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SMEs' View on the Theory of Planned Behaviour and Penalty Magnitude: Preliminary Findings from Nigeria

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ABSTRACT

Purpose: This paper investigates the relationship between penalty magnitude, attitude towards VAT compliance, subjective norms and perceived behavioural control on VAT compliance intention among SMEs in Nigeria.

Methodology: Data was gathered through administration of 30 questionnaires. The respondents are SMEs in Kano, Nigeria. 23 indicator items was measured on 5-point Likert Scale from 1 (strongly disagree) to 5 (strongly agree). IBM SPSS Statistics 23 was employed as the primary statistical analysis tool for the study.

Findings: The result indicates positive relationship of penalty magnitude, subjective norms and perceived behavioural control on VAT compliance intention, while attitude towards VAT compliance has negative relationship with VAT compliance intention.

Implications: This study recommends a blend of economic and socio-psychological factors in tackling VAT compliance among SMEs, as that will encourage the SMEs to remit the VAT collections and also assist the policy makers to map-out policies that would ensure an effective management of VAT revenue and compliance among SMEs in Nigeria and other developing countries. Further studies on a larger number of respondents should be conducted to test the consistency of the results.

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1. Introduction

Value Added Tax (VAT) was introduced to increase the revenue base of a government that will accelerate economic growth (Salman, 2011). Furthermore, the revenue generated from VAT has a great impact to create jobs, build roads and infrastructures which will have a remarkable impact on the Nigerian economy (Izedonmi & Okunbor, 2014). However, the contribution gotten from VAT is low as compared to other sources of revenue in Nigeria (FIRS, 2016b), which prompt the need to enquire reasons behind the compliance intention on VAT, especially among SMEs.

In the same vein, the visit of the Managing Director of International Monetary Fund (IMF) Ms. Christine Lagarde in January, 2016, on the need for the Nigerian government to increase the VAT rate, which is

currently at 5%, as that will boost the contribution of VAT and also increase the revenue base of the Nigerian government. However, the Nigerian minister of finance argues that, despite Nigeria operates one of the lowest VAT rate in the world, the issues surrounding VAT does not lie on the rate (5%), but lies on the compliance rate. Which in her narrations, she mentioned that the VAT compliance rate is as low as 10% (Tijjani, 2016).

In addition, there has been assumption that VAT was less vulnerable to evasion than other forms of taxation, since it is an indirect tax. However, the issues surrounding VAT non-compliance has been of great concern in developing countries (Webley & Ashby, 2010). For example, a VAT revenue loss of 3% in United Kingdom (UK) and France, 40% in Italy in 2005 (Bergman & Nevarez, 2006). Subsequently, VAT revenue losses in 2011 were as much as; 16% in France, 12% in the UK and 11% in Australia (Barbone, Bird, & Vazquez-Caro, 2012).

VAT non-compliance is not only an issue for developed countries but is equally an issue in a developing country like Nigeria. For instance, the FIRS clamped down about nine managers of companies in FCT, Abuja that failed to remit VAT collections to the government (Okoyeuzu, 2013). The study further stated that, the FIRS also arrested the CEOs of seven companies in Lagos who failed to remit ₦2.17 billion as accumulated VAT collections. In addition to VAT revenue loss in Nigeria, VAT collections dropped from ₦802.96 billion in 2014 to ₦498.23 billion in 2015. In addition, the percentage of VAT collections to total revenue also dropped from 17% in 2014 to 13.5% in 2015 (FIRS, 2016b).

Nevertheless, the disturbing revelation as stated above on VAT revenue loss in Nigeria, the government cannot sit back and allow the challenges associated with non-remittance of VAT collections among the SMEs deter its chance of meeting up the expectations of IMF as one of the top 20 economies in the world by the year 2020 (International Monetary Funds, 2010).

In line with the expectations of the government, therefore, this study will test the relationship between the constructs of the theory of planned behaviour (attitude, subjective norms and perceived behavioural control) and penalty magnitude with VAT compliance intention among SMEs in Nigeria. This is one of its kind, as there are scarce studies conducted in Nigeria as relate to VAT compliance intention and also applying the theory of planned behaviour to VAT compliance.

2. Literature Review

2.1 VAT Compliance among SMEs

As posited by Shaharuddin and Palil (2012), compliance is a social influence which involves action that is influenced by an individual to conform to a rule, policy or standard. Extending compliance to tax, Iskandar and Bhaduri (2016) are of the view that compliance requires filing of all required tax returns as at when due and in accordance with relevant regulations. In the same vein, tax compliance involves making tax payments and submitting relevant information required by the tax authorities as expected (Asnawi, 2013).

In Nigeria as a developing country, An SME who trades on VATable goods and services is expected to register and obtain a Tax Identification Number (TIN). TIN is issued by FIRS and it is free, with the intention to identify every taxpayer and it is expected to be used when making a transaction with the tax office (FIRS, 2016a). In addition to VAT operations in Nigeria, PwC (2014) posits that, tax officers are sent to monitor every registered SME from time to time to ensure that VAT collections are properly remitted to the authorities and as at when due. In addition, the tax officers provide necessary suggestions where necessary.

The motivating factors that influence SMEs to remit the VAT collections to the relevant authorities are issues for concern, which have led further research in the area for VAT compliance. Among the scholars that have carried out research in the area are; Adams and Webley (2001); Musau (2015); Naibei, Siringi

and Musonera (2011); Walsh (2012); Webley, Adams and Elffers (2004). The result of their findings shows the factors influencing VAT compliance among SMEs can be economic and socio-psychological factors.

Economic factors such as detection probability, penalty, complexity of the tax system among others were found to positively influence VAT compliance among SMEs as posited by these scholars Ahmed, 2013; Alm, Kirchler, & Muehlbacher, 2012; Chau & Leung, 2009; Kirchler, 2007; Musau, 2015; Webley et al., 2002). In the same vein, socio-psychological factors such as social norms, personality, fairness in the tax system, trust in the tax administration, perception of government accountability, personal norms are also considered by scholars as factors influencing VAT compliance among SMEs (Bobek et al., 2012; Devos, 2014; Hauptman et al., 2014; Inasius, 2015; Richardson, 2006; Webley & Ashby, 2010)

Although, the factors mentioned have played role in ensuring VAT compliance among SMEs but the role of penalty magnitude cannot be overlooked, which this study intends to achieve.

2.2 Penalty Magnitude (PM)

The laxity of some SMEs have made penalty to be the only option to implement compliance behaviour. Penalty in compliance is the process of increasing power of the authorities to ensure enforced compliance (Kirchler, Hoelzl, & Wahl, 2008). Also, Nyamwanza, Mavhiki, Mapetere and Nyamwanza (2014) in their studies revealed that penalty is found to be the most effective variable in enforcing compliance. In addition, other studies conducted on enforce compliance, found that penalty has played a great role to deter, motivate and correct improper behaviour of SMEs (Poppelwell, Kelly, & Wang, 2012; Wenzel, 2001).

Furthermore, Kirchler (2007) states that compliance is enforced through application of tax penalties on taxpayers that are not willing to pay or remit the VAT collections as the case may be. In addition, penalties have been found to be the most effective tools in Zimbabwe. As most SMEs evade remitting VAT collections by bribing the tax collection officers through keeping two set of records and sometimes relocating to new sites without notifying the tax officials (Nyamwanza et al., 2014). However, Swistak (2016) posits that penalties have the potential to work effective if used as an auxiliary means of delivery and implementing a sound compliance strategy.

With the above view by Swistak (2016), this study will be discussing the constructs of the theory of planned and relate them to VAT compliance intention among SMEs in Nigeria.

2.3 The Theory of Planned Behaviour (TPB)

TPB is an improved version of the Theory of Reasoned Action (TRA), which was developed by Ajzen (1985). The TRA assumes that human beings behave in a sensible manner, and the constructs that predict intention under the TRA are attitude and subjective norms (Ajzen & Fishbein, 1977). While TPB assumes behaviour of an individual within the society are under the influence of definite factors, originate from certain reasons and emerged in a planned way (Ajzen, 1985). He further states that the constructs that predict intention are attitude, subjective norms and perceived behavioral control. That is, perceived behavioural control is the addition to the two determinants of intention as described in TRA.

2.3.1 Attitude towards VAT Compliance (ATT)

Ajzen and Fishbein (2005) conceptualized attitude as the amount of affection which lies for or against an object been observed. In the same vein, Helhel and Ahmed (2014) suggest that attitude is the cause of an individual's behaviour towards another person, event or object. Furthermore, an attitude towards any object is the function of one's belief about the object and the implicit evaluative response associated with those beliefs (Benk, Cakmak, & Budak, 2011). As posited by other scholars, attitude refers to the individual's evaluation of the target behavior and is formed based on perceptions or knowledge from prior

experience, and the target behaviour can be favorable or unfavorable (Ajzen, 2012; Langham, Paulsen, & Hartel, 2012).

In relating attitude of SMEs to VAT compliance, some studies posit positive relationship between attitudes and VAT compliance (Benk et al., 2011; Nkwe, 2013), while other studies found that the ATT depends on how the SME is treated by the government. That is, the SMEs expect the government to provide its citizens with the basic needs, so as the value of the tax they are paying/remitting will be felt (Nyamwanza et al., 2014; Oladipupo & Izedonmi, 2013). The second construct that predicts intention in TPB is the subjective norms.

2.3.2 Subjective Norms (SN)

Subjective norms capture the opinions of social reference groups (such as family, friends and co-workers) regarding whether the individual should engage in the behavior or not (Huda, Rini, Mardoni, & Putra, 2012). In another study, SN is seen as a social pressure put on another individual to perform a certain behaviour (White, Smith, Terry, Greenslade, & McKimmie, 2009).

In relating SN to compliance intention, some studies posit no significant influence to intention (Huda et al., 2012; Trivedi, Shehata, & Mestelman, 2005), while the study conducted by Bobek et al. (2012) shows a direct relationship between subjective norms and compliance. The last construct that predicts intention in the TPB and it is the addition to the TRA, is the perceived behaviour control, which will be discussed in the subsequent sub-head.

2.3.3 Perceived Behavioural Control (PBC)

PBC denotes the ease or difficulty in performing a behavior. In addition, it can be an act of observing a behavior and the consequences of that behavior, which one can recall the sequence of events and use this information to guide subsequent behaviors (Devos, 2012; Ebimobwei & Peter, 2013; Kautonen, van Gelderen, & Fink, 2015).

Relating PBC to VAT compliance, White et al. (2009) in their study described perceived behavioural control as a significant predictor of behavioural intention. In the same vein, participants had a stronger intention to perform an activity, if they perceived a high level of PBC. Furthermore, PBC was also found to play a significant predictor in decision making (St. John, Edwards-Jones, & Jones, 2010). Therefore, with the relevant literature discussed, theoretical support provided and the TPB which has been discussed in the section above, the research framework is presented in figure 1.

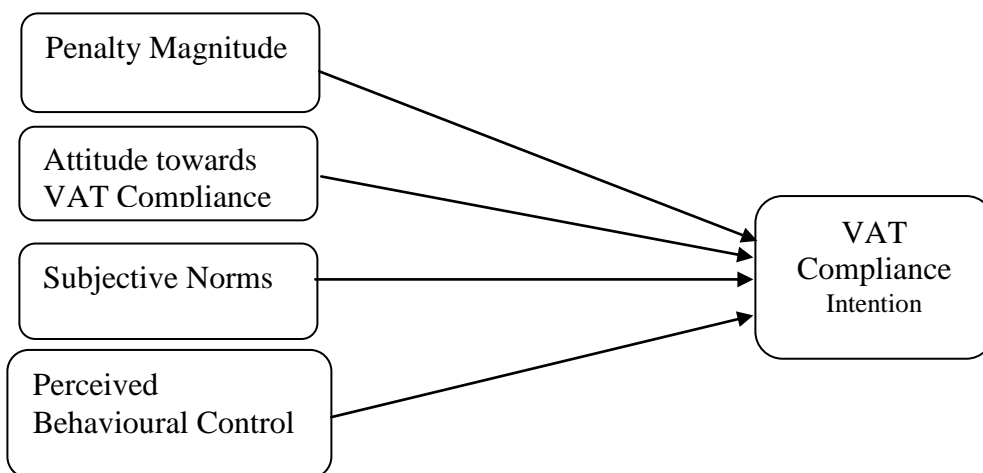


Figure 1. Research Framework

Based on the research framework in Figure 1, the study proposed the following hypotheses for validation:
 H₁: There is a positive relationship between penalty magnitude and VAT compliance intention among

SMEs.

H₂: There is a positive relationship between attitude towards VAT compliance and VAT compliance intention.

H₃: There is a positive relationship between subjective norms and VAT compliance intention among SMEs.

H₄: There is a positive relationship between perceived behavioural control and VAT compliance intention among SMEs.

3. Research Methodology

The Small and Medium Enterprises (SMEs) that are registered for VAT purposes and are operating in Nigeria are those targeted for this study. Furthermore, the sample size was drawn from Kano state, north-west Nigeria. Kano state has about 60% of the SMEs in the north-west, Nigeria. A total of 40 questionnaires were personally administered using cluster sampling technique, based on geographical location of the SMEs in the industrial areas of Kano state, north-west Nigeria. A total of 30 questionnaires were retrieved, representing 75% response rate. The questionnaire was divided into four parts: perceptions on VAT compliance, VAT compliance intention, demographic information, comments and suggestion.

3.1 Demographic Information of Respondents

The demographic information of the respondents as presented in Table 1 indicates that about 53.3% of the respondents were male and 14.7% were females and approximately 86.7% of the respondents do not make use of tax agents. See Table 1 for a comprehensive detail of demographic information.

Table 1. Demographic Information of the Respondents

Category	Frequency (N=30)	Percentage (Total=100)
Gender		
Male	16	53.3
Female	14	46.7
Age		
Below 15 years	0	0
15 years – 30 years	11	36.7
Above 30 years	19	63.3
Position in the Business		
Owner/manager	11	36.7
Accountant/finance officer	7	23.3
Admin/clerical officer	8	26.7
Others	4	13.3
How long Business Established		
Less than 1 year	2	6.7
1 year – 5 years	6	20.0
6 years – 10 years	14	46.7
Above 10 years	8	26.6
Business Annual Turnover		
Less than ₦5m	11	36.7
₦5m – ₦50m	10	33.3
₦51m – ₦200m	6	20.0
Above ₦200m	3	10.0

Employees in the Company

Less than 10 persons	0	0
10 persons – 49 persons	23	76.7
50 persons – 199 persons	6	20.0
Above 200 persons	1	3.3

Nature of Business

Educational services	3	10.0
Wholesale/retail	9	30.0
Manufacturing	3	10.0
Accommodation and food	10	33.3
Others	5	16.7

Tax Agent

Yes	4	13.3
No	26	86.7

3.2 Measurements of Variables for the Study

This study measured all the variables using a five-point Likert scale ranging from ‘1’ “strongly disagree” to ‘5’ “strongly agree”. While the items for VAT compliance intention (VCI) were five, using a hypothetical VAT scenario as adapted from (Han, Hsu, & Sheu, 2010). The magnitude of penalty on the SMEs used five items as adapted from Efebera et al. (2004). In the same vein, the study used five items each for attitude towards VAT compliance, subjective norms and perceived behavioural control as adapted from Saad (2011).

4 Results and Discussion**4.1 Reliability Analysis**

This study used the Cronbach’s alpha to test the reliability of measures and also to test the internal consistency of the measurement items. Cronbach’s alpha was used because it is widely recommended for social science research (Hair, Black, Babin, & Anderson, 2010; Sekaran & Bougie, 2010). As posited by Hair et al. (2010) a Cronbach’s alpha coefficient of at least .70 is considered sufficient and acceptable. The results of the Cronbach’s alpha for this study is shown in Table 2.

Table 2. Reliability Test

Variable	Items	Alpha
Penalty Magnitude	5	.734
Attitude towards VAT Compliance	4	.738
Subjective Norms	4	.716
Perceived Behavioural Control	5	.849
VAT Compliance Intention	5	.719

Table 2 shows that the calculated value of alpha for each of the variable is above .70. Therefore, it concludes that the instruments used to measure the constructs for the study has fulfilled the reliability test, which is in line with Hair et al. (2010) on at least .70 is considered sufficient and acceptable.

4.2 Descriptive Statistics

Descriptive statistics are often used to describe the basic characteristics of the data. Therefore, the mean, standard deviation, maximum and minimum of each variable were obtained through descriptive statistics in IBM SPSS statistics 23. The results of the descriptive statistics are shown in Table 3 to 7. (Note: M=Mean, Std= Standard Deviation, Min= Minimum, Max= Maximum).

4.2.1 VAT Compliance Intention

A VAT scenario was used and the options to measure the VAT compliance intention of SMEs are VCI1 to VCI5. The result as seen in Table 3 reveals that mean scores range from 3.43 to 4.17 and standard deviation from 1.206 to 1.402. This indicates that majority of the respondents' compliance intention is very low.

Table 3. Descriptive Statistics for VCI

Code	Statement	Min	Max	M	Std
VCI	VAT Compliance Intention	1	5	3.79	.677
VCI1	Audu should declare the ₦100,000 to FIRS because the amount is large	1	5	3.67	1.322
VCI2	Audu should keep the ₦100,000 until FIRS comes for audit	1	5	4.17	1.206
VCI3	Despite the ₦100,000 is small, Audu should still declare the amount to FIRS	1	5	4.03	1.273
VCI4	Audu should keep the ₦100,000 as part of his profit	1	5	3.63	1.402
VCI5	Audu should make effort to declare the total of ₦400,000 at once	1	5	3.43	1.278

4.2.2 Penalty Magnitude

The views of the respondents on penalty magnitude were measured using PM1 to PM5. The result (refer to Table 4) reveals that mean scores range from 2.83 to 3.33 and standard deviation from 1.326 to 1.533. Specifically, the results reveal most SMEs feel the penalty impose by the government is very low. Hence, the government should increase the penalty.

Table 4. Descriptive Statistics for PM

Code	Statement	Min	Max	M	Std
PM	Penalty Magnitude	1	5	3.17	.606
PM1	The penalty for VAT non-compliance is very high	1	5	2.83	1.533
PM2	SMEs can still cheat even with the presence of penalty	1	5	3.03	1.450
PM3	I will be in serious trouble if the FIRS finds out that I didn't remit the VAT collections	1	5	3.27	1.461
PM4	The penalty of non-compliance is very low. That is, business as usual	1	5	3.37	1.326
PM5	Other SMEs that are not complying are not being sanctioned by the government	1	5	3.33	1.373

4.2.3 Attitude towards VAT Compliance

The attitude towards VAT compliance was measured using ATT1 to ATT4 and the results revealed that most of the respondents believe that they will be pleased if they remit the VAT collections to the relevant tax authorities. On a whole, the mean score range from 4.07 to 4.33 and the standard deviation is from 1.398 to 1.530 (refer to Table 5).

Table 5. Descriptive Statistics for ATT

Code	Statement	Min	Max	M	Std
ATT	Attitude towards VAT Compliance	1	5	4.18	.804
ATT1	I would be upset if I don't remit the VAT collections to the government	1	5	4.13	1.502
ATT2	I would feel guilty if I don't remit the VAT	1	5	4.07	1.530

	collections to the government				
ATT3	I would feel pleased if I remit the VAT collections to the government	1	5	4.33	1.398
ATT4	The likelihood of being audited by FIRS is very high, so I will not be pleased if I don't comply	1	5	4.20	1.518

4.2.4 Subjective Norms

The expectations from family, peers and co-workers to VAT compliance intention was measured using SN1 to SN4 and the results revealed that the mean score range from 3.97 to 4.50 and the standard deviation from .572 to .988. This suggests that the expectation from, family, peers and co-workers have an influence on VAT compliance intention (refer to Table 6).

Table 6. Descriptive Statistics for SN

Code	Statement	Min	Max	M	Std
SN	Subjective Norms	1	5	4.21	.657
SN1	My family and peers will expect me to report the VAT collections to FIRS as at when due	1	5	4.07	.980
SN2	My family and peers will approve if I don't remit the VAT collections to the government	1	5	4.30	.988
SN3	My family and peers would remit the VAT collections if they are faced with similar situation	1	5	4.50	.572
SN4	My co-workers would expect me to remit the VAT collections to the government	1	5	3.97	.964

4.2.5 Perceived Behavioural Control

The ease and difficulty of complying by the SMEs was measured using PBC1 to PBC5 and the results revealed that the mean scores range from 3.73 to 4.17 and the standard deviation from 1.262 to 1.648. This means that most of the respondents feel that due to the effectiveness of detection, it is difficult not to comply (refer to Table 7).

Table 7. Descriptive Statistics for PBC

Code	Statement	Min	Max	M	Std
PBC	Perceived Behavioural Control	1	5	3.91	.751
PBC1	Due to the effectiveness of detection by the authorities, it is difficult for me not to comply	1	5	4.17	1.262
PBC2	With the magnitude of penalty it is easy for me to remit the VAT collections to the authority	1	5	3.73	1.617
PBC3	There is threat of detection and audit	1	5	3.80	1.648
PBC4	It is easy for me to remit the VAT collections to the authority, even without penalty	1	5	3.93	1.413
PBC5	I will not avoid remitting the VAT collections to the authorities even with the presence of detection and penalty	1	5	3.93	1.596

Multiple Regression Analysis

To test the hypotheses on the direct relationship between PM, ATT, SN and PBC (independent variables) and VCI (dependent variable), multiple regression analysis was used as recommended by Hair et al. (2010). The results of the analysis are presented in Table 8 and 9.

Table 8. Summary of Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-watson
1	.804a	.647	.590	2.166	2.430

a. Predictors: (Constant), PM, ATT, SN, PBC.

b. Dependent Variable: VCI

The result as measured by adjusted R^2 indicates the effect of the independent variables (PM, ATT, SN, PBC) over the dependent variable (VCI). This explains that the extent to which the independent variables affect the dependent variable is about 0.590 or 59.0% as seen in Table 8.

Table 5. Coefficient of the Regression

Model		Unstandardized Coefficients		Standardized Coefficients		T	Sig.
		B	Std. Error	Beta			
1	(Constant)	.531	.663			.800	.431
	PM	.393	.157	.352		2.509	.019
	ATT	-.176	.105	-.210		-1.674	.107
	SN	.366	.172	.355		2.134	.043
	PBC	.309	.136	.344		2.267	.032

a. Dependent Variable: VCI

Going by the results of the t values (refer to Table 9), PM, SN and PBC show a positive relationship with VAT compliance intention. Therefore, the hypotheses H1, H3 and H4 formulated for the study should be accepted. The result of SN and PBC is consistent with previous findings, which state a positive relationship with compliance (Benk et al., 2011; Bobek et al., 2012; Nkwe, 2013). In the same vein, the result on PM and VAT compliance is in consistent with previous studies, which found a positive significant relationship (Nyamwanza et al., 2014; Poppelwell et al., 2012).

However, the result on ATT shows a negative relationship with VAT compliance. Which can be linked to the findings from studies about the attitude towards VAT compliance depends on how the SME is treated by the government (Nyamwanza et al., 2014; Oladipupo & Izedonmi, 2013). In the same vein, the comments given by the respondents in the questionnaire also support the assertion that attitude towards compliance will be effective if other predictors are considered alongside attitude. Some of the comments are:

“My attitude towards VAT compliance is influenced by the situation at that moment. If the government gives me a reason to see the importance of remitting VAT collections, I remit as expected”.

“My attitude towards VAT compliance depends on perceived fairness in the tax system”.

Hence, the hypothesis (H_2) formulated in this study for ATT should be rejected.

5 Implications and Conclusion

With the VAT revenue loss experienced in Nigeria, yet there are limited studies on the factors influencing the VAT compliance intention especially among SMEs. This study delves into the area to test the relationship between penalty magnitude through an expansion of the theory of planned of planned behaviour. The variable (PM) was carefully chosen because of the suggestions of Nyamwanza et al. (2014) on the role played by penalty to aid compliance among the SMEs. As most SMEs either close temporarily their businesses or relocate to other cities so as to avoid remitting VAT collections to the tax authority.

The study employed descriptive statistics and multi regression to analyse the data collected. Where the study reveals that most SMEs generally believed that penalty, subjective norms, perceived behavioural

control have positive relationship on their compliance intentions, while attitude has a negative relationship on VAT compliance intention. Theoretically, the information obtained from this study would be beneficial to add to the limited literature on VAT compliance available in Nigeria as well as other developing countries. Also, researchers may use these identified variables for future research.

From the policy makers' perspectives, the information from this study will assist tax authority to develop appropriate strategies that will assist and ease the SMEs in remittance of VAT collections in Nigeria as well as other developing countries. In addition, the study will assist the policy makers to map-out policies that would ensure an effective management and tackling the issues surrounding VAT non-compliance among SMEs in Nigeria.

Finally, the study was focused on 30 SMEs in Nigeria; hence having a larger number of respondents may give a different perception on VAT compliance. Therefore, the study suggests having a larger sample to check the consistency of the results.

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