



EFFECT OF TAX ADMINISTRATION EFFICIENCY ON TAX COMPLIANCE AMONG SMES IN ADAMAWA STATE, NIGERIA

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Abstract

This study examines the effect of tax administration efficiency on tax compliance among small and medium-sized enterprises (SMEs) in Adamawa State, Nigeria. The study adopts a cross-sectional survey design, using primary data collected from 320 SME operators across Yola, Mubi, and Jimeta. Tax administration efficiency was proxied by taxpayer education, audit effectiveness, service delivery, and tax system simplicity, while tax compliance was measured through filing accuracy, timely payment, and voluntary disclosure. Data were analyzed using multiple regression analysis. Findings reveal that taxpayer education, audit effectiveness, and service delivery have significant positive effects on tax compliance, while tax system complexity negatively affects compliance. The study concludes that efficient tax administration enhances compliance behavior among SMEs. It recommends that tax authorities strengthen taxpayer education programs, simplify tax procedures, and improve service delivery mechanisms.

Keywords: Tax Compliance, SMEs, Tax Administration, Nigeria, Adamawa State

1. Introduction

Tax compliance remains a significant challenge in many developing economies, particularly in Nigeria, where Small and Medium-sized Enterprises (SMEs) constitute the backbone of economic activities. SMEs account for a substantial proportion of business establishments, employment generation, and economic growth; however, their contribution to government tax revenue remains disproportionately low compared to their economic significance. The low level of tax compliance among SMEs has continued to undermine government efforts to mobilize adequate domestic revenue for the provision of public goods and services. Several studies have attributed this challenge to factors such as inadequate taxpayer education, complex tax regulations, multiple taxation, weak enforcement mechanisms, and a general lack of trust in government institutions. These factors often discourage voluntary compliance and create opportunities for tax evasion and avoidance among

business operators (Inegbedion, 2025; Michael et al., 2024). Furthermore, the large informal sector in Nigeria makes it difficult for tax authorities to effectively identify, assess, and monitor taxable businesses, thereby reducing the efficiency of tax administration and revenue collection efforts.

Despite numerous tax reforms introduced by the Federal Government of Nigeria and state tax authorities, including the adoption of electronic tax systems and ongoing fiscal policy reforms aimed at simplifying tax administration, compliance levels among SMEs remain relatively low. Evidence suggests that administrative inefficiencies such as poor service delivery, inadequate tax audits, corruption, bureaucratic bottlenecks, and insufficient taxpayer enlightenment continue to hinder effective tax administration. Studies have shown that tax knowledge and taxpayer education significantly influence compliance behavior, while inefficient tax administration systems often weaken taxpayers'

willingness to comply with tax obligations (Adegboye et al., 2018; Onoja & Odoma, 2020). Consequently, improving the efficiency of tax administration has become a critical policy objective for enhancing voluntary tax compliance, broadening the tax base, and increasing internally generated revenue, particularly in states such as Adamawa where SMEs constitute a major segment of economic activity.

2. Literature Review

2.1 Conceptual Review

Concept of Tax Compliance

Tax compliance refers to the extent to which taxpayers adhere to tax laws and regulations by accurately reporting income, filing tax returns on time, and paying the correct amount of tax due to the relevant authorities (Alm, 2019). It may be voluntary, where taxpayers willingly fulfill their obligations, or enforced through audits, penalties, and other regulatory measures. Tax compliance is influenced by several factors, including taxpayers' knowledge of tax laws, perceptions of fairness in the tax system, trust in government institutions, and the effectiveness of tax administration. Consequently, compliance behavior is not only a legal obligation but also a reflection of taxpayers' attitudes toward the tax system and government governance (Kirchler et al., 2008).

In the context of SMEs, tax compliance is particularly important because these enterprises constitute a significant portion of economic activities and contribute to employment and economic growth. However, many SMEs face challenges such as limited tax knowledge, inadequate record-keeping practices, and complex tax procedures, which often affect their compliance levels. Studies have shown that efficient tax administration, taxpayer education, and simplified tax processes can encourage voluntary compliance among SMEs, thereby improving revenue generation and supporting economic development (Saad, 2014; Torgler, 2007).

Tax Administration Efficiency

Tax administration efficiency refers to the capacity of tax authorities to achieve optimal revenue collection through effective taxpayer education, efficient audit mechanisms, quality service delivery, and simplified tax procedures, thereby reducing compliance costs and encouraging voluntary adherence to tax obligations among taxpayers, particularly SMEs (Okoye & Akenbor, 2014).

In practical terms, efficient tax administration also strengthens the relationship between taxpayers and government by improving transparency, reducing bureaucratic bottlenecks, and ensuring that taxpayers perceive tax payment as fair and worthwhile, which in turn enhances trust in the fiscal system and encourages long-term compliance behavior among SMEs (Alm, 2019; Kirchler et al., 2008). This implies that beyond institutional capacity, the quality of interaction between tax officials and taxpayers plays a critical role in shaping compliance outcomes, particularly in developing economies where informal business activities are prevalent and administrative constraints are more pronounced (Okoye & Akenbor, 2014).

2.2 Empirical Review

Empirical studies on tax compliance in Nigeria and other developing economies consistently demonstrate that tax administration variables significantly influence taxpayers' behaviour, particularly among SMEs.

Saad (2014) investigated tax knowledge and compliance behavior and found that taxpayers with higher levels of tax awareness were more likely to comply voluntarily, as improved understanding of tax obligations reduces unintentional non-compliance.

In a similar study, James and Alley (2002) observed that overly complex tax structures discourage compliance by increasing the cost and difficulty of filing returns, thereby pushing many small businesses toward informal practices.

Okoye and Akenbor (2014), focusing on SMEs in Nigeria, established that effective tax administration systems positively affect compliance levels, particularly where taxpayers perceive administrative processes as fair and transparent.

Torgler (2007) further emphasized the role of audit effectiveness, noting that the probability of detection and punishment significantly enhances compliance by discouraging deliberate tax evasion. This aligns with the deterrence theory, which argues that enforcement mechanisms are critical in shaping taxpayer behavior.

In another Nigerian study, Olaoye and Akinwale (2019) found that regular taxpayer education programs significantly improve voluntary compliance among SMEs by increasing awareness of tax obligations and reducing misinformation.

Similarly, Ibadin and Eiya (2013) reported that inefficient tax service delivery, including delays and bureaucratic bottlenecks, negatively affects compliance willingness among small businesses in Edo State. Their findings highlight the importance of efficient administrative interaction between tax authorities and taxpayers.

More recently, Adegboye et al. (2021) examined the impact of electronic tax filing systems on compliance and discovered that digital tax platforms improve timeliness and accuracy of tax payments by simplifying the filing process.

Likewise, Oni and Adebayo (2022) found that perceived fairness of tax administration significantly influences compliance behavior, as taxpayers are more likely to comply when they believe the tax system is equitable and transparent.

Overall, the empirical evidence suggests a strong relationship between tax administration efficiency measured through taxpayer education, audit effectiveness, service delivery, and system simplicity and tax compliance among SMEs. However, there remains a contextual gap in localized studies within Adamawa State, particularly in integrating multiple dimensions of tax administration efficiency into a

single analytical framework, which this study seeks to address.

3. Methodology

This section outlines the research methodology adopted for the study, including the research design, population of the study, sampling techniques, data collection procedures, and methods of data analysis, with the aim of ensuring a systematic and empirically sound investigation into the effect of tax administration efficiency on tax compliance among SMEs in Adamawa State.

3.1 Research Design

The study adopts a cross-sectional survey research design, which is considered appropriate for obtaining primary data from SME operators at a single point in time in order to examine the relationship between tax administration efficiency and tax compliance in Adamawa State. This design allows for the collection of quantitative data from a relatively large sample of respondents, thereby enabling statistical analysis and generalization of findings across the SME population within the study area.

3.2 Population and Sample

The population of this study comprises all registered Small and Medium-sized Enterprises (SMEs) operating in Adamawa State, Nigeria. These SMEs span across key commercial locations such as Yola, Jimeta, Mubi, and other major business districts, and they engage in diverse sectors including trading, services, agriculture-related enterprises, and small-scale manufacturing. The choice of SMEs as the target population is informed by their significant contribution to local economic activities and their relevance to the issue of tax compliance within the state.

From this population, a sample of 320 SMEs was selected to ensure adequate representation and reliability of findings. The sample size was determined to capture diverse business categories and operational scales within the SME sector. Stratified random sampling technique was employed to ensure that

SMEs were fairly represented across different business types and locations, thereby reducing sampling bias and enhancing the generalizability of the study results.

3.3 Data Collection

Primary data for this study were collected through the administration of structured questionnaires designed to capture relevant information on tax administration efficiency and tax compliance among SMEs in Adamawa State. The questionnaire was carefully developed in line with the study objectives and was divided into sections to reflect the key variables of interest. A 5-point Likert scale ranging from strongly disagree to strongly agree was used to measure respondents' perceptions and experiences, allowing for the quantification of attitudes and opinions in a standardized manner. The instrument was administered directly to SME owners and managers to ensure clarity, improve response rate, and enhance the

reliability of the data collected for subsequent statistical analysis.

3.4 Model Specification

The regression model is specified as:

$$TC = \beta_0 + \beta_1 TE + \beta_2 AE + \beta_3 SD + \beta_4 TS + \epsilon$$

Where:

- TC = Tax Compliance
- TE = Taxpayer Education
- AE = Audit Effectiveness
- SD = Service Delivery
- TS = Tax System Complexity

4. Results and Discussion

4.1 Descriptive Statistics

Table 1: Descriptive Statistics

Variable	Mean	Std. Dev
Tax Compliance	3.62	0.81
Taxpayer Education	3.45	0.76
Audit Effectiveness	3.28	0.88
Service Delivery	3.51	0.72
Tax Complexity	3.74	0.69

Source: Basila, 2026

The descriptive statistics presented in Table 1 provide a summary of the central tendency and dispersion of the key variables used in the study. The results indicate that tax compliance among SMEs in Adamawa State has a relatively high mean score of 3.62, suggesting that respondents generally exhibit moderate to high compliance behaviour. Taxpayer education recorded a mean value of 3.45, implying that a considerable number of SME operators have received some level of tax awareness or information, although there is still room for improvement in outreach and sensitization efforts.

Similarly, audit effectiveness and service delivery recorded mean values of 3.28 and 3.51 respectively, indicating that respondents perceive tax audits and service delivery mechanisms to be moderately effective, though not optimal. On the other hand, tax complexity recorded the highest mean value of 3.74, suggesting that many SMEs perceive the tax system as relatively complex and difficult to navigate. The standard deviation values across all variables, ranging from 0.69 to 0.88, indicate a reasonable level of variation in responses, reflecting differences in experiences and perceptions among SME operators in the study area.

4.2 Regression Results

Table 2: Dependent Variable: Tax Compliance

Variable	Coefficient	Std. Error	t-Statistic	p-value
Constant	0.842	0.321	2.62	0.009
Taxpayer Education	0.312	0.074	4.21	0.000
Audit Effectiveness	0.271	0.068	3.99	0.000
Service Delivery	0.198	0.082	2.41	0.017
Tax Complexity	-0.254	0.077	-3.30	0.001

Source: Basila, 2026

Model Summary:

- $R^2 = 0.68$
- Adjusted $R^2 = 0.66$
- F-statistic = 52.47 ($p < 0.001$)

The regression results presented in Table 2 provide evidence on the extent to which tax administration efficiency influences tax compliance among SMEs in Adamawa State. The model demonstrates a strong explanatory power, with an R^2 value of 0.68 and an adjusted R^2 of 0.66, indicating that approximately 68% of the variation in tax compliance is explained by taxpayer education, audit effectiveness, service delivery, and tax complexity. The F-statistic value of 52.47, which is statistically significant at the 1% level ($p < 0.001$), confirms that the overall model is fit and that the explanatory variables jointly have a significant effect on tax compliance.

Individually, the results show that taxpayer education has a positive and statistically significant effect on tax compliance ($\beta = 0.312$, $p < 0.001$). This implies that a unit increase in taxpayer education leads to a 0.312 increase in tax compliance among SMEs, highlighting the importance of awareness and capacity-building programs. Audit effectiveness also exhibits a positive and significant relationship with tax compliance ($\beta = 0.271$, $p < 0.001$), suggesting that improved monitoring and enforcement mechanisms enhance compliance behaviour by discouraging tax evasion.

Furthermore, service delivery is positively and significantly associated with tax compliance ($\beta = 0.198$, $p = 0.017$), indicating that efficient and accessible tax services encourage SMEs to meet their tax obligations more willingly. In contrast, tax complexity shows a negative and significant effect on tax compliance ($\beta = -0.254$, $p = 0.001$), meaning that as tax procedures become more complicated, compliance levels tend to decline among SMEs. This finding underscores the burden that complex tax systems impose on small businesses, particularly those with limited accounting capacity.

Overall, the regression analysis suggests that improving tax administration efficiency particularly through enhanced taxpayer education, stronger audit systems, and simplified procedures can significantly increase tax compliance among SMEs in Adamawa State. These results reinforce the need for continuous administrative reforms aimed at making the tax system more user-friendly and transparent to taxpayers.

4.3 Discussion of Findings

The regression results indicate that tax administration efficiency has a strong and meaningful influence on tax compliance among SMEs in Adamawa State. Specifically, the findings show that taxpayer education, audit effectiveness, and service delivery all contribute positively to improving compliance, meaning that when SMEs are better informed, properly monitored, and well-served by tax authorities, they are more likely to meet their tax obligations. The model further reveals that tax complexity negatively affects

compliance, suggesting that complicated tax procedures discourage SMEs from complying fully or consistently.

Overall, the results imply that the efficiency of the tax system plays a decisive role in shaping compliance behaviour among SMEs. The relatively high explanatory power of the model ($R^2 = 0.68$) also suggests that tax administration factors are key drivers of compliance in the study area. In practical terms, simplifying tax procedures, strengthening taxpayer education, and improving service delivery would likely lead to higher levels of voluntary compliance and improved revenue generation for the state.

5. Conclusion and Recommendations

The study concludes that tax administration efficiency plays a critical and statistically significant role in determining tax compliance among SMEs in Adamawa State. The findings reveal that taxpayer education, audit effectiveness, and service delivery positively influence compliance behavior, while tax complexity reduces the likelihood of compliance. This implies that SMEs are more willing to comply with tax obligations when they are well informed, properly guided, and supported through efficient administrative processes. However, when tax procedures become too

complicated or difficult to understand, compliance tends to decline. Overall, the study establishes that improving the efficiency of tax administration is essential for strengthening voluntary compliance and enhancing revenue generation in the state.

Based on the findings, the study recommends that tax authorities in Adamawa State should intensify taxpayer education programs through regular sensitization, workshops, and simplified tax information materials tailored to SME operators. This will improve awareness and reduce unintentional non-compliance. In addition, audit mechanisms should be strengthened to ensure fairness, transparency, and deterrence against tax evasion, while avoiding excessive harassment of taxpayers. Furthermore, tax authorities should improve service delivery by reducing bureaucratic delays, enhancing responsiveness, and adopting more taxpayer-friendly approaches in their interactions with SMEs. Importantly, the tax system should be simplified by streamlining procedures, reducing unnecessary complexities, and expanding digital tax platforms to make compliance easier and more efficient. Collectively, these measures will enhance trust in the tax system and promote sustainable tax compliance among SMEs in Adamawa State.

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