



UNDERSTANDING SELF ASSESSMENT SCHEME AND TAX COMPLIANCE IN NIGERIA

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Abstract

The aim of this study was to examine the relationship between self-assessment and Tax Compliance in Nigeria. Research questions and hypotheses were developed to elicit responses from respondents. The population of the study comprises small and medium scale enterprises in Port Harcourt. Descriptive survey of ex-post facto was adopted in our segmentation of respondents in Port Harcourt metropolis. The Spearman Rank order Correlation Coefficient data technique was used to analyse the data through statistical Package for Social Sciences Software SPSS version 20. The result shows that all the null hypotheses were rejected and the alternate accepted. The study concludes that the introduction of self-assessment scheme into the Nigerian Tax System has encouraged enormous compliance from individual tax payers in Rivers State.

Keyword: Self-Assessment, Tax and Compliance.

1. Introduction

The principal objective necessitating the crafting of self-assessment tax scheme in Nigeria is to ensure that all tax payers within a defined tax jurisdiction are brought into the tax net. Self-assessment is designed by the Federal Inland Revenue Service, as a measure to encourage compliance from taxpayers and make tax payments convenient; stimulate correct assessment and plug all possible leakages for effective revenue generation.

There is no doubt that compliance is a major problem confronting all revenue authorities. For instance, in the USA, the Internal Revenue Service has gone through considerable trouble to estimate the amounts of tax revenue, which are not collected under the American system of self-assessment. One measure is the 'net tax gap.' This is the difference between 'true'



individual income tax liability and that finally collected on a voluntary basis or by enforcement action. In Nigeria the case is not different; the introduction of self-assessment scheme is born out of the obvious intention of trying to encourage voluntary compliance and to further reduce the rate of tax evasion (Kiabel and Nwokah, 2009): Scholars identified audit rate, tax rate, net tax gap and other factors as tools used in the enhancement of self-assessment and tax compliance. Klepper et al (1989), posited that taxpayers are amoral economic evaders who would assess the likely costs and benefits of evasion behavior compared to those of compliance. They went further to identify these costs and benefits to be associated with the tax rate, audit rate (i.e. percentage of returns subject to audit), the probability of returns of detection and the penalties for non-compliance. However, findings on the effect of each of these factors generally lack consistency. In the works of Andreoni, Erard and Feinstein (1998), they included time dimension to compliance but are still mainly concerned with tax evasion as the central part of the tax gap explanation.

The Nigerian Self-assessment tax scheme is a system of tax administration whereby the tax payer is granted the right, by law, to compute accurately his tax liability, pays the tax due (at the designated bank) and produces evidence of tax paid at the time of filing his tax return at the tax office on due date. The tax authority has the responsibilities of enablement to check on the tax payers to ensure compliance with tax administration process. The law provides the tax payers with the burden of filing tax returns, while the tax authority ensures compliance enforcement activities at the right (correct) amount of tax due is paid at the right time, and if otherwise to strictly apply sanctions as provided by the tax laws. Self-assessment method of tax payment requires tax payers to understand the tax system and procedures, possess adequate tax knowledge, to be aware of their compliance obligations, (Malik 2010).

It is over a decade since the introduction of self-assessment scheme into the Nigerian tax law. In Nigeria, self-assessment scheme runs concurrently with government assessment system yet the level of voluntary compliance is unfathomable. This poses a challenge for this research. However, whether the effort by the Federal Inland Revenue Service has yielded the desired result or not, is the fundamental question that this study seeks to answer. Experience has shown that scholars have not really done much on this area; that is, investigating the effects of self-



assessment on tax compliance in Nigeria, using small scale enterprises (SMEs), perhaps because it is an emerging area in the country's tax law. Again, the measures of tax compliance adopted in this research work are also new to the Nigeria environment but are in use in the develop nations. It is pertinent to note that scholars have used tax compliance measures such as audit rate, tax rate, tax knowledge, behavioral attitude, etc to investigate self-assessment and tax compliance in Nigeria but for this study, new measures of tax compliance deduced from the work of Brown and Mazur (2005) were adopted. Thus, the study seeks to fill the existing knowledge gap.

Objectives of the Study

The objectives of the study are listed below

- i. To investigate the relationship between filling tax returns and reporting compliance amongst small scale enterprises in Port Harcourt.
- ii. To investigate the relationship between filling tax returns and payment compliance amongst small scale enterprises in Port Harcourt.
- iii. To investigate relationship between filling tax returns and evasion penalty and enforcement.

2.0. What is Self-Assessment Scheme?

Self-assessment implementation has greatly increased collection due to the fact that returns are filed with evidence of payment, while filing of returns has also greatly increased because of enablement given to taxpayers by the tax authority.

The self-assessment system guarantees payment of taxes due on due date in concurrence with filing of tax returns thus ending the era of bogus "best of judgment assessments", reduced the accumulation of uncollectable arrears and builds mutual trust/ effective partnership of taxpayers and tax officers. The basic feature of a self-assessment scheme (SAS) is that it is the taxpayer rather than the tax authority that is responsible for the assessment of tax liability. Sarker, (2003), identified that a self-assessment system (SAS) has distinct merits compared to an official assessment system and the merits include; (i) it is more cost effective as it only selects



exceptional cases for further scrutiny. (ii) Eliminates the administrative nature of assessment work. (iii) Encourages an early and timely collection of taxes and (iv) Reduces corruption by reducing contacts with taxpayers.

He further posits that self-assessment system (SAS) can be effectively implemented if certain critical factors are considered. These factors include; (i) the process of deciding which tax returns should be audited. Taxpayers, who may not be selected for an audit, would be motivated to cheat. A deficient process will also reduce compliance. Under SAS, noncompliance should be dealt with justly and swiftly to encourage the majority of taxpayers to comply. In order to detect fraud or non-compliance, taxpayer data is important and this requires a certain level of computerization. In its absence, it would be extremely difficult to maintain compliance in a SAS; the educational level of taxpayers is crucial in determining whether the SAS will work effectively.

Malik, (2010) further grouped self-assessment tax regime into two components: enablement and compliance enforcement. A Myriad of features are derivable from this broad categorization, bearing in mind that the driving force is that the taxpayer bears the burden of computing and paying the tax due.

Tyler (1997) argues that, understanding what people want in a legal procedure help to explain public dissatisfaction with the law and points towards directions of building public support for the law in the future. Therefore, taxpayers, when they are treated fairly and respectfully by the tax authorities, tend to cooperate better. Another perspective admits the relationship between the taxpayer and the government, where elements such as government performance, public goods, the impact of public expenditure, and the taxpayer's internal motivation affect tax compliance decisions. Taxpayers will refuse to pay their taxes if they feel that the government is wasting their money. This is to connect the performance of the government with the satisfaction of the taxpayer.



2.1 Nature of Self-Assessment in Nigeria

The Constitution of the Federal Republic of Nigeria has provided a leeway for implementation of self-assessment, in section 24 (f), it was stated as follows:-”that it shall be the duty of every citizen to declare his income honestly to appropriate and lawful agencies and pay his tax promptly”

The self-assessment tax system was introduced in the Nigerian tax laws in 1991 with operational effect in 1992 and initially restricted to a threshold of taxpayers and extended to the rest in 1998. However, it was not until 2011 that its implementation became effective, through a Project based system.

The Nigerian self-assessment system requires that: The taxpayer accurately calculate his tax liability, pay the tax due at designated bank to collect e-ticket and file self-assessment return on or before the statutory(due) date for filing such tax return; Tax returns are accepted, by the tax authority, as filed, subject to on-the-spot simple checks to ensure that tax return forms are correctly completed.

The returns are later subjected to further administrative processing including risk assessment of all tax returns and audit, where necessary, determined by risk-based case selection; Where the taxpayer fails to meet his obligations, late returns penalty and interest imposed, as the case may be.

The tax authority exercises its right under the law by issuing administrative assessments on taxpayers who fail to file tax returns on due date. Information for such assessments are obtained by an on the spot audit of the taxpayer’s records and from third-party sources.

It is noted that ahead of due dates for filing tax returns, taxpayers are reminded about their obligation to file and pay taxes due.

The Tax Authority relies heavily on post-filing controls such as risk-based audits, collection enforcement measures, et cetera to elicit compliance. The filing and payment requirements of the different tax types are discussed as follows;- Taxpayers filing petroleum profits tax returns



are expected to do so not later than five months after accounting year end; In the case of companies income tax, returns are due within six months of accounting year end; Tax returns for value added tax are due for filing within twenty-one days following the month in which the transaction was made; and Individuals filing personal income tax returns do so on the thirty-first of March each year.

The Federal Inland Revenue Service in its efforts to make compliance easier for taxpayers and make tax payments convenient for them and for ease of administration, integrated its tax offices from 2005 and segmented them to date as follows: Large taxpayer offices, oil/gas and non-oil); for companies with 1billion turnover and above; Medium taxpayer offices; for companies with 200 million to 999million turnover; Micro and small taxpayers offices; for companies with less than 200 million turnover, and Individual and enterprise offices. For; Residents of FCT. Armed Forces, Nigeria Police and Foreign residents Taxpayer segmentation guide the taxpayers to identify the relevant offices to file their respective tax returns and for the Tax Authority to tailor taxpayer education according to the needs of the specific taxpayer groups.

The various tax laws which the Tax Authorities operate for various tax types being administered all contained provisions for the Self-assessment Tax System. Hence, all taxpayer segments file their tax returns in line with self-assessment system requirements.

A summary of the legislation guiding the implementation of the self-assessment system in Nigeria are summarized as follows: Constitution of the Federal Republic of Nigeria; Federal Inland Revenue Service (establishment) Act 2007; Tax Administration (Self-assessment) Regulations, 2011; Company Income Tax Act 2007 (Sections 52 (2)and 53); Personal Income Tax Act 2011(Sections 41 and 44); Petroleum Profit Tax Act 2007(Section 30); Value Added Tax Act 2007 (Sections 15 and 16).

The Laws listed above are contained in the Laws of Federation Nigeria (LFN) Revised Edition (Laws of the Federation of Nigeria) Act 2004 Updated to 31st Day of December 2010. The implementation of self-assessment tax system as re-invigorated since 2011 has brought about changes that resulted from a re-designed work-flow processes, which gave the taxpayer his full



right to assess himself/herself, eliminated the 100% examination of tax returns that was hitherto in practice now replaced by risk based case selection for audit, the self-assessment Regulations gazetted on December, 2011 has strengthened and clarified existing provision in the tax laws. These efforts have positively impacted on tax administration in the following ways:

Man-hours spent on issuance of assessment notices and associated human activities which culminated in misplacement of files, challenges of whether assessment notices were issued or not, delays in service of notices of assessment have reduced; Disputes arising from issuance of inappropriate notices and its associated cost of litigation have reduced; Taxpayers now see themselves as key stakeholders in the determination of their tax liabilities; Imposition of frivolous best-of-judgment assessments without recourse to taxpayer's books has reduced tax arrears; Tax authority now focuses more on tax returns that will yield optimum revenue.

There are adequate provisions for sanctions in the extant tax laws to address any form of breach of laws or non-compliance with the provisions of the law; particularly false declarations or deliberate attempts to reduce liability to tax under the Self-Assessment System.

The sanctions include: rejection of tax returns and recourse to administrative assessment and imposition of additional tax. The additional tax is imposed on the basis of information derived from taxpayer's records and third parties; Fine or imprisonment or both fine and imprisonment; Interest shall be charged for the amount of tax under-declared with effect from the date when the liability became due; and Principal Officers of the company stand the risk of being imprisoned as individuals for failure to ensure compliance (Vanguard, Jun 25, 2012).

2.2 Types of Tax Compliance

Discussing nature and scope of tax compliance in Nigeria is simply a discussion on the willingness of individual, corporate bodies etc, to comply with rules regulating the payment of tax and actual payment of tax liability, since tax compliance is the willingness of individuals to comply with relevant tax authorities by paying their taxes. Sarker (2003) also reported that tax compliance is the degree to which a taxpayer complies (or fails to comply) with the tax rules of



his country. Brown and Mazur (2005) noted three distinct types of compliance; payment compliance (timely payment of all obligations), filing compliance (the timely filing of any required return), and reporting compliance (the accurate reporting of income and of tax liability). This study is built on Brown and Mazur (2005) compliance model.

Tax compliance can be achieved through the application of public relations, tax education, tax consultation and guidance and examination. Tax Public Relation: the purpose of public relations is to build a tax conscious environment not only among taxpayers but also among the public including latent taxpayers, and can be categorized as the need to enhance tax compliance; diffuse and enhance public knowledge of taxation; improve mutual understanding and trust between taxpayers and tax authorities and obtain the understanding and cooperation from mass-media for tax administration (Sarker, 2003). Tax education is one of the strategies used by the relevant tax authorities to ensure tax compliance. According to Ola (2001), the tax authority is cognizant of the fact that taxpayers cannot comply with the laws unless they know and understand what is expected of them. To this end, the Inland Revenue Service provides assistance and publications to help taxpayers to fill their returns. Tax counseling also assist taxpayers in matters related to tax and encourage the voluntary submission of accurate tax returns and payment of taxes. Generally, tax counseling offices provide advice on the interpretation and application of tax laws, procedures for filing returns and applications. etc (Sarker, 2003). In order to enhance taxpayer compliance so that they voluntarily file tax returns and pay taxes appropriately, the tax administration provides individuals and groups with guidance on how to improve bookkeeping standards and tax returns. Tax Recognition and Prizes is an important strategy that can be used to achieve tax compliance. Tax officials and taxpayers should be recognized and rewarded to ensure that they work very hard as tax officials and comply with tax laws as taxpayers.

2.2.1 Tax Compliance in Nigeria

The Chartered Institute of Taxation (CITN) has bemoaned the low level of tax compliance in Nigeria, urging government to adopt measures that would enhance participation.



According to the President of the institute, DrOlatejuSomorin, there was need for government to embark on aggressive tax enlightenment campaign to boost compliance.

Somorin, who spoke during the institute’s 2015 yearly general meeting, held in Lagos, said: “The level of tax compliance in Nigeria is very low. I must confess, that I am not happy with the level of tax compliance in Nigeria. “So we need to do more in this area by way of tax education to enlighten people why they need to pay tax and those that keep the tax, ensure they spend the tax judiciously so that those that they are calling upon to pay tax will be able to do it willingly. In the area of tax compliance, we need to do more”.

Nigeria should move away from the era of tax enforcement and move to the era of compliance. Government should be tax friendly. It is when they are tax friendly that citizen will take tax seriously. So government will do its own parts, while tax payers will do their own part,” she added.

The President explained that the institute would continue to observe developments in the Nigerian tax system. She flayed indiscriminate calls for taxes and levies by state authorities in an attempt to shore up internally generated revenue (The Guardian, 06 June, 2016).

2.2.2 Reasons for a low or zero tax compliance

Complexity

Taxation has supposedly become easier over the years with digitization, but regardless of these simplifications, a lot still impede the taxpayer’s experience. The potential taxpayer fills forms, then takes it to the bank where there is mostly a network/internet related problem.

This graph is enough pointer to the fact that complexities still abound in the revitalized tax payment systems.



Cost

Tax compliance is a not too expensive venture, but many businesses do not know this and cannot relate with the cost. Accounting Hub charges between **₦20,000** to **₦30,000** monthly to file taxes; a good rate, but one that some small businesses may still not be able to afford.

This charge is for the nominal tax compliance procedure, after a major tax related brush, an external auditor will be needed to mediate with the government. The cost for getting this is prohibitive and dependent on how much is involved.

For a small business generating zero to minimal revenue and running lean, all these recurrent expenditures can sometimes be impossible to squeeze into a budget.

Ignorance

There are a myriad of problems that classified under this particular class; a lack of information is one of the major reasons small businesses in Nigeria do not pay taxes. Ninety percent of the startup and small business owners interviewed did not have the slightest inkling on what taxation for them entails.

There have been multiple reports of unhelpful officials at the tax offices. As much as everybody is expected to research and be abreast of the relevant laws relating to taxation, the onus lies on the tax authorities to set the ball rolling.

Unpatriotism

A lack of a sense of civic responsibility can be a reason for non-payment of taxes. A startup founder explained in very strong words how he cannot remit **₦1** of his money to the Nigerian government because in his own words, the government has not done anything for him or his country.

This particular threw aside suggestions that the government cannot do something for everybody, even the projects that will be executed will come directly from the taxpayers' purse. On the other hand, non-payment of tax is against the law of any country and it is unadvisable to start an entrepreneurial career on the wrong side of the law.



2.3 Penalties for defaulting on tax

There are various penalties for not paying tax, every single tax evaded carries its own punishment. Generally, under Section 66 of the Federal Inland Revenue Service's Companies Income Tax Act tax collectors the power to seize/auction off the goods and even premises of defaulting taxpayers to recover monies owed.

So it is perfectly legal for the authorities to seize assets if taxes are default on; it is the law.

Section 40 of the 2006 Federal Inland Revenue Service Act deals with 'Failure to deduct or remit tax' and states that;

Any person who being obliged to deduct any tax under this Act or the laws listed in the First Schedule to this Act, but fails to deduct, or having deducted fails to pay to the Service within 30 days from the date the amount was deducted or the time the duty to deduct arose, commits an offence, and upon conviction be liable to pay the tax withheld or not remitted in addition to a penalty if 10 percent of the tax withheld or not remitted per annum at the prevailing Central Bank of Nigeria minimum re-discount rate and imprisonment for a period of more than 3 years.

2.4 Previous Studies

Several scholars have argued that the A-S models based on the deterrence theory, explains the concept, tax compliance. The theory states that the taxpayer is assumed to maximize the expected utilities of the tax evasion gamble, balancing that benefits of successful tax cheating against the risky prospect of being caught and punished by tax authorities (Sandmo, 2005).

Alabede et al (2011) stated that the deterrence theory depends largely on tax audit and penalty. They further stressed that this theory of tax compliance makes taxpayers to pay tax as a result of fear and sanctions. Trivedi and Shehata (2005) says that the deterrent theories suggest that taxpayers "play the audit lottery", that is they make calculations of the economic consequences of different compliant alternative. Verboon and Dijke (2007) stated that the essence of the deterrence model of tax compliance is to chiefly examine the interaction between probability of detection and sanction severity that should affect non0compliance. Brook (2001) says that classical theory is only based on economic analysis but social and psychological variables are

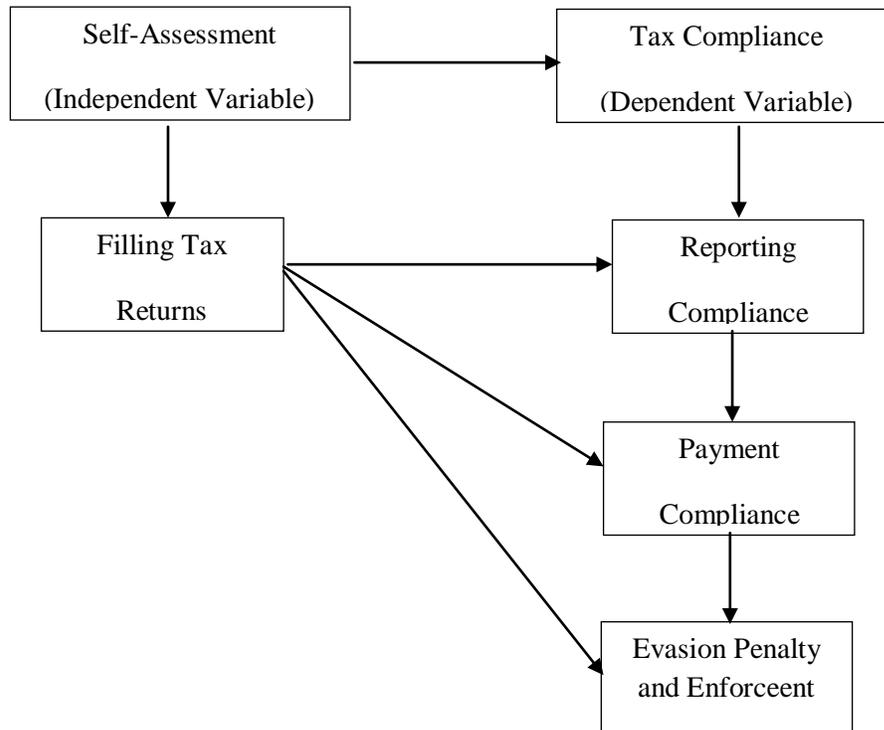


equally important in understanding the issue of non-compliance to tax. Some of the important studies about the effects of deterrence on compliance include Hasseldine (2000) AND Kirchler (2007). Elffers (2000) and Braithwaith (2003) argued that if deterrence (that is the probability of detection and sanction severity) would be the most significant variable in explaining compliance, rational individuals in most societies of the world would be non-compliant because the levels of deterrence are low.

The theory of planning behavior as argued by scholars is also found useful in the analysis of tax compliance. The theory states that the behavior of individuals within the society are under the influence of definite factors, with origin from certain reasons and emerge in a planned way (Erten, 2002). Wenzel (2004), Braithwaith (2003) highlighted that sociological and psychological factors have proved to be important in understanding the high levels of tax compliance. In such analyses, concepts such as trust in authorities perceived fairness of the system, moral considerations and norms are used to promote better understanding of tax compliance, (Murphy 2004, Wenzel 2004, Frey 2003).

According to Malik, (2010), tax compliance activities are the major role the Revenue Authority plays in the self-assessment regime. Recall that the taxpayer bears the burden of computing the tax and paying not later than due date. Once the tax returns are filed, the Revenue Authority processes the returns to ensure that the correct amount of taxes were declared and paid at the right time. Andreoni, Erard and Feinstein (1998) in their attempt to explain the concept of tax compliance, include a time dimension to compliance but are still mainly concerned with tax evasion as the central part of the tax gap definition. As they put it: 'A popular indication of the magnitude of evasion is the tax gap – the difference between the federal income taxes households actually owe, and what they report and pay voluntarily on a timely basis.

Figure 1: Conceptual Framework



2.5 Hypotheses Development

From the operational framework, the following hypotheses are postulated:

- Ho₁: There is no significant relationship between filing of tax returns and reporting compliance.
- Ho₂: There is no significant relationship between filing of tax returns and payment compliance.
- Ho₃: There is no significant relationship between filing of tax returns and evasion penalty and enforcement.

3.0 Research Design

The quasi-experimental design was adopted based on the nature of data elements present in this study.



Descriptive survey of ex-post facto was adopted in our segmentation of respondents, from the population of SME’s in Port Harcourt metropolis. To achieve this, we concentrated on Port Harcourt environs on judgmental basis. Portharcourt was divided into four zones of SME’s older than 5 years namely; Port Harcourt North (Trans Amadi, MotherCat Slaughter and), Port Harcourt South Area (Rumuokwuta, Rumuokoro, and Mile 1, and 3), Port Harcourt East Rumuola, Artiler, Oilmill, and Obigbo) and Port Harcourt West (Garrison, Parl, Lagos and Water Side) in order words, the population was subjected to simple selection of those Small and Medium Scale Enterprise that comply with tax payment. The population of 200 selected SME’s owners was subjected to a Taro Yemen test sampling size determination.

$$n = \frac{N}{1+N(e)^2}$$

Where: n = Sample Size sought
e = Level of significance (at 95% confidence level)
N = Population Size (200)

$$n = \frac{200}{1 + 200 (.05)^2} = \frac{200}{1.5} = 133$$

Therefore, 133 out of 200 SME’s owners is the sample size. To ensure that the measurement is consistently reproducible, a test=re-test method also be applied. The acceptability of the Cronbach alpha of 0.75 using the Statistical Package for Social Sciences SPSS (version 20). Cronbach’s Alpha is considered the most appropriate statistical test for reliability, given the nature of responses used to construct the scales. For this kind of data, this is equivalent to the Kuder-Richardson formula 20 (KR20) coefficient. These evaluations are a more rigorous approach than traditional split-half statistics. Cronbach’s Alpha ranges in value from 0 to 1. A coefficient equal to or greater than .60 is considered a minimum acceptable level, although some authorities argue for a stronger standard of at least .70. The internal consistency for this instrument is expected to be high.

Data Analysis Technique

The Spearman Rank Order Correlation Coefficient data technique was used to analyse the data through Statistical Package for Social Sciences software – SPSS version 20.

This is derived as =

$$r_s = 1 - \frac{6 \sum d^2}{N^3 - N}$$

Where:

$\sum d^2$ = sum of the squared difference in the ranking of the subject on the two variables.

Underlying Assumptions

Spearman Rank correlation is depicted Rho or rho and assumes any value from -1 to +1 indicating perfect correlation and, 0 as no relationship between the hypotheses stated. A -1 to +1 test of the hypothesis tells of the types of relationship existing between H_0 and H_A while a 0 shows no relationship. This immediately tells us of the kind of error that is committed while either rejecting or accepting the alternative hypothesis.

In our case the Likert scale as stated earlier was used to ascribe weight in the sequence based on the technique stated.

4. Results and Discussions

Test of Hypotheses

Hypothesis 1

H_{01} : There is no significant relationship between filling tax returns and reporting compliance.

		Filling Tax Returns	Reporting Compliance
Filling Returns	Correlation Coefficient	1.000	.751**
Spearman's rho	Sig. (2-tailed)		.000
	N	80	80
Reporting	Correlation Coefficient	.751**	1.000
		.000	

Table: 4.18 Correlations

**Correlation is significant at the 0.01 level (2-tailed).



From the table above, the hypothesis of no significant relationship between filling tax returns and reporting compliance is rejected while the alternative is accepted. As a decision rule, the sig = 0.000 shows a positive and statistically significant hence, it is above our preferred level of 0.01 percent level of significant thus, we reject the null hypothesis.

The result is a pointer to the fact that SME's owners in specified locations carried out by the study through their filling returns; have been able to comply with reporting compliance in order to avoid imminent penalty of non-compliance.

Again, the relationship between filling tax returns and payment compliance is positive and statistically significant. This is evidence from the table with a sig = 0.000. This result falls within the rejection region of our preferred 0.01 level of significant hence; we reject the null hypothesis and accept the alternative. Similarly, the coefficient of determination which measures the degree of variability as indicated by rho is = 0.497. This is relatively low and indicates that the variability between filling tax returns and that of payment compliance is about 49.7 percent.

The table shows that the null hypothesis of no significant relationship between filling tax return and evasion penalty and enforcement (EPE) be rejected and the alternative accepted. This is as indicated by the value of our sig = 0.000, which falls within the rejection region hence the alternative is accepted. Similarly, the coefficient of determination as indicated by rho is = 0.511. This means that filling tax return vary in relation to evasion penalty and enforcement to the tune of 51 percent. Hence for every 1 percent increase in the independent variable, the dependent variable is impacted to the tune of 51 percent.

Discussion of Findings

This study investigate the relationship between self-assessment and tax compliance in Nigeria with particular focus on SME's in Port Harcourt, Rivers State. To achieve the aim of the research, there hypotheses were tested. Hypothesis one (H_{01}) indicates a positive and significant relationship between filing of tax returns and reporting compliance amongst SME's owners in Port Harcourt because the individual taxpayers see themselves as the authority initiating and reporting the amount they have to pay as tax. This is in line with scholarly



argument and debate in the literature review were some of the scholars suggested that, if the taxpayer are seen and treated like customers by making them get involved in the assessment process then, they are likely to be more compliant (Al Gore and Robert, E.R.,1997). The implication of this is that, if the taxpayers are properly sensitized on the rights they have under the self-assessment scheme to assess and file their returns, they are more likely to be overwhelmingly compliant.

The second hypothesis (H₀₂) indicates a positive and significant relationship between filing of tax returns and payment compliance amongst SME's owners in Port Harcourt. This may be as result of the fact that; since it was the individual taxpayers that initiated the filing process and also state the amount to be paid as tax, they are likely to comply with payment of the tax due. Note also, that the scheme requires the taxpayer to submit along his returns cheque or bank draft equaling the amount stated in the returns.

The third and final hypothesis also revealed a positive and significant relationship between filing tax returns and evasion penalty and enforcement. Based on analysis on the data, it was observed that most SME's owners filed their tax returns for the very reason of non-compliance penalty and enforcement. This finding is clearly consistent with the assertions in literature and particularly Klepper et al (1989) who, borrowing from the economics of crime theory, posited that taxpayers are amoral economic evaders who would assess the likely costs and benefits of evasion behavior compared to those of compliance. In lines with this finding also is Simon, J. and Clifton, A. (2004) in which they posited that, although evasion penalty remains a tool for compliant excessively harsh regime could be counterproductive in securing the compliance of some taxpayers.

The findings of this work is further supported by the submission of several other empirical studies and amongst them includes, Alabede et al (2011), Trivedi and Shehata (2005). Verboon and Dijke (2007), Torgler (2000) and Kirchler (2007). These in their separate studies, argued that if deterrence (that is the probability of detection and sanction severity) is made the most significant variable in the explanation of compliance, then rational individual in most societies of the world would be compliant, Careful glance at 4.17 buttress this claim.



5 Conclusion

This introduction of self-assessment into the Nigerian tax system based in the data analyzed has encouraged compliance from individual taxpayers in Rivers State and indeed Nigeria at large. This is because, self-assessment tends to be associated with a system of penalties for those who fail to assess their own tax liability and to pay tax as required. The implication of this is that, moderate penalty if properly administered irrespective of the personality of the defaulter, will in no little way trigger compliance from various groups of taxpayers in Nigeria, as indicated above, there is the risk that an excessively harsh regime could be counterproductive in securing the compliance of some taxpayers thus, penalties should be moderate.

Though self-assessment practice has been successful amongst SME's in Port Harcourt, several issues are still begging for urgent attention if the authorities hope to achieve a better and more sustainable success in the future in term of revenue generation. The issue begging for proper and adequate attention includes, individual taxpayers' knowledge on filling process, complexity of tax the law, tax incentives, taxpayers' awareness and issue of fraud, and above all, the issues of basic infrastructure and business friendly environment.

6. Recommendations

Based on the outcome of the findings of this study, the following recommendations are suggested:

1. That the relevant tax authorities should embark on a serious sensitization programme on how the individual taxpayers especially the less-literate ones can complete their tax returns forms and subsequent filing.
2. That the government via the instrumentality of the relevant tax authority should craft out tax education programmes that will help the individual taxpayers keep abreast with rules governing taxation in the country. This obviously will mean more compliance on the part of taxpayers and increased revenue generation on the part of government.
3. That the government through the relevant tax authority should create a kind of reward programme or incentive that could serve as a source of encourage to compliant taxpayers.



4. That government should create an enabling environment for the Small and Medium Scale Enterprise business in Port Harcourt for their operations to thrive because invariably, this will mean more money to the coffers of the government.

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