The Effect of Tax Compliance Costs on Small Businesses in Ondo State, Nigeria

Dr. ADETULA, Samuel Lanrewaju
Department of Accounting, Achievers University Owo, Ondo State, Nigeria

OLEMIJA, Temidayo Lawrence
Department of Accounting, Rufus Giwa Polytechnic Owo, Ondo State, Nigeria

DOI: 10.56201/jafm.v10.no8.2024.pg199.212

Abstract
This study examined the influence of tax compliance cost on small businesses in Ondo State, Nigeria. The research looked at three different areas of complexity: tax simplicity, tax service quality, and tax penalties. The exploratory research design was used in this study. The study's target sample consisted of 95 Ondo State small and medium enterprises that are registered with the Ondo State Board of Internal Revenue. The study relied on primary data collected using a well-structured questionnaire. Regression analysis was used to look into the validity of the components in the proposed research model. The study used SPSS 26 version to estimate the regression equation model (OLS). The study's findings indicated that tax simplicity and service quality had a bigger impact on tax compliance than tax penalties. As a result, the research advises that any bottlenecks and complexity in the tax system be removed in order to make it simpler for SMEs to comply willingly. In addition, tax penalties should be increased, and tax authorities should guarantee that offenders comply with the required demands through the specified channels.

***Keywords**: Tax compliance, tax simplicity, tax service quality, tax penalties*

1. Introduction

Tax compliance cost is that aspect of tax burden that is not often discussed in textbooks and most literature. When one thinks about a tax burden, what readily comes to mind is the amount of tax paid by the tax payer (Dare et al., 2022). People hardly consider the extra burden or costs besides the tax liability which the taxpayer incurs in the process of complying with the provisions of the tax legislation and requirements by tax authorities. Tax compliance costs refer to all costs, besides the actual tax liability, born by taxpayers and third parties in the process of ensuring that they comply with the provisions of the relevant tax laws and the requirements laid on them by the relevant taxing authorities, including the inconveniences encountered in the process of becoming and remaining tax compliant (Akinola et al., 2020; Efuntade et al., 2020).

Several researches on this study have been conducted in different countries around the world. The public interest in reducing the compliance costs has resulted in publications in the U.S., Australia, UK, Singapore, Hong Kong, Croatia, South Africa, Canada, Malaysia, The Netherlands, India and New Zealand and Belgium (Evans, 2013, PWC, 2017; PWC, 2018; PWC, 2019; Efuntade et al.,

2020) but no specific interest has been given to this issue in Nigeria. According to Blazic (2022) this kind of research is still very rare among transition countries either because it requires investigation involving the collection of large amounts of data not available from published sources, or because there has been a general apathy towards the problem. These compliance costs as far as we are aware, are yet to be studied in Nigeria.

Research Questions

i. Can tax compliance cost bring about through Tax Penalty on small businesses?
ii. Can tax compliance cost through Tax Service Quality effect small businesses?
iii. Does tax compliance cost Tax Simplicity on small businesses?

Objectives of the Study

i. to examine the tax compliance cost through Tax Penalty on small businesses
ii. to examine the tax compliance cost through Tax Service Quality on small businesses
iii. to examine the tax compliance cost through Tax Simplicity on small businesses

Research Hypotheses

H_{01}: tax compliance cost through Tax Penalty has no significant effect on small businesses
H_{02}: tax compliance through Tax Service Quality has no significant effect on small businesses
H_{03}: tax compliance through Tax Simplicity has no significant effect on small businesses

2. Literature Review

Concept of Tax Compliance Costs

The term 'tax compliance cost' has different definitions, a consensus as to the precise meaning of compliance costs only began to emerge in the literature about 30 years ago when researches on tax compliance cost left its hitherto state of obscurity to a familiar terrain. Evans (2019) observed that there is now an extensive and varied literature available that deals with issues relating to tax compliance cost. Sapiei and Kasipillai (2019) argued that the challenges faced in tax compliance cost research particularly in the definition and measurement of compliance cost remains a critical issue. The absence of well-built consensus to the extra connotation of compliance cost remains a puzzle. However, a preponderance of definitions still abounds in the tax compliance costs literature. Sandford (2019), defined the concept of tax compliance costs, as follows:

Tax compliance costs are the costs incurred by taxpayers in meeting the requirements laid on them by the tax law and the revenue authorities. These are costs over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax. These costs would disappear if the tax was abolished. They include the costs of collecting, remitting and accounting for tax on the products and profits of the business and on the wages and salaries of its employees, and also the costs of acquiring and updating the knowledge to enable this work to be done, including knowledge or legal obligations and penalties (Mamidu & Akinola, 2020).

Americans For Fair Taxation (2017) sees tax compliance cost as the total time and money spent on filling out tax forms, keeping records, learning tax rules, and other tax-related matters.

Compliance costs of taxation are amount of resources expended by taxpayers, in addition to the amount of tax they are required to pay, in conforming to the requirements of the relevant tax legislation. Compliance costs are not only incurred by taxpayers but by all the agents/parties involved in making possible the transfer of funds from the private sector to the government department that controls public money.

Types of Tax Compliance Costs

In this section, we shall examine the various types of tax compliance cost as identified by extant literature.

Administrative Costs

Tax compliance cost from the administrative costs perspectives, are the costs that exist besides the occurrence of compliance costs that are borne by the companies. These costs are cited as those that the government must also take into account as a public cost to ensure that the tax legislation is obeyed. These are to some extent substitutable, for example when a country transfers from a system where the tax office calculates the tax owed, to a self-assessment system as was the case in Nigeria in 1993. The consequence is usually an increased burden on the companies. Together, the compliance costs and administrative costs are defined as the operating cost of taxation (Evans, 2021).

Time Spent, Cash Expenses and Psychological Costs

Another dimension of tax compliance cost definition is the division of tax compliance cost into three parts: time spent, cash expenses and psychological costs. The total time spent contains employee costs (in-house staff) and external costs (fees paid to outside accountants and other advisors). Hours by internal staff can be converted in expenses by means of an average hour rate. The psychological costs refer to the effects upon a taxpayer having to deal with tax affairs, for example mental stress. However, these costs are difficult to measure. Therefore, they are disregarded in most investigations. These compliance costs include costs that are incurred by a company, but are beyond the control of its management (Hijattulah and Pope, 2018).

Internal and External Costs

In describing tax compliance cost a distinction is often made between internal and external costs (Blumenthal and Slemrod, 2016). Internal costs are generated by the accounting and administration department of the company. Internal staff will prepare all information and documents for the fiscal authorities and consult external advisors when necessary. External costs are generated by the services from lawyers, consultants and other advisors. These external costs are much easier to identify and quantify. Internal costs are more difficult to quantify since they involve subjective estimations of the time spent on different tax activities. Some studies have revealed that in most companies the internal compliance costs are substantially more important than the external (Hijattulah and Pope, 2018).

Computational Costs and Tax Planning Costs

In describing tax compliance cost there is also the need to distinguish between computation costs and planning costs. The first are inevitable as for example the costs necessary to have a proper accounting system that already prepares the necessary information and calculates the amounts due for tax purposes. They are considered as recurrent administrative costs which cannot be avoided by the company, but which management can only try to fulfill their administrative duty as efficient as possible (Hanfah et al., 2022). Planning costs on the other hand occur when a company tries to lower or avoid tax payments in a legal manner. This activity is part of good management practices designed to optimize the profitability of the company (as long as the avoidable planning costs are less than the obtained tax savings). According to Bhatnagar et al (2022), these avoidance costs contain planning and research costs and are considered as voluntary costs. They are considered as additional expenditures to increase the opportunities for avoidance. Mills (2016) proves the hypothesis that firms, who are spending more on tax research and planning, pay less tax than other firms.

Commencement and Recurrent Costs

The compliance costs of taxation can be viewed from commencement and recurrent costs perspectives. The former may arise as a result of both legislative change and changes in the taxpayer population while the latter are the regular costs. Generally, studies tend to note this distinction and recognize that the frequency of legislative and population change makes disentanglement difficult if not impossible to integrate the two in the measurement of tax compliance costs (Kirsten, 2017).

Accounting Costs and Tax Costs

Another perspective in describing tax compliance cost is the problem of disentangling accounting costs from tax costs. This problem is referred to by Evans (2016) as "joint cost problems". Despite careful attempts in most recent studies to separate tax compliance costs from the underlying costs of being in business referred to by Sandford (2015) as "core accounting costs", there is almost certainly some overlap between business or accounting costs and tax compliance costs. There is uncertainty about the extent of overlap and therefore most estimates of taxation compliance costs can only be indicative at best (Kirsten, 2019).

Measurement of Tax Compliance Costs

There is uncertainty about what should be included in the measurement of taxation compliance costs (Evans, 2016). Whilst this is an area in which there will always be theoretical debate, it is possible to identify a "hard core" of costs that are indisputably part of the costs of complying with taxation requirements.

Typically these will include: (i) the time taken in compiling receipts and recording data in order to be able to complete a tax return; (ii) the costs of labour/time consumed in completion of tax activities, for example, the time taken by a business person to make the necessary calculations, fill in the tax returns, acquire appropriate knowledge to deal with tax obligations such as Pay As You Earn ("PAYE"), VAT, education tax, company income tax, custom and excise duties etc. (iii) the costs of expertise purchased to assist with completion of tax activities (typically, the fees paid to professional tax advisers); and (iv) incidental expenses incurred in completion of tax activities, including computer software, postage, travel etc.

Turner, Smith and Gurd (2018) summarized tax compliance cost into the following categories of compliance costs: **TCC** = taxpayer's and unpaid helper's time + tax agent fees + incidental expenses. This method of measuring tax compliance cost is subjected to the problem of quantifying taxpayer's and unpaid helper's time in monetary terms. However, for small businesses that can monetarily quantify time spent on tax matters, the method might be appropriate since most SMEs tax compliance costs include the cost of collecting, paying and accounting for tax on products or profits of the business, and on the wages and salaries of employees together with the costs of acquiring the knowledge to enable this work to be done. Using professional tax advisors is one of the main costs contributing to the cost of complying with taxation legislation.

Sandford (2019) in his measurement distinguished between gross and net compliance costs; where net compliance costs are equal to gross compliance costs minus the value of tax compliance benefits. The main quantifiable form of tax compliance benefit,according to the study is the cash flow advantage which arises when businesses use tax revenues for a period before they are remitted to tax authorities. Net Compliance Costs may thus be written as:

Net compliance costs = Gross compliance costs – Cash flow benefits

This approach of measuring tax compliance cost is however subject to debate, especially in the areas of distinguishing between gross compliance costs and net compliance costs (Lignier, 2019). The net compliance costs are obtained by the following calculation: **Net tax compliance costs** = gross tax compliance cost- (tax deductibility benefits + cash flow benefits + managerial benefits). Internal costs refer to time spent by the business staff on tax matters, External cost are fees paid to tax agents while incidental costs, sometime referred to as overhead cost include travel, stationary, computer, telephone, court litigation cost and Psychological cost – which are negative experience of taxpayers such as anxiety and frustration caused by tax compliance. Thus, according to Sapiei (2019), total tax compliance (TTC) cost is measured as; **TCC** = Internal cost+ external cost + incidental cost. In response to the simplicity of the above approach, Tran-Nam et al (2000) developed a rather sufficiently robust model to capture tax compliance cost. The model is stated as follows:

Definition of SMEs

There are wide range of definitions for SMEs because several criteria are used in defining SMEs. Mostly, definitions are made based on variables such as the number of employees, annual turnover, ownership of enterprise, and value of fixed assets. Kayanula and Quartey (2010) found that there have been issues on what constitutes a small or medium enterprise in literature. Different authors have usually given different definitions to this category of business. Storey (2014) discussed the danger of using size to define the status of a firm by stating that, in some sectors, all firms may be regarded as small, whilst in other sectors there are possibly no firms which are small. The Bolton Committee (1971) first formulated an "economic" and "statistical" definition of a small firm. Under the "economic" definition, a firm is said to be small if it meets the following three criteria: it has a relatively small share of their market place; it is managed by owners or part owners in a personalized way, and not through the medium of a formalized management structure; and it is independent, in the sense of not forming part of a large enterprise. Under the "statistical" definition, the Committee proposed the following criteria to determine the size of the small firm sector and its contribution to GDP, employment, exports, etc.: the extent to which the small firm sector's economic contribution has changed over time; and applying the statistical definition in a cross-country comparison of the small firms' economic contribution. The Bolton Committee applied different definitions of the small firm to different sectors. Whereas firms in manufacturing, construction and mining were defined in terms of number of employees (in which case, 200 or less qualified the firm to be a small firm), those in the retail, services, wholesale, etc. were defined in terms of monetary turnover (in which case the range is 50,000-200,000 British Pounds to be classified as small firm). Firms in the road transport industry are classified as small if they have five or fewer vehicles. There have been criticisms of the Bolton definitions. These centre mainly on the apparent inconsistencies between defining characteristics based on the number of employees and those based on managerial approaches.

SME's and Tax Compliance Cost in Nigeria

Small and medium scale enterprises (SMEs) taxpayers under the Nigerian system of taxation are subjected to high tax compliance burden. Reducing the compliance costs and tax rate increases the small enterprises profit margin. It also increases the Government's tax revenue, since the simplified provisions for a micro enterprise historically reduce the size of the shadow economy and the number of noncomplying registered taxpayers (Vasak, 2018).

In Nigeria, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert serious burden on their operations. Many SMEs have to deal with myriad of agencies at great cost. SME's in Nigeria are heterogeneous and these differences in size and structure may in turn carry differing obligations for record-keeping that affect the costs to the enterprises of complying with (and to the revenue authorities of administering) alternative possible tax obligations.

An overly complex regulatory system and tax regime like that of Nigeria makes tax compliance unduly burdensome and often has a distortionary effect on the growth of SMEs (Masato, 2019). Among the factors militating against SME tax compliance are: high tax rates, Low efficiency, high collection charges, waste of time for taxpayers and the staff, and the low amounts of received taxes and the deviation of optimum allocation of resources are double taxation, no professional tax consultancy, weak tax planning, high taxation cost. (Yaobin, 2017).

SMEs in Nigeria are subjected to different types of taxes. The following are types of taxes that they are expected to comply with (1) Company Income Tax (2) Value-Added Tax (3) Education Tax (4) Customs and Excise duties and (5) Employee Tax (PAYE) /Personal Income Tax and Withholding tax. In agreement with Ariyo (2017), we admit that SMEs tax administration and the associated compliance cost in Nigeria is particularly hard because tax literacy level is low and record keeping for tax purpose is not yet a popular culture. There are not enough tax officials to cover the field. Most of the officials are little trained, ill equipped, badly remunerated and corrupt. Governments in Nigeria are perceived as a corrupt and selfish lot, to whom money should not ever be voluntarily given. Taxes paid are expected to end up in private pockets, not in public utilities. The foregoing not only makes SMEs tax compliance difficult, but also enforcement problematic.

Empirical Evidence of SME's Tax Compliance Cost

Slemrod and Venkatesh (2022) in their study of small and mid-size companies and tax prepares for the year 2000, used internal personnel cost, non-personnel costs and external costs as components of tax compliance costs. Tax preparers were asked to estimate Compliance Cost (CC) for hypothetical firms.

Characteristics and Economic Importance of Small and Medium Enterprises

The concept of SMEs, according to Olorunshola (2023), is relative and dynamic. SMEs are characterized by innovation, evolution and uncertainty. Therefore, a firm understanding of SMEs would require a good knowledge of its features.

According to Olorunshola (2023) and Cobbold et al. (2019), SMEs in Ghana are usually small, owner or family managed businesses offering basic goods and services, which tend to lack organizational and management structures with the urban ones tending to be more structured than their rural counterparts. This is one of the most generic features of SMEs in Nigeria. They further state that SMEs are mostly sole proprietorships or partnerships although on the surface, they may be registered as Limited Liability Companies however they are usually not separate legal entities. Olorunshola (2019) explains that this ownership style has led small and medium enterprises to have a simple management structure. Factors also contributing to the reasons small and medium enterprises have a simple management structure are few number of employees and the owners' low level of education. Since there is no legal personality between the small and medium enterprise and its owners, it means the lifespan of the enterprise is dependent on the lifespan of its owners i.e. there is no perpetual continuity (Ayorinde et al., 2024).

In terms of financial reporting, research focusing on internal preparation seems to suggest that financial awareness amongst owner-managers of the smallest entities is quite low and that there is inadequate recordkeeping (UNCTAD, 2022). Inadequate financial record keeping, and the consequent failure to make good use of available financial information, is characteristic of SMEs and many small businesses in developing economies (Holtmann et al. 2020). Furthermore, Hanefah et al, (2019) reported that the production processes of SMEs are usually labour intensive and they often serve as suppliers for the larger manufacturing firms with their operations being highly dependent on raw materials sourced locally. They require a smaller amount of start-up capital than the larger companies (Akinsulire 2010). The decisions of the managers have a higher tendency to be subjective given that they are managed and controlled by the same individual. The employee-employer relationship found in most SMEs is predominantly informal. Another key feature of the SME sector in any country is that it is heterogeneous varying in size from small retail outlets to highly paid professionals, and substantial manufacturing enterprises. SMEs are likely to vary in organizational form from sole proprietorships (with or without employees), small corporations (public or private), professionals and partnerships. This feature usually results in different obligations for record keeping for the enterprise (Tabash et al., 2021).

Taxation of SMEs

Fiscal policy is one of the main components of macro-economic policy and its tasks have been considered in a double context: first, the core of fiscal policy; and second, the consistency with the monetary policy (Holban 2017). In general terms, the choice of tax policy to employ depends on the use of one or both of two groups of instruments: the first one being the use of special tax preferences; and the other incentives to support start-up and growth of small companies. The incentives include the lowering of corporate income tax rates, special tax exemptions and relief for small businesses. The fundamental purpose of taxation is to raise revenue effectively, through measures that suit each country's circumstances and administrative capacity. In fulfilling the revenue function, a well-designed tax system should be efficient in minimizing the distortionary impact on resource allocation, and be equitable in its impact on different groups in society (Gbadago and AwunyoVitor 2019). It is important that the country's situation is properly analyzed before employing any tax policy in order to have a properly working tax system. This is because many of the difficulties with the tax authorities are the consequence of poorly conceived tax policies and a lack of certainty regarding future policy changes. The objective of a tax policy should be to achieve collection cost savings while minimizing the revenue loss, disruption to the economy, and the inequity and capriciousness of the tax burden.

Tax Policy and Level of Voluntary Compliance among SMEs

Small taxpayers under the regular system of taxation are discriminated against since the compliance requirements, cost of compliance and tax rate are the same for both small and large enterprises. Reducing the compliance costs and tax rate increases the small enterprises' profit margin. It also increases the Government's tax revenue, since the simplified provisions for small and medium enterprises reduce the size of the informal economy and the number of non-complying registered taxpayers (Vasak 2018). Furthermore, SMEs usually have to operate in an overbearing regulatory environment with the plethora of regulatory agencies, multiple taxes, cumbersome importation procedure and high port charges that constantly exert a serious burden on their operations. An overly complex regulatory system and tax regime, or one opaque in its administration and enforcement, makes tax compliance unduly burdensome and often has a distortionary effect on the development of SMEs as they are tempted to morph into forms that offer a lower tax burden or no tax burden at all (Masato, 2019). This results in a tax system that imposes high expenses on the society. A poorly executed tax system also leads to low efficiency, high collection charges, waste of time for taxpayers and the staff, low amounts of received taxes and the deviation of optimum allocation of resources. Existing empirical evidence clearly indicates that small and medium sized businesses are affected disproportionately by these costs: when scaled by sales or assets, the compliance costs of SMEs are higher than for large businesses.

Simplified VAT remittance calculation ('presumptive' taxation) for small firms

Given difficulties in introducing a single rate VAT system, and in adjusting away from a multiple rate VAT system, compliance costs may be lowered by allowing small firms with turnover above a collection threshold, but below some second tier „small firm" turnover level, to calculate VAT payments to government under a simplified „presumptive" approach. For example, certain small firms may be allowed to apply a single flat rate to turnover to determine the amount of VAT to remit to government (instead of requiring a detailed VAT calculation). In some country examples, flat rates may vary by sector. An alternative approach relies on simplified input tax credit calculations. VAT charged on sales would remain unchanged from the regular system, but the amount paid to government would be calculated differently.

3. Methodology

The total sample size for the study was 95 SMEs. Convenience sampling was used to sample the SMEs. Data was collected from respondents using a well-structured questionnaire containing both closed and opened ended questions. The questionnaire was pre-tested, refined to suit the research context and finally administered to the target sample through personal contact by the researcher. The questionnaire used the Likert scale to enable the ranking of the response for easy assessment and analysis.

The questionnaire was divided into sections that were used to collect data and information on the followings: a) the types of taxes SMEs in the Ondo state (Owo, Akure, Ondo, Okitipupa, Ikare and Igbokoda Metropolis) perception of SMEs on tax compliance; and c) challenges SMEs encounter in complying with their tax payment obligations. Data collected from the field was coded, cleaned, and analyzed using descriptive statistics. In addition, the Relative Importance Index (RII) was employed to assess challenges the respondents faced with regards to tax compliance in aforementioned Metropolis. The analysis was done with the help of the statistical package for service solution (SPSS) with regression technique.**Model specification**

The study's model specification is based on Ojochogwu and Stephen's (2012). Below is a description of the model.

SMEs = f (TCOMP) (i)

$$SMEs = \partial_0 + \partial_1 THP + \partial_2 TSQU + \partial_3 TSIMP + U_{t1} \quad \text{(ii)}$$

Where;

SMEs = Small Businesses, THP = Tax Penalty, TSQU = Tax Service Quality, TSIMP = Tax Simplicity and U_t = Error Term

4. Data Presentation

The simple descriptive percentage method of regression technique was adopted to analyze, evaluate and interpret the stated hypotheses from which an accepted or rejected decision was made. The hypotheses were tested at 0.05 level of significance in this study.

Table 1: Qualification Status of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	SSCE	1	1.1	1.1	1.1
	ND/NCE	5	5.3	5.3	6.3
	HND/BSC	69	72.6	72.6	78.9
	MBA/M.Sc.	20	21.1	21.1	100.0
	Total	**95**	**100.0**	**100.0**	

Source: Research Compilation, 2023.

The present position showed the academic level of employees response that were captured in the table 1 above; 1 of them have knowledge of Primary School representing (1.1%), 5 of them were of them were National Diploma Holders representing (5.3%), 69 of them were others have Higher National Diploma and Bachelors (HND/BSc) representing (72.6%) and 20 of them were Master of Business Administration and Master of Science (MBA/M.Sc.) representing (21.1%). The table showed that much of business captured had Higher National Diploma and Bachelors Certificate with the knowledge seeking more, this was captured below.

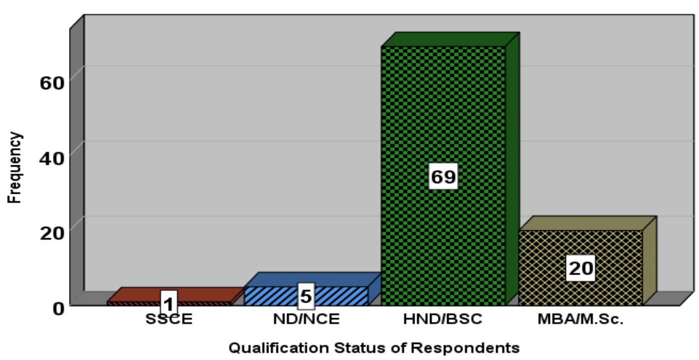


Table 2: Marital Status of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Single	37	38.9	38.9	38.9
	Married	58	61.1	61.1	100.0
	Total	**95**	**100.0**	**100.0**	

Source: Research Compilation, 2023.

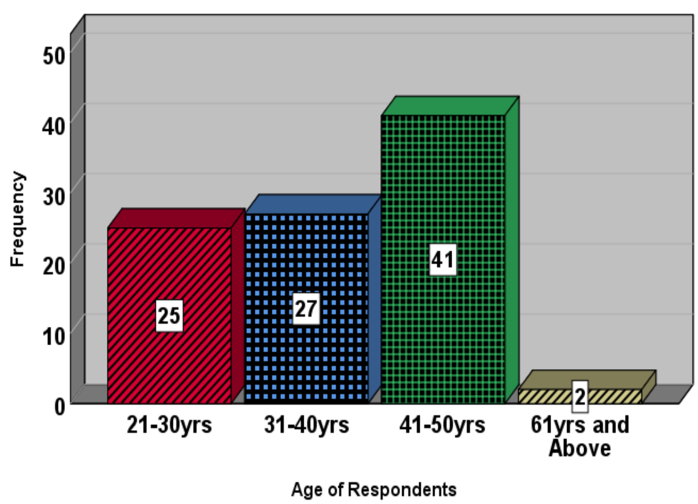
The table above showed marital status of small scale business on tax compliance cost at Ondo State, under the effect of tax compliance cost. 37, (38.9%) were single, 58, (61.1%) had also married. This showed that more staff are married.

Table 3: Age of Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	21-30yrs	25	26.3	26.3	26.3
	31-40yrs	27	28.4	28.4	54.7
	41-50yrs	41	43.2	43.2	97.9
	61yrs and Above	2	2.1	2.1	100.0
	Total	**95**	**100.0**	**100.0**	

Source: Research Compilation, 2023.

The table 3 above, showed that 25 respondents representing (26.3%) ranged between 21-30years, 27, (28.4%) of staff captured. within 31-40years, 41, (43.2%) of them being within 41-50years, and 2, (2.1%) of them being 61years and above. This implies that more aging businesses man and woman has been involve in one business and the others. The structure is below.



Dependent Variables: Small Businesses (SMEs)

Independent Variables: THP = Tax Penalty, TSQU = Tax Service Quality, TSIMP = Tax Simplicity

SMEs= $\beta_0 + \beta_1$THP + β_2TSQU + β_2TSIMP + U ……………………..……………………….1

Here, SMEs is the dependent variable, this is Small Scale Businesses (SMEs), and it is measured be forces in tax compliance cost responses of agreed and disagreed of respondents under portion of tax compliance β_0, β_1, β_2 and β_3 are the parameters. Meanwhile, while U is error term.

Table 4: Regression Model for Tax Compliance Costs On Small Businesses

Model		Unstandardized Coefficients		Standardized Coefficients		
		β	Std. Error	Beta	T	Sig.
	(Constant)	2.707	.567		4.775	.000
	Tax Penalty	-0.229	.097	.141	-2.367	.005
	Tax Service Quality	0.342	.096	.161	3.564	.001
	Tax Simplicity	0.197	.094	.215	2.091	.045

Source: Research Compilation, 2023.

There was a negative significant effect of Tax compliance cost through Tax Penalty on Small Businesses (SMEs) in Ondo State as the situation was showed through t-statistic and p-value (P= 0.005<0.05) on coefficient value (-0.229) (t=-2.367>2.00) and also Tax Service Quality had significant positive impact on Small Scale Business (SMEs) as showed with (P=0.001<0.05) on coefficient value (0.342) (t=-3.564>2.00), likewise, Tax Simplicity had significant positive impact on Small Scale Business (SMEs) as showed with (P=0.045<0.05) on coefficient value (0.197) (t=-2.091>2.00). Role of tax compliance cost cannot overemphasized in an organisation like in a small scale businesses. Therefore, null hypothesis one ($H_{01\&3}$) was rejected on the ground that, H_{01}**:** tax compliance cost through Tax Penalty as no significant effect on small businesses H_{02}**:** tax compliance through Tax Service Quality as no significant effect on small businesses H_{03}**:** tax compliance through Tax Simplicity as no significant effect on small businesses, therefore making tax compliance cost more significant in respect to small scale business in Ondo state.

5. Conclusion and Recommendations

Taxation is still a major source of concern and an indispensable part of public policy. Tax compliance is a major problem for tax administration in Nigeria, as it is in other developing nations, and it is harming the fiscal system's revenue performance. Nigerian administrations' numerous tax reform efforts have failed to promote the projected rise in tax collection over the years. The data from statistical records reveals that income taxes have been dismal in terms of the government's total revenue. This low tax revenue collection performance epitomizes what has been dubbed the "tax compliance problem" that plagues a number of emerging nations. This study focused on tax compliance and estimated the impacts of several factors. It discovered that tax simplicity and tax service quality had a greater impact on tax compliance than tax penalties. However, the study is optimistic that with the passage of the Finance Act (2020), several specific policy changes will be examined, including the exemption of small businesses from tax liability, the payment of income tax at a rate of 20% for medium-sized businesses, and the classification of companies other than small or medium-sized businesses as large businesses, with an income tax rate of 30%. For company owners in Micro, Small, and Medium-Sized Enterprises (MSMEs) and Medium-Sized Enterprises (MSEs), these changes are particularly intriguing (SMEs). To avoid a scenario of selective implementation

The study recommends that the finance act be implemented effectively throughout all states. Tax policy is required to support company growth in Nigeria, and it is suggested that tax authorities engage in tax payer education and enlightenment, as this would go a long way toward ensuring that companies take advantage of the tax policies put in place to assist them. As a result, the research advises that any bottlenecks and complexity in the tax system be removed in order to make it simpler for SMEs to comply willingly with her counterpart across the state as long Ondo state is concerned. Tax penalties should also be tightened, and tax authorities should guarantee that offenders comply with the required demands through the specified channels.

REFERENCES

Akinola, A.O, Efuntade, O.O & Efuntade, A.O (2020). Banks financing and industrial sector performance in Nigeria. *International Journal of Accounting, Finance and Risk Management, 5* (3), 157-166.

Akinsulire, G. (2010). Tax service quality and compliance behaviour in Nigeria: Do taxpayer's financial condition and risk preference play any moderating role? *European Journal of Economic, Finance and Administrative Studies*, 35, 90-108.

Ayorinde, F.M, Samuel, S.O & Akinola, A.O. (2024). Management control systems and financial performance of non-profit organizations in Nigeria: An empirical investigation. *Journal of Accounting and Financial Management, 10* (2), 102-117.

Bhatnagar et al (2022). To Pay or Not To Pay? Citizens' Attitudes towards Taxation in Kenya, Tanzania, Uganda and South Africa. Working Paper No.143. Afro-barometer Working Papers.

Blazic, L. (2022). Tax compliance. *Journal of Economic Literature*, Vol. 36, pp. 818-819.

Blumenthal, J. & Slemrod, S. (2016). Unwillingness to pay: Tax evasion and public good provision. Journal of Public Economics, 36(3), 305-321

Cobbold et al. (2019). Small and medium-scale enterprises in Nigeria: their characteristics, problems and sources of finance. (Research Paper 16).

Dare, C.T., Akinola, A.O & Wahab, A.O. (2022). Government Budgets and Economic Development in Nigeria: An empirical investigation. *International Journal of Social Sciences and Management Research, 8* (5), 123-135.

Efuntade, A.O, Efuntade, O.O, & Akinola, A.O., (2020). Capital expenditure and impact of taxation on economic growth in Nigeria. *International Journal of Business Management and Technology, 4* (5), 147-158.

Efuntade, A.O, Efuntade, O.O, & Akinola, A.O., (2020). Tax revenue and its impact on government expenditure in Nigeria. *The International Journal of Business and Management, 8* (9), 279-286

Evans, N. (2019). Tax knowledge and attitudes towards taxation. A Report on quasi-experiment. Journal of Economic psychology, 17(3), 387-402.

Gbadago, J. & Awunyo, V. (2019). Compliance costs of Small and Medium Enterprises. Journal of Australian Taxation, 4(1), 73-97.

Hanfah et al., (2022). The taxation of small and medium-sized enterprises-a hindering factor influencing the European economic growth. Doctoral dissertation, Alexandru Ioan Cuza University of Iasi and Academy of Economies Studies from Bucharest Romania.

Hijattulah, B. & Pope, J. (2018). Determinants of tax compliance among small and medium sized enterprises in Nairobi east tax district. Unpublished Nairobi University Thesis

Holban, W. (2017). The Economic Psychology of Tax Behaviour Cambridge University Press: Cambridge

Kayanula, T, & Quartey, F. (2010). Sustaining growth in developing economies through improved taxpayer compliance: Challenges for policy makers and revenue authorities. eJournal of Tax Research,7,171-201.

Kirsten, A. (2019). Impact of Tax Audit on Tax Compliance in Nigeria. Journal of the American Taxation Association, 47 –64.

Lignier, H. (2019). Tax knowledge and tax compliance determinants in self-assessment system in Malaysia; PhD Thesis, University of Birmingham.

Mamidu, A.I & Akinola, A.O., (2020). The Nigerian public sector: Matters arising on financial management and auditing procedure. *International Journal of Empirical Finance and Management Sciences*, *2* (2), 38-48.

Masato, (2019). Improving taxpayer service delivery: Channel strategy development. Forum on Tax Administration Taxpayer Services Sub-group.

Mills, G. (2016). Problems and prospects of small and medium scale industries in Nigeria. Paper presented at the Central Bank of Nigeria seminar on small and medium industries equity investment scheme (SMIEIS).

Ojochogwu, V. & Stephen's, D. (2012). Determinants of tax evasion: A cross country investigation. Journal of International of Accounting, Auditing and Taxation, 15(2), 150-169.

Olorunshola. B. (2023). E-service quality: A model of virtual service quality dimensions.

Sandford, F. (2019). External Tax Professionals' Views on Compliance Behaviour of Corporation. American Journal of Economics, 3(2), 82-89.

Sapiei, V. & Kasipillai, C. (2019). A conceptual model for quality dimensions for b2c recommender systems. Ecis. In ECIS. Proceedings (pp. 1–12). Vienna.

Tabash, M. I., Akinola, A. O. & Abousamak, A. (2021). Corporate governance and financial performance of quoted deposit money banks in Nigeria: An empirical investigation. *African Journal of Business & Economic Research*, *16* (3), 1-12.

Turner, W. Smith, A. & Gurd, T. (2018). Tax ethics and taxpayer attitudes: A survey. Public Administration Review, 38(5), 442-452.

Vasak, S. (2018). Improving taxpayer service delivery: Channel strategy development. Forum on Tax Administration Taxpayer Services Sub-group.

Yaobin, U. (2017). Tax knowledge, tax structure and compliance: A report on a quasi-experiment. New Zealand Journal of Taxation Law and Policy, 12(2), 117–140.