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EFFECT OF TAX AUDIT AND TAX RESPONSIBILITY ON TAX COMPLIANCE BEHAVIOUR: EVIDENCE FROM NIGERIAN LISTED MANUFACTURING COMPANIES

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ABSTRACT

The importance of tax proceeds in operation and undertakings of any government in the whole world cannot be over emphasized because taxes had been categorised as one of the critical sources of government revenue of any nation. Taxation is the most unstable and sophisticated issues in governance both in the evolving and technologically advanced countries. The basic ethical problem underlying this study is the extent of corporate tax evasion (non-tax compliance) among listed Nigerian manufacturing companies. It is based on this problem that this study examined the effect of tax audit on tax compliance behaviour of listed manufacturing companies in Nigeria. Based on this objective, some research questions were posed, hypotheses were formulated, and a thorough analysis of relevant literature was undertaken. This study adopted a survey research method, and 400 copies of the questionnaire were administered to the selected 10 consumer goods companies and 10 industrial goods companies. Correlation analysis, Analysis of Variance (ANOVA) and Multiple Regression analysis were also employed. The study found tax audit as a significant predictor (0.003) of tax compliance with t-value of 2.978 at 5% level significant. The study, therefore, recommends that the government take into account non-economic variables such as trust, and corporate ethical tax conduct as a prerequisite for government supply contracts. The study therefore concluded that the amount of taxes paid should be by taxpayer's ability to pay based on the amount of income or profit generated and design an effective tax audit regulation.

Keywords: Taxation, Tax Audit, Tax Responsibility, Manufacturing Sector, Nigeria.

INTRODUCTION

The manufacturing industry applies to those sectors and operations that are active in the transformation, production and processing of items that create value addition to the commodity (Falade & Olagbaju, 2015). The manufacturing sector comprises different economic activities in which taxes are levied on the profit to generate adequate revenue into the government purse. The categories of tax levied against this sector are Company Income Tax, Value Added Tax (VAT), Capital Gains Tax and Education tax. The importance of tax proceeds in operation and undertakings of any government in the whole world cannot be exaggerated because taxes had been categorised as one of the critical sources of government revenue of any nation.

Abata, (2014) explained that taxation is a microeconomic and fiscal plan mechanism; this includes the distribution of the private sector's financial capital to the government for the

production of essential services, which will enhance economic and social objectives. Tax revenue can thus be regarded to be the total control charges, which, are reachable, or efficient revenue streams publicly available to stabilise and facilitate its socio-economic enhancement. Taxation is one of the most viable strategies that can help the government of any nation to get out of foreign aid dependency in the long run through a conscious and consistent effort of generating required revenue for financing government activities (Abdul & Wang' ombe, 2018).

Falade & Olagbaju, (2015), manufacturing sector, this function as a trade-substituting sector, offering a ready-made demand for indirect products and making a substantial contribution to the extraction of government income taxes. However, the government has put in place different measures to ensure compliance in the area of tax payment, like a tax audit, self-assessment, fines and penalty in ensuring filing appropriate tax returns and to reduce the rate of tax evasion in the country. It has not been clear whether the manufacturing companies are ethically compliant with their tax obligation in the country. Aminu & Oladipo, (2016), ethics are derived from the general perspectives or expectations of the public from a professional or public officer and each profession possesses its own ethics. The issue of ethics usually goes in line with value judgments, such as good or bad, morally right or morally wrong. Every professional strives to keep to the guiding principle of ethics of his/her profession.

Akintoye & Tashie, (2013), ethical tax behaviour of companies in Nigeria is influenced by tax legislation and policy, the multiplicity of taxes, inefficient and ineffective tax collection arrangement, weak tax consciousness and responsiveness, tax transparency and tax accountability. The ethical tax behaviour of a corporate organisation can be viewed from different perspectives and how taxes have influenced them towards paying tax willingly or not. This study also identified the following ethical tax behaviour factors as Morality (moral obligations), tax avoidance, tax evasion, tax compliance, ethical business practice and Companies' responsibility.

This study identified different essential variables, and they were measured as follows in this study. Tax compliance behaviour, which is the dependent variable, was measured as a declaration of all income and paying the tax due. The independent variables are Tax audit-frequency is the number of times which a company has been summoned for a tax audit by the revenue officials or tax authority. Tax responsibility is the moral obligations of the taxpayers' to file accurate and timely tax returns. Based on the existing literature, this study reviewed and examined the effect of tax audit and tax responsibility on the tax compliance behaviour of listed Nigerian manufacturing companies, to ensure adequate compliance of corporate taxpayers to their tax commitments and responsibilities.

The main problem of this study is the non-compliance to tax payment and which has the major issue been of concerned in both developed and developing countries in the world. According to Somorin, (2017), manufacturing companies in Nigeria were confronted with multiple taxes, which significantly affect their profitability performance, and as a result, may lead to non-tax compliance behaviour. In the same vein, Adefeso, (2018) the government has been raising the issue of non-tax compliance (reduction in the tax revenue generated) from the manufacturing sector. While manufacturing industries are faced with challenging and unfavourable operating environment, infrastructural deficiency, high cost of production due to epileptic power supply and the unimpressive performance in the sector, which has been attributed to excessive tax payment to the government.

This study enumerates the following objectives:

1. examine the effect of tax audit on tax compliance behaviour of listed manufacturing companies in Nigeria;
2. ascertain the level of tax responsibility on tax compliance behaviour of listed manufacturing companies

in Nigeria.

Based on the objectives of this study, the relevant null hypotheses are formulated thus:

H₀₁: There is no significant relationship between tax audit and tax compliance behaviour of listed Nigerian manufacturing companies.

H₀₂: There is no significant relationship between tax responsibility and tax compliance behaviour among listed Nigerian manufacturing companies

LITERATURE REVIEW

Taxation is an obligatory charge imposed on behalf of the government by its regulatory body on the proceeds, income, or consumption of its people or citizens. It is an obligatory contribution and involvement of individuals and corporate organisations towards financing government expenditure (Dandago & Alabede, 2001). According to Ipaye, (2014), Nigerian tax law is solely constitutional and the tax structure, which comprises of different statutes by which the Federal, States and the Local government assess and generate revenue to fund their operations.

The Federal Republic of Nigeria 1999 Constitution have been modified on an annual basis in unification with the country's budget to adjust various loopholes in the laws and to stimulate their practical use as macroeconomic management devices. The major tax laws, which are still in operation as of January 2004 and variously related modification, are summarised below Table 1:

| Table 1 RELEVANT TAX LAWS AND TAX AUTHORITY | |
|--|---|
| Tax Laws | Relevant Tax Authority |
| Personal Income Tax Act CAP P8 LFN 2004, now Personal Income Tax (Amendment) Act 2011. | 1. Federal Inland Revenue Service 2. State Internal Revenue Service |
| Companies Income Tax Act CAP C21 LFN 2004. | Federal Inland Revenue Service |
| Industrial Development Income Tax Relief Act CAP P17 LFN 2004, which is otherwise known as the Pioneer Legislation | Federal Inland Revenue Service |
| Petroleum Profits Tax Act CAP P13 LFN 2004 (PPTA) | Federal Inland Revenue Service |
| Value Added Tax Act CAP VI LFN 2004 | Federal Inland Revenue Service |
| Capital Gains Tax Act CAP C1 LFN 2004 | 1. Federal Inland Revenue Service, (Corporate bodies and residents of the Federal Capital Territory, Abuja). 2. State Internal Revenue Service (Individuals only). |
| Education Tax Act CAP E4 LFN 2004 Stamp Duties Act CAP S8 LFN 2004 | Federal Inland Revenue Service 1. Federal Inland Revenue Service, (Companies and residents of the Federal Capital Territory, Abuja). 2. State Internal Revenue Service (Instruments executed by Individuals). |
| Custom and Excise Duties Management Act CAP C45 LFN 2004 | Federal Inland Revenue Service |
| National Information Technology Development Act (NITDA) 2007 | Federal Inland Revenue Service |

Tax Audit and Tax Compliance Behaviour

Taxation contributes a significant amount to the country's GDP, Nigeria's tax contribution is seen as the lowest compared to that of other countries in the world, (Oladipo, Iyoha, Fakile, Asaleye & Eluyela). The need for tax audit arises from the non-compliance

behaviour of taxpayers. Naturally, most taxpayers are always unwilling to pay their tax liability because they see tax as a burden (Eleftheriou, 2018). Tax authority needs to put some force measures in place that will influence taxpayers to comply with tax and fiscal policies, hence the need for a tax audit. Extant studies on the impact of tax audit and tax compliance behaviour have reported significant positive results (Bayer & Cowell, 2016; Jimenez & Iyer, 2016; Olaoye & Ekundayo, 2019; Olaoye et al., 2018).

Tax audit is typically a regular activity, but the result may contribute to a reappraisal or recommendation for a specific examination, particularly where tax evasion is alleged. The primary objective of the tax audit is thus to assess the degree to which the taxpayers might have agreed with the applicable legislative requirements of the Tax Act on their audited financial accounts and other tax-related documents. This tax audit process thereby aims to preserve the trust and credibility of the self-assessment system presently in place in Nigeria, thus improving voluntary enforcement. Nevertheless, how effective this implementation of tax audit has served to implement corporate tax enforcement has prompted opinions and controversies in developing economies (Whait et al., 2018).

Niu, (2010) found a positive correlation between audit and cooperative enforcement in the report. The results indicate that the efficacy of the audit may be underrated in a variety of published studies. It shows the good and quality of the audit job. In comparison to individual reports, the effect of the audit on voluntary compliance should also be taken into account. For this cause, the results that give tax practitioners and tax authorities opportunities to improve audit powers and to further organise their auditing organisation in order to produce more income for the state.

Rwanda. Ordinary least square regression (OLS) was used, the analysis found an important positive relationship between Rwanda's tax audit and collection of revenues. They concluded that the tax audit affects revenue collection and helps to encourage voluntary taxpayer enforcement, which raises revenue significantly. Jimenez & Iyer, (2016) assessed individual compliance responses to some degree of audit likelihood. They found that taxpayers' compliance rate rises when they learn they will be audited. The compliance rate decrease when they are aware that the tax audit will not take place.

In Nigeria, Olaoye et al., (2018) examined the impact of tax audit on tax productivity in Lagos State. The study viewed tax audit in three different categories, namely, desk auditing, back-duty audit and field auditing. Logistic regression techniques were used, and the result shows that tax auditing has a major effect on tax productivity and tax enforcement in Lagos State. The study concluded that tax enforcement might be enhanced among taxpayers; tax audits should be performed on a routine basis. In a related study by Olaoye & Ekundayo (2019), low tax compliance and remittance is identified as one limiting factor for government revenue generation. In this regard, they investigated the effects of tax audit on tax compliance and remittances of tax revenue in Ekiti State, Nigeria. The outcome of their study shows that a significant positive relationship exists between tax audit, tax compliance and tax remittances among taxpayers in Ekiti State. The study also found that audit history, including frequent audit, audit results, and small business owner's type of review has a substantial impact on record keeping and tax compliance.

Some benefits of tax audit identified in previous studies include: tax audit helps to reduce the likelihood of tax evasion (Akhtar et al., 2017); assist in the determination of tax liability and ensure payment of amount declared (Cyanet al., 2016); help in the collection of tax penalties, fines and interest (Bayer & Cowell, 2016). Bernasconi & Bernhofer, (2020) conducted study on the reduction axiom in a tax compliance decision problem in which the audit tax rate and the detection rate are separated in a two-stage lottery process. They found that subjects comply more in the two-stage lottery set-up than they do in the one-stage equivalent. Zakir, (2018) revealed that large corporate taxpayers tend to comply with tax laws

as a result of rigorous tax audit in Bangladesh

Tax Responsibility and Tax Compliance Behaviour

Ocheni, (2015) reported that tax compliance could be seen as a situation where taxpayer conforms (or fails to obey) with the tax regulations of his nation. The OECD (2004) asserted, *“When voters do not recognise what their duties are, any attempt to resolve disputes will be viewed as unjust.”* It further stated that the responsibilities of taxpayers consist of commitments to fulfil the relevant tax rules and regulations. Therefore, it is very pertinent and crucial to making taxpayers' obligations clear, that is obvious, easy to comprehend, simple and unambiguous.

Many empirical studies have been carried out on tax responsibility and tax compliance behaviour with their findings. Saad, (2012) asserted that Malaysia taxpayers are always aware and conscious of their tax responsibilities as their obligatory duties, which impacted on their compliance behaviour. Every taxpayer should view tax payment as a responsibility, which must be obeyed, and this will promote voluntary compliance. Diana, (2016) expressed that improving taxpayers attitude enhances the tax compliance behaviour.

Ethics and Morality for Tax Compliance

A tax assessment tending to the requirements of all these moral contemplations can show signs of improvement consistently (Puspita et al., 2016). Compliance quality for Citizens to settle government taxes is advocated as the state is dependable to give foundation to a fair life. For Citizens following utilitarian approach, the most imperative monetary objectives are to guarantee that merchandise and enterprises are accessible to enable everybody to have a not too bad life, and to guarantee that these assets are disseminated broadly enough for all or a great many people to appreciate them. So these citizens are prepared to make good on government taxes even on the most astounding rate. Then again, citizens preferring the deontologist methodology set down total obligations. Such obligation incorporates regard to other individuals' property rights.

Kirchler, (2007) gives an exhaustive portrayal of the tax compliance determinants, separating them into three classifications. These are social-psychological determinants including dispositions, diverse sorts of standards, reasonableness recognitions, just as inspirational highlights identifying with tax consistency. The second classification is political determinants, for example, the multifaceted nature of tax law and assessment framework, or monetary strategy. Lastly, we have financial and economic determinants, e.g. thorough necessary leadership method and the impact of tax rates, fines, tax audit and income on individual tax conduct.

Pukeliene & Kazemekaityte, (2016) analysed the main determinants of tax compliance behaviour into three groups; Tax authority, Taxpayer and other taxpayers. They further categorised penalty, audit and income as indicators of classical tax behaviour determinants. All these main determinants of tax-compliant behaviour can view from the perspective of relationship with the tax authority, interaction with other taxpayers and individual taxpayer characteristics. Walsh, (2012) expressed that, apart from the main determinants of tax compliance, five main factors determined tax compliance; fairness, norms, deterrence, tax complexity and the role of government.

Theoretical Framework

Compliance Theory of Economic Deterrence Model

Becker propounded the theory of economic deterrence model in 1968. His study is on non-compliance behaviour using an economic background. Becker proposed a little discussion, which connotes that deterrent such as the probability of detection, and fines and punishments were within the jurisdiction of the state. This model is relevant to this study in determining the tax audit coverage area and set out fines and punishment for non-compliance to the tax laws. The theory is anchored on tax audit and penalty. It has been considered as the most favoured in dealing with tax collection challenges. Tax compliance, generally, has been divided into economic deterrence theory and the more comprehensive behavioural theory. The deterrence theory model considered necessary as a result of tax evasion occurrence. It can be achieved through both punitive and persuasive approaches. Punitive measures introduced harsher penalties, increasing the probability of being detected through a tax audit.

Empirical Studies

There are lots of studies that have been carried out by different scholars about taxes and compliance behaviour in both developed and developing nations with various techniques and methods. The result of the investigations, however, depicts the extent of correlation in their findings. The Federal Inland Revenue Service led a series of tax reforms in Nigeria, which strived towards achieving higher revenue generation by promoting voluntary compliance, which will promote the public interest.

Puspita et al. (2016) carried out a study in Indonesia. They attempt to investigate the behaviour of corporate taxpayers' obedience to tax compliance and used survey method; the study sampled 136 finance accounting hotel employees in Malang and Batu. They identified factors that influence the behaviour of corporate tax compliance like tax planning motivation, tax knowledge, tax fairness, tax officers service quality, tax lessoning. The findings found that the scientific evidence that tax awareness, the efficiency of tax services, tax planning, tax expertise, and the sense of justice in the tax system affect corporate tax enforcement. Ocheni, (2015) also researched a study between the causality between tax enforcement actions and economic growth in Nigeria with primary data (questionnaire) and employed descriptive statistics and chi-square technique. The result reveals the willingness of people to pay tax will significantly depend on many factors, like government commitment, transparency and tax accountability by government.

Massarrat-Mashhadi & Sielaff, (2012); Saad (2012); Yahaya (2015) found and concluded that strong positive and a substantial correlation exists between tax responsibility (tax obligation) and compliance behaviour. However, there may be more compliance if the taxpayers are mindful and do recognise their tax responsibility. Catriona, (2011) concluded that decisions about tax compliance behaviour hinge on the company policy and procedure on a tax issue

METHODOLOGY

This study adopted survey design method and the entire listed manufacturing companies that are in both the industrial and consumer goods segment of the economy, other than companies that carried out petroleum operations were the population of this study. The sample size for this study was 20 listed manufacturing companies out of 35 listed companies in both consumer and industrial goods sectors. Given the unequal number of companies in these two sectors, the study selected ten (10) listed companies each from the two sectors,

which will give room for equal representation from the two sectors.

The totality of the questionnaire used for the analysis of this study was 278 out of 400 copies of the questionnaire distributed to the respondents (Tax manager, Accountants, Auditors and Corporate Responsibility staff). The model used to examine tax compliance, and tax fairness, tax education of listed Nigerian manufacturing companies is in an implicit arrangement as follows:

$$T\text{ComplB} = f(T\text{Aud}, T\text{Resp})$$

$T\text{ComplB}$ - is the tax compliance behaviour, $T\text{Aud}$ is tax audit, $T\text{Resp}$ is tax responsibility,

Hence, the explicit form of the model can be written as:

$$T\text{ComplB}_t = \beta_0 + \beta_1 T\text{Aud} + \beta_2 T\text{Resp} + \mu_t$$

β_0 is the intercept or the constant term, β_1 , and β_2 , are the parameters for the independent variables, tax audit ($T\text{Aud}$), tax responsibility ($T\text{Resp}$), respectively. The subscript 't', is the period of observation while μ_t is the stochastic error term Table 2.

| Table 2 MEASUREMENT OF VARIABLES | | | | |
|-------------------------------------|------------------|--------------------------|----------------------|--|
| S/N | Variable Acronym | Variable Meaning | Variable Type | Variable Measurement |
| . | $T\text{ComplB}$ | Tax Compliance Behaviour | Dependent Variable | Declaration of all income and timely payment of tax due. |
| . | $T\text{Aud}$ | Tax Audit | Independent Variable | Frequency of how the company has been summoned for a tax audit by the relevant tax authority |
| . | $T\text{Resp}$ | Tax Responsibility | Independent Variable | Moral obligations of taxpayers' to file accurate and timely tax returns |

RESULTS

This study used regression analysis to examine the effect of tax audit and tax responsibility on the tax compliance behaviour of listed manufacturing companies in Nigeria. Reliability test was conducted using Guttman split-half and Lambda. The reliability coefficients was found to be 0.67 and 0.702 for Guttman split half and Lambda respectively. Since the benchmark for reliability coefficient is 0.67 - 0.7, the above reliability coefficient indicates significant internal consistency of the items in the research instrument (questionnaire), thus indicating that the instrument is reliable Tables 3-8.

| Table 3 RELIABILITY STATISTICS | | |
|-----------------------------------|------------------|-----------------|
| Cronbach's Alpha | Part 1 Value | 0.630 |
| | N of Items | 15 ^a |
| | Part 2 Value | 0.552 |
| | N of Items | 15 ^b |
| | Total N of Items | 30 |
| Correlation Between Forms | | 0.500 |

| | | |
|--------------------------------|----------------|----------------|
| Spearman's-Brown | Equal Length | 0.666 |
| Guttman split-half Coefficient | Unequal Length | 0.666 0.666 |

Source: Author's computation using IBM SPSS (2019)

| Table 4 Reliability Statistics | | |
|---|---|-------|
| Lambda | 1 | 0.702 |
| | 2 | 0.802 |
| | 3 | 0.726 |
| | 4 | 0.666 |
| | 5 | 0.747 |
| | 6 | |
| N of Items | | 30 |

Source: Author's computation using IBM SPSS (2019)

| Table 5 TEST FOR MODEL GOODNESS OF FIT | | |
|---|----------------------|----------|
| Chi-Square | Value | -410.406 |
| | df. | 463 |
| Log of Determinant of | Sig. | 1.000 |
| | Unconstrained Matrix | 0.000 |
| | Constrained Matrix | -46.632 |

| Table 6 RELIABILITY STATISTICS | |
|---|-------|
| Common Variance | 0.220 |
| True Variance | 0.18 |
| Error Variance | 0.202 |
| Common Inter-Item Correlation | 0.081 |
| Reliability of Scale | 0.726 |
| Reliability of Scale (Unbiased) | 0.755 |

Source: Author's computation using IBM SPSS (2019)

| Table 7 FREQUENCY OF TAX AUDIT AND FINES | | | |
|--|-------------------|---------|------|
| Our company has been summoned for a tax audit by relevant tax authorities. | Frequency | Percent | |
| Val id | Agree | 181 | 65.1 |
| | Strongly Agree | 97 | 34.9 |
| | Total | 278 | 100 |
| Our company has been charged for failure to file tax returns and fine payment before. | Frequency | Percent | |
| Val id | Strongly Disagree | 175 | 62.9 |
| | Disagree | 103 | 37.1 |
| | Total | 278 | 100 |
| The key policy parameters affecting tax evasion are the detection probability, tax rate and fines imposed. | Frequency | Percent | |
| Val id | Disagree | 22 | 7.9 |
| | Agree | 226 | 81.3 |
| | Strongly Agree | 30 | 10.8 |
| | Total | 278 | 100 |
| Perceiving a high probability of being audited will enhance tax compliance behaviour of the company. | Frequency | Percent | |

| | | | |
|--|-------------------|-----------|---------|
| Valid | Agree | 176 | 63.3 |
| | Strongly Agree | 102 | 36.7 |
| | Total | 278 | 100 |
| Government reducing audit probability and the rate of fine to generate trust will reduce the incentive to evade taxes. | | Frequency | Percent |
| Valid | Strongly Disagree | 47 | 16.9 |
| | Disagree | 209 | 75.2 |
| | Agree | 22 | 7.9 |
| | Total | 278 | 100 |
| Adopting a strategy of recognising high paying taxpayers publicly with incentives will reduce non-compliance rate. | | Frequency | Percent |
| Valid | Agree | 78 | 28.1 |
| | Strongly agree | 200 | 71.9 |
| | Total | 278 | 100 |

Table 8
FREQUENCY OF TAX RESPONSIBILITY

| | | | |
|---|-------------------|-----------|---------|
| Our company regards tax payment as a moral obligation and corporate responsibility. | | Frequency | Percent |
| Valid | Agree | 177 | 63.7 |
| | Strongly Agree | 101 | 36.3 |
| | Total | 278 | 100 |
| Filing accurate tax returns and timely reporting is the company's duty and responsibility. | | Frequency | Percent |
| Valid | Agree | 111 | 39.9 |
| | Strongly Agree | 167 | 60.1 |
| | Total | 278 | 100 |
| Treating taxpayers with great caution will cultivate tax morale and reduce tax compliance costs. | | Frequency | Percent |
| Valid | Agree | 189 | 68.0 |
| | Strongly agree | 89 | 32.0 |
| | Total | 278 | 100 |
| Our company does not have a documented tax policy. | | Frequency | Percent |
| Valid | Strongly Disagree | 132 | 47.5 |
| | Disagree | 146 | 52.5 |
| | Total | 278 | 100 |
| Regular review of tax policy to accommodate significant changes in tax legislation will enhance tax compliance. | | Frequency | Percent |
| Valid | Agree | 219 | 78.8 |
| | Strongly agree | 59 | 21.2 |
| | Total | 278 | 100 |
| Promotion of voluntary tax compliance should be a primary responsibility of revenue authorities. | | Frequency | Percent |
| Valid | Agree | 49 | 17.6 |
| | Strongly agree | 229 | 82.4 |
| | Total | 278 | 100 |

The regression result were as follows:

Table 9
MULTIPLE REGRESSION

| Model | Variables Entered | Variables Removed | Method |
|-------|---|-------------------|--------|
| 1. | Avg. Tax Audit, ^b Avg. Tax Responsibility | | Enter |

| Table 10 MODEL SUMMARY | | | | | |
|---|--------------------|----------|-------------------|----------------------------|---------------|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
| 1. | 0.340 ^a | 0.116 | 0.103 | 0.26569 | 2.244 |
| a. Predictors: (Constant), Avg. Tax Audit, Avg. Tax Responsibility. | | | | | |
| b. Dependent Variable: Avg. Tax Compliance | | | | | |

Tables 9 and 10; depicts the model summary of the tax compliance and ethical tax behaviour of the sampled firm under study. The summary reflects an R-square of 0.116, which approximately stands at 12%, implying the variation amidst the constructs. Its further buttress that tax compliance behaviour of the sampled firm can be explained by the independent construct (Tax audit and Tax responsibility). In contrast, the remaining 88% are other factors not captured by this model (research work). Furthermore, the computed value of the Durbin Watson statistic is 2.244. This value lies between DU, 4 – DU, thus indicating that the stochastic error terms are not serially correlated.

| Table 11 COEFFICIENTS OF INDEPENDENT VARIABLES | | | | | |
|---|-----------------------------|------------|----------------------------------|--------|-------|
| Model | Unstandardized Coefficients | | Standardised Coefficient Beta | t | Sig. |
| | B | Std. Error | | | |
| (Constant) | 2.979 | 0.315 | | 9.461 | 0.000 |
| Avg. Tax Audit | 0.153 | 0.051 | 0.175 | 2.978 | 0.003 |
| Avg. Tax Responsibility | -0.061 | 0.049 | -0.076 | -1.227 | 0.221 |
| a. Dependent Variable: Avg. Tax Compliance | | | | | |

$$TCompl\beta_t = \beta_0 + \beta_1 TAud + \beta_2 TResp + \mu_t$$

$$\text{Tax Compliance Behaviour} = 2.979 - 0.043 + 0.153 \text{ Tax audit} - 0.061 \text{ Tax responsibility}$$

The t value and the significance level are as follows:

t/sig. = 9.461 (0.000), 2.978 (0.003) and -1.227 (0.221) for constant, tax audit and tax responsibility.

H1: There is no significant relationship between tax audit and tax compliance behaviour of listed manufacturing companies in Nigeria.

Findings from Table 11 depict the complete rejection of the null hypothesis. The result is evident by the t- stats and p-value (2.978 and 0.003) simultaneously. The outcome reveals that tax audit has a positive and significant influence on tax compliance behaviour of these sampled companies. However, the influence holds about (0.175), implying the weight on tax compliance behaviour. Furthermore, the extent of influence is statistically significant. This finding corroborates with the work of Olaoye et al., (2018), reported that there exists a positive influence of tax audit probability on tax compliance behaviour in their studies. That is compliance was slightly higher where more audit occurred.

The result is also in line with the study of Bernasconi & Bernhofer, (2020), whose findings reveals that tax audit is crucial in ensuring tax compliance. Hence this is complete alignment with the Compliance Theory of Economic Deterrence Model. The economic deterrence model implies that compliance depends on enforcement. It concludes that accurate and sincere reporting occurs

exclusively because of the economic consequences of detection and punishment, which will serve as a proper check on the part of the taxpayers.

H2: *There is no significant relationship between tax responsibility and tax compliance behaviour of listed manufacturing companies in Nigeria.*

The result from (Table 11) collaborates the null hypothesis. This result is evident by the t-stats and p-value (-1.227 and 0.221) concurrently. The outcome reveals that tax responsibility has an adverse association of about (-0.076) on tax compliance behaviour of the sampled firms under study. Implying that an additional unit of tax responsibility would require downturn tax compliance by about (0.076) However, the degree of influence is statistically insignificant. This finding agrees with the work of Bobek & Hatfield, (2003) the function of an individual underlying belief about the outcomes they expect to achieve in behaving in a particular way and the value they place on these outcomes.

CONCLUSION AND RECOMMENDATIONS

This study concluded in relation to effect of tax audit on tax compliance behaviour which has a positive and significant influence on tax compliance behaviour of the sampled companies. The compliance theory of economic deterrence model dealt with non-compliance behaviour with two compliance measures, namely audit and fines. There are two types of taxpayers, honest and dishonest. The dishonest taxpayer can be dealt with through the enforcement of tax audit and fine. In tax evasion, tax ethics are highly significant, and an increase in audit rate would lead to a decrease in tax evasion rate, which will deter non-compliance behaviour.

Bayer & Cowell, (2016) explored the affiliation between tax submission behaviour and audit policy. They found that audit policy designed by tax authority have a significant effect on production decisions by firms, and create informational externality to the industry. In the same vein, Vossler & Gilpatrick, (2018) conducted a study on the audit process and the effect of taxpayer assistant services on their tax liability. They found that taxpayers with better information on their actual tax liability in an endogenous audit environment do not reduce tax evasion. The study also emphasized that taxpayers provided with information on their report area that received audit attention, reported more on the targeted area to comply with the tax authority but evaded more on the area or item that are likely to receive less audit or unlikely to be audited.

On the contrary, Mendoza et al., (2017). Investigated the consequences of auditing on tax compliance behaviour. In their study, the findings revealed that continuous increase in a tax audit by tax authorities would lead to excessive distrust and unfairness to taxpayers who in turn will reduce the level of tax compliance. Therefore, it implies that excessive control (tax audit above a particular level) definitely will reduce voluntary tax compliance (backfires).

Onu & Oats, (2016) examined social norms and social influence on tax communication to tax responsibility as part of life. The study revealed different factors affecting compliance decision, namely: Beliefs about sanction and audits; Individual taxpayer's values and attitudes; Tax fairness and justice concerns; Societal norms; Knowledge about the tax laws; and technological aspects of tax policy. They found that tax communication with other taxpayers has a significant impact on the tax compliance attitude of the taxpayer.

Tax compliance could be enhanced through voluntary tax compliance with the tax laws by the citizens through fair perceived decision-making on tax collection rather than relying on enforcement through threatening citizens with various punishments and penalty upon tax non-compliance, (Gobena & Van Dijke, 2017). This fair perceived decision-making on tax collection will promote efficient tax revenue collection to yield the maximum benefit to the entire public. The study showed that taxpayers are aware of their tax obligatory. Therefore, the government should concentrate on encouraging voluntary tax compliance through a reward system, which will serve as

tax incentives. The prosecution should only be enforced when taxpayers become resistant to tax.

The major contribution of this study in the area of ethical tax behaviour of taxpayers; Timely filing of tax returns, Faithful presentation of financial statement and accurate returns. This study filled the research gap in the area of tax audit on compliance behaviour. Evidence from this study reveals that tax audit is significant to tax compliance behaviour. Therefore, through a thorough tax audit, unreported income would be discovered because taxes are paid on reported profit based on the current tax rate.

The study recommends that the government should consider ethical tax conduct by businesses as a pre-requisite for public sector supply contracts. Government should also embark on tax software and database to track revenue and tax evaders. Treat of shame should be introduced by tax authorities for taxpayers who have been caught evading tax through full disclosure and shared their non-compliance information to the public, including information on their level of unreported income.

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