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Effect of Corporate Tax Compliance Variables on Petroleum Profit Tax Compliance in Nigeria, the Mediating Effect of Tax Complexity: A Proposed Framework

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Abstract

Tax compliance literature has documented extensive evidence confirming the influence of tax knowledge on tax compliance, so also corporate taxpayers employ tax agent who are perceived to be experts in the provisions of tax laws, which eventually results in minimizing errors in filing returns and eventual tax compliance. However, not much has been written in relation to petroleum profit tax compliance in this regard. Moreover, the evidences regarding the effects of tax knowledge and tax agents on tax compliance could justify the need to explore for a mechanism that could explain why these variables affect tax compliance from the perspective of petroleum profit taxation. Hence, complexity was identified as a possible mechanism through which tax knowledge and tax agents could influence petroleum profit tax compliance. Consequently, the paper presents a proposed framework on the mediating effect of tax complexity on the relationship between tax knowledge, tax agents and petroleum profit tax compliance among oil companies in Nigeria. If validated, the outcome will benefit policymakers in oil producing countries in devising means for enhancing tax knowledge amongst taxpayers and encouraging them to employ tax agents which may eventually improve tax compliance.

Keywords: Tax compliance, complexity, tax agents, petroleum profit, oil, companies

Introduction

The paper presents a theoretical framework on the mediating effect of tax complexity on the relationships amongst tax knowledge, tax agents, on petroleum profit tax compliance amongst oil companies in Nigeria. Prior reviews on tax compliance focused on individual taxpayers, whilst few studies concentrated on corporate taxpayers, which is very alarming looking at the crucial roles it plays in the total revenues collected by the government (Yusof & Lai, 2014). It is important to note that corporate firms are quite different from individual taxpayers in many ramifications (OECD, 2009). The reason is that corporate organizational activities are more complex when compared with individual ones, especially large corporations that operate internationally, which most of the time are alleged as being more influential rivals of the tax authorities (OECD, 2009, 2013).

Kamdar (1997) stated that there is a significant difference in the compliance behaviours of small, medium, and big companies. Corporate tax compliance has been one of the most important research contents in accounting and finance and is also regarded as the essential features of modern economic development (Hong-Bing, 2014). Hong-Bing further argued that due to the current economic globalization, virtually all countries around the globe resort to a wide selection of corporate tax compliance behaviours using different categories of tax preferences. Thus, previous studies have acknowledged that prior tax compliance analyses on individuals offer a framework for the exploration of corporate tax compliance decisions, for example (Rice, 1992; Joulfaian, 2000). Other researchers suggested that further studies need to be conducted before reaching any conclusion on corporate tax compliance (Kamdar, 1997). Based on this development, the currently proposed framework tends to explore taxpayers' views on the possible mediating effect of tax complexity in the relationships amongst tax knowledge, tax agent, and petroleum profit tax compliance.

It is, however, important to note that the currently proposed framework pays attention to identifying the taxpayers' views in the oil and gas industry. The oil and gas industry appear to be one of the major contributors to the economic growth of virtually most of the oil producing countries. For example, oil revenue accounts for about 87% of government revenue, 90% of foreign export earnings, and 42% of the GDP in Saudi Arabia (Saudi economic report, 2018). The oil sector contributes about 70% of government revenue, 95% of foreign export earrings, and 40% of the GDP in Nigeria (Kyari, 2013). Despite the significant contribution of this sector to the economic development of some oil producing countries as cited above, tax compliance studies on this sector are scant or not available. Therefore, conducting a study on this sector will benefit a lot of oil producing countries, as the study may offer useful insights on the important policy implications which may help both the potential investors and the host oil producing states. However, the fiscal terms of the proposed framework will be discussed in the subsequent sections.

The paper was organized as follows: prior section covers the introduction part of the paper, which highlights the motivation and significance of the study as well as the paucity of the research in the area under consideration. Section two covers literature review on the focal constructs, and proposition development. Section three covers theories which serve as the foundation of the current study. Section four covers proposed conceptual framework. While section five covers the concluding part of the study.

Literature Review

Petroleum Profit Tax

The Petroleum Profit Tax (hereafter PPT) is associated with the profit-sharing element in oil exploration, oil mining, oil prospecting leases, rents, and royalties (Gbegi et al., 2017). The PPT refers to the charging of taxes on the profit accrued in the course of oil operation in Nigeria (Nwezeaku, 2005). The petroleum profit taxes are assessed from the profits of the companies engaged in oil operation for the prevailing accounting period, normally January to December (Anyawu, 1993). The petroleum tax refers to the tools and mechanisms of a government used for the purpose of creating more essential rent sharing balance between the host government and oil and gas companies, and the Nigerian petroleum profit tax is a clear example of petroleum taxation (Amiesa, Omowunmi & Joseph, 2018). According to section 8 of the PPTA, it states that each company engaged in petroleum operation is expected to render returns from the proceeds of their oil sold, together with the audited annual account, and tax computation therein within the stipulated time frame of its accounting period. Therefore, the PPT serves as the dependent variable of the propose framework.

Tax Complexity

Tax complexity is considered as the tax system which is complicated to the extent that some citizens cannot find their ways in the unclear confusion created by numerous pages of tax law and regulations (Tanzi, 2017). Tanzi further argued that, a system can be complicated, simple or complex; a system that is simple will be easily understood and its outcomes are predictable. Kaplow (1994) posited that tax complexity is an unending source of complaints, the author further argued that complexity is, however, necessary if the ability to pay is to be measured accurately. Thus, Kaplow (1995) submitted that huge tax complexity is responsible for enormous compliance costs, and the tax gap is quite big despite considerable resources that are devoted to enforcement. Therefore, Kaplow concluded that the magnitudes of tax complexity demand action. Furthermore, Borrego et al. (2015) using a survey of 994 Portuguese taxpayers, investigated their perceptions of tax complexity. The results indicate that tax knowledge which is one of the exogenous factors has negative effect, while company's size has a positive effect on perception of tax complexity. Further, Onoja and Odoma (2020) reiterated that, tax complexity entails tax laws, which contain too many details and ambiguity, which usually causes tax non-compliance. In the same vein, Isa (2014) stressed that complexity results in unintentional non-compliance. Whilst Mc Kerchar (2002b) emphasized that both intentional and unintentional non-compliance could be reduced by minimizing tax complexity.

Tax Knowledge

Tax knowledge is very essential in shaping the compliance behaviour of taxpayers (Eriksen &Fallan, 1996; Mustafa, 1997; Saad, 2014). Additionally, tax knowledge is considered as being a very significant factor in influencing tax compliance (Hofmann, Hoelzl & Kirchler, 2008). Weisbach (2013) argued that to determine the desirability of tax law knowledge, three essential factors must prevail, these factors are: the type of tax, expectation about the tax in the absence of knowledge, and the quality of the tax. Nevertheless, consistent findings on the relationship between tax knowledge and tax compliance are still not available in the existing literature. Extant literature for example Kasipillai and Jabbar (2003), Manaf (2005), Kirchler, et al. (2006)), Paliland Mustafa (2011) examined the relationship between tax knowledge and tax compliance, and eventually found positive and significant relationships amongst the variables regardless of the different respondents. The studies further postulated that the higher the taxpayers possessed tax knowledge, the higher the compliance rate. Contrarily, Dubin and Wilde (1988), McKerchar (1995), Ritsema, Thomas and Ferrier (2003), McGee, Basic and Tyler (2009) found negative relationships between tax knowledge and tax compliance. Based on the inconsistent findings on the relationship between tax knowledge and tax compliance, followed by the lack of specific studies that had empirically tested the relationship between tax knowledge and petroleum profit tax compliance, the following proposition was developed.

***P1**: Tax knowledge will affect petroleum profit tax compliance.*

Tax knowledge as a requisite skill possessed by taxpayers, which invariably helps taxpayers to understand the requirements of the tax laws, helps the taxpayers to file the necessary returns and pay the correct tax liability to the relevant tax authorities. Empirical literature in the field of taxation has indicated a positive relationship between tax knowledge and tax compliance, for instance, (Kasipillai & Jabbar, 2003; Manaf, 2005; Kirchler et al., 2006; Palil & Mustafa, 2011). This situation may need further investigation to determine the factors that may clearly explain the rationale behind of the positive relationship between the two constructs which is lacking currently in the existing literature. This study proposes to use tax complexity to explain the logic behind the positive relationship between tax knowledge and tax compliance. The main argument here is the fact that complexity arises mostly due to a lack of tax knowledge from the taxpayers' point of view, therefore, taxpayers with sound tax knowledge will perceive the tax system as less complex which eventually leads to tax compliance. Hence, the following proposition was made.

P2 *Tax complexity will mediate the relationship between tax knowledge and the PPTC.*

Tax Agents

Tax agents are defined as a group of professionals who help taxpayers to comply with the tax laws and represent taxpayers in their dealings with tax authorities (Walpole & Salter, 2014). Tax agents are considered as key players that play very important roles in tax compliance because they assist taxpayers in meeting their tax obligations (Isa, Yussof & Mohdali, 2014). In the same vein, Erard (1993) stressed that due to the difficult tax obligations, taxpayers get advantageous assistance from tax agents in filing their tax returns. However, in Australia, a research conducted by Walpole (2009) revealed that about 73 per cent of individuals as well as 94 per cent of corporations were prepared to use tax agents. Walpole further stated that as of 2005, there were about 25,965 registered tax agents in Australia; out of this number, 83 per cent were active tax agents, whilst 45 per cent had more than 100 clients.

Additionally, Hasimzade et al. (2015) stressed that, an agent-based model can be used to examine the social and behavioural aspects of tax compliance. Notwithstanding, empirical studies on the relationship between tax agents and tax compliance proved to be supportive; for example, Bidin et al. (2014) found that the readiness and understanding of tax agents towards the implementation of GST in Malaysia were significant and positive. Moreover, Isa et al. (2014) postulated that a tax agent's involvement under SAS has a positive relationship with tax compliance. Muhammad (2017) documented that a tax agent's role promotes compliance in Malaysia. Based on the findings above, the following proposition was drawn.

P3 *Tax agents will affect the Petroleum Profit Tax Compliance (PPTC).*

Tax agents are groups of professionals that assist taxpayers on tax related matters. They also demonstrate their skills and expertise by preparing correct tax liabilities for their clients and advising their clients appropriately on potential tax related threats so as to avoid being penalized by the tax authorities. It is, however, worthy to note that, the tax agent's role in promoting tax compliance is undoubtedly significant. This argument is evident in some empirical studies, for instance, (Bidin, et al., 2014; Isa et al., 2014; & Muhammad, 2017). These studies unanimously found positive relationships between tax agents and tax compliance. Having found consistent positive relationships between the two constructs, it could be of significance to find the factors that can explain the basis of the relationship. Therefore, the current proposed framework postulates that tax agents may find the tax system as less complex due to their sound knowledge of taxation, which may eventually lead to tax compliance. This contention has been proved empirically, hence it served as the basis for developing the following proposition.

P4 *Tax complexity will mediate the relationship between tax agents and the PPTC***.**

Theories

Social Learning Theory

The founder of this theory, Bandura (1977) acknowledged that individuals learn certain behavior from others through observation and the influence of their own personal behavior. In the context of tax compliance behavior, which is the focus of this study, social learning theory is consistent with taxpayers' tax knowledge acquisition which can be achieve through social learning process. As such, tax knowledge is an essential construct in determining taxpayers' compliance behavior (Sutinen & Kuperan, 1999).

Equity Theory

The Equity Theory was promulgated in 1960s by (Adams, 1965). Equity theory can explain that where the tax laws are too complex, taxpayers may question it fairness, hence the more tax system is complex the more taxpayers perceived in equity in the tax system, thus, tax complexity may encourage negativity on tax compliance behavior (Ayuba, 2016). Based on theoretical and conceptual evidence, this study used equity theory to support one of the predictor variables (tax complexity).

Theory of Optimal Taxation

The theory of optimal taxation originated from the work of Mirrlees (1971) who assert that pretax labor income of an agent who has differential wages, and favorites identical can maximize economic benefits. More importantly, the theory of optimal income taxation has been used in the area of tax agents, which give an excellent review in these area for instance (Mankiw, Weinzierl & Yagan, 2009). Therefore, based on these evidences, this study used the theory of optimal taxation to support one of the predictor variables (tax agent).

4. Proposed Conceptual Framework

In accordance with the literature discussed above, Figure 1 shows the theoretical framework which depicts the direct relationships of the constructs under consideration.

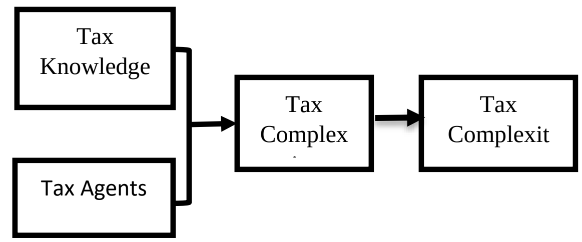

Figure 1: Theoretical Framework

5. Conclusion

The paper discussed a theoretical framework on the mediating effect of tax complexity on the relationships amongst tax knowledge, tax agents, and petroleum profit tax compliance amongst oil companies which was depicted in Figure 1. The model is in the process of validation, and when validated empirically, some implication and policy insights can be offered to host oil producing countries and potential foreign investors willing to venture into oil and gas operation. It is obvious that tax knowledge and tax agents' influence lead to tax compliance. Therefore, the framework, if validated, will offer important insights as regards the effect of tax complexity on the relationships amongst tax knowledge, tax agents, and petroleum profit tax compliance. Other countries having abundant natural resources will benefit from the framework, if validated, as it may offer a good highlight for them to enhance and develop an appropriate policy which is capable of improving petroleum profit tax compliance in their countries. Academia will benefit from the framework as it will provide a roadmap for expansion of the existing tax compliance literature which has mostly concentrated on individual taxpayers or small corporations in the whole sector of the economy whilst neglecting the oil sector, which has experienced very little attention in tax compliance studies despite its enormous contribution to the economic development of most of the oil producing countries. The framework can be expanded by adding more variables to suit researchers contextual and environmental need. Other researchers can validate the framework in other economic sectors to explore the explanatory power of these constructs from different sector of the economy.

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