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International Journal of Accounting & Finance, Vol. 7(2),Dec.,2018
Journal website: http://research.icanig.org/

TAX AUDIT, PENALTY AND TAX COMPLIANCE IN NIGERIA

Richard Iyere Oghuma
Department of Accounting
Ambrose Alli University, Ekpoma, Nigeria

Abstract

This study examined the influence of tax audit and penalty on tax compliance paradigm of companies' income taxpayers in Nigeria. Discourse on tax in terms of audit, penalty and compliance is germane because governments at all levels depend on revenue generated through taxation to drive their programmes. Cross-sectional survey design was adopted for the study. The population for the study comprised all registered corporate taxpayers in Nigeria.A total of one hundred and fifty (150) corporate taxpayers whose tax files are domiciled in Edo State were selected for this study. The selection of the sample size was based on stratified random sampling method. Copies of questionnaire were distributed to the selected companies. The questionnaire was adapted from the work of Palil (2010). To evaluate the strength of the measures used, Ordinary Least Square (OLS) regression was used for model estimation through Econometric Views (E Views) software. Findings revealed that tax audit and tax penalty have positive and significant relationships with tax compliance. It is recommended that effective tax compliance canbe achieved by increasing the frequency of tax audit andby strengthening tax penalty to serve as deterrent mechanism against non-compliance. The paper concluded that corporate taxpayers should perceive their income tax payments as contribution to creating conducive business environment.

Keywords: Revenue, Tax audit, Tax compliance, Tax penalty, Taxpayers.

INTRODUCTION

The fall in the global oil prices in 2015 and its consequent negative decline in revenue has made government at all levels in Nigeria to turn attention to non-oil sector in providing alternative sources of revenue to grow the economy. Presently, tax revenue to Gross Domestic Product (GDP) of Nigeria approximately 6% is one of the lowest in the world after Qatar and Saudi Arabia. With the present infrastructural deficits and the high domestic debts of the country, if the present tax revenue is not enhanced, it will be a herculean task for government to sustainably grow the economy without improving the current tax to GDP ratio. One of the possible strategies of promoting tax revenue and invariably enhancing tax to GDP ratio is to ensure voluntary tax compliance by the citizenry.

Voluntarily tax compliance has been of great concern to government all over the world especially the developing countries where tax to GDP ratio is low. Tax noncompliance which is manifested in avoidance and evasion had been on the rise even in developed tax jurisdictions (Palil, 2010). This had consequently made many countries of the world to consider an alternative approach that would help to improve voluntary compliance and consequently increased tax revenue using Self-Assessment System (SAS). According to Palil (2010), SAS had for long become the main administrative strategy adopted by developed countries including the United States of America (USA), Australia, and the United Kingdom (UK) for ensuring both personal andcorporate voluntary tax compliance.

Usman and Anao (2015) noted that over the years, various tax reform and legislations (1961, 1993, 1996, 2004 and the mostrecent 2011) were released by the Nigerian government in ensuring voluntary tax compliance towards reducing the revenue gap in the tax administration system. The most significant of these reforms was that of 1996. The process commenced in 1994 leading to the enactment of Decree No. 30 of 1996. Although the process effectively started in 1998, it was not fully institutionalized until 2011 with the adoption of Tax Administration (Self-Assessment) Regulations. With the birth of this Regulation, most experts believed that this administrative framework laid a formal procedures and processes for taxpayers to voluntarily assess themselves to tax (Usman & Anao, 2015).

Towards promoting tax compliance among taxpayers in Nigeria, the Federal Inland Revenue Service (FIRS) publish yearly approved rates of penalty and interest to be applied as sanctions as stipulated by relevant tax laws and in pursuance to the provision of section 32(1) of FIRS (Establishment) Act. This provision of the Act states that unpaid tax shall carry interest at the prevailing Central Banks of Nigeria (CBN) minimum rediscount rate, plus a spread to be determined by the Minister. Nigeria as a developing country with massive informality has had to combat with getting taxpayers to fulfill their tax obligations. Tax audit and penalty are popular apparatus used to ensure compliance in most tax jurisdictions, especially where the rate of compliance is poor.

It is worrisome to note that despite the hugeresources (human and otherwise) on tax audit andpenalty, no serious question had been asked as to their effects on compliance and consequently generation of increased tax revenue in general and Companies Income Tax (CIT) in particular. It is, therefore, necessary for the effects of these deterrent measures to be examined to pave way for more resources or otherwise for the development of Nigerian Tax Administration System (NTAS). Against this backdrop, this study examined the influence of tax audit and penalty on tax compliance paradigm of companies' income taxpayers in Nigeria, a focus on Edo State. Thus, this paper seeks to test the following hypotheses;

H01:There is nosignificant relationship between tax audit andtax compliance in Nigeria.
H02:Taxpenalty has no significant relationship with tax compliance in Nigeria.

This paper is structured into four sections beside the background to the study namely: section two reviews of literature while section three dwells on methodology. Section four presents data analyses and discussions andsection five concludes and provides some recommendations.

REVIEW OF LITERATURE

Conceptual Review

The three main concepts of the study, Tax audit, Tax penalty and tax compliance are reviewed and presented below.

Different scholars have defined tax audit in various ways. OECD (2006) views tax audit as a means of confirmation whether a tax payer assessed and reported his/her tax liability correctly and fulfilled other obligation. Kirchler, Hoelzl, and Wahl (2008) defined tax audit as an examination conducted by the relevant tax authority on an individual or organisation's tax returns. As opined by Kolawole (2013), tax audit ensures voluntary compliance thus reducing the "tax gap" between the projected tax revenue expectation and tax realised. Oyedokun (2016) defined tax audit as an inspection of a taxpayer's business records andfinancial affairs to ensure that the amountof tax reported andpaid are in accordance with tax laws and regulations. Nwaiwu and MacGregor (2018) opined that tax audit is an independent examination of accounts, tax returns, tax payments and other records of a taxpayer to confirm compliance with tax laws and correctness of tax paid. From the definitions above, tax audit is very vital and plays a significance role for an effective tax administration. The sole aim of the examination is to confirm compliance with the tax laws and the accuracy of the figures in the tax payer's returns. It encourages tax payers to be honest in filing their tax returns, thus facilitating the attaining of the revenue realization goal.

Kirchler, Muehlbacher, Kastlunger and Wahl (2007) opined that the need for tax audit is based on the economic model that assumed that tax payers exploit the risk of detection and fine imposed for tax evasion against the gain accruable for successfully evading tax. This implies that the extent of tax evasion is a function of the probability of conducting tax audit and the existing fines and penalties. It is on this note that Allingham and Sandmo (1972) stated that the awareness of high probability of detection of tax evasion by the tax payers will always encourage tax compliance and results in a larger income being declared. Therefore, tax authorities are expected to carry out tax audit on all, where it is possible, or some of the taxpayers especially the high net worth in order to ensure tax compliance and check the tax evasion.

Doran (2009) opined that penalties are geared towards discouraging taxpayers from infringing on the tax laws and that their compliance to tax payments would be high if the penalties are more detrimental. Therefore, he concluded that tax penalties serve as an instrument for promoting tax compliance. Palil (2010) posited that the probability of tax audit and a high penalty for tax defaulters serve as a discouragement for potential tax evasion. His postulation is based on the review of previous studies that indicated tax compliance has a significant relationship with awareness of tax offences and their penalties. That is, the tendency to evade tax is reduced if the taxpayers are aware of the penalties involved in tax offences. He further suggested that educating taxpayers on tax matters as a preventive measure is a better strategy for ensuring tax compliance than imposition of penalties. Doran (2009) examined the US tax penalty system and noted that tax payers have three obligations as regards tax compliance and there are civil and criminal penalties behind failure to comply. The obligations are assess own tax liability (self-assessment), file a tax returns, and payment of the tax liability. Kirchleret al., (2008) believed that fines and mostly higher fines simply make evading taxes more hazardous for taxpayers and should, therefore, deter them from evasion. They, however, advised that, for fines to be a potent instrument of influencing compliance, it has to be complemented by audit as both are hardly separable.

Olayemi (2010) noted that tax evasion is a crime and it should be treated with all seriousness, especially in the developed countries. There are penalties imposed on tax contraventions and the severity of punishment for evasion depends on the extent of evasion. In China, for example, the penalty is as severe as death penalty. In Nigeria, system of penalties, fines or enforcement is so pleasant that tax evaders do not feel serious impact of deterrence for their actions. That is why tax avoidance and evasion are described as a favorite crime in Nigeria (Nigerian Tribune, August 31, 2012). Also, Sanni (2012) asserted that anyone who failed to pay tax risks severe penalties. He added that it was remarkable that the various penalties in the PrincipalAct andother tax laws could unwittingly serve as incentives for non-compliance, as they are sometimes ridiculously low. In a few instances where stringent penalties were imposed, they are not really enforced, thereby reflecting corruption in the taxadministration.

In proffering lasting solutions to the problems, Kwaghkehe (2010) suggested that fines and penalties for tax offences listed in the tax law must be stringent enough for defaulters to feel the impact of the payment and that the relevant authority must prosecute tax offenders for the criminal aspect of the tax offences. This he noted would stimulate voluntary tax compliance. Onimajesin (2009) noted that the achievement of the objective of fines or penalties in Nigerian tax system may be far from reality as the judiciary had its own share of the blame. Most times, tax judgments are given based on financial incentive, sentiments and other prejudices. It is also on records that most judges that handle tax matters are not well equipped in that regard. Headvised that the judges should beconstantly trained by way of courses, seminars, workshops to keep them abreast of the latest developments in the field of law andmethods of facilitating the dispensation of justice.

Scholars have defined tax compliance differently. For instance, Kirchler, et al (2007) defined tax compliance as the filing of an accurate, complete and satisfactory return by a tax payer to a relevant tax authority in accordance with the tax laws for the purpose of tax assessment. Mohammad, Ahmad and Deris (2010) noted tax compliance as the extent to which tax payers derive from the tax laws and regulation in filing their tax returns to the appropriate authority. Brown and Mazur (2003) cited in Ebimobowei and Peter (2013) viewed tax compliance in three distinct dimensions. The dimensions are payment compliance (timely payment of all obligations), filing compliance (timely filing of required return), and reporting compliance (disclosure accurate tax liability). OECD (2004) viewed tax compliance by taxpayers in four broad obligations of being captured in the tax net, timely filing of tax returns, disclosure of accurate financial information, and timely payment of taxation liabilities. Failure by the tax payers to meet any of the above obligations would be considered non-compliance to the tax law. Taxcompliance can be simply seen as a situation whereby a taxpayer willingly computes, files and pays all the relevant taxes in accordance with the applicable laws andregulations.

Kirchler, et al (2008) opined that it is the duty of the citizens of any nation to pay tax for whatsoever motive, while the duty of the State is to ensure compliance to the tax rules. They further stated that the reason for compliance could be that the cost for non-compliance is too high, or the citizens believe it is their civil responsibility to comply for the development of the society which they are members. Alabede, Ariffin and Idris (2012) noted that tax non-compliance is a grave challenge to tax administration in developing countries, Nigeria inclusive. In Nigeria, statistical evidence shows that the contribution of tax revenue to the country's GDP is one of the lowest in the world, in spite of the various tax reforms introduced by government.

It is worthy of note that the issue of noncompliance was undoubtedly not a Nigerian problem alone. This, therefore, had made economies of the world to combat the hydra-headed issue of tax evasion and avoidance. That was why Schneider (2003), Alm, Blackwell, and McKee, (2004) agreed that tax noncompliance was an inevitable fact in all societies. Tax administrators world over are interested in achieving compliance and as such are always focused on unearthing specific drivers of taxpayers' compliance behaviour. Walsh (2012) observed that better understanding ofwhat motivates taxpayers' compliance behavior towards taxation was key in unearthing the undertone of voluntary compliance and the efficiency of the tax administration. OECD (2004) opined the drivers of tax behaviour as follows; tax payers' belief in conserving cash out flow through tax paymentby deliberately under stating their income in attempt to remain competitive in business; and the desire of the tax payers to recoup some money as compensation for their perception of high tax rate. OECD (2004) opined that identifying and dealing with the behaviour will have an impact on the affected tax payer but for a limited period of time.

Theoretical Review

There are two theories that encourage voluntary tax compliance; these are economic deterrence theory and psychology theory. The economic deterrence theory according to McKerchar (2002) is based on the theory that behavior is responsive to punishment or sanctions. He further opined that the deterrence theory was presumed on the ground that all taxpayers would respond in an almost identical and predictable fashion whenever there is an opportunity to maximise the utility such opportunity presents. The economic deterrence theory incorporates six economic variables which are predominant in the literature. These variables are penalties, tax rate, income level of the tax payer, complexity of the tax system, tax audit, that is, the probability of detection and sentencing (Mckerchar, 2002). The psychology theory posits that taxpayers' compliance is based not on any of the perceived sanctions or punishment or when the probability of detection is low, but on psychological factors such as ethics andmorals ofthe tax payers.

Tax audit and penalty among other variables form the cardinal stands of the economic deterrence theory. However, it is worth noting that these compliance tools, although popular, are criticised on the grounds of high cost of implementation and weak enforcement mechanism in the tax system in Nigeria which had been argued to have reduced their potency (Usman & Anao, 2015). Many researchers believed that attention should be shifted to attitudinal tools influencing compliance rather than deterrence apparatus. However, in spite of the weaknesses, the theoretical principles of economic deterrence model have been widely adopted by tax administrations in many countries, Nigeria inclusive. This is evidenced by the wide use of enforcement strategies that relied principally on penalties andtax audit. It is on this note that this study is anchored on the economic deterrence theory.

Previous Studies on Tax Audit, Tax Penalty and Tax Compliance

Witte and Woodbury (1985) and Butler (1993), in their study of small business owners' attitude towards tax compliance, found that tax audit has a significant effect on tax compliance as it changes compliance behaviour of tax payers from negative to positive. Badara (2012) examines the effect of tax audit on tax compliance in Nigeria. Data were collected by administering questionnaire. The findings of the study are that tax audit is employed by the relevant tax authority towards achieving tax revenue target; the problem of tax evasion is reduced, and the cooperation of tax payers during tax audit exercise is low. The study recommends an enhancement of the standard of tax audit by relevant tax authority for the purpose of minimising tax evasion and improving the efficiency and effectiveness of its operations. In addition, the relevant tax authority should put in place strategies that will encourage tax payers' cooperation during tax audit exercise. Appah and Eze (2013) also conducted a study on the impact of tax audit on tax compliance in Nigeria. The study revealed a significant relationship between random tax audit, cut-off tax audit and conditional tax audit on tax compliance in Nigeria. The study concluded that because the average Nigerian is tax evasive, tax audit is one of the strategies to ensure tax compliance. The study recommends that government should demonstrate accountability and transparency in tax revenue and expenditure; the relevant tax authority should implement the tax laws equitably and without bias among the tax payers and improve on the effectiveness and efficiency of tax administration by raising the standard andfrequency of tax audit.

Modugu and Anyaduba (2014) examined the influence of tax audit and other qualitative attributes on the level of tax compliance by Nigerian companies. Data were obtained from primary source by administering questionnaires on sampled companies in some states in Nigeria. Data analysis was by ordered logistic regression technique. The result showed that there exists a positive relationship between tax audit and tax compliance. The result revealed that the likelihood of tax audit, enforcement of penalties, and accountability of government spending have tendency to significantly influence tax compliance in Nigeria. The study recommends that relevant tax authorities should engage in reasonable and effective means of enhancing the impact of tax audits on corporate tax compliance in Nigeria. However, the finding of the study by Beron, Tauchen and Witte (1998) revealed that tax audit has no significant correlation with tax evasion for the entire group studied and that tax audits were found to be more effective in inducing taxpayers to over claim deductions rather than encouraging them to correctly report actual income.

Sheikh Obid (2004) study on the influence of tax penalties on taxpayers' compliance revealed that penalty rate does have a significant effect on tax compliance. Mohdali, Isa and Yusoff (2014) study on the impact of tax penalties on tax compliance and noncompliance attitude in Malaysia showed that tax penalty has encouraged tax payers to become less compliant which might indicate their rebellious act towards the government. Oladipupo and Obazee (2016) using a survey research design examined the influence of tax payers' knowledge and tax penalties on tax compliance amongst small and medium enterprises in Nigeria. Ordinary Least Square regression method was used to analyse the data obtained. The results revealed that there was a positive significant influence of tax knowledge on tax compliance, while tax penalty has no significant positive influence on tax compliance. Furthermore, tax knowledge has a higher propensity to promote tax compliance than tax penalty. They recommended that government should promote awareness on tax matters among small and medium scale business owners and tax education should be incorporated in school curricula at all levels.

METHODOLOGY

Data Collection and Analysis

The study employed field survey quantitative research design approach. A five point likert scale questionnaire ranging from strongly agree of 5-point to strongly disagree of 1-point was developed to obtain data from the respondents. The questionnaire was adapted from the work of Palil (2010). The questionnaire was divided into two sections. Section A contains the background information of the companies while Section B focused on the core issues relating to the research objectives namely: tax audit, tax penalty and tax compliance. The questionnaire employed in collecting the data was further subjected into Cronbach Alpha reliability test in checking the internal consistency of the items used in measuring each of the variables. The Cronbach Alpha coefficient values of the variables: tax audit, tax penalty and tax compliance are 0.727, 0.747 and 0.801 respectively which compare favourably with a stipulated standard of above 0.70 for reliability test. This therefore, indicates that all the research questions in the questionnaire have internal consistency. Hence, the research instrument is reliable.

The target population for the study comprised all corporate taxpayers in Nigeria. However, due to the large number and the geographical spread of the population, the study was restricted to Edo State in South-South geo-political zone of the country. A list of corporate tax payers containing the names and addresses was obtained from the Edo State areas offices of the Federal Inland Revenue Service. The tax payers were classified into three strata according to the amount of tax paid. One hundred fifty (150) corporate taxpayers were randomly selected equally from each of the three strata and copies of questionnaire were distributed to the selected companies. Forty (40) copies of the questionnaire were administered for pilot test. Data collected were analysed with computer software (E-views 8.0).

Descriptive and Inferential statistics were employed to analyse the data collected. For the Inferential statistics, Ordinary Least Square (OLS) regression analysis was used.

Model Specification

In this study, we hypothesized that tax compliance (TCOM) is influenced by tax audit (TAUD) and tax penalty (TPEN). The Ordinary Least Square (OLS) regression modelapplied is expressed in functional formas:

TCOM = f (TAUD, TPEN) 1

and in econometric form as:

TCOM = á + TAUDâ1+ TPENâ2+ å 2

where:

á = Constant
â1 = Coefficient
â2 = Coefficient
TCOM = Tax Compliance,
TAUD= TaxAudit,
TPEN = Tax Penalties,
å = The error term.
The apriori expectation is expressed as: â1>0, â2>0

DATA ANALYSES AND DISCUSSION OF FINDINGS

This section contains the descriptions of tax compliance, tax penalty and tax audit. A total of 150 questionnaires were administered for this study out of which 135 were found usable, amounting to 90%. The results are presented in the Tables 1-4:

Table 1: Description of Tax Compliance

S/N	Statement	Mean	Std. Deviation
1	The probability that our company might be audited makes us pay tax voluntarily at the right time.	4.163	1.024
2	The penalty/enforcement rate for default in tax payment facilitates our compliance.	3.237	1.265
3	Our knowledge on self-assessment procedures and companies income tax law affects the level of our compliance.	3.607	1.246
Overall mean and standard deviation		3.669	1.1333

Source: Researcher's field survey (2018) **Highly considered (mean ≥2.50)*

Table 1 shows that majority of the respondents agreed with all the statements measuring tax compliance in the following orders: The probability that our company might be audited makes us pay tax voluntarily at the right time ($\bar{X} = 4.163; SD = 1.024$); Our knowledge on self-assessment procedures and companies income tax law affects the level of our compliance ($X = 3.607$; $SD = 1.246$); and the penalty/enforcement rate for default in tax payment facilitates our compliance ($\bar{X} = 3.237; SD = 1.265$). The overall mean of 3.669 shows that the level of tax compliance is moderate.

Table 2: Description of Tax Audit

S/N	Statement	Mean	Std. Deviation
1	Tax audit can always expose underpayment of taxes	3.881	1.127
2	The perceived skillfulness of tax auditors at discovering any noncompliance defines our level of tax compliance	3.822	1.043
3	The possibility of additional tax liability resulting from tax audit is significant	3.630	1.244
	Tax Auditors show high level of professionalism in their jobs.	3.881	1.086
	To avoid interruption in our operations caused by tax audit, we tend to be compliant	4.170	0.951
	Overall mean and standard deviation	3.877	1.0617

Source: Researcher's field survey (2016) **Highly considered (mean ≥2.50)*

Table 2 shows that majority of the respondents agreed with all the statements measuring tax audit in the following orders: to avoid interruption in our operations caused by tax audit, we tend to be compliant ($X = 4.170$; $SD = 0.951$); tax auditors show high level of professionalism in their jobs ($X = 3.881$; $SD = 1.086$); tax audit can always expose underpayment of taxes ($X = 3.881$; $SD = 1.127$); the perceived skillfulness of tax auditors at discovering any noncompliance defines our level of tax compliance ($\bar{X} = 3.822; SD = 1.043$); and the possibility of additional tax liability resulting from tax audit is significant ($\bar{X} = 3.630; SD = 1.244$). The overall mean of 3.877 shows that the level of tax auditing is moderately high.

Table 3: Description of Tax Penalty

S/N	Statement	Mean	Std. Deviation
1	The level of penalty for tax default makes us to pay our taxes at the right time	4.304	0.925
2	Enforcement team's conduct is enough to make us fulfill our tax obligations.	4.726	0.510
3	Most of the fines we pay are from tax audit	4.430	0.806
4	From my understanding, punishmentfor noncompliance in Nigeria are not really serious like in other countries	3.600	0.986
5	The existing scale of penalties for tax default/evasion is fair in relation to the nature of default or non-compliance.	3.896	1.101
	Overall mean and standard deviation	4.191	0.8191

Source: Researcher's field survey (2016) **Highly considered (mean ≥2.50)*

Table 3 shows that majority of the respondents agreed with all the statements measuring tax penalty in the following orders: enforcement team's conduct is enough to make us fulfill our tax obligations ($\bar{X}$ = $4.726; SD = 0.510)$; most of the fines we pay are from tax audit ($X = 4.430; SD = 0.806)$; the level of penalty for tax default makes us to pay our taxes at the right time ($\bar{X} = 4.304; SD = 0.925)$; the existing scale of penalties for tax default/evasion is fair in relation to the nature of default or non-compliance ($X = 3.896; SD = 1.101)$; and from my understanding, punishment for noncompliance in Nigeria are not really serious like in other countries ($X = 3.600; SD = 0.986)$. The overall mean of 4.191 shows that the level of tax penalties is high.

Table 4: Model Estimation Using Regression Analysis

Dependent Variable: Tax Compliance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.1193	0.0836	1.4269	0.1560
Tax Audit	0.5587	0.0807	6.9249	0.0000
Tax Penalty	0.4014	0.0807	4.9739	0.0000
R-squared	0.9400		F-statistic	1034.6660
Adjusted R-squared	0.9391		Prob(F-statistic)	0.0000
Observations	135		Durbin-Watson stat	2.2234

Results in Table 4 reveal that tax compliance is positively and significantly related to tax audit and tax penalty at 5% level of significance. This implies that as tax audit and tax penalty increase, level of tax compliance increases. The coefficient of determination (R2) value of 0.94 was obtained. The Adjusted R2 of 0.9391 indicates that the independent variables jointly explained 93.91% of the variation in the dependent variable. The Durbin-Watson statistic of 2.2234 reveals the absence of first order serial correlation. The F-statistic of 1034.6660 is significant at $p<0.05$ ($p=0.000$). This means that there is a statistically significant relationship between the dependentvariable andthe independent variables.

Discussion of Findings

First, the study revealed that tax compliance by corporate income tax-payers was positively and significantly related with attitude to tax audit. This finding suggests that in self-assessment systems, tax audit can play an important role and it is central to increase voluntary tax compliance. This finding is in consistent with the findings of Witte and Woodbury (1985) and Butler (1993) studies. Witte and Woodbury (1985) found that tax audit has a significant impact on tax compliance, while Butler (1993) found that tax audit can influence taxpayers' tax compliance behaviour from negative to positive. However, our finding is contradictory with the findings of Beron, et al (1998). Their finding showed that tax audit is not significantly correlated with tax evasion, but it induces taxpayers to over claim deductions rather than encouraging them to correctly report actual income.

Second, this study found that there was a positive and significant relationship between tax penalties and tax compliance by corporate income tax-payers. This finding is consistent with the finding of Sheikh Obid (2014), but contradictory with the findings of Mohdali et al., and Oladipupo and Obazee (2016). Their study revealed that tax penalty showed no significant positive influence on tax compliance and has encouraged tax payers to become less compliant which they suggest is an indication of rebellious act towards government. The positive relationship between perceived enforcement of penalties and tax compliance could be explained by the worth of the penal tax saved (tax saved) and if the penalty procedure is always strictly followed and enforced. When the tax payers notice that the government is fully committed to identify and reprimand non-compliant tax payers, the degree of compliance tends to increase. Therefore, enlightening taxpayers and ensuring that they are well informed at all times of the penalties for noncompliance could be a more effective strategy in ensuring high level of tax compliance in Nigeria.

CONCLUSION AND RECOMMENDATIONS

This study assessed the influence of tax audit and penalty on tax compliance of corporate income tax payers in Nigeria. The study adopted field survey quantitative research design. The target population for the study comprised all corporate taxpayers whose tax files are domiciled in Edo State, Nigeria. 150 questionnaires were distributed to managers and accountants of selected organisations in Edo State. Findings from the study revealed that tax audit and tax penalties are positively related to tax compliance. Based on the findings of the study, the following recommendations are made:

First, Tax penalty should be strengthened to serve as deterrent mechanism against non-compliance. This can be achieved by ensuring that necessary amendments are made to relevant sections of applicable tax laws to make tax evasion unattractive and highly punitive in nature. Second, tax audit exercise should be carried out frequently, at least once in three years on all taxpayers. To this end, more skilled manpower should be engaged. In addition to enhance voluntary tax compliance, youth unemployment rate in the country will be reduced. Third, the planning and disbursement of revenue generated through taxes should be properly monitored by government agencies charged with tax related matters. Hence, it is expedient for tax collecting bodies to partner with Ministry of Finance, Budget and National Planning and other related government agencies to ensure that tax revenues are used for socially desirable purposes. Finally, future studies should explore the subject matters by extending the scope to cover other states of the federation.

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APPENDIX: REGRESSION RESULT

Dependent Variable: TCOM
Method: Least Squares
Date: 03/30/18 Time: 05:47
Sample: 1 135
Included observations: 135

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.119298	0.083609	1.426866	0.1560
TAUD	0.558703	0.080680	6.924914	0.0000
TPEN	0.401407	0.080702	4.973915	0.0000

R-squared	0.940036	Mean dependent var	3.745679
Adjusted R-squared	0.939128	S.D. dependent var	1.181117
S.E. of regression	0.291409	Akaike info criterion	0.393791
Sum squared resid	11.20931	Schwarz criterion	0.458353
Log likelihood	-23.58090	Hannan-Quinn criter.	0.420027
F-statistic	1034.666	Durbin-Watson stat	2.223401
Prob(F-statistic)	0.000000		