Field Audit and Companies Income Tax Compliance in Federal Capital Territory, Nigeria: The Moderating Role of Tax Officers' Expertise

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Abstract

Tax non-compliance is a serious issue in Nigeria that has significantly and negatively impacted the revenue base of the country. The problem of low revenue generation has deprived the government of Nigeria from carrying out its functions. Hence, this study examined field audit and companies income tax compliance in Federal Capital Territory, Nigeria: the moderating role of tax officers' expertise. The population of the study consists of 304 Federal Inland Revenue Service staff in tax audit department in Federal Capital Territory. A sample size of 173 was determined using the Taro Yamane formula. Multiple regression with the help of STATA version 13 was used to analyze the data and to test the hypotheses of the study. The findings showed that field audit has a positive and significant effect on companies income tax compliance. When the effect is moderated by tax officers' expertise, the result is positive and statistically significant. As a matter of policy, the FIRS should focus its attention on sectors with a high risk of non-compliance in order to optimize its resources to improve compliance. The study therefore recommended that FIRS should constantly engage in field audit as it is an integral part of companies income tax compliance. Also, FIRS should collaborate with industry groups in order to gain a better understanding and provide solutions to industry-based issues for better compliance.

Keywords: *Tax audit; Field Audit; Companies Income Tax Compliance; Nigeria; Tax officers' Expertise.*

1. Introduction

With the introduction of the self-assessment scheme (SAS) into the Nigerian tax system the responsibility for the computation of tax liabilities has shifted from the tax authority to the taxpayers who are under obligation to assess themselves and pay the right tax liability to the government (Modugu & Anyaduba, 2013). However, under this system, taxpayers are not always compliant, hence, the tax gap has continued to widen in Nigeria due to low tax compliance (Olaoye & Ekundayo, 2019). According to Fowler (2019), Nigeria has lost $15 billion of tax revenue because of many people evading tax. Also, the FIRS reported a decline of 12.87% for Companies income tax (CIT) in the first quarter of 2024 as when compared to quarter four of 2023 (Udi, 2024). To curtail the problem of non-compliance, many countries have introduced tax audit into their tax system (Appah, 2013).

Field audit is a type of tax audit and it involves the examination of taxpayer's records and accounts carried out on the premises of the taxpayers (Olaoye et al., 2018). The purpose of carrying it out on the taxpayer's premises is to allow the tax officers to thoroughly examine all applicable documents and get an explanation directly from the management of the business. The dimension in which field audit takes depends on the compliance check carried out by the officers in the Returns Payment and Processing (RPP) unit (Olafaju & Sogunro, 2023). Field audit is carried out by the tax audit office on a company after series of risk-profiling by looking at certain criteria such as high fluctuations in the assessable profit, and high revenue to expenses ratio.

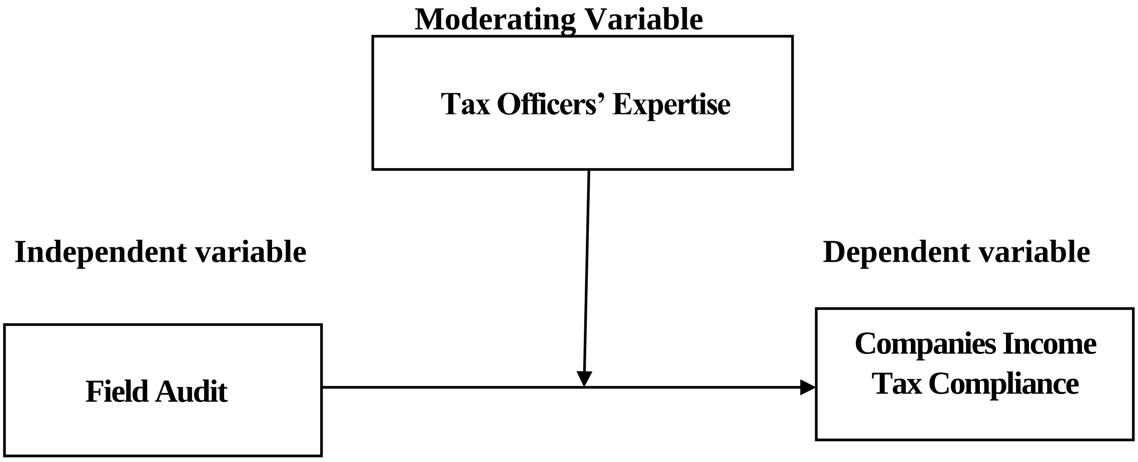
Tax compliance is the willingness of taxpayers to obey all the tax laws without being forced to do so (Nyor et al., 2018). In Nigeria, companies income tax (CIT) compliance is governed by the Companies Income Tax Act (CITA) of 2004 as amended by the Finance Act 2019, 2020, 2021, 2022, and 2023. The Act states CIT shall be chargeable on the total profit of all companies operating in Nigeria except those that are exempted by the enabling Act. CITA further stated that the tax identification number (TIN) serves as the unique identifier for tax companies in Nigeria. CIT compliance rate in Nigeria varies and it depends on the annual gross turnover of the companies (Finance Act, 2019). Small companies are companies with an annual gross turnover below twenty-five million naira; medium-sized companies have a gross annual turnover of twenty-five million naira and above but below one hundred million naira; and large companies have an annual gross turnover of one hundred million naira and above (Taiwo & Erikume, 2019).

Studies such as Olaoye and Ekundayo (2019), Enofe et al. (2019), Olaoye and Ogundipe (2018), and Modugu and Anyaduba (2014), Badara 2012, and Olusola (2022) have examined field audit and companies income tax compliance in Nigeria. However, this study examines the effect of field audit on companies income tax compliance moderated by tax officers' expertise. Tax officers was used as moderators because according to Olokooba (2019), taxpayers are confused because of complexity in the tax laws. Hence, it is believed that with the help of tax officers' who are expect in tax matters the rate of compliance will increase. The rest of this paper is organized into section two, literature review, section three, methodology, section four, data analysis and discussion of results, and section five contains the conclusion and recommendations.

2. Literature Review

This study examines the effect of field audit on tax compliance in Nigeria, using tax officers' expertise as the moderator. The conceptual framework in Figure 1 illustrates and explains the effect of tax officers' expertise on companies income tax compliance and field audit. The independent, moderating and dependent variable are field audit, tax officers' expertise and companies income tax compliance respectively and they are discussed.

Figure 1: Conceptual Framework of the Study



Source: Researcher's Compilation (2024)

Companies Income Tax Compliance

Companies income tax is a tax chargeable on the profit of incorporated entity. According to Mustapha et al. (2015), the government earns revenue from companies when it imposes a specific rate on the companies' profit excluding those engaged in upstream activities. A company for tax purposes is subdivided into a Nigerian and foreign company. Nigerian companies are companies incorporated by the Companies and Allied Matters Act (CAMA, 2020). Foreign company is a company incorporated outside Nigeria (CITA, 2007). According to Olaoye and Ekundayo (2019), tax compliance is the willingness of taxpayers to truthfully declare their total income and pay the right amount to the tax authority. According to Nhavira (2016), companies are faced with two critical decisions when it comes to the issue of tax compliance, first to declare the actual income arising from the business and second to declare less than the actual income. The choice of the taxpayers' decision is like playing a lottery, considering where the pendulum can swing to because tax non-compliance can result in additional assessment coupled with the penalties and interest, that becomes liable when caught. Slemrod (2007) asserted that tax compliance decisions are influenced by factors such as the probability of tax audit, the magnitude of the penalty for non-compliance, and the taxpayers' risk appetite.

Field Audit

Field audit is a comprehensive audit that involves the tax officers examining the books of account of the selected company in the business premises of the company. The aim is to ask the management of the business questions that may be contentious about the accounting entries and documentation (Ojo, 2016; Olaoye & Ekundayo, 2019). Before the audit team comes to the taxpayer's premises, they first write to the company detailing the documents needed and the period for the audit (Oladele et al., 2021). According to D-Agosto et al. (2017), field audit can be classified into deep and soft field audit. In deep field audit, the tax officers can stay at the taxpayer's premises for up to 60 working days where they examine all the business documents that are deemed relevant for the audit. At the end of the deep field audit, the officers are required to produce an elaborate report about the outcome of the audit. Contrarily, a soft field audit is much shorter, and the aim is to check up on the financial standing of the taxpayer. According to Adekola and Taiwo (2020), FIRS selects a company for field audit based on risk profiling or on random basis which arises based on difference between the reported income and tax paid, inconsistent tax filing.

Tax Officers' Expertise

Tax officer is an employee of the tax authority who is responsible for the adjudication of the tax laws. According to Olokooba (2019), a tax officer is an expert who engages, earns his living, and survives partly or wholly on the profession of taxation. They are also called tax inspectors or revenue officers. According to Borrego et al. (2016), it would be hard for a tax system to function properly without the help of tax officers. This is because most taxpayers are not familiar with the intricacies of the tax laws, hence, tax officers are needed to assist the taxpayers to comply. For the tax officer to be effective, it is expected that they should be honest and trustworthy, willing to advise and properly guide the taxpayer; and ensure that all processes are executed without delay to the operations of the taxpayer's business activities (Adekola & Taiwo, 2020).

Theoretical Review

This section discussed the deterrence theory and the theory of planned behaviour which this study is anchored on. It is anchored on these theories because it established a connection between the FIRS and the companies which further helps to predict companies tax compliance behaviour.

Deterrence Theory

The deterrence theory was introduced by Becker in 1968 and popularized by Allingham and Sandmo (A-S) (1972). Based on the theory, taxpayers attempt to maximize expected utility by comparing the gains against the risk of non-compliance. If it is discovered that they would not be caught for non-compliance, the desire to evade will be high. A-S viewed tax compliance clearly as a gamble in which a taxpayer pays taxes because of the fear of being caught and penalized. This theory has been used by various scholars and ranked as one of the best approaches to reducing non-compliance. However, other scholars have championed the behavioural aspect of non-compliance because deterrence will not always deter taxpayers from non-compliance.

Theory of Planned Behaviour

According to Ameyaw et al. (2016), the theory that explains the relationship between attitude and behaviours in psychology is the theory of planned behaviour (TPB). This theory was coined from the works of Fishbein and Ajzen in 1975, and in 1980, Ajzen extended the theory by stating that human behaviours are formed based on attitudes, subjective norms, and perceived behavioural control. Attitudes are the individual perception to things which can be either positive or negative. A positive mindset will result to compliance while a negative perception will lead to non-compliance. Subjective norms refer to how other people perceive a behaviour especially from close ties like family, peers, and religion bodies. If these groups perceive tax compliance as the right thing to do, the individual or company will want to comply by paying their taxes promptly. Perceived behavioural control explains how hard or easy an individual perceives a behaviour. If companies see compliance as an easy thing to do, there will be a high chance of compliance than when they see it as being difficult.

Empirical Review

Idris (2021) examined tax audit and personal income tax compliance in Nigeria. Primary data were sourced through the administration of four hundred (400) copies of the questionnaire distributed to taxable persons in Edo, Delta, Bayelsa, and Rivers States, with one hundred (100) distributed in each state. The result showed a positive and statistically significant relationship between tax audit and personal income tax compliance in Nigeria. The study found that tax audit is positively and statistically related to personal income tax compliance in Nigeria which is an indication that tax audit increases tax compliance. This study filled the gap in the examined literature by looking at companies' taxation as against personal income tax administered by FIRS in the FCT, Abuja. Also, this study introduces a moderating variable, tax officers' expertise which is unique to this study.

Arif and Dwi (2020) investigated tax audit and compliance of Indonesian individual taxpayers. Secondary information was gathered from high-wealth individual tax offices who submitted their tax return in the period 2008 to 2012 using difference-in-difference to determine the effect of changes in taxpayer compliance after an audit. The results suggested that there is a difference in the growth of gross income reporting from taxpayers who are audited as compared to the growth in gross income reporting from taxpayers who do not undergo an audit. The study concluded that tax audit has a positive effect on the growth of gross income. This study examines companies' compliance and not individual compliance. Data for this study is sourced through issuance of questionnaire a different approach from the examined study. Also, this study is conducted in Nigeria and introduces a moderator, tax officers' expertise which is missing in previous study.

Enofe et al. (2019) examined tax audit and investigations on tax non-compliance. The study evaluated tax audit proxied by desk audit, field audit, and back duty audit. The population of the study is One hundred nineteen (119) consisting of staff from the FIRS and the Bayelsa State Internal Revenue Service (BSIRS), of which ninety-two (92) is the sample size determined through the Taro Yamane formula. Copies of questionnaire were distributed to the sampled group, and data were analyzed using Kendall Tau correlation coefficients and the order logistic regression. The outcome of the study disclosed that desk audit, field audit, a back duty audit, and tax investigation can help reduce non-compliance. This study looks at a much larger sample size and considers CIT compliance specifically and examines the role of tax officers' expertise in influencing compliance which have not been treated in previous studies.

Olaoye and Ekundayo (2019) examined tax audit on tax compliance and remittance in Nigeria. The study examined the role of desk audit, field audit, back duty audit, and registration audit on tax compliance and remittance in Ekiti State. Through survey method data were gathered and analyzed through a correlation matrix and multiple regression. Findings showed that desk audit, field audit, back duty audit, and registration audit are positively correlated, and they move in the same direction to tax compliance and remittance. The multiple regression results showed that desk audit, field audit, back duty audit, and registration audit have a positive and significant effect on tax compliance and remittance in Ekiti State. Their study was carried out using the State Internal Revenue Service which mandate does not cover CIT compliance. Moreover, their study was carried out in Ekiti State, Nigeria, whereas this study focuses on the FCT, Abuja and introduces a moderator, tax officers' expertise which has not been previously examined.

Olaoye and Ogundipe (2018) examined tax audit and investigations on tax non-compliant control in Nigeria. Tax audit is broken down into desk audit, field audit, and back duty audit. The study adopted the survey design method to gather information from senior staff of the Federal Inland Revenue Service and State Internal Revenue Service in Southwest, Nigeria. Data collected were analyzed using Spearman's rho measure of association and the ordered logit regression. The result explained that desk audit and back duty audit affect tax non-compliance significantly. Whereas field audit and tax investigation do not significantly influence tax non-compliance. Previous studies have shown that field audit influence tax compliance positively but the result from the study shows a contrary view which might be attributed to environmental or societal factor or maybe because of the location where it was conducted. Therefore, this study examines field audit in the FCT, Abuja and focuses on CIT administered solely by the FIRS.

D-Agosto et al. (2017) investigated tax audits and tax compliance evidence from Italy. Data were gathered through a secondary source from tax returns and information from tax audit activity of the Italy Revenue Agency from 2006 to 2011. The sampled group was categorized into the treatment and control groups which consist of taxpayers' information from personal income tax (PIT) and value added tax (VAT). The information contained in the dataset is basically from desk audit and field audit. Data were analyzed using a panel regression and the findings disclosed that full desk audit has a significant effect on tax returns for VAT and PIT for the audited period. Field audit has a weak but positive effect on tax compliance. The examined study was conducted in Italy which has a different custom and believe system from Nigeria. Also, they examined PIT and VAT which is different from CIT which this study examines.

Modugu and Anyaduba (2013) investigated tax audit attributes on the tax compliance level of companies in Nigeria. Data were sourced through the administration of five hundred questionnaires, one hundred each from the five geo-political zones in Nigeria. Data were analyzed using correlations matrix and the ordered logistic regression. The findings suggested that tax audit positively correlates with tax compliance. Other measures instituted by the government such as penalties, and tax fairness significantly affect tax compliance. The paper concluded that tax audit is yet to make any substantial impact on the low corporate tax compliance culture in Nigeria. Though the study focussed on tax audit and companies' taxation administered by the FIRS, the study failed in showing the effect each specific tax audit type such as field audit has on tax compliance. To achieve the objective of this paper, the following hypotheses were tested.

$H0_1$: Field audit has no significant effect on companies income tax compliance in Federal Capital Territory, Nigeria.

$H0_2$: Tax officers' expertise does not have any significant effect on companies income tax compliance in the Federal Capital Territory, Nigeria.

$H0_3$: Tax officer expertise does not significantly moderate the effect of field audit on companies income tax compliance in Federal Capital Territory, Nigeria.

3. Methodology

The study sourced data by issuing questionnaire to staff of FIRS who works in the Tax Audit Department in FCT, Nigeria. The total number of staff in the Tax Audit Department is three hundred and four (304) as at 2023. Through the Taro Yamane formula, a sample size of one hundred and seventy-three (173) was derived. The returned copies of questionnaire were one hundred and fifty-seven (157).

3.1 Model Specification

Olaoye and Ogundipe (2018) examined tax audit and investigations on tax non-compliant control in Nigeria using the below model:

Tax Evasion Control (TAEVAC) = f(Tax Audit and Investigation) ………………..…...............(1)

Tax Evasion Control = f (Desk Audit, Field Audit, Back Duty Audit, Tax Investigation)………(2)
TAEVAC= α+ α1DEKAUD+ α2FIAUD+ α3BAKAUD+ α4TAXINV +µ………..…………...(3)

Olaoye and Ogundipe (2018) models were adapted as seen below

CITCOMP = β0 + β1FA + µ …………................……………………………………….................(1)

CITCOMP = β0 + β1FA + β2TOE+ µ ……………..……..(2)

CITCOMP = β0 + β1FA + β2TOE +β3TOE*FA + µ……..(3)

Where:

CITCOMP = companies income tax compliance; FA = Field audit, and TOE = tax officers' expertise, β0 = intercept of the regression, β1 – β3 = co-efficient of the regression, µ = error term.

Tax compliance is measured by the number of discrepancies found during audit and the amount of additional tax revenue collected because of the audit (Olaoye & Ogundipe, 2018). Field audit is measured by the difference between the reported income and the accessed income after reviewing source document by the tax officers (Olaoye & Ekundayo,2019). Tax officers' expertise is measured based on the knowledge and skills acquire by the officers for the routine performance of their tasks (Olokooba, 2019).

4. Data Presentation and Analysis

This section present, analyze, and interpret the results from the data collected. Bio-data, multiple regression, diagnostic test, and the reliability test results are also represented. Furthermore, the result of the two hypotheses stated are explained.

Table 1
Bio-data of Respondents

Description	Frequency	Percent	Cumulative Percent
Male	86	54.8	54.8
Female	71	45.2	100
BSC	75	47.8	47.8
MSC/MBA	79	50.3	98.1
PhD	3	1.9	100
ICAN	16	10.2	10.2
ANAN	8	5.1	15.3
CITN	45	28.7	43.9
OTHERS	40	25.5	69.4
ICAN, CITN	15	9.6	79
ANAN CITN	10	6.4	85.4
CITN, ICAN, OTHERS	13	8.3	93.6
CITN, OTHERS	5	3.2	96.8
CITN, ANAN, OTHERS	5	3.2	100
1-5 YEARS	31	19.7	19.7

6-10 YEARS	17	10.8	30.6
11-15 YEARS	66	42	72.6
16 AND ABOVE YEARS	43	27.4	100

***Source*:** Fieldwork (2024).

Table 1 shows that 86(54.7%) and 71(45.2%) of the respondents are male and female respectively. The highest qualification attained by them are 3(1.9%) PhD, 79(50.3%) MSC/MBA, and 75(47.8%) BSC. Similarly, the number of years worked are 31(19.7%) 1-5years, 17(10.8%) 6-10years, 66(42%) 11-15years, and 43(27.4%) 16years and above. Their professional affiliation shows 16 (10.2%) ICAN member only, 8(5.1%) ANAN members only, members of CITN only 45(28.7%), and people that belong to OTHERS as their affiliation are 40(25.5%). People that belong to ICAN, CITN 15 (9.6%), ANAN and CITN 10(6.4%), CITN, ICAN, OTHERS 13 (8.3%), CITN, OTHERS 5 (3.2%), and CITN, ANAN, OTHERS 5 (3.2%).

Pilot Study

For the pilot study, twenty-five (25) tax officials in the tax audit department of the FIRS in Abuja were used. The result revealed that field audit can increase companies tax compliance now and in the future. The pilot study also revealed that tax officers' expertise can positively enhance companies' tax compliance in Nigeria.

Validity and Reliability Test

A content validity test was conducted by seeking the help of professionals, 4 tax officers, 4 tax professionals and 2 universities lecturers. They certified the questionnaire and the ones that did not fit into the study were removed. Afterwards, the reliability test was carried out using the Cronbach's Alpha test for internal consistency and it produced a reliability score of 0.807 as seen in table 2.

Table 2

Reliability Test Result

Cronbach's Alpha	N of Items
Number of items in the scale	15
Scale reliability coefficient	0.807

***Source*:** Stata 13 Output 2024

Diagnostic Checks

The regression assumptions were tested to ensure the results were reliable and robust. A mean VIF value of 1.09 shows that multicollinearity does not exist in the regression model. The Shapiro-Wilk was used to check if the residuals are normally distributed. The result showed a p-value greater than 0.05, indicating that the residuals are normally distributed.

Table 3 shows a positive relationship between CITCOMP and field audit which is 0.6747. There is also a positive relationship between CITCOMP and TOE 0.1595. The relationship between

CITCOMP and the interaction variable (FA*TOE) is 0.4245, FA and TOE is 0.0201, FA and the FA*TOE 0.3508, and TOE and FA*TOE 0.2081.

Table 3

Correlation Matrix

	CITCOMP	FA	TOE	FATOE
CITCOMP	1.0000			
FA	0.6747	1.0000		
TOE	0.1595	0.0201	1.0000	
FA*TOE	0.4245	0.3508	0.2081	1.0000

Source: Stata 13 Output (2024)

Results of Regression Analysis and Test of Hypotheses.

Table 4

Regression Result after Moderation

CITCOMP	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
FA	0.4886421	0.0515046	9.49	0.000**	0.3868901	0.59039
TOE	0.1534205	0.042388	3.62	0.000**	0.069679	0.23716
FA*TOE	0.0299698	0.0077928	3.85	0.000**	0.0145745	0.04537
Constant	0.9393226	0.2874268	3.27	0.001**	0.371485	1.50716
F(3, 153)	51.35					
Prob > F	0.0000					
R-squared	0.5017					
Adj R-squared	0.4919					
Number of obs.	157					

****, **&* representing statistically significant at the 0.01, 0.05, and 0.1 level*

Source: Stata 13 Output (2024)

Table 4 shows that 157 observations were analyzed. The R-squared value is 0.5017, indicating that 50.17% of the variation in companies income tax compliance can be explained by field audit, tax officers' expertise, and the interaction (FA*TOE). The rest of the variation (49.83%) is due to other factors. The adjusted R-squared value (0.4919) is the adjusted value for a better population estimation. The result of $H0_1$ shows that field audit has a positive and significant effect with companies income tax compliance with a coefficient of 0.4886421, and p-value (0.000). This explains that for every 1 unit increase in field audit, companies income tax compliance increases by 48.9%. Therefore, $H0_1$ was rejected because field audit has a significant and positive effect on companies income tax compliance in Federal Capital Territory, Nigeria. This study is in line with Olaoye and Ekundayo (2019), Enofe et al. (2019) who found that field audit has a positive and significant effect on companies income tax compliance in Nigeria. The result for $H0_2$ shows that tax officers' expertise has a coefficient value of 0.1534205 and p-value (0.000). This explains that tax officers' expertise contributes 15.34% to companies income tax compliance. Therefore, hypothesis two was rejected. The result of $H0_3$ explains that the interaction variable (FA*TOE =0.0299698) with a p-value (0.000) has a positive and significant effect on companies income tax compliance. It further explains that for every 1 unit increase in the interaction variable, companies income tax compliance increases by 3%. Therefore, $H0_3$ was rejected because tax officers' expertise moderates the effect of field audit on companies income tax compliance in Federal Capital Territory, Nigeria. The results are in line with the deterrence theory and the theory of planned behaviour because fear of audit and the resultant penalties when caught can enhance compliance from companies as a matter of policy, the FIRS should focus its attention on sectors with a high risk of non-compliance in order to optimize its resources to improve compliance.

5. Conclusion and Recommendations

Field audit is a medium used by the tax officer to ensure compliance. Under this approach the tax officers physically visit the office of the companies in order to ensure that they are complying promptly. The study formulated two hypotheses, and the findings for hypothesis one shows that field audit has a significant and positive effect on companies income tax compliance. Also, hypothesis two result shows that tax officers' expertise moderates the effect of field audit on companies income tax compliance in Federal Capital Territory, Nigeria. As a matter of policy, the FIRS should focus its attention on sectors with a high risk of non-compliance in order to optimize its resources to improve compliance. The study therefore recommended that FIRS should constantly engage in field audit as it is an integral part of companies income tax compliance. Also, FIRS should collaborate with industry groups in order to gain a better understanding and provide solutions to industry-based issues for better compliance.

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