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Infrastructure and Small Businesses' Adherence to Nigerian Tax Laws

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Research Article

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Abstract: Inadequate infrastructure is widely acknowledged as one of the main issues preventing SMEs from expanding globally. Notwithstanding this issue, it has been determined that the small and medium-sized company sector has the capacity to promote economic development and the fair distribution of economic activity. Because of this, governments have recognized the need to increase tax income from SMEs in order to cover government spending. However, many SMEs seem to be noncompliant with tax laws, which leads to a significant disparity in tax revenue from SMEs. Although there is a wealth of literature on SMEs and infrastructure, it is important to emphasize that not many studies have examined the impact of infrastructure supply on SMEs' tax compliance, necessitating empirical support. This paper's goal is to demonstrate how infrastructure supply affects SMEs' tax compliance. A survey research design was used for the investigation. 389 of the 400 SMEs owners in Lagos and Oyo States who were purposefully and randomly chosen returned the completed surveys. Ordered logistic regressions were used to analyze the data using both descriptive and inferential statistics. According to the research, tax compliance among SMEs in Nigeria is positively and significantly correlated with the availability of infrastructure (α=0.619, t (395) = 16.854, p=0.000). The research found that infrastructure availability had a major impact on tax compliance among Nigerian SMEs. According to the report, the Nigerian government should implement policies that would support the growth of small business owners in the country, especially the implementation of financial inclusion and economic stimulation as well as ongoing tax education to promote tax compliance.

Keywords: Nigeria, small and medium-sized businesses, tax compliance, and infrastructure

1. Introduction

In recent years, the topic of tax compliance among SMEs has also gained attention from tax authorities, tax professionals, and other stakeholders worldwide. SMEs' noncompliance with tax laws has been identified as an issue that seems to have no easy remedy, particularly in developing nations. While some have attributed the problem to the tax authorities' failure to meet expectations in terms of tax management, others blame the leaders' lack of patriotism for failing to offer the required facilities and other necessities of taxpayers using tax funds. One of the main duties that every person expects from the government is the provision of infrastructure. Development and economic progress are facilitated by infrastructure. making it a crucial instrument for economic stimulation. The existence of every company firm, no matter where they are located in the globe, depends on amenities like decent roads, communications, electricity, and water. Since they are seen as important catalysts for economic growth and development, governments in industrialized nations like the United States and the United Kingdom place a high priority on providing these essential infrastructure amenities. Additionally, by providing infrastructure, growing countries like China and India support the expansion and sustainability of huge corporations as well as small and medium-sized businesses. Infrastructure facilities are an issue for governments, particularly those in emerging nations. Due to the high costs involved, some small and medium-sized business owners in Nigeria are providing basic infrastructural facilities on their own, endangering the viability of many of them. According to Bitrus and Ahmed (2014), many developing countries lack adequate infrastructure, which has forced the private sector to provide these services at exorbitant costs, which lowers the amount of money available for their operations. According to earlier research, small company owners' bottom lines are negatively impacted

by inadequate infrastructure, which deters them from adhering to tax regulations. Additionally, Vasak (2008) said that small taxpayers are not treated properly by the tax code since the compliance

Both small and big businesses are subject to the same laws, compliance costs, and tax rates.

1.1. Research Problem

The state of deterioration in Nigeria's public infrastructure and economic activity is an image of pitiable public governance and non-compliance of tax payment for development. Akinlemi (2018) further identified infrastructural insufficiency as one of the key problems fronting Nigeria's SMEs. These amenities range from power supply, water supply, road and rail network, telecommunication, health facilities and so on. Provision of these facilities is the responsibility of government but almost all these facilities are in short supply or inadequate in Nigeria. Many small and medium scale enterprises provide basic infrastructure themselves; those who cannot provide them are either forced out of business or cling to the inefficiently provided state infrastructures. CBN (2017) opined that provision of adequate infrastructural facilities will have a huge multiplier effects on the economy and can boost industrialization, and reduce the cost of doing business by up to 25 per cent.

From previous empirical evidence, the issue of tax compliance among small and medium scale enterprises has been widely discussed. However, not many of the studies considered in isolation the effect of provision of infrastructural facilities on SMEs tax compliance which the research considered a pivot element in this study. The belief of the researcher is that a priori, tax compliance can become better if the operators of SME's can have access to adequate infrastructural facilities calling for empirical evidence to justify

1.2. Research Objective, Question and Hypothesis

The objective of this study was to examine the effect of provision of infrastructural facilities on tax compliance of SMEs. The research question and hypothesis were stated below respectively:
How has the provision of infrastructural facilities affected tax compliance of SMEs in Nigeria?
H_o: Provision of infrastructural facilities has no significant effect on tax compliance of SMEs in Nigeria.

2. Review of Literature

Infrastructures are basic facilities and installations that should be put in place by government at all levels in order to provide enabling environment for citizens and organizations to ensure that development need for both social and economy occur. Infrastructural facilities stimulate economic growth across the globe. Infrastructure is essential physical and organizational structures required for the operation of a society or enterprise, or the services and facilities crucial for an economy to perform. It can be defined as the set of interrelated physical elements that provide framework supporting an entire structure of development. It is an important term for determining a country or region's development. The term typically refers to the technical structures that support a society, such as roads, bridges, water supply, sewers, electrical grids, telecommunications, and so forth (Akinyele, Akinyele and Ajaguna, 2016).

Empirical evidence from previous research works has acknowledged infrastructural facilities as one of the major factors that determine the growth and development of the SMEs sector of the economy. This fact has been supported over and over again. Adigwe (2012) in his work, "Project Finance for Small and Medium Scale Enterprises (SMEs) in Nigeria" stated that, the provision of basic infrastructure like power, education, water, roads, and transportation is the minimum requirement for SMEs to flourish. Olanrewaju (2011) emphasized the nexus between infrastructure and Small and Medium Scale Enterprises (SMEs). He argued that without infrastructure, SMEs or even large companies will find it hard to survive. He noted that, infrastructural facilities that is available in a particular country will help provide a conducive environment for small and medium scale enterprises. This is because, it facilitates the production and distribution of goods and services to the market. These facilities mostly provided by government constitute the social amenities like good road network, power supply, telecommunication, water, health care facilities and other things that bring about a conducive atmosphere for business operations. Nigeria as a country is suffering from an infrastructural deficit (Akinlemi, 2018). Previous Studies and discussions on the state of infrastructure in Nigeria have been that it is deteriorating and highly insufficient to stimulate economic activity (Aigbokhan, 1999; Peterside, 2005; Adeola, 2005; Akinwale, 2010). These observations are results of epileptic power supply, comatose industrial base and rotten infrastructure. The rate of power supply is discouraging and unreliable making the overheads incurred by SMEs on power supply moving up to about 40 percent of production cost because they have to source other means of generating electricity to continue production (Tsauni, 2005).

2.1. Tax Compliance among Small and Medium Enterprises

Sophia (2016), in his study titled: "Factors Influencing Tax Compliance of Small and Medium Enterprises in Ghana", concluded that there is a significance difference in the tax compliance level between small and medium scale enterprises. The difference can be mostly attributed to the failure of small enterprises to file their tax returns on due dates and also to keep proper books or records of their business transactions. It also finds that capital structure of the business or entity, tax compliance costs in order to comply with the tax requirements, tax rates, tax audits and ethics of taxpayers had significant influence on voluntary tax compliance of taxpayers. Capital structure, compliance costs, and audits had a positive relationship on tax compliance whiles rates and ethics had a negative relationship on tax.

Ang (2016) supported statements of Sapiei, Kasipillai, and Eze (2014) who found that tax deterrence sanctions such as probability of being audited, severity of penalties are significantly correlated to non-compliance behaviour such as under-reporting of income and overall non-compliance. The findings of this study are also supported by Loo, Mckerchar and Hansford (2009), who assert that increase of perceived detection has significant influence to taxpayer's decision to comply with the tax law, due to their fear of being audited or penalized.

Nelson (2015) found that the operators of SMEs will be favourably dispose to tax if and only if they observe that enforcement makes evasion more problematic, government provision of facilities such as water and security is improved that is, value of tax is high, information about taxes is available, less complex filing procedures and high-level trust in government by tax payer. This is in line with the prescription of the standard economic theory of deterrence, political legitimacy theory and fiscal exchange theory.

From previous empirical evidence, the issue of tax compliance among small and medium scale enterprises has been widely discussed. However, not many of the studies considered in isolation the effect of provision of infrastructural facilities on SMEs tax compliance which the research considered a pivot element in this study. The belief of the researcher is that a priori, tax compliance can become better if the operators of SME's can have access to adequate infrastructural facilities calling for empirical evidence to justify.

3. Methodology

Survey research design was adopted for this study. The study made use of primary data which were collected through the use of questionnaire. Opinions of experts were sought to validate the content and the structure of the questionnaire during the study. The population were mainly all the SMEs in Nigeria., however, only Lagos State and Oyo State selected. A sample size of 400 was selected, this was determined using the sampling formula by Yamane (1967). The data collected was analysed through questionnaire was analysed using ordinal logistic regression (OLR) with the aid of Statistical Packages for Social Science (SPSS).

3.1. Model Specification

To achieve the objective of this study, two types of variables were involved, these are, the explanatory/independent variable, and regress ant/dependent variable. The explanatory variables in this study was Infrastructural Facilities (INFRAS while dependent variable in this study is tax compliance measured by the residuals derived from the regression estimates.

$Y = f(X)$

Where:

Y = Tax Compliance (TAC)

X= Infrastructural Facilities

$X = x_1$, Where: x_1= Infrastructural Facilities (INFRAS) y= f(xi) y= TA

$TA = \beta + \beta$ INFRAS + Uε

The generic model is given as,

$TACi = \beta + \beta$ INFRAS + Uε

4. Results and Findings

4.1. Descriptive Analysis of the Test Items

In this section, emphasis is on the descriptive statistics on each of the test items. Here, a five-point Likert scale of strongly agree (SA), agree (A), indifferent (ID), disagree (D) and strongly disagree (SD) were used. For brevity and easy comparison, the Likert scales of strongly agree and agree are grouped into agree, while disagree and strongly disagree is grouped into disagree and indifferent stands alone. The purpose of this scaling is to arrive a conclusion that will give a better analysis of the test items. In each of the research objectives, there are two key variables and they are the dependent and the independent variables. In this section, there are several test items for

both the dependent and independent variables and they are discussed subsequently. First, is the test item for the dependent variable which is tax compliance and it has eleven (11) test items. Following this were the economic stimulations for tax compliance, they are tax education, the provision of institutions, availability of social infrastructure, low interest rates, access to credit facilities and granting of tax holiday, which serves as the independent variables.

Table 1 explains the responses of respondents on tax compliance among small and medium scale enterprises in Lagos and Ogun States. It was discovered that about 96 per cent of the sampled SMEs operators agreed that tax compliance is paying the exact tax liability to the tax authority as at when due, while 6.2 per cent and 3.1 per cent of the respondents disagreed and were indifferent respectively. The mean of 4.36 suggests that the respondents agree to the test item and a standard deviation of 0.91 implies that the respondent's responses were not likely to change over time. The test item that paying part of the tax liability to the tax authority can still be regarded as tax compliance, about 243 of the respondents agree to the test statement representing about 63 per cent of the total respondents, while about 29 per cent of the respondents disagreed with the statement that paying part of the tax liability to the tax authority can still be regarded as tax compliance, while 33 respondents representing 8.5 per cent of the respondents were indifferent. The mean score of 3.50 suggests that paying part of the tax liability to the tax authority can still be regarded as tax compliance.

S/N	Test Items		SD1	D 2	ID 3	A 4	SA 5	Mean	SDE
1	Tax compliance is paying the exact tax liability to the tax authority as at when due.	Freq %	10 2.6	14 3.6	12 3.1	138 35.8	211 54.8	4.36	0.91
2	Paying part of the tax liability to the tax authority can still be regarded as tax compliance.	Freq %	24 6.2	87 22.5	33 8.5	157 40.6	86 22.2	3.50	1.23
3	The payment of tax after it falls due can still be termed as being compliant.	Freq %	15 3.9	71 18.5	51 13.3	162 42.2	85 22.1	3.60	1.35
4	Multiplicity of taxes is one of the factors responsible for non-compliance among SMEs in Nigeria	Freq %	10 2.6	29 7.6	38 9.9	151 39.5	154 40.3	4.07	1.01
5	The payment of tax is the right and natural thing to do	Freq %	5 1.3	15 3.9	26 6.8	175 46.1	159 41.8	4.23	0.84
6	Paying taxes is a responsibility that should be gladly accepted by all SMEs	Freq %	9 2.3	18 4.7	24 6.2	175 45.3	160 41.5	4.19	0.92
7	SMEs should pay tax to support the government and her programmes	Freq %	6 1.6	23 6.0	42 11.0	182 47.8	128 33.6	4.05	0.91
8	SMEs will be ready to pay tax if tax audit does not exist	Freq %	38 9.9	86 22.3	93 24.2	118 30.6	50 13.0	3.14	1.19
9	SMEs are generally not willing to pay taxes	Freq %	32 8.4	95 25.1	74 19.5	112 29.6	66 17.4	3.22	1.24
10	The preparation of financial statement by SMEs will prompt them to pay their tax obligation as at when due.	Freq %	11 2.9	31 8.1	54 14	194 50.4	95 24.7	3.86	0.97
11	SMEs voluntarily file their tax returns because the consequences for non-compliance is high.	Freq %	8 2.1	39 10.2	59 15.4	190 49.7	86 22.5	3.80	0.97
	Average Mean							3.82	1.05

Table 1: Respondents Responses on Tax Compliance
Source: Field Survey, 2018
Note: SDE = Standard Deviation, SD = Strongly Disagree, D = Disagree,
ID = Indifferent, A = Agree, SA = Strongly Agree

On the overall, the mean score for all the test items for tax compliance is 3.82, the value being greater than 3.0 shows that there is a high level of tax compliance among the SMEs operators in Nigeria and the standard deviation of 1.05 shows that the responses on the respondents are less likely susceptible to change.

S/N	Test Items		SD 1	D 2	ID 3	A 4	SA 5	Mean	SD
26	The provision of regular power supply will enhance tax compliance of small-scale enterprises in Nigeria	Freq %	3 0.8	15 3.9	20 5.2	150 39.0	197 51.2	4.35	0.81
27	Good road networks will enhance tax compliance of small-scale enterprises in Nigeria	Freq %	1 0.3	14 3.6	24 6.2	165 42.7	182 47.2	4.32	0.77
28	The availability of friendly and greenery environment will facilitate the tax compliance and revenue growth of small-scale enterprises in Nigeria	Freq %	5 1.3	25 6.5	32 8.3	148 38.4	175 45.5	4.20	0.94
29	Accessibility and connectivity of road networks will enhance tax compliance of small-scale enterprises in Nigeria	Freq %	4 1.0	20 5.2	27 7.0	168 43.5	167 42.9	4.23	0.87
30	The control of environmental pollution and degradation will encourage small scale enterprises to file their tax returns to the revenue collection authorities.	Freq %	10 2.6	25 6.5	55 14.3	146 37.9	149 38.7	4.03	1.01
31	The provision of basic infrastructure such as health care services and educational facilities will engender tax compliance of small-scale enterprises in Nigeria	Freq %	17 4.4	20 5.2	43 11.2	148 38.5	156 40.1	4.06	1.06
	Average Mean							4.2	0.91

Table 2: Respondents Responses on Social Infrastructure
Source: Field Survey, 2018
Note: SDE = Standard Deviation, SD = Strongly Disagree, D = Disagree, ID = Indifferent, A = Agree, SA = Strongly Agree

An overall mean score of 4.20 shows that the majority of the respondents agreed that the provision of infrastructure will engender tax compliance among SMEs operators in Nigeria.

- Model: Provision of Infrastructural Facilities and Tax Compliance of SMEs in Nigeria
- Research Objective: Evaluate the effect of provision of infrastructural facilities on tax compliance of SMEs.
- Research Questions: What is the impact of the provision of infrastructural facilities affected tax compliance of SMEs in Nigeria
- Research Hypotheses: Provision of infrastructural facilities has no significant effect on tax compliance of SMEs in
  Nigeria

Panel A				
Variable	**Coefficient**	**Exponent of Coefficient**	**Standard Error**	**Wald- Test**
INFRAS	0.619	1.857	0.151	16.854***
Constant: Threshold				
[TAC = 2.00]	-2.733		0.920	8.827***
[TAC = 3.00]	1.347		0.631	4.551***
[TAC = 4.00]	5.196		0.697	55.567***
Panel B				
Diagnostic Tests			Statistic	Prob

Model Fitting Information		16.150***		0.000
Goodness of Fit				
Pearson			15.750	0.121
Deviance			14.379	0.137
Pseudo R-Square			0.051	
Test of Parallel Lines			7.866	0.112

Table 3: Dependent Variable: TAC

*Notes: TAC Represents Tax Compliance; Infras Is Provision of Infrastructural Facilities *, ** and *** Indicates Statistical Significance at 10, 5 and 1 Per Cent Respectively*

Parameter Estimates								
		Estimate	Std. Error	Wald	df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Threshold	[TAC = 2.00]	-2.733	.920	8.827	1	.003	-4.536	-.930
	[TAC = 3.00]	1.347	.631	4.551	1	.033	.109	2.584
	[TAC = 4.00]	5.196	.697	55.567	1	.000	3.830	6.563
Location	INFRAS	.619	.151	16.854	1	.000	.323	.915

Table 4

Source: Researcher's Computation, 2018

****Significant at 1%*

Panel a of Table 3 shows the estimated coefficients, and it was discovered that the coefficient of provision of infrastructural facilities is positive. This implies that there is a direct relationship between provision of infrastructural facilities for SMEs operators and the level of tax compliance in Nigeria. Also, provision of infrastructural facilities is a significant factor influencing changes in the level of tax compliance; this is because provision of infrastructural facilities is statistically significant at 1 per cent level. Concerning the magnitude of the estimate of provision of infrastructural facilities, the exp (0.619) gives 1.857, which implies that if there is an increase in the provision of infrastructural facilities for SMEs operators in Nigeria, the level of tax compliance will increase by 1.857.

In Panel B of Table 3, the model fitting information of 16.150 is significant at 1 per cent level; this implies that the final model gives a significant improvement over the baseline constant model. The two goodness of fit statistics of 15.750 and 14.379 are not significant at any level, thus the non-rejection of the null hypothesis is that the fit is good. This implies that the data and the model predictions are similar and that it is a good model. The pseudo R^2 shows that the provision of infrastructural facilities explains about 5 per cent changes to tax compliance among SMEs operators in Nigeria, while the remaining 95 per cent are other factors which affect the level of tax compliance but were not captured in the model. The statistics for the test of parallel lines is given as 7.866. This

value is not significant, which implies the null hypothesis that the slope coefficients are the same across response categories cannot be rejected.

4.2. Inferential Hypothesis Testing

This section is devoted to testing of the hypothesis. one hypothesis was tested and the ordered logistic regressions

were used because the variables were scaled. It should be noted that for an ordered logistic regression, the Wald-Statistics is always used and it is the square of the t-statistics.

The results presented in tables 4.9 to 4.14 are used to test the hypothesis and this is summarized below.

	Model 1
Sign	+
Prob. Values	0.000
Null Hypothesis	Reject

Table 5: Summary of Results

4.2.1. Research Objective

Evaluate the effect of provision of infrastructural facilities on tax compliance of SMEs.

4.2.2. Research Questions

What is the impact of the provision of infrastructural facilities affected tax compliance of SMEs in Nigeria

4.2.3. Research Hypotheses

Provision of infrastructural facilities has no significant effect on tax compliance of SMEs in Nigeria.

4.2.4. Decision

The summary of results in Table 4.16 shows the provision of infrastructural facilities has a positive and significant relationship with the levels of tax compliance of SMEs operators in Nigeria. Hence, the study rejects the null hypothesis that the provision of infrastructural facilities has no significant effect on tax compliance of SMEs in Nigeria. Thus, we accept the alternative hypothesis that there is significant relationship between provision of infrastructural facilities and the level of tax compliance of SMEs operators in Nigeria.

4.3. Discussion of Findings

This study examined the effect of infrastructural facilities on tax compliance among the small and medium scale

businesses in Nigeria. Using the ordered logistic regression, it was discussed that the provision of infrastructural facilities has positive and significant effects on the level of tax compliance among small and medium scale enterprises in Nigeria. The results of the study suggest that the provision of infrastructural facilities will enhance the level of tax compliance among small and medium scale enterprises in Nigeria. The result of this study is also in conformity with the study of Okoye, Akenbor & Obara (2012) who evaluated how tax sustainable can enhance tax compliance in the informal sector in Nigeria. Using both primary and secondary data, their results show that several causes of tax compliance problem in the informal sector in Nigeria are high tax rate, inadequate provision of public goods and services, lack of transparency and accountability public funds, poor funding of tax boards, absence of functional tax audit, lack of reciprocity and legitimacy, ineffective deterrence measures, out-dated tax laws, lack of public trust, and corrupt practices of tax officials.

5. Conclusion and Recommendations.

Using ordered logistic regression, this research empirically examines how the supply of infrastructure amenities affects tax compliance among small and medium-sized businesses in Nigeria. The research found that the degree of tax compliance among Nigerian small and medium-sized businesses is positively and significantly impacted by the availability of infrastructure amenities. Overall, the ordered logistic regression result indicates that the degree of tax compliance among Nigerian small and medium-sized businesses is significantly impacted by the availability of infrastructure. In order to connect all SMEs in Nigeria, it is advised that the government establish a public utility in the form of Universal ICT Infrastructure. This will help tax officials include all SMEs in the tax system.

Bangladesh used this strategy by using mobile phones to connect all of its small business owners. The facilities were being used to issue loans to SMEs, and they were also being used to monitor loan consumption. The government may do this on its own or in collaboration with the private sector so that the general public, including tax authorities, SMEs, the financial industry, and the information sector, can easily interact and use the facilities for a variety of everyday tasks.

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