



Determinants of Tax Non-Compliance Behaviour Among Small and Medium Enterprises in Oyo State, Nigeria

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Abstract

The informal sector of the Nigerian economy consists of self-employed individuals whose personal and business income are not easily determined for tax purposes by tax officials. The extent to which they comply with tax laws and faithfully declare their income to tax officials determine the amount of tax revenue realized from them. To this end, the study investigates the determinants of tax noncompliance behaviour among the small and medium enterprises in Oyo State, Nigeria. Primary data were gathered using structured questionnaires from sample of 550 SMEs operators randomly selected within three Local Government Areas (LGAs) in Ibadan, the capital city of Oyo State. Descriptive statistics and probit logistic regression technique were used to analyse the data to achieve the study's objective. Findings reveal that corruption of tax officials and administrators, and tax compliance costs are the major determinants of tax noncompliance. They increase the incidence of tax noncompliance among SMEs in Oyo State. Besides, tax knowledge, tax audit, tax penalty, and tax amnesty are found to reduce the incidence of tax noncompliance among the SMEs taxpayers in Oyo State. It was recommended that tax officials' surveillance should be frequently carried out by agencies of government that deal with fighting economic fraud and corruption. Also, tax education should be inculcated in the school curriculum from primary to tertiary education levels, and tax audits of SMEs should be frequently carried out by tax officials.

Keywords

Tax non-compliance, Tax amnesty, Tax knowledge, Tax evasion, Tax officials, Corruption

INTRODUCTION

Taxes are mandatory levies that are imposed by a public authority on all taxable incomes of individuals, sole proprietor, and corporate entities. The public authority has responsibilities of safeguarding lives and properties of the citizens, providing infrastructural facilities for businesses and corporation to thrive in a conducive environment and encouraging economic development (Aghion *et al.*, 2016). These functions, however, cannot be successfully carried out without effective means of revenue generations through taxes to the coffers of the government. Therefore, for efficient and effective taxes collections, tax laws and administration should align with the canons of taxation: economy, certainty, convenience, equity, and flexibility. This will not only engender increase in tax revenue but also drive voluntary tax compliance.

Taxation is efficient and effective where the total tax paid by all taxpayers equal the total tax liabilities. In practice, meanwhile, there is often a divergence between the total tax paid and total tax liabilities. The gap depicts tax noncompliance behaviours of the taxpayers on one hand and tax administrators' challenges of tax collections on the other hand (Modugu *et al.*, 2012, Ocheni, 2015). The analysis of the determinants of the tax gap in relation to tax noncompliance behaviours of taxpayers in Small and Medium Enterprises (SMEs) in Oyo state, Nigeria, is the objective

of this study. This is because Oyo State is the second-largest state with a total number of 6,131 SMEs covering 8.4% of the whole SMEs in the country (Kale, 2019). Despite this number of SMEs in the state, the revenue generation from SMEs is still meagre in relation to other states in the country (Akinyele & Ogunmakin, 2016; Ilemona et al., 2019, Kale, 2019). Hence, this study tends to contribute to empirical literature on the determinant of tax noncompliance behaviours among small and medium enterprises in Oyo State.

Similarly, the study is relevant for many other reasons. One, it will provide guidance on tax policies formulation and execution for tax administrators and policy makers. Second, taxpayers will be educated on the need for voluntary compliance to tax laws. Third and finally, government will note the importance of judicious and transparent utilization of taxes revenue in driving voluntary compliance with tax laws. This is because cash proceeds of crude oil from which the state government has relied for sustainability has been dwindling with significant shortfalls. This has necessitated the shift to internally generated revenue through taxes.

The remainder of the study is organized as follows: Section two outlines the literature review. Section three deals with methodology adopted to achieve the objective of the study while section four analyses and discusses the data. Section five concludes the study with appropriate recommendations.

LITERATURE REVIEW

Conceptual literature review

Tax noncompliance and tax compliance have been described in variety of ways. Tishar & Hasanuzzaman (2019) viewed tax noncompliance as the failure of taxpayers to submit adequate returns to tax authorities, whether willingly or unwillingly. Fagbemi et al., (2010) established that tax noncompliance is common within the developing countries of the world and could lead to the economic stagnation of developing countries. On the other hand, Verboon and Dijk, (2007) opined that tax compliance is the ability of taxpayers to abide with relevant tax laws and ensuring payment of their tax liabilities as at when due. Tax compliance depends on the behaviour of the taxpayer, it is either he complies willingly or forced to pay (Fagbemi & Abogun, 2015). According to the Organisation for Economic Cooperation and Development, (2001), compliance can be characterized as administrative compliance and technical compliance. Administrative compliance is the capability of the taxpayers to abide by the policy of lodging and remitting payment of taxes to the relevant tax authority as at when due. The efforts of the taxpayers to obey the technical requirements of the tax laws is referred to as the technical compliance. Both administrative and technical compliance are necessary for smooth collection of tax revenue and prompt provision of social goods to all citizens.

Theoretical literature review

Several economic and behavioural theories which are rooted in behavioural economics have been used to provide theoretical underpinning to tax moral, tax evasion, tax avoidance and tax compliance behaviours. Some of these theories are expected utility theory, deterrence theory, and ability to pay theory. Expected utility theory proposes that taxpayers are always ready to evade tax whenever the benefits of tax evasion outweigh the cost of tax evasion (Allingham & Sandmo, 1972; Sapiei et al., 2014). The deterrence theory emphasizes the use of sanction and punishment by the tax administrators to enforce tax compliance. The more the weight of sanction against tax noncompliance, the lower the rate of tax noncompliance behaviours (Musimenta, 2020; Sapiei et al., 2014). The ability to pay theory focuses on capacity of the taxpayer to pay tax liabilities. The theory suggests that taxation should be imposed based on the ability of a taxpayer to pay (Obara & Nangih, 2017). The theory uses income as the basis of measuring SMEs' ability to pay tax and it is the fairest justifiable and equitable form of ability to pay tax.

The socio-economic environment of Nigeria has shown that government has not be relying on the first two theories in pursuing tax compliance. The recent introduction of Voluntary Assets and Income Declaration Schemes (VAIDS) by government buttress this fact. Under the schemes, taxpayers that had hitherto evaded taxes were required to lawfully declare their identify and declare their assets for the purpose of paying their correct taxes amount. According to (Rai, 2004), firms with lower level of income than their industry average reported higher incidence of tax noncompliance. Thus, firms with higher level of income will engender tax compliance while firms with limited resources will evade taxes to preserve the resources available for business operations. Hence, this study adopts the ability to pay theory.

Empirical literature review and hypothesis development

Studies on determinants of tax noncompliance behaviours had been extensively carried out by scholars using different factors ranging from tax system structure which includes tax rate, tax audit, probability of detection of noncompliance behaviour and sanction for noncompliance behaviours to income level of taxpayers. Previous studies of (Palil & Mustapha, 2011; Engida & Baisa, 2014; Musimenta, 2020; Sapiei et al., 2014; Oladipupo & Obazee, 2016; Oladele et al., 2019; Ya'u et al., 2020) confirmed these factors to significantly influence the tax noncompliance behaviours of taxpayers. Similarly, attempts were made by (Imam & Jacobs, 2007; Whait et al., 2018) to examine the correlation between corrupts tax officials and tax evasions. They found a positive association between corrupts tax officials and tax evasions. This explains that the tax gap as identified by Modugu and Amoye (2014) was not only occasioned by the tax noncompliance behaviors of the taxpayers alone but also the corruption tendencies of the tax administrators.

Besides, opportunities to evade taxes, for instance, during firms' financial difficulties (Alabede et al., 2011; Aladejebi, 2018), cost of compliance with tax laws such as fees paid to external tax consultants and staff in tax planning

units (Slemrod, 2007; Maseko, 2014), perceived equity and fairness in tax administration on the side of the taxpayers (Mohamad & Deris, 2018; Sebele-Mpofu, 2020) have been established to be significant determinants of tax non-compliance behaviors of taxpayers. Taxpayers that are undergoing financial strains will rather prefer to mind proffering solutions to the financial difficulties instead of being preoccupied with settlement of tax liabilities. Also, where the cost of compliance with tax provisions outweighs the actual amount of tax then the possibility of tax evasion is inevitable. The extent of trust that the taxpayers have on government's transparency and accountability in the judicious use of tax revenue is also a major determinants of tax compliance. There is therefore a crucial relationship between constituted authority's trust in judicious use of tax revenue and tax compliance (Vincent, 2021).

Tax knowledge, tax education, tax information, and tax literacy were found to influence tax compliance positively. (Vlachos & Bitzenis, 2016; Cvrlje, 2015; Mohamed & Ali, 2017; Tishar & Hasanuzzaman, 2019; Wadesango et al., 2018). The more educated taxpayers are, and the more tax information are passed to them by the tax officials, the lesser the tax noncompliance behaviours of the taxpayers. Therefore, tax literacy and information reduce the level of tax noncompliance behaviours of taxpayers.

While several of these studies were carried out in developed countries few of the have been carried out at the developing countries. In addition, because of the different socio-economic differences of Nigeria: income level, level of unemployment, literacy level and religiosity, previous studies on the country (Vincent, 2021) could not be generalized. Studies on determinants of tax noncompliance behaviours of taxpayers in Oyo State, one of the largest cities in Africa is rare, hence, the study will contribute to empirical evidence in this regard and make contributions to literature. We therefore hypothesize that:

H₀: There is no significant effect of corruption, tax knowledge, tax penalty, tax amnesty, tax compliance cost and tax audit on tax non-compliance behaviours of SMEs in Oyo State, Nigeria.

METHODS

The study area selected in carrying out the study is Ibadan, Oyo State, Nigeria. Ibadan is the capital of Oyo State and one of the largest cities in Africa. The study was carried out in Ibadan because it is one of the prolific small-scale entrepreneurial states in the Southwestern Nigeria. The research design adopted was descriptive and quantitative. This study adopted self-administered questionnaires to obtain the required primary data on the factors that determine tax non-compliance behaviour among small and medium scale enterprises in Oyo State, Nigeria.

Population, Sample Size, and Sampling Techniques

A purposive multi-stage sampling technique was adopted for the study. Specifically, the first stage purposively selected Ibadan, Oyo State as the study area. Ibadan as the study area was because it is one of the highest populated cities in Nigeria with about estimated population of three million five hundred and fifty-two thousand (3,552,000), according to NBS Demographic Bulletin (2020), it is the hub of many commercial and enterprise centers, with proximity access to many other major cities like Lagos, Osun and Ogun States.

The second stage purposively selected three (3) local government areas (LGA) in Ibadan out of the eleven (11) available LGAs. The selected LGAs are Ibadan North, Ibadan Northeast and Oluyole LGAs. This is done because these 3 selected LGAs present more business enterprises than others in the state. At the final stage, the 550 SMEs sample were selected using a random sampling technique. The random technique was used to give equal chance of being selected to each of the business enterprises within the three (3) LGAs.

The population of the study mainly comprises of the 2,805 SMEs operating in three (3) local government areas of Ibadan, Oyo State, Nigeria as obtained from the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) office in Ibadan.

Source of Data

Primary data were collected using structured administered questionnaire. The questionnaire were administered to owners of the firms that have been operating in that area for the past three years and who have consented to participate in the study. Five hundred and fifty (550) questionnaires were administered by the researcher and the research assistants.

Research Instrument

The Research instruments used primarily in the collection and gathering of data was structured questionnaires. The questionnaire was carefully structured with wide-ranging questions aimed at eliciting responses from the respondents. The questionnaire was designed to capture detailed profile of the respondents in addition to what they consider as the major determinants of tax noncompliance behaviour. The questionnaire was designed on five points Likert Scale which entail: 1= strongly disagree, 2=disagree, 3= not sure, 4= agree and 5= strongly agree. The questionnaire was divided into two sections; the first section focused on the demographic characteristics of the respondents and the second section on research questions which are: corruption, (COR), tax knowledge (TAXKNW) awareness of tax penalty, (TAXPEN) , tax amnesty, (TAXAMN) compliance cost (TAXCOC) and tax audit (TAXAUD).

Validity and reliability of research instrument

The validity of the instrument employed in this study was ascertained through consent of two professional tax experts in the Faculty of Economics, University of Ibadan, Nigeria. The validity of the questionnaire is achieved by carefully

ensuring the questionnaire does not discuss irrelevant issues outside the objective of the study. Reliability of the instrument is measured through a pilot survey carried out among a few respondents who are SMEs operators in The Polytechnic, Ibadan. The respondents that participated in the pilot survey are excluded from the main survey. Ten pilot studies were carried out for the reliability analysis to get a Cronbach's alpha value of 0.81.

Data analytic technique and econometric model specification

Descriptive data analysis technique and ordered probit regression technique were used to investigate the determinants of tax noncompliance behaviour of SMEs in Oyo State. The model specification is specified functionally, mathematically and econometrically.

SMEs tax noncompliance behaviour = f (corruption, tax knowledge, tax penalty, tax amnesty, tax compliance cost, tax audit).

$$Tax\ ncomp_i = \beta_0 + \beta_1 cor_i + \beta_2 taxknw_i + \beta_3 taxpen_i + \beta_4 taxamn_i + \beta_5 taxcoc_i + \beta_6 taxaud_i + \epsilon_i$$

where: -

$Tax\ ncomp_i$ = Tax non-compliance behaviour

β_0 = coefficient of constant

$\beta_1 cor$ = Corruption

$\beta_2 taxknw$ = tax knowledge

$\beta_3 tax\ pen$ = tax penalty

$\beta_4 taxamn$ = tax amnesty

$\beta_5 taxcoc$ = tax compliance cost

$\beta_6 taxaud$ = tax audit

β_1 to β_6 are the coefficient of independent variables.

ϵ_i is the error term and assumed to be normally distributed with mean zero and constant variance.

A priori expectation: $\beta_2, \beta_3, \beta_6 < 0$ and $\beta_1, \beta_4, \beta_5 > 0$

RESULTS AND DISCUSSION

Demographic characteristics of small and medium scale enterprises respondents in Oyo State

This Sub-section describes the descriptive statistics on small and medium scales enterprises, as it relates to their local government location, gender, age, educational level, registration status, educational qualification and status of respondent, among others. The location distribution of sample questionnaire within the 3 selected local government areas in Ibadan, Oyo State, Nigeria is presented in Table 1. A total of five hundred and seven (507) small and medium scale enterprises were found to be suitable for our analysis. The questionnaire were received from the three local governments as follows: 322 (63.5%) questionnaire was returned from Ibadan North local government, 122 (24.1%) from Ibadan Northeast Local Government and 63 (12.4%) from Oluyole Local Government respectively.

The age distribution of the respondents is presented in the table, most of the respondents sampled in the three Local Government areas of Ibadan were between the age of 26 and 35 years, with total number of 188 which is 37.1% of sample questionnaire. As disclosed in the table, 159 (31.4%) are within the age bracket of 18-26 while 111 (21.9%) are within the age of 36 and 45, and 49 (9.7%) are within the age of 46 and above. The gender distribution of sampled SMEs respondents shows that most of the SMEs representatives sampled are Female. As disclosed in the table, out of total 507 respondents, 249(49.1%) are male and 258(50.9%) are female.

The academic qualification distribution of sample SMES respondents showed that 388(76.5%) of the respondents have first degree while 98(19.3%) have masters and doctorate degree and 21(4.1%) have lower academic qualification. The table captured the status of the respondents. 73 (14.4%) are proprietors while 58(11.4%) are principal partners in firm, 157 (31.1%) are Directors of Companies, 22 (4.3%) are managers and other categories of respondents are 197 (38.9%).

The types of business of SMEs captured in the table showed that 163 (32.1%) are sole Proprietorship, 49 (9.7%) are Partnership business, 180(35.5%) are limited liability companies while 115 (22.7%) are other classes of business. The result indicates that most of the SMEs are limited liability companies. The registration status of the sample SMEs in the three local government areas in Ibadan, Oyo State highlighted that 359 (70.8%) have registered with the Corporate Affairs Commission while 148 (29.2%) are yet to be registered. The result showed that the three local government areas have more registered SMEs than those that are not register. The table also captured the year of registration of SMEs in the three local government areas. 327 (64.5%) commenced operations within five years of registration while 87(17.2%) started operation between 6 and 10 years, and 93 (18.3%) started operations 11 years and above. The overall result revealed that majority of the sampled questionnaire SMEs registered within five years.

The numbers of employees of the sample SMEs showed that 390 (76.9%) have between 1 and 10 employees while 93(18.3%) have between 11-50 workers and 24(4.7%) have between 51-200 employees. The overall result showed that most of the SMEs in the sample local government areas have between 1-10 employees. The table also disclosed the total assets distribution of the selected SMEs in the three local government of Ibadan, Oyo State Nigeria. The overall result shows that most of the SMEs have less than ₦1m (One Million Naira) total asset. 229(45.2%) of the total population sample have less than ₦1m (One Million Naira) total assets, while 184(36.3%) have between ₦1,000,000(one

million Naira) and ₦5,000,000(five million Naira) worth of total assets, 62(12.2%) have between ₦6m and ₦100m Naira total assets, and 32(6.3%) has above ₦100m Naira worth of total assets.

Table 1 Demographic characteristics

| 1 | Local Government | Frequency/% |
|----|------------------------------------|--------------------|
| | Ibadan North | 322 (63.5%) |
| | Ibadan North East | 122(24.1%) |
| | Oluyole | 63(12.4%) |
| 2 | Age of Respondent | |
| | 18-25 | 159 (31.4%) |
| | 26-35 | 188(37.1%) |
| | 36-45 | 111(21.9%) |
| | 46&above | 49(9.7%) |
| 3 | Gender of Respondent | |
| | Male | 249 (49.1%) |
| | Female | 258(50.9%) |
| 4 | Qualification of Respondent | |
| | BSc/HND | 388 (76.5%) |
| | MSc/Phd | 98(19.3%) |
| | Others | 21(4.1%) |
| 5 | Status of Respondent | |
| | Proprietor | 73 (14.4%) |
| | Principal Partner | 58 (11.4%) |
| | Director | 157 (31%) |
| | Manager | 22 (4.3%) |
| | Other | 197 (38.9%) |
| 6 | Types of Business | |
| | Sole Proprietorship | 163 (32.1%) |
| | Partnership | 49(9.7%) |
| | Limited | 180(35.5%) |
| | Others | 115(22.7%) |
| 7 | Registration Status | |
| | Registered | 359 (70.8%) |
| | Not Registered | 148(29.2%) |
| 8 | Year of Registration | |
| | 3-5 | 327 (64.5%) |
| | 6-10 | 87(17.2%) |
| | 11-above | 93(18.3%) |
| 9 | Numbers of Owners | |
| | 1-5 | 411 (81.1%) |
| | 6-10 | 56(11%) |
| | 11-20 | 40(7.9%) |
| 10 | No of Employees | |
| | 1-10 | 390(76.9%) |
| | 11-50 | 93(18.3%) |
| | 51-200 | 24(4.7%) |
| 11 | Total Assets | |
| | less than 1 million | 229 (45.2%) |
| | 1-5 million | 184(36.3%) |
| | 6-100 million | 64(12.2%) |
| | above 100 million | 32(6.3%) |
| 12 | Annual Turnover | |
| | less than 20 million | 389 (76.7%) |
| | 20-100 million | 95(18.7%) |
| | 100-500 million | 23(4.5%) |
| 13 | PAYE Agent | |
| | Yes | 286(56.4%) |
| | No | 221(43.6%) |
| 14 | VAT Agent | |
| | Yes | 301(59.4%) |
| | No | 206(40.6%) |

Source: Field Survey (2023)

The table depicted the number and percentage of annual turnover of the respondents. From the table, it was disclosed that 389(76.7%) had less than ₦20 million-naira annual turnover and 95(18.7%) had between ₦20 million and ₦100 million

annual turnover while 23(4.5%) had between ₦100m and ₦500m annual turnover. The overall result implies that most of the SMEs have less than N20 million annual turnover. The registration of SMEs as Pay as you earn agent with the state internal revenue service is also represented by Table 1. The table revealed that 286(56.4%) of the respondents registered as PAYE agent while 221(43.6%) were not registered as agent. The overall result shows that most of the SMEs in the three selected local government areas registered as PAYE agents. Table 1 further captured the numbers and percentage of respondents that registered as VAT agents with the relevant tax authority. The table showed that 300(59.4%) of respondents registered as VAT agents while 206(40.6%) are not VAT agents. The overall result, therefore, showed that most of the respondents registered with the relevant tax authority as tax agents.

Factors that Determines Tax Non-compliance among Small and Medium Scale Enterprises in Oyo State, Nigeria

This section discusses the factors that determine tax non-compliance among Small and medium Scale Enterprises in Oyo State.

Table 2 captures the respondents' non-compliance with tax rules in Ibadan, Oyo State. 105(20.7%) strongly agreed that they do not comply with the tax rules, 296 (58.4%) agreed while 13(2.6%) strongly disagreed, 79(15.6%) disagreed and 14(2.8%) respondents could not decide. The overall result showed that most of the respondents agreed that they do not comply with the tax rules in Oyo State.

Table 2 disclosed further that corruption is one of the major factors that determines tax non-compliance among Small and medium Scale Enterprises in Oyo State. The result on this showed that 278 (54.8%) of the respondents agreed that the tax burden and corruption from the tax officials in Oyo state is a factor that determine tax non-compliance behaviour among SMEs in the State. While 243(47.9%) agreed that tax official helps to write off tax liabilities after giving them tips, 242(51.7%) of the respondents agreed that tax officials expose SMEs to means of evading taxes. This agrees with the study of Vlachos and Bitzenis, (2016) who revealed that corruption is the major determinant of tax non-compliance behaviour among SMEs in Greece, and Oboh et al., (2013) where multiple tax practices, corruption, complexity and inequalities are argued to characterize the Nigerian tax system.

Findings from Table 2 indicate that tax knowledge is another factor that determines tax non-compliance among Small and medium scale enterprises. The finding disclosed that 371(72.8%) respondents confirmed that level of education helps them to understand the tax legislation better while 303(59.8%) disagreed that they do not have full knowledge of government expenditures and costs of public services provided by the government of Oyo State and 442 (87%) confirmed that ability in using computer, E-filing awareness and knowledge about the process are important for SMEs tax payment behaviors, and 360(71%) respondents disclosed that full knowledge of E- Filling and technology will reduce Tax non-compliance among SMEs in Oyo State. This finding is consistent with the findings of Wadesango et al., (2018) that evaluated the impact of tax knowledge on tax non-compliance among small and medium scale enterprises in developing countries. The study's findings revealed that having much knowledge on tax issues without reducing or curbing corruption will have positive impact on tax non-compliance. Also, findings corroborates the results of Tishar & Hasanuzzaman (2019) that people having tax education are less likely to be tax non-compliant.

Findings in Table 2 showed that 315(62.2%) respondents confirmed that SMEs are not aware of penalty else they would have obeyed while 307(60.5%) indicated that the only lasting measure to tax non-compliance behaviour among SMEs is tax penalty. 251(49.5%) disagreed that Tax non-compliance behaviour of SMEs in Oyo State will reduce if penalty and interest is not charged. This implies that penalty is one of the determinants of tax non-compliance among SMEs in Oyo State. The study of Oladele et al., (2019), and Modugu and Omoye (2014) reported that imposition of tax penalties will lead to a reduction in the level of tax non-compliance of taxpayers. In contrast, however, the study of Mohamed and Deris, (2018) reported that there were no significant relationship between tax penalty and tax non-compliance.

Tax amnesty is another factor that determines the tax non-compliance among Small and medium Scale Enterprises in Oyo State. The result in Table 2 disclosed that 281 (55.4%) of the respondents agreed that exclusion of SMEs from prosecution for tax offences because of tax amnesty will not encourage them to remit their outstanding tax liabilities while 396 (86%) respondents agreed that after tax amnesty, the awareness of being in tax net deters tax non-compliance behaviour among SMEs in Oyo State. This result is in line with the findings of Oladele et al., (2019) and Aladejebi, (2018) that tax amnesty can reduce tax non-compliance behaviour among taxpayers.

Tax compliance cost is another factor that determines the tax non-compliance among Small and medium Scale Enterprises in Oyo State. The result disclosed that 405(72%) of the respondents agreed that complexity in meeting the requirement of the tax law increases the compliance cost, thus encourage tax non-compliance behaviour. This implies that compliance cost has a positive impact on tax non-compliance among small and medium scale enterprises in Oyo State. This finding is consistent with the finding of Maseko (2014) that compliance cost has positive correlation with tax non-compliance.

Results in Table 2 showed further that 381(55.4%) respondents agreed that perception of enterprises on tax audit being carried out will reduce the tax non-compliance behaviour, while 396 (74.1%) respondents also agreed that the possibility of being exposed by tax audit determines tax compliance among SMEs. This finding conforms to the findings of Oladele et al., (2019) who concluded that an increase in tax audit will reduce the level of tax non-compliance among the taxpayers. Moreover, Engida and Baisa, (2014), finds that the major factors affecting tax compliance in Mekelle

include tendency of being audited and it has a positive relationship with tax compliance. The probability of being audited was said to be the major explanatory factor in tax compliance.

Table 2 Factors that Determines Tax Non-compliance among Small and Medium Scale

| S. No | Response | SA | A | SD | D | U |
|-------|---|----------------|-----------------|-----------------|-----------------|----------------|
| 1 | Non-Compliance with tax rules | 105 (20.7%) | 296 (58.4%) | 13 (2.6%) | 17 (15.6%) | 14 (2.8%) |
| 2 | The tax Burden and corruption from the tax officials in Oyo state is not a factor that determine tax non-compliance behaviour among SMEs in Oyo State | 32 (6.3%) | 156 (30.84%) | 175 (34.5%) | 103 (20.3%) | 41 (8.1%) |
| 3 | Paying bribes to the tax Officials is cheaper than to pay tax to the state | 55 (10.8%) | 178 (35.1%) | 129 (25.4%) | 93 (18.3%) | 52 (10.3%) |
| 4 | Tax official helps to write off tax liabilities after giving them tips | 37 (7.3%) | 206 (40.6%) | 113 (22.3%) | 83 (16.4%) | 68 (13.4%) |
| 5 | Tax officials expose SMEs to means of evading tax in Oyo State | 28 (5.5%) | 234 (46.2%) | 84 (16.6%) | 54 (10.7%) | 107 (21.1%) |
| 6 | My level of education affords me to understand the tax legislation better | 137 (27%) | 232 (45.8%) | 49 (9.7%) | 77 (15.2%) | 12 (2.4%) |
| 7 | I have full knowledge of government expenditures and costs of public services provided by the government of Oyo State | 62 (12.2%) | 111 (21.9%) | 159 (31.4%) | 144 (28.4 %) | 31 (6.1%) |
| 8 | Ability in using computer, E-filling awareness and knowledge about the process are important for SMEs decisions | 143 (28.2%) | 299 (59%) | 44 (8.7%) | 9 (1.8%) | 12 (2.4%) |
| 9 | Full knowledge of E- Filling and technology will reduce Tax non-compliance among SMEs in Oyo State | 100 (19.7%) | 260 (51.3%) | 79 (15.6%) | 56 (11%) | 12 (2.4%) |
| 10 | Your Enterprises prefers to pay penalty than to comply with tax law | 15 (3%) | 158 (31.2%) | 223 (44%) | 104 (20.5%) | 7 (1.4%) |
| 11 | The State Internal Revenue Service should charge higher penalty and interest to reduced tax non-compliance behaviour of SMEs | 38 (7.5%) | 208 (41%) | 99 (19.5%) | 155 (30.6%) | 7 (1.4%) |
| 12 | The Penalty and interest rate should be reduced to enhance tax compliance behaviour among SMEs | 33 (6.5%) | 236 (46.5%) | 138 (27.2 %) | 41 (8.1%) | 59 (11.6%) |
| 13 | Larger numbers of SMEs are not aware of penalty else they would have obeyed | 81 (16%) | 234 (46.2%) | 69 (13.6%) | 116 (22.9%) | 7 (1.4%) |
| 14 | The only lasting measure to tax non-compliance behaviour among SMEs is tax penalty | 23 (4.5%) | 284 (56%) | 107 (21.1%) | 61 (12 %) | 32 (6.3%) |
| 15 | Tax non-compliance behaviour of SMEs in Oyo State will reduce if penalty and interest is not charged | 63 (12.4%) | 163 (32.1%) | 131 (25.8%) | 120 (23.7%) | 30 (3.9%) |
| 16 | Exclusion of SMEs from prosecution for tax offences because of tax amnesty will encourage them to remit their outstanding tax liabilities | 81 (16%) | 200 (39.4%) | 152 (30%) | 55 (10.8%) | 19 (3.7%) |
| 17 | After tax Amnesty the awareness of being in tax net deters tax non-compliance behaviour among SMEs in Oyo State | 15 (3%) | 381 (71.1%) | 51 (10.1%) | 51 (10.1%) | 1 (1.8%) |
| 18 | Complexity in meeting the requirement of the tax law increases the compliance cost, thus encourage tax non-compliance behaviour | 90 (9.9%) | 315 (62.1%) | 80 (15.8%) | 50 (9.9%) | 12 (2.4%) |
| 19 | Perception of your enterprises on Tax Audit being carried out will reduce the tax non-compliance behaviour | 29 (5.7%) | 358 (70.6%) | 17 (3.4%) | 44 (8.7%) | 59 (11.6%) |
| 20 | The possibility of being exposed by tax audit determines tax compliance among SMEs in Oyo state | 40 (7.9%) | 257 (70.6%) | 97 (19.1%) | 42 (8.3%) | 71 (14%) |
| 21 | Irregular Tax audit has enhanced tax Non-Compliance behaviour in Oyo State | 75 (14.8%) | 196 (38.7%) | 124 (24.5%) | 40 (7.9%) | 72 (14.2%) |

Source: Field Survey, (2023)

The factors that determine tax non-compliance behaviour among Small and Medium Scale in Oyo State are further analyzed using the ordered probit regression given the multi-binary nature of the dependent variable (Tax Non-compliance). The coefficient of estimates is presented in Table 3. The results disclosed the relationship of tax knowledge, tax audit, tax amnesty, tax penalty, compliance cost and corruption on tax non-compliance among SMEs in Oyo State.

Table 3 Ordered Probit Regression Results of the determinants of tax non-compliance behaviour

| Tax Non-Compliance | Coef. | Std. Err. | Z | P>z | 95% Conf. | Interval |
|---------------------|-----------|-----------|-------|-------------|-----------|-----------|
| Corruption | 1.182 | 0.153 | 7.74 | 0.000 | 0.883 | 1.481 |
| Tax knowledge | -0.254 | 0.141 | 1.81 | 0.071 | -0.022 | 0.530 |
| Tax compliance cost | 1.130 | 0.181 | -6.24 | 0.000 | -1.485 | -0.775 |
| Tax Penalty | -0.846 | 0.145 | 5.82 | 0.000 | 0.561 | 1.130 |
| Tax audit | -1.214 | 0.157 | 7.71 | 0.000 | 0.905 | 1.522 |
| Tax amnesty | -1.031 | 0.139 | 7.42 | 0.000 | 0.759 | 1.304 |
| /cut1 | -1.995562 | .7018215 | | | -3.371107 | -.6200172 |
| /cut2 | 1.892544 | .7441806 | | | .4339763 | 3.351111 |
| /cut3 | 4.919841 | .7644248 | | | 3.421596 | 6.418086 |
| LR chi2 (21) | | | | 662.47 | | |
| Pseudo R2 | | | | 0.5493 | | |
| Log likelihood | | | | -271.75147* | | |
| Observation | | | | 507 | | |

Source: Authors' computation (2023) *** equals 1% significant level

The result of the relationship between corruption and tax noncompliance behaviour shows a positive relationship of (1.182) which indicate that tax officials expose SMEs to tax-noncompliance through corruption. This finding is in conformity with the study of Vlachos and Bitzenis, (2016), that showed corruption as the major determinant of tax non-compliance behaviour among SMEs in Greek. It is also in agreement with the study of Folayan and Adeniyi (2018) who equally revealed that the Nigerian tax system at present is characterized with multiple tax practices, corruption, complexity, and inequalities which hinder voluntary tax compliance.

The results of regression analysis on tax knowledge show that the tax non-compliance reduces as SMEs have full knowledge of tax legislation as shown by negative relationship between tax noncompliance behaviour and tax knowledge. This finding is in line with the finding of Mohamed and Ali, (2017), which revealed that the level of tax knowledge of taxpayers has positive effect on their level of tax compliance, that is, the higher the level of tax knowledge the lower will be the level of tax non-compliance of the taxpayers. The findings of Tishar and Hasanuzzaman (2019) and Cvrlje (2015) also conformed to this finding, where it was showed that taxpayers having broad knowledge of tax systems will efficiently manage his business such that the level of his non-compliance will be reduced to minimum level.

The regression result shows that tax compliance cost positively influences tax non-compliance in Oyo State. This finding is in line with the findings of Sapiei et al., (2014). However, the result is not in line with the finding of Maseko (2014), the study concluded that compliance cost has negative correlation with tax compliance. Also, Deyganto (2018), established that high registration costs and time-consuming processes encourage non-compliance by SME operators, increasing the tax burden and, as a result, lowering the taxpayer's disposable income and fail to encourage filing compliance.

The result regression on tax penalty and tax non-compliance behaviour of SMEs in Oyo State shows a negative relationship. It is shown that the imposition of tax penalty reduces the tax non-compliance behaviour among SMEs in the state. This finding is in line with the findings of Oladele et al., (2019) where it was reported that imposition of tax penalties will lead to a reduction in the level of tax non-compliance of taxpayers. The study of Modugu and Omoye (2014), concluded that a weak penalty has a significant effect on tax non-compliance that is if tax authority fails to put up a strict penalty for evaders, the rate of tax non-compliance will be increasing. In contrary, the finding of Mohamed and Deris (2018) reported that there was no significant relationship between penalty and tax non-compliance, and it agrees with that of Oladipupo and Obazee (2016).

Furthermore, tax audit is analyzed through perception of the SMEs being subjected to routine tax audit. The regression result discloses a negative correlation between tax audit and tax non-compliance behaviours. This shows that SMEs tax non-compliance will reduce with the perception that tax audit will be carried out on their business at the discretion of tax officials. In summary, the result implies that tax audit will reduce the level of tax non-compliance of SMEs in the state. This is in line with the finding of Oladele et al., (2019) who concluded that an increase in tax audit will reduce the level of tax non-compliance among the taxpayers. At the same time, the finding of Engida and Baisa (2014), shows that tax audit has a positive relationship with tax compliance. The probability of being audited was said to be the major explanatory factor in tax compliance.

Finally, the relationship between tax amnesty and tax non-compliance behaviours of SMEs was analyzed. The result shows a negative relationship of (1.214) influence on SMEs tax compliance. This indicate that if SMEs is excluded from prosecution, the level of tax non-compliance will be reduced. This result is in consonant with the finding reported by Aladejebi (2018), he concluded that tax amnesty can reduce tax non-compliance among taxpayers and at the same tax increase the government revenue. However, the result of Oladele et al., (2019) differs, their finding showed that there was no meaningful association that exist between the amnesty and tax non-compliance, because it is a newly introduced policy that was established to encourage the taxpayer.

CONCLUSION

This study is to determine the possible factors affecting SMEs tax non-compliance behaviours in Oyo State. The study concludes that corruption from the tax officials is a major factor that increase the incidence of tax non-compliance

behaviour among SMEs in Oyo State. The SMEs operators may prefer payment of bribes to tax officials than paying taxes into the coffers of the government, while more people also agreed that paying bribes to the tax officials is cheaper than to pay tax to the State's treasury. Furthermore, tax knowledge, tax penalty, tax audit and tax amnesty reduce the incidence of tax noncompliance. Finally, tax compliance cost increases the incidence of tax noncompliance behaviours of SMEs.

It is recommended that tax officials' surveillance should be carried out frequently by agencies of government that deal with combating corruption among Nigerian civil servants. Also, tax education should be introduced into the curriculum of education in Nigeria from primary to tertiary levels where citizens will be taught on their responsibilities of payment of taxes to government and tax legislation. Policies on e-filing of tax returns, with the goal of drastically reducing the cost of compliance with payment of tax liability should be formulated and executed by tax administrators. Finally, tax audit should be done frequently while tax amnesty should be carried out every five years to bring many taxpayers into the tax nets.

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DECLARATION OF CONFLICT

There is no conflict of interest that would have influenced the outcome of the study.

SUGGESTION FOR FURTHER STUDIES

The study was based on primary data and area of study is just one state out of the 36 states in Nigeria. Limited samples from three local government areas were used to conduct the study. Further studies could be extended to each of the 36 states of the federation with large study samples.

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