



**TAX DETERMINANTS TOWARDS SELF ASSESSMENT
SYSTEM: THE CASE OF CORPORATE TAXPAYERS
IN NIGERIA**

BY

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**A dissertation submitted in fulfilment of the requirement for
the degree of Master of Science (Accounting)**

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ABSTRACT

The self-assessment system is a tax administration system that encourages voluntarily compliance. This system gives corporate taxpayers the ability to calculate their tax liabilities in accordance with the law. The objectives of this study are to examine the determinant the factors that influence corporate taxpayers' on compliance behaviour. A survey method was used in the study, questionnaires were distributed to 196 public listed companies in Nigeria and 83 of the questionnaires were returned. Multiple regression was conducted to achieve the objective of the survey. The findings in the study reveal that in Nigeria corporate taxpayers' have knowledge on SAS, they are aware of their responsibilities as taxpayers and the responsibilities of the FIRS. In addition, the results depicted a negative and significant influence between awareness of SAS, SAS responsibility, compliance responsibility, payment compliance and audit functions and compliance behaviour. The study has several contributions, firstly, it contribute to the literature on tax compliance studies. Secondly, it reveals the attitudes of corporate taxpayers in Nigeria towards their compliance behaviour. Finally, it is hoped that the study would be able to assist the tax authority in providing more programmes that would enhance its awareness campaign on SAS particularly in Nigeria.

ملخص البحث

إن نظام تقييم الذات، هو نظام الإدارة الضريبية التي تشجع طوعا الامتثال. فإن هذا النظام يعطي دافعي الضرائب للشركات، القدرة على حساب الالتزامات الضريبية وفقا للقانون. لذا، فإن الهدف من هذه الدراسة، هو دراسة تأثير موقف دافعي ضرائب الشركات على سلوك عدم الامتثال، و تحديد العوامل التي تؤثر في السلوك نفسه. تم استخدام المنهج الاستقرائي في هذه الدراسة، حيث وزعت 196 إستبانة للشركات المحلية في نيجيريا، وأعيدت 83 من الاستبانات. وقد استخدم الباحث منهج ارتداد متعدد، وتحليل مستقل المسمى ب(ت-تست) لتحقيق أهداف هذه الدراسة. توصلت الدراسة إلى أن دافعي الضرائب في نيجيريا، كانوا على بينة عن مسؤولياتهم ومسؤولية فرست. إضافة إلى ذلك، كشفت الدراسة أن الفرق بين تلك الشركات -المعنية بالدراسة- ضئيل في سلوك ، وفي العوامل التي تؤثر على عدم امتثال الشركات، مثل حجم الشركة، ونوع الصناعة، وموقع الشركة.وقد أسهمت الدراسة في عدة نقاط. أولا: أضافت الجديد إلى الدراسات الموجودة في مجال امتثال الضرائب.و ثانيا، بينت الدراسة مواقف دافعي ضرائب للشركات في نيجيريا نحو امتثال السلوك. وأخيراً، يرجى أن تكون هذه الدراسة، قادرة على مساعدة مسؤولي الضرائب في توفير المزيد من البرامج التي من شأنها تعزيز حملتها التوعوية حول نظام تقييم الذات في مجال الضرائب، لا سيما في نيجيريا.

APPROVAL PAGE

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DECLARATION

I hereby declare that this dissertation is the result of my own investigation, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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LIST OF ABBREVIATION

CITA	Company Income Tax Act
CBN	Central Bank of Nigeria
CMB	Capital Market Bulletin
CATA	Commonwealth Association of Tax Administrators
ETA	Education Tax Act
FIRS	Federal Inland Revenue Service
FDEU	Filing and Debt Enforcement Unit
FOG	Field Operation Group
NSE	Nigerian Stock Exchange
NITDA	National Information Technology Development Act
OAS	Official Assessment System
OECD	Organisation for Economic Cooperation and Development
PITA	Personal Income Tax Act
PPTA	Petroleum Profit Tax Act
RAU	Risk Assessment Unit
RPP	Return Payment Processing
SAS	Self Assessment System
SA	Situation Awareness
SBIR	State Board of Inland Revenue
TIN	Tax Identification Number
TAPPD	Tax Audit Policies and Programmes Department
TSPPPD	Taxpayers Service Policies, Processes and Programmes Department
VATA	Value Added Tax Act

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Every government is expected to perform various functions, some of which are the day to day general administration, maintenance of law and order, and to provide essential services to the people. The government is also concerned with the formation and implementation of the socio-economic programmes aimed at promoting the welfare of its citizens (Omoigui, 2007). In discharging these duties, government need fund and taxes formed part of the sources through which governments generate its revenue. Therefore, taxation has been a common phenomenon all over the world (Reckers, Sanders, & Roark, 1994). In fact, it was observed that an effective tax system provides more revenue for government in order to meet its essential developmental programmes (Fjeldstad, 2013).

In order to improve the level of tax compliance, many tax jurisdictions now rely on the self-assessment system (SAS) as a major means of tax collection. This has become a modern tax administration trend because it is a measure of how up-to-date a tax authority is (Sarker, 2003). By way of definition, SAS is a tax system whereby the taxpayer is given the right by law to assess him/herself and file in accurate tax returns (FIRS, 2012a). In addition to improving the level of compliance, SAS in most countries is also implemented to better the tax administration system and eliminate disputes, reduce workload involved in the official assessment system (OAS) (CATA, 2003). SAS is therefore meant to encourage voluntary compliance.

However, the system puts more responsibilities on the taxpayers. The taxpayers are now required under SAS to have adequate understanding of the tax laws and the changes in those laws (Choong, 2009; Loo, McKerchar, & Hansford, 2010). Also the taxpayers are required to keep adequate records of their transaction, compute their tax liabilities and remit the taxes to the tax authority. In addition, taxpayers should provide necessary assistance to the tax auditors during the tax audit.

The benefits derived from the self-assessment system could be for both the taxpayer and tax authority (Choong, 2009). SAS enables taxpayers to plan their own tax affairs and cash management with regard to payment of the tax. It takes them away from the imposing nature of the official assessment system and the objections and disputes that arise from the official assessment system (CATA, 2003). It also encourages the taxpayer to maintain good records which enables the taxpayer to know the exact performance of the business affairs and give proper estimates of the business so as to pay fair and realistic taxes (CATA, 2003; Doran 2009). On the other hand, the SAS eventually reduces the administrative costs of the tax authorities aided by modern technology (Doran, 2009).

Generally, the adoption of self-assessment principles reflects a desire to move away from in-house administrative assessment procedures in favour of more comprehensive and targeted approaches. SAS provides a systemic verification of reported tax liabilities through risk-based desk, field audits and computerised matching of income reports (CATA, 2003). In countries where SAS has been adopted, it has generally been initiated with the objective of improving overall compliance. The system also increases operational efficiency by collection of tax revenue on time, streamlining the system of returns processing and reducing the incidence of disputed assessment (Choong, 2009).

In Nigeria, the self-assessment system was proposed in 1992 by the Federal Inland Revenue Service (FIRS) following the enactment of the appropriate law in 1991. The FIRS Board exercise of the powers conferred on it by Section 61 of the Federal Inland Revenue Service (Establishment) Act 2007 and with the approval of the Minister of Finance gazetted a Regulation dated 19 December 2011 modifying the processes and procedures for self-assessment returns. The Regulations cover tax returns under the Companies Income Tax Act (CITA), Education Tax Act (ETA), Petroleum Profit Tax Act (PPTA), Personal Income Tax Act (PITA), National Information Technology Development Act (NITDA), and Value Added Tax Act (VATA) (FIRS, 2012a).

Despite the long aged of the implementation of SAS in Nigeria, empirical studies in this respect are limited. However, there is a need to determine the level of tax compliance among the corporate taxpayers in Nigeria, given the low level of SAS awareness among this group of taxpayers. This study therefore, examine the determinant factors that influence corporate taxpayers' compliance behaviour under SAS in Nigeria.

1.2 RESEARCH PROBLEM

The implementation of SAS, involves a substantial shift in accountability onto taxpayers in terms of their compliance obligations. The taxpayers are required to determine and compute the taxable income, compute the tax liability and submit their tax returns based on tax laws, policy statements and guidelines issued by the tax authority (Sarker, 2003).

The self-assessment tax was proposed into the Nigeria tax system in 1992 by the Finance Miscellaneous Taxation Decree No 2 of 1991 which empowered

companies to self-assess. However, the system was only implemented in December, 2011, which is almost after 20 years of its introduction (FIRS 2012a; Aimurie 2013). In a workshop organized by FIRS for taxpayers, Director of FIRS pledged to continue their effort in educating taxpayers on SAS and other tax programmes in the country (FIRS, 2008). As a result of those educational programmes that have been conducted during such a long period, probably, taxpayers should have knowledge on SAS and should be aware of their responsibilities and the responsibilities of the tax authority under the system.

As such, the study intends to examine the determinant the factors that influence corporate taxpayers' on compliance behaviour. These determinant factors include knowledge on SAS, the level of awareness of taxpayers' responsibilities and to find out corporate taxpayers' awareness of the responsibilities of the Federal Inland Revenue Service (FIRS) the authority responsible for tax administration in Nigeria.

1.3 OBJECTIVE OF THE STUDY

Based on the research problem discussed above, this study aims to explore on the determinant factors that influence corporate taxpayers' compliance behaviour under the self-assessment system in Nigeria. Therefore the aim and subsidiary objectives of this thesis are:

RO1: To examine the relationship between corporate taxpayers' knowledge on SAS and compliance behaviour.

RO2: To assess the relationship between corporate taxpayers' awareness of their responsibilities under SAS and compliance behaviour.

RO3: To examine the relationship between corporate taxpayers awareness on the responsibilities of the tax authority under SAS and compliance behaviour.

1.4 RESEARCH QUESTIONS

RQ1: How do corporate taxpayers' knowledge on SAS influence compliance behaviour?

RQ2: How do corporate taxpayers' awareness of their responsibilities under SAS influence compliance behaviour?

RQ3: How do corporate taxpayers' awareness of the responsibilities of the tax authority under SAS influence compliance behaviour?

1.5 SIGNIFICANCE OF THE STUDY

The research is expected to contribute to the literature on compliance behaviour under SAS and thereby increase the limited literature internationally and Nigeria in particular. For examples prior literatures such as Palil (2010), Loo et al. (2010), Saad (2010), Mohammed et al. (2010) and Choong (2011) examined the individual taxpayers on compliance behaviour under SAS but this research examines the corporate taxpayers compliance behaviour under SAS. In Nigeria, this is the first research that examines the determinants factors that influence corporate taxpayers under SAS. Previous research such as Alabede et al. (2011) and Tukur & Onyegbule (2011) studied the attitudes of individual taxpayer in Nigeria.

Furthermore, the variables used in this study are the attitude of corporate taxpayers such as knowledge of SAS, tax responsibility and tax authority responsibility. The tax authority responsibility as one of the variables used in this study, that has not much literature on the area. These compliance variables are different from other studies of corporate taxpayers under SAS, for instance the studies of Abdul-Jabbar (2009), Sapiei (2009) and Isa (2012). In terms of methodology, the

study uses the quantitative method approach with the public listed companies serving as the targeted respondents.

In answering the research questions and fulfilling the objectives of the study, more light would be shed on the tax compliance determinants factors such as corporate taxpayers' knowledge and awareness of the self-assessment system in Nigeria. The information derived from the corporate taxpayers from the result of the study would assist the tax authority to understand the corporate taxpayers' attitudes and find a better ways to improve on the shortcomings. Tax practitioners would also benefit from this study as the level of tax knowledge of corporate taxpayers and the level of their awareness of the responsibilities of FIRS would be highlighted.

1.6 STRUCTURE OF THE STUDY

The remaining of this dissertation is organized into seven major chapters. The next chapter summarizes the literature review that entails the self-assessment system, and the determinant factors that influence compliance behaviour. Chapter 3 discusses the evolution of Nigerian tax system. Chapter 4 discusses the theoretical framework and hypotheses development. Chapter 5 elaborate on the research methodology. The results and discussion of the study are presented in Chapter 6. Finally, Chapter 7 summarizes the findings, highlights the limitations of the study and suggests directions for future research.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

Given the need to elaborate on the background, objective, significance of the study and the research problem as discussed in the previous chapter. This chapter reviewed the related literature on tax compliance behaviour in 2.2. Literature on the self-assessment system in 2.3, 2.3.1 is on SAS and voluntary compliance, 2.3.2 discusses implication of SAS and benefit of SAS were discussed in 2.3.3. The discussions on the factors that affect tax compliance under SAS is on 2.4, as much emphasis was based on the variables in the study tax knowledge on 2.4.1, corporate taxpayers responsibility 2.4.2 and tax authority responsibility is on 2.4.3. 2.5 summarised the chapter.

2.2 TAX COMPLIANCE BEHAVIOR

Tax compliance behaviour has been defined as an attitude and extend in which the taxpayers judiciously comply with the relevant tax laws (James & Alley, 2004). The relevant tax laws include the obligation on taxpayers to accurately declare their true income and pay the taxes as at when due (OECD, 2004). However, any act from the taxpayers not to meet its obligation is a form of non-compliance for instance not accurately paying the amount of taxes due.

Tax compliance behaviour and the influences on corporate taxpayers would assist the tax authority to understand taxpayers better (OECD, 2010). Taxpayers have different attitude, society and background in different countries and that can affect

their compliance behavior. Alabede, Ariffin, & Idris (2011) stress that diverse ethnic groups in Nigeria have significant differences on the impact in compliance behavior.

However, Saad (2010) indicated that taxpayers' belief in SAS as fair and have more influence on attitude rather than compliance behavior. Prior studies have shown that taxpayers in different geographical location have different attitudes toward tax compliance. Policy makers need to understand this when making or legislating tax laws and policies on taxpayers.

However, non-compliance behaviour is been defined to as when taxpayers are not fulfilling their obligations as taxpayers, they seem to not be complying (OECD, 2004). The obligations of taxpayers are to calculate accurate tax liabilities and make payment as at when due among others. Kirchler et al. (2006) argued that taxpaying the accurate taxes but not on a timely basis is associated with non-compliance behaviour. Non-compliance behaviour is a serious offence because the tax authorities lose revenue that is more reason penalty is given to tax defaulters. Non-compliance is a form of tax avoidance or even tax evasion. Tax authorities are furious on taxpayers that do not comply. This justifies why tax penalty should be enforced to those defaulter to serve as a warning to others.

Taxpayers must be encouraged to comply with the due date of filing otherwise penalties shall be imposed for late filing. A penalty is imposed on taxpayers who intentionally refused to abide by their civic responsibility of fulfilling their tax obligations. In Nigeria, the audit official of the FIRS has setup a mechanism to ensure taxpayers do comply with their obligations. The administrative officers review the returns by utilizing the filing and assessment compliance register, return and payment processing (RPP) should update the register with the details of taxpayer on or before the due date while a copy is sent to filing and debt enforcement unit (FDAEU) to

extract the names of non-compliant taxpayers for the enforcement of action as in the case of Nigeria. Alm et al. (2010) noted that uncertainty plays a vital role in reducing both filing and reporting compliance of the taxpayer. And also tax authorities should impose penalties on frequent tax defaulters.

2.3 SELF-ASSESSMENT SYSTEM

Self-assessment system as defined by the Federal Inland Revenue Service (FIRS) is a tax system that allows taxpayers the privilege of calculating their tax liabilities (FIRS 2006). The SAS was introduced in Nigeria by the FIRS and it is responsible to ensure effective and efficient administration of the system. In order, to have a successful self-assessment system, tax administration needs to be efficient and effective. Sarker (2003) noted that the success or failure of the self-assessment system rely heavily on the tax administration. Therefore, SAS would be more effective if tax authorities have a well-structured mechanism such as programmes to educate taxpayers and tax audit to ensure successful self-assessment system.

On the other hand, properly implementation self-assessment system would give satisfaction to the tax officials because a lot of paper work and time taken to process returns and tax refund would be eliminated (Palil, 2010). The reason for satisfaction of tax official is that, prior to the introduction of SAS there were a lot of paperwork and time taken to process taxpayers' returns which led to high compliance cost or cost of administration in the process. Abdul Jabbar (2009) found that the implementation of SAS has reduced administrative cost. The implementation of SAS in Nigeria also may possibly reduce the administrative cost from the tax authority's perspective. In this context, the FIRS have a vital role to play to ensure successful administration of the system in Nigeria.

2.3.1 Voluntary Compliance and Self assessment System

Voluntary compliance is a compliance system that allows the taxpayers to willingly adhere to tax law and importantly compute their tax liability and make payment accurately in accordance of the tax laws (Slemrod 1998). On the other hand, SAS gives taxpayers the right by law to voluntarily comply with their civic responsibilities (Slemrod 1998; FIRS 2012a). The purpose of SAS is to encourage voluntary compliance and ensure that the taxpayer takes responsibility for his/her assessment (Choong, 2009; Loo et al., 2010; FIRS, 2012a; Isa, 2012). The aim of SAS is not restricted to voluntary compliance alone. Isa (2012) extended the objectives of SAS to be driven by reduction in administrative costs and simplifying the assessment system. Voluntary compliance under SAS is also referred to as for taxpayers to intentionally adhere to their tax obligations. Moreover, taxpayers are expected to intentionally comply with their tax responsibilities in accordance with the tax laws as specified. According to FIRS (2012a) various functions of the self-assessment system were specified as follows:

Firstly, the taxpayer is given the privilege to accurately compute his/her tax liabilities, pay tax due and file self-assessed return (i.e. on or before the due date that is 6 months after accounting date or 18 months for new companies whichever comes first). Secondly, to ensure that tax officers accept the tax returns filed, and ensure all procedures are followed. Thirdly, where the taxpayer did not adhere to his/her responsibilities, sanction is immediately applied. Fourthly, defaulters are subjected to administrative assessments based on the financial information and other sources obtained from the taxpayer with the appropriate penalties effective from the time the return was initially due. Finally, SAS relies heavily on post-filing controls such as risk-based audits and collection enforcement measures. These functions, as specified

by FIRS are to ensure voluntary compliance. More activities in achieving voluntary compliance can also be illustrated in the SAS process flow chart.

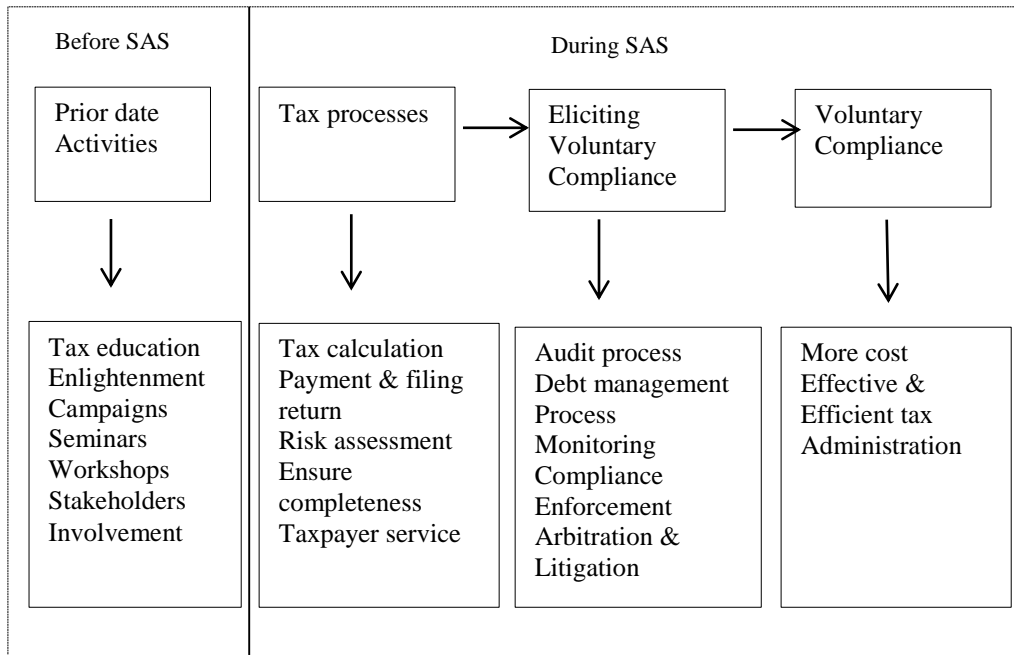


Figure 2.1 Process Voluntary Compliance Flow Chart
Source: Adopted from Tukur & Onyegbule (2011).

From the above figure, the process of voluntary compliance indicated the activities involve in ensuring tax compliance. Prior to the implementation of SAS, the tax authority is expected to educate taxpayers, organized campaigns, seminars, workshops to enlighten the taxpayers on SAS. These would give the taxpayers' knowledge on how to compute their tax liabilities and ensure payment on a timely basis. Where the taxpayers failed to voluntarily comply, audit processes would be applied to enforce compliance. However, if the taxpayers have voluntarily complied, it would lead to an effective tax administration. Therefore, tax authority's role to ensure taxpayers' are educated and informed on the procedure of SAS in all stages is