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Original Article

Compliance and Basis of Tax Assessment in Nigeria

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Abstract: *The study investigates compliance and the basis of tax assessment in Nigeria. The study used an ex post facto research design that will rely on secondary data. Taxes are made up of tax Assessment, tax compliance, tax evasion, tax avoidance tax penalty, which entail paying the correct amount of taxes due on time. Nigeria tax laws prescribe specific due dates for tax payments and failure to meet these deadlines may result in interest charges or penalties. The expected results suggest that matching tax assessment to compliance will yield the greatest benefits in the form of advances in society, which will also boost employee engagement. This study illustrates how worker motivation is impacted by compliance activities, which broadens our understanding of the compliance literature. It can by aligning the notion with tax assessment, the challenges of implementing a compliance effort can be reduced because leaders would be better able to plan their operations while taking into consideration the interests of all tax assessments. The conclusion is that tax knowledge is crucial for improving tax assessment and compliance, and it may even persuade taxpayers to file their taxes with greater caution. It is advised that the government take the characteristics of taxpayer noncompliance seriously by examining the legislation in place and perhaps raising awareness of the significance of tax and penalty (enforcement). Along with fostering positive relationships with taxpayers, the government should aim to raise overall tax income and the percentage of general tax compliance.*

Keywords*: Taxes, Laws, Compliance, Nigeria.*

I. INTRODUCTION

Any revenue authority's primary objective is to collect the taxes and duties that are owed in accordance with the law. Nevertheless, when it comes to fulfilling the legal obligations placed upon them, taxpayers aren't always prepared and eager to comply. According to the IRS (2009), tax compliance refers to a taxpayer's ability and willingness to abide by tax laws, report their income accurately each year, and pay their taxes on schedule. From a broader standpoint, in order to complete the tax return and related tax documents, tax compliance necessitates a certain level of honesty, sufficient tax knowledge and the capacity to use this information, timeless precision, and enough records. Sing, V. & Bhupalan, R. (2001)

Around the world, the self-assessment system (SAS) is frequently used. Tax noncompliance is a major problem for many tax authorizes (James, S. & Alley, C. 2004). One aspect of SAS that could be the source of this unsolved issue is the shift in tax computation responsibilities from tax authorities to taxpayers. In order to comply with their duties, taxpayers are obliged to be informed of the most recent tax laws and regulations. This is particularly crucial because they would have to answer to the tax authorities in the case of a tax audit. SAS also stresses voluntary compliance because taxpayers' tax filings are considered their notification of assessment. Stated otherwise, in the event that taxpayers fail to file an accurate tax return within the designated timeframe, they will be subject to the conditions of the penalty mechanisms. Prior research has demonstrated that increasing taxpayers' tax literacy is one approach to ensure tax compliance (Loo, 2006; Loo et al., 2008; 2009). Similar to this, a less complicated tax structure would promote tax compliance (Cox & Eger, 2006; Richardson, 2006). This paper will, therefore, address this gap.

The objective, therefore, is to assess the degree of compliance with the relevant tax laws by taxpayers and find out the effects of tax knowledge and the method of assessment over tax compliance. '

This paper uses a qualitative technique to (1) disclose taxpayers' assessments of their understanding and compliance with the Nigeria income tax system and (2) determine whether or not such perceptions have an impact on their compliance behavior. The findings of this study can assist Nigeria policymakers in comprehending the compliance of the income tax system and a key area of tax expertise so that the necessary adjustments can be made to ensure high compliance in the future. Also, this research will add to the small body of tax literature in two ways: first, by expanding on what is already known, and second, by potentially laying the groundwork for the creation of metrics of tax compliance and knowledge. The rest of this section is structured as follows: Literature review, methodology, conclusion and recommendation.

II. LITERATURE REVIEW

This section reviews the prior literature on tax assessments, tax evasion, tax avoidance, tax knowledge, tax penalty, tax compliance.

A) Concept of Tax Assessment

Taxi assessment means any notice, demand, assessment, deemed assessment (including notice of adjustment of a Tax loss, whether revenue or capital in nature), amended assessment, determination, return, or other document issued by a Tax Authority or filed with a Tax Authority under a system of self-assessment that may require the Brand Company to make a payment of tax including interest, under sections 721-15(5), 721-15(5A), 721-30(5) or 721-30(5A) of the Tax Act.

a. Basis for Assessment

Companies may choose the date on which to base their accounts under applicable tax laws as long as the finance year-end dates are kept consistent from year to year. Taxpayers who are subject to tax under CITA will be assessed based on the periods for which their individual accounts are made up. Twelve (12) months is the typical base time from that day.

b. Tax Compliance

Tax compliance is defined by People's willingness to comply in a way that conforms with the "spirit" and the "letter" of tax legislation and administration without the need for enforcement measures, according to James and Alley (2002).

Previous to that Roth et al. (1989) defined tax compliance as accurately reporting tax liability in line with the tax legislation in effect at the time the return is filed and filing all required tax returns on time. Australia and Hong Kong conducted a cross-cultural study, and the results showed that Australian taxpayers were generally more obedient than Hong Kong taxpayers (Richardson, 2005). On the other hand, in their experimental investigation, Bobek et al. (2007) employed a fictitious tax scenario; however, they employed a fictitious tax scenario in their experimental study to look into the noncompliance patterns of taxpayers in the US, Australia, and Singapore.

The findings showed that Australian taxpayers had the highest noncompliance rate, at 45 percent, while Singaporean taxpayers had the lowest, at approximately 26 percent.

The results also showed that complete compliance was lowest in Australia and greatest in Singapore (54 percent) (30 percent). In terms of compliance and noncompliance rates, the US was at the Centre. In his research on thirty nations (Belkaoui 2004) used an indicator that ranges from 0 to 6 to quantify tax compliance, with higher scores indicating more compliance. New Zealand was recognized as the second most compliant country in this survey, behind Singapore. Australia, the United Kingdom (UK), and Hong Kong came next. Italy was seen as the least compliant country, while Malaysia came in at number eight, behind the US.

c. Concept of Tax Evasion

Tax evasion is the unlawful act of someone or a group purposefully not paying their true tax liabilities. Generally speaking, tax evaders face harsh fines and felony charges. The tax code of the Internal Revenue Service (IRS) designates deliberate tax evasion as a federal offense. Tax evasion includes both illegal underpayment of taxes and illegal late payments of taxes. Even in cases when a taxpayer is unable to provide the necessary tax documentation—such as employment records—the IRS is nevertheless able to determine whether taxes were due. In general, a person is not deemed to have engaged in tax evasion unless they failed to (Julia K 2022).

d. Tax Avoidance

Tax avoidance is the use of legal techniques to lower an individual's or business's income tax liability. This is often accomplished by making use of all allowed credits and deductions. Another way to achieve this is to prioritize tax-beneficial investment over other types of investments, such as buying tax-free municipal bonds. Tax evasion, which depends on dishonest tactics like inventing deductions and inadequate reporting income, is not the same as tax avoidance. Similar to this, a lot of taxpayers may employ lawful means of tax avoidance in order to lower their tax responsibilities or, at least, to prevent paying taxes. (Julia K 2022)

e. Concept of Tax Knowledge

Tax knowledge refers to the process by which taxpayers become aware of tax legislation and other tax-related information Csontos, l., Kornai J. & Toth, I. G. (1998). Tax knowledge is essential under a voluntary compliance tax system, particularly for determining one's precise tax burden. (Kasippilai, 2000; Palil, 2005; Saad et al., 2003). Malaysian research (Loo, 2006; Loo et al., 2008; 2009) has also demonstrated that the most crucial factor in predicting how taxpayers will act when utilizing the self-assessment system is their level of tax expertise. Numerous other research (such as Kasipillai & Jabbar (2003) and Kirchler et al. (2006)) that showed that having tax knowledge will result in higher compliance rates provide empirical support for this; it further states that tax knowledge reveals that there is a relationship with taxpayers ability to understand the laws and regulations of taxation and their ability to comply, Because they lacked tax expertise, SMEs did not see local authority fees to be any different from government taxes. To win the public's support and confidence, a tax plan must be better understood and accepted. (Saira, K. Zariyawati, M.A & Yoke-May, L.2010)

f. Concept of Tax Penalty

A tax penalty is a punitive action imposed by the government for either failing to comply with mandated conduct, such as filing taxes incorrectly or, being underpaid or failing to undertake a task that is prescribed. A late filing penalty may be imposed on a taxpayer who is required to file an income tax return or excise tax return but neglects to do so in a timely manner. According to the legal dictionary, the penalty for filing a late return is 5% of the outstanding tax amount for each month (or patrial month), up to a maximum of 25%. It has been discovered that deterrence factors, such as the likelihood of an audit and detection by tax officials, lower taxpayer noncompliance. (Allingham, M.G. & Sandmo, A.1972; Doran, M. 2009)

B) Concept of Compliance

Tom (2016) stated that depending on the industry to which you are applying the policies, regulatory compliance can have varied meanings. Regulatory compliance refers to the rules that a business must go by in order to meet the stated needs, as compliance refers to implementing standards that adhere to specified requirements. Compliance generally refers to adhering to a regulation, such as a specification, policy standard, or legislation (Cohen, 1985; Kaufimann, 1997). In Nigeria, as in other parts of the world, compliance mostly refers to abiding by the law. It covers all matters that are relevant to the business or covered by the law and that can be utilized to carry out or verify compliance. (Grey, 1998; Ackerman, 1997; & Lottemen, 2002). The Nigerian regulatory authorities persist in endorsing and incentivizing the application of the standard in the establishment of a telecom businesses' compliance framework. This study aims to close the gap by evaluating listed Nigerian telecommunications companies' compliance with CAMA 2004 and investigating the reasons behind their noncompliance with the statutory agencies.

C) Theory

The underpinning theory used in this paper is the compliance theory.

a. Compliance Theory

The compliance theory aims to explain why certain entities, states, businesses, and individuals choose to follow or disregard recognized legal requirements. Stated differently, the theory addresses the issue of the behavioral incentives that underlie legal compliance. In the framework of compliance theory, a law or laws must be provided that bind actors and be enforceable. The managerial and enforcement approaches are the two approaches to compliance theory that Brunner (2003) distinguished.

Compliance theory is the goal to answer the question of why entities, nations, businesses, and individuals may comply with or fail to comply with widely recognized legal norms. To put it another way, the theory is concerned with the question of the behavioral motives that underpin compliance with the rules of society. Compliance theory requires that a law be established that is binding on all actors and that such law (or laws) be enforceable in order to be effective. Brunner (2003)

The theory is relevant to this study in that it is concerned with the subject of the behavioral incentives that underpin compliance with the legislation in question. For the simple reason that taxpayers within the country of Nigeria are expected to comply with the laws, and if they fail to do so, they will be subject to penalties and sanctions.

III. METHODOLOGY

The material for this study includes textbooks, journals, tax laws, circulars and guidelines from the relevant tax authority.

IV. CONCLUSION AND RECOMMENDATION

Understanding taxes is crucial for improving tax assessment and compliance. It may also persuade taxpayers to file their taxes with greater caution. Self-employed people should make every effort to obtain a reasonable level of tax knowledge because it is beneficial to their enterprises and offers numerous advantages. Accurately calculating the amount of tax due can help prevent inadvertent noncompliance brought on by a lack of tax expertise.

It is recommended that the government should consider with seriousness the characteristics of noncompliance of taxpayers by reviewing current regulations and possibly, as a result, increase awareness of the importance of tax and penalty (enforcement). Along with fostering positive relationships with taxpayers, the government should aim to raise overall tax income and the percentage of general tax compliance.

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