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Back Duty Audit and Companies Income Tax Compliance in the Federal Capital Territory, Nigeria: The Moderating Role of Tax Officers' Expertise

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Abstract
Low tax compliance is a serious problem that has continued to ravage the Nigerian tax system which has forced the government to source for an alternative means of financing its budget. To tackle this issue, the government has introduced tax audit to enhance tax compliance. This study examines back duty audit and companies' income tax compliance in Nigeria, the moderating role of tax officers' expertise. The population of the study comprises 304 FIRS staff in the audit department in the Federal Capital Territory, Abuja. Taro Yamane formula was used to determine a sample size of 173. Multiple regression was used to analyze the data and to test the hypotheses of the study with the help of STATA version 13. The result revealed that back duty audit has a positive and significant effect on companies' income tax compliance. The moderator, tax officers' expertise has a positive and significant effect on companies' income tax compliance. When the moderator interacted with back duty audit, the result was positive and statistically significant. As a matter of policy, it is advised that the FIRS should not wait for a period of six years before finding out whether a company has fully complied with their tax obligations because some unpleasant incidents can hamper them from producing source documents such as fire. The study recommended that the FIRS should emphasize more on routine audit because it helps to increase compliance by companies now and in the future. Secondly, the tax officers should constantly reach out to companies' representatives to help them resolve complexity in the tax laws.

Keywords: Back Duty Tax Audit, Companies Income Tax Compliance, Tax Officer Expertise, Federal Inland Revenue Service, Federal Capital Territory-Abuja.

1.0 Introduction

Back duty audit is a type of tax audit instituted against a taxpayer when the tax officer suspects non-compliance tendencies. Examples of such are unlawful claims of capital allowance, undisclosed income, and reduction in the taxes paid as compared to the actual. According to the Institute of Chartered Accountants of Nigeria (ICAN) (2021), a back duty audit is an exercise carried out to review the records of taxpayers to ascertain that the records agree with the books of account. Situations where variances are discovered, fines, penalties and interest are imposed on the taxpayer. Over the years, companies in Nigeria have shied away from paying their taxes regularly, which have made the Federal Inland Revenue Service (FIRS) to instigate back duty audit against the taxpayers in order to ensure that the exact amount owed to the government is collected (Nwaiwu & Macgregor, 2018). Oluseyi (2021) quoted the Former Executive Chairman of FIRS, Mohammed Nami as saying, "out of 18,602 companies, partnerships and enterprises with N1 billion banking turnover only 11,830 pay some types of taxes while 6,722 were not paying any form of taxes." Furthermore, the audit report of 2015 to 2019 revealed that over 5000 companies and ministries, department and agencies of the government owes N5.2trn in taxes to the federal government through the FIRS (Dirisu, 2024). FIRS (2018) reported a tax gap of N861.76 billion in 2017 and N1.4 trillion in 2018 representing about 18% and 21% of targeted revenue respectively.

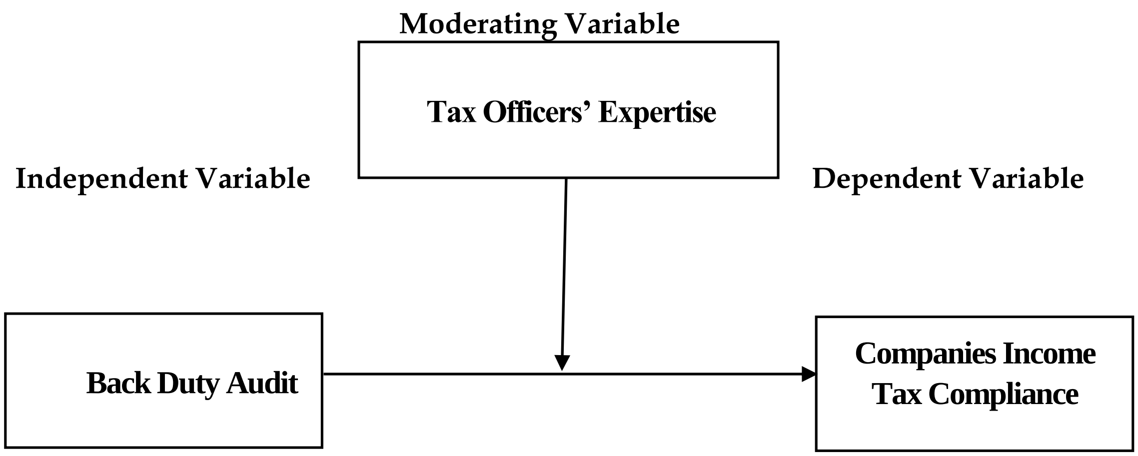
Tax compliance is the willingness of taxpayers to obey all the tax laws without being forced to do so (Nyor et al., 2018). Companies income tax (CIT) is a tax chargeable on the profit of incorporated entity accruing in, derived from, brought into, or received in Nigeria in respect of any trade or business (Ogbonna & Appah, 2016). A company is tax compliant when it collects, and files the taxes collected promptly. A company for tax purposes is categorized into Nigerian and foreign companies. A Nigerian company is a company incorporated by the Company and the Allied Matters Act (CAMA) as amended in 2020. According to the Companies Income Tax Act (CITA) (2007), a foreign company is a company incorporated outside Nigeria.

Studies like Olaoye and Ekundayo (2019), Olaoye and Ogundipe (2018), Nwaiwu and Macgregor (2018) and Idris (2021) have examined back duty audit and tax compliance in Nigeria, and they found that back duty audit can positively and significantly influence tax compliance in Nigeria and in effect increase the government's revenue. However, not from the perspective of tax officers' expertise as the moderator. Tax officers' expertise was used to moderate the effect because many companies are not complying with the payment of their tax liabilities which might be as a result of complexity in the tax laws (Olaoye & Aguguom, 2018). Therefore, it is assumed that with the help of tax officers who are experts in the tax laws the complexity will be simplified that will result in more companies paying their taxes promptly. This paper examines back duty audit and companies' income tax compliance in Federal Capital Territory, Nigeria. The rest of this paper is organized into section two, literature review, section three, methodology, section four, data analysis and discussion of results, and section five contains the conclusion and recommendations.

2.0 Literature Review and Hypotheses Development

This study examines the effect of back duty audit on companies' income tax compliance in Federal Capital Territory, Nigeria, using tax officers' expertise as the moderator. The conceptual framework in Figure 1 shows that for back duty audit to achieve its purposes to uncover unremitted taxes through excessive claim of capital allowance, underpayment or overpayment, the tax officers must oversee the role of ensuring that companies report in their financial statements their true tax position.

Figure 1: Conceptual Framework of the Study



Source: Researcher's Compilation (2023)

Back Duty Audit and Companies Income Tax Compliance

Adekola and Taiwo (2020) described a back duty audit as an exercise in which the tax authority tries to uncover non-compliance by reviewing the books of account of the taxpayers for the past six years excluding the year of the audit. This exercise is instigated as a result of excessive claim of capital allowance, failure to fully disclose income in the period they were earned, discrepancy between the tax filed and the actual due to the government. According to the ICAN (2021) when it is discovered that the taxpayer has not complied it may form the basis for an additional assessment, objection, or in some other cases tax investigation. Abdulrazaq (2013) stated that back duty is a colloquial phrase that is not known to statute. It covers the process of tax inquiries and statutory penalties. The practice is to require the taxpayer to furnish the tax officers with all the necessary information and explanations as may be required. A taxpayer is expected to cooperate with the tax auditors as refusal may sometimes be interpreted as working against the law. The charging of back duty audit on a taxpayer can either be routine or random. However, it is a mandatory requirement to ensure that the exact amount due to the government is duly collected. Oyedokun et al. (2024) examined the effect of field and back duty tax audit and investigations on tax revenue generation in Oyo State, Nigeria. The findings showed that field audit has a positive effect on revenue generation in Ibadan, and back duty audit has a significant and positive effect on revenue generation in Ibadan. Olaoye and Ekundayo (2019) examined tax audit on tax compliance and remittance in Nigeria. The study examined the effect of desk audit, field audit, back duty audit, and registration audit on tax compliance and remittance in Ekiti State, Nigeria. The multiple regression results showed that desk audit, field audit, back duty audit, and registration audit have a positive effect on tax compliance and remittance in Ekiti State. Based on the results in other States in Nigeria, this study hypothesized that;

H1: Back duty audit has no significant effect on companies' income tax compliance in Federal Capital Territory, Nigeria.

Tax Officers' Expertise and Companies Income Tax Compliance

Tax officer is an employee of the tax authority who ensures that the tax laws are enforced (Olokooba, 2019). Tax officers are also called tax inspectors or revenue officers, and their main role is to ensure taxpayers understand the tax laws and pay their taxes promptly. According to Borrego et al. (2016), it would be difficult for a tax system to function properly without the help of tax officers. For the tax officer to be efficient in his duty, it is important they must be well equipped in terms of understanding the business environment and the peculiarities of the taxpayers' operations (Nwaiwu & Macgregor, 2018). Knowledge of the company's business operations will positively influence their decisions and make the audit seamless. A high level of service quality from the tax officer can influence and improve compliance (Nunung & Diamonalisa, 2015). Agung et al (2022) examined taxpayers' compliance from the tax officers' perspective. The findings showed that government policy, the taxpayers and the level of implementation by the tax authorities influence compliance in Indonesia. Serim et al (2014) examined factors affecting tax compliance of taxpayers: the role of tax officer. The result showed that the level of empathy and knowledge of tax officer help improve tax compliance in Turkey. Based on the results in other countries, this study hypothesized that;

H2: Tax officers' expertise does not have any significant effect on companies' income tax compliance in Federal Capital Territory, Nigeria.

Back Duty Tax Audit, Tax Officers' Expertise and Companies Income Tax Compliance

Companies income tax compliance is the process where companies willingly pay the right amount and timely to the tax authority without any pressure. It involves conforming to tax payments at the appropriate time and remitting the same satisfactorily within the confined of the laws to a particular tax jurisdiction (Olaoye & Ekundayo, 2019). Companies' compliance with taxes play an important role in any society because it provides the government with the means of generating revenue to carry out its activities. According to CITA (2007), companies are taxed on their profit accruing in, derived from, brought into, or received in Nigeria. However, a Nigerian company is taxed on its worldwide profits irrespective of where they were made while a foreign company's profit is taxed on the portion derived or accruing in Nigeria. A company is tax compliant when it collects and remits taxes timely. Companies in Nigeria are categorized into small, medium-sized, and large companies and the rate of tax payable depends on the categorization. Large companies pay CIT at the rate of thirty percent, medium-sized companies pay twenty percent, and small companies are exempted from paying tax (Finance Act, 2019). The classification of the company is based on the annual gross turnover. Small companies are companies with an annual gross turnover below twenty-five million naira; medium-sized companies have a gross turnover of twenty-five million naira and above but below one hundred million naira; and large companies have an annual gross turnover of one hundred million naira and above (Taiwo & Erikume, 2019). There is no work that have moderated the effect of tax officers' expertise on companies' income tax compliance, based on this, this study hypothesized that;

H3: Tax officer expertise does not significantly moderate the effect of back duty audit on companies' income tax compliance in Federal Capital Territory, Nigeria.

Theoretical Review

This study is anchored on the theory of planned behaviour developed by Ajzen in 1980 and it states that compliance to an act is determined by attitudes, subjective norms, and perceived behavioural control. Attitudes are mind-set formed by any individual over a long period of time which prompt them to act in a particular way. Attitudes can either be positive or negative depending on the mind-set of the individual. Subjective norms refer to the way other people feel with regards to a behaviour. A person's perception of how much control they feel they have over the things that happen in their life is reflected in their perceived behavioural control. This theory is useful to this study because it explains the connection between companies and the FIRS and the importance of back duty audit to compliance. If the companies lack trust in the government, and they also believe that other taxpayers do not pay their taxes promptly, the willingness to comply will be low. But with the awareness of tax audit which they have no control over, and the fear of being caught, they might just want to comply with their obligations.

3.0 Methodology

This study used questionnaires to elicit responses from the staff of FIRS in the FCT who work in the Tax Audit Department. The total population of staff in the Tax Audit Department is three hundred and four (304) as at November, 2023. The Taro Yamane formula for sample size determination was used to determine a usable size of one hundred and seventy-three (173) and the same was issued. The retrieved copies of the questionnaires were one hundred and fifty-seven (157).

Model Specification

Olaoye and Ogundipe (2018) examined tax audit and investigations on tax non-compliant control in Nigeria using the below model:

Tax Evasion Control (TAEVAC) = f (Tax Audit and Investigation) ……………………………………..(1)
Tax Evasion Control = f (Desk Audit, Field Audit, Back Duty Audit, Tax Investigation)………………(2)
$TAEVAC = \alpha0 + \alpha1DEKAUD + \alpha2FIAUD + \alpha3BAKAUD + \alpha4TAXINV + \mu$ ……………………………(3)

The models were modified by replacing the dependent variable (TAEVAC) which is tax non-compliance with companies' income tax compliance (CITCOMP). Back duty audit remained in the model, while the rest independent variables were removed. However, Tax officers' expertise was introduced as moderator.

$$CITCOMP = \beta_0 + \beta_1 BDA + \mu t \quad (1)$$
$$CITCOMP = \beta_0 + \beta_2 TOE + \mu t \quad (2)$$
$$CITCOMP = \beta_0 + \beta_1 BDA + \beta_2 TOE + \beta_3 TOE*BDA + \mu t \quad (3)$$

Where:

CITCOMP = companies' income tax compliance; BDA= back duty audit, and TOE= tax officers' expertise, β_0 = intercept of the regression, $\beta_1 - \beta_3$ = co-efficient of the regression, μ= error term representing other explanatory terms not included in the model

Tax compliance is measured as the number of discrepancies found during audit and the amount of additional tax revenue collected as a result of the audit (Olaoye & Ogundipe, 2018). Back duty audit is measured as the extent to which the reported tax figure within the six (6) year period matched the actual financial records of the companies (Nwaiwu & Macgregor, 2018). Tax officers' expertise is measured based on the knowledge and skills acquired for the performance of responsibilities (Olokooba, 2019).

4.0 Results and Discussion

This section discussed the interpretation of the multiple regression results, validity and reliability test result, and the descriptive statistics. The three hypotheses formulated were tested.

Pilot Study

Twenty-five (25) tax officials in the audit department of the FIRS in Abuja was used for the pilot study, and the result revealed that back duty audit can deter non-compliance behaviour of companies in Nigeria making them to comply with the tax laws. The pilot study also revealed the positive effect of tax officers' expertise on the compliance process and the effect when tax expertise was moderated with back duty audit.

Validity and Reliability Test

To ensure that the instrument measure what it is supposed to measure, a content validity test was carried out by soliciting the assistance of experts to review the questionnaire before it was administered to the respondents. Ten experts, four drawn from the tax audit department of the FIRS, four tax practitioners, and two tax lecturers reviewed the questions. The Cronbach's Alpha test for internal consistency was used to ascertain the reliability of our research instrument and the result showed a reliability score of 0.8782 as seen in table 1.

Table 1

Reliability Test Result

Cronbach's Alpha	N of Items
Number of items in the scale	14
Scale reliability coefficient	0.8782

Table 2 demonstrates the role of tax officers' expertise on companies' income tax compliance. From the responses obtained from tax officials ranked in order from strongly agree (SA) 5, agree (A) 4, neutral (N) 3, disagree (D) 2, and strongly disagree (SD) 1. The results showed that most of the officials strongly agree and agree with each question asked about their expertise. This further suggests that training, years in service, cases resolved, identification of errors, and proper application of the tax laws can predict tax officers' expertise because each of the items are above the average score of 3 on a five-point Likert scale.

Table 2
Tax Officers' Expertise

Questions	SA	A	N	D	SD	Mean
Consistent training can be essential in gaining expertise.	101	35	0	16	5	4.34
Years of service have a role to play in attaining expertise.	61	80	8	5	3	4.22
Expertise can be evaluated based on the numbers of resolved tax cases.	49	73	17	10	8	3.92
For expertise to be attained, the tax official should be able to identify discrepancies in the financial records.	46	72	18	10	11	3.84
A tax expert must be able to correctly apply the tax laws.	49	47	17	27	19	3.55

Source: Field Survey 2024

Table 3 shows that the risk of being caught, the thoroughness of the audit process, error free financial statements, imposition of additional liability, and the rate of penalty can increase compliance. This is further suggested by the mean scores of the individual items being greater than the average score of 3 for a five-point Likert scale.

Table 3
Companies Income Tax Compliance

Questions	SA	A	N	D	SD	Mean
The risk of being caught can determine a company compliance level.	86	49	5	7	10	4.24
The thoroughness of the tax officers during the audit process can in the future predict a company's rate of compliance.	40	78	11	20	8	3.78
When a company's financial statement is error free it connotes that the rate of compliance is high.	32	65	14	28	18	3.41
The imposition of additional tax liabilities on companies signify compliance.	45	62	17	19	14	3.67
The rate of penalty can serve as a measure to instill tax compliance.	33	58	36	11	19	3.54

Source: Field Survey 2024

Table 4 shows that underpayment, overpayment, unreported income and excessive claim of capital allowance can cause discrepancy in the financial statement. This is further confirmed from the responses from the tax officials who strongly agree and agree to the questions raised. Also, the mean score for each item is greater than the average score of 3 which explain that underpayment, overpayment, unreported income and excessive claim of capital allowance can cause misrepresentation of figures in the financial statement.

Table 4

Back duty audit

Questions	SA	A	N	D	SD	Mean
Underpayment in the books of account can lead to misstatement in the financial statement.	84	57	2	8	6	4.31
Overpayment in the books of account can lead to error in the financial statement.	52	69	8	18	10	3.86
Unreported income in the books of account can lead to misrepresentation of figures in the financial statement.	46	62	12	28	9	3.69
Excessive claim of capital allowance can result in error in the books of account.	59	54	20	14	10	3.88

Source: Field Survey 2024

Results of Regression Analysis and Test of Hypotheses

Table 5

Regression Result

	Coef.	Std. Err.	t	P>t	[95% Conf.	Interval]
BDA	0.1934108	0.090253	2.14	0.034**	0.0151078	0.3717138
TOE	0.2306958	0.0911801	2.53	0.012**	0.0505613	0.4108302
BDA*TOE	0.0276275	0.013453	2.05	0.042**	0.0010498	0.0542052
Constant	1.833191	0.3645873	5.03	0.000**	1.112916	2.553467
F(3, 153)	16.76					
Prob > F	0.0000					
R-squared	0.2474					
Adj R-squared	0.2326					
Number of obs.	157					

****, ** & * representing statistically significant at the 0.01, 0.05 and 0.1 level*

Source: *Author's computation using* Stata Output-13 (2024)

Table 5 shows that the coefficient of determination (R-squared) is 0.2474. This indicates that 25% of the variation in companies' income tax compliance can be explained by back duty audit and tax officers' expertise. The significance of the R-squared value is assessed by the F-test [F (3, 153) = 16.76] as shown in the table. Since the p-value (Prob > F) of the coefficient of determination is less than 0.05, it indicates that the model is statistically significant. The result from hypothesis 1 shows that back duty audit contributes about 19.3% to companies' income tax compliance and the P-valve is positive and significant at the 95% confident level. Therefore, the null hypothesis was rejected. This is in line with Olaoye and Ekundayo (2019), Olaoye and Ogundipe (2018), and Nwaiwu and Macgregor (2018) who found that back duty audit has a positive and significant effect on tax compliance in Nigeria. H2 result showed that, tax officers' expertise is positive and significant with a coefficient value of 0.2306958. This indicates that tax officers' expertise contributes 23% to compliance, it is positive and significant with a p-value of 0.012. This is in line with the work of Serim et al (2014). When the moderator (TOE) was introduced to interact with BDA from H3, the result showed a positive and significant effect with a P-value (0.012). The coefficient of the interaction variable (BDA*TOE) is 0.0276275, indicating that 2.76% of companies' income tax compliance is explained by the interaction variable. Hence H3 was rejected. These results are in line with the theory of planned behaviour which states that probability of audit can ignite a positive attitude toward compliance. As a matter of policy, it is advised that the FIRS should not wait for a period of six years before finding out whether a company has fully complied with their tax obligations because some unpleasant incidents can hamper them from producing source documents such as fire.

5.0 Conclusion and Recommendations

Back duty is an audit instituted against a taxpayer when the tax authority suspect non-compliance. It aimed at recovery of under-remittance of taxes filed by companies. The findings from this study shows that back duty audit and tax officers' expertise contribute to companies' income tax compliance. The interaction between back duty audit and tax officers' expertise also shows a positive effect on companies' income tax compliance. The theory of planned behaviour is in line with the findings of the study because it helps explains the motive behind tax compliance. As a matter of policy, it is advised that the FIRS should not wait for a period of six years before finding out whether a company has fully complied with their tax obligations because some unpleasant incidents can hamper them from producing source documents such as fire. The study recommended that the FIRS should emphasize more on routine audit because it helps to increase compliance by companies now and in the future. Secondly, the tax officers should constantly reach out to companies' representatives to help them resolve complexity in the tax laws.

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