
EFFECT OF TAX COMPLEXITY ON TAX COMPLIANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN BAYELSA STATE

Eneh, Onyinye Maria-regina

Department of Accountancy
Nnamdi Azikiwe University, Awka
Mail: o.eneh@unizik.edu.ng

Onwuchekwa, John Chika

Department of Accounting
Federal University, Otuoke,
Bayelsa State
Mail: chikajohn29@yahoo.com

Okoye, Nonso John

Department of Banking and Finance
Nnamdi Azikiwe University, Awka
Mail: jno.okoye@unizik.edu.ng

Abstract

This study was conducted to look into small and medium-sized businesses' tax compliance and complexity in Bayelsa State, Nigeria. The research looked at three different areas of complexity: tax simplicity, tax service quality, and tax penalties. The exploratory research design was used in this study. The study's target sample consisted of 228 Bayelsa State small and medium enterprises that are registered with the Bayelsa State Board of Internal Revenue. The study relied on primary data collected using a well-structured questionnaire. Confirmatory factor analysis was used to look into the validity of the components in the proposed research model, and a pretesting approach was used to look into content validity. The Cronbach Alpha test statistic was used to assess the questionnaire's consistency and reliability. Finally, the overall model fit was tested using a structural equation modeling (SEM) technique. The five indices used to assess idea validity were the goodness-of-fit index (GFI), Tucker–Lewis index (TLI), root mean square residual (RMR), and χ^2 /degree of freedom (χ^2 /df). The researchers used Stata 13 to estimate the structural equations model (SEM). The study's findings indicated that tax simplicity and service quality had a bigger impact on tax compliance than tax penalties. As a result, the research advises that any bottlenecks and complexity in the tax system be removed in order to make it simpler for SMEs to comply willingly. In addition, tax penalties should be increased, and tax authorities should guarantee that offenders comply with the required demands through the specified channels.

Keywords: Tax compliance, Tax complexity, SEM

JEL CODE: H2, C4

Introduction

The significance of taxes and the tax system in a country's growth cannot be over emphasized. They are necessary for the capacity growth of nations and states. Tax is a mandatory payment paid by all parties involved to the government of a country in exchange for needed services, without necessarily providing an explanation of how the money was spent or matching the services with the money received (Onwuchekwa and Aruwa, 2014). As a result, tax is a mandatory payment imposed by the government through its powers directed by tax laws on business entities, people, and property tenure. The government is responsible for providing basic necessities and other social services to its inhabitants. The government is then obligated to source for funds from which to fulfil its obligations. According to Adedeji and Oboh (2012), taxes are regarded as the major source of government income, and the beauty of any government is for its citizens to freely fulfill their tax duties without any pressure or harassment. According to Modugu and Anyaduba (2014), tax collection is the state's inherent right, exercised via the legislature, to impose financial responsibilities on people within its jurisdiction in order to generate funds for the government's legitimate activities. This describes how income is created for development projects when tax payers pay their taxes when they are due.

Tax compliance is a major topic as governments at all levels look for methods to enhance tax revenue collection efficiency in order to balance their budgets. It is up to the taxpayer to demonstrate his or her competence and desire to follow all applicable tax rules and regulations (Ayuba, Saad & Ariffin, 2006). Fiscal policymakers in both rich and developing nations are concerned about achieving high levels of voluntary tax compliance. Concerns about tax compliance are as ancient as taxes, and they will continue to be studied for as long as taxes exist. This issue has taken a toll on the contribution of small and medium-sized businesses (SMEs) to tax revenue collection in recent years. Surprisingly, when it comes to taxation, governments prefer to ignore small and medium-sized enterprises. Given that, SMEs pay a lower tax rate than larger corporations, tax authorities prefer to concentrate their efforts on them. As a result, many SMEs avoid paying taxes, resulting in income that could have been acquired and spent on development initiatives being lost.

Small and medium-sized companies produce profits and are thus required to pay taxes since they are significant participants in developing countries' economies, such as Nigeria's, by creating employment and producing goods. Owing to their importance to the country's economy, tax administration methods should be adopted to help SMEs pay their taxes on time and properly. The impact of tax complexity on SMEs' tax compliance has been studied using a variety of approaches, including the tax payer's level of knowledge, tax service quality, tax simplicity, and the threat of penalties. To keep the research focused, the study looks at tax simplicity, penalty threat, and tax service quality as indicators of tax complexity on tax compliance to SMEs in Bayelsa State.

Conceptual Review on Small and Medium-Sized Enterprises (SMEs)

Small-scale businesses are defined as those with yearly profits of less than N500,000, according to the Central Bank of Nigeria's Monetary Policy Circular No. 22 of 1988. According to the Federal Government of Nigeria's 1990 financial plan, small-scale enterprises for commercial bank loans must have a yearly turnover of not more than N500, 000, and merchant bank loans

must have capital investments of not more than 2 million naira (excluding land costs) or a maximum of N5 million. The National Economic Reconstruct Fund (NERFUND) limits small-scale companies to N10 million. According to Section 37b(2) of the Companies and Allied Matters Decree of 1990, a small business is defined as one with yearly sales of less than N2 million and a net asset value of less than 1 million naira (Ekpenyong and Nyong, 1992). The Small and Medium Enterprises Equity Investment Scheme (SMEEIS), according to Iwuji, is open to “any enterprise with a maximum asset base of N500 million (excluding land and working capital) and no lower or higher limit on staff” (2009). Companies in the manufacturing, agricultural production, solid mineral mining, and export trade sectors with a turnover of N1 million or less are classified as SMEs for tax purposes under Section 40(6) of the Companies Income Tax Act Cap C21 LFN 2004. According to subsection 8, all firms engaged in trade or commerce with a turnover of N500, 000.00 or less qualify as small and medium enterprises as of 1988.

Tax Compliance

Tax compliance refers to an individual's intention to operate in accordance with both the "spirit" and "text" of tax legislation and administration without the necessity for enforcement (James & Alley, 2002). Before James and Alley (2002), Roth (1989) claimed that tax compliance is submitting all required tax returns on time and properly reporting tax liabilities in line with the tax law in effect at the time of filing. As a result, tax compliance refers to a taxpayer's desire to fully and freely comply with all tax responsibilities imposed by the law. According to Pope and Abdul-Jabbar (2008), the size and structure of SMEs make tax compliance challenging since most SMEs have limited resources and lack the knowledge required to comply with a range of complex regulations. They also point out that high compliance costs might encourage tax evasion, fraud, and investment stifling, reducing the country's tax competitiveness. Failure to submit a tax return within the specified time frame or non-filing, understatement of income, overstatement of deductions, inability to pay assessed taxes by the due date, and, in rare cases, outright failure to pay levied taxes are all examples of non-compliance with the tax code.

Complexity

Excessive intricacies in the tax laws and multiple computations necessary are examples of complexity in the context of tax compliance (Chau & Leung, 2009). If taxpayers have trouble filling out the tax form, complexity may result in inadvertent noncompliance. Noncompliance differs from other offenses in that the errors were made inadvertently as a result of a misunderstanding of the rules. Honest people will have greater filling expenses and, as a result, higher compliance costs. Individuals who wish to save costs, on the other hand, may either miss out on valid credits or claim credits without verifying eligibility. As a result, tax evasion's moral costs may be reduced as a result of complexity. According to Krause (2000), when regulations are complicated, compliance and enforcement will be flawed. It increases the costs of tax compliance for individuals and the tax administration, and it reduces the efficacy of tax policy. Tax examiners in the tax administration will have more difficulty identifying cases of non-compliance and determining whether the infraction was intentional or inadvertent (Erard, 1997). This may result in higher tax collecting expenses. The impression of tax system equality may be influenced by complexity. It is possible to claim that tax complexity and equality are linked.

A more complicated tax code can better identify a taxpayer's ability to pay and prevent those who might be able to take advantage of tax regulations.

Branches of Tax Complexity

Tax simplicity

The complexity of a tax system is likely to influence tax payer compliance behavior, particularly among SMEs that lack the necessary skills to comprehend and analyze such a complicated system. The level of tax compliance will rise if the tax system is made very simple for taxpayers to file their returns. To define a tax return as simple, the tax authorities should "pilot" test it among taxpayers before claiming it to be simple and straightforward to use (Silvani & Baer, 1997). Complexity has become acknowledged as a possible factor for tax noncompliance as the tax legislation has gotten increasingly complicated (Jackson & milliron, 1986). As a result, taxpayers must be able to understand the tax regulations in order to calculate their tax responsibilities. This indicates that, in order to promote tax compliance, tax authorities should make the tax system easy for taxpayers.

Penalty Threats

A tax penalty is a monetary penalty imposed by the tax law for performing a prohibited conduct or failing to execute a required act, such as failing to submit a return on time or filing incorrect or undervalued returns. If a taxpayer is required to file an income or exercise tax return but fails to do so on time, a late filing penalty may be levied. Every month, the penalty is 5% of the amount owed in overdue taxes (or partial month). In general, greater audit probabilities and harsher fines encourage tax compliance. Probability of detection refers to the chance that tax authorities would find a taxpayer's noncompliance and strive to correct it (Chau & Leung, 2009). Tax compliance will improve if the likelihood of discovery is increased. Providing assistance to tax payers by increasing the flow and quality of information or training them to become more responsible citizens has the potential to generate more income than spending money on enforcement. Allingham and Sandmo (1972) developed a theoretical economic model that convincingly demonstrated that fines and audit likelihood had an influence on tax compliance. The bigger the penalty and the likelihood of an audit, the more likely tax evasion will be discouraged.

Tax Service Quality

According to Proctor (2007), tax compliance may be influenced by the perceived quality of tax services. The notion of service quality was formerly considered to be exclusive to the private sector, but companies in the public sector are now realizing that customer service and quality are key strategic concerns that require attention. Tax administration, like any other public sector institution, is concerned about service quality since it provides a variety of services to taxpayers. Also, Ott (1998), highlighting the importance of tax service in increasing tax compliance, argues that tax administration in modern societies should provide more taxpayer-friendly services, concluding that the objective of any tax administration should be to provide better services to taxpayers. According to research (Job, Stout, & Smith, 2007), public opinion of the tax administration's service delivery system has an impact on tax morale. Feld and Frey (2006) extend the argument by claiming that the way taxpayers are handled during the supply of tax services has an influence on their compliance behavior.

According to Torgler (2007), taxpayers will be more ready to collaborate with the tax authority if the authority perceives itself as a service organization that provides quality service and treats taxpayers as partners. People's perceptions of authority and desire to cooperate are influenced by how they are treated by authorities (Lind and Tyler 2008). According to the OECD (2007), providing high-quality service to taxpayers will increase their readiness to voluntarily comply with tax rules and regulations. As a result, the general level of tax compliance will improve. This leads one to believe that taxpayers collaborate better when they are treated properly and politely by the tax authorities.

Theoretical Underpinning

Economic deterrence theory

This work is anchored on the economic deterrence theory traced to the classical philosophers as Bentham (1948) and Beccaria (1963). This theory proposes that if the risk of committing a crime surpasses the benefit, the person will be discouraged from doing so. Factors influencing the benefits, cost of evasion, risks of discovery, and penalties for fraud, which determine the costs, influence taxpayer behavior, according to the economic deterrence theory (Allingham & Sandmo, 1972; Becker, 1968; Ali, Fjeldstad & Sjursen, 2014). Few individuals would dodge taxes if they are likely to be discovered and the penalties are high. The expected return to evasion is large when audit possibilities are low and fines are low. After then, the model predicts a significant level of non-compliance. Although deterrent techniques have been criticized for focusing only on coercive compliance at the expense of consensual (Sandmo, 2005), there is some evidence to support their effectiveness in dealing with noncompliance. For example, in some instances, the fear of getting caught, or the potential of being identified, has been shown to be an effective method of motivating truthful behavior. Tax administrations have frequently used the theoretical concepts of economic deterrence when creating enforcement tactics that depend primarily on fines and the fear of being detected. The idea stresses the advantages that those who follow the law might have. As a result, penalties for non-compliance should be increased in order to encourage conformity, according to the theory. As a result, tax fines and tax compliance are inextricably linked. Increased tax penalties would encourage people to pay their taxes, and vice versa (Oladipupo & Obazee, 2016).

Empirical Review

Ojochogwu and Stephen (2012) studied the factors that impact compliance among small and medium-sized companies in north central Nigeria. This hypothesis, which was drawn from primary sources, was investigated using the parametric one sample Z-test. High tax rates and complex filing processes were determined to be the most common factors for SMEs' noncompliance. Double taxation and a lack of appropriate expertise were two other variables that had a minor influence on tax compliance among the SMEs questioned. As a result, it is proposed that SMEs be taxed at a reduced rate in order to give adequate money for business development and increase their chances of survival in a competitive market. Increased tax incentives, such as exemptions and tax holidays, should be examined by the government since they will encourage voluntary compliance while also luring future tax payers. Okoye, Akenbor, and Obara (2012) led a study of Ekiti State Manufacturing Firms' tax information, administration, and compliance expertise.

With unstandardized beta values of 0.251 ($t = 2.038, p < 0.05$), 0.322 ($t = 3.682, p < 0.05$), and 0.077 ($t = 1.021, p > 0.05$), the results revealed that tax data and learning had positive crucial impacts on

tax compliance, while tax organization had no effect. According to studies, tax data and tax learning encourage tax compliance more than tax organization.

According to the inquiry, the legislature should educate potential tax payers about taxation rules and restrictions by coordinating free symposia and seminars through its organizations. Using a case study of SMEs company revenue earners in Kerugoya town, Marti, Wanjohi, and Magutu (2012) documented taxpayers' views and tax compliance behavior in Kenya. It was a survey of small and medium-sized business income earners in Kerugoya. A total of 260 small and medium-sized businesses (SMEs) were polled for information. The majority of Kenyan taxpayers believe the tax system is unjust because they do not understand the tax rules or how they are calculated, according to the survey. As a result, tax payers' failure to comply was due to their inability to comprehend tax rules. Merima, Fjeldstad, and Sjurson (2014) studied factors that impact people's tax compliance behavior in Kenya, Tanzania, Uganda, and South Africa using attitude and perception data from the current cycle of Afro barometer surveys. Using a binary logit regression, they discovered some parallels and differences in factors related to tax compliance attitude across the four nations. Regular payments to non-state actors, such as criminal gangs, in exchange for protection, damage individuals' tax compliance. In addition, people in Tanzania and South Africa who think their ethnic group is being treated unfairly are less likely to pay taxes.

In Tanzanian and South African studies, tax knowledge was also linked to tax compliance. Maseko (2013) looked at the factors that influence small and medium-sized businesses' tax compliance (SMEs). The study looked at how tax knowledge and compliance costs impacted SMEs' tax compliance behavior in Zimbabwe between 2009 and 2011. Maseko used methodological triangulation and a qualitative study strategy. The findings also indicated that SME operators' views on tax justice, tax service quality, and government expenditure goals had a substantial influence on their tax compliance, despite relatively small negative correlations with filing compliance. It was observed that compliance expenses had a negative relationship with tax compliance.

Methodology

In this study, an exploratory research approach was employed. It is frequently used to acquire data on a range of issues when a researcher wishes to poll replies from a sample of the public without having any influence over the sections of the sample (Nachmias and Nachmias, 2009). The study's target sample consisted of 228 Bayelsa State small and medium enterprises that are registered with the Bayelsa State Board of Internal Revenue. In Bayelsa state, we used a sample of 228 SMEs. The majority of the data came from 228 respondents. A well-structured questionnaire was used to collect the data. Pretesting was used to determine content validity (Zikmund et al. 2012). A confirmatory factor analysis was used to examine the validity of the components in the suggested research model.

The cronbach Alpha test statistic was used to assess the questionnaire's consistency and reliability. Finally, using the structural equation modeling (SEM) method, the overall model fit was evaluated. The five indices used to assess idea validity were $\chi^2 / \text{degree of freedom}$ (χ^2 / df), goodness-of-fit index (GFI), comparative fit index (CFI), Tucker–Lewis index (TLI), and

root mean square residual (RMR). The Structural equations model (SEM) estimate approach was used in the investigation, which was done in Stata 13.

Model specification

The study's model specification is based on Ojochogwu and Stephen's (2012). Below is a description of the model.

$$TCOM = f(TCOMP) \text{ ----- (i)}$$

$$TCOMP = \hat{\delta}_0 + \hat{\delta}_1 THP + \hat{\delta}_2 TSQU + \hat{\delta}_3 TSIMP + \mu_{it} \text{ ----- (ii)}$$

Where

TCOM = Tax compliance

TCOMP = Tax complexity

THP = Tax penalty

TSQU = Tax service quality

TSIMP = Tax Simplicity

μ = error term

Presentation of Results

Confirmatory Factor Analysis (CFA)

In the SEM framework, confirmatory factor analysis (CFA) is employed in measurement models to see if the data matches a projected measurement model based on prior literature assumptions. In SEM, CFA is frequently used as the initial step in evaluating a generated measurement model. SEM results suggest a poor match, the model will be rejected, and the parameter estimations will remain unexplained if CFA provides a poor confirmation of a measurement model.

Table 4.1: CFA for “Tax compliance” Measurement model

Fit statistic	Value	Description
Likelihood ratio	chi2_ms(2)	60.148
	p > chi2	0.000
Population error	RMSEA	0.342
	90% CI, lower bound	0.271
	upper bound	0.419
	p-close	0.000
		Probability RMSEA <= 0.05
Baseline comparison	CFI	0.927
	TFI	0.945
Size of residuals	SRMR	0.271
		Standardized root mean squared residual

Source; STATA 13

As previously stated, a solid match for the tax compliance measurement model is a critical basis for their eventual usage in the structural model. Table 1 displays the fit statistics for the tax compliance measurement model. TCOM assesses four key elements (see questionnaire appendix 1). The fit statistics for the 4-factor measurement model indicate a chi-square value of 60.1, which is significant at the 0.05 level. The model correctly matched the data in our population, as

indicated by the p-value of 0.00. A p-value of 0.000 indicates statistical significance for both the comparative fit index (CFI) = 0.927 and the RMSEA = 0.342 All of these data indicate to a satisfactory measurement fit, with a Standardized root mean squared residual of 0.076.

Table 4.2: CFA for "Tax Simplicity" Measurement Model

Fit statistic	Value	Description	
Likelihood ratio	chi2_ms(2)	59.782	model vs. saturated
	p > chi2	0.000	
Population error	RMSEA	0.035	Root mean squared error of approximation Probability RMSEA <= 0.05
	90% CI, lower bound	0.113	
	upper bound	0.185	
	p-close	0.000	
Baseline comparison	CFI	0.950	Comparative fit index
	TFI	0.964	
Size of residuals	SRMR	0.078	Standardized root mean squared residual

Source; STATA 13

The fit statistics for the TSIMP measurement model are shown in Table 4.2. The 4-factor model's fit statistics had a chi-square value of 59.78, which is statistically significant at 5%, suggesting that the model well fitted the data. Model fit is supported by the CFI of 0.950, which is good since it keeps the model around 1, and the RMSEA of 0.035 with 0.000 p-values. All of these data indicate to a satisfactory measurement fit, with a Standardized root mean squared residual of 0.078.

Table 4.3: CFA for "Tax penalty" Measurement model

Fit statistic	Value	Description	
Likelihood ratio	chi2_ms(2)	182.11	model vs. saturated
	p > chi2	0.000	
Population error	RMSEA	0.031	Root mean squared error of approximation Probability RMSEA <= 0.05
	90% CI, lower bound	0.401	
	upper bound	0.616	
	p-close	0.000	
Baseline comparison	CFI	0.914	Comparative fit index
	TFI	0.962	
Size of residuals	SRMR	0.052	Standardized root mean squared residual

Source; STATA 13

The fit statistics for the THP model's measurement model are shown in Table 4.3. The chi-square score of 182.11 is statistically significant at 5%, indicating that the model closely fitted the data, according to the fit statistics for the 4-factor concept. The CFI is 0.914, which is satisfactory since it maintains the model close to 1, and the RMSEA of 0.031 with 0.000 p-values is statistically significant and supports the model fit. The measurement fit time minimization model is supported by all of these data, with the Standardized root mean squared residual at 0.052.

Table 4.4: CFA for “Tax service Quality” Measurement model

Fit statistic	Value	Description	
Likelihood ratio	chi2_ms(2)	165.09	model vs. saturated
	p > chi2	0.000	
Population error	RMSEA	0.031	Root mean squared error of approximation
	90% CI, lower bound	0.401	
	upper bound	0.616	
	p-close	0.000	
			Probability RMSEA ≤ 0.05
Baseline comparison	CFI	0.977	Comparative fit index
	TFI	0.962	
Size of residuals	SRMR	0.020	Standardized root mean squared residual

Source; STATA 13

The fit statistics for the TSQU measurement model are shown in Table 4.4. The chi-square score of 165.09 is statistically significant at 5%, suggesting that the model matched the data rather well, according to the fit statistics. The CFI is 0.977, which is acceptable because it is close to 1, and the RMSEA of 0.020 with p-values of 0.000 is statistically significant, indicating that the model is fit. The Standardized root mean squared residual is minimal at 0.020, and the measurement fit is supported by all of these statistics.

Table 4.5; Cronbach's alpha

Constructs	Cronbach's alpha
Tax compliance	0.909
Tax Simplicity	0.777
Tax Complexity	0.915
Tax service Quality	0.8261

Source: Researcher's compilation using Stata 15. (2020)

The connection between tax complexity and tax compliance among small and medium-sized companies in Bayelsa State, Nigeria, is investigated using structural equation modeling. One unique feature of the SEM is the ability to evaluate both the combined effect of all indicators of complexity on tax compliance as well as the individual effects of the indicators, which is exactly the method taken in this study.

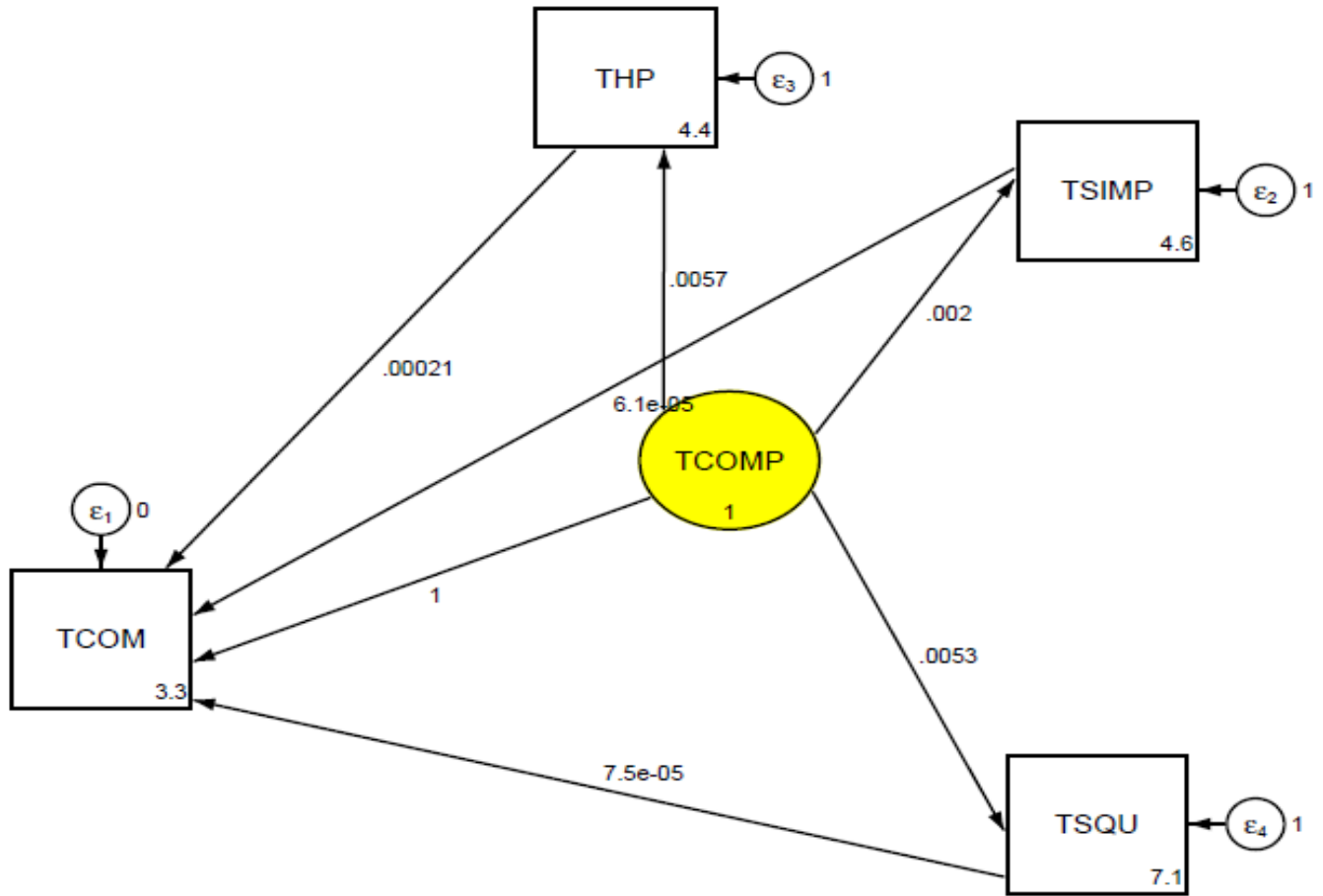


Figure 1: Structural Equation Model
 Source: Researcher's compilation using Stata 15. (2020)

According to the path analysis, the effect of the complexity indicators on tax compliance is as follows: TSIMP (tax simplicity) has a significant influence on tax compliance (TCOM) at 5%, but with low intensity, as indicated by the coefficient (0.00006), which is significant at 5%. The results indicate that simplifying the tax system would enhance SME tax compliance, contradicting the null hypothesis that tax simplicity has no impact on tax compliance. One area that has to be looked into in order to improve tax simplicity is the filing of tax returns. The filing of tax returns is one of the areas that has to be examined in terms of enhancing tax simplicity. The study's conclusions are similar to those of Silvani & Baer (1997), Jackson & Million (1986), and Chau & Leung (1998). (2009).

Another measure of tax complexity investigated was the Tax Penalty (THP), which was shown to have a beneficial influence on tax compliance, implying that tax penalties can help SMEs comply with their obligations. Despite the fact that the relationship's direction is consistent with a priori predictions, the variables are not statistically significant at 5%, implying caution in causal inference. A tax penalty is a monetary penalty imposed by the IRS for performing a prohibited conduct or failing to execute a required act, such as failing to submit a return on time or filing incorrect or undervalued returns. As a result, while tax simplicity is helpful in promoting compliance, this is not the case with tax penalties. One of the reasons why the punishment may

look ineffective is because of the loopholes in its execution, as evidenced by the statistical insignificance of the variable. Tax evaders frequently use informal and undocumented processes to settle their disputes. The study accepts the null hypothesis that THP has no significant effect on Tax compliance.

Table 4.6: SEM Estimates

Standardized	Coef.	OIM Std. Err.	z	P> z	[95% Conf. Interval]	
-----+-----						
Structural						
TCOM						
TSIMP	.0000611	.0000287	2.13	0.033	4.83e-06	.0001173
THP	.0002123	.0182191	0.01	0.991	-.0354965	.0359211
TSQU	.0000753	.0000357	2.11	0.035	5.35e-06	.0001452
_cons	3.319831	1.554621	2.14	0.033	.2728292	6.366833
-----+-----						

Source: Researcher’s compilation using Stata 15. (2020)

Furthermore, the path analysis reveals that tax service quality (TSQU) has a positive (0.000075) and substantial (at 5%) influence on tax compliance. According to Proctor (2007), the perceived quality of tax services may have an impact on the degree of tax compliance. Also, Ott (1998), highlighting the importance of tax service in increasing tax compliance, argues that tax administration in modern societies should provide more taxpayer-friendly services, concluding that the objective of any tax administration should be to provide better services to taxpayers. According to research (Job, Stout, & Smith, 2007), the public's impression of the service delivery system of tax administration affects tax morale. Feld and Frey (2006) extend the argument by claiming that the way taxpayers are handled during the supply of tax services has an influence on their compliance behavior. This leads to the idea that taxpayers collaborate more when they are treated properly and politely by the tax authorities. As a result, the null hypothesis that TSQ has no effect on o on tax compliance is rejected at 5%

Table 4.7: Fit Statistics

Fit statistic	Value	Description
Likelihood ratio		
chi2_ms(28)	125.150	model vs. saturated
p > chi2	0.000	
chi2_bs(45)	1675.834	baseline vs. saturated
p > chi2	0.000	
Population error		
RMSEA	0.105	Root mean squared error of approximation
90% CI, lower bound	0.087	
upper bound	0.124	
pclose	0.000	Probability RMSEA <= 0.05
Information criteria		
AIC	7616.005	Akaike's information criterion
BIC	7754.733	Bayesian information criterion
Baseline comparison		
CFI	0.940	Comparative fit index
TLI	0.904	Tucker-Lewis index
Size of residuals		
SRMR	0.060	Standardized root mean squared residual
CD	0.621	Coefficient of determination

Source: STATA 15.0

The structural equations model has an overall coefficient of determination (CD) of 0.621, which means it explains 92.1 percent of the systematic changes in the dependent variable, as shown in Table 4.7. The structural model was then thoroughly examined, and the fitness was verified once more. The baseline versus saturated and model vs saturated chi-square goodness-of-fit statistics suggests a fair model fit that is statistically significant at 5%. The RMSEA, which is 0.105, also supports this. The CFI and Tucker-Lewis index (TLI) both scored 94 percent and 90.4 percent, respectively, confirming the basic premise that the entire model is correct.

5. Conclusion

Taxation is still a major source of concern and an essential part of public policy. Tax compliance is a major problem for tax administration in Nigeria, as it is in other developing nations, and it is harming the fiscal system's revenue performance. Nigerian administrations' numerous tax reform efforts have failed to promote the projected rise in tax collection over the years. The data from statistical records reveals that income taxes have been dismal in terms of the government's total revenue. This low tax revenue collection performance epitomizes what has been dubbed the "tax compliance problem" that plagues a number of emerging nations. This study focused on tax compliance and estimated the impacts of several factors. It discovered that tax simplicity and tax service quality had a greater impact on tax compliance than tax penalties. However, the study is optimistic that with the passage of the Finance Act (2020), several specific policy changes will be examined, including the exemption of small businesses from tax liability, the payment of

income tax at a rate of 20% for medium-sized businesses, and the classification of companies other than small or medium-sized businesses as large businesses, with an income tax rate of 30%. For company owners in Micro, Small, and Medium-Sized Enterprises (MSMEs) and Medium-Sized Enterprises (MSEs), these changes are particularly intriguing (SMEs). To avoid a scenario of selective implementation, the study suggests that the finance act be implemented effectively throughout all states. Tax policy is required to support company growth in Nigeria, and it is suggested that tax authorities engage in tax payer education and enlightenment, as this would go a long way toward ensuring that companies take advantage of the tax policies put in place to assist them. As a result, the research advises that any bottlenecks and complexity in the tax system be removed in order to make it simpler for SMEs to comply willingly. Tax penalties should also be tightened, and tax authorities should guarantee that offenders comply with the required demands through the specified channels.

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APPENDIX
Survey Questionnaire

	Tax compliance	SA (5)	A (4)	SD (3)	D (2)	N (1)	Total	Mean
1	Tax payers pay their tax before 31 st march each year							
2	Tax payers willing submit their books for tax verification							
	Simplicity							
1	Complexity of tax system is likely to affect tax payer's compliance behavior.							
2	Tax payers should be able to comprehend the tax rules for calculations of their tax liability.							
3	Tax authorities should make the tax system simple in order to increase tax compliance.							
4	Poor understanding of the tax system can be recognize as a possible reason for tax non-compliance.							
	Threat of penalty							
1	If a tax payer fails in his income tax returns, a late filing penalty may be assessed.							
2	If a tax payer fails to file is income tax on time he's made to pay file.							
3	Increase in the probability of detecting tax default boost tax compliance.							
4	Raising the fine to be paid for default to file tax returns can encourage tax payers to pay their tax timely.							
	Tax service quality							
1	Good tax service provides convenience for tax payers to pay their tax.							
2	Quality of tax service as improve tax compliance							
3	Respectful and service treatment to tax payers encourages tax compliance.							
4	Satisfaction of tax payers increases his tendency to pay tax timely.							