, 2013). Others include probability of audit, tax knowledge, equity, and fairness perception (Inasius, 2018). Although all these variables are associated with tax compliance have been studied, the issue of tax compliance remains topical as government is yet to achieve a fair proportion of tax to GDP ratio. Therefore, there is need to examine more factors that can enhance voluntary tax compliance.

### **Taxpayer education and tax compliance behaviour**

Taxpayer education describes the methods adopted by tax authorities for educating the citizens on the whole process of taxation and why they should fulfil their tax obligations (Akinsola, 2011). According to Misra (2004), the main aim of taxpayer education is to disseminate tax knowledge as regards tax laws, foster compliance, promote positive taxpayer’s attitude towards taxation and consequently increase tax yield through voluntary compliance. It includes providing awareness on tax matters, counseling, and support to the taxpayers, through different media such as print media, electronic media (television, radio programs, websites) and through sensitization programmes like seminars and workshops on tax matters. From the foregoing, it is evident that taxpayer education is mainly aimed at increasing tax knowledge with the motive that this could lead to better understanding on the part of taxpayers and invariably generate the required response. Empirical studies have found positive effects of tax knowledge on tax compliance behaviour (Kirchler, Niemiowski, & Wearing, 2006; Loo, Mc Kerchar, & Hansford, 2009). Also, evidence shows that deficiency in tax knowledge can led to unintentional non-compliance behaviour among taxpayers (Loo, et al., 2009). Therefore, taxpayer education can enable the transfer of the required information to potential taxpayers to enable them to make informed decisions about their behaviour towards tax matters. Only a few studies have documented a relationship between the methods of taxpayer education and tax

compliance behaviour. For example, Tetteh (2019) studied the impact of print media, electronic means, and stakeholder sensitization programmes on SMEs tax compliance behaviour in Ghana. The study reported positive and significant relationships between print media, electronic means, stakeholder sensitization programmes and SMEs tax compliance behaviour. Similar findings were reported by Gitaru (2017) in a Kenyan study. Also, Koumpias and Martinez-Vazquez (2019) found income tax filing increased in after exposure to adverts in newspaper that provided information on eligibility to tax but not for notification for filing deadlines and late filing penalties. However, advertisements on television using moral suasion increased tax filing.

Therefore, we put forward the following hypotheses:

H<sub>1</sub>: Print media education significantly influences tax compliance behaviour

H<sub>2</sub>: Electronic taxpayer education significantly influences tax compliance behaviour

H<sub>3</sub>: Stakeholder sensitization programmes significantly influences tax compliance behaviour.

### **Tax administration and tax compliance behaviour**

Tax administration is the most important part of a tax system. It encompasses all the processes involved in enforcing the various tax laws. One of the features of the role of tax administration would be the provision of an enabling atmosphere for citizens to discharge their civic responsibilities. A well-organized tax administration should be reflected through a higher level of tax compliance and less avenues for tax evasion. The strategy of the tax administration should be to create processes that gently compels taxpayers towards voluntary compliance. This implies that effective leadership from tax authorities would normally lead to compliance from taxpayers (Alm, Cherry, Jones, & McKee, 2010). Conversely, a tax system bedeviled with uncertainties and complexities produces less compliance reporting and filing of returns (Alm et al., 2010). Widespread tax non-compliance has been attributed to poor tax administration characterized by time consuming processes, corruption, inadequate information, unresponsiveness, unstable tax policies, and compliance hurdles (Akinboade, 2015). Tax Administration should support voluntary compliance through efficient processes aimed at making the processes easy for taxpayers. The extent of success of tax administration depends on how taxpayers perceive it. Thus, a negative perception may create non-compliance while a positive perception can generate higher levels of compliance on the part of taxpayers. Therefore, the following hypothesis is put forward:

H<sub>4</sub>: tax administration significantly influences tax compliance behaviour

### **Theoretical framework**

The theoretical background of this research rest on James and Alley's (2004) approaches to tax compliance which is the economic approach and the behavioural approach. Specifically, the study relies on the behavioural approach which hinges on the willingness of the taxpayer to act in accordance with the spirit and letter of the tax law. This implies that "individual taxpayers are not seen as selfish utility maximizers but also interact with tax authorities according to their differing attitudes, beliefs, norms, and roles such that the success of tax effort

depends on cooperation” (Nkundabanyanga, Mvura, Nyamuyonjo, Opiso, & Nakabuye, 2017 p. 933). In essence the taxpayer is viewed as ‘good’ who makes decisions based on how issues are perceived.

**METHODOLOGY**

The survey design was adopted for this study. The unit of analysis was individual taxpayers (registered small and medium scale enterprises). The population of the study was made up of 266 registered small and medium scale enterprises (SMEs) in Calabar South Local Government Area and Calabar Municipality of Cross River State. For the study, a sample of the population was studied. Using Krejcie and Morgan (1970) sample size determination table, for a population of 266, the sample size is approximately 160. However, to mitigate the problem of non-response, the whole population was served the questionnaire. The list of all registered SMEs in the two local government areas served as the sampling frame. Data were collected by means of a self-reported questionnaire distributed by hand to the registered office of the SMEs. Managers of the respective SMEs were assured of the confidentiality of their responses to secure their cooperation in the filling of the questionnaires. The multiple regression technique was employed to examine the relationships being studied and this was achieved using SPSS version 20 software. The instrument for the survey was adapted from previous studies and modified for this study.

**Model specification**

$$TC = f(SSP, TA, PME, ETE) \dots\dots\dots(1)$$

$$TC_i = \beta_0 + \beta_1 SSP_i + \beta_2 TA_i + \beta_3 PME_i + \beta_4 ETE_i + \mu_i \dots\dots\dots(2)$$

A priori expectation

$$\beta_1, \beta_2, \beta_3 \text{ and } \beta_4 > 0$$

where:

- TC = Tax compliance behaviour
- SSP = Stakeholder sensitization programmes
- TA = Tax administration
- PME = Print media education
- ETE = Electronic taxpayer education

**RESULTS AND DISCUSSION**

From the 266 questionnaires distributed, 213 were returned giving a response rate of 80%. The demographic characteristics of the respondents showed that 118 (55.4%) were male while 95 (44.6%) were female. In terms of age, 91 (42.7%) respondents were 30 years and below while 122 (57.3%) are 31 years and above. Also, 71 (33.3%) had the senior secondary school certificate while 142 (66.7%) had degrees. Furthermore, 154 (72.3%) respondents were of the management cadre and 59 (27.7%) were of the top management cadre.

The descriptive statistics of the variables as shown in Table 1 indicated that stakeholder sensitization programmes (SSP) had the highest mean (4.074) while tax administration (TA) had the lowest mean (3.198). Also, print media education (PME), electronic taxpayer education

(ETE), and tax compliance (TC) had means of 3.350, 3.438 and 3.782 respectively. The standard deviation of the variables ranged from .600 to 1.057 while variance ranged from .360 to 1.118. Furthermore, the values for skewness and kurtosis indicated that the data is normally distributed and within acceptable limit of  $\pm 2.58$  (Hair, Black, Babin, & Anderson, 2010).

Table 1  
Descriptive Statistics of variables

Variables	Mean	Std. Dev.	Variance	Skewness	Kurtosis
TA	3.198	.764	.584	-1.23	-.146
PME	3.350	1.057	1.118	-.450	-.795
ETE	3.438	.738	.546	-.009	-.197
SSP	4.074	.783	.614	-.018	-.135
TC	3.782	.600	.360	-.216	-.016

Source: Field Survey

Furthermore, the correlation test was performed to establish the degree of association among the variables. All the variables displayed a moderate to low degree of association with only TA and TC showing a moderate degree of association of .661. All the correlations were significant at  $p < .01$ . The results further prove the absence of multicollinearity amongst the variables. The results are shown on Table 2.

Table 2: Correlations among variables

Variables	TA	PMT	ETE	SSP	TC
TA	1				
PME	2.90*	1			
ETE	0.194**	0.375**	1		
SSP	0.290**	0.375*	0.140*	1	
TC	0.661*	0.259**	0.382**	0.245*	1

\*\* correlation is significant at the  $p < 0.05$ ,  $p < .01$

Source: Field Survey

In addition, a test for multicollinearity was performed and the results showed there were no issues as the variance inflation factor (VIF) and tolerance levels are well within acceptable thresholds of not greater than 10 and not less than .10 respectively (Hair et al., 2010). Table 3 shows the results.

Table 3

**Test of multicollinearity**

variables	VIF	Tolerance
SSP	1.287	.777
TA	1.275	.785
ETE	1.166	.858
PME	1.162	.861

Source: Field Survey

Furthermore, multiple regression analysis was performed to determine the effects of SSP, TA, ETE, and PMT on TC. The analysis helped answer the research questions of the study. Therefore, Table 4, 5 and 6 show the results of the multiple regression performed.

Table 4

**Model summary**

Model	R	R <sup>2</sup>	Adj. R <sup>2</sup>	Std. Error of the estimate
1	.354	.125	.108	.93931

a. Independent variables : SSP, TA, ETE, PME

b. Dépendent variable : TC

Table 5

**ANOVA showing the significance of the model**

Model	Sum of square	df	Mean square	F	Sign
Regression	25.754	4	6.438	7.297	0.000 <sup>b</sup>
Residual	179.990	204	882		
Total	205.744	208			

a. Independent variables : Stakeholder sensitization programme (SSP), Tax administration (TA), Electronic taxpayer education (ETE), print media education (PME)

b. Dépendent variable : Tax Compliance

Source: Field Survey

Table 6

**Coefficients showing the contribution of each predictor variable to tax compliance**

Model	Unstandardized co-efficient		Standardized co-efficient	t	Sign
	B	Std. Error			
(constant)	3.590	0.511		7.031	0.000
SSP	0.050	0.086	0.043	0.578	0.564
TA	-0.038	0.073	-0.039	-0.525	0.600
ETE	0.248	0.067	0.274	3.878	0.000
PME	-0.179	0.058	-0.218	-3.084	0.002

Source: Field Survey

- a. Dependent variable: TC
- b. Independent variables : SSP, TA, ETE, PME

Tables 4, 5 and 6 shows the result of the multiple regression performed. The results on Table 4 and 5 indicated that the predictors accounted for approximately 11% of the variance in TC ( $R^2 = .108$ ,  $F(4, 204) = 7.297$ ,  $p < .000$ ). Table 6 shows ETE contributed positively and significantly to the regression model while PME contributed negatively but significantly to the model. However, SSP and TA did not significantly contribute to the model. The coefficient of stakeholder sensitization programmes (SSP) was positive ( $b = .043$ ) indicating that as SSP increases, tax compliance (TC) increases but the relationship was not significant. This implies that as stakeholder's sensitization programmes are intensified, the response towards tax compliance increases but not enough to significantly translate to tangible compliance. The findings are inconsistent with the results of previous studies that examined the relationship between SSP and TC (Tetteh, 2019). This result is unexpected as such programmes should lead to increase in tax compliance. It is likely that these SMEs are suspicious of the state governments tax campaigns and interpret it to mean more tax drive in the future. As expected, the coefficient of electronic taxpayer education (ETE) was positive ( $b = .274$ ) and significant indicating that both ETE and TC increase at the same pace. This implies that ETE predicts TC. This also shows that taxpayers had a positive orientation towards ETE as a means of educating them and this has a significant influence on TC. The findings are in tandem with those of Tetteh (2019) who reported similar findings in his study in Ghana. The coefficient for tax administration (TA) ( $b = -.039$ ) was negative and the relationship with TC was also not statistically significant. The findings show that TA produced a negative influence on TC. It also implies that taxpayers do not perceive the administration of taxes in the state as efficient to help generate interest in voluntary tax compliance. The results differed from those of Tetteh (2019) who found a positive and significant relationship between TA and TC in a Ghanaian study. Furthermore, the relationship between print media education (PME) ( $b = -.218$ ) and TC was negative but statistically significant. The result did not support earlier studies who found



PME and TA to be positive and significantly related to tax compliance. The findings imply that tax education through print media negatively influences tax compliance. This finding is unexpected, but it could be a pointer to the fact that some of the items printed may not be read by the recipients of such literature on tax.

## CONCLUSION AND IMPLICATIONS

This study examined the direct link existing between TA and TC and between the proxies of taxpayer education and TC. Evidence from this study suggest only ETE had a positive and significant influence on TC. This implies that SSP, TA, and PME have not encouraged SMEs to comply voluntarily with tax laws and pay their taxes. Practically, this has policy implications for the Cross River State government in assessing the effectiveness of the just concluded tax campaigns embarked on across the senatorial districts of the state. The outcome of TA, SSP and PM are unexpected and there is need for tax administrators to formulate and design programmes that enhance taxpayer's confidence as aggressive tax campaigns may breed suspicion and become counterproductive. Tax administrators should emphasize the best medium of taxpayer education for increased voluntary tax compliance. Also, attention should be paid to tax administration with a view to giving taxpayers a pleasant experience in the whole process

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