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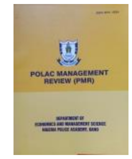

ANALYSIS OF FACTORS INFLUENCING AWARENESS OF TAX POLICY AMONG SME's TAX PAYERS IN YOLA NORTH, ADAMAWA STATE

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Abstract

The study examined the factors influencing awareness of tax policy among small and medium-sized enterprises (SMEs) in Yola North Local Government Area, Adamawa State, Nigeria. Multistage sampling method was employed, selecting 6 out of 11 wards based on commercial and economic tax-paying activities. The sample size of 318.86 respondents was determined using the Taro Yamane Formula. The logistic regression analysis revealed significant predictors of tax compliance such as income level and business size. Challenges such as high tax rates and lack of transparency emerge as prominent concerns in Yola North, Adamawa State. These findings have implications for designing targeted strategies to promote voluntary compliance and enhance tax revenue generation. According to recent global statistics, SMEs contribute significantly to tax revenues, with an estimated 50-60% of total tax revenues coming from SMEs in many countries. Additionally, studies suggest that effective communication and awareness programs can increase tax compliance among SMEs by up to 20%.

Keywords: Tax Compliance, Tax revenue, SME's and Tax system

1. Introduction

A tax is a mandatory payment or charge collected by local, state, and national governments from individuals or businesses to cover the costs of general government services, goods, and activities. In developed countries, taxes are the most crucial and fundamental sources of revenue for the Government. It symbolizes a broad-spectrum duty of individual taxpayers and is not charged or collected in interchange for any specific value but rather for collective development as a nation (Leyira *et al*, 2012). The policy of taxes symbolizes the redistribution of key resources between the public and private parts in a country, thus, it Is commonly enforced on persons and cooperate bodies that make up a Nation and Country at large. (Oworlu & Emeka, 2012). The resources delivered by tax are recycled by the government to support positive responsibilities that would add value to the community such as Education, Health care facilities, Pension schema for retired public services, Unemployment assistance as well as public transport system (Chinyere, 2000). Tax administration is a body responsible for implementing and governing tax laws and other tax-related matters. They are held responsible for assessing, collecting, and administering tax processes.

Nigeria is a sovereign nation. It functions as a federal system of government that has three main bodies, the federal government, the state government, and the local government councils. Agba et al (2014), stated that local governments are the third-tier administrative structure created in Nigeria to decentralize governance and bring government closer to the people at the grassroots and render social services necessary to engender national development. Tax is the largest source of revenue for State and Local Governments in Nigeria. Additional sources of State and Local Government revenue include intergovernmental transfers from the Federal Government, or from State to local governments, selective sales taxes, and direct charges on utilities, licenses, or entities such as higher education institutions and ensures trust. State and Local governments collect tax revenues from three main primary sources namely: Income, sales, and property taxes.

Income and sales taxes make up the majority of combined State tax revenue, while property taxes are the major sources of tax revenue for the local government, including school districts (2022-NASRA). Yet local governments in Nigeria are unable to achieve their economic goals due to the small amount of revenue generated. These were however believed to be due over reliance on crude oil as a primary source of revenue. However, with the country's growing population and infrastructural decay, coupled with fluctuations in oil prices, the government's ability to meet its development objectives solely through oil revenue has been compromised. Consequently, there arises a pressing need for the Nigerian government to explore alternative avenues for enhancing its revenue generation. Tax revenues traditionally constitute a significant portion of state budget income, yet their potential contribution has often been overlooked in Nigeria until recent years. The tax administration in Nigeria grapples with multifaceted challenges, ranging from tax evasion to inadequate staffing and corruption within tax collection agencies. Studies by Ola (2001) and Ayodeji et al. (2014) have highlighted various factors contributing to the suboptimal performance of tax collection, including low tax literacy, poor taxpayer-tax authority relations, and insufficiently trained tax personnel. These challenges impede the government's capacity to generate income for infrastructure development and budgetary allocations.

Adamawa State exemplifies the broader issue of revenue generation challenges, being among the top 10 states with the lowest Internally Generated Revenue (IGR) (NBS, 2020). Notably, the state witnessed a significant decline in revenue generation, signaling the urgency for remedial measures to prevent further deterioration. Pertinent questions arise regarding the transparency and accountability of tax administrators, the welfare of tax collectors, and the honesty and record-keeping practices of taxpayers. These concerns underscore the imperative for a comprehensive evaluation of the effectiveness of communication and awareness programs regarding tax policies among local business taxpayers in Yola North in order to boost the internal generated revenue in the state

2. Literature Review

2.1 Conceptual Issues

Overview of the Nigerian Tax System

In Nigeria taxation has been existing even before the amalgamation in 1914 of the North and South provinces to form the territory now called Nigeria. The types of taxes paid in those days are in form of homage paid to Oba’s, household contribution for the maintenance of peace and maintenance of soldiers, the penalty paid for non-performance of civil rights, and contribution to educational development. The earliest trace of taxation was believed to have started in Northern Nigeria and this was before the advent of the British administration. The emirs had organized forms of administration and their Islamic Relation made it possible for people to contribute toward charity which laid a sound foundation for direct taxation in Northern Nigeria. Prior to 1900, some of the levies were “Zakkat (a tax on the moral property meant for charity), Jangali (tax on livestock), Gado (death tax), Jizjah (tax on slaves), etc these were recognized in the Northern Nigeria (Onwubiko, 1998).

There were also some forms of taxes in Southern Nigeria (Yoruba parts) by way of tributes (isalcole), totls, levies, fees, and presents given to Obas (Kings), Chief in Benin, Oyo, and some other Yoruba Kingdom of Western Nigeria. However in the east, this type of tax-paying tradition was virtually non-existing but except fine called “Iri-iwu”due, mainly to lack of organized central authority which the eastern Nigerians are known for their Egalitarian society. These forms of taxation come to a halt with the advent of colonial masters. The Oba’s and emirs are now used in imposing taxation on their subjects and anymore found guilty was punished (Onwubiko, 1998).

With the advent of the British, the administration and collection of tax were made with the enactment of several ordinances. Direct income assessment was introduced by Lord Lugard, the British high commissioner through the community tax ordinances of 1904 in the Northern Nigeria. He also passed another law “the nature revenue proclamation law of 1906”. This law aimed at verifying all forms of taxation in Northern Nigeria. He also made changes that culminated in the nature revenue ordinate of 1917. In 1918 an amending ordinance that extended the provision of 1917 ordinance applied to Abeaculta in the Western Nigeria and to Benin-city in Midwestern Nigeria, but these were initially opposed most especially in Owarri, Calabar and Aba areas. It was after the 1917 ordinance was amended that Lord Lugard extended the law to eastern province in 1928, the native direct taxation (colony) ordinance number 41 of 1937 was promulgated. Modern era of taxation began when two major legislations were passed in 1940. The direct ordinances number 4 applicable of all citizen except those in Lagos township and the income tax ordinance number 3 applicable to expatriate and to Nigerians living in Lagos.

When Nigeria became a federation in 1952, each regional government was responsible for the taxation of individual resident in the areas of authority base on separate laws thus making trading activities within regions of the country difficult since a trader may be called upon to pay tax in more than one region in a year. In order to avoid this type of situation and introduce some uniformity the first act regulating taxation in Nigeria as an entity, referred to as the income tax Management Act (ITMA) of 1961 was enacted by the federal government to serve as the principal Act uniting all the regions but was too been conjunction with the individual’s regional laws.

Tax Compliance

Tax compliance hinges on whether taxpayers pay their taxes willingly or are compelled to do so (Fagbemi & Abogun, 2015). Andreoni, Erard, and Feinstein (1998) define tax compliance as the willingness of taxpayers to adhere to tax laws, which contributes to economic growth and development. Palil & Mustapha (2011) describe tax compliance as the ability and inclination of taxpayers to follow various tax regulations, influenced by political, ethical, legal environments, and situational factors. Braithewaite (2009) emphasizes that tax compliance involves taxpayers paying their taxes without excuses, while Kirchler (2007) focuses on taxpayers' willingness to settle their tax liabilities. Conversely, tax noncompliance refers to the gap between expected and actual tax payments (Braithewaite, 2009). Factors such as the government's use of tax revenues, corruption, fraud prevention efforts, and public trust in government operations affect SMEs' willingness to fulfill tax obligations (Abiola & Asiweh, 2012). Trust in government operations plays a significant role, as higher levels of trust correlate with greater tax compliance among SMEs (Aladejebi, 2018).

Tax Awareness and Tax Compliance among SMEs

Understanding tax regulations directly affects how well taxpayers comply with them (Palil & Mustapha, 2011). For small and medium enterprises (SMEs), awareness of these regulations and policies is crucial for ensuring higher levels of compliance. This was evidenced in studies from Zimbabwe (Newman & Nokhu, 2018) and Ghana (Lumumba, Migwi & Magutu, 2010). According to Lumumba, Migwi, and Magutu (2010), many SMEs in Ghana fail to meet their tax obligations due to insufficient awareness of tax requirements. Similarly, Newman and Nokhu (2018) argue that a lack of tax awareness fosters negative attitudes towards taxation, whereas promoting tax awareness cultivates positive attitudes.

Tax Revenue

The economic meaning of tax is obviously different, in which they view it often, not to consider many payments submitted to the government as taxes. Frequently, some allocations made to public utilities are comparable to prices. For instant, student school fees (tuition) at tertiary public own (Universities and colleges) and other fees paid for the services provided by federal, state, and local governments. Moreover, the modern tax system is emphasizing levying taxes on the money and monetary materials. As a state government agency, the board of internal revenue is empowered by the law (Tax Act, 1993) to collect taxes due for the state. Overall, the procedures of taxation and the public expenditure shouldered by the government is been a topic of discussion in a global contemporary economics and political environment.

Taxation is a financial charge on income levied by the Government on citizens, corporate entities, businesses, or possessions that yield revenue. Similarly, it is meant by the compulsory proportional donations from individuals and property possession, imposed by the Government by the virtue of its power for the funding of Government administration and general public necessities (FIRS, 2012). Being an ancient practice, taxation is a source of generating revenue by a community or society that forms a state to shoulder the public expenditure and improve the economic, social, and standard of living of the taxpayers. Taxes are imposed on individuals and corporate income directly or indirectly. The tax that is levied on personal or corporate income of taxpayers is known as direct tax while tax that is imposed on sales of goods (tangible) and services (intangible) or trade which involves profit/loss is term indirect tax.

Driving institutions to tax policy and tax administration in Nigeria

Certain institutions in Nigeria are responsible for initiating and playing vital role in driving tax policies and administration in the country. They are doing so within the framework and aims for building tax culture and enlightenment among the taxpayers. Also administering and enforcing the tax policies as well as tax related laws. These institutions according to FIRS (2012) are: Ministries of Finance (both federal and state), Revenue Authorities (federal and state boards), Educational Institutions/ Academia, Tax Consultants, National/State Assembly, Office of the Auditor General of the Federation. These are the main bodies and institutions that have the mandate for initiating, enacting, amending and enforcing tax policies and administration in the federal and state government of the Nigerian federation.

2.2. Empirical Review

So many studies were conducted by some researchers which include the following; Mokua and Kenyanya (2012), conducted a surveyed on Impact of Tax Reforms on Revenue Productivity in Kenya, the researchers detect that the regression result showed that total tax in Kenya was inelastic during the three periods, but it was buoyant during the pre-reform and piecemeal reform periods. The study also showed that the reforms had a positive impact on productivity of income tax, but did not have a positive impact on productivity of Value Added Tax (VAT). The positive reform on the productivity of income tax was as a result of the relative effectiveness of income tax reform that made the tax system simpler and reduced avenues for evasion and corruption, whereas the low elasticity of value added tax might have been caused by tax evasion and collusion between the tax collectors and tax payers.

Likewise, Dennis and Emmanuel (2014) examined the impact of taxation on revenue generation in Nigeria: A Study of Federal Capital Territory and Selected States, the researcher discovered that, taxation has a significant contribution to revenue generation and taxation has a significant contribution on Gross Domestic Product (GDP). The researcher therefore recommends among others that Well-Equipped Data Base (WEDB) on all tax payers should be established by the Federal, State and Local Governments with the aim of identifying all possible sources of income of tax payers for tax purpose, the tax collection processes must be free from corruption. In addition, the Federal Government, States and Local Governments should urgently fully modernize and automate all its tax system, improve tax payers' convenience in the assessment and payment process whilst at the same time entrenching effective and modern human resources management practice in the tax authorities.

Also, Okoye and Ezejiofor (2014), investigated the impact of E-taxation on revenue generation in Enugu, Nigeria; Data were collected from both primary and secondary sources, using frequency counts, mean score. The ordinary least square method was adopted using the multiple regression analysis and panel data regression method to test the fixed and random effects and test for level of significance at 1%. The finding was that E-taxation can enhance internally generated revenue and reduce the issue of tax evasion in Enugu state. Another finding is that E-taxation can prevent corrupt practices of tax officials. He recommends that the Government should support the establishment of e-tax administration so as to start ripping the benefit of high rate of compliance among taxpayers and E-taxation should be implemented to reduce the diversion of government funds to private pockets.

Asimiyu and Kizito (2014), conducted a research on the Analysis of Internally Generated Revenue and Its Implications on Fiscal Viability of State Governments in Nigeria, the researcher used descriptive approach, Secondary data were collected from CBN Statistical Bulletin, CBN annual reports, and published materials from the National Bureau of Statistics and the National planning Commission, A direct relationship was found to exist between the growth rates of IGR and capital expenditures, it was therefore recommended that more revenue should be given to rural states to finance capital projects to enable them grow their IGR, so as to promote economic development.

Babatunde, Manongi, Abiodun, and Rufai (2023) investigated the impact of multiple taxation on the growth of SMEs in Ogun Central Senatorial District. They employed a survey research method using questionnaires, gathering data from 78 SMEs. Their analysis utilized descriptive and inferential statistics such as Pearson correlation (r) and linear regression. The study found significant effects of multiple taxation and tax burden on SMEs' growth in the district, with results significant at a 0.05 level. These findings highlight how excessive taxation hampers SME growth, leading to economic stagnation and reduced government revenue. The research suggests that SMEs face challenges in maximizing their income due to duplicated taxes, emphasizing the need for government interventions to streamline taxes affecting SME operations.

In Sani's study (2023), the focus was on understanding the factors influencing tax evasion among SMEs in Nigeria. Employing a survey research design, data was gathered through structured questionnaires from SME operators across six states in the North-eastern, North-central zones, and Federal Capital Territory (FCT) Abuja. The study utilized quantitative methods, assessing the reliability and validity of the questionnaire through Cronbach's Alpha and Kaiser-Meyer Olkin (KMO) tests. Tax Morale (TM), Tax Education (TE), Tax Holiday (TH), and Tax Deterrent (TD) were identified as explanatory variables, while Tax Compliance (TC) was the response variable. Multiple regression analysis was used to analyze the data. Results indicated that TM, TE, and TH positively influenced taxpayer compliance behavior, whereas TD had a negative impact. The study recommended that governments should prioritize factors like TM, TE, and TH to enhance tax compliance, rather than relying on punitive measures like TD, which could alienate taxpayers instead of encouraging compliance.

El-Maude, Zephaniah, Akilahyel, and Abu-Saeed (2023) carried out a study to evaluate how the revenue generation strategies of the state board of internal revenue service impact the administration of personal income tax (PITA) in Adamawa State. The research was guided by three questions and three hypotheses. A survey research design was utilized, with data collected via questionnaires. The collected data were analyzed using both descriptive and inferential statistical methods. The findings revealed a positive and significant relationship between the various revenue generation strategies examined and the administration of PITA in Adamawa State. Consequently, the study recommended that the Adamawa State Board of

Internal Revenue Service should focus on staff development, as well as enhance ICT infrastructure, tax education, and awareness to improve the effective and efficient administration of personal income tax.

2.3. Theoretical Review

Fiscal exchange theory

This study is grounded in the fiscal exchange theory, which posits that taxpayers' compliance behavior is influenced by the provision of public goods and services by the government. According to this theory, when the government fulfills its traditional roles and obligations to citizens, it positively affects their tax payment compliance. Taxpayers are primarily concerned with the benefits they receive in exchange for the taxes they pay, viewing the relationship as a contractual one where they exchange purchasing power for government services. The anticipated benefits encourage voluntary compliance, reducing the need for coercive measures. The fiscal exchange theory offers a compelling framework for understanding taxpayers' compliance behavior. This theory suggests that taxpayers are more likely to comply with tax regulations when they perceive that the government is effectively providing public goods and services. The relationship between the government and taxpayers is thus seen as a contractual exchange, where taxpayers trade their purchasing power, in the form of taxes, for the benefits and services provided by the government. The theory is also hinges on the idea of mutual benefit and trust. When taxpayers observe tangible benefits from their tax contributions such as improved infrastructure, healthcare, education, and security they are more likely to view tax payments positively and comply willingly. This perception of receiving value in exchange for taxes fosters a sense of trust and cooperation between taxpayers and the government.

3. Methodology

3.1 Research Design

This study used field survey research design which gives greater room to study a particular phenomenon and is useful in generalizing from a sample of the study. The design was considered appropriate because it essential in achieving the objectives of the study through analyzing the available data. The study sought to examine the examine the factors influencing the level of awareness of tax policy among SME taxpayers in Yola North This survey research focused on the analysis of data obtained from the respondents regarding the tax collection administration practices and tax payer attributes.

3.2 Population and Sampling Procedure

The population of study consists of the small and medium scale enterprises (SMEs) who pay tax in Yola north local government area of Adamawa state. We employed multi-stage sampling technique for the study. In the first stage, we used purposive sampling techniques to select 6 out of the 11 wards in the Local Government Area based on the predominance in commercial and economic tax paying activities in the area which include, Ajiya, Doubeli, Gwadabawa, Jambutu, Luggere and Nassarawo. The second and final sampling stage involves the random selection of respondents. A sample size of 318 respondents was obtained from population of 1556 tax payers remitting tax to the state government to the government through the board of internal revenue through the use of Taro Yamane Formula for sample size determination as it was been used by other writers such as Eddie and Dickson (2022). The formula was expressed as follows;

n = Where n = Sample size, N = Study population, e = level of significance (0.05)

, n= 318

Hence, the sample size of 318 was drawn from the total population of study of 1556 of some selected wards within Yola North which was used in collecting the information needed for the study. The sample size was divided by the population and calculated in to percentage in order to get the sample size percentage of each ward commercial areas. Thus: (318/1556×100) = 20.44%

Table 1: population and sample size of each selected wards in Yola North local government

Wards	Population	Sample size at 20.44%
Ajiya	259	53
Doubeli	200	41
Gwadabawa	290	59
Jambutu	260	53
Luggere	230	47
Nassarawo	317	65
Total	1556	318

Source: field survey, 2023

3.3 Method of Data Analysis

The data collected were subjected to inferential statistics. Inferential statistics involves making predictions or inferences about a population based on a sample of data. It extends the findings from a sample to the larger population, using probability theory. Common inferential statistical techniques include hypothesis testing, confidence intervals, and regression analysis. This method helped us to draw conclusions about the population parameters, test hypotheses, and assess the reliability of their findings. We employed logistic regression analysis to examine the factors influencing the level of awareness of tax policy among SME taxpayers.

We used odds ratios for each independent variable, indicating the change in the odds of being tax compliant associated with a one-unit change in the independent variable. The model was considered suitable because the outcome of interest was binary (tax compliant and non-compliant), and it allows us to estimate the probability of tax compliance while accounting for the potential nonlinear relationship between the independent variables and the log odds of compliance. The logistic model is expressed as;

3.4 Model Specification

$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon_i$ 1

Where:

Y = Awareness of Tax Policy (binary variable: 0 = Not Aware, 1 = Aware)

X_1 = Age (continuous)

X_2 = Education Level (O level, Bachelor's Degree, Master's Degree)

X_3 = Business Size (Small, Medium, Large)

X_4 = Industry Sector (Manufacturing, Services, Retail)

X_4 = Previous Interaction with Tax Authorities (binary: 0 = No, 1 = Yes)

β_0 = intercept (Constant level of compliance)

β_1, β_2, β_3 = coefficients for the respective independent variables.

ϵ_i = error term.

4. Results and Discussion

The study examined the impact of tax administration on revenue generation in Yola North, with a focus on socio-economic characteristics, compliance behavior, and effectiveness of communication and awareness programs. We used logistic regression analysis to study the influence of socioeconomic characteristics on tax compliance. The findings underscore the importance of considering socio-economic factors in tax administration strategies aimed at promoting compliance and maximizing revenue generation within the small business sector.

Table 2: Logistic Regression Analysis for Factors Influencing Awareness of Tax Policy among SME Taxpayers

Logistic regression			**Number of obs**		**=**	**316**
			LR chi2(3)		=	83.97
			Prob > chi2		=	0
Log likelihood = -106.21715			Pseudo R^2		=	0.2833
Tax awareness	Coefficient	Std. err.	z	P > z	[95% conf. interval]	
Education Level	0.234	0.109	2.14	0.032	0.020,	0.448
Business Size	0.543	0.208	2.61	0.009	0.135,	0.950
Industry Sector	0.041	0.052	0.79	0.430	-0.061,	0.143
Previous Interaction	1.328	0.374	3.55	0.000	0.594,	2.062
_cons	-7.656742	1.387059	-5.52	0	-15.313487	1.1

Source: Field Survey, (2023) Data Analysis Using Stata 17

The result in Table 2 shows the results of a logistic regression analysis examining the Factors Influencing Awareness of Tax Policy among SMEs Taxpayers in Yola North. This statistical method allows us to assess the relationship between independent variables (business size, level of education, previous interaction and industry sector) and the dependent variable (tax awareness), providing insights into the factors that may affect compliance behavior among small business owners. The logistic regression model yielded significant results, as indicated by the chi-square test statistic (LR chi2(3) = 83.97, $p < 0.001$), suggesting that the model as a whole is predictive of tax compliance outcomes. The pseudo R-squared value of 0.2833 indicates that approximately 28.33% of the variance in tax compliance can be explained by the independent variables included in the model.

The coefficients of independent variables revealed that the level of income and size of business have a statistically significant positive effect on tax compliance. Specifically, for every one-unit increase in the level of income, the odds of tax compliance increase by a factor of approximately 1.64 ($p < 0.001$), holding other variables constant. Similarly, for every one-unit increase in the size of the business, the odds of tax compliance increase by a factor of approximately 1.64 ($p < 0.001$), all else being equal. These findings suggest that higher income levels and larger business sizes are associated with greater likelihoods of tax awareness among small and medium-size enterprises in Yola North.

However, the coefficient for the level of education is not statistically significant ($p = 0.177$), indicating that there is insufficient evidence to conclude that education level has a significant effect on tax compliance among small business owners in the study area. Additionally, the intercept term (cons) is statistically significant ($p < 0.001$), suggesting that even when the level of income, level of education, and size of business are held constant, there is still a significant baseline effect on tax compliance

5. Conclusion and Recommendations

In conclusion, the study highlights the diverse socio-economic profile of taxpayers in Yola North and the variability in compliance behavior, underscoring the need for tailored approaches to tax administration and outreach efforts. While some taxpayers demonstrate consistent compliance, others comply only under enforcement pressure or occasionally overlook their obligations. Mixed perceptions regarding the effectiveness of communication channels suggest a need for enhanced outreach efforts to improve taxpayer awareness and understanding of tax policies. Tax collectors face challenges such as high tax rates, administrative inefficiencies, and economic hardship, emphasizing the importance of policy reforms and capacity building initiatives. Overall, addressing these challenges and leveraging significant predictors of tax compliance, such as income level and business size, can enhance compliance outcomes and maximize revenue generation in the region.

Based on the findings of the study, here are some recommendations to improve tax administration and compliance in Yola North:

i. ***Enhance Communication and Outreach***
Develop targeted communication and awareness programs to improve taxpayer education and understanding of tax policies. Utilize a variety of communication channels, including digital platforms, community outreach events, and partnerships with local organizations, to reach a broader audience and address diverse needs.

ii. ***Policy Reforms to Address Challenges***
Implement policy reforms to address challenges identified by tax collectors, such as high tax rates, administrative inefficiencies, lack of transparency, and economic hardship. Review tax structures and administrative processes to streamline procedures, enhance transparency, and alleviate burdens on taxpayers.

iii. ***Stakeholder Engagement and Collaboration***
Foster collaboration and engagement between tax authorities, taxpayers, and local communities to promote mutual understanding, trust, and cooperation. Establish forums, advisory groups, and feedback mechanisms to facilitate dialogue, address concerns, and solicit input from stakeholders in tax administration processes.

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