Tax Audit and its Effect on Tax Compliance of MSMEs in Nigeria

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Abstract: The self-assessment regime comes with a lot of challenges in the tax system. One of the problems is tax compliance problem. This study, therefore, investigated the effect tax audits have on tax compliance of Micro, Small and Medium Enterprises (MSMEs) in Nigeria. Five hundred (500) MSMEs were selected for the study and the regression technique through Statistical Package for Social Sciences (SPSS) was adopted for the analysis. The study found that tax audits do have a significant effect on the tax compliance of MSMEs in Nigeria. Also, intentional tax fraud investigation and enterprise tax return verification both have a significant effect on the tax compliance of MSMEs in Nigeria. Most of the local government revenue collectors or their agents have little or no adequate technical know-how to carry out tax audits on the businesses when the integrity of the books of account of the businesses is in doubt. To improve the tax base of the country, the government should train and retrain the tax authority staff and their agents to enhance their capacities in carrying out their assignment of collecting revenue and tax audits when the need arises.

Keywords: Tax audits; tax compliance; micro; small and medium enterprises

1. Introduction

To provide a good working environment for the government and for businesses to thrive, the government needs to have a sustainable source of generating revenue. One of the eight-point agenda of the president, Tinubu Bola is the provision of funds for Micro, Small and Medium Enterprises (MSMEs) and this requires a lot of funds. Also, as the population grows, the government needs funds to cater for the needs of the citizenry. The increase in population has increased government expenditure but there are not enough funds for these, therefore, the government needs to put in place policies that will improve the revenue of the country (Tilahun, 2019). The author believes tax is the major source of income for the government.

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Tax is a compulsory levy by the government on the income and profits of individuals and businesses for the government to fund its projects and fiscal policies (Simwa, 2022). The importance of tax made the Nigerian government legislate in the constitution for individuals and businesses to declare their income honestly and pay their liabilities to the relevant tax authorities promptly (Nigeria Constitution, 1999, Section 24(f) as amended). However, not every taxpayer in Nigeria declares their income honestly, therefore, causing problems to the public financial management of the country. As of 2020, Nigeria has over 80 million workforces (Sasu, 2022), unfortunately only 41 million pay their taxes (Abdullahi, 2021). Nigeria, is, therefore facing the problem of tax compliance.

Tax compliance is when individuals and businesses register for tax purposes, declare accurate income, also compute their tax liabilities accurately, pay their taxes as when due and file their tax returns (Batrancea et. al, 2012). The main aim of the Nigerian National Tax Policy is for taxpayers to pay their taxes voluntarily (National Tax Policy, 2017, Para.4.2). Achieving this has been a problem for Nigeria because of tax compliance issues. One of the difficulties faced in tax collection by developing economies is tax compliance (Nguyen, 2022). For example, in an audit report, it was reported that some companies do not remit their company income tax while some registered businesses do not file their yearly tax return to the relevant tax authorities (Adegboyega, 2019).

Further, in Nigeria, one of the factors that affect tax compliance is tax audits. Studies by Mebratu (2016); Mendoza et al. (2017); Olatunji and Temitope (2018); Inasius (2018); Anyaduba and Oboh (2019); Okpeyo et al. (2019) and Nguyen et al. (2020) have all confirmed the influence of tax audits on tax compliance. What tax audits do is examine the books of account of taxpayers and ensure there is compliance. This is what so many researchers have written about but fail to note that there is intentional tax fraud by taxpayers. There is little evidence to show that any research has been conducted in this aspect of audit. Also, one of the services of any tax authority is to ensure there is no taxpayer identity theft to avoid giving tax returns to the wrong taxpayer. This service is one of the tax audit activities of a tax authority which has been ignored by previous researchers.

The tax regime practised in Nigeria is self-assessment. This system allows businesses to assess themselves and pay their tax liabilities to the relevant tax authorities. When this type of system is practised, there is a need to improve monitoring through tax audits. Under a self-assessment regime, taxpayers evade taxes when not properly audited, consequently affecting the revenue generation of the government (Sinambela & Putra, 2021). However, the tax audit units needed to carry out this exercise are not adequate, therefore, these businesses are not deterred from evading tax payments (Punch Editorial, 2021). The lack of this tax compliance leads to a fall in government revenue (Dularif et. al, 2019). However, when these taxes are imposed on businesses, they can affect the MSMEs' ability to invest (Confidence et. al, 2021). Further, investment in businesses and employees by MSMEs has been affected because of tax (Forbes, 2023). In some tax jurisdictions, the MSMEs pay a higher percentage of their income than the larger businesses causing tax compliance problems (European Commission, 2022). Therefore, unfriendly tax policies affect MSMEs (Streeter, 2022). Some of these poor tax policies that affect MSMEs make them evade tax payments (Sinambela & Putra, 2021; Atoyebi, 2022) and this causes the tax-to-GDP ratio in Nigeria to be low at 6 per cent. The tax-to-GDP ratio in Africa is 15 per cent and OECD member countries is 34.2 per cent (OECD, 2018).

This study contributes in diverse ways. Theoretically, this study will add to the body of knowledge. The failure of some scholars to identify intentional tax fraud has created a knowledge gap which needs to be filled. When an author provides a new insight that has not been discussed he has made a theoretical contribution to the body of knowledge (Crane et al., 2016). In practice, the study is expected to contribute to policymaking in the area of tax compliance in Nigeria. Relevant government agencies like the Federal Inland Revenue Service (FIRS), States Internal Revenue Service (SIRSs), Federal Capital Territory Revenue Service (FCTRS) and Joint Tax Board (JTB) will make use of the study to improve their tax policy specifically in the area of tax compliance of MSMEs in Nigeria. For these agencies to function properly they need to: devise all means of techniques and control measures and also make laws that assist in investigating taxpayers' compliance behaviour to detect and ensure tax compliance is equally adhered to; the law establishing the tax authority encourages scholars to carry out research to ensure government efforts are supported to stimulate the growth of the economy and make recommendations that are appropriate to improve government's tax policies; and the law also ensures that continual review of tax policies and also ensure such policies are always implemented to encourage tax compliance. The recommendations from the study are expected to be of importance to the tax authorities both at the federal and local government levels. In addition, this study will serve as a reference for students and other researchers.

2. Literature Review and Hypotheses Development

Conceptual Review

The concepts used in this paper are discussed in this section. The concepts used in this section are tax compliance and tax audits

Tax Compliance

Non-compliance to tax laws is not new and has been perpetrated as long as taxation existed (Bello & Kasztelnik, 2022). Tax compliance is obeying all tax laws without any enforcement (Atawodi & Ojeka, 2012). James and Alley (2009) explain tax compliance as when a taxable person voluntarily obeys tax laws without the use of force. To pay tax voluntarily is termed a culture of awareness on the part of the taxpayers (Kurniawan & Daito, 2021). Doing this, the authors say is an act of solidarity to build a country's economy. For the government to generate enough revenue to finance its projects, the tax administration must be effective (Oladele et. al, 2019). However, not all taxpayers have a culture of tax payment. So, whatever means employed by the taxpayers to reduce their tax obligations is termed tax non-compliance (Dularif & Rustiarini, 2021).

According to Mas'ud et. al. (2014), tax compliance is divided into two: administrative and judicious tax compliance. Further, there are four basic rules of tax compliance which are to report the actual tax base to the tax authorities; the tax liabilities should be correctly computed; file tax returns at the right time; and ensure paying the liabilities when due (Batrancea et. al, 2012). James and Alley (2009) state that tax compliance can be measured through the "tax gap", which they assert is the difference between the actual money collected and the money that would have been collected had there been total compliance by the taxpayers.

Under a self-assessment system, it is suggested that tax compliance must come with a harsh enforcement regime (James & Alley, 2009). This is why the US Internal Revenue Service has relied from time to time on overzealous enforcement or punitive approaches to enforcing compliance.

Tax Audits

Tax audits are an examination of tax books of account to ensure accurate returns are made and to fulfil other obligations (OECD, 2016). To use tax audit to improve tax compliance, Olatunji and Temitope

(2018) state that tax audit is very important in tax administration which helps reduce tax non-compliance in both developed economies and developing economies of the world. The benefit of tax audit was affirmed by Onuoha and Dada (2016), which state that tax audit gives credibility to an entity's financial statement and also strengthens the internal control of the entity. Also, Allingham and Sandmo (1972) state that taxpayers dread the strategy of underreporting because when detected they not only come worse off in their income but they equally suffer in terms of reputation damage in the community.

For better tax compliance, good bookkeeping is very important, especially for value-added taxpayers (Ayeboafo, 2016). In a situation where the integrity of the books of accounts of the organisations is in doubt, it is advised to have a good tax audit to avoid wrong filing because of the self-assessment system. Also, Devos (2014); and James and Alley (2009) advise that a tax system that uses self-assessment must have a very strong tax audit else the rate of tax non-compliance will be high. To have good regulation, Yunus et. al. (2017) state that the responsive regulatory theory advises that tax administrators use both punitive and persuasive elements to encourage tax compliance.

Micro, Small and Medium Enterprises (MSMEs)

MSMEs are important in the economic development of any nation because of the part they play in a country's innovation and drive economic competition (Invoice, n.d.). The World Bank (2023) report shows that MSMEs provide about 50 per cent of employment, represent about 90 per cent of businesses and contribute about 40 per cent to the GDP of emerging economies. The report equally states that because of the lack of collateral, MSMEs find it difficult to source loans from the banks as such they resort to families and friends for their financing. Further, MSMEs are seen as one of the businesses which have the potential to create jobs (United Nations, 2023). The SEDAM policy has adopted a different way of describing MSMEs in Nigeria. It has adopted the use of the number of employees and assets of an organisation excluding land and buildings in defining MSMEs (SMEDAN, 2017)

Nigeria has added Nano/Homestead to the existing Micro, Small and Medium Enterprises thereby reclassifying and definition of enterprises in Nigeria. Nano/Homestead enterprises are enterprises with 1 to 2 employees and less than ₦3million turnover; while Microenterprises are businesses with 3 to 9 employees and between ₦3million to ₦25million turnover; Small enterprises are businesses with 10 and 49 employees and between ₦25million to ₦100million turnover, and Medium enterprises are businesses with employees between 50 and 199 and between ₦100 million and ₦1 billion turnover (SMEDAN, 2021).

Table 1. Classification of MSMEs in Nigeria

Enterprise	Employee	Turnover ₦' M
Nano/Homestead	1-2	< 3
Micro	3-9	3-25
Small	10-49	25-100
Medium	50-199	100m-1b

Source: SMEDAN Survey (2021)

Theoretical Framework

The study is guided by the deterrence theory. The deterrence theory is a theory of tax evasion which is also known as the theory of tax compliance. The original model as propounded by Allingham and

Sandmo (1972) was based on human behaviour where tax evasion activities were compared with portfolio choices (Sandmo, 2004). Further, the theory assumes that taxpayers naturally do not want to pay taxes except for the fear of detection and penalty (Phillips, 2011). The theory focuses on crime only (Oladele et. al, 2019). The application of the framework to this study shows that tax audits can be used by the government to improve tax compliance. In this study, tax compliance is the dependent variable while tax audit is the independent variable.

Empirical Review

To evaluate the relationship between tax audits and tax compliance, Modugu and Anyaduba (2014) concluded that tax audits do not have a substantial impact on the low corporate tax compliance culture in Nigeria. However, Mebratu (2016) revealed that tax audits and the probability of being detected both improved the level of tax compliance. Equally, Inasius (2018) stated that the probability of being audited influenced tax compliance. In line with previous studies, Mendoza et al. (2017) stated that the probability of being audited reduced tax evasion. Despite using the deterrence theory to guide the study, Mendoza et. al. (2017) only tested one of the determinants, the probability of being detected. Also, Jayawardane and Low (2017) found that the probability of being audited influenced tax compliance. Similar to a study by Modugu and Anyaduba (2014), Olatunji and Temitope (2018) also showed that tax audits do not have a substantial impact on tax compliance in Nigeria.

Furthermore, Olaoye et al. (2018) found that the productivity in tax administration can be enhanced when there is a tax audit. This, according to the authors improved tax compliance and government revenue. In contrast, Olaoye and Ogundipe (2018) found that tax investigation and field audits do not have a significant effect on tax evasion control. Also, the study equally concluded that desk and back duty audits have a significant effect on tax evasion control. The study employed a survey design for data collection and analysed this through Ordered Logistic Regression. In a study, Oghuma (2018) found that tax audits have a significant effect on tax compliance. Also, Oladele et al. (2019) adopted a survey design for their study and concluded that tax audits and penalties have a significant effect on tax compliance.

Furthermore, Okpeyo et. al. (2019) found that tax audit has a significant effect on tax compliance. Multinomial Logistic Regression Analysis was used in their analysis. In addition, Olaoye and Ekundayo (2019) investigated how revenue remittances are affected by tax compliance and found that desk audits, field audits, back duty audits and registration audits all have a positive and significant effect on tax compliance. Olaniyi and Ilesanmi (2019) investigated the pre and post-audit effect on tax compliance and used secondary data for the study. The study found that both pre and post-audit have a significant effect on tax compliance. This study equally tested the effect of tax audits on tax compliance, however, there was no comparative analysis of pre and post-audit effects. Tilahun (2019) also concluded that compliance is affected by the probability of detection and being audited. Furthermore, Anyaduba and Oboh (2019) in a study under the self-assessment scheme showed that tax audits have a significant and positive impact on tax compliance. Nguyen et al. (2020) split compliance into enforced compliance and voluntary compliance and concluded that compulsory compliance is affected by a tax audit. Also, Shiferaw and Tesfaye (2020) in their finding found that tax audits have a significant effect on tax compliance. Similarly, Nasution et al. (2020b) argued that the probability of being detected does have an impact on tax compliance attitudes. Also, Abubakar (2021) found that tax audits have a positive and significant effect on tax compliance. The focus of the study is only on Personal income tax while that of this study is not narrowed to Personal income tax alone. Oladipo et al. (2021) in a study to find the effect of tax audits on listed manufacturing firms in Nigeria found that tax audits have a significant effect on tax compliance. This study tested tax audits' effect on tax compliance but the focus of this study is on MSMEs and not manufacturing firms. This study used primary data for the analysis and not secondary data.

To investigate how tax audits, improve company income tax, Oladele et al. (2021) concluded that tax audits have a positive relationship with Company income tax. The authors recommended that in addition to desk tax audits, field tax audits should also be carried out. However, a study on field and desk tax audits has earlier been conducted by Olaoye and Ekundayo (2019). The study by Olaoye and Ekundayo (2019) did not, however, focus on Company income tax. This study used tax audits to test their effect on the compliance of MSME owners in Nigeria rather than just company income tax.

Nurebo et. al. (2021) found that the probability of being audited has a positive significant effect on tax compliance. Nguyen (2022) equally found that tax audits have a significant influence on voluntary tax compliance. Ong et. al. (2022) used Eview for their analysis and stated that tax audit has a positive effect on income tax revenue. The same test was conducted but this analysis is through SPSS. Similarly, Kasper and Alm (2022) investigated post-audit compliance on undeclared shares of income of organisations after audit detection and concluded that effective tax audits have differential effects on tax compliance. This study also tested the effect of tax audits on tax compliance but did not focus on the pre and past-audit effect and the unit of analysis was not company shares. Furthermore, Kilimvi and Adepehin (2023) used secondary data for the analysis and found that tax audit is positively correlated with tax compliance.

From the literature reviewed on tax audits and compliance, Mebratu (2016); Mendoza et al. (2017); Jayawardane and Low (2017); Inasius (2018); Anyaduba and Oboh (2019) affirmed the positive relationship between them. In contrast, Olatunji and Temitope (2018) have opposite findings. Having reviewed the literature, taking into consideration the theory, the need to fill the gaps and having developed the concepts for this study, it is important to test the model. To do this, the following hypotheses are developed, primary hypothesis with sub-hypotheses.

$H_0$1: Tax audits do not have a significant effect on tax compliance of MSMEs in Nigeria.

$H_0$1a: Investigation of intentional tax fraud does not affect tax compliance of MSMEs in Nigeria.

$H_0$1b: Enterprise's tax returns verification does not have a significant effect on tax compliance of MSMEs in Nigeria.

3. Methodology

A quantitative design is employed for this study. This, therefore, means the data for the study will be generated through a survey. MSMEs in Nigeria are adopted as the population of the study. The SEDAN/NBS report/survey of 2017 on MSMEs in Nigeria shows that there are 39,654,385 MSMEs in Nigeria. The MSMEs are used because tax compliance problems are prevalent with them despite their contribution to national development (Kirchler et. al, 2007; Aladejebi, 2018). MSMEs are described as the mainstay of Nigeria's industrialisation and development (Kale, 2019). In Nigeria, MSMEs represent 99.8 per cent of businesses, they also represent 84 per cent of employment provided in the country and contribute 49 per cent to the GDP in Nigeria (PwC, 2020).

This study adopted cluster and purposive sampling techniques in the data collection methods. It is advantageous to group the whole population when the participants cover a large land mass

(Taherdoost, 2016). The cluster sampling technique was used to group Nigeria into geographical zones because of the large land mass of Nigeria. After the selection of the zones that were used for the study, the States participating were selected using a purposive sampling method. Purposive sampling was chosen to enable the researcher to choose the samples based on the concentration of the MSMEs in those States according to the NBS report. The profile address of some of the registered businesses was sought from the registrar of the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN). A set of questionnaires was administered to the respondents to collect the data.

The questionnaire employed for the study was in two parts**;** the information of the respondents was in the first section and the second section contains questions on tax audits and tax compliance. Tax compliance was measured with 4 indicators and tax audits were measured with 3 indicators. The study adopted closed-ended questions and this method is preferred because Jonker and Pennink (2010) state that it is good for quantitative research and also helps the study in designing and applying measuring instruments for the questionnaires. The authors opine that a closed-ended question is a type of measurement that presents the respondents with a fixed set of questions and unlike the open-ended question, the respondents are not given the possibility of presenting their personal opinions. Also, the closed-ended questions are easier to process and reduce coder variability (Bradburn et. al, 2004).

Furthermore, the questionnaire adopted the 5-point Likert Scale validity and reliability which have been tested and are found to be useful. The study equally noted that the human attention span peaks at six items at a time – hence the 5-point Likert Scale does not make respondents lose interest in the adoption of this study. The importance of a 5-point Likert Scale in measuring attitude is confirmed by a study by Likert (1932) where it was described as having a distribution with a semblance of a normal distribution. Also, Park and Park (2019) confirmed that the scale is equally useful for individuals with intellectual disabilities. The questionnaire for this study is adapted from Nguyen et. al. (2020).

To select a suitable sample size, the study adopted the Yamane 1967 formula in selecting the sample size for this study.

The formula is: $Ss = N/\{1+N(e)^2\}$

Where:

Ss = Sample size

N = Population

e = level of significance or margin of error, which is 0.05

1 = unity

$= \underline{39{,}654{,}385}$

$\{1+39{,}654{,}385\ (0.05)^2\}$

$= \underline{39{,}654{,}385}$ 99,136.96

= 400.

The response rate might be low so the 400 MSMEs selected are increased by 25 per cent. Israel (1992) says 30 per cent can be added to make up for response bias. Therefore, the sample size of this study was increased by 25 per cent, that is, the sample size has increased from 400 to 500.

4. Data Presentation and Analysis

In this section, the data is presented and analysed. To do this, the study cleansed it to ensure there was no data noise. Also, before the regression analysis is carried out, the regression assumption must be met to ensure the outcome is not distorted. The data will be checked to ensure any respondent with a missing value is replaced or deleted if beyond the threshold. The study will also check for any respondents with outliers. Five hundred (500) sets of questionnaires were distributed, however, 323 were properly filled and returned. This represents a 65 per cent response rate. A 50 per cent and above is a good response rate (Cleave, 2020).

Missing Value

To ensure the missing values are replaced as recommended by Hair et al. (2010) ten missing values representing 0.11 per cent. The missing items are replaced through the mean of the near-by-point method.

Outliers

Outliers in data affect the outcome of the result. To ensure the data is not skewed, the study checked for any outliers in the data. It was discovered that twenty-one respondents had Zcores more than the threshold of ±3.29. These values are deleted as recommended by Tabachnick and Fidell (2007).

Normality

Testing to know if the data is normally distributed, the histogram in Figure 1 shows the distribution line confirmed that the data is normally distributed.

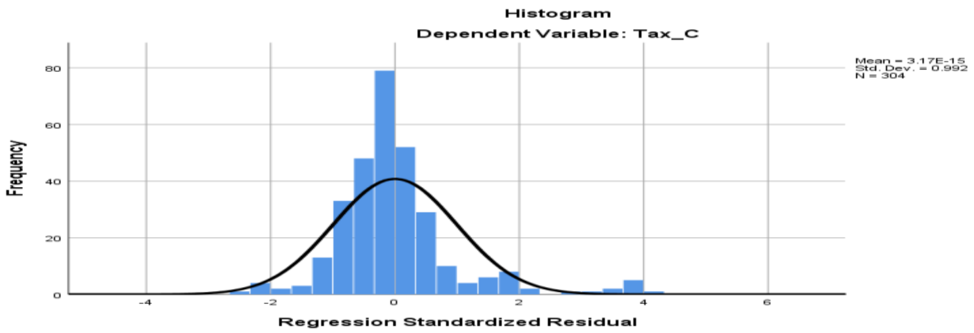

Figure 1. Normality Test

Source: Researcher Analysis (2023)

Now that the data is normally distributed, the measure of central tendency and residuals of the variables are not affected.

Linearity

The distribution of the scores is concentrated in the centre of the scatterplot in a rectangular format which shows that the dependent and independent variables are linear. When there is no linearity between the variables the analysis should be discontinued (Tabachnick & Fidell, 2007).

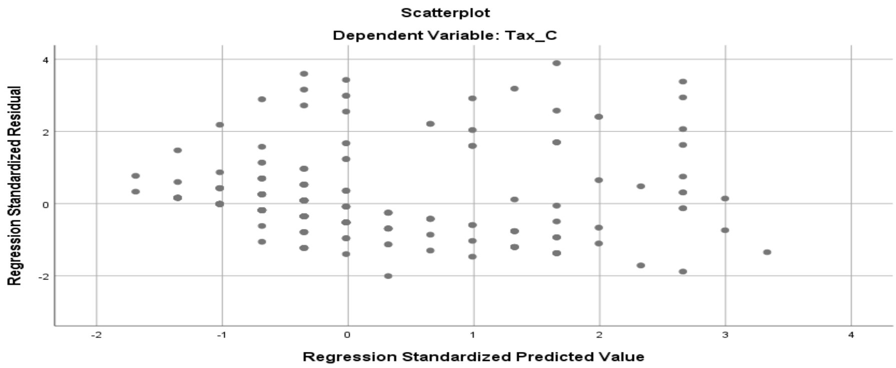

Figure 1. Linearity Test

Source: Researcher Analysis (2023)

To ensure the result is accurate, there must be linearity of the IVs and the DV which is the case in this study.

Reliability

For consistency of the instrument, it is recommended the use Cronbach Alpha to test the reliability of the study. The Cronbach Alpha of 0.7 is recommended, therefore, the coefficient in Table 2 below shows that the reliability requirement is met.

Table 2. Reliability

Variables	N of Items	Cronbach's Alpha
Tax Compliance (TC)	4	0.817
Tax Audits (TA)	4	0.686

Source: Researcher Analysis (2023)

Meeting the reliability requirement means with the same data, the regression analysis is good and can be replicated.

Hypotheses Testing

$H_0$1: Tax audits do not have a significant effect on tax compliance of MSMEs in Nigeria.

The hypothesis tested if tax audits have a significant effect on taxpayers' compliance. From the regression analysis, tax audits do have a significant effect on taxpayers' compliance, $F(1, 302) = 17.807$, $p < 0.05$ and this means tax audits can play a significant role in taxpayers' decision either to comply or not with tax laws in Nigeria. This indicates that 5.6 per cent of the variability in the taxpayers' compliance is accounted for by the model.

Also, a t-value of 4.220 > 1.96 indicates that tax audits are statistically significant but the coefficient table shows that for every unit of increase in tax audits, there is a 30 per cent change in tax compliance of MSMEs in Nigeria. This confirms the findings by Anyaduba and Oboh (2019); Inasius (2018); Mendoza et al. (2017); Jayawardane and Low (2017); and Mebratu (2016) who stated that tax audits have a significant effect on tax compliance. This also confirms one of the variables of the deterrence theory that tax audits have a significant effect on tax compliance.

Table 3. Influence of TA on TC

Variable	Standardized Coefficient Beta	t-value	p-value	
TA	0.236	4.220	0.000	
R^2				0.056
Adjusted R^2				0.053
F-value				17.807

Source: SPSS Analysis by Researcher (2023)

Table 4. Summary of Regression Results

	Hypothesis	Results
$H0_1$	Tax audits do not have a significant effect on the tax compliance of MSMEs in Nigeria	Not supported

Source: SPSS Analysis by Researcher (2023)

$H_0$1a: Investigation of intentional tax fraud does not have a significant effect on tax compliance of MSMEs in Nigeria.

The hypothesis tested if intentional tax fraud investigation has a significant effect on taxpayers' compliance with MSMEs in Nigeria. From the regression analysis, inspection of books of account does have a significant effect on taxpayers' compliance, $F(1, 302) = 37.530$, $p < 0.05$ meaning tax rates can play a significant role in taxpayers' decision either to comply or not with tax laws in Nigeria. Also, a t-value of $6.126 > 1.96$ indicates that tax rates are statistically significant. Further, the coefficient table, shows that for every unit of increase in tax rates, there is a 34.2 per cent change in tax compliance of MSMEs in Nigeria. This shows that 11.1 per cent of the variability in the taxpayers' compliance is accounted for by the model. This does not confirm a study by Olaoye and Ogundipe (2018).

$H_0$1b: Enterprise's tax returns verification does not have a significant effect on tax compliance of MSMEs in Nigeria.

The hypothesis tested if an enterprise's tax returns can be verified has a significant effect on taxpayers' compliance. From the regression analysis, enterprise's tax returns can be tested does have a significant effect on taxpayers' compliance, $F(1, 302) = 9.034$, $p < 0.05$ meaning tax rates can play a significant role in taxpayers' decision to comply or not with tax laws in Nigeria. Also, a t-value of $3.006 > 1.96$ indicates that tax rates are statistically significant. Further, the coefficient table, shows that for every unit of increase in tax rates, there is an 18.8 per cent change in tax compliance of MSMEs in Nigeria. This shows that 2.9 per cent of the variability in the taxpayers' compliance is accounted for by the model.

5. Conclusions and Recommendations

The growing need for revenue to finance government projects all over the world has heightened the urgency to improve tax administration. This can only be achieved when there is good tax compliance and therefore, it is important to investigate why there is a tax compliance problem among MSME owners in Nigeria. The study explained tax compliance and its importance to the economic growth and development of the country and the consequences of non-compliance. The study investigated the effect of tax audits on the tax compliance of MSME owners in Nigeria.

Further, the tax regime practised in Nigeria allows the businesses to self-assess their tax liabilities and this increases the probability of tax non-compliance of these businesses. The researcher carried out tax audits and tax compliance, however, ignored intentional tax fraud and tax VAT exemption fraud which are important parts of tax audits. Therefore, the study tested the effect of these parts of tax audits on the tax compliance of MSME owners in Nigeria. The study, therefore, looked at the intentional tax fraud investigation and fraud occasioned by the VAT payment exemption and businesses' exemption from paying Company income tax and how they affect the tax compliance of MSME owners in Nigeria. In investigating the effect of tax audits on tax compliance in Nigeria, the study employed a survey design and equally employed the regression technique for the analysis.

In one of the findings of the study, it was revealed that tax audits do have a significant effect on the tax compliance of MSME owners in Nigeria. Similarly, tax audits do have a significant effect on the tax compliance of MSME owners in Nigeria. Also, the study found that the intentional tax fraud investigation and VAT exemption fraud investigation both have a significant effect on the tax compliance of MSME owners in Nigeria. The tax compliance literature has been enriched and therefore, has improved better understanding of tax compliance among MSME owners in Nigeria theoretically. Also, this study has shown that improved tax audits reduce the probability of tax evasion by MSME owners in Nigeria. So, an increase in audit units or an increase in investigation by the tax authorities which creates a probability of being caught could improve MSME owners' compliance in Nigeria. Furthermore, this study has provided a source of reference to scholars and researchers with an interest in tax and tax compliance.

Most of the local government revenue collectors or their agents have little or no training to carry out audits of the businesses when there are doubts about the income declared. To improve the tax base of the country, the government should train and retrain the tax authority staff and their agents to enhance their capacities in carrying out tax audits when there are any suspicions. For further research, the study recommends the study of the impact of religiosity on tax revenue generation in Nigeria.

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