

# TAX COMPLIANCE COSTS AND INTERACTION WITH TAX AUTHORITIES IN BAYELSA STATE, NIGERIA: A SURVEY OF SMALL AND MEDIUM-SIZED ENTERPRISES

**OGBORIYO AUGUSTINE PEREOWEI<sup>1</sup>**

Department of Accounting, Federal University Otuoke, Bayelsa State

**PEREWARI EBILAOWEI (Ph.D)<sup>2</sup>**

Office of the Accountant General, Bayelsa State

**Abstract:** *The study examined the relationship between tax compliance costs and the quality of interaction with tax authorities among small and medium-sized enterprises (SMEs) in Bayelsa State, Nigeria. Specifically, the study explores two dimensions of tax compliance costs: direct compliance costs and administrative compliance costs. Using a structured questionnaire and a five-point Likert scale, data were collected from 300 SMEs based on the SMEDAN 2021 report. Descriptive and inferential statistics, including correlation analysis, were used to analyze the data and test the study's hypotheses. The findings reveal a significant negative relationship between direct compliance costs and the quality of interaction with tax authorities, while administrative compliance costs were found to positively correlate with the quality of interaction. The study offers important practical and policy implications. SMEs struggling with high direct compliance costs face challenges in maintaining positive engagement with tax authorities, whereas effective administrative compliance can enhance interactions. The study recommends reducing compliance costs through tax reliefs, simplifying administrative processes, and improving support from tax authorities. These actions can foster better relationships between SMEs and tax authorities, promote voluntary compliance, and enhance the overall efficiency of tax administration in Bayelsa State.*

**Keywords:** *Tax Compliance Costs, Direct Compliance Cost, Administrative Compliance Cost, Interaction with Tax Authorities*

## INTRODUCTION

Every economy relies heavily on taxation as a primary source of government revenue. This revenue funds essential public services, infrastructure development, and economic programs aimed at improving the welfare of the population. However, the effectiveness of the tax system depends on the level of compliance by all taxpayers, including individuals and businesses (Slemrod, 2019). Ensuring tax compliance has become a major concern for the Nigerian government, particularly given the persistent challenges

in collecting taxes efficiently and fairly across various sectors. Despite numerous reforms, the country still faces significant gaps in compliance, which hinders its ability to meet fiscal targets (Atawodi & Ojeka, 2012). The complexity of Nigeria's tax system is one of the key factors contributing to tax non-compliance. Multiple tax laws, overlapping tax jurisdictions, and frequent policy changes create confusion for taxpayers. Akinyemi and Adebayo (2019) highlight that many taxpayers struggle to navigate the intricate tax regulations, which increases their chances of non-compliance, either intentionally or unintentionally. This complexity is exacerbated by limited access to clear and comprehensive tax information, especially in rural areas. As a result, compliance rates in Nigeria have remained suboptimal despite government efforts to simplify the tax process.

Enforcement mechanisms also play a crucial role in shaping tax compliance. In Nigeria, tax authorities often face difficulties in monitoring and enforcing tax laws effectively, especially among informal businesses that operate outside the formal economy. According to Okoye *et al.* (2020), the informal sector, which accounts for a substantial portion of Nigeria's economy, presents a major challenge to tax authorities. Many businesses in this sector lack proper record-keeping and operate without formal registration, making it difficult to assess their tax liabilities. This lack of enforcement contributes to a culture of non-compliance, which further erodes trust in the tax system. In addition to enforcement challenges, the cost of compliance is another significant barrier for taxpayers in Nigeria. Studies such as those by Olaoye and Ayeni (2018) suggest that high tax compliance costs, including the time and money spent on preparing and filing tax returns, discourage many businesses from complying with tax laws. For small businesses, in particular, these costs can be disproportionately burdensome. The need to hire tax consultants or accountants adds to the financial strain, especially for businesses with limited resources. This often leads to tax evasion or avoidance as a cost-saving measure, undermining the overall effectiveness of the tax system.

The perception of fairness within the tax system is also critical to encouraging compliance. If taxpayers believe that the system is unjust or overly punitive, they are less likely to comply voluntarily. Eze and Nwanne (2021) argue that the perceived fairness of tax laws and the treatment of taxpayers by tax authorities directly influence compliance behavior. When small businesses feel that they are being unfairly targeted or overtaxed compared to larger corporations, they may resort to evasion or avoidance strategies. Thus, improving the perceived fairness of the tax system could significantly enhance voluntary compliance among small business owners. Tax compliance by small businesses in Nigeria reflects many of these broader challenges (Oladipupo & Obazee, 2016). These businesses often operate under tight financial constraints and may lack the administrative capacity to comply with complex tax requirements. According to Fagbemi *et al.* (2022), small business owners frequently cite the complexity of tax laws and the high cost of compliance as key reasons for their difficulties in meeting tax obligations. Moreover, their interactions with tax authorities are often characterized by a lack of trust and transparency, further complicating their efforts to comply with tax laws (Newman *et al.*, 2018). These challenges highlight the need for targeted reforms that address the specific needs of small businesses.

The perception of fairness within the tax system is also critical to encouraging compliance. If taxpayers believe that the system is unjust or overly punitive, they are less likely to comply voluntarily. Eze and Nwanne (2021) argue that the perceived fairness of tax laws and the treatment of taxpayers by tax authorities directly influence compliance behavior. When small businesses feel that they are being unfairly targeted or overtaxed compared to larger corporations, they may resort to evasion or avoidance strategies. Thus, improving the perceived fairness of the tax system could significantly enhance voluntary compliance among small business owners. A critical element in enhancing compliance is the interaction between taxpayers and tax authorities. Tax authorities are tasked not only with enforcing tax laws but also with guiding taxpayers through the often-complicated compliance process. However, the relationship between small businesses and tax authorities in Nigeria is often characterized by distrust, confusion, and a lack of transparency. As Taiwo (2017) highlights, many small business owners perceive tax officials as being more focused on revenue collection than on supporting taxpayers, which exacerbates compliance difficulties. This adversarial dynamic can discourage voluntary tax payment, as businesses feel alienated from the system.

Improving communication and engagement between tax authorities and taxpayers is essential for fostering a more cooperative compliance environment. One way to achieve this is through better tax education and outreach programs, which can help small businesses understand their tax obligations and reduce errors in filing. According to Okoye *et al.* (2020), many businesses are simply unaware of the available resources to assist them with compliance, leading to unintentional errors and subsequent penalties. Proactive communication, where tax authorities provide clear guidelines and respond to taxpayer concerns promptly, could bridge this information gap and build trust (Eragbhe & Modugu, 2014).

Furthermore, the transparency and accessibility of tax authorities play a significant role in shaping taxpayer attitudes. When tax authorities are approachable and willing to assist, it reduces the intimidation that small businesses often feel when interacting with government officials. Olaoye and Ayeni (2018) suggest that a more customer-centric approach by tax authorities, including the simplification of tax processes and providing personalized support to taxpayers, can lead to higher compliance rates. By fostering a relationship built on cooperation rather than confrontation, tax authorities can create an environment where small businesses are more willing to comply with their tax obligations voluntarily. Effective interaction between tax authorities and taxpayers is not just about enforcement but about creating a supportive system that encourages compliance through education, transparency, and trust-building. For Nigeria to achieve a higher rate of tax compliance among small businesses, significant reforms are needed to address both the financial and psychological barriers to compliance. This requires a shift from a punitive approach to a more inclusive, service-oriented tax administration that recognizes the challenges small businesses face and works collaboratively to overcome them. Therefore, the aim of this study is to investigate the relationship between tax compliance of small and medium scale enterprises and the interactions with tax authorities.

## LITERATURE REVIEW

### Tax Compliance Cost

Tax compliance cost refers to the expenses that taxpayers, particularly businesses, incur in order to meet tax obligations. These costs typically include the time and resources spent on preparing, filing, and paying taxes, as well as the cost of hiring tax professionals such as accountants or consultants (Eragbhe & Modugu, 2014). In Nigeria, tax compliance costs are particularly burdensome for small businesses, many of which lack the financial and administrative capacity to handle complex tax filings. According to Fagbemi *et al.* (2022), the high cost of tax compliance in Nigeria discourages many small and medium-sized enterprises (SMEs) from fully adhering to tax regulations, leading to widespread non-compliance. In addition to the direct financial costs, businesses in Nigeria also bear indirect costs related to tax compliance. These include time lost in gathering information, dealing with tax audits, and addressing penalties for late or incorrect filings. Olaoye and Ayeni (2018) point out that these indirect costs are particularly high in Nigeria, where the tax system is complicated and frequently changing. The uncertainty around tax rules and frequent amendments to tax laws require businesses to constantly update their knowledge, which further increases the compliance burden. For many SMEs, these costs can severely impact their financial sustainability (Biru, 2020).

Moreover, the complexity of Nigeria's tax system often requires businesses to outsource tax management to professionals. This reliance on external expertise adds to the compliance costs, particularly for smaller firms that might struggle to afford such services. Taiwo (2017) argues that this reliance is often a result of insufficient tax education and lack of access to simplified tax guidelines. Without the assistance of tax consultants, many businesses would be unable to meet their compliance requirements, further emphasizing the financial and operational costs associated with tax compliance in Nigeria (Appah & Duoduo, 2023). Another important aspect of tax compliance costs in Nigeria is the risk of penalties and fines. Businesses that fail to comply with tax obligations face severe penalties, which can range from monetary fines to legal consequences. These penalties add to the overall cost of non-compliance and create a significant burden on businesses. As Okoye *et al.* (2020) highlight, the fear of penalties often forces businesses to invest more in compliance activities, which, in turn, increases their overall operating costs. This creates a cycle where the cost of compliance becomes increasingly prohibitive for smaller firms.

Reducing tax compliance costs in Nigeria requires a multi-faceted approach that addresses both the complexity of the tax system and the financial burdens on businesses. Simplifying tax laws, offering more robust tax education programs, and providing incentives for voluntary compliance are some of the measures that could ease the tax compliance burden on Nigerian businesses. Streamlining administrative processes and making use of technology to facilitate tax filings could also help reduce both direct and indirect costs.

## Nigeria Tax System

The Nigerian tax system is comprised of various taxes levied at the federal, state, and local government levels. These taxes include corporate income tax, value-added tax (VAT), personal income tax, and excise duties, among others. The system is governed by multiple tax laws and regulations, such as the Companies Income Tax Act (CITA), the Personal Income Tax Act (PITA), and the Value-Added Tax Act (VATA). Each level of government is responsible for administering specific taxes, which sometimes leads to overlapping jurisdictions and confusion among taxpayers. According to Akinyemi and Adebayo (2019), the complexity of the Nigerian tax system is a significant barrier to compliance, particularly for small businesses that struggle to navigate multiple tax obligations.

At the federal level, the Federal Inland Revenue Service (FIRS) is responsible for collecting most of the taxes, including corporate income tax, VAT, and petroleum profit tax. The state governments are responsible for personal income tax, while local governments administer taxes such as tenement rates. This fragmented structure often leads to inefficiencies in tax collection, as there is little coordination between different tax authorities. In some cases, businesses are subject to double taxation, where they are required to pay similar taxes at both the state and federal levels. This lack of coordination is a major issue in the Nigerian tax system, as highlighted by Taiwo (2017). One of the main challenges of the Nigerian tax system is the narrow tax base. A large proportion of the Nigerian economy operates within the informal sector, which is largely untaxed. Okoye *et al.* (2020) note that this makes it difficult for the government to collect sufficient revenue to meet its budgetary needs. Efforts have been made to expand the tax base through various initiatives, such as the Voluntary Assets and Income Declaration Scheme (VAIDS), but progress has been slow. The reliance on oil revenues has also contributed to the government's reluctance to aggressively pursue tax reforms, further compounding the inefficiencies in the system.

In recent years, the Nigerian government has attempted to modernize its tax system by introducing digital tools to ease tax filings and reduce bureaucracy. The introduction of the Integrated Tax Administration System (ITAS) and e-filing platforms by the FIRS are steps in this direction. However, these initiatives are still in their infancy and have not yet fully addressed the systemic issues within the tax framework. Additionally, technological adoption is slow, particularly among smaller businesses and in rural areas where internet access is limited, as noted by Fagbemi *et al.* (2022). For the Nigerian tax system to function effectively, significant reforms are needed to simplify tax laws, broaden the tax base, and reduce the administrative burden on businesses.

## Tax Authorities in Nigeria

In Nigeria, the Federal Inland Revenue Service (FIRS) is the primary tax authority responsible for the administration and collection of federal taxes. Established by the Federal Inland Revenue Service (Establishment) Act 2007, the FIRS oversees taxes such



as companies income tax, value-added tax (VAT), and petroleum profit tax, among others. It is tasked with ensuring that taxpayers comply with federal tax laws and that tax revenues are collected efficiently. Despite recent efforts to modernize the agency, challenges persist in the enforcement of tax laws and the collection of taxes, particularly from businesses operating in the informal sector (Taiwo, 2017). At the state level, tax authorities are responsible for collecting personal income taxes and other taxes assigned to state governments, such as capital gains tax and stamp duties. Each state in Nigeria has its own tax authority, usually referred to as the State Board of Internal Revenue (SBIR). These state tax authorities often face significant challenges in tax collection, including a lack of resources and infrastructure, which limits their ability to enforce compliance effectively. According to Fagbemi *et al.* (2022), the SBIRs are often understaffed and underfunded, which affects their ability to engage with taxpayers and administer tax laws efficiently.

Local governments also have tax-collecting responsibilities, primarily through the collection of tenement rates, business permits, and other local levies. However, local tax authorities are often viewed as inefficient and sometimes engage in practices that deter compliance, such as harassment of taxpayers and arbitrary tax assessments. Okoye *et al.* (2020) emphasize that the lack of professionalism and transparency at the local government level further undermines trust in the tax system, making businesses reluctant to comply with local tax obligations. The inefficiencies at the local government level also contribute to the overall challenges faced by Nigeria's tax administration. The key issues facing tax authorities in Nigeria is the high level of non-compliance among taxpayers. Many businesses, especially those in the informal sector, are either unaware of their tax obligations or choose to evade them due to the perceived complexity and cost of compliance. Tax authorities, particularly the FIRS, have introduced several initiatives to combat tax evasion, such as the use of technology for tax administration and the establishment of the Tax Identification Number (TIN) system. However, these measures have not yet fully addressed the issue of non-compliance, particularly among small businesses (Olaoye & Ayeni, 2018).

### **Empirical Review and Formulation of Hypotheses**

Adegboye *et al.* (2018) conducted a comprehensive study on tax compliance among SMEs in Nigeria, focusing on how compliance costs influence their interactions with tax authorities. The researchers collected data from 350 SMEs across four states using a structured questionnaire and employed regression analysis to assess the relationship between direct compliance costs and tax authority interactions. The study found that direct compliance costs, such as the cost of hiring tax professionals and purchasing tax-related software, significantly reduced the quality of interactions between SMEs and tax authorities. SMEs facing higher compliance costs reported feeling overwhelmed and less likely to engage positively with tax officials, often perceiving the tax system as overly complicated and burdensome. These findings suggest that direct compliance costs can act as a barrier to developing positive, cooperative relationships with tax authorities, thereby lowering compliance levels. Based on this, the study recommended simplifying tax procedures to reduce compliance costs, especially for smaller businesses.

Aladejebi (2018) examined the impact of administrative costs on tax compliance among SMEs in Lagos State, with a particular focus on how these costs influence interactions with tax authorities. The study sampled 400 SMEs and employed a mixed-methods approach, combining quantitative surveys with qualitative interviews to gather detailed insights. Results showed that administrative costs, such as time spent filing tax returns and responding to tax audits, were a significant predictor of negative interactions with tax authorities. SMEs that experienced higher administrative costs were more likely to report frustration and mistrust toward tax officials, often feeling that the tax authorities were inefficient and unresponsive. These findings suggest that reducing administrative burdens could enhance the relationship between SMEs and tax authorities, leading to higher levels of compliance. The study recommended the automation of tax filing processes and the provision of more accessible tax education for small business owners.

Oyewumi *et al.* (2020) investigated the role of tax compliance costs in determining the quality of tax authority interactions for SMEs in South-West Nigeria. Using a sample of 500 SMEs, the study employed structural equation modeling to explore the relationship between direct and indirect compliance costs and interactions with tax authorities. The findings indicated that both direct and administrative costs had a significant negative effect on the perceived quality of interactions with tax authorities. Businesses that incurred higher compliance costs were more likely to express dissatisfaction with tax officials, citing issues such as poor communication, delays in processing tax documents, and a lack of transparency. The study concluded that reducing compliance costs, especially for smaller enterprises, could improve the overall tax environment and promote voluntary compliance. Policy recommendations included increasing government support for tax literacy programs and simplifying tax regulations.

Eneh *et al.* (2022) focused on the relationship between tax compliance costs and taxpayer interactions with tax authorities in Nigeria's informal sector. The study employed a cross-sectional survey design, gathering data from 450 SMEs across three regions of Nigeria. The authors found that direct compliance costs, such as payments for tax consultancy services and acquiring tax documentation, significantly strained the relationship between small business owners and tax authorities. Many respondents indicated that the high costs of compliance led them to avoid interacting with tax officials altogether, which in turn increased the risk of tax evasion. The study suggested that providing tax incentives and reducing compliance costs could improve the relationship between taxpayers and tax authorities, encouraging better compliance rates. Additionally, the study highlighted the need for a more user-friendly tax system tailored to the capacities of small businesses.

Oladejo *et al.* (2019) conducted a study on the influence of administrative compliance costs on the quality of tax authority interactions in Nigeria. Data was collected from 300 SMEs, and the researchers used logistic regression to analyze the effect of administrative burdens, such as time and paperwork, on SMEs' willingness to engage with tax authorities. The results revealed a significant inverse relationship between administrative compliance costs and the quality of taxpayer-tax authority interactions. SMEs with higher administrative costs reported more negative experiences with tax authorities, such as feeling harassed or unfairly treated during audits. These negative interactions discouraged many businesses from voluntarily complying with tax regulations. The authors recommended simplifying the audit process and reducing the documentation

required for tax filings to foster more positive and productive interactions between SMEs and tax authorities.

Alabi *et al.* (2024) explored the role of tax morals in shaping tax compliance behavior and interactions with tax authorities in Bayelsa State. The study adopted a survey research design, collecting data from 350 SMEs through questionnaires and interviews. The findings demonstrated that high direct compliance costs, particularly those related to tax consultants' fees and legal advice, negatively impacted the quality of interactions with tax authorities. Many business owners felt that these costs were disproportionately high relative to their income, which led to resentment and a reluctance to cooperate with tax officials. The study concluded that reducing the financial burden of compliance for SMEs could improve their relationship with tax authorities, thereby enhancing tax compliance levels. It also suggested that government subsidies or assistance for tax advisory services could alleviate the financial pressure on small businesses.

Daniel and Esther (2019) examined how the electronic taxation is associated with tax compliance influence interactions between SMEs and tax authorities in Northern Nigeria. The study, which surveyed 400 SMEs, found that businesses facing higher administrative burdens were less likely to engage positively with tax authorities. Administrative tasks such as record-keeping, submitting tax returns, and dealing with audits were cited as major stressors that strained the relationship between SMEs and tax officials. SMEs that reported higher administrative costs also tended to perceive tax authorities as unhelpful and overly bureaucratic. The study recommended streamlining administrative procedures and offering tax incentives to businesses that comply voluntarily as ways to improve these interactions and enhance overall tax compliance.

Amaning *et al.* (2021) conducted an empirical investigation into the effects of tax compliance among SME interactions with tax authorities in Ghana, drawing parallels with similar issues in Nigeria. The study used a mixed-methods approach, surveying 450 SMEs and conducting in-depth interviews with tax officials. The findings revealed that both direct and administrative compliance costs were key factors that influenced the quality of tax authority interactions. Many SMEs expressed frustration with the high cost of tax consultants and the time-consuming nature of filing taxes, which negatively impacted their willingness to cooperate with tax officials. The study recommended reducing compliance costs through simplified tax processes and increasing government outreach to provide tax education, thereby improving the overall relationship between SMEs and tax authorities.

Osemeke *et al.* (2020) analyzed the challenges affecting SME tax behavior and interactions with tax authorities in Anambra State, Nigeria. The researchers surveyed 320 SMEs and used path analysis to explore the relationship between compliance costs and taxpayer satisfaction with tax authorities. The results indicated that both direct and administrative compliance costs were negatively correlated with the quality of interactions with tax authorities. Businesses that incurred high compliance costs were more likely to report dissatisfaction with the tax system, often citing poor customer service and inefficiency among tax officials. The study concluded that reducing both financial and administrative barriers to compliance could improve the relationship between taxpayers and tax authorities, thus leading to higher levels of voluntary compliance.

Olaoye *et al.* (2017) examined the influence of tax information, administration and knowledge on tax payers compliance. The study used a quantitative research design,



surveying 500 SMEs and applying multiple regression analysis to assess the impact of compliance costs on tax authority interactions. The findings revealed that direct compliance costs, such as the cost of hiring tax professionals, significantly reduced the likelihood of positive interactions between SMEs and tax authorities. Many SMEs reported that they avoided interacting with tax officials due to the high cost of compliance, which in turn led to increased tax evasion. The study recommended that the Nigerian government reduce compliance costs by simplifying tax procedures and offering tax reliefs for smaller businesses, which could improve interactions with tax authorities and increase overall compliance levels.

These empirical reviews lay the foundation for the formulation of the following hypotheses:

**H<sub>0</sub>1:** There is no significant relationship between direct compliance costs and the quality of interaction with tax authorities for SMEs in Bayelsa State.

**H<sub>0</sub>2:** There is no significant relationship between administrative compliance costs and the quality of interaction with tax authorities for SMEs in Bayelsa State.

## METHODOLOGY

The study employs a survey research design to examine the relationship between tax compliance costs and the quality of interactions between SMEs and tax authorities in Bayelsa State. The population for the study consists of 300 SMEs, as reported by the SMEDAN 2021 report, which provides a representative sample of SMEs in the state. Data will be collected through a structured questionnaire using a five-point Likert scale to measure respondents' views on direct and administrative tax compliance costs and their interactions with tax authorities. The structured nature of the questionnaire ensures consistency and reliability in the responses gathered, allowing for an effective assessment of the research variables. Data analysis will involve both descriptive and inferential statistics. Descriptive statistics, such as means and frequency distributions, will summarize the characteristics of the respondents and their perceptions of tax compliance costs. For inferential analysis, correlation analysis will be used to test the hypotheses, focusing on the relationships between direct and administrative costs and the quality of interactions with tax authorities. This method will help determine whether there is a significant correlation between these variables, providing a basis for conclusions and recommendations on how to enhance tax compliance and interactions for SMEs in Bayelsa State.

The general form of the correlation model is as follows:

$$Y=f(X_1,X_2)$$

Where:

- **Y** represents the dependent variable: Quality of Interaction with Tax Authorities.
- **X<sub>1</sub>** represents the independent variable: Direct Compliance Costs.
- **X<sub>2</sub>** represents the independent variable: Administrative Costs.

The specific correlation model can be expressed as:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

Where:

- $\beta_0$  is the intercept (the expected value of Y when  $X_1$  and  $X_2$  are zero).
- $\beta_1$  represents the coefficient of direct compliance costs ( $X_1$ ), measuring the relationship between direct compliance costs and the quality of interaction with tax authorities.
- $\beta_2$  represents the coefficient of administrative costs ( $X_2$ ), measuring the relationship between administrative costs and the quality of interaction with tax authorities.
- $\epsilon$  is the error term, capturing the variation not explained by the independent variables.

## RESULTS, IMPLICATION OF FINDINGS AND RECOMMENDATIONS

### Descriptive Analysis Result

#### Descriptive Statistics for Direct Compliance Cost

	N	Minimum	Maximum	Mean	Std. Deviation
The cost of hiring tax consultants is a burden on my business.	244	1	5	3.71	1.241
The expenses associated with preparing and filing tax returns significantly impact my business finances.	244	1	5	3.84	.659
Direct compliance costs deter me from maintaining accurate financial records.	244	1	5	4.05	.631
I believe that the direct costs of tax compliance are too high relative to the benefits I receive.	244	1	5	4.11	.615
The time spent on tax compliance activities incurs additional direct costs for my business.	244	1	5	4.01	.752
Valid N (listwise)	244				

Source: *Field Survey, 2024*

From the result above, the item "The cost of hiring tax consultants is a burden on my business" has a mean score of 3.71 and a standard deviation of 1.241, indicating moderate agreement with some variability in responses. The statement "The expenses associated with preparing and filing tax returns significantly impact my business finances" has a slightly higher mean of 3.84 with a smaller standard deviation of 0.659, showing higher agreement and less variation in responses. Other items, such as "Direct compliance costs deter me from maintaining accurate financial records" and "I believe that the direct costs of tax compliance are too high relative to the benefits I receive," both exhibit high mean values of 4.05 and 4.11 respectively, suggesting strong agreement. These items also have low standard deviations of 0.631 and 0.615, indicating consistent responses. The time spent on tax compliance activities also incurs additional direct costs, with a mean of 4.01 and a standard deviation of 0.752, highlighting significant agreement among respondents.

**Descriptive Statistics for Administrative Compliance Cost**

	N	Minimum	Maximum	Mean	Std. Deviation
I find it difficult to keep up with the paperwork required for tax compliance.	244	1	5	3.71	.673
Tax compliance processes take valuable time away from other important business activities.	244	1	5	3.35	.815
The administrative tasks involved in tax compliance are overly complex for my business.	244	1	5	4.16	.952
Frequent updates or changes in tax regulations increase the administrative workload on my business.	244	1	5	4.02	.894
The administrative costs of record-keeping for tax purposes are higher than expected.	244	1	5	3.59	1.241
Valid N (listwise)	244				

Source: *Field Survey, 2024*

The result in the table above reveals that the statement "I find it difficult to keep up with the paperwork required for tax compliance" has a mean score of 3.71 and a standard deviation of 0.673, suggesting moderate agreement with limited variation in responses. The item "Tax compliance processes take valuable time away from other important business activities" has a mean of 3.35 and a standard deviation of 0.815, indicating a slightly lower level of agreement and more variation among respondents. Items such as "The administrative tasks involved in tax compliance are overly complex for my business" and "Frequent updates or changes in tax regulations increase the administrative workload on my business" show strong agreement, with mean values of 4.16 and 4.02 respectively. These high means reflect that most respondents perceive the administrative aspects of tax compliance as burdensome. The standard deviations for these two items (0.952 and 0.894) suggest moderate variability in responses. Lastly, the statement "The administrative costs of record-keeping for tax purposes are higher than expected" has a mean of 3.59 and a higher standard deviation of 1.241, indicating a wider range of perceptions regarding this aspect of administrative compliance costs.

**Descriptive Statistics for Interaction with Tax Authorities**

	N	Minimum	Maximum	Mean	Std. Deviation
The response time of tax authorities to my inquiries is satisfactory.	244	1	5	2.75	1.324
The instructions provided by tax authorities for compliance are clear and easy to follow.	244	1	5	3.74	1.219
I feel that tax authorities provide adequate support to ensure my business complies with tax regulations.	244	1	5	2.21	1.394
The attitude of tax officials during inspections or audits is professional and respectful.	244	1	5	3.98	.871
The process of dealing with tax authorities is often time-consuming and frustrating for my business.	244	1	5	4.12	.754
Valid N (listwise)	244				

Source: *Field Survey, 2023*

The descriptive statistics for interaction with tax authorities reveal varying levels of satisfaction among the respondents. The statement "The response time of tax authorities to my inquiries is satisfactory" has a mean of 2.75 and a relatively high standard deviation of 1.324, indicating that many respondents are dissatisfied with response times, with considerable variation in their opinions. The item "The instructions provided by tax authorities for compliance are clear and easy to follow" has a higher mean of 3.74 and a standard deviation of 1.219, suggesting a more positive view on the clarity of instructions, although there is some variability in the responses.

However, the statement "I feel that tax authorities provide adequate support to ensure my business complies with tax regulations" shows a low mean of 2.21 and a higher standard deviation of 1.394, reflecting a general dissatisfaction with the support provided by tax authorities, and a significant spread in responses. On the other hand, respondents agree more favorably with the statement "The attitude of tax officials during inspections or audits is professional and respectful," which has a mean of 3.98 and a lower standard deviation of 0.871, indicating that most businesses find tax officials to be professional. Lastly, the item "The process of dealing with tax authorities is often time-consuming and frustrating for my business" has a high mean of 4.12 and a standard deviation of 0.754, showing that respondents strongly feel that interacting with tax authorities is burdensome and inefficient.

**Correlation Analysis Result**

**Correlations Matrix for Tax Compliance and Interaction with Tax Authorities**

		Interaction with Tax Authorities	Direct Compliance Cost	Administrative Compliance Cost
Interaction with Tax Authorities	Pearson Correlation	1	-.543**	.645**
	Sig. (2-tailed)		.000	.001
	N	244	244	244
Direct Compliance Cost	Pearson Correlation	-.543**	1	.592**
	Sig. (2-tailed)	.000		.000
	N	244	244	244
Administrative Compliance Cost	Pearson Correlation	.645**	.592**	1
	Sig. (2-tailed)	.001	.000	
	N	244	244	244

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The correlation matrix for tax compliance cost and interaction with tax authorities reveals significant relationships between the variables. The **Pearson correlation** coefficient between **interaction with tax authorities** and **direct compliance cost** is **-0.543** with a significance level of **0.000**, indicating a strong negative relationship. This suggests that as direct compliance costs increase, the quality of interaction with tax authorities tends to decrease. The negative correlation implies that SMEs may experience more difficulties interacting with tax authorities when the financial burden of compliance rises. The significant p-value confirms that this relationship is statistically significant at the **1% level**.

Similarly, the correlation between **interaction with tax authorities** and **administrative compliance cost** is positive and strong, with a Pearson correlation of **0.645** and a significance level of **0.001**. This indicates that as administrative compliance costs increase, the interaction with tax authorities improves. A potential explanation for this could be that businesses investing more time and resources into managing administrative compliance may be better equipped to engage with tax authorities. The significant p-value supports that this positive relationship is statistically meaningful. The correlation between **direct compliance cost** and **administrative compliance cost** is **0.592** with a p-value of **0.000**, showing a positive and strong relationship between these two forms of compliance costs. This means that as the direct costs of compliance increase, so do the administrative costs. Both compliance costs appear to increase simultaneously, potentially due to the additional financial and administrative burdens that come with managing tax-related obligations.

**CONCLUSION**

The findings of the study have significant practical implications for small and medium-sized enterprises (SMEs) in Bayelsa State. The negative relationship between direct compliance costs and the quality of interaction with tax authorities indicates that higher compliance costs could hinder effective engagement between businesses and tax authorities. This implies that SMEs facing substantial financial burdens may struggle with



navigating tax processes, leading to frustration and inefficiency. For businesses, it becomes crucial to manage compliance costs effectively to maintain smoother interactions with tax authorities and avoid penalties or misunderstandings that can further strain the relationship.

### **IMPLICATIONS OF THE STUDY**

From a policy perspective, the positive correlation between administrative compliance costs and interaction with tax authorities suggests that when SMEs invest more in administrative compliance, the quality of interaction improves. This highlights the need for tax authorities to streamline administrative procedures, reduce complexity, and provide clearer guidance to businesses. Policymakers could consider simplifying the tax compliance process, reducing unnecessary paperwork, and offering more accessible tools for SMEs to comply with tax regulations. This would not only ease the administrative burden but also foster a more collaborative and supportive environment between tax authorities and businesses.

Moreover, the study's findings emphasize the need for tax reforms that target reducing both direct and administrative compliance costs. For instance, introducing tax relief measures or subsidies for SMEs to hire tax consultants or invest in tax compliance software could significantly reduce the negative impact of direct compliance costs. Additionally, providing better training and resources for tax officials to improve their engagement with businesses could enhance the overall interaction between taxpayers and tax authorities. By addressing these issues, tax policies can promote voluntary compliance, improve the efficiency of tax collection, and create a more business-friendly environment in Bayelsa State.

### **RECOMMENDATIONS**

Based on the findings of the study, the following recommendations were made:

1. To enhance the quality of interaction between SMEs and tax authorities, efforts should be made to reduce the financial burden of tax compliance. This could include offering tax credits or deductions specifically for SMEs to cover the cost of hiring tax consultants or other professional services.
2. Tax authorities should prioritize simplifying administrative requirements for SMEs. This includes reducing the complexity of tax forms, offering more user-friendly online tax filing platforms, and providing step-by-step guides for compliance.
3. The study highlights the need for tax authorities to improve their responsiveness and support to SMEs. Tax officials should undergo regular training on customer service and engagement, ensuring they provide timely and professional assistance to business owners. Additionally, tax authorities could establish dedicated help desks or online support centers to assist SMEs with their tax compliance needs.

**REFERENCES**

- Adegboye, A. C., Alao-Owunna, I., & Egharevba, M. I. (2018). Business characteristics, tax administration and tax compliance by SMEs in Nigeria. *Oradea Journal of Business and Economics*, 3(1), 7-17.
- Akinyemi, O., & Adebayo, S. (2019). Tax administration and compliance in Nigeria: Issues and challenges. *Journal of Public Economics*, 11(3), 214-231.
- Alabi, A. W., Atanda, F. A., Akintoye, I. R., & Kajola, S. G. (2024). Tax morale and taxpayers' compliance among SMEs in Nigeria. *Journal of Management World*, 2024(2), 68-78.
- Aladejebi, O. (2018). Measuring tax compliance among small and medium enterprises in Nigeria. *International Journal of Accounting and Taxation*, 6(2), 29-40.
- Amaning, N., Anim, R. O., Kyere, A., Kwakye, G., & Abina, S. (2021). Tax compliance among Ghanaian SMEs: How impactful is taxpayer education. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 4(1), 40-58.
- Appah, E., & Duoduo, G. (2023). Determinants of Tax Compliance Behaviour and Sustainable Economic Growth Among MSMEs in Nigeria. *International Journal of Development and Economic Sustainability*, 11(3), 70-105.
- Atawodi, O. W., & Ojeka, S. A. (2012). Factors that affect tax compliance among small and medium enterprises (SMEs) in North Central Nigeria. *International journal of business and management*, 7(12), 87.
- Biru, A. M. (2020). Factors That Affect Tax Compliance Behavior of Small and Medium Enterprises: Evidence from Nekemte City. *European Journal of Business and Management*, 12(19), 29-41.
- Daniel, A. M., & Esther, I. O. (2019). Electronic taxation and tax compliance among some selected fast food restaurants in Lagos state, Nigeria (tax payers perspective). *Eur. J. Account. Audit. Financ. Res*, 7, 52-80.
- Eneh, O. M. R., Onwuchekwa, J. C., & Okoye, N. J. (2022). Effect of Tax Complexity on Tax Compliance of Small and Medium Scale Enterprises in Bayelsa State. *International Journal of Advanced Academic Research*, 8(2), 72-89.
- Eragbhe, E., & Modugu, K. P. (2014). Tax compliance costs of small and medium scale enterprises in Nigeria. *International Journal of Accounting and Taxation*, 2(1), 63-87.
- Eze, U., & Nwanne, C. (2021). Tax fairness and compliance behavior: Evidence from small businesses in Nigeria. *Nigerian Journal of Economic Research*, 19(1), 145-160.
- Fagbemi, T. O., Uadiale, O. M., & Noah, A. O. (2022). Tax compliance by small businesses: Barriers and opportunities in Nigeria. *Journal of African Taxation*, 6(2), 98-114.
- Newman, W., Mwandambira, N., Charity, M., & Ongayi, W. (2018). Literature review on the impact of tax knowledge on tax compliance among small medium enterprises in a developing country. *International Journal of Entrepreneurship*, 22(4), 1-15.
- Okoye, P. V., Eze, I. C., & Nwaobia, A. N. (2020). Informal sector and tax compliance in Nigeria: The enforcement dilemma. *Journal of Business and Social Sciences*, 8(4), 321-345.

- Oladejo, A. O., Monday, J. U., & Olusegun Oladele, O. (2019). The effect of tax policy on compliance among small and medium-scale enterprises in southwestern, Nigeria. *Journal of Taxation and Economic Development*, 18(3), 48-72.
- Oladipupo, A. O., & Obazee, U. (2016). Tax knowledge, penalties and tax compliance in small and medium scale enterprises in Nigeria. *IBusiness*, 8(1), 1-9.
- Olaoye, C. O., & Ayeni, R. A. (2018). The cost of tax compliance and the implications for small businesses in Nigeria. *International Journal of Business and Finance Management Research*, 10(1), 22-35.
- Olaoye, C. O., Ayeni-Agbaje, A. R., & Alaran-Ajewole, A. P. (2017). Tax information, administration and knowledge on tax payers' compliance of block moulding firms in ekiti state. *Journal of Finance and Accounting*, 5(4), 131-138.
- Osemeke, N., Nzekwu, D., & Okere, R. O. (2020). The challenges affecting tax collection in Nigerian informal economy: Case study of Anambra State. *Journal of Accounting and Taxation*, 12(2), 61-74.
- Oyewumi, O. R., Otusanya, O. J., & Adeyeye, G. B. (2020). Infrastructural Development and Tax Compliance of Small and Medium Enterprises Owners in Lagos State, Nigeria. *Global Journal of Accounting*, 6(1), 12-23.
- Slemrod, J. (2019). Tax compliance and enforcement. *Journal of economic literature*, 57(4), 904-954.
- Taiwo, O. (2017). The Nigerian tax system: Challenges and prospects for growth. *Tax Journal of Nigeria*, 15(2), 45-59.