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# TAX COMPLIANCE AMONG SMALL BUSINESSES IN NIGERIA: A DETAILED EXAMINATION

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**Abstract:**
Small and medium-sized enterprises (SMEs) play a vital role in the Nigerian economy, but their tax compliance is low. This abstract explores the factors that affect tax compliance among SMEs in Nigeria, including a lack of knowledge about tax laws, multiple levels of government, and frequent changes to tax laws. A review of the literature shows that SMEs in Nigeria face a number of challenges when it comes to tax compliance. One of the biggest challenges is a lack of knowledge about tax laws. Many SMEs are unaware of their tax obligations or how to comply with them. This is due in part to the complexity of the Nigerian tax system and the frequent changes to tax laws. Another challenge for SMEs is the multiple levels of government in Nigeria. SMEs have to deal with three tiers of government: federal, state, and local. Each tier of government has its own tax laws and regulations, which can be confusing and time-consuming for SMEs to comply with. Finally, frequent changes to tax laws can make it difficult for SMEs to keep up. The Nigerian government frequently changes tax laws, which can make it difficult for SMEs to plan for their tax obligations. This abstract argues that the Nigerian government needs to take steps to improve tax compliance among SMEs. This could include simplifying the tax system, providing more education and support to SMEs, and reducing the frequency of changes to tax laws.

**Keywords:** tax compliance, SMEs, Nigeria, tax laws, multiple levels of government

## 1.0 Introduction

Tax is a source of revenue to the government of a country. Individuals and companies pay various taxes to the government (Omagor & Mubiru, 2008). Governments use tax as part of measures to control the economy (Romer & Romer, 2010). Also, taxes are used for redistribution of income. Part of the principles that guide taxes includes equality, certainty, economy, convenience and fairness (Omagor & Mubiru, 2008). Some SMEs doing business in Nigeria are not registered and recognized by the corporate affairs commission. Non-registration can be attributed to avoidance of tax payments, harassment by the local and state governments in Nigeria (Ugochukwu, Ekesiobi, & Obiorah, 2016). The government makes various regulations and policies that either positively or negatively affect multiple sectors of the economy, SMEs inclusive. SMEs are essential to every economy. SMEs create employment, help to check rural-urban drift, help in international trade, provide services and support to big companies, help in the diversification of the economy. Tax Laws frequently change in Nigeria. Some SME taxpayers do not have adequate knowledge about tax laws. Lack of adequate knowledge sometimes results in low tax compliance (Atawodi & Ojeka, 2012). An SME can deal with the 3tiers of government in Nigeria on the same Tax issue.

## 2.0 Statement of problem

Tax Compliance poses a serious challenge to Governments in African countries (Ameyaw, Korang, Twum, & Asante, 2016). According to the Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN), 80% of SMEs die before they are five years. One of the factors attributed to this high mortality rate is tax related matters. These tax-related matters include multiple taxation, high tax rates and penalties (Adebisi & Gbegi, 2013). Lack of knowledge of the transaction dynamics of SMEs, payment for accumulated taxes of up to 6 years, adverse publicity leading to loss of customers as a result of government tax officials sealing a company. Researches have revealed that more than 50% of potential tax revenue remains uncollected in most developing countries (Amanamah, 2016).

Bateman (2013) asserted that 90% of owners of business identified that taxes were a serious barrier to their businesses (Ocheni, 2015). Multiple taxations are common in Nigeria (Adebisi & Gbegi, 2013). The primary objective of this study is to examine the level of tax compliance among SMEs in Nigeria.

## 3.0 Literature Review

### 3.1 Definition of SMEs

There is no consensus about the definition of SMEs. It varies from one country to another (Eniola & Entebang, 2015). According to Ajide, Hameed and Oyetade (2014), the basis of SMEs definition are based on numbers of employees, investment and sales volume. The central bank of Nigeria (CBN) according to the Guidelines released in 2010 describes an SME as a firm which asset base is between N5m and N500million (excluding land and buildings) and a staff strength of between 10 and 300 employees (Ajide, Hameed and Oyetade 2014).

### 3.2 Theoretical framework

#### 3.2.1 The Benefit Theory

The benefit-based theory was popular in the late 18th and early 19th centuries, but its popularity reduced when John Stuart Mills introduced the ability to pay tax theory in 1872. Erik Lindahlin also supported this introduction of the ability to pay tax theory in 1919 (Aaron, Henry, & McGuire 1976). The Benefits theory means the more a person gets benefits from the government, the more the person should pay tax and vise versa. A citizen should pay tax in proportion to benefits derived (Elmi et al. 2015). Payment of Tax in relation to the benefit derived seems unrealistic. Benefit Theory of taxation states that an agent that pays tax should enjoy the benefit of tax paid regarding goods and services (Neill, 1999). The Benefit theory of tax can be defended on efficiency grounds (Neill, 1999).

The benefit tax theory states that people should consider the benefits they receive from government expenditures before they pay tax (Martinez-Vazguez, 2001). This theory fits the concepts of horizontal and vertical equity. It considers both revenue and expenditure. One of the drawbacks of the benefits tax theory is a measurement of how individuals benefit and use tax. Also, another drawback is if the poor benefit most from public expenditures, it may not make sense to ask them to pay for it (Martinez-Vazguez, 2001). The benefit theory fails to consider the efficiency or otherwise of goods and services consumed and also failed to answer the question of the burden of Tax paid (Neill, 1999).

#### 3.2.2 Ability to pay Theory of Taxation

According to Ocheni, (2015); The principle of ability to pay theory of taxation started in the 16th Century. It was further extended by the Swiss philosopher Jean Jacques Rousseau (1712-1778), and the French political economist Jean Baptiste Say (1767-1832). This theory is considered the most equitable tax system (Ocheni, 2015). Ability to pay theory of taxation is more widely accepted principle based on equity or justice (Obara & Nangih, 2017). The Theory emphasizes the ability to pay as the determinant of paying taxes (Obara & Nangih, 2017). Individual capacity should be given serious consideration before taxes are determined (Atawodi & Ojeka, 2012). Every government needs to appraise its tax policies to ensure it is not detrimental to the development of the SMEs in the country (Adebisi & Gbegi, 2013).

#### 3.2.3 Optimal Tax Theory

The foundation of the optimal tax theory is the wish of Government to raise a certain sum from taxation. (Musau, 2015). There is a need for the government to balance the ambition of raising tax optimally with the ability of her citizens to pay tax. This is also applicable to the SMEs as they face enormous pressure to comply with taxes levied on them. According to Emanuele, (2012), a good tax system should consider efficiency, transparency, equity, stability, cheapness, and flexibility. Therefore, the government should not increase the tax burden of the SMEs and at the same time maximize the welfare of the whole society (Musau, 2015). Given the fall in oil prices globally, the Nigerian government considers tax as a real source of increasing revenue. The ideal tax is expected to be centered on welfareeconomic principles. The goal of government is to maximize social welfare (Jacobs, 2012).

### 3.3 Importance of SMEs

SMEs are a real source of job creation in Nigeria (Adebisi & Gbegi, 2013). Federal Government of Nigeria recognized the importance of SMEs and therefore established some agencies to assist the SMEs over the years.

These agencies include SMEDAN, National Directorate of Employment (NDE), Peoples Bank of Nigeria (PBN), Microfinance Banks, National Economic Reconstruction Fund (NERFUND), Bank of Industries with a section for SMEs (Kayode & Ilesanmi, 2014). According to Akinboade, (2015), taxation helps in the financing of social and physical infrastructural needs; provide good platform to achieve a stable fiscal environment thereby promoting economic growth and investment; proper use of taxation leads to bonding between government and people of a nation; ensure that costs and benefits of development are equitably shared (Akinboade, 2015). Tax also has a significant influence on the level of foreign investments. SMEs contribute to the GDP of nations. Therefore, they can also contribute to revenue generation for countries (Obara, & Nangih, 2017). 95% of Nigeria's economy is made up of SMEs (Ocheni, 2015). SMEs are considered as vital part of economic success (Ocheni, 2015). Muritala et al. (2012), SMEs impact on the growth and Development the economy of a nation includes: usage of local raw materials, provision of employment, development of rural areas, entrepreneurship development, savings mobilization, provision of linkages with large size firms, even distribution of investments, training opportunities for managers and Artisans. According to Ifekwem and Adedamola (2016), many scholars have identified the importance of SMEs in an economy. This includes:

- Provision of employment, since most operations in Nigeria, are labor intensive  SMEs assist in the redistribution of income by creating a virile middle class.
- SMEs can help a country in mobilizing local resources thereby reducing imports. This has a positive effect on the balance of trade
- SMEs also assist big manufacturing companies in the supply of raw materials for their production
- With the activities of SMEs rural-urban drift can be checked
- SMEs help in the industrialization of a country, for example, many cottage industries are springing up in Nigeria.

SMEs have better geographical spread than big companies in developing countries (Ameyaw, Korang, Twum, & Asante, 2016). SMEs are a source of job creation in developing countries (Adebisi, & Gbegi, 2013) SMEs are vital for economic growth (Adebisi, & Gbegi, 2013). According to Eniola & Entebang (2015) Article 17, 99% of businesses in Nigeria are MSMEs. Also, 98% of the businesses in the European Union are SMEs (Eniola & Entebang 2015). SMEs employ 67 percent of the European workforce.

### 3.4 Importance of Tax

Nightingale (2001), defined a tax as "Compulsory Contribution, imposed by Government and while taxpayers may receive nothing identifiable in return for their contribution, they nevertheless have the benefit of living in a relatively educated, healthy and safe society." The six reasons for taxation according to Nightingale (2001) are: provision of public goods, redistribution of income and wealth and, promotion of social and economic stability and harmonization and regulation. SMEs play important roles in any economy. Tax is a vital source of revenue for any country (Atawodi, & Ojeka, 2012). Taxation is a stable source of income to the government. Taxation helps the government to achieve their developmental goals (Worlu, & Nkoro, 2012). SMEs function as providers of employment, contributors to Gross Domestic Products, technological development, redistribution of a nation's wealth, elimination of poverty, reduction in rural-urban drift, change in a monolithic economy (Smatrakalev, 2006). According to Atawodi & Ojeka, (2012), the Managers of the economy of Nigeria should adopt tax policies that encourage savings, and stimulate investment. The money generated from taxes should be used to provide infrastructure, create employment, diversify the economy, encourage local industries, promote exports (Atawodi & Ojeka, 2012). The best way of generating funds internally for any Government is through taxation (Obara & Nangih, 2016). Taxation has an essential contribution to the generation of revenue to nations globally (Obara & Nangih, 2017). Tax policies should encourage SMEs to make enough profit so that they can expand. Many SMEs choose to remain in the informal sector. This is because they think the benefits outweigh the costs of moving to the formal sector (Amanamah, 2016).

### 3.5 Tax Compliance

Tax compliance matter is a behavioral issue; it is either a taxpayer pays voluntarily or coerced to pay (Fagbemi & Abogun, 2015). Level of trust in Government has a significant influence on the level of tax compliance.

The higher the level of confidence the greater the level of Compliance and vice-versa (Fagbemi & Abogun, 2015). Tax compliance is the degree of voluntary agreement by taxpayers to fulfill their tax obligations to the government without the use of force (Andreoni, Erard & Feinstein, 1998). According to Abiola & Asiweh (2012), the level of taxpayers' compliance is greatly influenced by usage of funds generated for services by government, level of fraud and corruption by government officials and the efforts of the government to fight corruption and fraud. Perception of taxpayers on the issue of accountability, tax administrative procedures, and structures, awareness by taxpayers influence the level of compliance by tax payer's in any country (Fagbemi, Ajibolade, Arowomole and Ajadi, 2011). Level of transparency also affects Tax Compliance (Fagbemi et al., 2011). SMEs form part of taxpayers of a country (Artur Swistak, 2015). Low level of tax compliance is common among SMEs especially the sole proprietors (Engelshalk, 2004; OECD, 2009; 2014) According to Marti (2010), tax compliance means carrying out tax obligations as indicated by the law freely and completely. High compliance costs may result in tax avoidance, evasion, fraud (Atawodi & Ojeka, 2012) Tax evasion is a widespread (Kasipillar, 2005).

The reduction of the tax rate, interest on default and compliance cost will increase the profit that accrues to SMEs. This position is likely to improve compliance with tax laws (Vasak, 2008). The government in Nigeria emphasized compliance more on big companies rather than SMEs as a result of the small amount of taxes paid. This makes a lot of SMEs particularly enterprise firms/sole proprietorships escape paying taxes and loss of revenue to the government (Atawodi & Ojeka, 2012). There is a need for the government to strategically consider how to improve the level of tax compliance among SMEs thereby expanding the tax net and increasing revenue generated from tax. Various measures can be used to boost tax compliance among SMEs. These measures include Usage of information technology, reduction in the frequency of filing, better communication with taxpayers,usage of third-party information (OECD, 2009; 2010).

Many SMEs especially sole proprietors and owner – operated incorporated companies may not be literate enough in tax matters to handle tax filing and remittances (Evans et al., 2005; Engstom et al.; 2006). Also, many SMEs may not be able to engage the services of Tax professional to handle their taxes (Swistak, 2015;). Attitude to tax is essential in tax compliance as regards taxation, tax payer's perspective may be positive or negative. A positive attitude reflects tax compliance while negative attitude reflects non-compliance (Nkwe, 2013). James and Alley (2004) defined tax compliance as "_ _ _ the willingness of individual and other taxable entities to act in accordance within the spirit as well as the letter of tax law administration without the application of enforcement activity." Many factors have been attributed to influencing tax compliance. They include economic, social and psychological factors (Nkwe, 2013). Noncompliance can be categorized as either tax evasion or tax avoidance. Tax evasion is outrightly non-payment of tax, while tax avoidance is the use of tax laws to reduce tax payment. Both tax evasion and tax avoidance leads to a reduction of government revenue (Nkwe, 2013).

Knowledge of tax is essential in tax compliance, especially under the self-assessment system (Nkwe, 2013). Kirchler & Niemrowski; (2006) asserted that knowledge would lead to higher tax compliance. There are three distinct types of tax compliance namely; filing compliance, payment compliance and reporting compliance (Musau, 2015). OECD (2010) suggests that tax compliance can be divided into two categories, administrative compliance otherwise referred to as procedural reporting or regulatory compliance. This is lodgement and payment. The second category according to OECD (2010) is the technical compliance. This relates to tax calculations in paying taxes. Tax compliance can be defined as the act of disclosing all incomes and payment of all taxes after considering all aspects of the tax laws including regulations and court judgments (Alm, 1991).

According to Atawodi & Ojeka (2012), high tax rates and complicated filing procedures are the two most vital factors making SMEs in Northern Nigeria not to comply with tax laws and regulations. Barbutamisu (2011), asserted that factors like level of income, tax benefits, penalties, fines, tax audit, audit probabilities, assumed fairness, attitude, personal, social and national norms affect the level of tax compliance. Non-compliance adversely revenue mobilization in developing countries especially, tax collections from SMEs (Kira, 2017). SMEs are not tax compliant compared to large businesses (Giles & Caragata, 1999). Tax compliance is adversely affected if there are too many steps to complete (Akinboade, 2015). Many SMEs are not aware of their Tax obligations to the government.

This is because there is no awareness and publicity about SMEs tax obligations. Gerxhani & Schram, 2006 observed that SMEs have "unregistered income with no third party reporting." Poor record keeping hampers filing of tax among SMEs (Prescott & Hooper, 2009). Bribery and corruption affects the amount of tax collected in Nigeria (Akinboade, 2015)

Taxpayers' level of compliance is adversely affected when they perceive an unfair tax system (Spicer and Baker, 1980). According to Jackson and Jaouen (1989), female taxpayers are more compliant than their male counterparts. Tax Compliance is affected by frequent changes in tax laws, the complexity of tax forms technical language, cashflow problems, costs of hiring tax consultants, cumbersome registration procedures, unrealistic tax laws, a high cost of doing business, hostile business environment. There are many obstacles to tax compliance by SMEs in Nigeria. The obstacles include poor record keeping, a high tax rate, lack of transparency, cumbersome tax procedures ( Seidu et al.; 2015).

Another significant barrier to tax compliance by SMEs is that sizeable amount of their transactions are cashbased, which makes their transactions challenging to track. A considerable amount of transactions are done outside banking medium (Obara & Nangih, 2017). The main aim of taxation is to raise Revenue to finance public goods and services and funding of governments (Martina et al.; 2008). Many researchers have been carried out in developed countries, but most of their outcomes are not applicable to developing nations like Nigeria. The reason for this lack of application is due to difference in socio-political, cultural and demography (Alabede; et al. 2011).

According to Fischer et al.; (1992), some non-economic factors affect tax compliance. These include the attitude of taxpayers, perceived fairness of the tax system, opportunity not to comply, and demography. Where taxes collected are not used appropriately, taxpayers tend not to be committed to tax compliance (Young, 2013; Thorndike, 2009). There is a low level of tax compliance in Nigeria (Oladipupo & Obazee, 2016).

**3.6 Tax Amnesty**

According to Ibrahim et al. (2017), tax amnesty is defined as the "one –time program that last for a short period of time that waive the tax liability (including the interest and penalties) and both civil and criminal penalties of the previous unpaid tax to non-filers or taxpayers who have not paid a correct amount of tax". Tax amnesty is used by governments to improve the level of tax compliance, thereby increase revenue from tax (Emmiryzan, 2017). Tax compliance is a problem in developing countries. Nigeria is not an exception. The Federal Government of Nigeria has used different means of expanding the tax net. The latest being the Voluntary Assets Declaration Scheme (VAIDS) which commenced from July 1, 2017 and terminated June 30, 2018 (it was initially meant to end on 31st March 2018). Under the VAIDs, a taxpayer will not pay interest and penalties based on Voluntary Assets Declaration. Tax amnesty can be used to improve the level of tax compliance, especially among the SMEs. Tax amnesty is not limited to Nigeria alone. Developed countries like the U.S. states offered tax amnesty programmes since 1980, the Spanish Government in 2012, the Liechtenstein Government in 2014. Also, Switzerland Government also provided tax amnesty about three years ago (Wang & Hsieh, 2015). Also, among the developing countries India, Colombia, Chile, and Mexico too have offered amnesty for tax offenders (Wang & Hsieh, 2015). Nine Countries in Asia had implemented tax amnesty namely: India, Indonesia, Pakistan, Bangladesh, Malaysia, Thailand, Philippines, Srilanka, and Kazakhstan (Ibrahim et al., 2017). It is not all tax amnesties that are successful.

An example of this is research carried out about a tax amnesty program in India between 1965 and 1993; it was only the 1975 program that was successful (Arindam et al. 1995). Wang & Hseieh (2015) asserted that tax amnesties had no effect on tax revenue whether in the long or short run. Both Fischer et al., 1992; Luitel & Mahar (2013) agreed that tax amnesty could increase revenue in the short run. Although there is tax amnesty, tax evaders may still not participate (Olivella, 1996). The Federal Government of Nigeria through the vice president Yemi Osibajo introduced Voluntary Assets and Income Declaration Scheme (VAIDS) for all categories of tax defaulters through executive order No. 004 on 29th June 2017. The scheme was supposed to run from July 1, 2017, to March 31, 2018 (9 months) though it was eventually extended to June 30, 2018. This opportunity was opened to eligible taxpayers both individuals and companies to regularize their tax compliance status. The effect of VAIDs is expected to improve the level of tax compliance and improve Nigeria's tax to Gross Domestic Product (GDP) ratio.

More than 47countries has implemented VAIDs since its initial proposal by the Organization for Economic Cooperation and Development (OECD) in 2010. As at the time of implementation, Nigeria expects to collect

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$1b from the scheme (VAIDs). Tax defaulters are supposed to pay up to 6years in a lump sum or spread the liability for up to three years (Pedabo, 2017).

The categories that can enjoy VAIDs include individuals, enterprises, and companies with relevant tax authorities, companies and individuals that have registered but have not filed tax returns between 2011 and 2016, have not fully declared their taxable income and assets, underpaying or under remitting; undergoing tax audit or investigation and tax dispute (Pedabo, 2017). Taxpayers that participate in VAIDs will have a waiver for penalties and interest on taxes due; immunity from criminal prosecution for tax offenses, payment of liabilities within three years, exclusion from tax Audit/Investigation relating to the period covered by the declaration (Pedabo, 2017). Tax amnesty has generated controversy as it favors tax evaders without any benefit for companies and individuals that comply with tax laws (Emmiryzan, 2017). Mahestyanti, Juanda, & Anggraeni (2018), asserted the success of many tax amnesty programs leading to an increase in revenue and increased level compliance. As done in South Africa, "Pull and Pull" was adopted by offering tax incentives to taxpayers. This is done by canceling the interests and tax ransoms at the possible lowest rates. "Push" strategy is adopted by putting pressure on tax defaulters by increasing the number and quality of tax audit (Ragimun, 2012). An honest taxpayer sees Tax amnesty program as being unfair to him/her (Recherberger et al.; 2010; Alm et al.; 1991). Therefore, an honest taxpayer can be discouraged about tax compliance. Indonesia implemented a tax amnesty program between 2016 and 2017. Because of budget difficulties faced by governments, there has been an increase in the wave of tax amnesties to boost revenue (Buckwalter, Sharp, Wilde, & Wood, 2012).

## 4.0 Method

The study was conducted to examine the tax compliance among SME owners in Lagos, Nigeria. Both judgemental and random samplings were used in selecting the respondents. Data were collected from SME owners in Lagos, Nigeria. Questionnaires were distributed to 250 respondents, and 223 responded 89% responded. The questionnaire had two sections. The first section of the questionnaire was used to gather general information about the SME owners while part 2 contained the questionnaire on tax compliance. The statistical package used to Analyse the data was SPSS.

## 5.0 Results

Data was collected from two hundred and twenty-three (223) SME owners out of 250 questionnaires distributed; 121 were females while 102 were male. However, five (5) of the male SME owners were solely paying Local Government Levies hence viable data on compliance to tax regulations were obtained from 97 male respondents. The questionnaire was formulated using a Likert scale ranging from Strongly Agree (5) to Strongly Disagree (1) to provide information on compliance with government regulations.

**Table 1: Characteristics of Entrepreneurs**

| Characteristic | Frequency (%) | | |
|---|---|---|---|
| | Male (n=97) | Female (n=121) | Total (n= 218) |
| **Age of Business** | | | |
| **Under 1yr** | **2 (2.1%)** | **0** | **2 (0.9%)** |
| **1-3 years** | **15 (15.5%)** | **5 (4.1%)** | **20 (9.2%)** |
| **4-6 years** | **25 (25.7%)** | **20 (16.5%)** | **45 (20.6%)** |
| ≥7 years | 55 (56.7%) | 96 (79.3%) | 151 (69.3%) |

**Type of Business**
**Enterprise/Sole Proprietor 47 (48.5%) 69 (57%) 116 (53.2%)**
**Limited 50 (51.5%) 52 (43%) 102 6.8%)**

The table above shows the characteristics of the entrepreneurs who participated in the survey. The majority (69.3%) of the entrepreneurs had been in business for seven years and over while 20.6% had been in business for 3-6 years and 9.2% in business for 1-3 years; only 2 of the entrepreneurs had been in business for less than a year. Comparatively, the statistics are similar for male and female entrepreneurs alike, although female entrepreneurs recorded a higher percentage of experienced business owners.
Over half of these entrepreneurs (53.2%) were limited companies, while 46.8% were sole proprietors. However male SME owners recorded a higher percentage of limited companies than sole proprietors while female SME owners recorded a higher percentage of sole proprietors than limited companies.

**Table 2: Compliance To Government Regulations- Comparative**

| S/N | VARIABLE | N | | MEAN (SD) | |
|---|---|---|---|---|---|
| | | Male | Female | Male | Female |
| 1 | Registration with Corporate Affairs Commission (CAC) | 97 | 121 | 4.89 (0.538) | 4.21 (0.950) |
| 2 | Filing Annual Returns to CAC | 97 | 121 | 2.38 (1.395) | 4.20 (0.853) |
| 3 | Filing of Accounts as Federal Inland Revenue Service (FIRS) if LTD | 50 | 52 | 3.70 (1.329) | 4.15 (0.638) |
| 4 | Monthly VAT Returns to FIRS | 97 | 121 | 3.10 (1.538) | 4.16 (0.753) |
| 5 | Remittance of WHT to FIRS | 50 | 52 | 2.50 (1.111) | 4.12 (0.808) |
| 6 | Payment of Education Tax to FIRS | 50 | 52 | 3.58 (1.416) | 4.25 (0.738) |
| 7 | Pay As You Earn (PAYE) to state Government (e.g., LIRS) | 51 | 82 | 2.22 (1.419) | 3.90 (0.951) |
| 8 | WHT to LIRS (Business name and Individual) | 46 | 69 | 2.78 (1.849) | 4.07 (0.913) |
| 9 | Business Premises to LIRS | 97 | 121 | 3.36 (1.608) | 4.07 (0.818) |
| 10 | Development Levy | 96 | 88 | 3.17 (1.633) | 4.09 (0.839) |
| 11 | PAYE Annual Returns to state Government (e.g., LIRS) | 51 | 82 | 1.94 (1.223) | 4.02 (0.902) |
| 12 | Direct Assessment as an owner of the business if not on PAYE to LIRS | 46 | 39 | 4.59 (0.498) | 4.10 0.995 ) |

Amongst the female SME owners, analysis of the result showed positive means for all 12 compliance statements ranging from 3.90 to 4.21 and standard deviation between 0.638 and 0.995; the variable "Registration with corporate Affairs" had the highest mean (4.21) while "Pay As You Earn (PAYE) to state Government" had the lowest mean (3.90). Conversely, male SME owners recorded positive means for only 7 out of the 12 compliance statements; statements which showed positive means for male SME owners were Registration with corporate affairs (4.89), Filing of accounts at FIRS (3.70), Monthly VAT returns to FIRS (3.10), Payment of education tax to FIRS (3.58), Business premises to LIRS (3.36), Development levy (3.17) and Direct assessment as owner of business if not on PAYE to LIRS (4.59). Other variables such as Filing of annual returns to CAC (2.38), Remittance of WHT to FIRS (2.50), PAYE to state government (2.22) and PAYE annual returns (1.94) recorded low means amongst male SME owners; the variable "Registration with corporate Affairs" had the highest mean (4.89) while "Pay As You Earn (PAYE) Annual returns to state Government" had the lowest mean (1.94).

**Table 3: Compliance to Government Regulations (Total)**

| S/N | VARIABLE | N | MEAN | STD DEVIATION |
|---|---|---|---|---|
| 1 | Registration with Corporate Affairs Commission (CAC) | 218 | 4.51 | 0.860 |
| **2** | Filing Annual Returns to CAC | 218 | 3.39 | 1.443 |
| **3** | Filing of Accounts as Federal Inland Revenue Service (FIRS) if LTD | 102 | 3.93 | 1.055 |
| **4** | Monthly VAT Returns to FIRS | 218 | 3.69 | 1.260 |
| **5** | Remittance of WHT to FIRS | 102 | 3.32 | 1.260 |
| **6** | Payment of Education Tax to FIRS | 102 | 3.92 | 1.166 |
| **7** | Pay As You Earn (PAYE) to state Government (e.g., LIRS) | 133 | 3.26 | 1.412 |
| **8** | WHT to LIRS (Business name and Individual) | 115 | 3.56 | 1.500 |
| **9** | Business Premises to LIRS | 218 | 3.76 | 1.281 |
| **10** | Development Levy | 184 | 3.61 | 1.390 |
| **11** | PAYE Annual Returns to state Government (e.g., LIRS) | 133 | 3.23 | 1.449 |
| **12** | Direct Assessment as an owner of the business if not on PAYE to LIRS | 85 | 4.36 | 0.800 |

Overall analysis of the result of all the SME owners showed positive means ranging from 3.23 to 4.51 and standard deviation between 0.800 and 1.500. The variable "Registration with corporate Affairs" had the highest mean (4.51) while "Pay As You Earn (PAYE) annual returns to state Government" had the lowest mean (3.23). Out of the 218 entrepreneurs, 85 (39%) were not on PAYE to state government; however, they recorded a positive mean of 4.36 for "Direct assessment as an owner of business." The majority (84.7%) of this category of entrepreneurs (not on PAYE to state government) were Sole Proprietors.

**Table 4: COMPLIANCE SCORE – COMPARATIVE**

| Rank | Frequency (%) | |
|---|---|---|
| | Male | Female |
| **Excellent** | **46 (47.4%)** | **110 (90.9%)** |
| **Average** | **48 (49.5%)** | **11 (9.1%)** |
| **Poor** | **3 (3.1%)** | **0 (0%)** |

The total level of compliance with government regulations by the SME owners was scored and ranked from excellent to poor. The result shows that the 47.4% of the male SMEs agreed to an excellent level of compliance, 49.5% agreed to an average level of compliance while only 3.1% agreed to a poor level of compliance. A wide difference was observed among female SMEs as a large majority (90.9%) agreed to an excellent level of compliance, only 9.1% agreed to an average level of compliance, and none of the female SMEs agreed to a poor level of compliance.

**Table 5: Overall COMPLIANCE SCORE**

| Rank | Frequency | Percentage |
|---|---|---|
| **Excellent** | **156** | **71.6%** |
| **Average** | **59** | **27.1%** |
| **Poor** | **3** | **1.4%** |

The overall level of compliance to government regulations by the SME owners showed that majority of the entrepreneurs (71.6%) agreed to have an excellent level of compliance to government regulations, 27.1% admitted to exhibiting an average level of compliance while only 1.4% agreed that they show the poor level of compliance.

**Table 6: Association between Compliance to Tax Regulations and Characteristics of Entrepreneurs**

| Variable | Excellent n (%) | Average n (%) | Poor n (%) | Chi-Square | P Value |
|---|---|---|---|---|---|
| Sex | | | | | |
| Male | 46 (47.4%) | 48 (49.5%) | 3 (3.1%) | 50.429 | 0.000 |
| Female | 110 (90.9%) | 11 (9.1%) | 0 (0.0%) | | |
| Type of Business | | | | | |
| Enterprise | 33 (69.8%) | 33 (28.4%) | 2 (1.7%) | 0.498 | 0.780 |
| Limited | 75 (73.5%) | 26 (25.5%) | 1 (1.0%) | | |
| Age of Business | | | | | |
| Under 1 Year | 0 (0.0%) | 2 (100.0%) | 0 (0.0%) | 11.553 | 0.073 |
| 1-3 years | 12 (60.0%) | 8 (40.0%) | 0 (0.0%) | | |
| 4-6 years | 31 (68.9%) | 12 (26.7%) | 2 (4.4%) | | |
| ≥7 years | 113 (74.8%) | 37 (24.5%) | 1 (0.7%) | | |

Chi-square test of association was conducted to test the relationship between the characteristics of the respondents and their level of compliance. Results show that female entrepreneurs had a higher percentage of excellent level of compliance than male entrepreneurs and the level of significance ($P<0.05$) indicates that the relationship between the level of compliance and sex of entrepreneurs is statistically significant. Entrepreneurs operating limited companies showed a higher level of compliance with tax regulations than sole proprietors however this relationship was not statistically significant as the level of significance, P is higher than 0.05. SMEs that have operated their businesses for seven years or more also recorded the highest percentage of excellent compliance level under the age of business parameter; however, the association was not statistically significant.

**6.0 Discussion**

A large percentage of the SME owners have been in business for quite a while hence the population is an experienced SME group. The female SME owners however recorded a higher percentage of experienced SMEs than the male population. Majority of the respondents were sole proprietors; although this differed among the male and female population. The male population had more limited companies than sole proprietors while the female population had more sole proprietors than limited companies. It could be inferred that female SMEs are more comfortable with registering their businesses as business names as compared to male SMEs. Also, the cost of registering a business name in Nigeria is cheaper than the cost of registering a limited liability company.

It is also evident from this study the unwillingness of entrepreneurs to pay "Pay As You Earn (PAYE) to the state government as a visible proportion of the entrepreneurs were not on PAYE but instead were on "direct assessment as owner of business"; in addition PAYE annual returns to state government recorded the lowest mean. However, this could be genuine as it is not uncommon in Nigeria to find SMEs especially sole proprietors running their business solely by themselves without an employee.

Comparing means, female SMEs showed a higher level of compliance with government regulations than male SMEs; this was also confirmed by the test of association which showed a statistically significant relationship between the level of compliance with tax regulations and gender of SMEs. This could be linked with the higher percentage of experienced SME owners among the female population. Lack of compliance in filing annual returns to CAC and in payment of Withholding Tax (WHT) was evident among male entrepreneurs. The need to educate SMEs running limited companies on the importance of filing annual returns thus cannot be overemphasized; it is recommended that the tax authority assign auditors to each region to monitor and help SMEs fulfill this obligation.

In summary, the overall level of compliance to government regulations among the SMEs was generally good; however, it can be inferred that female SME owners are more likely to comply with government regulations than male SME owners.

**7.0 Conclusion**

The study examined the level of tax compliance among SMEs in Lagos, Nigeria. The literatures reviewed showed SMEs as the bedrock of Nigeria's economic development. Female SME owners are more tax compliant than their male counterparts. There is multiple taxations. Tax amnesty can improve the level of tax compliance thereby increasing Nigeria's revenue from taxes.

**8.0 Recommendations**

1. The government should make tax compliance friendlier to increase the level of tax compliance.
2. The government should embark on Tax education for SME owners as some of them are not aware of their Tax obligations to government

3. Improve incentives for voluntary tax compliance.

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