



Tax Regulations and Compliance in Ondo State, Nigeria

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Abstract

Scholars opined that low rate of tax compliance has been recorded because the regulations of tax matters were not appropriate. There is therefore the need to investigate the effect of tax regulation on tax compliance in Ondo State, while focusing on government use of fines and penalties, tax audit and tax bracket as tax regulatory tools to increase tax compliance. Survey research design was adopted as structured questionnaire was administered on staff of Ondo State Internal Revenue Service (ODIRS). 338 persons who are staff of ODIRS by 2019-year end form the study population while 137 persons who are the category of senior staff cadre with minimum of 5 years' experience were purposively selected. Data gathered were analysed using descriptive statistics such as frequency, percentages and Step wise regression analysis was also used to assess the joint effect of tax penalty, tax rate and tax audit on tax compliance. The findings revealed that tax penalty and tax rate have positive and significant effects on tax compliance while tax audit has negative and insignificant relationship with tax compliance in Ondo state. It is therefore recommended that Ondo State Internal Revenue Service (ODIRS) should engage adequate well trained and highly motivated staff with effective regulatory measures as e-tax filling to ensure taxpayers compliance and employ efficient tax audit techniques to capture more citizens in the tax net and boost the state government internally generated revenue.

Keywords: Tax audit; Tax bracket; Tax compliance; Tax regulations and penalties

1. Introduction

All tiers of government have enormous responsibilities which will gulp substantial amount of funds to meet up with the expectations of the people it represents at various levels. This means that a reliable source of revenue is needed to

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undertake public expenditures and as well meet the public demand for good standard of living (Olaoye & Ekundayo, 2018; Modugu & Anyaduba, 2014). For government to meet up with its designated responsibilities, individuals and corporate entities play the major role of providing funds through statutory obligation of paying certain percentages of their income to the government's purse for redistribution and other efficient use for common good. Nonetheless, government through relevant tax authorities did not receive expected support from the taxpayers as the citizens concerned feel that their duty of paying tax is either not necessary or optional thereby limiting the capacity of the government to improve on its revenue generation (Ayuba, et al, 2018). This trend has made government to roll out regulations to administer taxation process since compliance is equivalent to increase in revenue (Irwan & Apollo, 2020; Alabede et al, 2011).

In Ondo state, personal income taxes, road taxes, pool betting and lotteries, company registration, development levy, street naming in state capitals, right of occupancy on state-owned land, postal tax and market taxes are the major streams of tax revenue to Ondo state government. However, the failure of business owners to timely file for tax remittances; provision of incomplete and incorrect information (including incomplete record keeping) which have further broaden the expectation gap on tax revenue is viewed as an issue that occurs as a result of inefficient tax administration (Oladele et al., 2019).

In Nigeria, dwindling in non-oil revenue has also contributed to setback in aggregate revenue generation as the contributory quota of tax revenue to the Gross Domestic Product of the country is discouraging (Oghuma, 2018; Ayuba, et al., 2018). This could be attributed to the fact that the compliance level of individuals in the tax bracket is quite low. Penalties in the form of sanctions or fines are used for proper regulation of tax procedures and to promote tax compliance. However, scholars (Aladejebi, 2018; James & Alley, 2004) have argued that fines and penalties as constructs of tax regulations have resulted in low level of compliance.

This is because tax policies give room for multiple taxation and high tax rate. This situation has posed a serious challenge to compliance of businesses especially the Micro and Small Medium Scale Enterprises (MSEMs). Oladele, et al., (2019) posited that other tools of tax regulations like tax audit and tax bracket have been considered as dissuasion for possible tax evasion and avoidance by potential taxpayers. Due to incessant breach of tax laws and abuse of tax policies, government raises tax audit as enforcement tactic at various levels for effective regulation of tax procedures to ensure tax compliance (Oladele et al., 2019; Olokooba, et al, 2018). The intention of a tax audit is to objectively assess business financial records for tax purposes and to make sure the government generates enough revenue to function as expected. Hence, the tools have the tendency of reinstating lost glory of non-oil sector performance in contributing larger quota of total revenue before the discovery of oil in the country.

As reported in the National Bureau of Statistics (2020), Ondo state only contributed 2.26% and 2.22% as IGR to its total revenue in 2019 and 2020 respectively even though the state governor while inducting new employees of Ondo State Internal Revenue Service on February 17, 2020 disclosed that the state government has been able to grow its IGR from N750 million to an average of N2.2 billion monthly. Therefore there is a need to examine if the increase as implied by the state governor can be attributed to enforcement of tax regulation? And also, most researches conducted on tax compliance have argued that inconsistencies in tax policies; low rate of tax education; misuse of tax revenue; perception of tax fairness; corruption and other institutional factors are major determinants of tax compliance in the country (Francois, 2021; Twesige & Gasheja, 2019; Aladejebi, 2018; Olaoye & Ekundayo, 2018; Tsikas, 2017; Nkwe, 2013). Some other studies Tilahun, (2019); Oyedokun (2015); Uremadu and Ndulue (2011), opined that low rate of tax compliance is recorded because the tax administration methods were far from satisfactory. Therefore, there is a need to confirm if tax regulation is the driving force of tax compliance in Ondo State.

The study is considered significant because tax compliance of individuals and corporate entities in Ondo state is paramount as it is a sure way to drag the state out of continuous dependency on foreign aid and federal allocation. This study therefore, focuses on government use of fines and penalties, tax audit and tax bracket as tax regulatory tools to increase tax compliance boost revenue generation. This paper is organised into five different sections; section I contains the general background to the study and points to the essence of the study. In section II, literature were reviewed to give conceptual clarifications and theoretical backing to the study. Section III explains the method and techniques used in achieving the objective of the study while section IV discusses the empirical findings and section V gives the conclusion and recommendations.

2. Conceptual Clarification and Theoretical Review

The concept of tax compliance refers to taxpayers' preparedness to act in accordance with tax laws, state their actual revenue in each accounting year, and pay the appropriate amount of income tax (Kolawole & Owolabi, 2021; Tilahun, 2019). Tax compliance simply means adhering to the applicable laws and regulations pertaining to reporting and payment of all taxes by taxpayers (Ayuba *et al*, 2016). It can as well be described as the process in which tax income required is filed at the proper time with the correct tax liability as required under the tax laws and regulations of a country (Friedman, 2011).

Although the term has been conceptualized in various ways, the definitions still conveyed the same meaning. Eric (2006) posited that tax compliance refers to the reporting of the actual income on which tax ought to be paid, the undeclared amount at penalty rate which is more than they might have paid had the amount of income been absolutely declared at the proper time. More so, Oladipupo and Obazee (2016) referred to tax compliance as the ability and temperament of taxpayers to go with all tax laws and pay the correct amount of taxes in due time. However, all these definitions missed out the voluntary aspect of tax compliance.

In this study therefore, tax compliance is seen as the taxpayers' ability and willingness to conform to tax regulations predetermined by ethics, legal environment and other situational factors surrounding tax administration for a particular period and place. Hence, we can categorically say that tax compliance is a behavioral issue that has to be voluntary or taxpayer being coerced to pay (Aladejebi, 2018). On the other hand, tax regulation, according to Yayuk *et al*, (2019) could be a legal principle and a process set in place by relevant tax authorities to impose tax compliance.

The Concept of Tax Penalties and Tax Compliance

Tax penalty is described as a form of deterrence for not obliging or conforming to tax policies in operation at a particular time and a particular period (Oladele *et.al*. 2019). Tax penalty is imposed for refusing to fulfill a required tax act, such as timely filing of returns or filing of incorrect returns. Taxpayers are predisposed to minimizing their tax burden either through tax evasion or tax avoidance, the consequence of which is loss of revenue to the government. In Nigeria, if a tax payer violates any stipulation of the Federal Inland Revenue Service Act 2007, for which no precise penalty is recommended, he shall be subject on conviction to a fine not exceeding N50, 000 or sentenced to imprisonment not exceeding six months, or both.

The relationship between tax penalties and fines are linked to authority and trust. Fines and penalty that are excessively modest may be interpreted as a sign that the authorities are powerless to discipline wrongdoers, weakening faith among honest taxpayers. Fines that are too large or improper because a taxpayer made an unintentional mistake as a result of confusing tax regulations would undercut the perception of retributive justice and encourage tax evaders to work even harder to recoup their "losses" caused by those fines (Kirchler *et al.*, 2008).

The Concept of Tax Audit and Tax Compliance

In the study of Oladele *et al.*, (2019), tax audit is explained to be an assessment of taxpayers' books of account to establish if actual tax returns filed reveal correct tax payable. According to Gebreyesus (2020), Tax audit is a review of the tax returns presented to a tax authority by an individual or company. According to Barbuta-Misu (2011), tax audit is one of the most effective strategies for combating tax evasion. Even though administrative costs are incurred when conducting a tax audit, given the fixed administrative cost constraint, a rise in tax audit is expected to reduce the level of other administrative services, such as taxpayer service and tax collection which will propel tax compliance. Okonkwo (2014) postulates that an independent audit should be conducted to examine taxpayers' accounts, tax returns and other records, to confirm that tax laws, rules, regulations, the exactness and correctness of taxes payable have been complied with as well as adhering to generally relevant accounting principles and standards.

The extent of tax audit relies on two reasons: the number of taxpayers flagged for audit, its intensity and thoroughness of the audit. Likewise, periodic check and verification which can be termed tax audit are done by tax authorities on tax payers to reduce rate of tax evasion. In a research carried out by Koumanakos *et al*, (2017), it is stated that tax audit is established to stimulate tax acquiescence in keeping relevant accounting records by the taxpayers. Thus, the use of tax audit is to ensure that tax payers do a thorough job in filing their tax returns as any anomaly detected through tax audits will attract some penalties.

Tax Rate and Tax Compliance in Ondo State

The bracket is synonymous with tax rate and it means the percentage payable as tax by taxpayers on profit and or economic transactions. Income bracket is the connection between high income earners and lower income earners of actual amounts of taxable income that are subjected to specific charge per unit (Hai & See, 2011). According to Barbuta-Misu (2011), the relationship between tax rate and tax compliance is explainable in terms of trust between tax payer and government. If a tax rate is high, effective income will be reduced and for taxpayers who are not ready to take the risk due to loss of trust, tax evasion will be the option as a high tax rate will be seen as an attempt to deprive taxpayers of what is legitimately however when there is high trust or confidence, high tax rate would be interpreted as a consensus reached by the entire community.

Oladele, Aribaba, Ahmodu, Yusuff, and Alade (2019) posited that tax bracket is a significant constraint to tax revenue as there seems to be wide gap between the total amount of taxes paid voluntarily and actual tax liabilities which ought to have been paid for the same period with no effort. Osakwe (1999) posited that heavy tax rate had been additional factors that promote taxpayers underreporting behavior which is absolutely related with high rate. Some opponents of tax brackets and tax schedules argue that everybody, notwithstanding amount of income or economic standing is equal before the law and there ought to be no discrimination between the wealthy and the poor (Gberegbe & Umoren, 2017).

Theoretical Review

There are numerous points of view from different theories on the effective ways to enhance tax compliance, because if there is not a compelling reason many companies and individuals will not pay taxes if they are given the chance. Some of the theories relating to tax compliance include deterrence theory concerned with tax regulation, and planned behavior theory. This study is anchored on the economic deterrence theory.

Plan behaviour theory

Icek Ajzen established the Theory of Planned Behaviour (TPB) in 1985 with the purpose of predicting and changing human behavior. Any action a person takes is guided by three types of considerations, according to the TPB: behavioral beliefs (beliefs about the likely results of practiced behavior), normative beliefs (beliefs about other people's normative expectations), and control beliefs (beliefs about the presence of factors that may enable or obstruct the performance of the behavior). These then result in a desire to perform in a specific manner. Over the years, the idea has been successfully applied to research in a variety of disciplines, including taxation. The Theory of Planned Behavior is founded on the assumption that humans are rational and make decisions based on the knowledge they have at the time. This idea, however, contradicts the reality of taxation, particularly in Nigeria, because complying taxpayers are not always immune from sanctions, and noncompliant taxpayers are not always sanctioned (Damayantia *et al* 2015).

It is widely known that the taxpayer's perception of the government influences tax compliance behavior. The implication is that if citizens' taxes are proportionate to the government's supply of public services, taxpayers' behavior will be more inclined toward tax compliance. If taxpayers believe the tax system is unfair, they may strive to avoid paying taxes. The framework of the Planned Behavior Theory is that tax compliance behavior is determined by the taxpayers' intention to comply, according to the theory's synopsis. While one's attitude toward tax compliance, subjective norms, and perceived behavioral control all influence of compliance intention. Benk *et al* (2011) found no statistically significant relationship between the equity perceptions of the taxpayers and the tax compliance intention after considering tax compliance intention using theory of planned behavior approach.

Deterrence Theory of Tax Compliance

This theory of tax compliance is also called the Allingham and Sandmo (A-S deterrence theory). The theory was propounded by Allingham and Sandmo (1972). The theory states that a taxpayer is assumed to maximise the expected utilities of tax evasion gamble, balancing the benefits of successful tax cheating against the risky prospect of being caught and punished by tax authorities. Tax audit and penalty among other variables form the cardinal stands of the economic deterrence model (Oghuma, 2018).

The general intention of deterrence is to discourage potential tax offenders by advertising the judgment of convicted offenders. However, the deterrence is to improve the criminal sanction in such a way as to dissuade the offenders from repeating their offence. This compares a crime with a particular penalty at a specific moment. If the individual is to be kept law abiding the process of simple deterrence must confront him at every turn, making tax non-compliance a risk

that isn't worthwhile to take. Trivedi and Shehata (2005) posited that, the deterrent theory suggests that taxpayers play the audit lottery that is they make calculations of the economic consequences of different compliant alternative. Alabede *et al.*, (2011) claimed that the major assumption traced to theory of deterrence was largely dependent upon tax penalty.

They also stressed that this tax compliance theory makes taxpayers pay tax because of fear and penalties. However, Punishment should not outweigh the profit from the crime committed (Ojonta, 2011). This theory implies that not many citizens evade tax levels if the probability of detection by relevant tax authority is high and tax evasion sanctions are severely high. In contrast, where there is a relatively poor detection with low penalties, non-compliance to tax policies is considered high (Maina & Kiragu. 2021).

Deterrence apparatus is however a major adopted strategy relied upon in Nigeria to enforce compliance however it has not helped to promote tax compliance in the country (Anyaduba *et al.*, 2012). In view of this; the study will be hinged on the theory. From the above discussions, it can be proposed that level of tax compliance depends on adequacy of tax audit, tax rate and tax penalties. The study then hypothesised in null form that;

Ho – Tax regulations does not have significant effect on tax compliance in Ondo State Nigeria.

Empirical Review

After examining the relationships among deliberate tax compliance behavior of individual taxpayers with selected economic, social, behavioral and institutional factors, Ibne, Ahmed and Sidra (2021) using structural equation modeling technique found out that compliance simplicity has a larger impact on tax filing procedures and greater influence on tax compliance than perception about Government Spending and tax morale. Kolawole and Owolabi (2021) studied the significance of tax audit on taxpayers' compliance in Southwest Nigeria. The study employs a survey research design whereby questionnaire was distributed to 190 elite respondents that were randomly selected. Data obtained were analysed using descriptive and inferential statistics. The result showed that tax audit is positively significant on taxpayers' compliance in Southwest Nigeria.

Okpeyo *et al.*, (2019) assessed the possible factors that influence tax compliance among SMEs in Ghana with the objective of improving tax compliance. Through stratified sampling technique, 100 small and medium tax payers in Accra and other GRA officials were picked as sample size and the data were analysed using least square regression. The results of the study showed that compliance cost, tax rates, tax audits and morals of taxpayers significantly influenced tax compliance. With the large population of SMEs in Ghana, the sample size is too small to be generalised.

The influence of tax auditing and sanctions on tax compliance paradigms of income taxpayers in Nigeria was investigated by Oghuma (2018). The research adopts cross-sectional survey design. All registered corporate entities in Nigeria form the study population. A total of one hundred fifty (150) taxpayers with tax files based in Edo State were randomly sampled after stratifying the companies based on states of the federation. The questionnaire was administered to the sampled companies and Ordinary Least Square (OLS) regression was used for model estimation. The findings revealed that tax audit and tax penalty have positive and significant relationships with tax compliance.

The implication of tax-payer knowledge and sanctions on fiscal conformity among small and medium-sized businesses in Nigeria was examined by Oladipupo and Obazee (2016). After analysing data gathered through field survey using the OLS regression method, the results showed that the effect of tax penalties on tax compliance was positive but insignificant. Soyinka *et al.*, (2016) did a study of tax audit factors and corporate tax compliance in Nigeria and the result revealed a significant impact of tax audit probability and frequency on corporate tax compliance. Tax payers who are regularly audited by the revenue authority are more likely to voluntarily comply as they fear they may be caught through the audit while tax payers whose returns and activities are not regularly audited are less likely to conform to their tax obligations (Okpeyo, *et al.*, 2019).

Researching into factors that contribute to non-compliance among small and medium Enterprises (SMEs), it was discovered that tax rate which is perceived to be too high promotes tax non-compliance and failure among SMEs. Abdulsalam *et al.*, (2016) evaluated the impact of tax rates on African tax compliance, using cross-country data. The study covers all 61 countries in Africa for two observation years of 2012 and 2013 upon which samples were selected using multi-stage approach. The findings show that tax rate and tax compliance have a negative relationship, and tax rate has a negative impact on tax compliance.

Masud *et al.*, (2014) examined impact of the tax rate on Africa's tax compliance, using cross-country data. The study used all the African countries as population, upon which sample were selected using multi-stage approach. The findings showed that there is significance negative correlation between tax rate and tax compliance and tax rate has a negative effect on tax compliance. Abdulsalam *et al.*, (2014) correlated tax rate with tax compliance in Africa using cross-country

data. The study adopted multi-stage sampling approach and it was found that the mutual relationship between tax rate and tax compliance is not positive or significant neither does tax rate have an influence on tax compliance. Likewise, Atawodi and Ojeka (2012) researched into factors influencing tax adherence in both small and medium-sized enterprises and it was discovered that high tax rates and complex filing procedures have a positive effect on non-compliance.

3. Data and Methods

The study employed field survey research design approach. The information needed were gathered using research instrument. Data were obtained from primary sources through distribution of questionnaire to obtain information from the respondents on tax regulation and tax compliance in Ondo State. The population of the study consisted of the entire 338 members of staff in Ondo State Internal Revenue as at July, 2019 (ODIRS staff register, 2019). The sample size of the study was 178 senior members of staff of Ondo State Internal Revenue Service (ODIRS) and they were made the focus as they are the one to enforce the tax regulations and as well monitor tax payers' compliance. The sample size was selected using the Purposive Sampling Techniques to select members of staff who are in the senior cadre and have been in the services for minimum of 5years. The selection was done to cover all members of staff in the 40 tax stations of (ODIRS) in the 18 local governments. This comprises the staff of the respective 40 tax stations in the state, in order to enhance the robustness of the work. The summary of the determination sample size is shown in Table 3.

Table 3.1: Summary of Population and Sample Size of the Study

S/No	Local Governments Areas	Population	Sample size
1	Akoko South East	5	3
2	Owo	12	8
3	Akoko South West	10	7
4	Akoko North East	9	6
5	Akoko North West	6	4
6	Ose	6	4
7	Ilaje	6	4
8	Okitipupa	11	7
9	Ese – odo	3	3
10	Ile – oluji / okegbo	6	4
11	Irele	4	2
12	Odigbo	17	10
13	Ifedore	4	2
14	Akure South	200	90
15	Ondo East	7	4
16	Akure North	6	4
17	Ondo West	17	12
18	Idanre	6	4
	Total	338	178

Source: Author's Compilation (2021).

Research Instrument

Designed questionnaire was used for data collection. The questionnaire was grouped into five sections (section A, B, C, D and section E). Section A consists of background information about the respondents while section B consists of questions/statements on tax compliance in Ondo State. Section C consists of questions/statements on tax penalties, section D consists of questions/statements on tax bracket and section E consists of questions/statements on tax audit. This was used to obtain information about respondents' perception in relation to the study. Five-point Likert scale of 5-1. Strongly Agree (5), Agree (4), Undecided (3), Disagree (2) and Strongly Disagree (1) was used. The validation of the instrument was done by adequately considering the relevance of the research work and ambiguous question were avoided so as to ensure uniqueness. A pilot survey research was conducted on a group of respondents to validate the questionnaire and see if their responses are reliable as to meet the requirements of this study and if expected information has been obtained. Reliability tests using Cronbach Alpha tests were performed to determine the reliability of the designed questions. The Cronbach's alpha (α) of the scale used in the research was 0.86 which is far greater than 70%

which is the threshold expected. The result showed a high internal consistency and reliability in the research instrument. Therefore, the percentage of alpha was considered to be reliable enough to proceed with the data analysis.

Model Specification

To test the effect of tax regulation on tax compliance, the model is specified in line with the theoretical framework of deterrence theory of tax compliance. Tax regulations were measured by tax bracket (TB), tax audit (TA), tax penalties (TP). And tax bracket is proxied by income and tax rate; tax penalties were proxied by fines and seizure and tax audit were proxied by tax investigation and tax verification.

$$TC = f(TR)$$

$$TC = f(TP, TB, TA)$$

In order to achieve individual specific objective of the study using stepwise regression, the following models were specified.

$$TC = a + \beta_1 TB + e \dots \dots \dots i$$

$$TC = a + \beta_1 TB + \beta_2 TA + e \dots \dots \dots ii$$

$$TC = a + \beta_1 TB + \beta_2 TA + \beta_3 TP + e \dots \dots \dots iii$$

Where

- TC = Tax compliance
- TR = Tax regulations
- TB = Tax bracket
- TA = Tax audit
- TP = Tax penalties
- e is error term

The data collected in this study were analyzed using descriptive and inferential statistics. Each objective was achieved using regression analysis model to analyse the effect of tax penalties, tax bracket and tax audit on tax compliance through the use of Statistic Packages for Social Sciences (SPSS) version 23.

4. Data Presentation and Discussion of Empirical Findings

Out of the total number of 178 copies of questionnaire distributed to the respondents, the number that was properly filled and retrieved was 171 copies. Background Information given by respondents was presented in table 2. This table explained the social and demographic characteristics of the selected sample of staff in ODIRS. Information on the gender of respondents revealed that, 53% of them were male and 47% of the respondents were female, this indicates that the males are more than the females and for the fact that the margin of difference between male and female respondents are not much, it implies equitable distribution of the questionnaire without bias.

Information on the distributions of respondents by age bracket was classified into seven age brackets and was presented thus: 8 % of the respondents' age fall between 20 to 24 years, 11% were between 25 to 29 years, 21 % of them were between 30 to 34 years, 14% were between 36 to 39 years, 15% were between 40 to 44 years, 14% of them fall between 45 to 49 years, while 18% were 50 years and above. The implication of this result is that respondents' age bracket of 30 to 34 years and 50 and above is more than the rest in the seven categories of respondents' age bracket in Ondo State Internal Revenue Service, the implication is that we have more of young and experienced people in ODIRS that are capable of boosting tax compliance with the skills they have acquired.

Information on the distributions of respondents' educational status revealed that about 72% of the respondents were HND/ BSc degree certificates holders while the remaining 28% were M.Sc. /Ph. D/Professional certificate holders. The implication of this result is that 72% (majority) of Ondo State Internal Revenue Service were HND/B.Sc. holders who have basic understanding of tax matter based on academic background as revealed in the percentage distribution of by educational status. Information on the distributions of respondents by Grade Level were classified into three and is presented thus: 47% of the sampled personnel were in between grade level 8 to10, 36% of them were in between grade level 12 to14 while 17% of the respondents were in between grade level 15 to17 officers. The implication of this result is that 47% of officers were in grade levels 8 to 10. As presented in table 2, years of service were classified into six categories. That is, 38% of the sampled staff had been in the services for 5 - 10 years, 16% had been in the services for 11- 15years, 14% had been in the services for 16 - 20 years while another 12% of them had been in the services for 21- 25years, 9% had been in the services for 26 - 30years and the remaining 11% of the sampled ODIRS staff indicated that

they have been in the services between 31years to 35years. This implies that the larger percentage of the respondents of 38% have spent 5years to 10 years in the service and it is expected that they are with high motivation so as to enforce tax compliance.

Table 2: Demographic Distribution of Respondents Information

S/No	Variables	Classifications of variables	Frequency	Percentage (%)
1	Gender	Male	91	53%
		Female	80	47%
	Total		171	100.0%
2	Age Brackets	20 - 24 years	14	8.0%
		25 - 29 years	19	11.0%
		30 - 34 years	36	21.0%
		35 - 39 years	23	14.0%
		40 - 44 years	25	15.0%
		45 - 49 years	23	14.0%
		50 - Above	31	18.0%
Total		171	100.0%	
3	Educational Status	HND/B.Sc.	123	72.0%
		M.Sc./Ph.D./Professional	48	28.0%
	Total		171	100.0%
4	Grade Level	8 - 11	80	47.0%
		12 - 14	62	36.0%
		15 - 17	29	17.0%
	Total		171	100.0%
5	Number of years in Services	5 - 10 years	65	38.0%
		11 - 15 years	26	16.0%
		16 - 20 years	25	14.0%
		21 - 25 years	20	12.0%
		26 - 30 years	15	9.0%
		31 - 35 years	20	11.0%
Total		171	100.0%	

Source: Author's Computation (2021)

Effects of Tax Regulations on Tax Compliance in Ondo State

A joint effect of tax regulations on tax compliance was looked at by using a step-wise regression analysis, where the variables were incorporated into the regression model one after the other. Tax regulations were measured by tax penalties, tax brackets and tax audit. The result of the stepwise regression was presented in table 3.

Table 3: Effects of Tax Regulations and Tax Compliance in Ondo State

Variables	Measurements	MODEL 1			MODEL 2			MODEL 3		
		Coeff. & Std Error	t-stat & probability	R ² & adjusted R ²	Coeff. & Std Error	t-stat & probability	R ² & adjusted R ²	Coeff. & Std Error	t-stat & probability	R ² & adjusted R ²
Tax Penalties	Fine	0.513045** *	7.838183	0.7064	0.156049* 0.083011		0.195359 **			
	Seizure	0.065455 0.846647** *	0.0000 6.528753	0.7137	0.661361** 0.123325	1.879867	0.670050 ***	2.256256		
Tax bracket	Income	0.129680			0.455574** 0.131862	5.362740	0.135076 0.505947	4.960556		
	Rate				0.420971** 0.117287	3.589236	0.135636 0.488243	3.730193		
Tax Audit	Tax Investigations						0.128909	3.787507		
	Tax Verifications						-	-	0.6019	
							0.132058 0.106700	1.237655 0.0000	0.6103	
							0.053180 0.166209	0.319960 0.1215		

*, **, *** denotes 1%, 5% and 10% level of significance respectively.

Source: Author's Computation (2021)

From table 3, tax penalties as one of the components of tax regulations (measured by fine and seizure) was first inputted into the regression model and named model 1, followed by tax brackets (measured by income and tax rate) into regression model and named model 2, and tax audit (measured by tax verification and tax investigations) was thirdly inputted into the regression model and named model 3. From the result of model 1, fine and seizure which are the two proxies of tax penalties had a significant effect on tax compliance as a unit increase in fine and seizure led to 0.513045 and 0.84667 increases in tax compliance respectively at 1% level of significance as the p- value for the two variables is 0.000. This means that as seizure increases, people tend to comply with tax payment.

This finding supports the findings of Richardson (2008) that examined the effect of tax penalty on tax compliance in Nigeria and found a positive and significant relationship between tax penalty and tax compliance. Likewise, the findings of the study conducted by Fadzilah *et al*, (2017) proved that tax penalties have positive significant effect on SMEs tax compliance. However, the findings of this study contradicted with the findings of Oladipupo and Obazee (2016), who investigated tax penalties and tax compliance among SMEs in Nigeria, they found that tax penalty has insignificant positive impact on tax compliance. The disparity in submission could be linked with differences in the categories of the respondents as their knowledge and perception may differ.

For model 2, it was revealed that a unit increase in tax rate led to 0.746247 in tax compliance showing P- value of 0.000 which indicates that tax rate is statistically significant at 1%. This means that tax rate increases people tendency to conform to tax laws and policies. The value of R² 0.657545 obtained shows that income and tax rate are variables which constitute tax bracket and are factors stimulating tax compliance. Income and tax rate which are the two types of tax brackets have a significant effect on tax compliance in Ondo state. A unit increase in income and tax rate led to 0.455574 and 0.131862 increases on tax compliance respectively and it was statistically significant at 5% level. The coefficient of 0.746247 obtained in tax rate indicated that an increase in tax rate led to 75% improvement in tax compliance in Ondo State. Therefore, effective charge of tax rate based on individual income irrespective of taxable income would reflect the actual state of tax payment as at when due. The Adjusted R² of 0.6656 indicates that the variable jointly explained 66.56% of the variation in the dependent variable with t- stats of 6.405521. This result indicates that a positive relationship exists between tax rate and tax compliance and the effect of tax rate on tax compliance is significant at 1 per cent. The coefficient of 1.072738 obtained in income indicated that a unit rise in income led to 1.727 increase in tax compliance in Ondo State.

This finding does not conform to the result of Atawodi and Ojeka (2012) who found out that high tax rates and complex filing procedures have a positive effect on non-compliance of SMEs. Meanwhile, the result negates the findings of Masud,

Aliyu, Gambo, Al-Quida and Sharari (2014) who examined the effect of tax rate on tax compliance in Africa, the findings showed that there is significant negative correlation between tax rate and tax compliance as tax rate has a negative effect on tax compliance. For model 3, the effects of tax audit on tax compliance were examined and the two proxies for tax audit which are tax verifications and tax investigations have effect on tax compliance.

The regression result indicated that a unit increase in tax verification led to 1.553111 increase in tax compliance and it was statistically significant at 1%. Similarly, tax investigations as component of tax audit shows that tax investigations stimulate tax compliance. The study found that a unit increase in tax investigation led to 0.212316 in tax compliance and it was not statistically significance at 1% level due to the P- value of 0.1215. This means that tax investigation does not increase people's tendency to comply with tax payment.

The value of R^2 0.6019701 as seen from table 3 showed that verification and investigation; variables which constitute Tax audit are factors stimulating tax Compliance. The coefficient of 1.553111 obtained in tax verification indicated that a unit increase in tax verification led to 1.553, increase in tax compliance in Ondo State. Taxpayers, on the other hand, will comply with tax payment if a periodic check, such as an audit, is performed. Tax audits conducted by tax authorities are sufficient to detect tax evasion. Tax officials with integrity can promote the enforcement of tax procedures.

The Adjusted R^2 of 0.613016 indicates that the variables jointly explained 66.56% of the variation in the dependent variable. A unit enhancement in tax verifications and tax verification will decrease tax compliance by 13.2 percent and 5.3 percent significantly implying that tax audit have negative relationship with tax compliance however, the relationship between tax investigations is significant at 5 percent showing p-value of 0.000 while tax verification have no significant effect on tax compliance with p-value of 0.1215. This implies that tax audit measured by tax verifications have no significant effect on tax compliance while tax investigation as components of tax audit from the findings indicated that tax investigations does not stimulate compliance.

5. Conclusion and Recommendations

The study employed concepts related to tax regulations such as tax penalties, tax bracket and tax audit for proper coordination of taxes in the state. These were used as proxies for tax regulation in order to consider their influence on tax compliance. The study applied step wise regression to examine the joint implication of considered tax regulations on tax compliance in Ondo State. Ordinary linear regression was employed to ascertain the effect of individual tax regulations on tax compliance. The two methods were employed so as to establish a robust analysis which led to convincing findings and conclusions in order to arrive at essential and useful recommendations for policy makers in Ondo State. The result of the study showed that among the determining factors of tax compliance, tax regulations have a major influence on tax compliance. Based on the findings and conclusion arrived at in this study, it is obvious that in achieving tax compliance in Ondo State Nigeria, tax regulations cannot be underrated. Therefore, the study concluded that when considering the effect of tax regulations on tax compliance, issues such as tax payer pay fine, seizure, tax income, tax rate and tax investigation are statistically significant.

The study therefore recommends that government through relevant tax authorities should employ more adequate regulations to increase taxpayers' compliance so as to boost its revenue and reduce budget deficits. Specifically, it is recommended that: Ondo State Internal Revenue Service should impose more strict fines and penalties on non-complying citizens and upgrade their staff compliance officers to boost the efficiency of the agency; In order to achieve tax cannon of equity in the state, the legislative arm of government should ensure that tax bracket should be made fair enough to bridge the gap between the rich and the poor and the state government should make judicious use of the tax revenue to justify high tax rate being charged and instill taxpayers confidence in government; Ondo State Internal Revenue Service should subject taxpayers filing process to more frequent inspections so as to curb tax evasion and avoidance and bring more citizens into the tax bracket.

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