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Impact of finance act 2022 on tax compliance among SMEs in Nigeria: A primary research study

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Abstract

The study evaluated the impact of Finance Act 2022 on tax compliances among SMEs in Nigeria adopting a primary research study. The study considered the Finance Act 2022 for Company Income Tax (CIT), Value Added Tax (VAT) and Personal Income Tax (PIT) as the predictors, and voluntary and non-voluntary tax compliances as outcome variables. According to the latest Survey Report by MSMES in 2021, there are 472,654 registered SMEs across the selected states of the six-geopolitical zones in Nigeria, this number represents the study population. A sample size of 400 SMEs was selected across the sampled states using a multistage sampling method. The regression analysis results disclosed that Finance Act 2022 on CIT and Finance Act 2022 on VAT has a positive significant and negative insignificant effect respectively on tax compliance in Nigeria. Finally, it was disclosed that the Finance Act 2022 on PIT has a positive but insignificant effect on tax compliance. The study concluded that the Finance Act Reform on various forms of taxes in 2022 stimulate a statistically positive impact on tax compliance among SMEs in Nigeria. Thus, it was recommended that revenue generated through CIT should be adequately utilized towards stimulating the growth and development of the industrial sector in Nigeria.

Keywords: Company income tax, Finance act, Non-voluntary compliance, Personal income tax, Tax compliance, Tax compliance, Value added tax, Voluntary compliance.

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Contents

Contribution of this paper to the literature
The importance of tax compliance by taxpayers with a view to achieving an improved and sustainable tax revenue cannot be overemphasized. In an attempt to empirically established the specific importance of the tax compliance by Small and medium Scale Enterprises (SMEs) in Nigeria, this study is expected to make contribution to the existing body of knowledge by focusing on CIT, VAT, and PIT which represents areas which little studies have been conducted when discussing about Finance Act 2022 and Tax compliance in Nigeria as related to the SMEs.

1. Introduction

Tax revenue has remained the most popular public stream of income, as almost all nations, if not all, execute this fiscal policy for one reason or the other. Generally, tax revenue is used to sustain and meet the budget expenditures of a nation. It helps in poverty alleviation, social and capital infrastructural development and health and welfare improvement (Tomy, 2021). In fact, the benefits of taxation are innumerable, if properly utilized. Unfortunately, in Nigeria, and in many developing nations as well, tax revenue is not derived as expected due to the unwillingness of taxpayers to render their tax liabilities. A major bulk of this non-compliance is derived from the informal sector, particularly the SMEs industry.

Taxpayers' compliance, or rather, their non-compliance, has been a trending issue for government administrations in most developing nations, of which Nigeria is not an exemption. Taxpayers' compliance refers to the level of willingness to which taxpayers abide by the constitutional regulations and reforms of tax provisions (Sritharan, Salawati, & Cheuk, 2020). As Alshrouf (2019) observed, a lot of SMEs (taxpayers) in developing nations are not compliant. Generally, this non-compliance could be attributed to a lot of factors like low incentives to pay tax, low enforcement strategies by tax administrators, lack of understanding of tax regulations and reforms by taxpayers among so many other factors.

The aim of any tax administration is to ensure improvement in tax compliance by eligible taxpayers (Ibrahim & Lawal, 2022). In Nigeria, taxpayers' compliance has not really been easy to achieve, due to the high rate of tax evasion and tax avoidance. Nevertheless, in the context of this study, taxpayers' compliance is being related to the understanding of the latest constitutional provision for tax laws, which is the Finance Act of 2022. The Finance Act of 2022 was passed into law during the administration of former President Muhammad Buhari (Akan & Azaka, 2023). Its provisions influence personal income tax, company income tax, value added tax, capital gains tax among many others.

In the opinion of Agbetunde, Akinrinola, and Anyahara (2020) taxpayers' compliance is sometimes low because there is no proper understanding of what the constitution says about tax. They further explained that this low understanding normally leads to incidence of double and multiple taxation. Moreso, the tax administration in some developing economies like Nigeria, is not fully stable, leading to a lot of compromise, miscommunication, and misinterpretation of what the constitution truly represents. Thus, having a very clear understanding of what the constitution says is very imperative for taxpayers.

The Finance Act of 2022 has some provisions for taxpayers, including SMEs, in relation to rendering tax liabilities. However, personal observations show that this matter has not been properly communicated to taxpayers. Most SMEs operate their businesses without proper understanding of the regulations and reforms guiding their operations. It is against this background that this study wishes to investigate the impact of the Finance Act of 2022 on taxpayers' compliance, in relation to the SMEs industry. Particularly, the provision of the Act and its relevance to company income tax, personal income tax and value added tax.

1.1. Statement of the Problem

In most developing nations, taxation has been perceived as a burdensome task, and one which only favours the political elite in government and officials having top-notch positions. This gruesome mentality has been one of the driving factors behind low taxpayers' compliance in developing economies, especially Nigeria (Ishak & Ali, 2020). The average citizen can hardly recognize the importance of the tax revenue he/she pays to the government, especially those involved in small-scale businesses. In the informal sector, there is no incentive to pay tax, due to the incidence of double and multiple taxations to the tax authorities. At the end of the day, they do not receive any tangible benefit from the tax administration.

Taxpayers' non-compliance among SMEs might also be attributed to the low manpower of tax authorities. The tax officials who are entrusted with tax administration are usually insufficient to cover wide geographical area (Ayneshet, 2020). Furthermore, lack of training, seminars, and workshops are part of the issues preventing a consistent tax-force to ensure compliance. When the government invests in the training and education of their staff, there will be improved knowledge, understanding and interpretation of the constitution. This would help them carry out proper awareness and sensitization to members of the public, especially SMEs owners concerning tax laws.

In the opinion of Abodher, Ariffin, and Saad (2020) SMEs are particularly non-compliant because they do not enjoy the benefits of paying tax. To Ibrahim and Lawal (2022) tax evasion is executed more by SMEs in the informal sector because the costs of tax compliance is more than the benefits of tax compliance. As rational entities wishing to make profit, tax evasion is more profitable for their businesses than tax compliance. Thus, the penalty for evading tax needs to be well publicized, to discourage people from carrying it out. A proper understanding of what the constitution says regarding that might help them make the right decision.

From the studies available to the researcher, taxpayers' compliance has been investigated from different contexts, based on geographical location, proxies for tax compliance, methodology, data analysis, sector, and use of predictor variable. Nevertheless, it was discovered that the investigation of taxpayers' compliance using the Finance Act of 2022 as predictor variable was still nouvelle. The closest study reviewed by the researcher which bears relevance to the subject matter at hand was performed by Akan and Azaka (2023) because they examined the Finance Act of Nigeria from 2019-2023; however, they did not streamline their research to SMEs, a feat this current study hopes to attain.

2. Literature Review

2.1 Conceptual Review

2.1.1 The Finance Act 2022

In Nigeria, there have been different provisions and reforms which have been accepted in the Constitution and implemented across the country. Among the popular provisions which guide tax levies, tax liabilities, rendering of tax and the timeframe within which it should be paid is the Finance Act (Emeka & Emmanuel, 2023). The Finance Act has been in place for a very long time with the most recent one being the Finance Act of 2023 signed into law by the administration of President Ahmed Bola Tinubu. Nevertheless, this study would examine the Finance Act 2022. This is because the researcher thinks that the timeframe of the Finance Act 2023 might not have been fully implemented yet across the whole country at the time of writing.

The Finance Act 2022 is a constitutional provision that provides among other things recent changes in tax deductions, exemptions as well as changes in tax rates (Akan & Azaka, 2023). In interpreting the Finance Act to taxpayers, it would be important for them to have a background knowledge on some basic information like the tax rates for individuals, enterprises, and firms, as well as the timeframe to file their tax returns with the appropriate tax authority. Generally, tax acts might not be too clear, and could be very ambiguous, but constant training and teaching could go a long way in improving the knowledge of staff and taxpayers in relation to tax laws.

Numerous changes were noticed when the Finance Act 2022 was passed into law. Among the changes include the chargeability of gains on digital assets at 10%, income gotten from gambling, gaming, betting and lottery businesses and capital losses on chargeable assets (Udo & Belo, 2023). The Act also enlightened that firms which carry out commercial winning, production, capture, and usage of gas would be entitled to a single 50% investment tax credit on their qualifying expenditure. It was further explained that the conventional investment allowance of 10% related to the qualifying expenditure for plant and expenditure would be abolished, but this would only influence qualifying assets acquired after 31 December 2022.

2.1.2 Company Income Tax (CIT)

CIT denotes the tax liabilities which a firm ought to pay to the appropriate tax authority at the right time (Kolawole & Owolabi, 2021). The Finance Act 2022 did not make much change to the initial provisions guiding CIT, other than increasing the tax rate for gas-flaring company from 30% to 50%. The major justification for this unique increment is not properly understood, but it might not be unrelated to the efforts by the government to discourage gas flaring. Another change the Finance Act 2022 brought to CIT is the removal of tax exemption from convertible currencies gotten from tourists (foreigners).

2.1.3 Value Added Tax (VAT)

VAT is generally recognized as a consumption tax whose ultimate burden is borne by the final consumer (Ibrahim & Lawal, 2022). For this type of tax, there is a certain rate attached to each level of production; from the manufacturing to the distribution among wholesalers and retailers, and finally to the end users of the goods/services. The Finance Act 2022 brought the change that VAT would be charged on imported goods which are purchased online from foreign suppliers appointed by the Federal Inland Revenue Service (FIRS). It was also decided that the FIRS would impose VAT on commerce which it deems to be artificial or fictitious in nature.

2.1.4 Personal Income Tax (PIT)

PIT is the tax liability of individuals, usually those ones who earn fixed salaries and wages. The tax rate on personal income follows a progressive pattern, where someone with more income pays more tax than a person with less income. The major addition of Finance Act 2022 to the existing provision for PIT Act is that any premium rendered to an insurance firm due to an agreement would be treated as an allowable deduction, subject to a minimum holding period of 5 years (Akan & Azaka, 2023). This provision would be applied to any portion of the deferred annuity withdrawn within the 5-year minimum holding period.

2.1.5 Taxpayers' Compliance

Taxpayers' compliance can be defined as the degree to which eligible taxpayers adhere to stipulated rules and regulations which guide tax payment within a jurisdiction (Alshrouf, 2019). Implicitly, tax compliance can be low, it can also be high. This could be why Nguyen, Pham, Le, Truong, and Tran (2020) defined tax compliance as the response of the public towards the fiscal policies of the government within a stipulated time frame. The goal of any tax administration is to ensure that tax compliance is high. Achieving this goal could prove difficult, especially where taxpayers are unwilling to adhere to the constitution.

In the opinion of Nurebo, Tarakegn, and Gutu (2021) taxpayers' compliance can be defined as the extent to which tax rules and provisions can be obeyed by taxpayers without incentives and enforcement by tax authorities. To Sritharan et al. (2020) taxpayers' compliance can be referred to as the willingness to adhere to tax reforms by accurately stating income, declaring it on time, claim the necessary reliefs and allowances and rendering all tax liabilities in a timely manner. Basically, it would be easier for tax revenue to increase when taxpayers have the willingness to pay their taxes. Thus, there is a cost to taxpayers' compliance, which is usually borne by the tax authorities whenever there is low level of tax compliance.

2.2 Theoretical Review

2.2.1 The Slippery Slope Framework (SSF)

It is widely accepted in literature that this theory was established by Kirchler, Hoelzl, and Wahl (2008). Basically, this theory examines the nature of tax compliance as a blend of economic and non-economic factors. That is, the attitude of taxpayers in adhering to laid down rules and regulations reflects psychological and economic factors. Moreso, the influence of economic and non-economic factors on taxpayers' compliance is controlled by the relationship between these taxpayers and the tax authorities. Thus, when there is low acceptance of the tax rules and regulations, all other factors would likely follow this pattern, which would ultimately lead to low tax compliance.

A clear insight into the perspectives of this theory would reveal that in antagonistic environments, taxpayers feel exploited and cheated; this motivates them to go against tax rules and regulations (Mas'ud, Manaf, & Saad, 2015). On the other hand, tax authorities feel that the best way to keep taxpayers in check is with stiff penalties and punishments. In contrast, synergistic climates show understanding between taxpayers and tax authorities. The taxpayers respect the tax authority and understand that payment of tax is their civic responsibility which they are obligated to do, with a view to building and developing the economy.

This theory is quite relevant to the subject matter at hand because it explains the relationship between SMEs taxpayers and tax authorities in Nigeria. Nevertheless, it has been criticized due to some limitations. Firstly, the theory was not clear in describing what economic and non-economic factors might be in relation to taxpayers' compliance (Kogler, Muehlbacher, & Kirchler, 2013). This creates room for a lot of assumptions which could cause misunderstanding and misinterpretation. Also, the theory has not really been tested empirically, which serves as another limitation of the theory.

Furthermore, the theory breaks down the determinants of tax compliance into two factors: trust and power. When tax authorities are trusted by taxpayers and vice versa, the compliance level would be high, causing a surge in the tax revenue. On the other hand, power comes into play when there is the absence of trust between taxpayers and tax authorities. In this scenario, tax authorities enforce tax compliance by applying stiff penalties and sanctions to defaulting taxpayers. Thus, trust leads to voluntary tax compliance, while power leads to compulsory tax compliance.

2.2.2. Ability to Pay Theory

The ability to pay theory has been generally accepted to have stemmed from the works of Smith (1776). The theory advocates that taxpayers should render tax liabilities to the government based on a calculable rate/basis which is deemed fair to the taxpayers. Basically, it depicts a positive relationship between taxpayers' compliance and taxpayers' ability to pay. In the sense that if a taxpayers' ability to pay is high, then their compliance level would also be high. In the other way, if a taxpayers' ability to pay is low, then their compliance level would also be low. When considering why the current study focuses on SMEs, these viewpoints make more sense, because SMEs primarily wish to make profit; if they perceive that tax payment could cause loss, they might likely not comply.

This theory motivates the concept of progressive taxation which is in line with the constitution of Nigeria; that is, taxpayers are usually charged based on their income level. The personal income tax act of 2020 apportions a fixed chargeable rate to the income of taxpayers, which steadily increases as their income rises. This causes one of the great criticisms of the ability to pay tax theory; taxpayers might become demotivated to work hard, because their efforts would be going to the government in terms of increased tax liabilities (Chauke, Sebola, & Mathebula, 2017). Nevertheless, if the government can prove to taxpayers that their taxes are used to improve the economy, there could be more motivation to pay tax.

The ability to pay theory is quite logical in its tenets, using the economic factor of income as a driver for its assertions. Nevertheless, it has been criticized based on some limitations. One of them is the index of measurement of an eligible taxpayer's ability. That is, there are different indexes which can be used to measure a taxpayer's ability to pay, but there is none that seems more significant than the other (Edson, 2016). Income, expenditures, and fixed assets are the major measurement indexes, but there is no consensus concerning the one that should come first. Another criticism of this theory is that applying this theory could reduce the incentive to work, since more of a person's income would be given to the government.

This theory is quite relevant to the subject matter at hand because it understands that taxpayers' compliance is directly linked to their ability to pay tax. SMEs who can pay their tax liabilities would find it easier to comply with tax rules and reforms than SMEs who are unable. It would be imperative for tax authorities to properly examine SMEs' tax ability before levying tax on them if they wish to improve taxpayers' compliance. This theory shows the direct relationship between taxpayers' compliance and taxpayers' ability to pay. This relationship is very vital and should be recognized by all stakeholders.

2.3 Empirical Review

This section would reveal previously examined studies by various scholars which bare some relevance to the subject matter at hand. Basically, these available studies would bear relevance to the current study based on variables, geographical location, sector, and methodology among others.

Olaoye and Ekundayo (2019) undertook a study which assessed the effect of tax audit on tax compliance in Ekiti State, Nigeria. Through Multinomial Logistic Regression analysis, they opined that tax audit significantly influenced tax compliance. The study further proved that tax law influenced tax compliance, they however concluded that tax procedure did not influence tax compliance. A study was conducted in Indonesia by Vierra Gracia Dharmawan (2019) which investigated the effect of tax audit quality on corporate taxpayer compliance. Using descriptive statistics, it was unveiled that tax audit quality had a significant effect on corporate taxpayer's compliance. There exists a similarity between the reviewed studies and this current study in terms of dependent variable, that is, taxpayers' compliance. Despite this, uniqueness lies in the current study's use of SMEs as its sector-focus. Also in Vietnam, Nguyen *et al.* (2020) examined the determinants of tax compliance among Vietnamese firms. Through structural equation model (SEM), it was seen that audit probability, corporate reputation, and business ownership directly influenced voluntary tax compliance, while enforced tax compliance was directly influenced by audit probability, social norms, and sanction severity. Blaufus, Schöndube, and Wielenberg (2020) through content analysis revealed that granting the tax auditor access to the internal statutory audit report increased firms' tax compliance, raised tax revenues, and decreased tax audit frequency in Germany. The reviewed studies did not streamline their sector to SMEs, a feat the current study hopes to attain.

Also study in Malaysia by Sritharan *et al.* (2020) revealed through Pearson correlation and multiple regression analysis that changes in government policies and political affiliation determined individual taxpayers' tax compliance behaviour. However, religiosity was not considered to be a factor capable of significantly influencing individual's tax compliance behavior. Abodher *et al.* (2020) discovered through Structural equation modeling that Islamic religious belief had a significant positive relationship with tax non-compliance among the self-employed Libyans. However, the reviewed studies did not consider tax laws as a predictor of taxpayers' compliance, a feat the current study hopes to attain. Samuel (2020) opined through descriptive statistics that tax audit had problems in the application of automation to its maximum capacities, incompetent auditors to tackle tax evasion and avoidance, weak taxpayers' education program which cannot improve the compliance level of taxpayers in Ethiopia. However in Nigeria, Dabor, Kifordu, and Abubakar (2021) in their study titled, *"Tax Compliance Behavior and Religiosity: The role of Morality"*. The results of multiple regression techniques uncovered that there were no significant differences in the views of male and female respondents regarding the effect of religious belief on tax compliance. The reviewed studies did not streamline their research to SMEs, a feat the current study hopes to attain.

Ibrahim and Lawal (2022) through simple percentages and ordinary least square (OLS) regression techniques unveiled that taxpayers' complexity (TPC) negatively and significantly affected tax compliance behaviour of SMEs, while taxpayers' knowledge positively and significantly affected tax compliance behaviour of SMEs in Gombe state, Nigeria. Similarly, Akan and Azaka (2023) examined taxpayers' perception of the fairness of the Finance Act from 2019 to 2023 and their knowledge concerning the Finance Act. The sample covered Kano, River, and Lagos States in Nigeria. Through the Structural equation model, it was discovered that taxpayers do not think that the Finance Act of 2019 to 2023 was fair or that it had enhanced their understanding of taxes. The latter reviewed study examined the Finance Act of 2022, a similarity shared with the current study. However, it did not conduct its research among SMEs, a feat the current study hopes to achieve.

The reviewed studies available to the researcher show a wide gap when it comes to predicting taxpayers' compliance with the Finance Act of 2022 in Nigeria. From the examined studies, only that of Akan and Azaka (2023) bear great resemblance with the independent variable in the study, in that it investigated taxpayers' perception of fairness through the Finance Act. Regardless, the current study still holds some uniqueness over it because the subject matter would be investigated through company income tax, value added tax and personal income tax, a feat none of the accessible studies by the researcher achieved. In the same vein, only a few studies performed their research among SMEs, a major gap this current study hopes to address. Hence, the following hypotheses are formulated:

i. Company Income Tax (CIT) has no significant effect on Tax compliance among SMEs in Nigeria;
ii. Value Added Tax (VAT) has no significant effect on Tax compliance among SMEs in Nigeria;
iii. Personal Income Tax (PIT) has no significant effect on Tax compliance among SMEs in Nigeria.

3. Methodology

Considering the comprehensive overview of Finance Act in 2022 and its impact on taxpayers' compliance in Nigeria, this study considered descriptive survey research design. Correspondingly, a positivist, deductive and quantitative approaches are considered appropriate for this study as result of the layouts established for the study. The study covered all the registered SMEs in some selected states across the six geopolitical Zones in Nigeria. The leading four economically viable states in terms of highest Gross Domestic Product (GDP) in each geographic zone, according to the National Bureau of Statistics Report (2022) were chosen for the study's population. According to the latest Survey Report by MSMES in 2021, there are 472,654 registered SMEs across the selected states in Nigeria. Using Yamane (1967) a sample size of 400 SMEs was selected across the sampled states in Nigeria using a multistage sampling method. Firstly, a proportionate sampling method was adopted to ascertain the number of SMEs to be selected from selected states. Secondly, SMEs in the state capital were used and this was achieved using a purposive sampling method.

The Yamane (1967) formula is given as:

$$n = \frac{N}{1 + N(e)^2} = \frac{472{,}654}{1 + 472{,}654(0.05)^2} = 400$$

The summary of the procedure is presented Table 1.

Table 1. Population and sample size.

S/N	Geopolitical zones	Selected states	Registered SMEs	Sampled SMEs
1	North-Central	Niger	23197	$n = \frac{23197(400)}{472{,}654} = 20$
		Benue	14851	$n = \frac{14851(400)}{472{,}654} = 13$
		Kogi	12517	$n = \frac{12517(400)}{472{,}654} = 11$
		Nasarawa	10728	$n = \frac{10728(400)}{472{,}654} = 9$
2	North-East	Adamawa	15321	$n = \frac{15321(400)}{472{,}654} = 14$
		Bauchi	15319	$n = \frac{15319(400)}{472{,}654} = 14$
		Gombe	19454	$n = \frac{19454(400)}{472{,}654} = 17$
		Taraba	9606	$n = \frac{9606(400)}{472{,}654} = 9$
3	North-West	Kaduna	21615	$n = \frac{21615(400)}{472{,}654} = 19$
		Kano	42969	$n = \frac{42969(400)}{472{,}654} = 37$
		Katsina	21610	$n = \frac{21610(400)}{472{,}654} = 19$
		Sokoto	14114	$n = \frac{14114(400)}{472{,}654} = 13$
4	South-East	Imo	8348	$n = \frac{8348(400)}{472{,}654} = 8$
		Anambra	9230	$n = \frac{9230(400)}{472{,}654} = 9$
		Abia	14905	$n = \frac{14905(400)}{472{,}654} = 14$
		Ebonyi	13949	$n = \frac{13949(400)}{472{,}654} = 13$

S/N	Geopolitical zones	Selected states	Registered SMEs	Sampled SMEs
5	South-South	Rivers	42306	$n = \frac{42306(400)}{472,654} = 16$
		Akwa Ibom	17263	$n = \frac{17263(400)}{472,654} = 16$
		Delta	26651	$n = \frac{26651(400)}{472,654} = 24$
		Bayelsa	5863	$n = \frac{5863(400)}{472,654} = 6$
6	South-West	Lagos	42067	$n = \frac{42067(400)}{472,654} = 37$
		Ondo	7899	$n = \frac{7899(400)}{472,654} = 8$
		Ogun	31133	$n = \frac{31133(400)}{472,654} = 27$
		Oyo	31739	$n = \frac{31739(400)}{472,654} = 27$
Total			472,654	400

In this study, a well-structured close ended questionnaire was adopted and administered to the sampled SMEs. Thereafter, the collected data were subjected to further analysis using descriptive, Factor analysis, Pearson Correlation and Multiple regression analysis. To validate the presence of assumptions of linear regression in the formulated regression models, the study conducted some post estimation tests such as normality, linearity, and heteroscedasticity test. The functional and linear representations of these models are as follows:

Functional:

$$VLC = f(FACIT, FAVAT, FAPIT) \quad (3.1)$$

$$NVC = f(FACIT, FAVAT, FAPIT) \quad (3.2)$$

Linear:

$$VLC = \alpha_0 + \alpha_1 FACIT + \alpha_2 FAVAT + \alpha_3 FAPIT + Ut \quad (3.3)$$

$$NVC = \alpha_0 + \alpha_1 FACIT + \alpha_2 FAVAT + \alpha_3 FAPIT + Ut \quad (3.4)$$

Where: VLC is Voluntary Taxpayers' Compliance, NVC is Non-Voluntary Taxpayers' Compliance, FACIT is Finance Act 2022 for Company Income Tax FAVAT is Finance Act 2022 for Value Added Tax, FAPIT is Finance Act 2022 for Personal Income Tax.

4. Results and Discussion

The study administered 400 questionnaires across the selected States in Nigeria, out of which 362 questionnaires were retrieved and completely filled. On this basis, data collected from the 362 respondents were subjected for data analysis. The analysis results are as follows:

4.1. Analysis of the Characteristics of the Selected SMES

Table 2 presented the features of the SMEs selected across the six geopolitical zones in Nigeria. The characteristics includes the nature of the businesses, number of employees, legal status of the business, capital base employed and year of business existence. Starting with the nature of the business, the analysis result indicated that majority of the businesses, 181(50%) are trading and commerce, 51(14.1%) are manufacturing firms, 106(29.3%) are accommodation and food services firms while the remaining 24(6.6%) are agricultural businesses. This implies that most of the businesses under consideration are grouped as trading and commerce that is, buying and selling of goods and services either locally or internationally. Also, it was disclosed in the table that 94(26%) of the SMEs under consideration had a number of employees less than 5, 111(30.7%) had a number of employees ranging from 6-10, 96(26.5%) had a number of employees ranging from 11-15 while the remaining 61(16.9%) of the SMEs had a number of employees ranging from 16 and above. By implication, most of the SMEs under consideration has a number of employees ranging from 6-10. This shows that most of these businesses had financial capacity to keep more than 5 employees in their businesses as they significantly contribute to the smooth running of the businesses.

Also, 60(16.6%) of the SMEs under consideration are sole proprietorship entities, 27(7.5%) practice partnership form of business, 33(9.1%) are joint ventures, 66(18.2%) are cooperatives while 176(48.6%) are private limited liability companies. This indicated that most of the businesses under consideration across the geopolitical zones in Nigeria are private limited liability companies which aim to abide with the established law on taxation for their sustainability in their respective industries. In addition, most of the SMEs under consideration are established on a capital base ranging from 6-10 million naira, 46(12.7%) are established on a capital base ranging below 1 million, 102(28.2%) are established on a capital base ranging from 1-5 million while 81(22.4%) are established on a capital base ranging above 10 million. This shows that most of the SMEs across the geopolitical zones in Nigeria have the financial capability to comply with the tax regulations and rates. Finally, most of the SMEs 166(45.9%) had a year of existence ranging from 11-15 years, 107(29.6%) had a year of existence ranging from 6-10 years, 54(14.9%) had a year of existence ranging from 1-5 years while 35(9.7%) had a year of existence ranging from 16-20 years.

Table 2. Descriptive analysis of the characteristics of the selected SMES.

Characteristics	Frequency (N)	Percentage (%)
Nature of business	Manufacturing	51
	Trading and commerce	181
	Accommodation and food services	106
	Agriculture	24
Number of employees	Less than 5	94
	6-10	111
	11-15	96
	16 and above	61

Characteristics	Frequency (N)	Percentage (%)
Legitimate status	Sole proprietorship	60
	Partnership	27
	Joint Venture	33
	Cooperative	66
	Private limited liability company	176
Capital base	Below 1 million	46
	1-5 million	102
	6-10 million	133
	Above 10 million	81
Age of the business	1-5 years	54
	6-10 years	107
	11-15 years	166
	16-20 years	35

4.2. Analysis of the Items on the Questionnaire

To examine the responses of the respondents as regards the items on the questionnaire, mean and standard deviation were used. The benchmark on each item raised under each variable is 2.5 as the questionnaire adopted 5likert scale scoring system. Thus, mean value above 2.5 indicated that most of the respondents agreed while mean value less than 2.5 implies that, the respondents disagreed. These items were grouped based on the variables under consideration.

As presented in Table 3 most of the respondents agreed that they voluntarily pay their taxes regularly. This might be attributed to the fact that they benefit from the taxes paid to the government as claimed. Though, they claimed not to disclose their actual returns to the government since they are not satisfied with the government's performance. This indicated that most of the SMEs owners across the geopolitical zones in Nigeria voluntary comply with tax regulation though not at a transparent level. This is because, most of the SMEs owners do not disclose their actual financial capacity to the government in other to reduce their tax dues.

Also, for items on non-voluntary compliance construct, the respondents agreed that they pay their tax dues often due to the fear of legal actions by the government. Also, they claimed that they lack trust in government's use of public funds as many of the state government lacks adequate evidence for proper management of public funds. Thus, they became unsatisfied with the transparency of the tax system practiced at the state level. Finally, they agreed that the complexity of tax regulations discourages them from paying taxes as and when due. This indicated that most of the SMEs owners lack motivation to voluntarily comply with tax regulations. This might be as a result of the government's lack of evidence for proper management of fund generated through taxation.

Table 3. Descriptive analysis of items raised on tax compliance among SMEs in Nigeria.

Proxies	Items	Mean	Standard deviation	Decision
Voluntary compliance	I voluntarily pay my taxes regularly	2.92	0.843	Agreed
	I benefit from the taxes paid to the government	3.70	1.330	Agreed
	I disclose my actual returns to the government	2.01	1.222	Disagreed
	I am satisfied with the government's performance	2.09	0.905	Disagreed
Non-voluntary compliance	The fear of legal action made me pay my tax dues often	3.87	1.122	Agreed
	I have lack of trust in the government's use of public funds	2.52	0.763	Agreed
	I'm not satisfied with the transparency of the tax system practiced in my state	2.86	0.726	Agreed
	The complexity of tax regulations discourages me from paying tax as and when due.	2.77	0.652	Agreed

Table 4 presented the items raised on the constructs of Finance Act 2022 in Nigeria on different forms of taxes such as CIT, VAT, and PIT. For the reforms on CIT, respondents agreed that they are fully aware of the provision introduced in the Finance Act 2022 relating to CIT and they have taken voluntary measures to comply with the changes made in CIT regulation introduced in the Reformed Finance Act 2022. This could be evidenced in the various action taken such as consultations with tax advisors on how to adhere to the changes. The respondents also agreed that the reforms of the Finance Act 2022 positively influence the financial status of their respective companies. This indicted that the reforms made on CIT could stimulate a positive impact on the compliance of taxpayers among SMEs owners in Nigeria. This might be attributed to the fact that these changes on the CIT through the Finance Act 2022 stimulates sustainability of the business firms in their respective industry and they significantly contribute to the growth and development of Nigeria economy. Thus, these reforms are in favour of the various business firms.

For reforms on VAT, the respondents agreed that their respective companies are fully prepared to comply with the changes in VAT regulations as introduced by the Finance Act 2022. Also, the respondents are satisfied with the communication and guidance provided by relevant authorities as regards the changes in the VAT. However, the respondents asserted that the changes in VAT negatively contribute to their business operations. This might be attributed to the fact that at the long run, increase in the VAT rate by 50% would result to decline in sales and profit trends. Finally, the respondents failed to support the VAT registration threshold for business as it would cause a great damage to business survival in the industry in the long run. This indicated that the reforms on VAT in the Finance Act 2022 could stimulate a decrease in taxpayer's compliance. This might be due to the fact that 50% increase in VAT rate which in turn resulted to inflation stimulate a fall in profitability of various SMEs. Thus, lacks financial capacity to pay their tax dues to the government.

For the construct of reforms on PIT, the respondents agreed that they are fully aware of the significant changes in the PIT system. And these changes aim to stimulate a balance equitable taxation and economic growth. Also, they agreed that the changes support proportionate tax rate system and finally these changes stand to promote governments' commitment to equitable and fair tax policies. By implication, reforms on personal income tax have the capacity to stimulate a positive influence on taxpayers' compliance among SMEs in Nigeria. This might be attributed to the fact that these changes aim to promoting fairness in tax regulations and policies could justified economic growth through taxation in Nigeria.

Table 4. Descriptive analysis of items raised on finance act 2022 in Nigeria.

Proxies	Items	Mean	Standard deviation	Decision
Reforms on company income tax (CIT)	I am aware of the provisions introduced in the finance act 2022 relating to CIT	3.50	0.833	Agreed
	I have taken voluntary measures to comply with the changes made in CIT regulation introduced in the reformed finance act 2022	3.43	0.534	Agreed
	I made consultations with tax advisors on how to adhere to the changes	3.53	0.511	Agreed
	The reform of the finance act 2022 positively influence the financial status of my company	3.33	0.573	Agreed
Reforms on value added tax (VAT)	My company is fully prepared to comply with the changes in VAT regulations as introduced by the finance act 2022	3.44	0.603	Agreed
	I am satisfied with the communication and guidance provided by relevant authorities as regards the changes in the VAT	3.24	0.635	Agreed
	The changes in VAT regulations affect my business operations negatively	3.25	0.718	Agreed
	I support the VAT registration threshold for businesses	1.54	1.645	Disagreed
Reforms on personal income tax (PIT)	I am aware of the significant changes in the personal income tax system	3.19	0.512	Agreed
	These changes aim to stimulate a balance between equitable taxation and economic growth	3.36	0.717	Agreed
	The changes support proportionate tax rate system	3.15	0.624	Agreed
	These changes will promote governments' commitment to equitable and fair tax policies.	3.34	0.660	Agreed

4.3. Factor Analysis

The Kasiser-Meyer-Olkin (KMO) and Bartlett's test result presented in Table 5 justifies the necessity for factors analysis as the reported KMO value stood at 0.565 indicating that the data is scalable as there is –value of Barlett's test result which stood at 0.000 indicated a cordial relationship between the items and the variance. For the extraction of relevant items, items with coefficient value greater than 0.5 are considered relevant and retain while items with less than 0.5 were not retained as they are considered irrelevant.

Table 5. Factor analysis.

Kasiser-Meyer-Olkin measure of sampling adequacy		0.565
Bartlett's test of Sphericity	Approx. Chi-square	92.821
	Df	10
	Sig.	0.000

4.4. Pearson Correlation and Multicollinearity Test

The Pearson correlation matrix presented in Table 6 indicated that voluntary compliance maintained a positive relationship with non-voluntary compliance and Finance Act 2022 on CIT while a contrary relationship exists between voluntary compliance, Finance Act 2022 on VAT and PIT. This indicated that voluntary compliance, non-voluntary tax, and Finance Act 2022 on CIT moved in similar direction across the sampled SMEs. However, non-voluntary compliance, Finance Act 2022 on VAT and PIT moved in different directions across the SMEs under consideration. For the non-voluntary compliance, positive relations exist with all the three predictors. Though, Finance Act 2022 on CIT maintain a negative relationship with other predators. Unlike Finance Act 2022 on CIT, Finance Act 2022 on VAT has a positive correlation with Finance Act 2022 on PIT. Finally, Finance Act 2022 on PIT has a positive relationship with other variables. For multi-collinearity test, 0.146 stood as the highest coefficient value indicating the absence of multicollinearity. This is because their correlation coefficient is moderate and not too high as the thumb to ascertain the presence of multicollinearity is 0.6 coefficient value.

Table 6. Pearson correlation matrix.

Variables		VOC	NVC	FACIT	FAVAT	FAPIT	VIF
VLC	Pearson correlation	1					
	Sig. (2-tailed)						
NVC	Pearson correlation	0.012	1				
	Sig. (2-tailed)	0.824					
FACIT	Pearson correlation	0.092***	-0.106**	1			1.289
	Sig. (2-tailed)	0.080	0.043				
FAVAT	Pearson correlation	-0.134**	0.057	-0.109**	1		1.393
	Sig. (2-tailed)	0.010	0.278	0.038			
FAPIT	Pearson correlation	-0.104**	0.067	-0.146**	0.418*	1	1.127
	Sig. (2-tailed)	0.049	0.206	0.005	0.000		

Note: (*, **, ***) connotes significance at 1%, 5% and 10% level of significance.

4.5. Regression Analysis

To ascertain the impact of Finance Act of 2022 on tax compliance among SMEs in Nigeria, a multiple regression analysis is conducted. This is in line with the formulated models as presented below:

Model 1:

Impact of Finance Act 2022 (CIT, VAT, PIT) on tax compliance (Voluntary) among SMEs in Nigeria.

$$VLC = \alpha_0 + \alpha_1 FACIT + \alpha_2 FAVAT + \alpha_3 FAPIT + Ut$$

The reported r value in Table 7 indicated that a cordial relationship exists between Finance Act 2022 on CIT, VAT, PIT, and voluntary tax compliances among SMEs in Nigeria. The adjusted r-square value indicated that the changes in the Finance Act 2022 CIT, VAT and PIT could stimulate 52% changes in voluntary tax compliance level among SMEs in Nigeria. The remaining 48% could be attributed to other variables not included in this model. The reported f-stat and probability value of 3.190 and 0.024 indicated that the model is fit. The regression analysis result are as follows:

i. Finance Act 2022 on Company Income Tax has a positive significant effect on voluntary tax compliance in Nigeria to the tune of 0.375($p=0.015<0.05$).
ii. Finance Act 2022 on Value Added Tax has a negative insignificant effect on voluntary tax compliance in Nigeria to the tune of -0.168($p=0.066>0.05$).
iii. Finance Act 2022 on Personal Income Tax has a positive but insignificant effect on voluntary tax compliance in Nigeria to the tune of 0.175($p=0.403>0.05$).

Table 7. Multiple regression of the impact of finance act of 2022 (CIT, VAT, PIT) on tax compliance (Voluntary) among SMEs in Nigeria.

Independent variable	Unstandardized coefficient		Standardized coefficients	T	P-value
	B	Std. error	Beta		
(Constant)	13.3	2.32		5.74	0.00
FACIT	0.38	0.12	0.27	3.39	0.02
FAVAT	-0.17	0.09	-0.11	-1.85	0.07
FAPIT	0.18	0.09	0.05	0.84	0.40
R = 0.76	R^2 = 0.58		Adj. R^2 = 0.52		
Std Err = 2.61	F = 3.19(0.02)				
Dependent variable: Voluntary compliance					

4.5.1. Post Estimation Result

To ascertain the reliability of the findings made, there study conducted some post estimation result to ensure the model is in line with the assumptions of linear regression. As presented in Table 8 there is no problem of heteroscedasticity in the error terms and the error term is normally distributed.

Table 8. Post estimation test result.

Normality test		Breusch-Pagan Godfrey Heteroscedasticity test	
Shapiro-Wilk stat	Probability	F-statistics	Probability
0.294	0.07	0.38	0.19

In Figure 1 the normality results indicated that a linear relationship exist between the variables under consideration in this model.

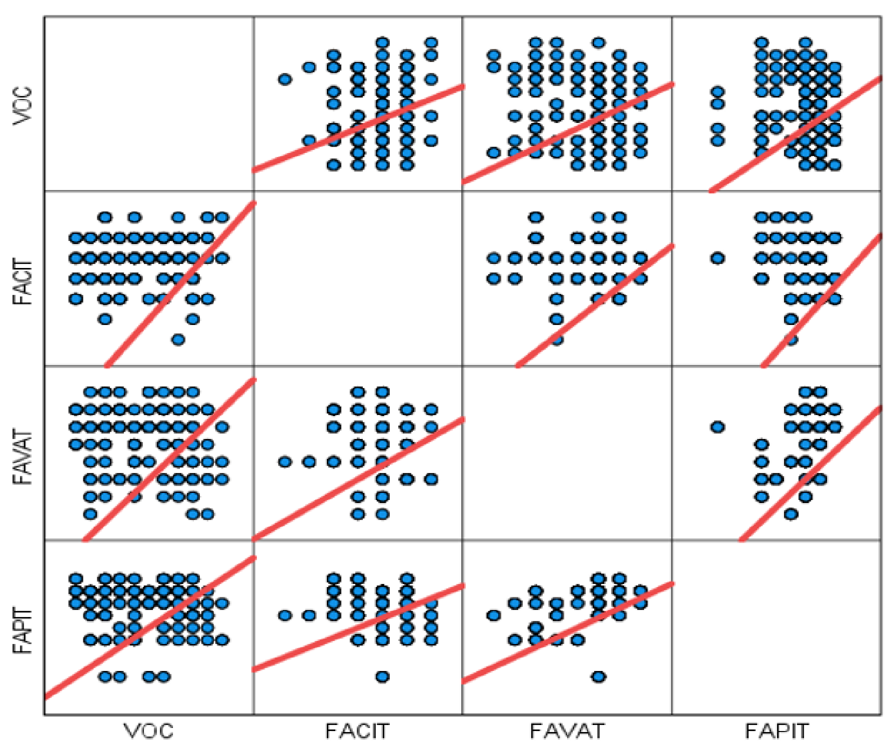

Figure 1. Linear test result for model I.

Model II:

Impact of Finance Act 2022 (CIT, VAT, PIT) on tax compliance (non-voluntary) among SMEs in Nigeria.

$$NVC = \alpha_0 + \alpha_1 FACIT + \alpha_2 FAVAT + \alpha_3 FAPIT + Ut$$

The reported r value in Table 9 indicated that a mutual correlation exists between Finance Act 2022 on CIT, VAT, PIT and non-voluntary tax compliances among SMEs in Nigeria. The adjusted r-square value indicated that variation in the Finance Act 2022 on CIT, VAT and PIT could stimulate 62% changes in non-voluntary tax compliance level among SMEs in Nigeria. The remaining 38% could be attributed to other variables not included in this model. The reported f-stat and probability value of 4.785 and 0.001 indicated that the model is fit. The regression analysis result are as follows:

i. Finance Act 2022 on Company Income Tax has a positive significant effect on non-voluntary tax compliance in Nigeria to the tune of 0.497($p=0.037<0.05$).
ii. Finance Act 2022 on Value Added Tax has a negative insignificant effect on non-voluntary tax compliance in Nigeria to the tune of -0.140($p=0.606>0.05$).
iii. Finance Act 2022 on Personal Income Tax has a positive but insignificant effect on non-voluntary tax compliance in Nigeria to the tune of 0.153($p=0.493>0.05$).

Table 9. Multiple regression of the impact of finance act 2022 (CIT, VAT, PIT) on tax compliance (non-voluntary) among SMEs in Nigeria.

Independent variable	Unstandardized coefficient		Standardized coefficients	T	P-value
	B	Std. error	Beta		
(Constant)	8.74	1.99		4.39	0.00
FACIT	0.49	0.11	0.39	2.83	0.04
FAVAT	-0.14	0.08	-0.03	-0.52	-0.61
FAPIT	0.15	0.09	0.04	0.69	0.49
R = 0.82	$R^2 = 0.67$		Adj. $R^2 = 0.62$		
Std err = 2.24	F = 4.79(0.001)				
Dependent variable: Non-voluntary compliance					

4.5.2. Post Estimation Result

As presented in Table 10 there is no problem of heteroscedasticity in the error terms and the error term is normally distributed.

Table 10. Post estimation test result.

Normality test		Breusch-Pagan Godfrey Heteroscedasticity test	
Shapiro-Wilk stat	Probability	F-statistics	Probability
0.429	0.124	0.836	0.065

In Figure 2 the normality results indicated that a linear relationship exists between the variables under consideration in this model.

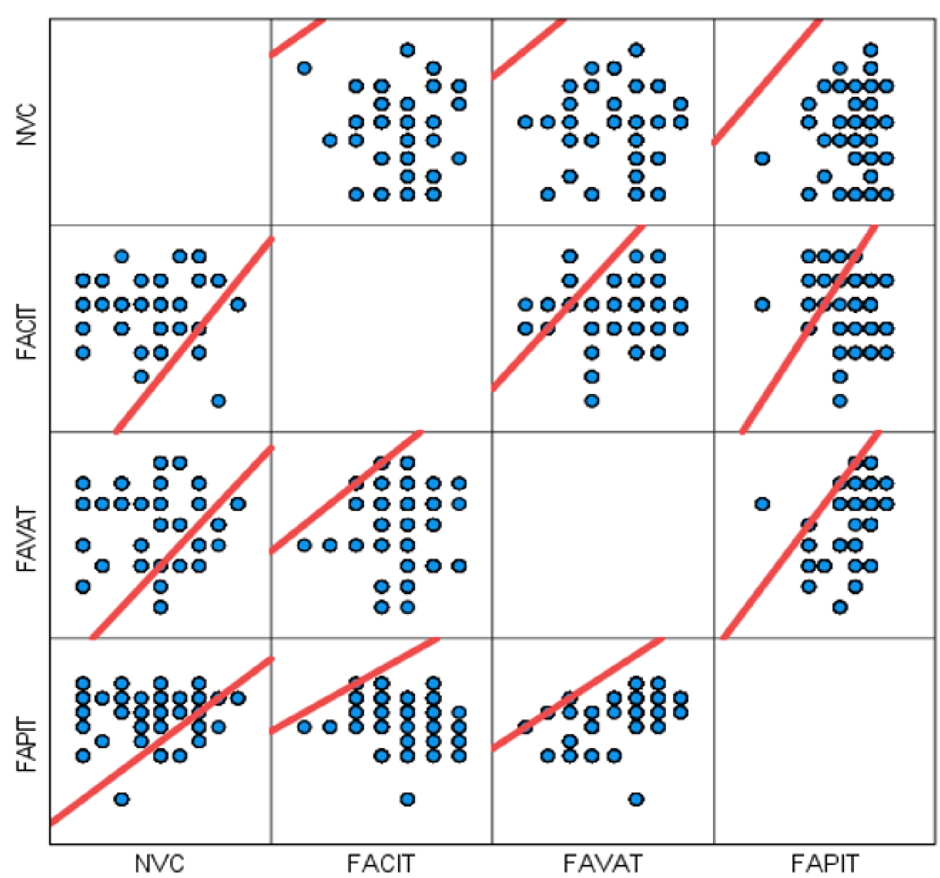

Figure 2. Linear test result for model II.

4.6. Discussion of Findings

An attempt has been made to evaluate the impact of Finance Act 2022 on Tax compliance among SMEs in Nigeria adopting a primary research study. The study considered the Finance Act 2022 for CIT, VAT and PIT as the predictors while tax compliance was captured with voluntary and non-voluntary compliance which serve as the basis of the two models established in this study. Several statistical analyses were conducted, though the regression estimate serves as the most appropriate analysis method to achieve the specific objective. On this basis, the regression estimation result serves as the basis of this discussion.

The analysis results disclosed that Finance Act 2022 on CIT has a positive significant effect on tax compliance in Nigeria both voluntary and non-compliance to the tune of 0.375($p=0.015<0.05$) and 0.497($p=0.037<0.05$). The reported coefficient values indicated that with just a 1% change in the Finance Act of 2022 on CIT would breed 38% and 50% increase in voluntary and non-voluntary tax compliance among SMEs in Nigeria. This indicated that the Finance Act 2022 on CIT has an independent capacity to stimulate a growth in tax compliance among SMEs in Nigeria. This positive effect might be attributed to the fact that, the business sector significantly contributes to the survival of recessed economy such as Nigeria. As a result, all tax regulations formulated for companies must have the capacity to promote their operations towards improving profitability and not mar their survival in the industry. Also, the significant effect could be as a result of tax holidays given to companies which could stimulate high level of compliance with tax regulations. This corresponds with the discovery of Akan and Azaka (2023) that tax reforms on company income tax significantly influence tax compliance among business firms.

Also, it was revealed that Finance Act 2022 on VAT has a negative insignificant effect on voluntary and non-voluntary tax compliance in Nigeria to the tune of -0.168($p=0.066>0.05$) and -0.140($p=0.606>0.05$) respectively. The corollary of this discovery is that the recent changes in the VAT regulations lacks the capacity to cause a rise in tax compliance among SMEs in Nigeria. The negative impact might be attributed to the fact that the recent 50% rise in the VAT rate (that is, from 5% to 7.5%) resulted in a constant rise in the prices of commodities, which implies inflation. As a result, many of the SMEs lose their stable financial strength as they experience a fall in sales and profitability. Then, there is no adequate fund to encourage tax compliance. This finding aligns with the discovery of Ibrahim and Lawal (2022) that increase in VAT rate negatively affected tax compliance behaviour of SMEs.

Finally, it was disclosed that Finance Act 2022 on PIT has a positive but insignificant effect on voluntary and non-voluntary tax compliance in Nigeria to the tune of 0.175($p=0.403>0.05$) and 0.153($p=0.493>0.05$) respectively. By implication a 1% change in Finance Act 2022 on Personal Income Tax would breed 18% and 15% increase in voluntary and non-voluntary tax compliance among SMEs in Nigeria though at an insignificant level. The insignificant effect might be attributed to the fact that there is few evidence for proper management of the public fund collected through personal income tax over the years. This correspond with the conclusion of Sakirin, Darwanis, and Abdullah (2021) that reforms on personal income tax insignificant influence tax compliance in Indonesia.

5. Conclusion and Recommendations

The relevance of tax revenue to the government performance in recessed economy cannot be underestimated. Thus, tax regulations are required to be subjected to changes to stimulate its contribution to the betterment of livelihoods. This justified the need for Finance Act Reform in 2022 on the various forms of taxes such as company inform tax, value added tax, personal income tax among others. From the studies available to the researcher, taxpayers' compliance has been investigated from different contexts, based on geographical location, proxies for tax compliance, methodology, data analysis, sector, and use of predictor variable. Nevertheless, it was discovered that the investigation of taxpayers' compliance using the Finance Act 2022 as predictor variable was still nouvelle. This justifies the need for this study. Thus, this study is established to examine the impact of Finance Act 2022 on tax compliance among SMEs in Nigeria. From the analysis conducted, it was concluded that the Finance Act Reform on various forms of taxes in 2022 stimulate a statistically positive impact on tax compliance among SMEs in Nigeria. To ensure a significant impact of these reforms on tax compliance, the following recommendations are given:

i. Public revenue generated through company income tax should be adequate utilized towards stimulating the growth and development of the industrial sector in Nigeria. This would stimulate a significant increase in tax compliance levels among firms.
ii. The changes in the Value Added Tax (VAT) rate should be subject to review as it results to inflation in Nigeria economy. The government could establish policies to ease the hardship of this effect on the operations and profitability of companies.
iii. Adequate evidence should be provided by the government to the taxpayers, this would justify adequate management of the public fund generated through Personal Income Tax and other forms of taxes. Also, the government should ensure transparency in its performance to stimulate adequate compliance among taxpayers.

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