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AN ASSESSMENT OF THE IMPACT OF CORPORATE TAX INCENTIVES ON TAX COMPLIANCE IN NIGERIA

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ABSTRACT

Tax incentives allowed businesses by tax laws in Nigeria are expected to encourage business to thrive as well as enable them to continue operation to perpetuity rather than promoting tax evasion; these incentives have been misunderstood thereby breeding complexities in Nigeria tax system. This study therefore evaluates the impact of tax incentive on tax compliance in Nigeria; Survey design method was adopted; using structured questionnaire administered on fifty selected small and medium Enterprises in Nigeria. The data collected was analyzed using regression analysis. Three hypotheses formulated were tested using p-value and Pearson Movement Correlation. The result showed the existence of a positive relationship between tax incentive scheme and willingness to pay tax with coefficient (0.297). The adjusted R^2 of (0.688) indicating that tax incentive causes a 68.8% variation in government tax revenue in Nigeria; the F-statistics of (14.077) is greater than the F-cal at (0.020) level of significance which shows a statistical significance ($p<0.05$). The result obtained also indicates that tax incentive have significant effect on tax compliance and overall tax revenue of government. Also, that the economic factors; (labour cost, interest rate and government policy) affect level of tax compliance among companies. Implied from the above is that; in order to ensure a high rate of tax compliance among Nigerian firms, economic factors should be adequately considered. It's recommended that government should pay attention to identified factors that influence citizens' tax compliance and improve on them. This will in turn expand readers' knowledge about the significance of those tax compliance factors towards improving government revenue; economic growth and development.

KEYWORDS: Tax Compliance, Tax Incentives, Tax Revenue and Economic Factors, Corporate Tax.

INTRODUCTION

The importance of taxation in the activities of any government cannot be overemphasized. The world over, taxes is one major source of government revenue (Samuel & Simon 2011). Aguolu (2004) states that taxation is the most important source of revenue to the government from the point of view of certainty and consistency; Nigerian government however have not been able to effectively exploit this great opportunity of revenue generation (Yinusa 2003).This can be attributed to a number of reasons as supported by Soyode& Kajola (2006) to include the system of taxation, tax legislation, tax administration and policy issues, over reliance on other sources of revenue (such as oil) corrupt practices in the system of tax collection and behavior of citizens towards tax payment and ease of tax payment. The willingness to pay tax which may depend on other aforementioned issues in tax revenue generation remains a key taxation challenge in Nigeria. In the ease of tax collection, evidence from the World Bank Doing Business Report(WBDBR) (2011) (2012) shows that Nigeria ranked 109 and 138 respectively out of 183 countries .In Sub-Saharan Africa (SSA) it ranked 27 out of 46 countries. This result is despite some improvement that government has made to the tax system in recent past. Some questions that would then come to mind are; why the increasing rate of tax evasion? Why would company seek to defraud the government by understating profit and hence reducing tax payable? How can government stop this growing trend? Is the fault on the part of the government? What measures can government take to make companies declare their actual profit and pay tax as at when due? To curb these situations, government has come up with various measures to improve the tax system and to encourage companies to remit their tax (Alli 2009). These measures include reforms embark on by the federal government on existing tax laws and the tax administration system to make it more responsive, reliable, skillful and tax payer friendly and to achieve other fiscal objectives.

A major growing trend in Nigeria today is the granting of tax incentives to companies. Tax incentives according to Kuewumi (1996) encompass all the measures adopted by government to motivate tax payers to respond favorably to their tax obligation .It includes adjustment to tax policy aim at lessening the effect of taxation on an industry. Dickson and Oriakhi (2013) mentioned the available tax incentives in Nigeria to include Tax holidays, investment allowance, tax free interest, deductible capital allowance, tax treaties, tax free dividends and tax reliefs. Philips (1996) opined that tax incentive is a deliberate reduction in tax liability granted by government in order to encourage particular economic units. The Chairman of Federal Inland Revenue, Mrs. Ifueko Okauru in a paper presented on the Nigerian investors business forum in Switzerland 2009 highlight the essence of tax incentive by emphasizing that tax incentive are special arrangement in the tax laws to attract companies, to retain and reduce the tax burden and ensure greater tax compliance. To this end, this study examined the effect of tax incentive on the tax compliance among Nigerian tax payers.

Over the year, Nigeria governments at all levels depend heavily on revenue from oil leaving other potentials that could augment the revenue base of the economy in abeyance. Suddenly, the price of crude oil nose dive at the international market; worst still, the activities of the Niger Delta agitators is not left out; this caused actual daily production to fall below expected quota. All these with other factors; dwindles overall revenues of government as such make imperative to look inward for other alternative sources of revenue to complement existing ones. Tax revenue is therefore perceived to be one of such. Extant Literature, theories and empirical studies identify low tax compliance as major hindrance to effective tax administration in Nigeria and this in turn decimates tax revenue. Worst still is misconception of tax evasion as tax incentives resulting to tax violations hence truncating tax revenue. There is therefore need for ascertaining the relationship between corporate tax incentives and tax compliance as a yardstick for improving tax compliance among industries in Nigeria.

Although tax incentive may be used to ensure improved company tax compliance, the effects of granting these incentives may be counterproductive if care is not taken. Edmiston (2003), stated that there is evidence that tax incentive leaves a country worse off in terms of reduced tax revenue. The continuing implementation of tax incentive poses management difficulties for tax administration and requires well developed accountability system Mudd and Valer (2003). This view is supported by Organization for Economic Cooperation and Development (2006), Torgler (2003), and United Nations Conference on Trade and Development (2000). In their studies, they opined that tax incentives have money costs such as in the difficulty of administering them effectively which can distort allocation of resources. Worshman (2003) opined that using tax incentives has had mixed result because they have often been associated with suspicious capital outflow. Even if these incentives are granted, there are still a host of other factors that also affect the rate of tax compliance by companies. These factors include tax rate (Spicer & Becker 1980), income (Fledman and Slemrod 2005), tax complexity (Milliron 1985) and perception of fairness (Young 1994).

Another factor that affects the effective use of tax incentive to encourage tax compliance is corruption. This is a common feature of the developing economies and it manifests in several forms. This means that the effective use of tax incentives to encourage compliances and thus stimulate economic growth is tied to some economic and political factors (Kusi 1998). These problems illustrate the need to clearly evaluate the use of tax incentives as a tool to ensuring tax compliances by companies. This study covers the industrial estate of Ondo State Nigeria. The impact of tax incentive as a source of motivation to emerging industries is highlighted; this would enable tax authorities to have an inward look into the existing tax incentives structure as a precursor to reviewing tax law for effectiveness; and improved tax compliance towards a robust revenue generation. Since there are no existing data, the study is restricted to utilization of primary data gathered from administration of copies of questionnaire

Objectives of the Study

The main objective of this research is to evaluate the effectiveness of tax incentives as a tool to ensuring tax compliance among Nigerian companies. Other specific objectives are to

i. determine the relationship between tax incentive scheme and tax compliance
ii. examine the effects of tax incentives to companies on government revenue generation
iii. examine the effects of economic factors on the rate of tax compliance by companies

Research Hypothesis

The following hypothesis can be formulated for this study

H_o1: There is no significant relationship between tax incentive scheme and tax compliance

H_o2: There is no significant effect of tax incentives to companies on government revenue generation

H_o3: there is no significant effect of economic factors on rate of tax compliance by companies

REVIEW OF RELATED LITERATURE REVIEW

Taxation is not a new word in Nigeria or the world as a whole. In Nigeria, taxation has been in existence even before the coming of the colonial men or the British. Taxation can be defined as the system of imposing a compulsory levy on all income, goods, services and properties of individuals, partnership, trustees, executorships and companies by the government (Samuel and Simon, 2011; Yunusa, 2003). Anyafo (1996) defined taxation as a compulsory payment made by individuals and organization to relevant Inland Revenue authorities at the federal, state or local government level. Sour (2004); sees taxation as a levy imposed by the government against the income, profit or wealth of the individual, partnership, corporate organization. Ola (1999) defined taxation as compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create conditions for the economic well-being of the society. A precise definition of taxation by Ola (1999) and Aguolu (2004) is that taxation is one of the sources of income for government, such income as used to finance or run public utilities and perform other social responsibilities. According to Adams (2001) taxation is the most important source of revenue for modern governments, typically accounting for ninety percent or more of their income.

Taxes are classified into direct and indirect. Yunusa (2003) and Aguolu (2004) defined direct taxes as taxes levied on the income of individual, group of individuals, and business firms and are paid directly by the person or persons on which it is legally imposed by the tax authority. Direct taxes can be classified into Personal Income tax, Company Income tax, Capital Gain tax, Petroleum Profit tax, and Capital Transfer tax. Indirect taxes are taxes levied on expenditure that is, goods and services. These taxes are paid as part of payment for goods and services purchased by the ultimate users or consumers. The incidences of this type of taxes are usually borne by the third party. Indirect taxes can be classified into the following: Import duties, Export duties and Value Added tax (Young, 1994 ;Yunusa, 2003)

Concept of Tax Compliance

The definition of tax compliance frequently used in the literature might be considered to be too simplistic. The most common approach previously has been to conceptualize compliance in terms of “tax gap”, that is, the difference between the actual revenue collected and the amount that would be collected if there were 100 per cent compliance. However, the basic concept of “tax-gap” for non-compliance seems to be far too simplistic for practical policy purposes. Therefore, successful tax administration requires taxpayers cooperation in the operation of a tax rather than be forced

Tax compliance has been defined as reporting of tax liability to the relevant authority in compliance with applicable tax laws, regulation and court (Jackson &Milliron, 1986). It has also been defined as a process in which taxpayers file all the required tax returns by declaring all income accurately and paying the exact tax liability using applicable tax laws and regulation (Palil & Mustapha, 2011). Sarker, (2003), defined tax compliance as the degree to which a taxpayer complies (or fails to comply) with the tax rules of his country. He posits that the goal of an efficient tax administration is to foster voluntary tax compliance using all possible methods including penalties. According to Roth, (1989), compliance with reporting requirement means that the taxpayer files all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the Internal Revenue code, regulation and court decisions applicable at the time the return is filed. This clearly states the line between tax compliance and noncompliance; yet, tax compliance requires adequate record keeping.

Reasons for Tax Non Compliance

Tax non-compliance is a complex issue. There has been a substantial amount of research undertaken in the area of tax compliance and tax non-compliance in United States of America (USA) and countries outside USA. The Inland Revenue Services of USA indicated that there are 64 factors that are related with tax noncompliance by taxpayers or companies (Young, 1994).Cuccia(1994)defined tax non-compliance as “illegal tax evasion”. Tax non-compliance occurs when there is a failure to perform a timely filing or submission by taxpayers of all required tax returns, when not accurately reporting the tax liability in accordance with the tax laws, when there is a non-payment or late payment on the tax due, an understatement of income, and overstatement of expenses (Sarkin 2003). Tax non-compliance is difficult to measure because it involves individuals and firms concealing the true level of their assessable income whether intentionally or unintentionally. Based on the literature review, factors that are commonly used by previous researchers relating with tax non-compliance among the individual taxpayers and sole-proprietors are as follows;

Income: Income from self-employment or business would be subject to lower compliance as compared to those who have incomes from salaries (Jackson and Jaouen 1989). Fledman & Slemrod(2005)found that non-compliance is significant and that it varies with source of income. Taxpayers who are at high income bracket tend to be tax non-compliant when compared to those in the lower income bracket (Milliron and Toy, 1988). Different level of distribution of income may also affect tax noncompliance among the individual taxpayers. This may be because taxpayers may feel that it is acceptable to under-report small amount of income (Worsham, 1996). On the contrary, there were also researchers (Spicer& Becker, 1980) that argued that income appears to have no significant relation to tax non-compliance**.**

Tax rate: Most research supports the notion that high tax rates increases tax non-compliance (Spicer & Becker, 1980; Milliron & Toy, 1988; Christian & Gupta, 1992 and Joulfanian & Rider, 1998, Sour 2001). Tax payers who had been told that their tax rates were higher than the average tax rate paid by others have thehighest percentage in terms of evading tax (Spicer & Becker, 1980). According to Christian and Gupta(1992) **,** most taxpayers are sensitive to and respond to even the small tax effects of the table of bracket. It should also be noted here that taxpayers' underreporting of income is positively correlated with tax rates (Joulfanian & Rider, 1998). For example, Feinstein (1991) found that there is a positive relationship between tax rates and tax reporting compliance/non-compliance. However, Clotfelter (1983) found that there is a negative correlation between tax rates and tax reporting compliance / non-compliance.

Tax Complexity: The impact of tax complexity on tax compliance is a bit more complicated because of them interaction of two factors i.e. perception of fairness and opportunity for non-compliance (Milliron, 1985). Under conditions of uncertainty (i.e. tax systems that are complex), taxpayers are more prone to tax noncompliance (Beck, Davies & Jung, 1991). Tax complexity also influences non-compliance by causing misinterpretation of rules, omissions and unintentional errors besides deliberate under-reporting (Gupta,2002). Making tax system less complicated will lead to an increase perception of fairness on the tax system and subsequent reduction of tax non-compliance (Beck et al., 1991). Also, in many countries, the occurrence of tax non compliance is more inclined towards small businesses (i.e. sole-proprietors) rather than towards large business (Schuetze, 2002). However, Adam and Sheffrin (2002) found that tax complexity may not necessarily be considered be unfair and simplifying the system may not effectively deter tax noncompliance.

Probability of Audit: Sour (2001) found that increasing the probability of audit will increase tax compliance rate. Increase in the probability of audit was also found to have resulted in significantly higher levels of taxable income being reported (Beck et al., 1991). On the other hand, when an audit detection rate decreases, tax non-compliance will increase (White, Harrison & Harrel, 1993; Lederman (2003) and Davis, Hechtand Perkins (2002). A small increase in detection risk may have a substantial impact on tax compliance (Carnes &Englebrecht, 1995) whilst an increase in audit rate will increase income reported (Coltfelter,1983; Dublin & Wilde, 1988). The important finding by Carnes and Englebrecht (1995) revealed that perceptions of audit detection risk are more effective than actual detection risk in increasing tax compliance among the taxpayers. Knowledge of Peer behavior: revealed that individual taxpayers do not live alone in this world and they have to interact with others in their daily life.

Impact of Tax Incentives on Revenue Productivity

The most important argument central to the influence of tax incentives on the economy is the issue of revenue productivity. It has been contented that the revenue sacrifice through tax incentives will be compensated for in the long run through growth in the tax capacity of the favoured tax base. This is so because tax cuts induce tax payers to be more tax compliant through reduced tax rates which make tax evasion and tax avoidance unattractive. Also, incentives such as capital allowance reliefs and low tax rates or the non-taxation of dividends and interest on deposits and loans, can spur people to capital formation, thus encouraging the growth of the tax base. Pilil and Mustapha (2011) Information on the responsiveness of tax revenue to economic growth is a crucial ingredient in economic planning, especially when we realize that inflationary problems are generated when budgetary deficits are financed through monetary expansion. The example of the tax history of the United States according to Kuewumi (1996) illustrates the effects of incentives on tax revenue. Under President Hoover, the US slashed tax rates five times in the 1920s. Rather than contract government revenue, the measure raised the number of effective tax-payers and tripled tax receipts. Similarly, President F. Kennedy's tax cuts, which started in 1962, contributed so much to enhancing the level of industrial and commercial activities that Federal tax revenues rose by about 50% from the pre-tax-cut base. On the other hand, tax incentives exhibit the capacity to erode the statutory tax base. This situation according to Kuewumi (1996) poses a danger to compliance, especially when incentives are seen as subsidies. By carrying with them the disadvantages of tax expenditure, tax incentives can be identified as a source of inefficiency and non-productivity of enterprises. Most tax incentives are either politically motivated or frost with elements of personal interests. For example, most incentives initiated in the oil sector in Nigeria are either influenced by top military officers, traditional rulers or top government officials with substantial investment interests in the sector. In an attempt to uplift its popularity, governments or public office seeking individuals could propose tax cuts to attract the support of the electorate. Ronald Reagan while attempting to implement his vote attracting political campaign promises in 1981 started the implementation of his Economic Recovery Tax Act (ERTA), which proposed massive tax cuts across the for both personal and corporate taxpayers. Reagan's initiatives regarding tax incentives could not assist America's recurring budget deficits nor aided the economy to be more productive. In fact, it cost the US about N800 billion in tax revenues Kuewumi (1996).

Another politically motivated introduction of tax incentives is Mr. Jacques Chirac who promised to cut taxes during his campaign to become the President of France. On assumption of office, he realized that his vote seeking and investment attracting tax cuts was a mirage and that the problem of France was not a dearth of tax incentives but the prevalence of huge tax evasion which ranged from 175 billion Francs to 235 billion Francs annually (Tax News, 1996: 14). Tax incentives make tax laws more complicated and difficult to interpret with the end product of constraining appropriate monitoring of the response of the investment initially intended to be boosted through tax incentives. Thus, the use of the tax system for special tax preferences should be carefully evaluated. Using the system to provide tax incentives (tax expenditures) usually causes a serious drain on the national treasury by conferring windfall gains on existing activities or by shifting resources to tax-preferred activities (Kusi, 1998).

Tax |Incentives as a Catalyst for Tax Compliance

In a paper presented to Swedish investors in 2009 by the Chairman of FIRS Mrs.Ifueko Omoigui-Okauru, she highlighted the various tax incentives in Nigeria. She stated that Tax incentives are special arrangements in the tax laws to attract, retain, ensure tax compliance or increase investment in a particular sector, stimulate growth in specific areas, assist companies or individuals carrying on identified activities. She continued that tax laws provide various incentives to companies carrying on business in Nigeria, and that incentives may be granted on industry basis or on tax type and may include; exemption from payment of taxes, reduction in rate of tax to be paid, grant of allowances and deductions from profits subject to tax etc.

Okauru in (2009) also listed the incentives under the company income tax act to include;loans granted to Nigerian companies may be exempted from tax where they meet prescribed criteria, dividends received from Nigeria are exempted from tax other than withholding tax deducted at source, profits of shipping and airline companies subject to tax in Nigeria is restricted to activity carried out in Nigeria, dividends interest, rent or royalty earned by companies outside Nigeria and brought in through specified channels are exempt from tax, Interest earned by a foreign company on its bank deposits in Nigeria are exempt from tax, Nigerian companies with a minimum of 25% foreign equity and within their first four years of operation are exempt from payment of minimum tax. Incentives for downstream gas utilization projects exist which also includes; Tax free dividends etc. She concluded the presentation by saying greatest incentive for investors is a stable efficient, effective and well organized tax system. Nigerian government is committed to improving the tax system in line with global best practices. Nigerian government is always willing to provide incentives, which will improve compliance and be to the overall benefits of the Nigerian economy.

According to Hite (1988) granting of tax incentive to companies is a boost to the tax morale of tax payers. When individuals feel that they are receiving some form of benefits from the government, they show greater willingness to comply. Incentives are motivational tools that every government should employ in generating more tax (kuewumi 1996). From the research conducted by Gupta (2003), tax incentives granted to companies in South Africa played a big role in generating more income for the government as companies now see quick payment of tax as a kind of repayment of government goodwill.

Empirical Review

Akintoye andTashie (2013) carried out a study on the effect of tax compliance on economic growth and development in Nigeria. Research on the willingness to pay tax was carried out in Lagos and Oyo states. Primary data was collected through the administering of questionnaires to self employed in each senatorial district in Oyo and Lagos States. Frequencies and percentages were used to measure the demographic variables of the respondents, and also the factors that affect the willingness to pay tax, while the Chi-square technique was used to measure the difference between willingness to pay tax of citizens in Lagos and Oyo States. It was discovered that many Nigerians are complying with tax payment and that the willingness of citizens to pay tax in Lagos State is significantly higher than that of Oyo State. From the list of factors that were tested for, Trustworthiness of government, Provision of Infrastructural Amenities, Tax Accountability by Government, Level of government delivery, Income, Morale Ethics, Tax Knowledge, Tax Rate, and The System of Tax Payment were found to influence the willingness to pay tax. The conclusion is that compliance through the willingness of citizens to pay tax is very important and cannot be ignored. It is suggested that government should pay attention to the factors that influence the willingness of citizens to pay tax and improve on them, thereby improving peoples‟

willingness to pay tax, government revenue and economic growth and development of the nation generally.

Anyaduba, Eragbhe &Kennedy (2012) carried out a research on Deterrent tax measures and tax compliance in Nigeria. The method of data analysis used in this study was the ordinary least square regression technique. The OLS regression technique was estimated using computer software (microfit 4.1) .in their study, it was observed that existing deterrent tax measures in Nigeria were inadequate and have not helped to improve compliance. They also discovered that fostering voluntary compliance and enhancing tax payers morale would improve compliance. They therefore recommend that the Nigerian revenue authorities should strive to adopt the approach that will encourage voluntary compliance and prescribe appropriate sanctions for defaulters

Modugu &Anyaduba (2014) carried out a study on The impact of tax audit on tax compliance in Nigeria.Questionnaires were administered to staff of sampled companies in selected states of the five geo-political zones of Nigeria. Ordered Logistic Regression technique was employed to analyze the responses. The result showed that there exists a positive relationship between tax audit and tax compliance. The result also revealed that the probability of being audited, perception on government spending, penalties and enforcement, the joint effect of tax audit and penalties have a tendency to significantly influence tax compliance in Nigeria. They therefore recommend that the relevant authorities should seek more pragmatic and effective means of enhancing the impact of tax audits on corporate tax compliance in Nigeria in order to consolidate on government's revenue.

Oyadonghan and Igbo (2013) carried out a study on Motivation and tax compliance in Nigeria. The study was based on primary data with a questionnaire distributed to tax payers in the Niger Delta Region of Nigeria. The analysis was based on E-View software. The study revealed that expectancy, social capital, and goal oriented tax policies improve tax compliance but, public participation in the formulation of tax policies does not improve compliance. They concluded that with the geometric increase in sources of government expenditure against the arithmetical increase in government revenue, every government is encouraged to source for better means of revenue generation such as taxation by considering the earlier mentioned factors seriously. They also recommended that further studies should be done on the variables in other states or country to provide a literature for comparative analysis. Oboh, Yeye & Isa (2013) carried out a study on Multiple tax practices and taxpayers compliance attitudes in Nigeria. The survey method was used in obtaining data and correlation analysis was used in analyzing the data. Findings from the correlation analysis revealed that multiple tax practices significantly affect taxpayers' compliance attitude, and that multiple tax practices in Nigeria are corollaries of corruption, poor tax administration, greed and unfair revenue allocation formula. Hence, they suggested a distinct dichotomy of the different taxes collectible by each tier of Government. This will significantly aid an efficient and effective tax system in Nigeria.

Ebimobowei &Nkwazema (2014) carried out a study on self assessment and revenue generation in Nigeria. A total of two hundred (200) questionnaires were distributed and one hundred and fifteen (115) usable questionnaires were completed and used for the analysis. The questionnaire were pre-tested using thirty (30) respondents and a reliability test was done on the data collected using Cronbach Alpha model, to explore the internal consistency of the questionnaire The analysis reveals that self assessment compliance rate significantly affects revenue generation in Nigeria. The correction coefficient is high indicating that strong correlations exist between self assessment compliance Rate and Revenue generation. Therefore, they concluded that self assessment scheme influences revenue generation. They recommended amongst others that the FIRS should also be efficient in their internal Processes, particularly in processing tax refund and tax correspondence.

Ojochogwu & Stephen (2012) examined the factors that affect compliance among small and medium scale enterprises in north central Nigeria. Data was obtained from primary sources and the parametric one sample Z-test was used to test this hypothesis.It was found that high tax rates and complex filing procedures are the most crucial factors causing non-compliance of SMEs. Other factors like multiple taxation and lack of proper enlightenment affect tax compliance among the SMEs surveyed only to a lesser extent. Therefore, it is recommended that SMEs should be levied lower percentage of taxes to allow enough funds for business development and better chances of survival in a competitive market. The government should also consider increasing tax incentives such as exemptions and tax holidays as these will not only encourage voluntary compliance but also attract investors who are potential viable tax payers in the future.

Hite (1988) carried out a study on tax incentives and revenue productivity in the Nigerian tax system. The performance model was used for this research and data used were subjected to a buoyancy test. The study revealed that a well articulated tax incentives will not only promote increase economic activity in the country but also stimulate foreign investors into the economy thereby improving revenue productivity and tax base of Nigeria's tax system.

Masud, Aliyu&Gambo (2014), carried out a study on the effect of tax rate on tax compliance in Africa using cross-country data. The study used all the African countries as population, upon which sample were selected using multi-stage approach. Data was analyzed using SPSS version 19.The findings showed that there is significant negative correlation between tax rate and tax compliance and tax rate has a negative effect on tax compliance. Thus, it is recommended that since average tax rate is 29.1985% in Africa, countries with tax rates above average that are experiencing noncompliance should reduce their tax rate to the mean tax rate in Africa. Fagbemi &Abogun (2013) carried out a study on Factors influencing voluntary compliance of small and medium scale enterprises in Kwara state Nigeria. The survey research design was used in conducting the investigation. The primary source of data was used and one hundred and fifty (150) copies of self administered questionnaire were distributed to the respondents. The multiple regression models were used to estimate the relationship between tax morale and voluntary tax compliance. The t-statistics was used to test the significance of the study variables. It was revealed that, tax morale has impact on voluntary tax compliance. It is therefore recommended that efforts be made to improve the taxpayers' morale so as to improve voluntary tax compliance and consequently improve government revenue generation.

THEORETICAL REVIEW

Theory of Planned Behavior

The Theory of Planned Behaviour (Ajzen, 1988, 1991) which is an improvement over the Theory of Reasoned Action predicts that the behavioural intention of an individual is influenced by three key variables: Attitudes; Subjective Norms; Behavioural Control. He argues that intention informs actual behaviour and in turn, intention is influenced by the three key variables. According to Francis, Eccles, Johnston, Walker, Grimshaw, Foy, Kaner, Smith & Bonetti (2004:9), "attitude toward the behavior is a person's overall evaluation of the behavior. It is assumed to have two components which work together: beliefs about consequences of the behavior (behavioral beliefs) and the corresponding positive or negative judgments about each of these features of the behavior (outcome evaluations)." They argued further that; attitude is what shows whether an individual is in favor of his/her acts. Subjective Norms, are a person's own estimate of the social pressure to perform or not perform the target behavior Francis (2004). Subjective norms are assumed to have two components which work in interaction: beliefs about how other people, who may be in some way important to the person, would like them to behave (normative beliefs) and the positive or negative judgments about each belief (outcome evaluations)." The third key variable influencing behavioral intention is the "perceived behavioral control" of an individual. This is concerned with how an individual perceives his ability to perform his intention; it talks about the perceived confidence towards performing an intention; it also means how an individual perceives himself to have control over his intended action. From the foregoing, the study deduces that the outcome variable (voluntary tax compliance) is influenced by certain variables. Tax compliance issue is a behavioral issue; tax payers may comply voluntarily or made to comply by force. Voluntary tax compliance is considered effective and efficient than tax compliance by force. The theory of planned behaviour predicts that the behavioral intention of an individual is function of attitudes, subjective norms, and perceived behavioral control; therefore we propose that voluntary tax compliance is influenced by the attitude of tax payers towards compliance.

The Expectancy Theory of Motivation

The social-political theory of taxation does not promise any benefit on the tax payer, it necessitated tax payment as a civil duty or responsibility without expecting a commensurate benefit or non from the government (Bhartia, 2004;Appah & Oyadonghan, 2011). However, tax payers have in fiduciary relationship with the government. This benefit received theory promoted that while the citizens pay tax, government is to in turn provide certain social goods and services to the tax payers. Bhartia (2004) said, this theory overlooks the use of tax policy for economic growth and stabilization of a nation. Individuals see payment of tax as a means of contributing their quota to the cost of providing social goods by government (Appah and Oyadonghan, 2011). The expectancy theory of motivation argues that the strength of a tendency to act depends on the strength of an expectation that an act will be followed by a given outcome and on the attractiveness of that outcome to the individual (Tamunomiebi and Zeb-Obipi, 2009). Three variables are identified with this theory. They are; Attractiveness, Performance and Effort Performance Linkage. The principles are that; there are identifiable attractive rewards if taxes are paid which are capable of satisfying their unsatisfied needs such as roads, light, water for people lacking them, the government can be trusted to be able to use tax payer's money wisely to satisfy their needs and that evidence exists that the government can be trusted. For example if fuel subsidy is lifted, can the government guarantee that the money will be used in building more refineries and hospitals, electricity and good road? If the answer is yes, citizens will be motivated to pay taxes.

Economics of Crime and Expected Utility Theory: The taxpayer compliance Literature is a broad and developing body of knowledge and encompasses many disciplines, including economics and psychology. According to Wang (2010), its foundations lie in the economics of crime and expected utility literature, in which it is assumed that taxpayers are amoral economic evaders who would assess the likely costs and benefits of evasion behaviour compared to those of compliance. They identified these costs and benefits to be associated with the tax rate, audit rate (i.e. percentage of returns subject to audit) the probability of returns of detection and the penalties for non-compliance. However, findings on the effect of each of these factors generally lack consistency. In respect of tax rates, Yitzhakis (1974) argued that an increase in tax rates encourages individuals to declare more income. Friedland (1978) in contrast, argued that an increase in tax rate leads to an increase of the probability of underreporting income and to larger non-payment problems, particularly in the case of high income taxpayers. Ali (2001) suggested that the level of after tax income and marginal tax rates have a significant negative effect on compliance; and this has been supported by the studies of Witte &Woodbury (1985). However, the study of Feinstein (1991) cited in Sawkins, & Dickie (2003) Shows evidence of a significant negative relationship between the marginal tax rate and non-compliance, and that no significant relationship exists between non-compliance and income.

METHODOLOGIES

This study adopted a survey research design to evaluate the effectiveness of tax incentive as a useful tool in improving tax compliance among companies operating in Nigeria using primary data; precisely structured questionnaires were administered to respondents of selected companies. The population of the study is the small and medium scale enterprise in Ondo State of Nigeria. However, fifty of these SMEs were selected because of their accessibility. The primary data were sourced from administration of structured questionnaires which are administered on the respondents of fifty selected SME's. The questionnaires was designed in designed on a five points Likert attitudinal scale to obtain information about company's disposition to tax incentives and whether these incentives would prove useful in improving tax compliance. Hypotheses formulated were tested using Pearson moment correlation statistical tool and regression analysis.

RESULTS/FINDINGS

Pearson Product Moment Correlation was used to determine the relationship that exists between tax incentives scheme and tax compliance which was interpreted using the individual Pearson correlation. The result revealed that there exist a positive relationship between tax incentive scheme and willingness to pay tax with coefficient (0.297). Even though, no significant relationship exists between the two variables. The findings also revealed among other things that tax incentive scheme contribute to the reduction in tax evasion. This is in line with the study of Ojochogwu & Stephen ((2012) who examined the factors that affect compliance among SME's in north central Nigeria. The result in appendix II showed that attracting potential investors and expansion of existing businesses are joint predictors of tax incentives on government revenue generation. This was evidenced in the result which was interpreted using various statistical parameters. The R^2 which equal (0.688) indicates that tax incentive have a 68.8% variance on government revenue generation.; The F-statistics (14.077) which is greater than the F-cal and level of significance (0.020) which shows a statistical significance ($p<0.05$). The result obtained therefore implies that tax incentive have a significant effect on tax generation of government which can be hinged on the fact that attracting potential investors as well as opportunity to expand existing business will have a positive effect on government revenue as there will be a perceived increase in the profit reported which will lead to an increase in government revenue .This is in line with the study of Dickson and Presley (2013) who stressed that a well-articulated tax incentives scheme will not only promote increased economic activity in the country but also stimulate foreign investors into the economy thereby improving revenue productivity and tax base of Nigeria's tax system.

For the economic factors and tax compliance; the individual better co-efficient, t-statistics and significance of each variables revealed that attracting potential investors (0.251; 2.167; .033) and expansion of existing businesses (0.304; 2.628; 0.010) have huge significant positive effect on government revenue generation. The findings of the study have further shown that as much as attracting of potential investors have an effect on revenue generation of government, expansion of existing businesses have a greater effect on revenue generation of government. In conclusion, tax incentive can be said to have a significant effect on the revenue generation of government. As such, the null hypothesis which state that tax incentive do not have any significant effect on government revenue generation was rejected.

To examine the effect of economic factors on the level of tax compliance by companies; the result obtained showed that (labour cost, interest rate and government policy) are joint predictors of economic factors on the rate of tax compliance which was evidenced in the $R^2 = .641$; $F(2, 85) = 6.994$; $P<0.05$. The individual better co-efficient, t-statistics and significance of each variables which was used to interpret the variables revealed that labour cost (0.245; 2.2022;0.021), interest rate (0.203; 1.040; 0.025) and government policy (0.375; 3.548; 0.001) have significant effect on the rate of tax compliance by companies. This implies that in order to ensure a high rate of tax compliance among companies and Industries, economic factors must be adequately considered.

CONCLUSION

In conclusion, Government in Nigeria has always been faced with the problem of tax non compliance among companies operating within. The findings of this study have shown that that the use of tax incentives will reduce the rate of tax evasion occurring in Nigeria and therefore improve compliance which will in turn generate more revenue for government. However, in granting these incentives, government must consider economic factors such as labour cost, interest rate and government policies which can influence the level of compliance.

RECOMMENDATIONS

Small and medium scale enterprises should be levied with lower percentages of taxes to boost their liquidity for business development and a better chance for survival in a competitive market. Government should consider increasing incentives such as exemptions and tax holidays as these will not only encourage voluntary compliance but also attract investors who are potential viable tax payers in the future. Tax authorities should embark on a sensitization campaign of SME's on the available tax incentives of government as a good number of them are ignorant of the fact that such incentives even exist. Government should pay attention to the factors that influence the willingness of citizens to pay tax and improve on them thereby improving people willingness to pay tax, government revenue and economic growth and development of the nation generally.

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APPENDIX

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.896[a]	.688	.566	1.13062

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	10.423	2	5.212	14.077	.020[b]
	Residual	108.656	85	1.278		
	Total	119.080	87			

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.753	.554		6.772	.000
	Government should consider increasing tax incentives as this will attract investors who are potential tax payers and this will increase revenue	.665	.307	.251	2.167	.033
	Increasing tax incentives will lead to expansion of existing business interests of the SMEs in Nigeria which will in turn increase government revenue	-.507	.193	-.304	-2.628	.010

Source: Field Survey (2016).

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.876[a]	.641	.621	.79597

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8.862	2	4.431	6.994	.002[b]
	Residual	53.854	85	.634		
	Total	62.716	87			

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.892	.327		2.727	.008
	Labour cost has an influencing factor on tax compliance	-.003	.120	.245	2.022	.021
	Interest rate has a negative influence on tax compliance	.007	.167	.203	1.040	.025
	Government policy has an influencing factor on tax compliance	.242	.068	.375	3.548	.001

Source: Field Survey (2016).