

**VOLUNTARY TAX COMPLIANCE BEHAVIOUR OF SMALL AND MEDIUM-SIZED  
ENTERPRISES (SMEs) IN NIGERIA**

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**OCTOBER, 2023**

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**BEING A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF  
ACCOUNTING, FACULTY OF MANAGEMENT SCIENCES, UNIVERSITY OF BENIN,  
BENIN-CITY IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE  
AWARD OF BACHELOR OF SCIENCE (B.SC.) DEGREE IN ACCOUNTING.**

**OCTOBER, 2023**

## **DECLARATION**

I, **ODIKA SAMUEL BENEDICT**, hereby declare that:

- i. This study is based on a research undertaken by me in the Department of Accounting, Faculty of Management Sciences, University of Benin, Benin City, under the supervision of Prof. P.O. Ibadin.
- ii. This work has not been previously submitted for the award of degree elsewhere.
- iii. Ideas and views are product of my personal research and where the view of others were expressed, they have been duly acknowledged.
- iv. Any liability arising from this work is to be wholly borne by me alone.

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**ODIKA SAMUEL BENEDICT**

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DATE: \_\_\_\_\_

## CERTIFICATION

We, the undersigned, hereby certify that this research project was carried out by **ODIKA SAMUEL BENEDICT** with matriculation number **MGS1807640** of the Department of Accounting, University of Benin, Benin City and do approve that it is adequate in scope and quality in partial fulfillment of the award of Bachelor of Science (B.Sc) degree in Accounting, University of Benin, Benin City. .

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**PROF. P.O. IBADIN.**

*Project Supervisor*

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*Project Coordinator*

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**DR. OBARETIN OSASU.**

*Head of Department*

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**DATE**

## **DEDICATION**

This project is dedicated to God Almighty my creator, my Heavenly Father, my source of strength and inspiration. He alone is the reason why I have the opportunity to carry out a research project in the first place

## ACKNOWLEDGEMENT

Whatever has a beginning must surely have an end. Here comes the end of my pursuit of a Bachelor of Sciences (B.Sc) degree in the University of Benin and also an end to this research project and I would like to use this medium to appreciate those who contributed immensely to this great achievement.

All thanks to God Almighty for his outpour of knowledge, inspiration and resources required to complete this project. He singlehandedly guided me all through my journey in this school and made this great achievement possible.

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## ABSTRACT

This study investigated the factors affecting voluntary tax compliance by SMEs. Specifically, the study sought to establish the effect of complexity of Nigerian tax system, SMEs perception of tax fairness, tax education and awareness, external stakeholders, cultural and socioeconomic factor on voluntary tax compliance by SMEs.

The study used the primary research instrument through the administration of questionnaire to source data needed for the study. The study targeted a sample of two hundred (200) respondents, in which a total of 200 questionnaires were distributed and same number (200) was filled, retrieved, cleaned and used for this study. The data collected was analyzed using SPSS version 20.0 and descriptive statistics was used to present the results while regression test was employed to make findings on the research hypotheses. It was revealed that: the complexity of Nigerian tax system is not significantly related to voluntary tax compliance by SMEs; SMEs' perception of tax fairness is significantly related to voluntary tax compliance by SMEs; tax education and awareness is not significantly related to voluntary tax compliance by SMEs; external stakeholder is not significantly related to voluntary tax compliance by SMEs; and cultural and socioeconomic factor is significantly related to voluntary tax compliance by SMEs.

Based on these findings, it was recommended that: it is essential to invest in more comprehensive and targeted tax education programs for SMEs; tax authorities should strive for transparent and equitable tax policies and practices; simplifying tax procedures and reducing bureaucratic hurdles can make it easier for SMEs to comply voluntarily; policymakers should cultural and socioeconomic aspects when designing tax policies and interventions; and it is still crucial for tax authorities to engage with external parties such as business support organizations, consultants, and tax professionals.

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background To The Study

Tax compliance and the adherence to tax regulation is an important pillar in the architecture of any nation's fiscal policy, given its substantial influence on both government revenue generation and overall economic stability (Bird, 2008). It does this by providing the necessary revenue needed by government to finance public goods and services.

Small and Medium-sized Enterprises (SMEs) constitutes a vibrant and diverse sector of the Nigerian economy contributing significantly to its economic growth, employment's generation, and poverty reduction efforts. These enterprises are widely recognized as engines of innovation, job creation, and entrepreneurship particularly in developing economies like Nigeria. In the Nigerian context, Small and Medium-sized Enterprises (SMEs) play an instrumental role in the nations building and economy, contributing significantly to employment, production and the broader canvas of economic growth(Afolabi et al., 2017).

However, the landscape of tax compliance among SMEs in Nigeria is filled with challenges due to the fact that a significant number operates within the informal sector and often eludes their tax obligations (Olarinoye et al., 2020). Tax payers are not willing and ready to comply when it comes to the obligation imposed on them by law (Oladipupo and Obazee, 2016).

Globally, SMEs are important in most economies predominantly in developed and developing economies where SMEs are considered the backbone of the economy. More so, SMEs are vital elements of the Nigerians economy because of their immense potential for income redistribution, employment generation, and innovation (Ojo and Shittu, 2023). According to the International Finance Corporation (IFC) studies, over 50% of jobs in the private sector and 96% of enterprises are SMEs in Nigeria.

The Nigerian government, cognizant of the pivotal role of SMEs, has undertaken various initiatives to enhance tax compliance within the sector. These measures include the introduction of tax incentives and the streamlining of tax procedures to facilitate compliance (Oyediran, 2017). Nevertheless, voluntary tax compliance behavior among SMEs continues to be less than optimal, resulting in revenue shortfalls that undermines the government's ability to provide essential services and infrastructure to the public (Ajibolade et al., 2019).

In this intricate landscape, understanding the multifaceted factors that shape voluntary tax compliance behavior among SMEs in Nigeria is of paramount significance for policymakers, tax authorities, and the SME community itself. This study sets out to conduct the comprehensive investigation into these determinants aiming to unearth actionable strategies that can bolster voluntary tax compliance, and in turn, reinforcing Nigeria's fiscal foundation (Adegbite et al., 2021).

These determinants encompasses the intricate nature of Nigeria's tax system, the perspective of SMEs regarding tax fairness, the role of tax education and awareness, and the influence exerted by external entities such as tax consultants and business associations. Additionally, Nigeria's distinctive cultural and socio-economic context may significantly shape SMEs tax compliance behavior (Olaniran, 2018).

This endeavor aims to enrich the extant body of knowledge pertaining to tax compliance behavior among SMEs in Nigeria. By delving into the root causes of non-compliance and striving to promote voluntary tax adherence, it's holds the potential to direct Nigeria towards enhanced revenue collection, stimulate economic growth, and align more closely with its aspirations for sustainable development.

## **1.2 Statement of research problem**

Tax compliance within the Small and Medium-sized Enterprises (SMEs) sector in Nigeria is a multifaceted challenge that transcends mere fiscal concerns. SMEs as vital contributors to the nation's economy, play a pivotal role in employment generation, production and the overall trajectory of economic growth (Afolabi et al., 2017). Yet their persistent struggle with fulfilling tax obligations has far reaching implications. It results in revenue shortfalls, hampering the government's ability to provide essential public services, invest in infrastructure, and foster economic stability (Oyediran, 2017; Ajibolade et al, 2019).

This multifaceted challenge is buttressed by multiple factors. The complexity of Nigeria tax system, characterized by a number of tax types, rates, and regulations, poses a formidable barrier to SMEs understanding and compliance (Bird, 2008). Furthermore, how SMEs perceive tax fairness, or lack thereof, significantly influence their willingness to adhere voluntarily to tax regulations (Adegbite et al., 2021). Another aspect to consider is the effectiveness of tax education and awareness initiatives as it directly affects SMEs ability to navigate the tax landscape (Olarinoye et al., 2020).

Externals stakeholders including tax consultants and business associations apply or bring to bear a considerable influence on SME's tax compliance behavior, shaping their decision and actions in this regard (Ajibolade et al., 2019). In addition the intricate interplay of cultural norms and socio-economic conditions unique to Nigeria significantly influences SME's tax compliance behavior (Olaniran, 2018).

Within this complex environment, the research problem emerges as follows: How can the underlying determinants of tax non-compliance among SMEs in Nigeria be objectively and comprehensively understood, strategically addressed, and harmonized within the broader context of economic development and socio equity? Resolving this challenge extends beyond its fiscal implications; it's constitutes a pivotal step towards harnessing the full potential of Small and Medium-sized Enterprises (SMEs) to catalyze economic expansion, facilitate job creation, and

contribute to the attainment of the nation's sustainable development objectives. Consequently, this research endeavors to conduct an in-depth exploration of these multifaceted elements, transcending the confines of taxation to encompass a broader spectrum of socio-economic considerations. Its ultimate aim is to present a comprehensive and actionable recommendation tailored for the benefits of policymakers, tax authorities, and small business owners.

### **1.3 Research Questions**

Based on the research problem outlined, here are the research questions.

1. What are the specific underlying factors that's contribute to the prevalent non-compliance with tax regulations among SMEs in Nigeria?
2. How does the complexity of the Nigerian tax system influence SME's voluntary tax compliance behavior?
3. To what extent does SMEs perception of tax fairness impact their willingness to comply with tax obligations?
4. What role does tax education and awareness play in promoting voluntary tax compliance behavior among SMEs?
5. How do external stakeholders affect SMEs tax compliance decisions?
6. To what extent do cultural and socio-economic factor unique to Nigeria shape the tax compliance behavior of SMEs?

#### **1.4 Objectives of the study**

The broad objective of this study is to comprehensively investigate and understand the factors influencing voluntary tax compliance behavior among SMEs in Nigeria. The specific objectives are:

1. Systematically identify and analyze the underlying factors contributing to non-compliance with tax regulations among SMEs in Nigeria
2. Investigates the intricacies of the Nigerian tax system and assess their influence on voluntary tax compliance behavior of SMEs
3. Measure SMEs perceptions of tax fairness and understand how these perceptions impact their willingness to comply with tax obligations
4. Assess the effectiveness of tax education and awareness initiatives in promoting voluntary tax compliance behavior among SMEs
5. Examine the role played by external stakeholders in shaping SMEs decisions regarding tax compliance
6. Analyze the influence of cultural norms and socio-economic conditions unique to Nigeria on the tax compliance behavior of SMEs

7. Provide actionable insights and recommendations that can guide policymakers, tax operators, and SME owners in enhancing voluntary tax compliance and fostering economic growth

### **1.5 Research Hypotheses**

- 1: There is no significant relationship between the complexity of the Nigerian tax system and voluntary tax compliance behavior of SMEs in Nigeria
- 2: There is no significant relationship between SMEs perception of tax fairness and their willingness to comply with tax obligations
- 3: There is no significant relationship between external stakeholders influence including that of tax consultants and business associations, and SMEs decision regarding tax compliance
- 4: There is no significant relationship between the effectiveness of tax education and awareness initiatives in SMEs voluntary tax compliance behavior
- 5: There is no significance relationship between cultural norms and socio-economic conditions specific to Nigeria and the tax compliance behavior of SMEs

## **1.6 Significance of the Study**

As concerning policy-making and tax administration in Nigeria, this research offers a pool of valuable insights. By thoroughly examining the factors that influence the tax compliance behavior of Small and Medium-sized Enterprises in Nigeria, it can assist in creating more effective tax policies and strategies. By doing so there is a higher possibility of increasing the tax compliance levels among SMEs.

This study highlights the potential of increasing government revenue through enhanced voluntary tax compliance by SMEs. This additional revenue stream can be directed to the provision of vital public services, infrastructural development, and a diverse array of social economic initiatives aimed at improving the overall well-being of the populace.

This research also highlights the pivotal role SMEs play in Nigeria's economic landscape particularly in terms of job creation and economic expansion (Afolabi et al., 2017). By creating a better understanding of factors that influence SMEs tax compliance behavior, it paves the way for the development of policies that can be conducive to their growth and ultimately leading to better economic benefits.

This research also aligns with the pursuit of sustainable development goals. The alignment is imperative as it contributes to the harmonization of tax compliance efforts with objectives such

as poverty reduction, the enhancement of healthcare services, and the advancement of education as articulated in the United Nation's sustainable development agenda (United Nations, 2015)

### **1.7 Scope of the Study**

The study will concentrate primarily on SMEs operating within the geographical boundaries of Nigeria, while the time frame of the study will be the recommended length for undergraduate research (three years from the year of study 2022-2023) which will be used to analyze the tax compliance trends. The factor that we'll be considering in this study include: tax system complexity, perception of tax fairness, the effectiveness of tax education and awareness initiatives, external stakeholders influence, and cultural and socio-economic conditions. The data used will be sourced from both primary and secondary sources, including surveys, official records, academic literature, and relevant databases. This study employed a combination of qualitative and quantitative research methods, and it takes into cognizance the existing tax policies regulation and framework in Nigeria that influences SMEs tax compliance

## **1.8 limitations of the Study**

1. Tax related data are sensitive especially in this part of the world and are not usually made publicly available so obtaining accurate and complete records from SMEs will be challenging
2. Tax compliance patterns in most cases evolves slowly so trying to capture and analyze patterns within the stipulated period will not capture long-term trends
3. Constraints in the research resources including budget and personnel will restrict the depth of the data collection and analysis
4. SMEs may be concerned about legal repercussions and would be hesitant to disclose their true tax compliance behavior

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter examines the conceptual framework, review of related studies, and theoretical framework for the study. This chapter is made up of four sections. Closely following this introduction is the second section which deals with the conceptual framework and the theoretical underpinning to validate this current study. Finally, the chapter is concluded with a review of empirical literature linking the dependent variable (Voluntary tax compliance) and the independent variables (determining factors).

#### **2.2 Conceptual Literature**

##### **2.2.1 Small and Medium Enterprises (SMEs)**

Small and medium-scale enterprises (SMEs) play a vital role in economies worldwide, contributing to job creation, innovation, and economic growth. One commonly cited definition of SMEs is provided by the European Commission (EC). According to the EC, SMEs are enterprises that employ fewer than 250 persons and have an annual turnover of less than EUR 50 million or a balance sheet total of less than EUR 43 million (European Commission, 2015). Similarly, Carland, Hoy, and Carland (2017) define SMEs as organizations that have a limited number of employees, usually less than 500, and do not have access to the capital markets. These

definitions focus on the quantitative aspects of SMEs, emphasizing their size and resource limitations.

However, other authors emphasize qualitative dimensions and highlight the importance of organizational characteristics in defining SMEs. Hitt, Ireland, and Sirmon (2016) argue that SMEs are characterized by their entrepreneurial orientation, flexibility, and ability to leverage their limited resources for competitive advantage. This perspective suggests that SMEs should be understood not only in terms of their size but also in terms of their organizational behavior and strategic capabilities. Furthermore, scholars like Schumpeter (2015) emphasize the role of SMEs as engines of innovation and economic development. Schumpeter's concept of "creative destruction" highlights how SMEs, driven by entrepreneurial activity, introduce new products, services, and processes, leading to technological advancements and economic growth. This perspective positions SMEs as critical drivers of economic change and progress.

Beck, Demirgüç-Kunt, and Singer (2018) find that SMEs contribute significantly to employment generation, especially in developing economies. In their study of 134 countries, they observe that SMEs account for 70% of employment in low-income countries and 60% in middle-income countries. This demonstrates the substantial role SMEs play in job creation, which is essential for inclusive economic development. Moreover, SMEs are recognized for their potential to foster innovation and enhance competitiveness. Research by Audretsch, Keilbach, and Lehmann (2016)

indicates that SMEs are often more innovative than larger firms, as they are more agile, closer to customers, and less bureaucratic. Their study reveals that SMEs frequently engage in innovation activities, such as product development, process improvement, and technology adoption, which contribute to overall economic growth. Additionally, SMEs contribute to economic resilience and regional development. Fossen, König, and Laeven (2015) find that the presence of a diverse SME sector is associated with higher economic stability and reduced vulnerability to economic shocks. SMEs' ability to adapt quickly and their contributions to local economies make them vital for sustainable development and reducing regional disparities.

### **2.2.2 Small and Medium Enterprises (SMEs) in Nigeria**

Small and medium-sized enterprises (SMEs) are an important part of the economy in both developed and developing countries (Oyelarin-Oyeyinka, 2010). The International Finance Corporation (IFC) showed that around 96% of Nigerian enterprises were SMEs (Oyelarin-Oyeyinka, 2010). Gbandi and Amissah (2014) argued that in terms of the number of firms in Nigeria, SMEs account for around 90% of the manufacturing/industrial sector. Worryingly, while SMEs account for a sizable proportion of Nigerian businesses, their contribution to the country's gross domestic product (GDP) is just about 1% (Gbandi & Amissah, 2014).

In Nigeria, SMEs are distributed through clusters within zones (Oyelarin-Oyeyinka, 2010). For example, Aba fabric and leather (Abia State - East), Nnewi vehicle cluster (Anambra State -

East), Ikeja ICT cluster (Lagos State, West), Abeokuta and Oshogbo fabric cluster (West), Kano leather cluster (North) are some SMEs' clusters. However, the majority of SMEs are concentrated in the East, West and North, although they are poorly funded (Oyelarin-Oyeyinka, 2010). The National Bureau of Statistics (NBS) reports that Anambra State (East) has the largest number of SMEs in Nigeria (especially in the automobile sector) when compared to other sections of the country (Vanguard Newspaper, 2012).

Given the importance of SMEs in the Nigerian economy, several government regimes have focused on various programmes targeted at boosting SMEs growth since independence. It resulted in a substantial amount of funds being spent with the primary purpose of developing the sector (Taiwo, Falohun & Agwu, 2016). Despite the huge resources invested on SMEs, it has not resulted in a meaningful boost, since SMEs continue to contribute a modest percentage of Nigerian Gross Domestic Product (GDP) (Taiwo, Falohun & Agwu, 2016). Most Nigerian SMEs are highly volatile, with only a few attempting to survive due to a variety of factors such as difficulties in obtaining credit from banks and other financial institutions, severe economic conditions caused by erratic government policies, insufficient infrastructure, rapidly rising operating costs and a lack of government support for SMEs amongst others (Oboh 2002; Wale-Awe, 2000 as cited in Taiwo, Falohun & Agwu, 2016).

### **2.2.3 Tax Compliance**

Tax compliance is the extent to which a citizen complies (or fails to comply) with the tax laws of the state (Ocheni, 2015). For example, filing return, reporting income, and appropriately and conveniently making the tax payment. Tax compliance refers to the willingness to obey all tax rules and regulations as outlined by law without the use of force by the state (Alm, 2019). Also, tax compliance means reporting tax return, correctly declaring gains and deductions and paying levied taxes in a timely manner. Perception of taxpayers on accountability of government, nature of tax laws and administration and awareness of tax collection procedures by citizens, influence the level of compliance among taxpayers in any country (Fagbemi et al., 2010).

Kirchler (2017) defined tax compliance as the most neutral term to describe taxpayers' willingness to pay their taxes. That is, a tax payer is tax compliant when taxes are willingly paid as at when due while the reverse is the case for tax non-compliance which refers to the unwillingness of taxpayers to remit their tax payments as at when due. Another definition of tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2013). James (2020) incorporated the time dimension and defined compliance as not only paying the tax liability but also paying it timely.

Stephen (2011) listed out what the obligation of taxpayers are and concludes that whoever fails

to meet the listed obligation is considered as tax non-compliant. The obligations are: registration in the system, timely filing of required taxation information, reporting of complete and accurate information, and payment of taxation obligations on time. FIRA (2020) defined the concept as the difference between the real and the expected tax revenue and how that gap varies among the different sectors of the taxpaying population. James and Alley (2014) stated that compliance is a voluntary not compulsory behavior and taxpayers' compliance would not be considered voluntary compliance if they adhere merely for fear of penalty, fine and probability of being audited.

According to Ajzen (1991), people's intention to carry out a specific behaviour (that is, to comply or not to comply to tax payments) is predisposed by attitude in the direction of the behaviour (the magnitude of people's assessment of favourableness or unfavourableness of behaviour), subjective norms (apparent social burden from others to either perform or not to perform a behaviour) and perceived behavioural control (supposed comfort or trouble in the behaviour occurrence). Earlier studies have exploited these models in predicting people's intentions to involve in a tax behaviour (Taing & Chang, 2020; Owusu et al., 2019; Alleyne & Harris; 2017; Feruta, 2014; Adefula & Abdul-Razak, 2013), because compliance or non-compliance of tax payers to taxes is majorly dependent on their intent, whilst some tax payers may respond positively to taxes (compliance) others may not (non-compliance). While we see

the definition for tax compliance by different scholars we can derive a conclusion that tax compliance is going in line with the tax rules and regulation and paying tax liabilities voluntarily and on time. Also tax compliance can generally be referred to as the inclination and ability of the taxpayer to adhere to tax laws, determined by ethics, legal environment and other situational factors at a specific place and time.

#### **2.2.4 Factors Contributing to Non-compliance with Tax Regulations Among SMEs**

Small and medium-sized enterprises (SMEs) play a crucial role in economic development, yet they often face challenges in complying with tax regulations due to a range of factors that affect their ability and willingness to meet tax obligations. These factors include lack of understanding of tax laws, complexity of the tax system, high tax rates, inadequate record-keeping, perception of tax fairness, lack of trust in government, and participation in the informal economy.

1. **Lack of Understanding of Tax Laws:** The lack of understanding of tax laws is a significant factor contributing to non-compliance. SMEs often find tax laws and regulations complex and difficult to interpret, leading to unintentional non-compliance. Various authors have emphasized the importance of tax literacy and knowledge in ensuring compliance. For instance, studies have shown that firms with better tax knowledge are more likely to comply with tax regulations (McKerchar, 2015). The element of this determinant includes tax literacy, knowledge, and awareness. The

relationship between this factor and non-compliance is direct, as a lack of understanding can lead to mistakes and errors in tax filing, resulting in non-compliance.

2. **Complexity of Tax System:** The complexity of the tax system is another major factor influencing non-compliance. The tax system's intricacy often overwhelms SMEs, leading to mistakes and non-compliance. Researchers have highlighted the need for simplification of the tax system to enhance compliance (Richardson, 2018). This determinant encompasses the intricacy of tax laws, regulations, and filing procedures. The relationship between the complexity of the tax system and non-compliance is evident, as a more complex system increases the likelihood of non-compliance.
3. **High Tax Rates:** High tax rates have been identified as a deterrent to tax compliance. When tax rates are perceived as excessively high, SMEs may resort to non-compliance as a means of reducing tax liability. Studies have found a negative relationship between high tax rates and compliance levels (Alm, 2017). This determinant involves the actual tax rates and the perceived burden of taxation. The relationship between high tax rates and non-compliance is straightforward, as higher rates can lead to a greater inclination to evade taxes.
4. **Inadequate Record Keeping:** Inadequate record keeping is a prevalent issue among

SMEs that contributes to non-compliance. Proper record keeping is essential for accurate tax filing, and a lack thereof can result in unintentional non-compliance. Researchers have emphasized the importance of proper accounting practices in ensuring compliance (Slemrod, 2016). This determinant includes accounting practices, record keeping, and documentation. The relationship between inadequate record keeping and non-compliance is direct, as poor record keeping can result in errors in tax filing.

5. **Perception of Tax Fairness:** The perception of tax fairness plays a crucial role in influencing tax compliance. When SMEs perceive the tax system as unfair, they may be less inclined to comply. Studies have shown that a positive perception of tax fairness enhances compliance (Wenzel, 2015). This determinant includes the fairness of tax rates, regulations, and the overall tax system. The relationship between the perception of tax fairness and non-compliance is inverse, as a positive perception of fairness is likely to result in higher compliance levels.
6. **Lack of Trust in Government:** Lack of trust in government is a significant factor that affects tax compliance. When SMEs do not trust the government to utilize tax revenues effectively, they may be less willing to comply with tax regulations. Research has indicated a positive relationship between trust in government and tax compliance (Murphy, 2017). This determinant involves trust in government, perceived accountability,

and transparency. The relationship between lack of trust in government and non-compliance is inverse, as higher levels of trust are associated with higher compliance levels.

7. **Informal Economy Participation:** Participation in the informal economy is a factor that contributes to non-compliance among SMEs. SMEs may operate in the informal economy to evade taxes and reduce tax liability. Studies have found a negative relationship between informal economy participation and tax compliance (Schneider, 2016). This determinant includes participation in the informal sector, unreported income, and undeclared work. The relationship between informal economy participation and non-compliance is straightforward, as participation in the informal economy is often associated with tax evasion.

### **2.2.5 Complexity of Nigerian Tax System and SMEs' Voluntary Tax Compliance Behaviour**

The complexity of the Nigerian tax system has been defined by various authors in different ways, but there is a common thread that links these definitions together. Afolabi (2019) defines the complexity of the Nigerian tax system in terms of the multiple taxes and levies imposed by the federal, state, and local governments, which often overlap and result in double taxation. This

definition is similar to that provided by Chukwuma and Ezenwa (2020), who also highlight the lack of harmonization among the various tax laws and regulations as a key feature of the complexity of the Nigerian tax system. Both definitions point to the intricate web of tax regulations and the burden it places on taxpayers.

The elements and components of the complexity of the Nigerian tax system are vast and varied. The tax system is characterized by a multitude of tax laws and regulations, which are often ambiguous and contradictory (Okezie, 2021). Furthermore, there is a lack of clarity regarding tax procedures and requirements, which makes it difficult for taxpayers to comply with the tax laws. In addition to this, the tax administration is fraught with inefficiencies, and there is a lack of transparency and accountability in the tax collection process (Odusola, 2022). These factors, combined with the prevalence of corruption within the tax administration, contribute to the complexity of the Nigerian tax system.

The implications of the complexity of the Nigerian tax system are far-reaching. The intricate web of tax regulations and the lack of harmonization among tax laws result in a heavy compliance burden for taxpayers, particularly small and medium-sized enterprises (SMEs) (Adegite, 2021). This, in turn, acts as a deterrent to voluntary tax compliance, as the cost and time involved in complying with the tax laws often outweigh the benefits of tax compliance. Furthermore, the inefficiencies and lack of transparency in the tax administration erode taxpayers' trust in the tax

system, which is a crucial factor for voluntary tax compliance.

Empirically, there is a clear link between the complexity of the Nigerian tax system and SMEs' voluntary tax compliance behavior. Studies have shown that the compliance cost is a significant determinant of voluntary tax compliance among SMEs in Nigeria (Oladipupo and Obazee, 2021). The compliance cost is directly influenced by the complexity of the tax system, as a more complex tax system results in higher compliance costs. Furthermore, the lack of clarity regarding tax procedures and requirements makes it difficult for SMEs to comply with the tax laws, which further hinders voluntary tax compliance (Adediran and Alade, 2022). In addition to this, the lack of trust in the tax administration and the prevalence of corruption within the tax system also act as deterrents to voluntary tax compliance among SMEs (Adegite, 2021).

Therefore, the complexity of the Nigerian tax system, characterized by multiple taxes and levies, ambiguous and contradictory tax laws, and inefficient tax administration, has significant implications for voluntary tax compliance among SMEs in Nigeria. The intricate web of tax regulations and the lack of harmonization among tax laws result in a heavy compliance burden for SMEs, which acts as a deterrent to voluntary tax compliance. Furthermore, the lack of clarity regarding tax procedures and requirements, coupled with the lack of trust in the tax administration, also hinder voluntary tax compliance among SMEs.

### **2.2.6 SMEs Perception of Tax Fairness and SMEs' Voluntary Tax Compliance Behaviour**

Small and Medium-sized Enterprises (SMEs) have varying perceptions of tax fairness, which is defined as the degree to which they believe the tax system is just, equitable, and impartial. In academic literature, SMEs' perception of tax fairness has been characterized through a multifaceted lens. A number of authors have defined tax fairness from a procedural standpoint, focusing on how the tax laws are administered and whether SMEs believe the process is transparent and free from corruption (Alm & Torgler, 2020; Bobek et al., 2021). Others have examined tax fairness from a distributive perspective, considering whether SMEs believe the tax burden is shared equitably among different groups within society (e.g., Richardson, 2019; Wenzel, 2020). Yet, there are definitions that incorporate both procedural and distributive aspects of tax fairness, arguing that SMEs assess the fairness of the tax system as a whole, taking into account both the process and the outcome of tax laws (Kasper, et al., 2021; Torgler & Schaltegger, 2020). These definitions, while varying in focus, share a common theme in acknowledging the importance of fairness perceptions in shaping SMEs' attitudes towards taxation.

The elements and components of SMEs Perception of Tax Fairness are broad and encompass several factors. Procedural fairness involves the perceived transparency, consistency, and impartiality of tax administration (Alm & Torgler, 2020; Bobek et al., 2021). Distributive

fairness refers to the perceived equity of the tax burden distribution among different societal groups (Richardson, 2019; Wenzel, 2020). Interactional fairness involves the quality of treatment SMEs receive from tax authorities, including respect, politeness, and understanding (Feld & Frey, 2021). There is also retributive fairness, which considers the perceived adequacy of sanctions for non-compliance and the effectiveness of the tax system in penalizing evaders (Kogler et al., 2021). These elements contribute to SMEs' overall assessment of the tax system's fairness and play a significant role in shaping their tax compliance behavior.

The implication of SMEs Perception of Tax Fairness is profound as it directly affects their voluntary compliance behavior. When SMEs perceive the tax system as fair, they are more likely to voluntarily comply with tax regulations (Kasper et al., 2021; Torgler & Schaltegger, 2020). This is because a fair tax system enhances the legitimacy of tax authorities and fosters a sense of civic duty and responsibility among taxpayers. Conversely, perceptions of unfairness can lead to tax avoidance and evasion, as SMEs may feel justified in not complying with what they see as an unjust system (Richardson, 2019; Wenzel, 2020). Therefore, understanding and improving SMEs' perceptions of tax fairness is crucial for enhancing tax compliance.

Empirically, the relationship between SMEs Perception of Tax Fairness and SMEs' Voluntary Tax Compliance Behaviour has been explored by numerous scholars. A study by Kasper et al. (2021) found that when SMEs perceive the tax system as fair, they are more likely to engage in

voluntary tax compliance, as it fosters a sense of trust and reciprocity between taxpayers and tax authorities. Similarly, Torgler and Schaltegger (2020) argued that perceptions of fairness enhance the social contract between taxpayers and the state, encouraging voluntary compliance. Furthermore, Bobek et al. (2021) identified a positive correlation between procedural fairness and tax compliance, highlighting the importance of transparent and impartial tax administration in fostering voluntary compliance. In contrast, Richardson (2019) and Wenzel (2020) highlighted the negative impact of perceived distributive unfairness on tax compliance, with SMEs being less likely to comply voluntarily when they feel the tax burden is not equitably distributed. These studies collectively underscore the importance of SMEs' perceptions of tax fairness in shaping their voluntary tax compliance behavior.

### **2.2.7 Tax Education and Awareness and SMEs' Voluntary Tax Compliance Behaviour**

Tax Education and Awareness are fundamental concepts that have garnered attention in recent tax research, especially in relation to compliance behavior among Small and Medium Enterprises (SMEs). In a bid to understand and ensure a conducive environment for tax compliance, scholars have embarked on defining and outlining these terms. For instance, Onyekwena and Ekeruche (2020) define Tax Education as a structured approach to impart knowledge about tax laws, processes, rights, and obligations. Similarly, Adam et al. (2019) describe it as the dissemination of knowledge, values, skills, and attitudes about taxation, reflecting an emphasis on the holistic

nature of tax understanding. Merging these views, Tax Awareness can be perceived as the depth and breadth of understanding an individual or organization possesses regarding taxation matters. This is echoed by Ngoepe and Springate (2021), who elucidate Tax Awareness as the degree of consciousness and knowledge an entity has concerning its tax obligations, benefits, and potential risks. In an integrated perspective, Tax Education and Awareness fundamentally revolve around the provision and acquisition of knowledge and the understanding and consciousness of tax-related matters respectively.

Diving deeper into the elements and components of Tax Education and Awareness, the vast landscape of these domains becomes evident. Firstly, the curriculum of Tax Education encompasses knowledge about tax laws, regulations, penalties, and procedures. This was emphasized by Ogbuabor and Edeh (2019) who highlighted the significance of updating tax laws in the curriculum to match evolving economic environments. Secondly, the methodology of delivery, whether through workshops, seminars, e-learning platforms, or formal courses, plays a pivotal role. Closely associated with this, Onyekwena and Ekeruche (2020) accentuated the importance of practical experiences, such as case studies and simulations. On the other hand, components of Tax Awareness are not just limited to knowledge but also encompass attitudes and behaviors towards taxation. This includes perceptions about the fairness and complexity of the tax system, awareness about penalties, and a conscious effort to remain updated, as

elaborated by Smith et al. (2022).

The implications of Tax Education and Awareness are vast and manifold. Foremost, an educated taxpayer, as posited by Ngoepe and Springate (2021), is more likely to comply voluntarily owing to a clear understanding of obligations and the benefits of compliance. Furthermore, a heightened awareness leads to increased confidence in dealing with tax matters, reduced instances of unintentional non-compliance, and a reinforced sense of civic duty. Consequently, as Adams and Obiwuru (2020) have highlighted, the implications span from individual benefits like reduced penalties and increased trust in the system to macro-level benefits such as enhanced revenue collection and fiscal stability.

Relating Tax Education and Awareness to SMEs' Voluntary Tax Compliance Behaviour empirically uncovers a direct and substantial link. Studies by Ogbuabor and Edeh (2019) observed that SMEs with a higher degree of tax education demonstrated more inclination towards voluntary compliance. They attributed this behavior to reduced ambiguity and increased confidence in navigating the taxation landscape. Complementing this, Smith et al. (2022) found that SMEs with heightened tax awareness, especially about potential penalties and the benefits of compliance, were less likely to evade taxes. They posited that awareness acted as a catalyst, turning knowledge into action. A subsequent investigation by Ngoepe and Springate (2021) corroborated these findings, suggesting that SMEs, when equipped with both education and

awareness, not only showcased enhanced compliance behavior but also actively engaged in promoting the same among their peers.

To sum up, Tax Education and Awareness stand as twin pillars supporting the voluntary tax compliance behavior of SMEs. While education equips them with knowledge, awareness translates it into action, thereby fostering an ecosystem conducive for fiscal growth and stability.

### **2.2.8 External Stakeholders and SMEs' Voluntary Tax Compliance Behaviour**

External stakeholders are broadly defined as individuals or groups outside of an organization that have an interest in the activities and performance of that organization (Johnson & Scholes, 2002). Various authors have evaluated and assessed the definitions of external stakeholders, with some similarities and differences in their descriptions. Freeman and McVea (2001) defined external stakeholders as those individuals or groups that can affect or are affected by the organization's objectives. Post, Preston, and Sachs (2002) stated that external stakeholders include customers, suppliers, government, communities, and others who are not directly involved in the organization's internal operations but have a significant impact on the organization's performance. Discussing the elements and components of external stakeholders, it is evident that they encompass a broad range of individuals and groups. Customers, suppliers, competitors, government agencies, communities, and special interest groups are all examples of external stakeholders. Each of these groups has different interests and influences on the organization.

Customers are interested in the quality and price of the organization's products or services. Suppliers are interested in the organization's ability to pay for goods or services. Competitors are interested in the organization's market share and competitive advantages. Government agencies are interested in the organization's compliance with laws and regulations. Communities are interested in the organization's impact on the local environment and economy. Special interest groups may have specific interests related to the organization's operations or impact on society.

The implication of external stakeholders is significant for an organization. They can affect the organization's reputation, financial performance, and overall success. Positive relationships with external stakeholders can lead to increased customer loyalty, better supplier relations, and a stronger competitive position. Negative relationships with external stakeholders can lead to negative publicity, legal challenges, and financial losses.

Empirically, external stakeholders have been linked to SMEs' voluntary tax compliance behavior. A study by Onu and Oats (2016) found that SMEs are more likely to voluntarily comply with tax regulations when they have positive relationships with external stakeholders such as customers, suppliers, and government agencies. Similarly, a study by McGee (2018) found that SMEs are more likely to voluntarily comply with tax regulations when they have a strong reputation and positive relationships with external stakeholders. Another study by Alm and Torgler (2016) found that SMEs are more likely to voluntarily comply with tax regulations when they perceive

that the tax system is fair and that they are being treated fairly by tax authorities.

### **2.2.9 Cultural and Socio-economic Factor and SMEs' Voluntary Tax Compliance Behaviour**

Cultural factors refer to shared beliefs, norms, and practices that guide and influence behaviours and attitudes within a specific group or society. These factors encompass the way individuals perceive not just their personal but also their professional lives, including the conduct of business and tax practices (Hofstede, 2011). Socio-economic factors, on the other hand, encompass individuals' or groups' position within a society which is often derived from their economic and social status based on education, income, and occupation (Mankiw et al., 2012). Both these constructs, despite being distinct, often overlap in influencing behavioural tendencies in multiple dimensions including tax compliance. An integration of these definitions reveals a clear implication: the socio-cultural environment in which an SME operates can have profound implications on its voluntary tax compliance behaviour.

Diving deeper into the elements and components of cultural factors, they majorly include values, beliefs, rituals, norms, and practices. These components collectively form a framework that dictates what is considered acceptable or unacceptable in a particular society (Hofstede, 2011). Similarly, socio-economic components are primarily centred around income levels, education,

occupation, and social class. These factors together play a vital role in determining individuals' access to resources, information, and opportunities, thereby shaping their attitudes and behaviours towards various societal obligations, including tax compliance (Becker, 2014).

The implication of cultural and socio-economic factors on SMEs' voluntary tax compliance behaviour is multi-faceted. Cultural norms that promote integrity, trust in authorities, and a sense of civic duty often translate into higher compliance rates (Torgler & Schneider, 2009). In contrast, societies where tax evasion is not deemed as immoral or unethical may witness reduced compliance. Socio-economic factors too play a decisive role. For instance, SMEs in higher socio-economic strata, equipped with better resources and knowledge, might be more compliant due to better awareness of legal implications and a greater sense of societal obligation. Conversely, SMEs in lower socio-economic segments might evade taxes as a survival strategy, stemming from financial constraints (Richardson, 2016).

Empirically, several studies have drawn connections between cultural and socio-economic factors and SMEs' voluntary tax compliance. For example, Cummings et al. (2015) found that societies with higher levels of trust and civic morality had higher tax compliance rates. The study highlighted that cultural attributes, such as trust in fellow citizens and government institutions, played a pivotal role in shaping tax compliance behaviour. Another empirical study by Luttmer and Singhal (2014) showcased that socio-economic factors, specifically income levels, directly

influenced tax compliance. They noted that SMEs with higher incomes were more likely to comply voluntarily, emphasizing the role of economic well-being in tax compliance decisions.

### **2.3 Review of Empirical Studies**

Adimassu and Jerene (2016) examined factors that influence tax payer's voluntary compliance behavior in Self-Assessment System (SAS). The authors used a cross-sectional survey method of research design. The target population of the study was category "A" tax payers in purposefully selected five cities of Southern Nation Nationalities and Peoples' Regional State (SNNPRS), Ethiopia. A sample of 377 Category "A" tax payers were randomly taken from the selected cities. Both primary and secondary data were collected. In order to analyze and present the results of this study, Pearson correlation matrix and logistic regression model were employed. The result of the study revealed that tax knowledge, simplicity of tax returns and administration, perception on fairness and equity, perception on government spending, probability of auditing, and the influence of referral group were determinant factors that influence voluntary compliance behavior of tax payers in SAS.

Shiferaw and Tesfaye (2020) examined the determinants of voluntary tax compliance behavior of category A and B tax payers in Case of Dire Dawa City Administration. To achieve the objective, the authors used Pragmatics or mixed research approach. To this end, the researchers used both primary and secondary data. The target populations of the study are category "A" and "B" tax

payers in Dire Dawa City Administration. A sample of 366 category “A” and “B” tax payers is taken by using multi stage sampling procedure. The findings from the regression analysis indicated that, compliance is significantly affected by nine determinant factors which consist of: Age, Education, Tax knowledge, Financial Constraints, Absence of Fairness, Role of the Tax Authority, complexity of Tax System, Absence of Tax Audits and Government Spending. The study also evidenced that, other variables such as Gender, Sales turn over, Religion, Penalties, Type of organization and Tax Rate were not significant determinants of tax compliance id Dire Dawa City Administration.

Okpeyo et al. (2019) examined the factors that influence tax compliance by small and medium tax payers, the difference in the level of compliance between small and medium tax payers and strategies to improve tax compliance in Ghana. The study through stratified sampling technique sampled 100 small and medium tax payers in Accra and other GRA officials for the study. Data was analyzed qualitatively and quantitatively. The results of the study showed that compliance cost, tax rates, tax audits and morals of taxpayers significantly influenced tax compliance.

Bani-Khalid et al. (2022) adopted the extended theory of planned behavior (TPB) to determine the intentions of owner-managers in SMEs towards engaging in sales tax compliance. The study distributed a total of 660 questionnaire copies through systematic random sampling to the mangers/owners of Jordanian manufacturing SMEs, from which 385 questionnaire copies were

retrieved and considered useable and appropriate for further analysis. The study made use of Partial-Least Squares-Structural Equation Modeling (PLS-SEM) for the validation of the measurement model and structural model, and to establish the predictive relevance of the proposed model. Based on the obtained findings, the attitude towards behavior, subjective norms, perceived behavioral control and patriotism were significant determinants of the intentions towards engaging in sales tax compliance among the examined enterprises.

Nduruchi et al. (2017) investigated the determinants of tax compliance among smes in Bungoma county. The study applied a descriptive survey design of all the SMEs in Bungoma county. The population of the study consisted of all the SMEs in Bungoma County. A total of 170 SMEs in Bungoma County were targeted for the study. With a sample of size of 227 respondents. The data collected was analyzed using descriptive statistics, correlations, and linear regression analysis. Results showed that there was a significant influence of cost on tax compliance in Bungoma County. From study findings, it was noted that cost influence tax compliance negatively and significantly contributing 9.6% variability to tax compliance by SMEs when other factors are held constant.

Inasius (2019) examined factors influencing the tax compliance of small-and medium-sized enterprises (SMEs) for income-tax reporting requirements in Indonesia. Using multiple regressions, six tax compliance factors are examined. Data were collected through a survey

conducted in Jakarta using 328 respondents who are small business taxpayers. A researcher-administered questionnaire survey method was used for data collection. The results reveal that referral groups, the probability of audit, tax knowledge, and the perception of equity and fairness have a significant impact on tax compliance. In particular, the referral group had the most significant influence on the noncompliance behavior of SME taxpayers.

Mbuguah et al. (2016) determined factors affecting tax compliance by Smesin Kiambu County. The study population was 1084 Smes in Kiambu County where a sample size of 325 Smes was selected. Data was collected through structured and unstructured Questionnaires. Data was analyzed using Statistical Package for Social Sciences (SPSS) and results presented in frequency tables to show how the responses for the various questions posed to the respondents. The study findings revealed that Non compliance opportunities, compliance cost, knowledge requirements and decision frames had a positive and significant effect on tax compliance.

Ogunfunmilayo (2020) looked at factors influencing voluntary tax compliance among SMEs owners in Oyo State, Nigeria. The study employed survey research design through the use of self administered questionnaire, with the population of 4,396 SMEs owners in Oyo state. The sample of the study contained 367 SMEs owners gotten by adopting Taro Yamani's (1969) method. The hypotheses were tested with the aid of Partial Least Square-Structural Equation Model (PLS-SEM). The study found that trust in government ( $\beta = 0.163$ ,  $t = 2.636$ , and  $p < 0.009$ ), reference

group influence ( $\beta = 0.172$ ,  $t = 3.608$ , and  $p < 0.000$ ) and tax law complexity ( $\beta = 0.246$ ,  $t = 4.188$ , and  $p < 0.000$ ) have significant positive impact on voluntary taxpayers' compliance at 0.05% level of significant among SMEs owners in Oyo state. However, the study found that economic factors have no significant effect on voluntary tax compliance.

Nwidobie (2018) identified the factors that motivate individual taxpayers' compliance to fiscal obligations in Nigeria. 695 individual and corporate taxpayers in the densely populated and industrial areas of Lagos and Ogun States with high numbers of individual taxpayers were sampled for this study using the cluster sampling technique. Primary data obtained from administered questionnaires were analysed using the ordinary least squares (OLS). Research results showed that fear of punishment for tax default, religious beliefs and economic factors have positive relationships with tax compliance; while penalty, financial commitments, level of income, developmental projects/programmes of government and perceived benefits of tax has negative relationships with tax compliance.

Biru (2020) assessed factors that affect tax compliance behavior of small and medium enterprises taxpayer in nekemte city administration. The study used descriptive and explanatory research design. The total population of the study was 8458 small and medium business enterprises in nekemte city from which the sample of 386 were determined for data collection. Data collected was analyzed by Statistical Package for Social Science version 24 and the findings were

presented using tables and figures. The finding showed that tax rate has statistically significant negative effect on tax compliance behavior of small and medium enterprises tax payers, but the level of income, fine and penalty, Rewarding and incentives, simplicity of tax system, perceptions of government spending, tax audit, Attitude toward tax and tax knowledge and awareness were statistically, significantly and positively associated with tax compliance behavior of small and medium enterprises tax payers.

Musa (2021) determined the factors that influence tax compliance among related SMEs in Nigeria. This study adopted descriptive-survey research design because it allows the study to gather data about varying subject under investigation. The population of the study comprises of Related MSME in Nigeria in the base study year. A sample is selected using Morgan table (1970) (see attached) to select 400 sample size. The data to be used for this study shall be sourced from 400 MSME in Nigeria. The study revealed among others that perceived opportunity for tax evasion, tax knowledge and education, fines and penalties and tax compliance cost affect tax compliance among SMEs in Nigeria.

Masawa (2018) examined the determinants of voluntary tax compliance in Tanzania from taxpayer perspectives. The study employed quantitative approach. Data were collected from 100 Small and Medium Enterprises (SMEs) operating in Dar es Salaam. Data were analysed descriptively and then factor analysis and later regression analysis were conducted to examine

relationship among variables. The findings have shown that voluntary tax compliance of SMEs in Dar e Salaam is influenced by several factors such as Tanzania Revenue Authority (TRA) service quality, taxpayer trust, fairness of tax laws, and regulations and public governance quality. In addition, voluntary tax compliance is positively related to these factors. Furthermore, the findings have shown that SMEs to a greater extent do not comply with tax laws and regulations as they fulfil their tax obligations by force, report incorrect income and delay to submit tax return on time Voluntary tax compliance is a phenomenon of great importance to the national development; taxpayers who know their tax obligations and accomplish the same willingly are friends of national developments and prosperity.

## **2.4 Theoretical Review**

### **2.4.1 Social Exchange Theory**

Social Exchange Theory, first proposed by George Homans (1958) and later expanded by other theorists such as Blau (1964) and Emerson (1976), posits that social behavior and interactions are based on reciprocal exchange processes, where individuals seek to maximize rewards and minimize costs in their relationships with others. This theory has been widely applied in various disciplines including sociology, psychology, and organizational studies.

The theory encompasses several key concepts such as reciprocity, social rewards, and costs, which describe how individuals assess the value of social interactions based on the perceived

benefits and drawbacks (Cropanzano & Mitchell, 2005; Emerson, 1976). In essence, Social Exchange Theory suggests that individuals engage in social interactions and relationships when the perceived rewards outweigh the costs. Researchers such as Lawler & Yoon (1996) and Molm, Collett, & Schaefer (2007) have further developed the theory, examining the role of emotions, power, and dependence in social exchange processes. The application of Social Exchange Theory in the organizational context has been discussed by authors like Cropanzano & Mitchell (2005) and Masterson (2001), who have explored how the theory can explain organizational citizenship behaviors and employee engagement.

In relation to the research topic, Social Exchange Theory provides a useful framework for understanding the dynamics of voluntary tax compliance among SMEs. The theory can help explain how SMEs weigh the perceived rewards and costs of tax compliance, considering factors such as the complexity of the tax system, perceived fairness of taxes, and the availability of tax education. For instance, if SMEs perceive the tax system as overly complex and unfair, they may be less likely to comply voluntarily. Conversely, the presence of tax education programs and positive interactions with tax authorities may increase the perceived rewards of compliance and thus encourage voluntary tax compliance.

Moreover, the theory can also be applied to understand how external stakeholders, cultural and socio-economic factors influence SMEs' decision to comply with tax regulations. External

stakeholders, such as customers and suppliers, may influence SMEs' perceptions of the rewards and costs associated with tax compliance. Cultural and socio-economic factors may also play a role in shaping SMEs' attitudes and behaviors towards tax compliance, influencing their willingness to comply voluntarily. In conclusion, Social Exchange Theory provides a comprehensive framework for understanding the factors that influence voluntary tax compliance among SMEs in Nigeria, taking into account the complexity of the tax system, perceptions of tax fairness, availability of tax education, and the influence of external stakeholders and cultural/socio-economic factors.

#### **2.4.2 Deterrence Theory**

Deterrence Theory, initially developed by Beccaria (1764) and later refined by various scholars such as Gibbs (1975), posits that the certainty, severity, and celerity of punishment can effectively deter criminal activities. This theory emphasizes that when individuals perceive a high probability of being caught and punished, coupled with severe penalties for non-compliance, they are less likely to engage in illicit behavior. The principles of this theory have been widely applied in criminology and various socio-economic contexts, including tax compliance (Alm & Torgler, 2006; Kirchler, 2007; Torgler & Schaffner, 2007).

The crux of Deterrence Theory lies in the premise that punishment can act as an effective deterrent to non-compliant behavior. This has been subject to extensive research and discussions.

Klepper and Nagin (1989) highlighted the significant role of audit probability and tax penalty rates in influencing tax compliance. However, studies by Allingham and Sandmo (1972), and later by Alm, Jackson, and McKee (2009) challenged this view, asserting that other factors such as taxpayer morale, social norms, and personal beliefs also play a crucial role in determining tax compliance. Slemrod (2007) and Feld and Frey (2007) further explored the psychological dimensions of tax compliance, arguing that taxpayer behavior is not solely influenced by economic consequences. Thus, Deterrence Theory, though pertinent, may not fully encapsulate the myriad factors influencing tax compliance.

The theory's relevance to the study of determinants of SMEs voluntary tax compliance in Nigeria is crucial. Studies have shown that the complexity of the tax system can significantly impact SMEs' ability to comply voluntarily (Braithwaite, 2003; James & Alley, 2002). The perception of tax fairness and taxpayer education are also identified as pivotal factors influencing voluntary compliance (Richardson, 2006). Deterrence Theory can be applied to understand how the severity and certainty of penalties can affect SMEs' decision to comply with tax regulations. However, it is imperative to consider the specific cultural, socio-economic, and stakeholder-related factors that are unique to the Nigerian context.

Applying Deterrence Theory to the Nigerian tax system, specifically regarding SMEs voluntary tax compliance, requires a nuanced approach. The complexity of Nigeria's tax system, coupled

with SMEs' perceptions of tax fairness and the extent of their tax education, can significantly affect their compliance behavior. Research by Ayuba, Ariffin, and Gaya (2020) showed that external stakeholders, such as tax authorities and government agencies, play a vital role in shaping SMEs' compliance behavior in Nigeria. Additionally, cultural and socio-economic factors unique to Nigeria, such as prevalent corruption, inadequate tax education, and lack of trust in government institutions, can significantly impact SMEs' willingness to comply voluntarily (Adebisi & Gbegi, 2017). Hence, while Deterrence Theory provides a valuable framework for understanding the impact of penalties on tax compliance, it must be integrated with other theories and considerations specific to the Nigerian context to fully capture the dynamics of SMEs voluntary tax compliance.

### **2.4.3 Theory of Planned Behavior**

The Theory of Planned Behavior (TPB) was introduced by Icek Ajzen as an extension of the Theory of Reasoned Action (Ajzen, 1991). This theory proposes that individual intentions to perform a particular behavior are influenced by attitudes towards the behavior, subjective norms, and perceived behavioral control. In essence, if a person evaluates a behavior positively, believes that significant others would want them to perform it, and perceives that they have the ability to enact it, they are more likely to intend and eventually execute the behavior (Ajzen, 2011).

Central to TPB is the role of intentions as the immediate antecedent of behavior. But, intentions

do not always translate to actual behavior, a critique raised by several scholars (Sniehotta, Presseau, & Araújo-Soares, 2014). Further, Sheeran and Webb (2016) argue that the predictive power of TPB can be variable across different contexts. Kirchler, Hoelzl, and Wahl (2008) in their study on tax compliance, identified that the role of perceived behavioral control is somewhat ambiguous, suggesting the necessity of external factors influencing tax compliance behavior. Scholars such as Conner and Armitage (2018) emphasize that TPB, while effective in predicting intentions, might not comprehensively account for spontaneous, unplanned behaviors. Armitage, Conner, and Loach (2019) further assert that TPB's constructs may not be exhaustive, hinting at the potential role of other underlying factors influencing intentions and behaviors.

For Nigerian SMEs, the decision to voluntarily comply with tax regulations can be understood in the light of TPB. Considering the complex socio-economic landscape of Nigeria, SMEs' attitudes towards tax compliance, subjective norms (peer influence and societal expectations), and their perceived ease or difficulty of complying (perceived behavioral control) can provide critical insights into their tax compliance intentions (Mittone, 2019). Furthermore, Onu and Oats (2017) argue that in developing countries like Nigeria, external influences such as perceived fairness of the tax system or trust in the government can play a more pronounced role in shaping tax compliance behavior. This suggests that while TPB offers a foundational framework, the specificities of the Nigerian context might require a more nuanced approach.

The complexity of the Nigerian tax system can influence SMEs' perceived behavioral control. If SMEs find the system too intricate to navigate, it can deter their compliance intentions (Alabede, Ariffin, & Idris, 2015). Perception of tax fairness can be linked to SMEs' attitudes towards tax compliance. If they perceive the system as fair, their attitudes are likely to be positive, fostering compliance intentions (Ogbonna & Ebimobowei, 2012). Tax education, as Bobek, Roberts, and Sweeney (2017) point out, can bolster both attitudes and perceived behavioral control, as informed SMEs are more likely to view compliance favorably and feel equipped to comply. External stakeholders such as tax consultants and financial advisors can influence subjective norms, as their advice and perspectives can shape SMEs' perceptions of what is normatively expected of them. Lastly, cultural and socio-economic factors can intertwine with all three TPB constructs, given that societal values, economic hardships, or prosperity can shape attitudes, influence norms, and impact perceptions of control (Uadiale & Fagbemi, 2010).

#### **2.4.4 Equity Theory**

Equity Theory, proposed by Adams (1963), posits that individuals assess the fairness of their social exchanges by comparing their input-outcome ratios with those of relevant others. Adams suggested that when individuals perceive an imbalance in these ratios, they experience distress and are motivated to restore equity. Over the years, Equity Theory has been refined and extended by various researchers (Walster et al., 1973; Walster et al., 1978; Leventhal, 1976; Mikula, 1980;

Greenberg, 1982; Colquitt, 2001; Cropanzano & Mitchell, 2005).

The core of Equity Theory lies in the principle of balance or fairness. It posits that individuals will be more satisfied and perform better when they perceive they are treated fairly (Adams, 1963; Greenberg, 1990; Pfeffer & Langton, 1993). In a tax compliance context, individuals and businesses are more likely to voluntarily comply with tax obligations if they perceive the tax system as fair and just (Wenzel, 2002; Kirchler, 2007). The concept of distributive justice, which is central to Equity Theory, can be related to individuals' perceptions of the fairness of tax distribution and public service provisions (Leventhal, 1976; Konow, 2003).

The relevance of Equity Theory to the study of SMEs' voluntary tax compliance in Nigeria can be seen in the relationship between taxpayers' perceptions of fairness and their willingness to comply with tax obligations. When SMEs perceive that the tax system is complex and burdensome, they may feel that the system is unfair and be less inclined to comply voluntarily (Braithwaite, 2003; Bobek et al., 2007). On the other hand, when SMEs perceive that the tax system is fair and that tax revenues are used to provide public goods and services, they may be more likely to comply voluntarily. Similarly, tax education and engagement with external stakeholders can play a significant role in shaping SMEs' perceptions of the tax system and influencing their compliance behavior (Kogler et al., 2013).

## **2.5 Theoretical Framework**

Social Exchange Theory provides a robust framework for examining the dynamics of voluntary tax compliance among SMEs in Nigeria, as it emphasizes the importance of reciprocal relationships and mutual benefit in social interactions. The theory posits that individuals engage in social exchanges with the expectation that these exchanges will be reciprocated with benefits or rewards, which in the context of tax compliance, can be seen as the provision of public goods and services funded by tax revenues. In this study, Social Exchange Theory is employed to explore how SMEs perceive the exchange relationship with the government in terms of the benefits they receive in return for their tax contributions, and how these perceptions influence their willingness to comply voluntarily with tax obligations. The theory also allows for an examination of the role of trust in the exchange relationship, as SMEs are more likely to comply voluntarily if they trust that the government will use their tax contributions effectively and fairly. Furthermore, Social Exchange Theory provides a framework for understanding how social norms and cultural factors can shape the expectations and behaviors of SMEs in relation to tax compliance, as these norms and factors can influence what is perceived as a fair and beneficial exchange relationship. Thus, Social Exchange Theory offers a comprehensive and multi-faceted approach to examining the determinants of voluntary tax compliance among SMEs in Nigeria.

## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.1 Introduction**

This chapter focused on the approach adopted by the researcher in conducting the study. It shows the method in gathering, analyzing the relevant data that will be used in this study, the research design, population and sample, model specification data analysis plan and operationalization of variables.

#### **3.2 Research Design**

Research design refers to an arrangement which shows the method of a research thought fitting to the study (Kothari, 2004). This research adopts a cross sectional survey research design. A cross-sectional research design entails collection of data through questionnaire from many different individuals at a single point in time. In cross-sectional research, the researcher observes variables without influencing them. Additionally, this design gives a significant and precise image of occasions and looks to clarify individuals' insight and conduct based on the information gathered. A cross-sectional study design has the advantage of allowing researchers to compare multiple variables at the same time.

### **3.3 Population**

The population of this study consists of employees of selected small and medium scale businesses in Benin City, Edo state. These small and medium scale businesses include businesses in various sectors, including manufacturing, ICT, agriculture, Beauty and Lifestyle, Services, Health care, among others.

### **3.4 Sample Size and Sampling Technique**

200 copies of questionnaire were distributed to the respondents by the researcher. The questionnaire was collected on the spot after the respondents have completed them. The respondents were adequately assured of their anonymity in order to clarify their doubt about the purpose of the study.

The convenience sampling technique was adopted. This is non-probability sampling method where units are selected for inclusion in the sample because they are the easiest for the researcher to access. Hence, the researcher distributed copies of questionnaires to respondents that are accessible to him.

### **3.6 Sources of Data**

The nature of study necessitated the use of primary data. The data were collected through the administration of questionnaires to employees of the selected small and medium scale businesses in Benin City, Edo state.

### **3.7 The Research Instrument**

For this study, the instrument used for data collection was a carefully structured questionnaire. The questionnaire was divided into two parts (Part I and II). Part I will comprise of the respondents' demography characteristics, while Part II which was broken into two sections (A and B) consisted of questions on the dependent variable (Voluntary tax compliance) and the independent variables (complexity of Nigerian tax system, SMEs perception of tax fairness, tax education and awareness, external stakeholders, cultural and socioeconomic factor). All items were based on the modified five-point Likert scale of Strongly Agree (SA), Agree (A), Not sure (NS), Disagree (D) and Strongly Disagree (SD).

#### **3.7.1 Validity of the Research Instrument**

The validity of the instrument (questionnaire) were affirmed by the researchers' supervisor who is an expert in the field of accounting. His opinion, suggestions and recommendations were used to produce the final instrument.

### **3.7.2 Reliability of the Research Instrument**

Lack of reliability may arise from divergence between observers or instruments of measurements such as a questionnaire or inability of the attribute being measured, which will invariably affect the validity of such questionnaire. The Cronbach's Alpha coefficient was used to test the reliability of the research instrument (questionnaire). The reliability of data pertaining to the variables was then designated through Cronbach's Alpha ( $\alpha$ ) coefficient which had a value between 0 and 1 (Bayram, 2004). A Cronbach's Alpha value greater or equal to 0.70 was used to justify the reliability of the research instrument. This was done using the SPSS software packages version 20.

## **3.8 Model Specification and Data Analysis**

### **3.8.1 Model Specification**

This section is preoccupied with the formulation of an appropriate model, which establishes the theoretically relationships between the variables of the study. This study's model was adapted from the study of Adimassu and Jerene (2016). The model of Adimassu and Jerene (2016) incorporated tax knowledge, simplicity of tax returns and administration, perception on fairness and equity, perception on government spending, probability of auditing, and the influence of referral group as its independent variables.

This study modifies the above model by introducing complexity of tax system, external stakeholders, and cultural/socio-economic factors as independent variables. Thus, the model of the study is stated in its functional form below;

$$VTC = f(\text{Determinants}) \text{-----}(3.1)$$

$$VTC = f(\text{complexity of Nigerian tax system, SMEs perception of tax fairness, tax education and awareness, external stakeholders, cultural and socioeconomic factor}) \text{-----}(3.2)$$

$$VTC = \beta_0 + \beta_1CNTS + \beta_2SPTF + \beta_3TEA + \beta_4EXTS + \beta_5CSF + \varepsilon \text{-----}(3.3)$$

Where;

VTC = Voluntary tax compliance,

CNTS = Complexity of Nigerian tax system,

SPTF = SMEs perception of tax fairness,

TEA = Tax education and awareness,

EXTS = External stakeholders,

CSF = Cultural and socioeconomic factor,

$\beta_0$  - Slope

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ - Coefficients

$\varepsilon$  – Error term

$\beta_{1-5} \geq 0$  (a priori Expectation)

### **3.8.2 Data Analysis Method**

The responses from the questionnaire administered will be analyzed using descriptive statistic, Pearson moment correlation matrix and Ordinary least square regression. The descriptive method will describe the demography of respondents using frequency and percentage. The Pearson moment correlation matrix will be used to examine the close relationship between variables, ordinary least square regression and Breusch-Pagan-Godfrey test will be conducted to test for the presence of heteroskedacity in the regression results. The hypotheses were tested using Alpha level of significance of 0.05. The decision rule for accepting hypothesis, is that we reject the null hypothesis when p-value (computed level of significance) is less than 0.05, while we accept the null hypothesis when p-value (computed level of significance) is greater than 0.05. Analysis was done with the help of the Statistical Package for Social Sciences (SPSS) version 21.

### **3.9 Measurement of Variables**

The study examined the causal relationship between the independent variables (complexity of Nigerian tax system, SMEs perception of tax fairness, tax education and awareness, external

stakeholders, cultural and socioeconomic factor) and the dependent variable (Voluntary tax compliance). The preliminary analysis of the data was conducted using descriptive statistics. The questions were in statement format and participants answered with their options on the statements given. The responses were done using a 5-point Likert scale of “Strongly Agree, Agree, Not sure, Disagree, or Strongly Disagree”.

**Table 3.1: Operationalization of Variables**

<b>Variable name</b>	<b>CODE</b>	<b>Category of variable</b>	<b>Operationalisation</b>	<b>Apriori</b>
Voluntary tax compliance	VTC	Dependent variable	Respondents’ Likert scores for statements related to voluntary tax compliance indicators.	
Complexity of Nigerian tax system	CNTS	Independent variable	Respondents’ Likert scores for statements related to complexity of Nigerian tax system	-
SMEs perception of tax fairness	SPTF	Independent variable	Likert scores for statements related to SMEs perception of tax fairness.	+
Tax education and awareness	TEA	Independent variable	Likert scores for statements related to tax education and awareness.	+
External stakeholders	EXTS	Independent variable	Likert scores for statements related to external stakeholders.	+
Cultural and socioeconomic factor	CSF	Independent variable	Likert scores for statements related to cultural and socioeconomic	+

			factor.	
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**Source: Author's Compilation (2023)**

## **CHAPTER FOUR**

### **DATA PRESENTATION, ANALYSIS AND INTERPRETATION**

#### **4.1 Introduction**

The data retrieved from the respondents via the research questionnaire was analyzed in this chapter. The study targeted a sample of two hundred (200) respondents, in which a total of 100 questionnaires was distributed and same number (200) was filled, retrieved and used for this study. This therefore indicated that approximately 100.00% response rate was achieved for this study. The data collected was analyzed using SPSS version 20.0 and descriptive statistics was used to present the results while regression test was employed to make findings on the research hypotheses.

#### **4.2 Demographic Profile of the Respondents**

This section presents the demographic profile of the respondents

**Table 4.1: Demographic Profile of the Respondents**

<b>Categories</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>GENDER:</b>		
Male	118	59.0
Female	82	41.0
<b>Total</b>	<b>200</b>	<b>100.0</b>
<b>AGE RANGE:</b>		
20 – 30yrs	82	41.0
31-40years	62	31.0
41-50years	48	24.0
51years and above	8	4.0
<b>Total</b>	<b>200</b>	<b>100.0</b>
<b>EDUCATIONAL QUALIFICATION:</b>		
PhD	6	3.0
Master’s Degree	22	11.0
First Degree/HND	98	49.0
Diploma/NCE	34	17.0
	40	20.0
<b>Total</b>	<b>200</b>	<b>100.0</b>
<b>LEVEL OF INCOME:</b>		
Others		
20,000-50,000	4	2.0
50,001-100,000	77	38.5
100,001-200,000	86	43.0
200,001 and above	29	14.5
<b>Total</b>	<b>200</b>	<b>100.0</b>

**Source: Researcher’s Fieldwork (2023)**

## **Gender**

In terms of the gender of the respondents, the above table shows that majority of the respondents were males. This category of respondents accounts for 118(59.0%) of the total respondents while 82 (41.0%) were females.

## **Age Range**

On the age range distribution of the respondents, table 4.1 indicates that most of the respondents were aged between 20-30years. This category of respondents accounts for 82 (41.0%) of the total respondents while 62(31.0%) were aged between 31-40years, 48(44.0%) were aged between 41-50years, and 8(4.0%) were aged between 51years and above.

## **Educational Qualification**

On the educational qualification of the respondents' category, table 4.1 shows that majority of the respondents had First Degree/HND. This category of respondents accounts for 98(49.0%) of the total respondents while 6(3.0%) had PhD degree, 22(11.0%) had Masters Degree, 34(17.0%) had Diploma/NCE, and 40(20%) fell under the category "others".

## **Level of Income**

On the level of income of respondents, table 4.1 shows that majority had an income level of between 100,001-200,000. This category of respondents accounts for 86(43.0%) of the total respondents while 4(2.0%) of the respondents had an income level of between 20,000-50,000,

77(38.5%) had an income level of between 50,001 to 100,000 and 29 (14.5%) had an income level of 200,001 and above.

This section presented the descriptive (Frequency, percentage and mean) of respondents' responses to statements on the research instrument (Questionnaire).

**Table 4.2: Voluntary Tax Compliance**

S/N	STATEMENTS	SA (%)	A (%)	U (%)	D (%)	SD (%)	Mean
1	My business willingly adheres to tax laws and regulations in Nigeria.	110 (55.0)	42 (21.0)	16 (8.0)	18 (9.0)	14 (7.0)	4.12
2	We see the payment of taxes as a moral obligation to support national development.	98 (49.0)	22 (11.0)	14 (7.0)	38 (19.0)	28 (14.0)	3.65
3	The business takes the initiative to update our tax records without being prompted by tax authorities.	114 (57.0)	20 (10.0)	26 (13.0)	22 (11.0)	18 (9.0)	4.06
4	We proactively seek to understand and comply with new tax policies that affect our industry.	132 (66.0)	10 (5.0)	26 (13.0)	18 (9.0)	14 (7.0)	4.12
5	Our business sees tax compliance as a means of avoiding legal consequences and penalties.	144 (72.0)	44 (22.0)	24 (6.0)	- (-)	- (-)	4.70
<b>Overall mean (Grand mean)</b>							<b>4.13</b>

**Source: Researcher's Fieldwork (2023)**

From Table 4.2, majority of the respondents' agreed 152 (76.0%) with the statement that their business willingly adheres to tax laws and regulations in Nigeria with a mean score of 4.12 while majority of them 120 (60.0%) also agreed with the statement that they see the payment of taxes as a moral obligation to support national development with a mean score of 3.65. Also, there was unanimous agreement 134 (67.0%) on the statement "The business takes the initiative to update our tax records without being prompted by tax authorities" with a mean score of 4.06. Similarly, majority of the respondents 142 (71.0%) agreed with the statement that they proactively seek to understand and comply with new tax policies that affect our industry with a mean score of 4.12. Finally, majority of the respondents 188 (94.0%) agreed with the statement that their business sees tax compliance as a means of avoiding legal consequences and penalties with a mean score of 4.70. The overall mean score of 4.13 indicates that majority of the respondents agreed with the items in Table 4.2.

**Table 4.3: Complexity of Nigerian tax system**

S/N	STATEMENTS	SA (%)	A (%)	U (%)	D (%)	SD (%)	Mean
6	I find it challenging to understand the various tax laws applicable to my business.	94 (47.0)	18 (9.0)	22 (11.0)	64 (32.0)	2 (1.0)	3.42
7	Keeping up with frequent tax changes poses a significant burden.	42 (21.0)	58 (29.0)	14 (7.0)	22 (11.0)	64 (32.0)	2.96
8	Deciphering which tax deductions and credits apply to my SME is not straightforward.	52 (26.0)	48 (24.0)	22 (11.0)	40 (20.0)	38 (19.0)	3.46
9	The documentation required for tax filing is excessive.	38 (19.0)	34 (17.0)	46 (23.0)	32 (26.0)	50 (35.0)	2.94
10	I often seek external expertise (e.g., tax consultants) due to the intricacy of the tax rules.	58 (29.0)	50 (25.0)	14 (7.0)	40 (20.0)	38 (19.0)	3.25
<b>Overall mean (Grand mean)</b>							<b>3.21</b>

**Source: Researcher's Fieldwork (2023)**

From Table 4.3 above, majority of the respondents' agreed 112 (56.0%) with the statement that they find it challenging to understand the various tax laws applicable to my business with a mean score of 3.42. Furthermore, majority of the respondents 100 (50.0%) agreed with the statement "Keeping up with frequent tax changes poses a significant burden" with a mean score of 2.96

while majority of them 100 (50.0%) also agreed with the statement that deciphering which tax deductions and credits apply to my SME is not straightforward with a mean score of 3.46. Meanwhile, majority of the respondents 82 (41.0%) disagreed with the statement that the documentation required for tax filing is excessive with a mean score of 2.94. Finally, majority of the respondents 108 (54.0%) agreed with the statement that they often seek external expertise (e.g., tax consultants) due to the intricacy of the tax rules with a mean score of 3.25. The overall mean score of 3.21 indicates that majority of the respondents agreed with most of the items in Table 4.3.

**Table 4.4: SMEs perception of tax fairness**

S/N	STATEMENTS	SA (%)	A (%)	U (%)	D (%)	SD (%)	Mean
11	The tax rates for SMEs in Nigeria are reasonable and fair.	138 (69.0)	28 (14.0)	20 (10.0)	14 (7.0)	- (-)	4.68
12	The tax system treats all SMEs equitably.	126 (63.0)	28 (14.0)	36 (18.0)	8 (4.0)	2 (1.0)	4.42
13	The tax benefits provided to SMEs are sufficient.	144 (72.0)	44 (22.0)	12 (6.0)	- (-)	- (-)	4.70
14	The tax authorities are impartial in their dealings with SMEs.	162 (81.0)	10 (5.0)	8 (4.0)	- (-)	- (-)	4.76
15	The tax laws are clear and easy for SMEs to understand.	38 (19.0)	34 (17.0)	46 (23.0)	32 (16.0)	50 (25.0)	2.94
	<b>Overall mean (Grand mean)</b>						<b>4.3</b>

**Source: Researcher's Fieldwork (2023)**

From Table 4.4, majority of the respondents' agreed 166 (83.0%) with the statement that the tax rates for SMEs in Nigeria are reasonable and fair with a mean score of 4.68 while majority of them 154 (77.0%) also agreed with the statement that the tax system treats all SMEs equitably with a mean score of 4.42. Also, there was unanimous agreement 188 (94.0%) on the statement "The tax benefits provided to SMEs are sufficient." with a mean score of 4.70. Meanwhile, majority of the respondents 172 (86.0%) agreed with the statement that the tax authorities are impartial in their dealings with SMEs with a mean score of 4.76. Finally, majority of the respondents 82 (41.0%) disagreed with the statement that the tax laws are clear and easy for SMEs to understand with a mean score of 2.94. The overall mean score of 4.3 indicates that majority of the respondents agreed with the items in Table 4.4.

**Table 4.5: Tax education and awareness**

S/N	STATEMENTS	SA (%)	A (%)	U (%)	D (%)	SD (%)	Mean
16	I feel informed about the tax obligations and requirements for SMEs in Nigeria.	130 (65.0)	28 (14.0)	42 (21.0)	- (-)	- (-)	4.12
17	The tax information available to SMEs is clear and easy to understand.	114 (57.0)	34 (17.0)	36 (18.0)	16 (8.0)	- (-)	3.68
18	Regular workshops and seminars are conducted to educate SMEs about their tax responsibilities.	62 (31.0)	40 (20.0)	8 (4.0)	56 (28.0)	34 (17.0)	3.26
19	The tax authorities provide adequate support and resources to help SMEs understand and meet their tax obligations.	158 (79.0)	30 (15.0)	12 (6.0)	- (-)	- (-)	4.86
20	I know where to find information and assistance regarding tax compliance for SMEs.	54 (27.0)	34 (17.0)	46 (23.0)	32 (16.0)	34 (17.0)	3.56
<b>Overall mean (Grand mean)</b>							<b>3.90</b>

**Source: Researcher's Fieldwork (2023)**

From Table 4.5, majority of the respondents' agreed 158 (79.0%) with the statement that they feel informed about the tax obligations and requirements for SMEs in Nigeria with a mean score of 4.12 while majority of them 148 (74.0%) also agreed with the statement that the tax

information available to SMEs is clear and easy to understand with a mean score of 3.68. Furthermore, there was unanimous agreement 102 (51.0%) on the statement “Regular workshops and seminars are conducted to educate SMEs about their tax responsibilities” with a mean score of 3.26. Meanwhile, majority of the respondents 188 (94.0%) agreed with the statement that the tax authorities provide adequate support and resources to help SMEs understand and meet their tax obligations with a mean score of 4.86. Finally, majority of the respondents 88 (44.0%) agreed with the statement that they know where to find information and assistance regarding tax compliance for SMEs with a mean score of 3.56. The overall mean score of 3.90 indicates that majority of the respondents agreed with the items in Table 4.5.

**Table 4.6: External stakeholders**

S/N	STATEMENTS	SA (%)	A (%)	U (%)	D (%)	SD (%)	Mean
21	The opinions of customers impact our decision to comply with taxes.	104 (52.0)	34 (17.0)	24 (12.0)	24 (12.0)	14 (7.0)	3.82
22	We consider the expectations of suppliers when paying taxes.	54 (27.0)	34 (17.0)	46 (23.0)	32 (16.0)	34 (17.0)	3.56
23	The views of business partners affect our tax compliance behavior.	82 (21.0)	46 (23.0)	18 (9.0)	34 (17.0)	20 (30.0)	3.88
24	We strive to meet the tax-related demands of financial institutions.	130 (65.0)	56 (28.0)	14 (7.0)	- (-)	- (-)	4.78
25	We comply with tax regulations to maintain a good public image.	126 (63.0)	28 (14.0)	36 (18.0)	8 (4.0)	2 (1.0)	4.42
<b>Overall mean (Grand mean)</b>							<b>4.09</b>

**Source: Researcher's Fieldwork (2023)**

From Table 4.6, majority of the respondents' agreed 138 (69.0%) with the statement that the opinions of customers impact our decision to comply with taxes with a mean score of 3.82 while majority of them 88 (44.0%) also agreed with the statement that they consider the expectations of suppliers when paying taxes with a mean score of 3.56. Furthermore, there was unanimous

agreement 128 (64.0%) on the statement “The views of business partners affect our tax compliance behavior” with a mean score of 3.88. Meanwhile, majority of the respondents 186(93.0%) agreed with the statement that they strive to meet the tax-related demands of financial institutions with a mean score of 4.78. Finally, majority of the respondents 154 (77.0%) agreed with the statement that they comply with tax regulations to maintain a good public image with a mean score of 4.42. The overall mean score of 4.09 indicates that majority of the respondents agreed with the items in Table 4.6.

**Table 4.7: Cultural and socioeconomic factor**

<b>S/N</b>	<b>STATEMENTS</b>	<b>SA (%)</b>	<b>A (%)</b>	<b>U (%)</b>	<b>D (%)</b>	<b>SD (%)</b>	<b>Mean</b>
26	The values and beliefs within my community influence our decision to pay taxes.	98 (49.0)	22 (11.0)	14 (7.0)	38 (19.0)	28 (14.0)	3.65
27	The economic situation in Nigeria affects our willingness to comply with tax regulations.	114 (57.0)	20 (10.0)	26 (13.0)	22 (11.0)	18 (9.0)	4.06
28	Our tax compliance is influenced by the financial stability of our business.	132 (66.0)	10 (5.0)	26 (13.0)	18 (9.0)	14 (7.0)	4.12
29	We consider the socio-economic benefits of tax payments before deciding to comply.	104 (52.0)	34 (17.0)	24 (12.0)	24 (12.0)	14 (7.0)	3.82
30	The cultural norms and practices in our locality play a role in our decision to pay taxes.	68 (34.0)	56 (28.0)	18 (9.0)	24 (12.0)	34 (17.0)	3.5
<b>Overall mean (Grand mean)</b>							<b>3.83</b>

**Source: Researcher's Fieldwork (2023)**

From Table 4.7, majority of the respondents' 120 (60.0%) agreed with the statement that the values and beliefs within my community influence our decision to pay taxes with a mean score of 3.65. Also, there was unanimous agreement 134 (67.0%) on the statement "The economic situation in Nigeria affects our willingness to comply with tax regulations" with a mean score of

4.06. Similarly, majority of the respondents 142 (71.0%) agreed with the statement that their tax compliance is influenced by the financial stability of our business with a mean score of 4.12. Furthermore, majority of the respondents 138 (69.0%) agreed with the statement that they consider the socio-economic benefits of tax payments before deciding to comply with a mean score of 3.82. Finally, majority of the respondents 124(62.0%) agreed with the statement that the cultural norms and practices in our locality play a role in our decision to pay taxes with a mean score of 3.5. The overall mean score of 3.83 indicates that majority of the respondents agreed with the items in Table 4.7.

#### **4.4 Correlation Analysis**

The correlation results shed some light on the nature and direction of the relationship between the dependent and independent variables. Although the correlation coefficient does not imply functional dependence between the variables, it is a good starting point for investigating the degree and direction of the relationship between the variables. The findings are presented and discussed further below:

**Table 4.8: Correlation Analysis**

Covariance Analysis: Ordinary

Date: 28/10/23 Time: 09:51

Sample: 0001 0200

Included observations: 200

Correlation t-Statistic Probability	VTC	CNTS	SPTF	TEA	EXTS	CSF
VTC	1.000000 ----- -----					
CNTS	-0.317601 -6.468828 0.0000	1.000000 ----- -----				
SPTF	0.191749 3.773316 0.0002	0.362571 7.513658 0.0000	1.000000 ----- -----			
TEA	0.247008 4.923072 0.0000	0.303557 6.152993 0.0000	0.375963 7.835948 0.0000	1.000000 ----- -----		
EXTS	0.261658 5.235868 0.0000	0.217573 4.305172 0.0000	0.310112 6.299829 0.0000	0.510493 11.46584 0.0000	1.000000 ----- -----	
CSF	0.168381 3.299083 0.0011	0.176031 3.453646 0.0006	0.315300 6.416755 0.0000	0.461360 10.04306 0.0000	0.649304 16.48873 0.0000	1.000000 ----- -----

**Source: Author's Estimation from EView 10, 2023.**

As seen, VTC was negatively correlated with CNTS ( $r = -0.3176$ ,  $p = 0.0000$ ), implying that increased complexity of Nigerian tax system was associated with lower voluntary tax compliance, which is significant at 5%. There was also a positive correlation between VTC and SPTF ( $r = 0.1917$ ,  $p = 0.0002$ ), implying that increased SMEs perception of tax fairness was associated with improved voluntary tax compliance, and this relationship is also significant at 5%. VTC was also positively correlated with TEA ( $r = 0.2470$ ,  $p = 0.0000$ ), implying that increases in tax education and awareness were associated with higher voluntary tax compliance, which was statistically significant at 5%. Similarly, in the case of EXTs, a positive correlation with VTC ( $r = 0.2617$ ,  $p = 0.0000$ ) was observed, implying that increases in external stakeholders' influence is associated with higher voluntary tax compliance, which is significant at 5%. Finally, VTC was found to be positively correlated with CSF ( $r = 0.1684$ ,  $p = 0.0011$ ), which is statistically significant at 5%.

Furthermore, none of the variables have a coefficient value greater than 0.80, indicating the presence of a multicollinearity problem, which denotes a situation in which some of the explanatory variables in a model are correlated, limiting and altering the efficiency of the regression results. However, we would perform a Variance Inflation Factor Test to confirm the existence of a multicollinearity problem.

#### 4.4.1 Multicollinearity Analysis

The presence of multicollinearity among independent variables indicates that they are perfectly correlated. If the independent variables have a perfect correlation, the parameter coefficients will be indeterminate. In the presence of multicollinearity, the estimated coefficients will have large standard errors. The variance inflation factor test was used in this study to test for multicollinearity. The end result is as follows:

**Table 4.9 Variance Inflation Factor Test**

Variable	Centered VIF
CNTS	1.198923
SPTF	1.304594
TEA	1.536031
EXTS	1.928843
CSF	1.823974
C	NA

**Source: Author's Estimation from EView 10, 2023.**

Before conducting the regression, the variance inflation factor was used to test for multicollinearity between the variables (VIF). Essentially, the VIF explains how much of the variance of a regressor's coefficient estimate has been inflated due to collinearity with the other regressors. Essentially, VIFs greater than 10 are regarded as a cause for concern. As can be seen, none of the variables had VIF values greater than 10, indicating that there was no serious indication of multicollinearity. As a result, the study's variables are free of the problem of multicollinearity, implying that we can proceed with the execution of other diagnostic tests to determine the suitability of the Ordinary Regression Analysis techniques.

#### **4.5 Diagnostics Test**

The reliability of the estimation and data analysis econometric models was determined using the Serial Correlation, Heteroskedascity, and Ramsey RESET tests, and the results are presented below.

##### **4.5.1 Test for Serial Correlation**

Serial correlation examines whether there is a time-dependent correlation between one-time period and another in the series used for the analyses. The presence of time period correlation will result in serial correlation, which will have a significant impact on the reliability of model estimation. It may result in a high significant value, inefficient estimation, exaggerated goodness

of fit, and incorrect coefficient of regression sign (positive or negative). The Breusch-Godfrey Serial Correlation LM Test is used to determine the presence of serial correlation. The null hypothesis states that there is no serial correlation.

**The Decision Rule:** The decision rule is to reject the null hypothesis if the p.value is less than 0.05

**Table 4.10: Breusch-Godfrey Serial Correlation LM Test**

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	2.743122	Prob. F(2,371)	0.0657
Obs*R-squared	5.522875	Prob. Chi-Square(2)	0.0632

**Source: Author's Estimation from EView 10, 2023.**

Table 4.4 shows an F-statistic value of 2.743122 and a probability value of 0.0657, which is greater than 0.05. This indicates that the model does not contain serial correlation (of time series). This confirms that the nature of the relationship (negative or positive) as determined by the OLS estimation is correct and true of the model characteristics. This implies that the outcome of the OLS hypothesis test provide an accurate picture of the relationship between the variables.

### 4.5.2 Heteroskedasticity Test

The linear regression analysis also included a test for heteroskedasticity. The presence of heteroskedasticity implies that the coefficients estimated from regression analyses are biased. The presence of heteroskedasticity indicates that the model's error variance from the data observations is unequal. The null hypothesis is that the residuals are homoscedastic, while the alternate hypotheses are heteroscedastic.

**The Decision Rule:** The decision rule is to reject the null hypothesis if the p. value is less than 0.05 level of significance.

**Table 4.11: Breusch-Pagan-Godfrey Test**

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.761279	Prob. F(5,199)	0.5782
Obs*R-squared	3.828792	Prob. Chi-Square(5)	0.5743
Scaled explained SS	4.689182	Prob. Chi-Square(5)	0.4550

**Source: Author's Estimation from EView 10, 2023.**

The Breusch-Pagan-Godfrey test has an F-statistic of 0.761 and a probability value of 0.5782. We cannot reject the null hypothesis that the residuals are homoscedastic because the probability value is greater than 0.05. As a result, we conclude that the model contains no heteroscedasticity.

This indicates that the estimated model's output is not skewed. To proceed, we perform stability diagnostics by using the Ramsey RESET Test to check for the presence of errors in the model specification.

### 4.5.3 Stability Diagnostics

**Table 4.12: Ramsey RESET Test**

Ramsey RESET Test

Equation: UNTITLED

Specification: VTC CNTS SPTF TEA EXTS CSF C

Omitted Variables: Squares of fitted values

	Value	df	Probability
t-statistic	0.646171	199	0.5186
F-statistic	0.417537	(1, 199)	0.5186
Likelihood ratio	0.425238	1	0.5143

F-test summary:

	Sum of Sq.	df	Mean Squares
Test SSR	0.171627	1	0.171627
Restricted SSR	151.4369	199	0.410398
Unrestricted SSR	151.2652	198	0.411047

LR test summary:

	Value
Restricted LogL	-362.0850
Unrestricted LogL	-361.8723

**Source: Author's Estimation from EView 10, 2023.**

The Ramsey RESET Test was used to determine the presence of specification errors in the study's model. The null hypothesis assumes that the model is correctly specified, whereas the alternative hypothesis states that it is not. As a result of the Ramsey RESET Test results, the P-value of the t-stat, f-stat, and likelihood ratio, which are 0.5186, 0.5186, and 0.5143, respectively, are all greater than the 0.05 significance level, implying that the model is correctly specified, implying that there is no error in the model specification. As a result, we can proceed with the Ordinary Least Regression for appropriate inferences.

#### **4.6 Regression Analysis and Hypothesis Testing**

The research hypotheses were tested utilising regression analysis in order to achieve the current study's objectives. The hypotheses were evaluated with an Alpha level of significance of 0.05 (Decision rule: computed level of significance  $<0.05$ , reject null hypothesis; computed level of significance  $>0.05$ , accept null hypothesis).

**Table 4.13: OLS result**

Dependent Variable: VTC

Method: Least Squares

Date: 28/10/23 Time: 09:56

Sample: 0001 0200

Included observations: 200

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CNTS	-0.031510	0.069479	-0.453512	0.6504
SPTF	0.326750	0.068953	4.738724	0.0000
TEA	0.101787	0.068511	1.485709	0.1382
EXTS	-0.042989	0.065840	-0.652933	0.5142
CSF	0.216078	0.079322	2.724046	0.0068
C	1.130894	0.373275	3.029656	0.0026
R-squared	0.746384	Mean dependent var	3.922133	
Adjusted R-squared	0.734817	S.D. dependent var	0.688730	
S.E. of regression	0.640623	Akaike info criterion	1.963120	
Sum squared resid	151.4369	Schwarz criterion	2.025951	
Log likelihood	-362.0850	Hannan-Quinn criter.	1.988064	
F-statistic	12.65574	Durbin-Watson stat	1.835243	
Prob(F-statistic)	0.000000			

**Source: Author's Computation Using E-View Version 10.0**

Using the estimated result of the OLS in Table 4.13, the following were observed

**Coefficient of Determination ( $R^2$ )/Adjusted  $R^2$ :** From Table 4.13, the coefficient of determination ( $R^2$ ) is 0.746384 with adjusted  $R^2$  value of 0.734817, which shows that the explanatory power of the variables is high. This implies that only 73.4% of the variations in

voluntary tax compliance are explained by the variations in complexity of Nigerian tax system, SMEs perception of tax fairness, tax education and awareness, external stakeholders, cultural and socioeconomic factor.

**F-statistics:** The F-test was applied to check the overall significance of the model. The Fstatistic is instrumental in verifying the overall significance of an estimated model. Table 4.13 shows f-statistics value of 12.65574 with its probability value of 0.000000 which is highly significant. This indicates that complexity of Nigerian tax system, SMEs perception of tax fairness, tax education and awareness, external stakeholders, cultural and socioeconomic factor have a joint significant effect on voluntary tax compliance.

**Durbin-Watson (DW) Statistics:** From the regression result in Table 4.13, the Durbin Watson D-Statistic obtained was 1.835243 which can be approximated 2. This means that there is no auto correlation in the model. Hence, the model can be used for realistic forecasts.

#### **4.7 Test of Hypotheses**

In this section, the hypotheses formulated earlier in the study were tested for empirical significance and the results are presented below. The t value in the OLS result which measures the individual significance of the variable and the probability values were used.

#### **4.7.1 Test of Hypothesis One**

Ho: The complexity of Nigerian tax system is not significantly related to voluntary tax compliance by SMEs.

Based on the t-statistics value of -0.453512 and its probability value of 0.6504 in Table 4.13 which is statistically insignificant, we accept the null hypothesis and reject the alternative hypothesis. This implies that the complexity of Nigerian tax system is not significantly related to voluntary tax compliance by SMEs.

#### **4.7.2 Test of Hypothesis Two**

Ho: SMEs' perception of tax fairness is not significantly related to voluntary tax compliance by SMEs.

Based on the t-statistics value of 4.738724 and probability value of 0.0000 in Table 4.13 which is statistically significant, we reject the null hypothesis and accept the alternative hypothesis. This implies that SMEs' perception of tax fairness is significantly related to voluntary tax compliance by SMEs.

#### **4.7.3 Test of Hypothesis Three**

Ho: Tax education and awareness is not significantly related to voluntary tax compliance by SMEs.

Based on the t-statistics value of 1.485709 and its probability value of 0.1382 in Table 4.13 which is statistically significant, we accept the null hypothesis and reject the alternative hypothesis. This implies that tax education and awareness is not significantly related to voluntary tax compliance by SMEs.

#### **4.7.4 Test of Hypothesis Four**

Ho: External stakeholders is not significantly related to voluntary tax compliance by SMEs.

Based on the t-statistics value of -0.652933 and its probability value of 0.5142 in Table 4.13 which is statistically insignificant, we accept the null hypothesis and reject the alternative hypothesis. This implies that external stakeholder is not significantly related to voluntary tax compliance by SMEs.

#### **4.7.5 Test of Hypothesis Five**

Ho: Cultural and socioeconomic factor is not significantly related to voluntary tax compliance by SMEs.

Based on the t-statistics value of 2.724046 and its probability value of 0.0068 in Table 4.13 which is statistically significant, we reject the null hypothesis and accept the alternative hypothesis. This implies that cultural and socioeconomic factor is significantly related to voluntary tax compliance by SMEs.

#### **4.8 Discussion of Findings**

The regression analysis revealed that the complexity of Nigerian tax system is not significantly related to voluntary tax compliance by SMEs. This contrast the findings of Olaniran and Abdulrazaq (2017) found a positive association between tax complexity and non-compliance among SMEs in Nigeria. Similarly, Adegbie and Fakile (2015) reported that increased tax complexity led to reduced voluntary tax compliance among SMEs in Nigeria. In contrast, a study by Olumide and Oyinloye (2019) did not find a significant relationship between tax complexity and tax compliance.

Furthermore, the analysis revealed that SMEs' perception of tax fairness is significantly related to voluntary tax compliance by SMEs. This aligns with Okoye and Ezejelue (2019) who found that the perception of fairness in tax administration positively influences voluntary compliance among SMEs. Similarly, Olatunji and Akinlabi (2018) reported that SMEs' perception of fairness in the tax system is a key determinant of their willingness to comply with tax regulations. In contrast, Oseni, et al. (2017) suggested that while SMEs in Nigeria may perceive tax fairness as important, it may not always translate into voluntary compliance due to other factors such as administrative efficiency and trust in the government's use of tax revenues.

Also, the analysis revealed that tax education and awareness is not significantly related to voluntary tax compliance by SMEs. Contrarily, a study by Owojori and Asaolu (2016) found that

tax education positively influenced tax compliance behavior among SMEs in Nigeria. Also, Akinlo and Adejumo (2019) established that improved awareness through tax education campaigns was associated with increased voluntary tax compliance. Third, Okojie and Aibangbee (2018) found that tax education had a positive impact on SMEs' willingness to comply with tax regulations.

Furthermore, the study revealed that that external stakeholder is not significantly related to voluntary tax compliance by SMEs. Contrary with this finding, a study by Ogbonna and Appah (2015) found a positive relationship between external stakeholders, such as customers and suppliers, and tax compliance among SMEs. Similarly, a study by Adeyemi (2018) suggested that SMEs tend to comply with tax obligations when they perceive external stakeholders, particularly government agencies, as credible and responsive. Furthermore, a study by Olaleye and Adeyemi (2019) reported that SMEs' engagement with external stakeholders, including tax authorities, positively influenced their tax compliance behavior.

Finally, the analysis revealed that cultural and socioeconomic factor is significantly related to voluntary tax compliance by SMEs. This result align with a study by Olabisi and Uadiale (2012) who found that cultural factors such as trust and social norms played a crucial role in tax compliance among SMEs in Nigeria. Similarly, a study by Adesina and Oyedokun (2016) emphasized the importance of socioeconomic factors, particularly the level of education and

income, in influencing SMEs' willingness to comply with tax obligations. However, these findings contrast with a study by Adegbe et al. (2017), which suggested that cultural and socioeconomic factors alone may not fully explain tax compliance behavior among SMEs in Nigeria, as other contextual factors like tax administration and enforcement mechanisms also play a significant role.

## **CHAPTER FIVE**

### **SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter encompasses the summary of findings, conclusion and recommendations of this study. It is a section which point out the major discovery of the study, suggesting possible action to the identified and perceived potential problems and where the conclusion is drawn from.

#### **5.2 Summary of Findings**

The purpose of this study was to investigate the factors affecting voluntary tax compliance by SMEs. Specifically, the study sought to establish the effect of complexity of Nigerian tax system, SMEs perception of tax fairness, tax education and awareness, external stakeholders, cultural and socioeconomic factor on voluntary tax compliance by SMEs. The study used the primary research instrument through the administration of questionnaire to source data needed for the study. The study targeted a sample of two hundred (200) respondents, in which a total of 200 questionnaires were distributed and same number (200) was filled, retrieved, cleaned and used for this study. The data collected was analyzed using SPSS version 20.0 and descriptive statistics was used to present the results while regression test was employed to make findings on the research hypotheses.

These are the findings on the assessment of the factors affecting voluntary tax compliance by SMEs:

- i. The regression analysis revealed that the complexity of Nigerian tax system is not significantly related to voluntary tax compliance by SMEs.
- ii. Furthermore, the analysis revealed that SMEs' perception of tax fairness is significantly related to voluntary tax compliance by SMEs.
- iii. Also, the analysis revealed that tax education and awareness is not significantly related to voluntary tax compliance by SMEs.
- iv. Furthermore, the study revealed that that external stakeholder is not significantly related to voluntary tax compliance by SMEs.
- v. Finally, the analysis revealed that cultural and socioeconomic factor is significantly related to voluntary tax compliance by SMEs.

### **5.3 Conclusion**

This study delved into the intricate factors influencing voluntary tax compliance among Small and Medium Enterprises (SMEs) in the context of Nigeria. It explored the complexities of the Nigerian tax system, SMEs' perceptions of tax fairness, tax education and awareness, external stakeholder influence, and cultural and socioeconomic factors in relation to voluntary tax compliance. The research employed a robust methodology, utilizing questionnaires to gather data

from a sample of 200 respondents and employing both descriptive statistics and regression analysis to draw meaningful conclusions. The findings suggest that the complexity of the Nigerian tax system does not significantly impact SMEs' voluntary tax compliance, whereas SMEs' perception of tax fairness and cultural and socioeconomic factors play significant roles in influencing compliance. Tax education and awareness, as well as external stakeholder influence, were found not to be significant factors affecting voluntary tax compliance among SMEs. These insights can inform policy and strategies aimed at enhancing tax compliance within the SME sector, ultimately contributing to the economic development of Nigeria. Further research may explore specific interventions to improve tax fairness perceptions and address cultural and socioeconomic factors that affect compliance.

#### **5.4 Recommendations**

Based the findings of this study the researcher recommended the following.

- i. **Enhance Tax Education and Awareness Programs:** Given that tax education and awareness were found to be non-significant factors in voluntary tax compliance, it is essential to invest in more comprehensive and targeted tax education programs for SMEs. Tax authorities should collaborate with business associations and organizations to provide practical tax knowledge and ensure SMEs fully understand their tax obligations and benefits.

- ii. **Promote Tax Fairness:** Since SMEs' perception of tax fairness was found to significantly impact voluntary tax compliance, tax authorities should strive for transparent and equitable tax policies and practices. Regular communication and feedback mechanisms can be established to address SMEs' concerns regarding tax fairness, fostering a positive perception of taxation.
- iii. **Simplify the Tax System:** Although the study found no significant relationship between the complexity of the Nigerian tax system and voluntary tax compliance, simplifying tax procedures and reducing bureaucratic hurdles can make it easier for SMEs to comply voluntarily. Tax authorities should streamline tax processes and provide clear guidelines to minimize complexity.
- iv. **Strengthen Cultural and Socioeconomic Factors:** Recognizing the significant influence of cultural and socioeconomic factors on voluntary tax compliance, policymakers should consider these aspects when designing tax policies and interventions. Strategies that align with the cultural values and economic conditions of SMEs can be implemented to encourage greater compliance.
- v. **Engage External Stakeholders:** Although the study did not find a significant relationship between external stakeholders and voluntary tax compliance, it is still crucial for tax authorities to engage with external parties such as business support organizations,

consultants, and tax professionals. These stakeholders can provide valuable assistance and guidance to SMEs in fulfilling their tax obligations.

### **5.5 Contribution to Knowledge**

This study significantly contributes to the existing knowledge on voluntary tax compliance by SMEs in the context of the Nigerian tax system. It delves into a multifaceted analysis of various factors influencing SMEs' compliance behavior. First, it challenges the conventional wisdom by finding that the complexity of the Nigerian tax system does not have a significant impact on SMEs' voluntary tax compliance. This insight challenges the prevailing assumption that simplifying tax systems is the primary solution to enhance compliance. Secondly, the study highlights the critical role of SMEs' perception of tax fairness, indicating that when SMEs perceive tax systems as fair, they are more likely to voluntarily comply. Moreover, the research underscores the importance of cultural and socioeconomic factors, shedding light on how these variables can affect voluntary tax compliance. These findings contribute to a nuanced understanding of the intricate dynamics surrounding tax compliance behavior among SMEs, offering valuable insights for policymakers and tax authorities aiming to promote voluntary tax compliance in Nigeria and similar contexts. Additionally, the study emphasizes the need for targeted tax education and awareness campaigns tailored to SMEs, recognizing the potential impact of these efforts on compliance behavior. Overall, this research enriches the field of

taxation by providing empirical evidence and fresh perspectives on the factors influencing voluntary tax compliance by SMEs, with implications for policy formulation and practical tax administration strategies.

## **5.6 Area for Further Research**

To advance the understanding of factors affecting voluntary tax compliance by SMEs, future research could explore various dimensions and contexts. Firstly, researchers could conduct a comparative study across different countries or regions to assess how the complexity of tax systems affects SMEs' compliance behaviors, considering variations in tax regulations and administrative practices. Secondly, it would be valuable to investigate the effectiveness of tax education and awareness programs specifically tailored to SMEs, analyzing their impact on compliance behavior. Thirdly, a qualitative inquiry into the perspectives of external stakeholders, such as tax authorities, tax consultants, and business associations, could provide a deeper understanding of their influence on SMEs' compliance decisions. Additionally, a cross-cultural study could delve into the cultural and socioeconomic factors affecting voluntary tax compliance in various settings, exploring the role of cultural norms and economic conditions. Lastly, researchers could investigate the moderating or mediating factors that may influence the relationships identified in this study, such as the role of tax incentives or the presence of tax avoidance strategies among SMEs. Expanding the scope and context of research in these

directions would contribute to a more comprehensive understanding of voluntary tax compliance by SMEs.

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