

**DETERMINANTS OF VOLUNTARY TAX COMPLIANCE AMONG SMALL AND
MEDIUM SCALE ENTERPRISE (SME) OWNERS IN OYO STATE, NIGERIA**

By

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CERTIFICATION

This is to certify that this thesis titled “Determinants of Voluntary Tax Compliance among Small and Medium Enterprise Owners in Oyo State, Nigeria” written by Taofeek Ajao Ogunfunmilayo (Matric Number 16/27/MAC025) has been read and approved as meeting the requirements of Department of Accounting and Finance, Faculty of Humanities, Management and Social Sciences, Kwara State University, Malete, Nigeria.

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DECLARATION

I hereby declare that this thesis titled “Determinants of Voluntary Tax Compliance among Small and Medium Enterprises Owners in Oyo State” is my own work and has not been previously presented or submitted by me and to the best of my knowledge, by any other person of any course or qualification of any academic or research institutions. I also declare that the information provided herein are mine and those that are not mine are duly acknowledged by means of references.

DEDICATION

This project is dedicated to my wife, Mrs. Mosunmola Ogunfunmilayo.

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ABSTRACT

In the recent time, it has been discovered that Nigeria government faces difficulty in raising revenue to the level required for the promotion of economic growth and development. Therefore, the country has been experiencing a consistent excess of expenditure over revenue for a good number of times. This problem cannot be unconnected with the level of voluntary compliance among taxpayers. Hence, this study looked at factors influencing voluntary tax compliance among SMEs owners in Oyo State, Nigeria. The specific objectives are: to determine the effect of economic factor on voluntary taxpayers' compliance among SMEs owners in Oyo state; to assess the effect of trust in government on voluntary taxpayers' compliance among SMEs owners in Oyo state; to examine the extent to which reference group affect voluntary taxpayers' compliance among SMEs owners in Oyo state and; to evaluate the relationship between complexity of tax law and voluntary taxpayers' compliance among SMEs owners in Oyo state. 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. Stratified sampling technique was employed in the selection of the group to ensure that each member of the target population had equal chance of being selected. 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. The study therefore recommended among others that government should spend revenue generated from taxes according to peoples' preferences; there should be various sensitization programmes targeted at various interest groups on the importance of tax payment to both the government and the masses; government should review the existing tax laws through its agencies such as national assemblies and Federal Inland Revenue Service to pave way for less sophisticated tax laws.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Tax noncompliance represents a prevalent phenomenon that happens in almost all societies and economic systems across the globe. Tax noncompliance is a series of activities that are unfavorable to a government's tax system. This may include tax avoidance, which is tax reduction by legal means, and tax evasion which is the criminal non-payment of tax liabilities (Shaik, 2017). The question of how to motivate taxpayers to comply with the tax laws then becomes pertinent as it has attracted the attention of both governments and academics in developed and developing countries (Jie, 2017). For instance, the Internal Revenue service (IRS) in the United States estimated that the extent of the tax shortfall as a result of noncompliance was USD 458 billion of the gross tax gap for the year 2009 – 2010 time frame (Paul, 2013).

Tax noncompliance is also severe in emergent economies. For example in China, the losses of tax revenue by tax noncompliance are found to be noteworthy. The Chinese State Administration of Tax (SAT) estimated in 2009 that the tax shortfall as a result of noncompliance was USD 198 billion (Chan. Chan & Leung, 2013). Like any other developing countries, Nigeria experiences difficulty in raising revenue to the level required for the promotion of economic growth and stability. Consequently, the country has been dealing with consistent more of expenditure over revenue for sufficiently long period of time. Unfortunately, in many developing countries such as Nigeria, tax administration is usually feeble and characterized by extensive evasion, corruption, coercion and of course, the mother of them all, non-compliance. In many cases, overall tax levels are low, and large sectors of the informal economy elude the tax net totally. The problem of

voluntary tax compliance is as old as taxes themselves. Depicting and explaining the usual patterns of tax non-compliance, and formulating ways to reduce it eventually are of obvious importance to nations around the world (Andreoni, 1998 cited in Shaik, 2017).

In countries like Nigeria where most of the informal businesses have no access to information, lack of awareness cannot simply be overlooked rather it can be assumed as a major determinant of tax compliance behavior. Many observers are of the opinion that a lack of paying tax culture is the largest obstacle to building a country long-term revenue base. As pointed out by Adams (2003) that the success of income tax is determined by the sincerity of taxpayers. Beside this, another factor that contributes to the deceitfulness of the taxpayers is the complexity of the tax system, as it may lead to administrative lapses. This can be viewed as it has relation with the tax culture of the society. Practically, it is difficult to obtain genuine information from taxpayers regarding their income. Hence, tax gap is created to the extent that taxpayers conceal information concerning their business activity (Adams, 2003).

In addition, regardless of the possible outcomes of taxation being a dynamic tool for sustainable national development, Nigeria tax system has been struggling with its objectives due to the following challenges: Lack of robust framework for the taxation of informal sector and high network individuals, thus limiting the revenue base and creating inequality; fragmented database of taxpayers and feeble structure for exchange of information by and with tax authorities, resulting in revenue leakage; lack of clarity on taxation powers of each level of government and encroachment on the powers of one level of government by another; insufficient information available to taxpayers on tax compliance requirements thus creating uncertainty and non-compliance; Lack of or poor accountability for tax revenue; the non-regular review of tax legislation, which has led to obsolete laws that do not reflect current economic realities; and lack

of strict adherence to tax policy direction and procedural guidelines for the operation of the various tax authorities (National Tax Policy, 2017).

Consequently, Federal government has initiated an assertive campaign to increase the rate of voluntary tax compliance in the country and up heave tax revenue which will in turn give a thriving ground for economic stability. This was organized by the Ministry of Finance and Federal Inland Revenue Services (FIRS) by visiting market and other popular places within Federal Capital Territory to create awareness and make people see the need for voluntary tax compliance. The eye opening movement was in a bid to enforce the directive issued by the then acting president, Yemi Osibanjo that for the next one year, every Thursday should be celebrated as a tax day to indoctrinate Nigerians on the advantages of taxation (Osibanjo, 2017). The awareness was promised to be taken to all the 36 states of the federation at the launch of the Voluntary Assets and Income Declaration Scheme (VAIDS). In collaboration with the state governments, the movement was targeted at raising the level of tax awareness and result in massive enrolment of new taxpayers. The VAIDS offers a grace period from July 1, 2017 to March 31, 2018 for tax defaulters to voluntarily pay back to government what they owe. Therefore, in exchange for full and honest declaration, the government promised to waive the interest that should have been paid on overdue taxes. Also, those who declare honestly will not be subjected to any tax investigation or tax audit after the grace period (the Punch July 7, 2017).

Furthermore, the Federal Inland Revenue Services (FIRS), the Joint Tax Board (JTB) and the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) have entered into partnership to improve the level of voluntary tax compliance by operators in the micro, small and medium enterprises sector (Adeosun, 2017). This was sealed during a meeting that attracted key

players in the micro, small and medium enterprises sub-sector. The move was also part of measures aimed at improving the country's tax to gross domestic product ratio, which at 6% is currently one of the lowest in the world (Osibanjo, 2017). This was substantiated by the then executive chairman, Federal Inland Revenue Services and chairman Joint Tax Board, Tunde Fowler that the need to increase the level of tax compliance among the MSMEs became imperative as they are the engine of economic growth. It was said that the essence of the programme was to ensure that the process of tax payment is made less imposing (punch April 23, 2018).

SMEs in developing countries are the backbone of indigenous investments. The factors affecting their growth among others are perceived to be the economic environment which has ripple effects in contaminating tax compliance. In developing countries, tax noncompliance is a serious challenge facing income tax administration and hindering tax revenue performance according to Friedman (2015). The economic development is one of the factors to be focused on in order to maximize compliance revenue from the growing informal sector (Masarirambi, 2013). In a study conducted by Alm (2013), the attitude issues from the various studies rotate around the tax fairness and improper use of revenue collected by government. Corruption at its best can reduce the level of compliance by taxpayers Masarirambi (2013).

Dubin & Wilde (2014) contributed to a variation similar to Masarirambi (2013) supporting that various questions regarding factors and instruments of the corrupt and practices remain unanswered within the tax administration. As well as corruption within those charged with political governance of the public funds have hindrances to tax compliance. He factored out that the motives of corruption within the tax administration are low pay as well as professional and personal interest among others. Taxpayers have a negative attitude towards the tax system

because they feel that the revenue collected is being misused since there are a lot of corruption cases. Hendy (2013) positively embraced the fact that social factors arise from interaction among taxpayers and the community we live in people come from different cultures and beliefs, social values and as a result these factors play a pivotal role in influencing the decision taken by a tax payer. It is of course observed that the revenue authority is struggling to collect taxes because of social economic challenges the taxpayers operate in. According to Alm (2013), compliance behaviour and attitudes towards the tax system may therefore be affected by the behaviour of an individual's reference group such as relatives, neighbours and friends.

Bearing in mind the large number of small and medium enterprises and their role as the live wire for economic growth of a nation, voluntary tax compliance is very vital from this sector of the economy as revenue generated here goes a long way to help the government carry out its economic activities.

It is with this background, that the researcher assesses the determinants of voluntary tax compliance among small and medium enterprise owners in Oyo state, Nigeria.

1.2 Statement of the Problem

Inability of government to act responsibly and fairly to the plight of its citizens always has an adverse effect on tax reporting behaviour as it makes the perception that the government is not using the tax revenues for socially desirable purposes. An inefficient fiscal policy mirrored in squandering of public funds and low quality of public goods make taxpayers think twice before paying the entire share of their tax liabilities (Larissa, 2012). Therefore, a more easily positively impactful tax compliance behaviour tendency can be as a result of reactions of taxpayers to factors such as tax rate, audit probability, trust in government, reference group attitude and tax law complexity. In this regard, factors considered to have positive impact on tax compliance

include the rate that is being charged as tax liability, proper usage of tax revenue, motivation by individual reference group, simplicity of tax system and laws and transparency of tax processes.

Kirchler (2007) claimed that reducing tax rates is not the only policy that has the potential to discourage tax evasion, but the tax rate is an important factor in determining tax compliance behaviour, although the exact impact remains unclear and debatable. This also suggests that a significant relationship exists between tax rates and evasion, particularly since tax rates can be used as an instrument that can be manipulated for policy goals. To this end, raising marginal tax rates is likely to further encourage taxpayers to evade tax (Torgler 2007). Although lowering tax rates do not necessarily increase tax compliance (Trivedi et al. 2004; Kirchler 2007). This uncertainty and conflicting issue (for example, reducing tax rates to increase compliance) has attracted the attention of tax researchers attempting to uncover more certain and concrete evidence of the impact of tax rates on evasion. Likewise predictions of the standard economic model in regards to income effects on tax compliance are ambiguous.

The believe that government will act in peoples' interest, that its procedures and policies are fair and that their trust is in the government and authorities is reciprocated, then, people are more likely to become more tax complaints. Therefore, in an atmosphere of distrust, government will find it difficult to generate enough funds through taxes. The notion of trust entails people expectations that political authorities will be responsive to the society's needs even if their actions are not under a constant scrutiny. What mostly makes it difficult for people to comply voluntarily with tax laws is a situation where government fails in its responsibilities to deliver public goods such as electricity, good road network, affordable but quality education.

Prior researches on taxpayers' communication suggest that taxpayers compliance behaviour is indeed influenced by interaction with interest groups such as family, friends and co-workers. In the recent past, the tax authority has recorded low revenue generation through taxes, therefore, new compliance encouragement efforts, potentially through peer groups may be an approach that could lead to improved compliance. There seems to be a general consensus supporting the idea that peer groups influence tax compliance behaviour. However, studies testing the relationship are still not clear whether peer influence has a direct impact on compliance behaviour.

In order to discharge civic responsibility in terms of tax payment, taxpayers are expected to be well versed with the existing tax laws and provisions. One possible way to ensure tax compliance is to enhance taxpayers' tax knowledge as a less complex tax law will encourage tax compliance. Notwithstanding, the importance of tax knowledge and low level of tax law simplification on compliance behaviour, not much has been written to determine whether in actual sense, tax law complexity can as well be a determinant of tax compliance.

The implication of this is that SMEs owners like any other taxpayer will always feel reluctant to pay their taxes adopting series of non compliance attitude toward tax payment. Fowler (2018) stated that there were only 14 million taxpayers in Nigeria as at May 2017, compared to an estimated 69.9 million economically active people while our tax to total revenue ratio is rather poor at 6%. It is disheartening that our tax-to-total revenue is too low compared to other countries, despite our population and business activities.

From the reviewed literature (Mckerchar 2007; Yongzi 2010; Bedi 2016; Stefanos 2019; Aladejebi 2020), it was discovered that the joint effect of variables such as economic factor, trust in government, reference group and complexity of tax law on voluntary tax compliance remains

unexplored in a single research work. In addition to this, there exists methodological inadequacy. That is using a statistical tool like Partial Least Square that captures interrelationship among many variables in the previous works in the study area. Taking this into consideration, the research work intends to assess the relationship between economic factor, trust in government, reference group, complexity of tax law and voluntary tax compliance in Oyo state, Nigeria. Therefore, this study filled the gaps identified in the literature.

1.3 Research Questions

Based on the problems generated above, the study seeks to provide answers to the following research questions:

- i. To what extent does economic factor affect voluntary taxpayers' compliance among SMEs owners in Oyo state?
- ii. What effect does trust in government have on voluntary taxpayers' compliance among SMEs owners in Oyo state?
- iii. How does reference group influence voluntary taxpayers' compliance among SMEs owners in Oyo State?
- iv. What is the nature of relationship between complexity of tax law and voluntary taxpayers' compliance among SMEs owners in Oyo state?

1.4 Objectives of the Study

In order to proffer solution to the research questions, four research objectives were raised. The main objective of the study is to assess the factors influencing voluntary taxpayers' compliance among SMEs owners in Oyo state, Nigeria. Specifically; the study seeks to:

- i. determine the effect of economic factor on voluntary taxpayers' compliance among SMEs owners in Oyo state.
- ii. assess the effect of trust in government on voluntary taxpayers' compliance among SMEs owners in Oyo state.
- iii. reveal the extent to which reference group affect voluntary taxpayers' compliance among SMEs owners in Oyo state.
- iv. evaluate the relationship between complexity of tax law and voluntary taxpayers' compliance among SMEs owners in Oyo state.

1.5 Statement of Hypotheses

In accordance with the specific objectives of the study stated above, the following research hypotheses were stated in null form in order to achieve the research objectives.

H₀₁: Economic factor has no significant effect on voluntary taxpayers' compliance among SMEs owners in Oyo state, Nigeria.

H₀₂: Trust in government has no significant relationship with voluntary taxpayers' compliance among SMEs owners in Oyo state.

H₀₃: Reference group does not significantly affect voluntary taxpayers' compliance among SMEs owners in Oyo state.

H₀₄: Complexity of tax law does not significantly determine the level of voluntary taxpayers' compliance among SMEs owners in Oyo state.

1.6 Justification of the Study

Nigerians today cannot boast of good road network, affordable healthcare, electricity. These are essential services to be provided by government under normal situation. Therefore, it is in the light of these crises that the researcher had deemed it necessary to look at factors motivating people to voluntarily pay their taxes.

Findings and recommendations from this study will be of great benefits to the academic field of knowledge, regulators, government and policy makers.

The specific insight of this study will contribute to the existing body of knowledge on voluntary tax compliance from the conceptual and empirical points of view. Conceptually, the study assesses the determinants of voluntary tax compliance among small and medium scale enterpreneur in Oyo state, Nigeria. Four determinants were looked at, which are economic factor, trust in government, reference group influence and tax law complexity as against the usual one factor determinant previously examined by several scholars (such as Mas'ud & Aliyu 2014; Mohd & Rizal 2017; Stefenos 2019). This implies that the study has added value to voluntary tax compliance frontiers. Also, from the empirical point of view, the study will become a body of reference for future researchers on voluntary tax compliance as well as adding to the scanty literatures especially on the trust in government as a determinant which has not been fully researched in Nigeria.

In addition, regulatory bodies in the country such as Federal Inland Revenue Service (FIRS), State Internal Revenue Agencies as well as Federal Ministry of Finance can use the findings and recommendations of this study as a basis in designing and implementing appropriate strategies in a tax compliance program. For example, this study may significantly benefit the Federal Inland

Revenue Service (FIRS) and Oyo State Internal Revenue because it is in line with the authority's current mission to create a conducive environment to nurture voluntary tax compliance among Nigerians.

Furthermore, the findings from this study will provide information that will be a good input to government and policy makers in their decision making or activities relating to how to better motivate and support SMEs to become financially safe, sound and stable in moving the Nigerian economy forward. Likewise, the study will also provide government with the necessary knowledge needed to encourage SMEs in Nigeria.

1.7 Scope of the Study

The study examined the determinants of voluntary tax compliance among small and medium scale enterprise owners in Oyo state, Nigeria. This research focuses on the small and medium scale enterprises (SMEs) owners captured into tax net by Federal Inland Revenue Service through its Oyo Micro and Small Tax Office (MSTO). The choice of this sector is premised on the fact that SMEs is one of the hubs of the nation and agents of economic growth and stability. Likewise, the state is considered for the study being largely populated by SMEs, this avails the researcher to have more respondents for the study.

CHAPTER TWO

LITERATURE REVIEW

This chapter is designed to provide the literature review on the determinants of voluntary tax compliance among SMEs owners in Oyo state, Nigeria. The chapter comprises the conceptual review, theoretical review, empirical review, summary and gaps identified in literature.

2.1 Conceptual Review

This focuses on the detail explanation of both dependent and independent variables.

2.1.1 Tax Compliance

Tax compliance is a concept that has been looked at by different authors in different ways. For example, Alm (1999) and Jackson and Milliron (2001) in Shaik (2017) defined tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. The economic definition of taxpayer compliance views taxpayers as perfectly moral, risk-neutral or risk-averse individuals who seek to maximize their utility, and chose to evade tax whenever the expected gain exceeded the cost. Thus, a pure cost-benefit approach is given for why or why not taxpayers may comply with the tax laws. Some researchers propose that individuals are expected to weigh the uncertain benefits of successful evasion against the risk of detection and punishment. Consequently, a penalty structure forms part of the punishment, and is a critical factor in an individuals' choice to evade tax (Fischer *et al.*, 1992 in Tran & Nguyen, 2015).

Furthermore, tax compliance has also been segregated into two perspectives, namely compliance in terms of administration and compliance in terms of completing accurately the tax returns (Harris, 2006). The taxpayers' attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behaviour. Those factors which influence tax compliance and/or

non-compliance behaviour are differing from one country to another and also from one individual to another (Kirchler, 2007). They include taxpayers perceptions of the tax system and revenue authority, peer attitude/subjective norms; taxpayers' understanding of the tax system/ tax laws, motivation such as rewards and punishment, penalties, cost of compliance, enforcement efforts such as audit; probability of detection; difference across - culture; perceived behavioral control, ethics/morality of the taxpayer and tax collector; equity of the tax systems; demographic factors such as sex, age, education and size of income and use of informant (Murphy, 2004).

In addition, tax compliance is referring to the degree that taxpayer complies or fails to comply with the tax regulations in their country. Voluntary tax compliance behaviour can be identified through filing compliance, reporting compliance and payment compliance (Bello, 2014). As such, the definition of tax compliance is not limited to the actual amount of tax payable that the taxpayer required paying to the tax authority, it also covers initial procedure of filing of tax return, reporting all taxable income as well as tax liability. Therefore, the definition of the purpose of this study, 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, 2003)

2.1.2 Determinants of Voluntary Tax Compliance

According to the existing literatures, tax compliance of taxpayers is influenced by economic, social and psychological factors (Kirchler, 2007 & Devos, 2008). Kirchler (2007) classifies tax compliance factors into four categories, namely: economic, social, institutional and individual. Unlike in other researches, this classification is based on an interdisciplinary perspective demonstrating a wider perspective of tax compliance determinants. The following expositions explore tax determinants in more details.

2.1.2.1 Economic Factor Determinants

Economic factors in relation to tax compliance refer to actions that are associated with the costs and benefits of performing the actions (Loo, 2006). Torgler and Schneider (2005) assumed that taxpayers are rational economic evaders who will likely assess the costs and/or benefits of evasion. The taxpayers will attempt to minimize their tax liability, for example, by intentionally under reporting their income and will enjoy tax savings if they are not detected by the tax authorities. On the other hand, the taxpayers are willing to pay more, including a penalty, if they are caught (Torgler, 2007). In the following subsections, tax compliance determinants associated with economic factors (i.e. tax rates, level of actual income, tax audit, audit probabilities, fines and penalties) are explored in more detail.

Tax Rate: This refers to the ratio (usually expressed as percentage) at which a business or person is taxed. This has mixed effect on tax compliance by taxpayers, for example, Hai and See (2011), concluded that high tax rate causes high tax non compliance. While Pommerehne and Weck-Hannemann (2006) opined that tax evasion increases with increasing marginal tax rate, this suggests that marginal tax rate has a significant effect on underreporting, (Slemrod, 1985). Also, the impact of the tax rate will still depend on the degree of trust, if taxpayers discover that the trust is low, a high tax rate could be seen as an unfair treatment of taxpayers, on the other hand, when the trust is high, the same level of tax rate complained about would be seen as a way of contributing to the state, which in turn again profits each individual, (Kirchler *et al.*, 2008).

Beside this, Kirchler (2007) claimed that reducing tax rates is not the only policy that has the potential to discourage tax evasion, but the tax rate is an important factor in determining tax compliance behaviour, although the exact impact remains unclear and debatable. This also suggests that a significant relationship exists between tax rates and evasion, particularly since tax

rates can be used as an instrument that can be manipulated for policy goals. To this end, raising marginal tax rates is likely to further encourage taxpayers to evade tax (Torgler 2007). Although lowering tax rates do not necessarily increase tax compliance (Trivedi et al. 2004; Kirchler 2007). This uncertainty and conflicting issue (for example, reducing tax rates to increase compliance) has attracted the attention of tax researchers attempting to uncover more certain and concrete evidence of the impact of tax rates on evasion.

The Level of Actual Income: Predictions of the standard economic model in regards to income effects on tax compliance are ambiguous. Though wealthier citizens are more likely to evade taxes since the level of absolute risk aversion decreases with income, it is not clear if severity of evasion is an increasing or decreasing function of income (Kirchler et al., 2007).

According to Richardson, (2006), it was opined that self employed have more possibilities to avoid tax than employed taxpayers. However, self employed taxpayers have more opportunity for tax evasion, consequently, this further increase with the number of different income sources. For example, if income is earned by hard labour or an effortless job. The tendency is that the taxpayer who earned his income through hard labour may be tempted to evade tax compare to the taxpayer whose income is generated through low labour. It therefore seems that taxpayers are reluctant to lose their hard earned income by gambling with the tax authority, (Kirchler *et al.*, 2008).

Tax Audit: Audit rates and prior audit experience are ambiguously discussed in relation to tax compliance. Some studies claim that audits have a positive impact on tax evasion (Dubin 2004). These findings suggest that in self-assessment systems (SASs), tax audits can play an important role and their central role is to increase voluntary compliance. Audits rates and the thoroughness

of the audits can encourage taxpayers to be more prudent in completing their tax returns; report all income; and claim the correct deductions to ascertain their tax liability. In contrast, taxpayers who have never been audited may be tempted to report less than their actual income and claim false deductions. It is one of the most effective policies to protect the behaviour of tax evasion. The level of tax audit can be determined by two elements: one is how many taxpayers are selected for audit and the second is how much intensive the audit is. The first element is easily measured by the number of audited taxpayers divided by the total number of taxpayers. However, the second element is so difficult to measure due to no published information about the process of tax audit. It is commonly measured by the first element to indicate the level of tax audit for practical comparison (Hyun, 2005).

Audit rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns, report all income and claim the correct deductions to ascertain their tax liability, (Kossgei & Tenai, 2016). While taxpayers who have never been audited might be tempted to under report their actual income and claim false deductions. Therefore, audits have a positive impact on tax evasion. Findings reveal that in Self-Assessment Systems, Tax Audits can play an important role and their central role is to increase voluntary compliance (Mohd, 2011).

2.1.2.2 Trust in Government

In order to determine how individual trust in government happens, the concepts of input and output sides are put into consideration. The input side of government converts individual preferences into policies that will produce the goods and services that individuals want government to provide. The output side of government, by contrast, actually delivers those goods and services to individuals. (De Cremer & Tyler, 2007).

Therefore, what happens at the point of public good delivery is what makes taxpayers to trust or distrust government and therefore affect their tax morale. If taxpayers are treated in ways that undermine achieving a high level of consensus about government actions, taxpayers would respond by using whatever means available to evade taxes (Frey, 2003). The effects of treating individuals as prospective criminals undermine governments' legitimacy and individual willingness to collaborate with them. Bureaucrats who regard individuals as suspicious of cheating on norms would make them more resistant of authorities such as law enforcement and less likely to cooperate with authorities in general (De Cremer & Tyler, 2007). They contend that unfair treatment received from government officials undermine individual identification with governmental and societal norms; the treatment received from government bureaucrats tells individuals they do not belong to the same group than those officials (De Cremer, Tyler, & Der Ouden, 2005).

Beside this, unfair treatment at the hands of government officials where individual well-being is at stake will lower individuals' willingness to comply with norms in general (Rohrschneider, 2005). What seems to be missing is a behavioral concept of individual as a social being that is born in a social environment that it is not only not imposed upon the individual, but also necessary in their successful development (Simon, 1991).

2.1.2.3 Reference Group Influence

In the social influence model, compliance behavior and attitudes towards taxation is assumed to be affected by the behavior and social norms of an individual's reference group such as relatives, neighbors and friends (Snively, 1990). Therefore, the number of people who evade tax, his/her commitment to comply will be weaker due to the negative influence coming from reference group. Society may influence the behaviour of its members in many ways. For example, an

individual may observe and internalize values from his/her society. These values are then adopted and adapted as his/her personal rules of conduct and behaviour in life. The influence of societal perceptions of tax compliance is possibly best explained by pro-social behaviour theories where the behaviour of others is taken into consideration (Fehr & Falk, 2002). This implies that a taxpayer will feel uncomfortable for not paying taxes if others are paying their taxes or vice versa.

Feld and Frey (2006) claimed further that the roles of individuals in society and accepted norms of behaviour are noted to have a strong influence on tax compliance. For example, social control in the community was one of the basic principles of the Swiss tax culture in the 19th century in order to complement tax auditing by tax authorities. It is revealed that the most influential factor in influencing taxpayers' compliance attitudes is a combination of taxpayers' own values together with the values of others in their surroundings, thus, the perception by a taxpayer of other taxpayers' behaviour gives a strong indication of his/her next action (Bobek et al., 2007). Going further, the issue of tax morale was highlighted by Leo and Mckerchar. Tax moral, was explained as the aggregate attitude of a group to comply with tax laws. Tax morale was noted to impact positively on tax compliance. The point here is that people have a sentiment about responsibility to the society as a matter of patriotism. In this case, tax compliance will result as a sense of civic duty and not because of fear of sanction for non-compliance. Even at this, the sense of civic duty may have resulted from national appeal or propaganda through the constitution or such other mass mobilization public document, as in the case of Nigeria where citizens, according to the constitution, have the constitutional duty to declare income honestly and pay taxes promptly (Christian, 2016).

Social interaction is measured based on taxpayers' perceptions of other taxpayers' attitudes in dealing with their tax matters as well as information about other taxpayers' attitudes in making their compliance decisions (Torgler, 2004). The perceptions of taxpayers regarding the widespread problem of tax evasion in a community may also influence their tax compliance attitudes (Welch *et al.*, 2009).

2.1.2.4 Complexity of Tax Law

Tax complexity arises due to the increased sophistication in the tax law (Richardson & Sawyer, 2001). Tax complexity can take many forms such as computational complexity, forms complexity (American Institute of Certified Public Accountants, 1992), compliance complexity, rule complexity (Carnes & Cuccia, 1996), procedural complexity (Cox & Eger, 2006) and the low level of readability (Pau *et al.*, 2007; Richardson & Sawyer, 1998; Saw & Sawyer, 2010). A review of tax complexity in a comparative study of seven countries by Strader & Fogliasso (1989) suggests that Japan, the UK, France, Italy and the US, all have highly complex tax system. Only Sweden and Netherlands are considered to have a moderately complex tax system

One of the serious problems facing taxpayers is the complexity of the tax law, as many taxpayers are not well versed in law relating to tax, this makes it difficult for ordinary persons to understand legal terms used in narrating laws that are associated with tax.

Among other things, complexity of tax system makes compliance difficult, requiring taxpayers to devote excessive time to preparing and filing their returns; Requires the majority of taxpayers to bear monetary costs to comply, as most taxpayers hire consultants to file their returns; ambiguous comprehension, leaving many taxpayers unaware how their taxes are computed and what rate of tax they pay; Facilitates tax avoidance by enabling sophisticated taxpayers to reduce their tax.

An essential factor influencing tax compliance is the knowledge of taxation. Tax law is complex due to high levels of abstraction and technical terms. For example to comprehend the tax law in Britain, it was estimated that at least 13 years of education are required, whereas in Australia estimations rose to 17 years. Unsurprisingly, the majority of taxpayers does not understand tax law correctly, and thus, complain about having poor subjective knowledge and feeling incompetent concerning tax issues.

2.1.3 Small and Medium Enterprises (SMEs)

There is no universally acceptable definition of what constitutes micro, small and medium small – scale enterprises. The term micros, small, medium and large scales are relative and differ from industry to industry. There is hardly unique or universally acceptable definition of Micro, Small and Medium scale enterprises (MSMEs) because the classification of business into small, medium or large scale is subjective (Ajiboye & Dosunmu, 2007). Sanusi, (2016) observed that it is very vital to note that definitions change from time to time and depend on a country level of industrial organization and level of economic advancement. The major criteria use in the definitions according to Carpenter (2003) could include various combinations of the following: Number of employees, financial strength, Sales value, Relative size, Initial capital outlay and Types of industry. Inang & Ukpong (2017) however, stressed the indicators prominent in most definitions namely, size of capital investment (fixed assets), value of annual turnover (gross output) and number of paid employees.

Small and Medium Enterprises (SMEs) are non-subsidary, independent firms/organizations which employ fewer numbers of employees. This number varies across countries. In Nigeria, the Central Bank of Nigeria in its monetary policies circular No. 22 of 1988 defined SMEs as enterprises which have an annual turnover not exceeding Five Hundred Million Naira

(N500,000,000) (Omosomi, 2019). For the sake of clarity, the National Policy on Micro Small and Medium Enterprises (MSMEs) has given a clear distinction of enterprises, based on employment and Assets. SMEs are organizations which can best be described through their capital, scope and cost of projects, annual turnover, financial strength and number of employees amongst other things. Such organizations must and can be registered under any part of the Companies and Allied Matters Act (CAMA) in order to do business in Nigeria.

According to the Nigeria Bureau of Statistics (2019), small and medium scale enterprises (SMEs) in Nigeria have contributed about 48% of the national GDP in the last five years. With a total number of about 17.4 million, they account for about 50% of industrial jobs and nearly 90% of the manufacturing sector, in terms of number of enterprises (Mekwunye, 2018). Though significant growth has been achieved in the MSME sector, there is still much to be done. Other challenges encountered by the sector include lack of skilled manpower, multiplicity of taxes, and high cost of doing business, among others (Oyelaran, 2020).

Small and Medium Scale Enterprises (SMEs) form the bulk of the businesses in Nigeria. The attractions to the owners include being less capital intensive and flexibility in filling the need in niche markets. Their contribution to the growth of the Nigerian economy cannot be understated as they drive the economic and industrial transformation of the country (Agbeyi, 2019).

Notwithstanding the acknowledged role of the small and medium scale enterprises, a number of factors limit their growth and ability to expand to meet the growing needs of the Nigerian populace. Such factors include: limited availability of funding from financial institutional and the government; high Cost of Credit facilities inclusive of interest rates and maintenance costs and the demand for duly registered collateral obligations; inconsistency in government policies and

bureaucratic bottlenecks experienced in the administration of incentives and support facilities from all levels of government and multiple taxes as a result of levies and other tax expectations from both the State and Local Government Areas among others (Alabi, 2017).

According to the 2019 Survey report on SMEs in Nigeria conducted by the National Bureau of Statistics (NBS) in collaboration with SMEDAN, the SME sector in Nigeria is strategically positioned to absorb up to 80 percent of jobs, improve per capita income, increase value addition to raw materials supply, improve export earnings, enhance capacity utilisation in key industries and unlock economic expansion and GDP growth (Agbeyi & Omosomi, 2019). As in developing economies, Nigeria with the introduction of the National Policy on MSMEs has addressed the issue of definition as to what constitutes micro, small and medium enterprises. The definition adopts a classification based on dual criteria, employment and assets (excluding land and buildings) as shown below.

Table 2.1 Shows Categorization of Small and Medium Enterprises (SMEs)

S N	Categorization	Base of Categorization	Tax Rate
1.	Small Company	Turnover of up to N25 million	0%
2.	Medium Company	Turnover > N25 million < N100 million	20%
3.	Large Company	Turnover > N100 million	30%

Source, Nigeria New Finance Bill, 2019

If there exists a conflict on classification between employment and assets criteria (for example, if an enterprise has assets worth seven million naira (N7M) but employs 7 persons), the

employment-based classification will take precedence and the enterprise would be regarded as micro.

2.2 Theoretical Review

At the start of any research study, it is important to consider relevant theory underpinning the knowledge base of the phenomenon to be researched. This study is anchored on the following theories: expectancy theory, social capital theory, economic benefit theory and fiscal exchange theory.

2.2.1 Expectancy Theory

Expectancy theory is a motivation theory proposed by Vroom (1964). This theory emphasizes the needs for organizations to relate rewards directly to performance and to ensure that the rewards provided are those rewards deserved and wanted by the recipients. Motivation is a process governing choices among alternative forms of voluntary activities, a process controlled by the individual. The individual makes choices based on estimates of how well the expected results of a given behavior are going to match up with or eventually lead to the desired results. Motivation is a product of the individual's expectancy that a certain effort will lead to the intended performance, the instrumentality of this performance to achieving a certain result, and the desirability of this result for the individual, known as valence (Beron, 2011).

Expectancy theory of motivation proposes that individuals will behave or act in a certain way because they are motivated to select a specific behaviour over other behaviours due to what they expect the result of that selected behavior will be. In essence, the motivation of the behaviour selection is determined by the desirability of the outcome. However, at the core of the theory is the cognitive process of how an individual processes the different motivational elements. This is done before making the ultimate choice. The outcome is not the sole determining factor in

making the decision of how to behave. Expectancy theory is about the mental processes regarding choice, or choosing. It explains the processes that an individual undergoes to make choices.

Therefore, this theory is relevant to this study since it recognizes that individuals act to situations based on expected outcome. This reflects that people will be willing to pay their taxes when their expectations are met from the government. Delivery of public goods by government will therefore serve as motivating factor for taxpayers' compliance. The taxpayers will be willing to pay their taxes once their expectations are met in terms of provision of public facilities.

Despite the pragmatic nature of this theory, it is still being criticized by scholars. Critics of the expectancy model include Graen (1969), Lawler (1971), Lawler and Porter (1967), and Porter and Lawler (1968). Their criticisms of the theory were based upon the expectancy model being too simplistic in nature; these critics started making adjustments to Vroom's model. Lawler claims that the simplicity of expectancy theory is deceptive because it assumes that if an employer makes a reward (such as a financial bonus or promotion) enticing enough, employees will increase their productivity to obtain the reward. However, this only works if the employees believe the reward is beneficial to their immediate needs

Lawler's new proposal for expectancy theory does not contradict Vroom's theory. Lawler argues that since there have been a variety of developments of expectancy theory since its creation in 1964 that the expectancy model needs to be updated. Lawler's new model is based on four claims. First, whenever there are a number of outcomes, individuals will usually have a preference among those outcomes. Second, there is a belief on the part of that individual that their action(s) will achieve the outcome they desire. Third, any desired outcome was generated

by the individual's behavior. Fourth and finally, the actions generated by the individual were generated by the preferred outcome and expectation of the individual.

2.2.2 Social Capital Theory

It is widely accepted that the three most important proponents of the concept of social capital have been the French social theorist, Pierre Bourdieu and two American social scientists, the sociologist James Coleman and the political scientist David Putnam (Brian, 2002). Social capital is a broad term that encompasses the norms and networks facilitating collective actions for mutual benefits (Woolcock, 1998). This broad definition of the term makes it susceptible to multiple interpretations and usage which span multiple theoretical traditions (Greeley, 1997; Portes, 1998). At one end social capital can be seen as a notion that is based on the premise that social relations have potential to facilitate the accrual of economic or non-economic benefits to the individuals (White, 2002) and on the other end social capital can be seen to reside in the relations and not in the individuals themselves (Coleman, 1988).

Social capital is context dependent and takes many different interrelated forms, including obligations (within a group), trust, intergenerational closure, norms, and sanctions with underlying assumption that the relationships between individuals are durable and subjectively felt (Bourdieu, 1983). The relationships themselves from the complex web of interactions and communications (White, 2002). An example of social capital could be the voluntary participation of the members over the lunch break to discuss various social/organizational aspects which benefits all the participants. Because of the potential benefits of social capital, political scientists note an important correlation between social capital and civic participation, which is the extent to which a person participates in or contributes to their community or country. In this case, scholars

emphasize that a person is more likely to participate in community building and bonding with those around them because, among other things, it works to their advantage.

Social capital may be defined as those resources inherent in social relations which facilitate collective action (Shah & Kwak, 2001). According to Coleman (1988) social capital resources include trust, norms, and networks of association representing any group which gathers consistently for a common purpose. A norm of a culture high in social capital is reciprocity, which encourages bargaining, compromise, and pluralistic politics. Another norm is belief in the equality of citizens, which encourages the formation of cross-cutting groups. Implementation of government programs ultimately depends less on authority and control than on mobilizing policy stakeholders, including policy recipients. The less the social capital, the more difficult such mobilization becomes. At the extreme, in a society with very low social capital, administrators are much more apt to find reliance on authority and control necessary, with resulting low governmental effectiveness. At the other extreme, in a society with very high social capital, many problems are taken care of by social networking outside of government, and when remaining problems are addressed through governmental intervention, administrators find a rich array of implementation allies.

The following are speculated by the proponents of the theory: the more the level of participation in voluntary associations, the greater the social capital; the more the networking, the greater the social capital; the more the mentoring and mutual support in an organization, the greater its social capital; the greater the social capital, the more prevalent the norm of reciprocity (bargaining, compromise, pluralism); the greater the social capital, the higher the priority of the norm of equality; the greater the social capital; the greater the confidence in government (and

other institutions); and the greater the social capital, the easier to mobilize support for problem solutions.

The relevance of this theory to the study is that people tend to be influenced by social groups such as family member, peer, co-workers. As opined by Alm (2015) that many individuals are influenced by the social content in which they find themselves and the process by which decisions are made and that they are motivated not only by self interest but also by group notions. Social capital theory has been widely criticized, mostly for its ambiguity and variability. The main criticism of social capital theory is that it does not leave the concept with much of substance, leading some authors to describe the concept as fundamentally flawed. In addition it has been claimed that it is impossible to measure and that the possibility for positive or negative outcomes make it context dependent. Some aspects are objective, but others are subjective. Some are cognitive, but others are pre-cognitive. Social capital can be rational, pre-rational, or even non-rational. This suggests social capital is more of an umbrella concept than a functioning theory. Yet these damning criticisms have not halted the use and application of the concept. Quite the opposite is true, with widespread and often cavalier use of the concept pervading much of the literature on social capital (Claridge, 2018).

2.2.3 Economic Benefit Theory

This was initially developed by Knut Wicksell (1869) and Erik Lindahi (1919). The theory was premised on the ability of government to distribute common wealth equitably among people. This theory premised on the idea that tax liabilities of individuals should be determined by how much an individual benefits from the activities of the state has appealed to tax theorists for centuries, perhaps most prominently as a normative principle in Smith (1776) and as a positive

prediction in Lindahl (1919). And recent research has shown that it is also popular among the public (Weinzierl, 2016). Therefore, it bases taxes to pay for public goods expenditure on a politically revealed willingness to pay for benefits received. Under this theory, tax levels are automatically determined, because taxpayers pay proportionately for the government benefits they receive. This implies that the individuals who benefit the most from public services pay the most taxes. According to this theory, the state should levy taxes on individuals according to the benefit conferred on them. The more benefits a person derives from the activities of the state, the more he should pay to the government.

The advantage of the benefit theory is the direct correlation between revenue and expenditure in a budget. It approximates market behaviour in the allocation procedures of the public sector. Although simple in its application, the benefit theory has been criticized due to the following reasons: It limits the scope of government activities; government can neither support the poor nor take steps to stabilize the economy; and applicable only when beneficiaries can be observed directly (impossible for most public services).

The free-rider problem is the primary criticism given for limiting the scope of the benefit principle. When information about marginal benefits is available only from the individuals themselves, they tend to under report their valuation for a particular good, this gives rise to the preference revelation problem. Each individual can lower his tax cost by under reporting his benefits derived from the public good or service. One solution would be to implement tax choice. If taxpayers had to pay taxes anyway, but could choose where their taxes went (without the possibility of secret rebates or similar), then they would have no incentive to hide their true preferences. This principle has been subjected to severe criticism on the following grounds:

Firstly, if the state maintains a certain connection between the benefits conferred and the benefits derived. It will be against the basic principle of the tax. A tax, as we know, is compulsory contribution made to the public authorities to meet the expenses of the government and the provisions of general benefit. There is no direct *quid pro quo* in the case of a tax. Secondly, most of the expenditure incurred by the state is for the general benefit of its citizens, it is not possible to estimate the benefit enjoyed by a particular individual every year. Thirdly, if we apply this principle in practice, then the poor will have to pay the heaviest taxes, because they benefit more from the services of the state. If we get more from the poor by way of taxes, it is against the principle of justice?

2.2.4 Fiscal Exchange Theory

It was widely believed that the original proponent of fiscal exchange theory was Eric (1991) but later reviewed by Christopher (1994). The basic assumption of exchange theory is that individuals establish and continue social relations on the basis of their expectations that such relations will be mutually advantageous. The initial impetus for social interaction is provided by the exchange of benefits, intrinsic and extrinsic, independently of normative obligations (Blau, 1994). It is commonly believed that voluntary tax compliance is affected by the nature of the expenditures and by the manner in which these expenditure decisions are made. Tax protestors assert that they will not pay their taxes if the revenues are to be spent in ways that they do not approve, and compliance has sometimes declined during periods in which government expenditures are particularly controversial and unpopular.

There is also some anecdotal evidence that individuals are less inclined to pay their taxes when they feel that they have little say in government decisions and when government is perceived as

unresponsive to their wishes (Alm & Jackson, 1993). Exchange theory examines the processes establishing and sustaining reciprocity in social relations, or the mutual gratifications between individuals. In the fiscal contract tradition, tax compliance itself serves as a means for regulating public authority because citizens can constrain states by withholding revenue. In her path-breaking book *Of Rule and Revenue*, Margaret Levi (1988) points out that enforcing tax compliance entails costs since rulers must build bureaucracies to monitor and sanction delinquent taxpayers. The more monitoring and sanctioning the government has to undertake, the more costly coercion becomes. As a result, she argues that rulers have incentives to reduce the cost of compliance by making credible commitments to constituents, providing benefits and/or investing in ideology, which can substitute for coercion. Levi's work opens the door for an exchange-based theory of the state, suggesting that governments can act as agents of taxpayers, selling services in return for revenue (Timmons, 1998).

However, this theory was criticized by Buiter (2002) on the ground that it denies that the government's intertemporal budget constraint must hold as an identity. Instead it requires it to be satisfied only on equilibrium. Likewise, property rights, contract enforcement, budget constraints and voluntary exchange are defining features of transactions among private agents. Certain transactions between the government and private agents allows for a form of legal 'involuntary exchange', unrequired transfers between the private and public sectors, that is, transfer without value-equivalent are allowed. This reflects the government's ability to tax, the expression of its monopoly of the legitimate use of office.

2.3 Empirical Review

This section gives insight into some of the empirical studies that have been carried out on the determinants of voluntary tax compliance. It looks at related studies carried out in developed countries, developing countries and Nigeria.

2.3.1 Studies on Developed Countries

The taxpayers' attitude on compliance may be influenced by many factors, which eventually influence taxpayer's behaviour. Those factors which influence tax compliance and/or non-compliance behaviour are differing from one country to another and also from one individual to another. They include taxpayers' perceptions of the tax system and revenue authority, peer attitude/subjective norms; taxpayers' understanding of the tax system/ tax laws, economic factors such as tax rate, level of actual income. In line with this, Tauchen, Witte and Beron (2003) analyzed the tax compliance behavior of U.S. taxpayers by using a 1979 data set that combines information from a random sample of individual tax returns, each of which had been thoroughly audited, IRS administrative records, and socio demographic data from the Census. They found evidence that both audits and tax code provisions affect compliance. However, the effects were significant for only low-and high-income groups. Interestingly, work on the underground economy also suggested that it was these two groups that were least compliant. Their results for audits suggested that the "ripple" or general deterrent effect of audits may be substantially larger than the direct revenue yield of audits for high-income taxpayers.

Mckerchar (2007) examined tax complexity and its impact on tax compliance and tax administration in Australia. The study aimed at providing an overview of recent compliance

research in Australia on the impact of tax complexity on taxpayers and tax practitioners, and, in turn, to consider the consequences for the Australian Taxation Office (ATO) and the way in which it was responding using regression analysis for the study. The result revealed significant positive impacts of tax law complexity on voluntary tax compliance.

On the same note, Antonios and Jorge (2009) examined what government institutions do that breeds individual trust in them and which government organizations are the ones that would carry out those actions. For the empirical investigation, a cross-country panel data set was used comprising 38 countries during 2005-2007. The information was extracted from the third wave of the World Values Survey (WVS) and matched with corresponding Freedom House data. Conditional on the level of political rights and civil liberties, it was revealed that trust in administrative government institutions positively influences tax morale, especially in the case of people living in democratic countries. They concluded that tax morale is affected by the level of trust in government organizations that implement and deliver public goods and services.

While Yongzi (2010) studied the impact of tax audit on voluntary tax compliance with sample size of 722 taxpayers in the food services and drinking places in New York. It was different from those in the literature in several ways. First, models were built exclusively for investigating the voluntary compliance behaviour shifts after a firm is audited. Second, apart from the theoretical approach and laboratory experiment approach used in the literature, the study applied the difference-in-differences non-experimental approach. The results of both Ordinary Least Squares (OLS) and Time Series Cross Section (TSCS) autoregressive modeling methods were presented. The results of both methods suggested that after an audit, a firm would report a higher sales

growth rate. The TSCS approach showed that in the year of the audit, a typical firm would report a sales growth rate which was 2.63 percentage points higher than a firm that was not audited.

Furthermore, Benk and Budak (2011) carried out a study on power and trust as determinants of voluntary versus enforced tax compliance: Empirical evidence for the slippery slope framework from Turkey. The aim of the study was to investigate the impact of power and trust on enforced tax compliance and voluntary tax cooperation. The population of the study consists of 300 self-employed taxpayers. Two-step linear regression was used for data analysis. The finding of the study shows that power promotes enforced tax compliance and trust fosters voluntary tax cooperation. The study is related to the present study in as much as it emphasized on tax compliance which is the main focus of the present study.

In addition, David (2013) addressed the effects of tax law complexity on the behavior of taxpayers. Subjects were 234 night students taking graduate business courses at Duquesne University, Robert Morris University and the University of Pittsburgh, plus night undergraduate students at Pennsylvania State University, McKeesport Campus. Many of the subjects had day jobs and had filed tax returns for a number of years. The study entailed an experimental survey in which subjects evaluated tax-related hypothetical scenarios, along the lines of studies by Anderson, Harris and Miller (1983); Chang (1984); Kaplan and Reckers (1985); Kaplan, Reckers and Reynolds (1986); Jackson and Spicer (1986); Chang, Nichols and Schultz (1987); Violette (1987); Kaplan, Reckers and Roark (1988); Schadewald (1988, 1989); and Schepanski and Kelsey (1990).

Similarly, Natrah (2014) examined taxpayers' views on their level of tax knowledge and perceived complexity of the income tax system in New Zealand. The study attempts to delve in

the underlying reasons for non-compliance. Data was gathered through telephone interviews with thirty participants. Data was analysed using thematic analysis. The interviews involved eleven salary earners, twelve retirees, five entrepreneurs, one student and one welfare beneficiary. Results indicated that some participants had a general idea of the income tax system but not much on the details of the system. They admitted that their knowledge was restricted to a broad knowledge of the income tax such as, the objectives of income tax, types of income tax, and tax rates. Results suggested that taxpayers have inadequate technical knowledge and perceive tax system as complex. Tax knowledge and tax complexity were viewed as contributing factors towards non-compliance behaviour among taxpayers.

In the same vein, Liucija (2014) explored the relationship between the taxpayers' trust in government and their willingness to pay taxes among nonfarm sole proprietors. Literature on government regulation finds that if citizens trust the government they are more likely to comply with laws and regulations. The index of trust in government calculated by the American National Elections Studies (ANES) and the AGI (adjusted gross income) gap produced by the Department of Commerce's Bureau of Economic Analysis (BEA) were used to test an empirical model if trust in government has a positive impact on tax compliance of the least compliant taxpayers group - nonfarm sole proprietors - controlling for the deterrent effects of tax enforcement. The results indicated that the higher trust in government improves tax compliance.

Also, Kostritsa (2014) while assessing the impact of social norms, trust in government and fairness on voluntary tax compliance found out that trust in government have an indirect impact on tax compliance via influencing personal norms and perceived fairness. To achieve a beneficial result, 333 Austrian taxpayers were surveyed in Austria. Frequencies, correlations and regression

analysis were adopted. The results verify the aforementioned assumptions and emphasize its consideration when aiming to increase voluntary tax compliance

Gashi and Kukaj (2016) studied the effect of tax rates on fiscal evasion and avoidance custom duties among Australia importing companies. The study used 248 participants which include importing companies, officers that realize control to businesses, custom agents, accountants and international transport companies. The elements that were submitted to evaluate their power were: lower tax rate powerful control during customs clearance, more efficient post clearance control, probability of subject investigation, higher fines, and consciousness of companies. In the research, 248 answers were collected and presented thus: Fiscal policy or lower tax rate is a powerful element that cannot stimulate a tax evasion and/or avoidance, for this element 68 answers were received from respondents or 27.42%. The other element was powerful control from customs during clearance, for this element 52 answers were received from respondents or 20.97%.

The next element following was consciousness of companies, for this element 36 answers from respondents or 12.90%. The next element investigation were 33 answers or 12.90%, post clearance control were 31 respondents or 12%, the last element was higher fines, that are 28 respondents or 11.29%. As presented, all the elements were very close to each other, except first and second element, which were: lower tax rate and powerful control from customs during clearance. These elements have more effect, that destimulate tax evasion and avoidance.

Also, Stefanos (2019) in his work examined the role of trust in authority and power of authority on tax compliance. To this effect, 25 European countries were selected for the research. It was hypothesized that (an individual's) tax compliance is determined by both the tax authority's

powerfulness and its trustworthiness, and that the two dimensions moderate each other. By employing a within-country fixed effects analysis for 25 European countries, the paper tests the conjecture that a slippery slope exists also on the aggregate level. Results show that both trust and power are positively correlated with higher tax compliance. Trust and power also moderate each other: the lower trust, the greater the compliance-increasing impact of power. However, the positive effect decreases with increasing coercion. Strong deterrence policies may eventually damage tax compliance.

Tran (2020) while assessing the key factors affecting tax compliance among Vietnamese firms in Vietnam. Both qualitative and quantitative research methods were employed. Qualitative research was carried out through focus group discussions with ten chief accountants and tax officers. While quantitative research was conducted through interviews with 200 firms (chief accountants or financial directors) in Vietnam. Analysis of the model includes the following stages: Cronbach's test for reliability of the scale; exploratory factor analysis (EFA); confirmatory factor analysis (CFA); and structural equation model (SEM). The results of the research showed that voluntary tax compliance is directly affected by the three factors of audit probability, corporate reputation and business ownership. The probability of audit and severity of sanctions have the strongest impact on tax compliance. The paper confirmed that enforced tax compliance is directly affected by the three factors of audit probability, sanction severity and social norms. Voluntary compliance and compulsory compliance have an effect on tax compliance, though voluntary compliance has a more powerful impact.

2.3.2 Studies on Developing Countries

Fadjar (2013) examined the direct and indirect effect of tax transparency and trust on voluntary compliance. The study was conducted in Surabaya, East Java in Indonesia. The respondents of

the study were individual taxpayer working in service industries. Fifty six taxpayers participated in the study. The findings showed that: the direct effect tax transparency has on taxpayer voluntary compliance is insignificant.

While Mas'ud and Aliyu (2014) examined the correlation as well as the effect of tax rate on tax compliance in Africa using cross-country data. The study used all the African countries as population, upon which sample were selected using multi-stage approach. The dependent variable which is tax compliance was measured using tax as a percentage of Gross Domestic Product (GDP) for each of the countries under the study. This data was obtained from United State Central Intelligence Agency (US-CIA) database World Fact Book for the year 2012 and 2013. For the independent variable tax rate, corporate tax rate was used as a proxy the data was obtained from KPMG for the years 2013. The findings showed that there is significant negative correlation between tax rate and tax compliance and tax rate has a negative effect on tax compliance.

Ali and Fjeldstad (2014) explored factors that determine citizens' tax compliance behavior in Kenya, Tanzania, Uganda and South Africa using attitude and perception data from the new round 5 of Afrobarometer surveys. Using a binary logit regression, they found those individuals who perceive that their ethnic group is treated unfairly are less likely to have a tax compliant attitude in Tanzania and South Africa some, they also found evidence that individuals who were more satisfied with public service provision were more likely to have a tax compliant attitude in all the four countries. However, frequent payment to non - state actors, e.g. to criminal gangs in exchange for protection, reduces individual's tax compliant attitude. Furthermore, tax knowledge was also significantly correlated with tax compliant attitude in Tanzania and South Africa.

In the same vein, Bornman (2015) examined the determinants and measurements of trust in tax authorities as a factor influencing taxpayer compliance behaviour. A qualitative approach was employed in analysing a collection of studies that had investigated the effect of trust on tax compliance, specifically using the assumptions of the slippery slope framework. Studies were analysed to determine what the researchers' understanding of trust was and what methods were used to measure perceptions of trust from the respondents. Studies were purposively chosen to include controlled computer experiments and surveys, and only studies that provided details of the questionnaire or instructions used to elicit perceptions of trust were included. Findings from a number of studies indicated that trust in tax authorities is positively related to tax compliance, and it was found that perceptions of fairness, treatment by authorities, norms and attitudes, and subjective tax knowledge are the main factors determining trust in tax authorities.

Furthermore, Bedi (2016) assessed the statistical significance of tax audits on tax compliance in Ghana. The content analysis approach was adopted to gather a three (3) year panel data of 160 sampled companies made up 25 listed entities and 135 non-listed entities for the period 2011-2013. The study found that tax audit and cash flow have no significant influence on tax compliance. However, board size and auditor type were significant and positively related to tax compliance. Industry has a statistical significant negative influence on tax compliance. The study confirms the truism that taxpayers would not voluntarily comply with tax obligations. The study contributes to the literature on measure and predictors of tax compliance and the predictors of tax compliance. Tax authorities must encourage corporate taxpayers to maintain competent boards and external auditors to promote tax compliance.

Kuug (2016) identified factors influencing voluntary tax compliance among SME owners in Ghana. A questionnaire was administered to gather data from respondents made up of 500 small

taxpaying units and medium taxpaying units selected from 3 regions in the country. In addition to this, an interview guide was used to gather information from the management and staff of Ghana Revenue Authority. The results indicated that tax audits and other factors such as capital structure, compliance cost, tax rates, and morals of taxpayers significantly influenced tax compliance. The GRA also indicated that unions and associations of businesses could help increase voluntary tax compliance of SMEs.

In addition, Azriati, Zainuddin and Zulkhairi (2016) examined the mediating role of tax fairness on the relationship between tax knowledge, tax complexity, and voluntary tax compliance based on 200 samples of taxpayers who visited the Inland Revenue Board branch of Malaysia for assistance and individuals working at the executive and managerial level from various industries. Partial Least Square (PLS) approach was used to test the research model and hypotheses. It was found that tax knowledge increases tax fairness perceptions, which consequently increases tax compliance behaviour. Similarly, tax fairness perceptions do not reduce the tax compliance directly, but indirectly through the role of tax fairness perceptions. This implies that tax authorities should not only focus on introducing or developing tax rules that are fair to the taxpayers but be able to communicate the rationale of a tax rule in the context of how it permeates fairness into the tax system for certain classes of taxpayers. The study found that, in situations where tax simplification is not possible, this form of information dissemination could lead to better compliance among taxpayers.

While Mohd and Rizal (2017) examined the effect of three types of justice on tax compliance. Trust also influences the act of tax compliance and it also has a relationship to the element of justice. Perceptions from individual taxpayers were gathered using questionnaires distributed randomly to the selected respondents. In total, 300 respondents were selected from 57,613

academics teaching in public and private higher institutions in the Klang Valley of Malaysia. The findings revealed only procedural justice and trust affect tax compliance and procedural justice was positively and significantly correlated to trust. However, trust does not mediate the relationship between justice and compliance.

Wadesango, Mwandambira and Mhaka Charity (2018) reviewed some empirical literature on the impact of tax knowledge among small and medium enterprises in a developing country. The study interrogated literature so as to ascertain if SMEs in the developing country under study possessed tax knowledge and also to identify the possible elements that constitute tax knowledge among SMEs. Other factors that could be influencing noncompliance among SMEs were identified as well as methods which could be adopted by tax Authority to increase awareness and compliance SMEs. The study established that SMEs in this particular developing country do not comply with tax law. They possess only basic tax knowledge and lack a deeper understanding of tax issues. It also emerged that enhancing tax knowledge on its own without addressing the high tax rates and corruption will not positively impact on tax compliance behaviour among SMEs.

Also, Dinku and Alamirew (2018) carried out a study on external factors affecting voluntary taxpayers' compliance: The case study of Amhara National Regional State Revenue Authorities. The major purpose of the study was to determine the impact of audit productivity, tax investigation and penalty on improving voluntary taxpayers' compliance by using secondary macro data. The statistical tools used to analyze data collected were descriptive statistics, inferential statistics, pearson correlation and multiple regression. The findings showed that contribution of audit productivity, tax investigation and penalty on improving voluntary taxpayers' compliance was significant among other measures. The study is related to the present

study since its major purpose focused on taxpayers' compliance of which it is present study's dependent variable.

Likewise, Inasius (2018) investigated factors influencing the tax compliance of small-and medium-sized enterprises (SMEs) for income-tax reporting requirements in Indonesia, referral group being the major variable. 328 respondents who were small business taxpayers participated. Using multiple regressions, six tax compliance factors were examined. Data were collected through a survey conducted in Jakarta. A researcher-administered questionnaire survey method was used for data collection. The results revealed 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.

More recently, Kanbiro (2018) assessed factors that influenced taxpayers' voluntary compliance attitude with tax system among taxpayers in Gedeo Zone of southern Ethiopia, three hundred and twenty three (323) participants were randomly selected for the study. They used both quantitative and qualitative approaches and data was collected using both primary and secondary sources of data. To collect primary data, structured questionnaires and direct personal interview were used. Data analysed by the help of Strata Software Package Version 12.0 and SPSS Version 23.0. It was found among other things that tax rate significantly correlated with voluntary tax compliance.

Yesi (2019) examined the impact of justice and trust in government authorities on voluntary tax compliance. The study aimed at analyzing the influence of the tax dimension (general justice, exchange with the government, self-interests, special provisions, tax rate structure) by using trust in government authorities as a mediating variable. The population of the study was the individual

taxpayer in Riau Province. Sampling technique used was purposive sampling. A total of 300 questionnaires were distributed to Individual Taxpayers in the cities of Pekanbaru, Bengkalis and Bangkinang, as many as 283 data can be processed. The results of the analysis with PLS showed the exchange with the government and, self-interests and the tax rate have an important effect on voluntary compliance while general justice, special provisions do not directly influence voluntary compliance. General justice that have a significant effect on trust in the government, while other variables have no effect. The results of the analysis showed that trust only mediates the influence of general justice on voluntary compliance.

Peprah, Abdulai and Agyemang (2020) investigated compliance factors among SMEs owners in Ghana. A mixed-method study involving 210 (200 MSMEs and 10 key informants) sample was conducted to examine the compliance of MSMEs with income tax administration in the Nkwanta South District of Ghana. The study revealed a lack of tax education, high tax rate, low level of income, and high household consumption levels as the dominant and influential factors to tax compliance among the MSMEs. The study further showed that challenges associated with tax administration include low institutional capacity, inadequate resources, negative public attitude towards tax payment, lack of collaboration between the tax agencies, and political interference.

Sebele-Mpofu (2020) studied governance quality and tax morale and compliance in Zimbabwe's informal sector. Data was collected from secondary sources and primary sources (Zimbabwe Revenue Authority (ZIMRA) officers and Tax experts). Triangulation of data sources was meant to enhance validity of findings. 10 Tax experts (consultants) were selected for their membership with the Institute of Certified Tax Accountants, Zimbabwe, and their experience of more than 10 years in the tax field and interviewed. 15 ZIMRA officers working in the Domestic taxes (Small Claims Office (SCO) and the audit section) and Customs Department were interviewed. The

study employed a sequential explanatory which is dominantly qualitative in nature, integrating the use of semi structured interview and document review as well as questionnaires. It was concluded that there was a significant relationship between governance quality and tax morale and informal sector tax compliance.

Obaid (2020) investigated the determinants of tax compliance among Yemeni SMEs. The objective of the study was to investigate the effect of tax fairness, peer influence and perception of corruption on tax compliance behaviour among Yemeni manufacturing SMEs. The study utilized the socio-psychological theory as the underlying theory. The research employed a questionnaire survey technique. Survey instruments were circulated among 490 SMEs and the primary respondents were owner-managers of the businesses. Out of the survey questionnaire retrieved, 372 were found eligible for further analysis. The research hypotheses were subsequently tested using the Partial Least Squares (PLS) software and the structural equation model (SEM) technique. Findings from the study showed that tax fairness and peer influences are positively and significantly related to SMEs tax compliance behaviour. However, perception of corruption has an insignificant impact on tax compliance among Yemeni SMEs.

2.3.3 Studies on Nigeria

Nigeria, like any other developing countries, faces difficulty in raising revenue to the level required for the promotion of economic growth. Hence, the country has been experiencing a consistent surplus of expenditure over revenue for sufficiently long period of time. For this problem to be addressed, many Nigerian scholars have taken it upon themselves to unravel factors that motivate citizens to pay taxes voluntarily. For example, Aronmwa, Joshua and Izedonmi (2012) examined the Determinants of Personal Income Tax Compliance in Nigeria.

The population for this study was made up of all self-employed persons, from 18 years and above in the South-South region of Nigeria. The study was anchored on the fiscal exchange theory and social & psychological theory to predict the determinants of personal income tax compliance. The survey research design was adopted and questionnaire was distributed to elicit responses from self-employed persons. The ordered logistic regression was used to analyse the data gathered and was done electronically using the SPSS and Eviews 7 software. The findings revealed that there was a significant positive relationship between tax rate and personal income tax compliance; the perception of taxpayers' of the Government of the day has a significant impact on how they comply with personal income taxation; taxpayers' income has a significant impact on personal income tax compliance; the gender of the taxpayer has no significant positive relationship with his/her level of tax compliance; and the attitude of taxpayers to the tax system has a significant impact on personal income tax compliance. The study therefore concluded that the psychological aspects of taxpayers such as taxpayers' perception and attitude have a more fundamental impact on personal income tax compliance than deterrent tax measures.

In addition, Modugu, Eragbhe and Izedonmi (2012) examined the relationship between government accountability and voluntary tax compliance among 600 taxpayers in the six geopolitical zones of Nigeria, based on the theoretical framework that there exist a relational fiscal/social contract between the state and the citizens. Specifically, the hypothesis that voluntary tax compliance is influenced by the individuals' perception of government accountability was specified and tested. Primary data elicited using structured likert scale questionnaire was used for the study while the Z- scores were computed and used to test the hypothesis. The Findings were in the affirmative indicating that the citizens' perception of

government accountability is an instrumental factor that shapes the emergence and maintenance of tax morale resulting in voluntary tax compliance.

Likewise, Ebimobowei and Peter (2013) examined the impact of tax audit on tax compliance in Nigeria. Data was collected from primary and secondary sources. The secondary sources were from scholarly published and unpublished studies and the primary source from a well structured questionnaire of three sections administered to two hundred and four (204) respondents with an average reliability of 0.77 using diagnostic tests, augmented dickey-fuller, ordinary least square and granger causality. The empirical analysis provided a significant relationship between random tax audit, cut-off tax audit and conditional tax audit on tax compliance in Nigeria. On the basis of the empirical result, the paper concluded that tax audit is one of the compliance strategies that can be used to achieve tax compliance in Nigeria because the average Nigerian is known for tax evasion and avoidance using all the available means of not paying the relevant tax to the government.

In addition, Iredele, Ogunleye and Obe (2017) conducted a study on assessment of voluntary tax compliance among informal economy in Nigeria. The major purpose of the study was to determine the level and challenges of voluntary tax compliance of businesses within the informal economy of Ifako-Ijaye local council development area of Lagos state, Nigeria. The study used entire business in the LCDA that fall within the category of the informal economy. A sample of 100 business owners and 17 tax officials were selected using convenience sampling method. Structured questionnaire was used to collect data from the respondents. Mean and frequencies were used to analyze data collected from the respondents. Findings showed that the level of voluntary tax compliance in the informal economy was low and the business owners who are the

expected taxpayers were of the opinion that non-utilization of tax revenue by the government and the excessive high tax rate amount for their non-voluntary compliance

Similarly, Olatunji and Ayodele (2018) examined the effects of tax audit on tax compliance in Ekiti State, Nigeria. The study employed primary data where 60 questionnaires were randomly distributed to Federal Inland Revenue Service and Ekiti State Board of Internal Revenue Service Staff. Multinomial Logistic Regression analysis was employed as the estimation technique. The findings revealed that the multinomial logistic regression model fitting information was significance with the p-value of 0.040 which implies that the tax audit can influence the tax compliance. Also, the likelihood ratio tests of multinomial regression showed that tax accuracy and current returns have not been significantly affecting tax compliance, that tax law has effect on tax compliance while tax procedure has no effect on tax compliance during the study period.

Similarly, Barine, Micheal and Nwodobie (2018) examined the determinants of voluntary tax compliant behaviour in Nigeria. This was aimed at identifying 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

While, Adekoya and Akintoye (2019) examined the influence of trust in government and government transparency on individual taxpayers' voluntary tax compliance behaviour in Nigeria. Survey design was used with focus on South-West, Nigeria. Population was 5,216,422 registered taxpayers while a sample size of 1,200 was used to collect data with a validated questionnaire. The study used descriptive and inferential statistics to analyse data at 5% significance level. The study revealed that government transparency positively influenced voluntary tax compliance among individual taxpayers in the study states. There was evidence that trust in government and government transparency have significant relationship with voluntary tax compliance behaviour in the study states, while gender and age do not have significant relationship respectively.

Aladejebi (2020) examined the level of tax compliance among owners of small and medium enterprises (SMEs) in Nigeria. The sample size for the research was 250 and 223 SME owners responded through the questionnaire distributed. The quantitative method was used in analyzing the data collected. SPSS was used to analyze the data. Findings showed that female SME owners are more tax compliant than male counterparts.

Table 2.2 Showing Summary of Empirical Literature Review

Developed Countries	Developing Countries	Nigerian Studies
Beron 2003	Fadjar 2013	Aronwa & Izedonmi 2012
Mckerchar 2007	Mas'ud & Aliyu 2014	Modugu & Eragbe 2012
Antonios & Jorge 2009	Ali & Fjeldstad 2014	Iredele & Obe 2017
Yongzi 2010	Borman 2015	Olatunji & Ayodele 2018
Benk & Budak 2011	Bedi 2016	Barine & Nwodobie 2018
David 2013	Kuug 2016	Adekoya & Akintoye 2019
Natrah 2014	Azriati & Zulkhain 2016	Aladejebi 2020
Liucija 2014	Mohd & Rizal 2017	
Kostritsa 2014	Wadesango & Mhaka 2018	
Gashi & Kukaj 2016	Dinku & Alamirew 2018	
Stefanos 2019	Inasius 2018	
Tran 2020	Kanbiro 2018	
	Yesi 2019	
	Peprah & Agyemang 2020	
	Sebele-Mpofu 2020	
	Obaid 2020	

Source: Research Survey, (2020)

2.4 Summary and Gaps Identified in the Literature

This section reviews conceptual, theoretical and empirical issues as related to the area of study. This therefore revealed that there are still many unanswered issues on factors determining voluntary tax compliance. To the extent of literature search, there is no empirical evidence on

reference group attitude and tax law complexity as determinant of voluntary tax compliance in Nigeria as much as such abound in developed countries. For example, Mckerchar (2007); David (2013); Natrah (2014); and Bobek and Kelliher (2012) focused on reference group attitude and tax law complexity in developed economies. Therefore, evidences of these variables constitute a significant lacuna in Nigeria. Similarly, the previous studies on voluntary tax compliance carried out in Nigeria were majorly on economic factors Aronwa, Joshua and Izedonmi (2012), Barine, Micheal and Nwodobie (2018), Olatunji and Ayodele (2018), Adekoya and Akintoye (2019) and Aladejebi (2020) without looking at other relevant factors such as reference group attitude and tax law complexity.

Furthermore, most of the studies on voluntary tax compliance in developing economies, Nigeria inclusive such as (Ali and Fjeldstad,2014; Dinku and Alamirew, 2018 and Olatunji and Ayodele, 2018) , used regression analysis and most of the variables involved are latent in nature. The study will improve on this methodological gap by adopting a more robust multivariate analysis called Partial Least Square (PLS) developed basically to analyse data obtain from latent variables. Hence, the PLS becomes relevant in identifying the determinants of voluntary tax compliance among small and medium enterprenuer in Oyo state.

In the same vein, considerable number of voluntary tax compliance studies focused on similar set of determinants as variable of interest without giving adequate consideration to other probable determinants. For instance, Ebowowei and Peter (2013) examined the impact of tax audit on tax compliance in Nigeria; Mebratu (2016) also assessed the impact of tax audit on tax compliance in Ethiopia. These determinants are basically categorized under economic factors as determinants of tax compliance and most scholars have followed suit leaving the body of knowledge to have a little or no evidence at all on other determinants. Also, not only is there dearth of evidences on

other determinants but to the extent of literature review, there is no study both in developed and developing countries (Nigeria inclusive) that has adopted a combination of the four independent variables used in this study.

In addition, to the extent of literature reviewed, none of the previous researcher has taken Oyo state as their focus area, let alone combining factors such as economic factor, trust in government, reference group influence, tax law complexity as variables determining voluntary tax compliance. Therefore, this study is tending to bridge the gaps identified in the literature by looking critically into the determinants of tax compliance among small and medium scale enterpreneur in Oyo state. Economic factor, trust in government, reference group influence and tax law complexity will be used as proxy to measure independent variables.

In summary, this chapter details a review of conceptual, theoretical and empirical issues relating to the research area. It shows copious issues on tax compliance. However, there are still dearths of unanswered questions. Thus, this study provides further empirical evidence to fill the identified gaps.

2.5 Theoretical Framework

The theoretical basis for this study is the expectancy and social capital theories, this is because no single theory captures the four independent variables. For example, trust in government is rooted from the expectancy theory of motivation while peer group influence is supported by social capital theory.

As emphasized by expectancy theory that individuals have the tendency to relate rewards directly to performance and to ensure that the rewards provided are those rewards deserved and expected by the recipients. Therefore, government is in the best position to motivate or reward the taxpayers by providing basic amenities such as good road network, affordable but quality

education, healthcare facilities to people. The taxpayers who are recipients of these services will be encouraged to voluntarily pay their taxes without being forced. Also expectancy theory advocates that individuals make choices based on estimates of how well the expected result of given behaviour are going to match up with or eventually lead to the desired results. This suggests that for any government to enjoy voluntary compliance from people such government should be ready to render essential services that will meet up with the expectations of the masses. Therefore, in a situation where government fails to perform its responsibilities, people will begin to distrust such government and eventually lead to tax noncompliance.

Based on the prediction of social capital theory that there is vital correlation between social capital and civic participation, which is the extent to which a person participates in or contributes to their community or country. It suggests that a person is more likely to participate in community building and bonding with those around them because, among other things, it works for their advantage. Hence, People see tax payment as a way of contributing to the society, because it is believed that the benefit in form of public services delivery by the government will work for their advantage. It is by social capital that individual behaviour regarding tax compliance is basically influenced by social interactions like other forms of behaviour, individuals are influenced by the social context they are into and the process by which decisions are made that they are motivated not simply by self interest but also by group notions like social norms. This depicts that one can be easily influenced to pay tax voluntarily as a result of environment he finds himself, people he relates with.

CHAPTER THREE

METHODOLOGY

This chapter provides discussion of the research methods and procedures employed in the study. The steps include: research design, population of the study, sources of data, pilot study, sampling technique, model for the study, the variables and method of data analysis.

3.1 Research Design

The research design employed for the study was a cross-sectional survey design. The choice was influenced by the nature of research objectives. It was a design which involves the use of questionnaire survey technique and testing of hypotheses gathered from primary data. The method was adopted basically due to its uniqueness in gathering information that may not be available in other method (Owens, 2002).

3.2 Population of the Study

The population of this study comprised 4,396 small and medium scale enterprise owners from the 33 local government areas of Oyo state. The state was considered appropriate for the study being one of the commercial nerve centres in south-western Nigeria. The sector was selected been one of the major employers of labour in the country and the roles it plays in wealth creation (Fowler, 2017). According to Federal Inland Revenue Service (FIRS, 2018), there are 4,396 registered small and medium enterprenuers in Oyo state.

Table 3.1: Distribution of Small and Medium Enterprises in Oyo State

Nature of Business	Population
Manuf./Agro-allied	752
Trading	1,954
Services	1,024
Others	666
Total	4,396

Source: FIRS, Oyo Medium Scale Tax Office

3.3 Sample Size and Sampling Technique

The sample of 367 was chosen using Taro Yamani's (1969) method. The researcher thought it was adequate to represent the salient features of target population in the study and to possibly make generalization of finding to small and medium businesses in Oyo State. Stratified sampling technique was employed in the selection of the group to ensure that each member of the target population had equal chance of being included in the sample. Stratified sampling is a kind of probability sampling which limits biasness of researcher in the process of selecting sample for the study. The main advantage of this technique is that it captures key population characteristics in the sample and produces characteristics in the sample that are proportional to the overall population (Haves, 2019).

The formular goes thus:

$n = N(1 + Ne^2)$. Where n = sample size; N = population; e = margin of error at 0.05.

Sample size for the study goes thus:

$$n = 4,396 \sqrt{1 + 4,396(0.05)^2}$$

$$n = 367$$

Table 3.2 Computation of Sample Size from each Group

Nature of Business	Population of Each Group	Computation of Sample	No of SMEs Owners
Manuf.\Agro-allied	752	$752/4,396 \times 367 = 62.78$	63
Trading	1,954	$1,954/4,396 \times 367 = 163.13$	163
Services	1,024	$1,024/4,396 \times 367 = 85.48$	85
Others	666	$666/4,396 \times 367 = 55.60$	56
Total	4,396		367

Source: Author's Computation, (2020)

3.4 Method of Data Collection

The researcher made use of primary data which were gathered with the aid of self administered questionnaires to the sampled 367 SMEs owners in Oyo state. Questionnaire is a research instrument consisting of a series of questions for the purpose of gathering information from respondents. Using questionnaire as a data collecting tool is due to its ability to generate relevant information as compared to other data collecting instruments which enhances the problem solving ability of the study (Greener, 2018). The questionnaire was grouped into two main sections. Section A is structured to capture personal information of the respondents. While section B is designed on 5-point Likert scale to elicit responses on questions relating to data on both dependent and independent variables.

3.5 Method of Data Analysis and Estimation Technique

Based on the objectives of the study, the data collected was analysed using both descriptive and inferential statistics. The descriptive statistics employed were the frequencies and percentages to show brief components of the variables used and highlight the demographic characteristics of the respondents.

Prior to the testing of hypotheses, normality test was conducted to test the reliability of the data collected using graphical method. Furthermore, other preliminary analyses were also conducted which included multi-collinearity test using the variance inflation factor (VIF) to ascertain interrelation among the independent variable. Partial Least Square (PLS) analysis was used for inferential statistics. This was considered appropriate for the study to explore the relationship between the dependent variable (voluntary tax compliance) and independent variables (economic factor, trust in government, reference group influence and tax law complexity). Therefore, the hypotheses were tested using Partial Least Square.

3.6 Model Specification

The model of Dinku and Alamirew (2018) was adapted in this study, it was used to find the relationship between independent variables (audit probability, tax investigation and criminal penalty) and voluntary tax compliance. The model was written as follow:

$$VTC = \beta_0 + \beta_1(AP) + \beta_2(RGI) + \beta_3(CPT) + \epsilon_i \dots$$

VTC = Voluntary tax compliance

AP = Audit probability

RGI = Reference group influence

CPT = Criminal penalty

This model was adapted due to the fact that it contains two independent variables (audit probability which measures economic factor and reference group influence) which the present study intends to use. Criminal penalty was not considered in this work. Therefore this was replaced by trust in government and another one variable (tax law complexity) was added to make the research work unique. The model of this study is therefore a modification of Dinku and Alamirew (2018) model. Hence, the model of the present study is written thus:

$$VTC = \beta_0 + \beta_1(EF) + \beta_2(TIG) + \beta_3(RGA) + \beta_4(TLC) + \epsilon_i \dots$$

Where,

VTC= Voluntary tax compliance

EF = Economic Factor

TIG = Trust in Government

RGA = Reference Group Attitude

TLC = Tax Law Complexity

β_0 = the intercept of the regression line,

e_1 = the error term

The a-priori expectation of the model is a positive relationship between the dependent variable and independent variables, i.e, $\beta_1, \beta_2, \beta_3,$ and $\beta_4 > 0$.

3.7 Internal Consistency Reliability

Table 3.3 The Measurement Model Summary

Constructs	Items	Loadings	CR	AVE	Decisions
Economic Factors (EF)	EF3	0.748	0.807	0.583	Yes
	EF5	0.803			
	EF7	0.739			
Pear Group Influence (PGI)	PGI1	0.665	0.792	0.561	Yes
	PGI2	0.797			
	PGI3	0.777			
Trust in Government (TIG)	TIG2	0.888	0.824	0.702	Yes
	TIG3	0.784			
Tax Law Complexity (TLC)	TLC2	0.675	0.701	0.525	Yes
	TLC6	0.771			
Tax Compliance (TC)	VTC4	0.724	0.715	0.557	Yes
	VTC5	0.768			

Source: Research Survey, (2020).

To evaluate internal consistency reliability researcher using Cronbach's alpha, and composite reliability are the two most common method adopted. In statistics and research, internal consistency is typically a measure based on the correlations between different items on the same test (or the same subscale on a larger test). It measures whether several items that propose to measure the same general construct produce similar scores (Dunn *et., al* 2013). This study adopted composite reliability coefficient, the reason being that Composite reliability coefficient captures the notion of the reliability of a test score (McDonald, 1999, p. 90). As such, it is a measure of composite reliability introduced by McDonald (1970) as an alternative reliability index to coefficient alpha. Composite reliability coefficient is computed using the item factor loadings and uniqueness from a factor analysis whereas coefficient alpha uses the item

covariance (or correlation) matrix (Cronbach, 1951; Guttman, 1945). As such, composite reliability coefficient is a more general form of reliability.

3.8 Discriminant Validity

Discriminant validity is the degree to which two conceptually similar concepts are distinct. The empirical test is again the correlation among measures, but this time the summated scale is correlated with a similar, but conceptually distinct, measure. Correlation should be low, demonstrating that the summated scale is sufficiently different from the other similar concept. Discriminant validity ensures that the scale is sufficiently different from other similar concepts to be distinct (Hiswaw, 2017). As indicated by Fornel and Larcker (1981) as the rule of thumb, suggested the use of AVE with a score of 0.50 or more. They further concluded that the square root of the AVE should be greater than the correlations among latent constructs. As shown in Table 3.3, the values of the average variances extracted range between 0.525 and 0.702, hence, this suggests acceptable values. The correlations among the latent constructs were compared with the square root of the average variances extracted. Likewise, Table 3.3 showed that the square root of the average variances extracted were all greater than the correlations among latent constructs. This implies adequate discriminant validity.

Table 3.4 Discriminant Validity (Fornell-Larcker Criterion)

Constructs	EF	PGI	VTC	TLC	TIG
Economic Factor	0.764				
Pear Group Influence	0.176	0.749			
Tax Compliance	0.221	0.280	0.746		
Tax Law Complexity	0.081	0.305	0.311	0.725	
Trust in Government	0.461	0.097	0.231	0.029	0.838

Source: Research Survey, (2020).

Chin (1988) also suggested that, to have adequate discriminant validity, all the indicator loadings should be higher than the cross loadings. In this study, as shown in Table 3.1 that all indicator loading were greater than the cross loadings, suggesting adequate discriminant validity.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATION AND DISCUSSION OF FINDINGS

This chapter deals with the analysis of the data collected, interpretation of results and hypotheses testing using Partial Least Square. It also deals with the discussion of findings.

4.1 Preliminary Analysis of Data

4.1.1 Normality Test

It is essential to ensure that data comes from a normal distribution and to achieve this, normality test has to be carried out. As stated by Nandakishore (2019) that when the majority of the points fall onto the line, then, it is assumed that the data represents a normal distribution. This study used graphical method of checking normality. This is considered appropriate because of its suitability for large sample size (Reinartz, 2019). And also the model is complex integrating four independent variables and one dependent variable (Henseler et al., 2012)

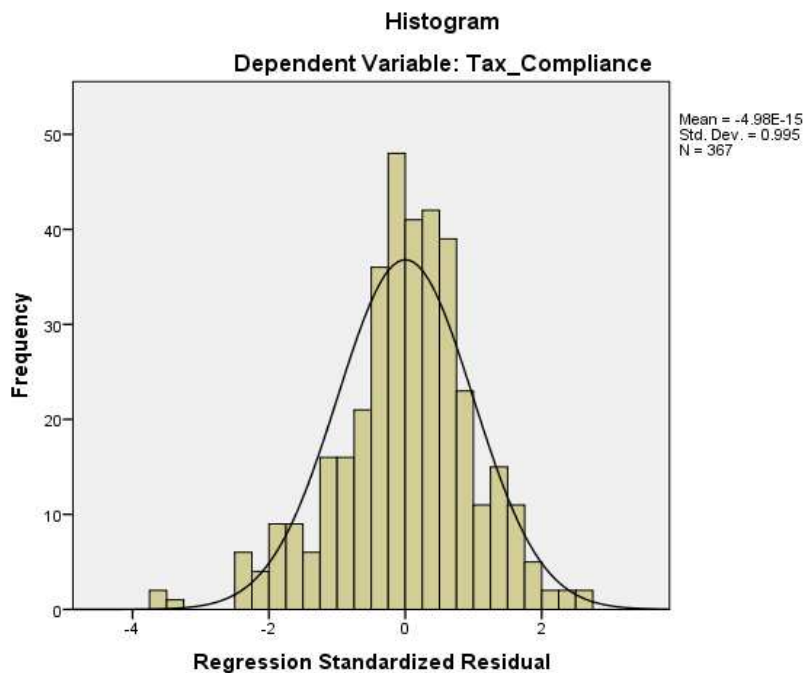
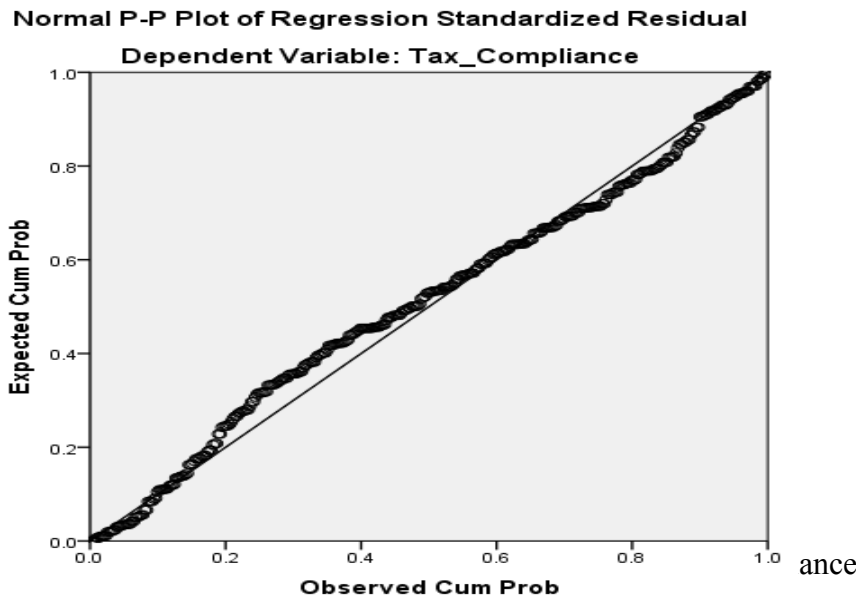


Figure 4.1 Regression Standardized Residual

4.1.2 Linearity

A residual scatter plot is a figure that shows one axis for predicted scores and one axis for errors of prediction. Tabachnick and Fidell (2007) explain the residuals (the difference between the obtained dependent variable and the predicted dependent variable scores) and the variance of the residuals should be the same for all predicted scores (homoscedasticity). If this is true, the assumption is met and the scatter plot takes the (approximate) shape of a rectangular; scores will be concentrated in the center (about the 0 point) and distributed in a rectangular pattern. More simply, scores will be randomly scattered about a horizontal line.



Figure

4.1.3 Multicollinearity Test

Table 4.1 *Collinearity Test (VIF and Tolerance)*

Variables	N	Tolerance	VIF
Economic Factors (EF)	367	.890	1.124
Trust in Government (TIG)	367	.977	1.023
Pear Group Influence (PGI)	367	.816	1.225
Tax Law Complexity (TLC)	367	.876	1.142

Source: Research Survey, 2020

The result in table 4.1 shows that the interrelation among the independent variables. As concluded by Gujarati (2004) that there is presence of multicollinearity if the mean VIF is greater than 10 and the tolerance value is less than the significance level. From Table 4.1, it is revealed that there is absence of multicollinearity problem as Variance Inflation Factor (VIF) of each independent variable is less than 10 and their level of tolerance is greater than 0.05 significance.

4.2 Descriptive Statistics

This entails the analysis of data in a more meaningful and concise way to give room for simpler interpretation of the data.

4.2.1 Response Rate of Questionnaires Distributed

Table 4.2: Response Rate of the Questionnaires

Responses	Frequency	Rate (%)
No. of questionnaire administered	367	100
Returned questionnaires	367	100
Returned and usable questionnaires	367	100
Valid response rate		100

Source: Author's Computation, (2020)

In this study, 367 questionnaires were distributed to SMEs owners in Oyo state. An aggregate of 367 copies were also returned which represents 100% response rate. This was achieved as a result of close monitoring by the researcher and enough time being given to the respondents to complete the questionnaires.

4.2.2 Demographic Characteristics of the Respondents

Table 4.3: Summary of the Respondents' Demographics

Items	Frequency	Percentage (%)
Gender		
Male	198	54
Female	169	46
Age		
18 – 30yrs	88	24.0
31 – 40yrs	122	33.2
41 – 50yrs	106	28.9
51 - 60	39	10.6
60yrs and Above	12	3.3
Academic Qualification		
First School Leaving Certificate	49	13.4
WAEC/GCE/NECO	108	29.4
NCE/OND	100	27.2
HND/BSc	67	18.3
Postgraduate/Professional	43	11.7
Business Classification		
Manufacturing/Agro-Allied	60	16.3
Trading	162	44.1
Services	89	24.3
Others	56	15.3

Source: Research Survey, (2020)

Table 4.3 reveals the frequency and percentages of male and female respondents for the study. It was revealed that male respondents carried larger percentage representing 54%. While female respondents was 46%. Likewise, the descriptive statistics shows the age bracket of respondents between 18 – 30 years 24.0%, followed by age bracket 31 – 40 years which is 33.2%, next is 41 – 50 years which is 28.9%, next is 51 – 60 years which is 10.6%, and lastly 61 years and above

carries 3.3%. The implication of this is that majority of the respondents fall within the age bracket of 31 – 40 years which takes highest percentage of 33.2.

The survey also revealed that majority of the respondents has WAEC\GCE\NECO representing 29.24%, followed by the group NCE\OND which carried 27.2%. 18.3% of the respondents have HND\BSc; 13.4% of the respondents have First School Leaving Certificate and lastly 11.7% have Post graduate\Professional qualification. Regarding business classification of the respondents, 44.1% were traders; 24.3% were service providers; 16.3% were into manufacturing \agro-allied business; and the rest 15.3% were others apart from the ones mentioned earlier.

4.2.3 Economic Factor (EF)

Table 4.4 Economic Factors

S/N	Items	Min	Max	Mean	S.Dev.
1	It is worth paying tax penalty rather than actual taxes because the likelihood of being caught is minimal.	1	5	2.10	1.305
2	Wealthier citizens are more likely to evade taxes since the level of absolute risk aversion decreases with income.	1	5	2.83	1.149
3	Higher tax rate is seen as an unfair treatment of taxpayers by the government	1	5	3.19	1.295
4	I pay taxes as required by law because the penalty is severed.	1	5	3.01	1.274
5	Audit rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns	1	5	3.30	1.149
6	I prepare my tax returns correctly because there is a strong chance that I may get caught	1	5	3.13	1.249
7	People accumulate their tax obligation as a result of lack of ability to pay.	1	5	3.77	1.195

Source: Research Survey, (2020).

The respondents' opinions on the economic factor among SMEs owners in Oyo state, Nigeria were expressed through items EF1 to EF7 and presented in Table 4.3. The results showed that the mean scores concerning economic factor range from 2.10 to 3.77 together with the standard

deviation 1.149 to 1.305. Majority of the respondents strongly disagreed that economic factor in terms of EF1 to EF7 have influence on voluntary tax compliance. This implies that the respondents had a strong agreement of the economic factor towards tax compliance. Generally, the overall mean scores and standard deviation of 3.05 and .763 respectively on all the items on economic factor indicate that the respondents strongly agreed on the economic factor.

4.2.4 Trust in Government

Table 4.5 Trust in Government

S/N	Items	Min	Max	Mean	S.Dev
1	Increase in tax revenue has led to appreciable development.	1	5	3.39	1.096
2	The services provided by the government are not comparable with the amount of taxes paid	1	5	3.51	1.144
3	The government is not being transparent in spending taxpayers' money.	1	5	3.35	1.235
4	Public funds are allocated equitably among citizens.	1	5	3.28	1.214
5	Access to good health facilities has substantially improved.	1	5	3.31	1.236
6	Security situation has significantly improved as a result of increase in tax revenue.	1	5	3.22	.948
7	Government is highly responsible to both social and infrastructural facilities.	1	5	3.16	1.281
8	The tax authority is transparent.	1	5	3.31	1.102

Source: Research Survey, (2020).

The result in Table 4.4 relating to trust in government as a factor affecting voluntary tax compliance was expressed through items TIG1 to TIG8. The means of these constructs range from 3.16 to 3.51 while the standard deviation range from 0.948 to 1.281. This show that majority of the respondents strongly agreed that trust in government in term of TIG1 to TIG8 have effect on voluntary tax compliance. Therefore, the respondents had a strong agreement on

the direct effect of trust in government on voluntary tax compliance. Generally, the overall mean score and standard deviation of 2.85 and 0.440 respectively on all the items on trust in government depict that the respondents agreed on trust in government.

4.2.5 Peer Group Influence

Table 4.6: Peer Group Influence

S/N	Items	Min	Max	Mean	S.Dev
1	I feel uncomfortable for not paying tax if others are paying their taxes.	1	5	2.43	1.291
2	The unwilling to fulfill someone else's tax obligation affects my tax behaviour.	1	5	2.44	1.067
3	I usually make decision to pay taxes based on friends' experiences or suggestions.	1	5	2.21	1.075
4	My decision to pay taxes is always influenced by my surroundings.	1	5	2.41	1.070
5	Compliance behaviour and attitudes towards taxation are affected by the social norms of an individual's reference group.	1	5	2.62	1.169

Source: Research Survey, (2020).

The descriptive statistics regarding peer group influence of respondents of SMEs owners in Oyo state, Nigeria and voluntary tax compliance are stated in Table 4.5. It was revealed that the mean scores of the respondents concerning peer group influence range from 2.21 to 2.62, while the standard deviation range from 1.067 to 1.291. Therefore, this implies that the respondents agreed that peer group influence in terms of PGI1 to PGI5 to some extent have influence on voluntary tax compliance. Generally, the overall mean score of 2.58 and standard deviation of 0.732 on all the items of trust in government suggest that the respondents agreed on peer group influence.

4.2.6 Tax Law Complexity

Table 4.7 Tax Law Complexity

S/N	Items	Min	Max	Mean	S.Dev
1	The option of self-assessment is in place, and the process and procedure are simple.	1	5	4.62	.679
2	Constant tax education and enlightenment is in place	1	5	3.80	.856
3	Overall performance of tax system is measured and reported periodically.	1	5	3.62	.559
4	Tax policies and laws ensure equal investment opportunities and support for businesses.	1	5	4.72	.782
5	The tax authority treats taxpayers in a respective manner.	1	5	4.10	1.150
6	Inability of states to prioritise tax effort may influence taxpayers' compliance.	1	5	4.75	1.249

Source: Research Survey, (2020).

Table 4.6 presents the descriptive statistics of responses concerning the tax law complexity and voluntary tax compliance among SMEs owners in Oyo state, Nigeria. It was revealed through items TLC1 to TLC6 that the mean scores range from 3.62 to 4.75, while the standard deviation range from 0.559 to 1.249. This clearly shows that majority of the respondents strongly agreed that tax law complexity had great influence on voluntary tax compliance among SMEs owners in Oyo state. With the overall mean score of 3.11 and standard deviation of 0.403, the respondents generally believed that tax law complexity was strong as a factor determining voluntary tax compliance among SMEs owners in Oyo state.

4.2.7 Voluntary Tax Compliance

Table 4.8 Voluntary Tax Compliance

S/N	Items	Min	Max	Mean	S.Dev
1	Declaration of all sources of income is essential for a good tax system.	1	5	4.13	.900
2	Taxpayers always file their tax returns accurately and timely.	1	5	2.82	1.177
3	Effective tax system depends on declaration of all sources of income.	1	5	4.20	.724
4	Citizens' willingness to pay taxes voluntarily rests on the government capacity to provide public goods.	1	5	4.11	.907
5	I usually file my tax return before the due date.	1	5	2.99	1.193
6	If everyone pays the correct amount of tax, we would enjoy better public facilities.	1	5	4.07	.918
7	Since the tax law does not treat everyone equally, it is fair for taxpayers to not declare all information correctly.	1	5	3.99	1.223

Source: Research Survey, (2020).

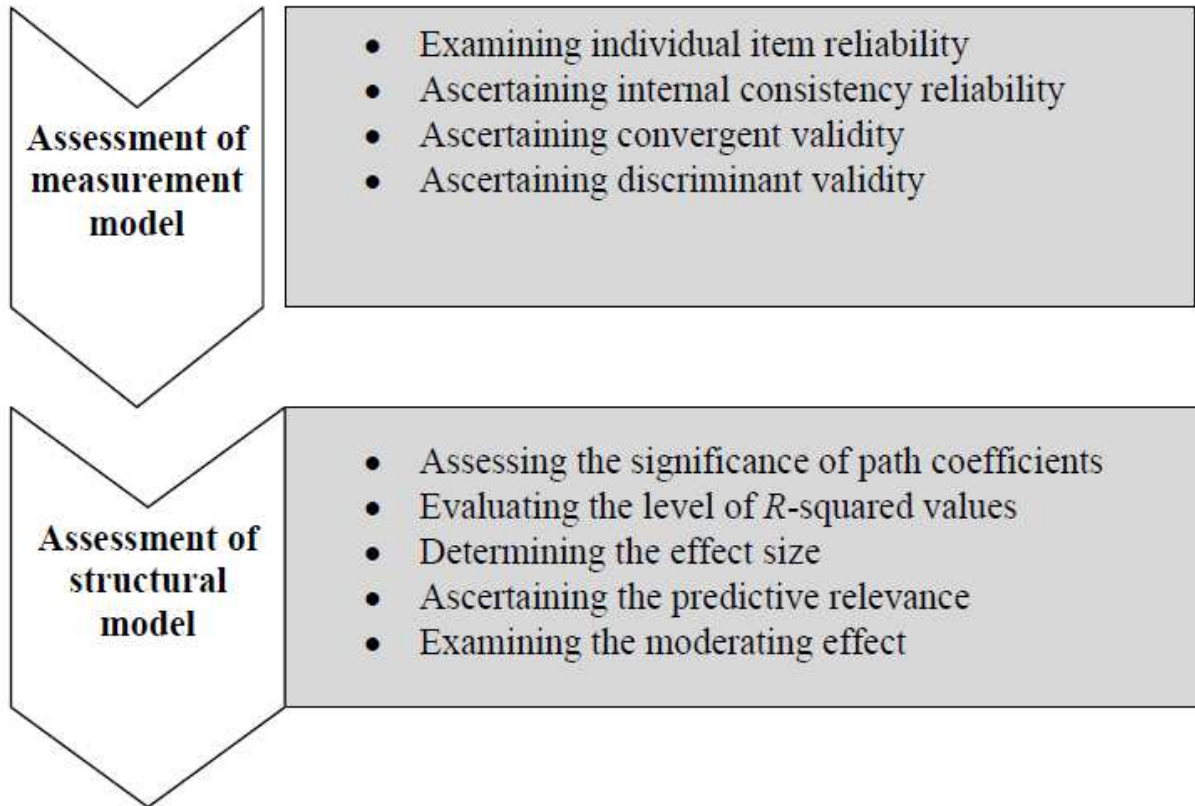
The respondents' views on voluntary tax compliance in Oyo state were expressed through items VTC1 to VTC7. The results of the descriptive statistics of the items were shown in Table 4.7. It was revealed that the opinion of the respondents about voluntary tax compliance as indicated in items VTC1 to VTC7 was strong. This is evidenced in the strong mean scores which range from 2.82 to 4.13. While the standard deviation range from 0.900 to 1.223. It was also revealed that more respondents expressed strong agreement with the item VTC1 (declaration of all sources of income is essential for a good tax system) than in the rest six items. 3.74 and 0.451 were shown as the overall mean score and standard deviation respectively, this shows that majority of the respondents strongly agreed on voluntary tax compliance.

4.3 Assessment of PLS-SEM Path Model Results

Researchers, for decades have applied PLS Path Modelling to analyse complex relationships between latent variables. As stated by Ringle *et., al*, (2012), PLS Path Modelling's popularity among scientists and practitioners is due to four genuine advantages. First PLS Path Modelling involves no assumptions about the population or measurement of scale, therefore, it can be used when distributions are highly skewed. Second, even when having a small sample, it can be used to estimate relationships between latent variables with several indicators (Chin & Newsted, 1999). Thirdly, modern-easy-to-use PLS Path Modeling software with graphical user interface (Ringle *et., al*, 2005). And fourthly, PLS Path Modeling is preferred over Covariance-Based Structural Equation Modeling (CBSEM).

However, PLS Path Modeling has been criticized for lack of a global scalar function and the consequent lack of goodness-of-fit measures has long been considered a drawback of PLS Path Modeling. As a response to this deficiency, Tenenhaus *et., al*, (2000) proposed the Goodness-of-fit index (Gof) which takes both the measurement and structural models' performance into account. Also, Tenenhaus *et., al*, (2005) pointed out that the GoF represents an operational solution to the problem as it may be meant as an index for validating the PLS Model globally. For this reason, the two-step process adopted in this study consists of assessment of measurement model and assessment of a structural model.

Figure 4.3 Partial Least Square-Structural Equation Modeling (PLS-SEM)



PLS-SEM is composed of two sub-models, the measurement model and structural model. The measurement model represents the relationships between the observed data and the latent variables. These relationships are ascertained by examining individual item reliability; internal consistency reliability; convergent validity and discriminant validity. While structural model represents the relationships between the latent variables, this can as well be ascertained by assessing the significance of path coefficient; evaluating the the level of r-square values; determining the effect size; ascertaining the predictive relevance and examining the moderating effect.

4.3.1 Assessment of Measurement Model

Assessment of measurement model is used to examine individual item reliability; ascertain internal consistency reliability; ascertain convergent validity; and ascertain discriminant validity.

Table 4.9 Cross Loading for the Latent Variables

Constructs	Items	EF	PGI	TIG	TLC	TC
Economic Factors (EF)	EF3	0.748	0.133	0.406	0.082	0.147
	EF5	0.803	0.121	0.319	0.137	0.174
	EF7	0.739	0.148	0.339	-0.028	0.182
Peer Group Influence (PGI)	PGI1	0.211	0.665	0.203	0.327	0.180
	PGI2	0.130	0.797	0.050	0.203	0.236
	PGI3	0.068	0.777	-0.012	0.176	0.209
Trust in Government (TIG)	TIG2	0.382	0.181	0.888	0.063	0.219
	TIG3	0.398	-0.052	0.784	-0.028	0.162
Tax Law Complexity (TLC)	TLC2	-0.151	0.114	-0.041	0.675	0.208
	TLC6	0.240	0.315	0.075	0.771	0.241
Tax Compliance (TC)	VTC4	0.190	0.203	0.198	0.189	0.724
	VTC5	0.141	0.215	0.148	0.273	0.768

Source: Research Survey, (2020).

To ensure that the measurement model is valid and reliable, the position of Basbeth (2018) was held who stated that the rules of thumb are, for an outer loading to be valid, it should be 0.05 and above, while the average variance extracted should greater than 0.5. Consequently, those items with outer loading below 0.05 were deleted.

A cross section of the loadings and cross loadings to be able to detect any problem with the items, this also serves as a prerequisite for determining the convergent validity was carried out as indicated in Table 4.9.

4.3.2 Assessment of Significance of the Structural Model

The present study assessed the structural model and also applied the standard bootstrapping procedure with a number of 5000 bootstrap samples and 203 cases to assess significance of the path coefficients (Hair *et al.*, 2014). The t-values in this study were calculated using a 5000 re sampling iterations in repetitive bootstrapping. The justification for the selection of 5000 samples is because it ensures that every model parameter has empirical sampling distribution and

the standard deviation of the distribution will serve as proxy of the parameter's empirical standard error (Hair *et al.*, 2012).

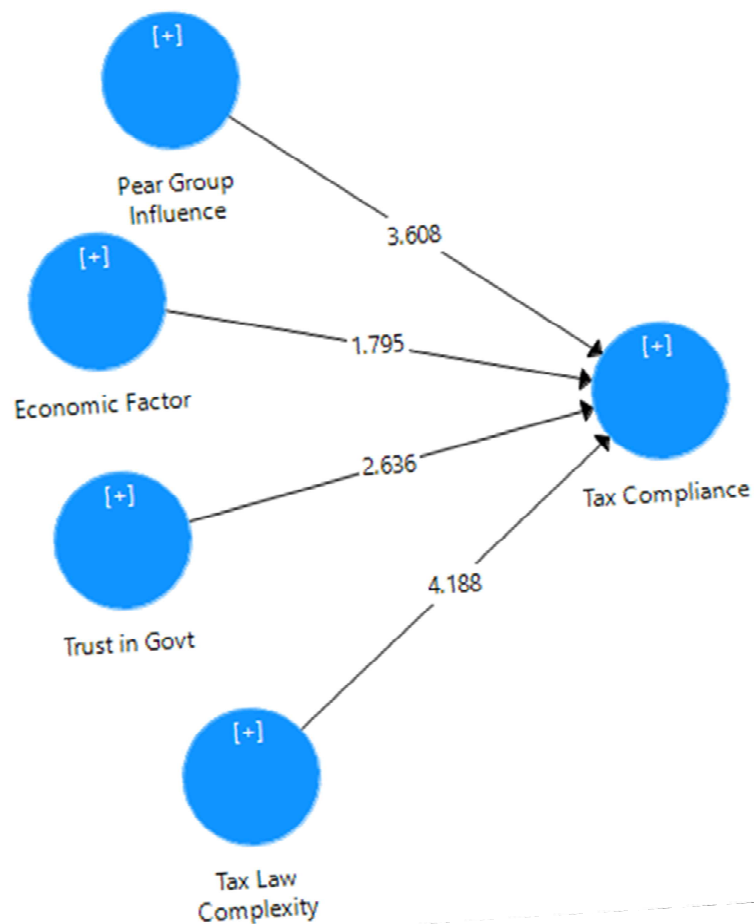


Figure 4.4 Results of Bootstrapping on Structural Model (Voluntary Tax Compliance)

Bootstrapping is any test or metric that uses random sampling with replacement, and falls under the broader class of resampling methods. Bootstrapping assigns measures of accuracy (bias,

variance, confidence intervals, prediction error, etc.) to sample estimates. This technique allows estimation of the sampling distribution of almost any statistic using random sampling methods. It estimates the properties of an estimator (such as its variance) by measuring those properties when sampling from an approximating distribution. One standard choice for an approximating distribution is the empirical distribution function of the observed data. In the case where a set of observations can be assumed to be from an independent and identically distributed population, this can be implemented by constructing a number of resamples with replacement, of the observed data set (and of equal size to the observed data set).

4.3.3 Assessment of Structural Model Result

Table 4.10 revealed the basic assumption summary supported and not supported in the study.

This shows that all the variables were supported except economic factor.

Table 4.10 Assessment of Structural Model Result for Hypotheses Testing

Variables	Beta	S.E	T values	P Values	Decision
Economic Factor -> Tax Compliance	0.096	0.053	1.795	0.073	Not Supported
Pear Group Influence -> Tax Compliance	0.172	0.048	3.608	0.000	Supported
Tax Law Complexity -> Tax Compliance	0.246	0.059	4.188	0.000	Supported
Trust in Government -> Tax Compliance	0.163	0.062	2.636	0.009	Supported

Source: Research Survey, (2020).

Hypothesis (H₁) The result of Table 4.10 indicated that economic factor has an insignificant positive effect on voluntary tax compliance among SMEs owners in Oyo state as shown by ($\beta = 0.096$, $t = 1.795$, and $p < 0.073$). Therefore, this resulted in accepting the null hypothesis which states that economic factor has no significant effect on voluntary tax compliance among SMEs owners in Oyo state.

Hypothesis (H₂). Based on the result shown in Table 4.10 and Figure 4.4, the finding revealed that trust in government exhibits a significant positive influence on voluntary tax compliance among SMEs owners in Oyo state as indicated by ($\beta = 0.163$, $t = 2.636$, and $p < 0.009$). This provides room to reject the null hypothesis which states that trust in government has no significant relationship with voluntary tax compliance among SMEs owners in Oyo state. Therefore, hypothesis 2 is supported.

Hypothesis (H₃) predicted that peer group influence is related to voluntary tax compliance. Result (Table 4.10 and figure 4.4) showed a significant positive relationship between peer group influence and voluntary tax compliance. ($\beta = 0.172$, $t = 3.608$, and $p < 0.000$). Hence, hypothesis 3 is supported.

Hypothesis (H₄) From the result shown in Table 4.10, it was deduced that tax law complexity has a positive and significant relationship with voluntary tax compliance among SMEs owners in Oyo state as evidenced by ($\beta = 0.246$, $t = 4.188$, and $p < 0.000$). This lead to rejection of null hypothesis which states that complexity of tax law does not significantly affect voluntary tax compliance. Therefore, hypothesis 4 is supported.

4.3.4 Assessment of Co-efficient Determination (Variance Explained in the Endogenous Latent Variables

Table 4.11: Coefficient Determination of R²

Variables	R ²	Adj. R ²
Tax Compliance	0.184	0.174

Source: Research Survey, (2020).

Co-efficient determination value (R^2) assessing the proportion of variance in the dependent variables that can be explained in the independent variables which can take any value between 0 and 1 (Enders, 2020). However, it is not always the case that a high r^2 is good for the model. The co-efficient determination value depends on several factors such as units of measure or the variance, the nature of the variance employed, and the applied data transformation. Thus, sometimes, a high co-efficient determination value can indicate issues with model. Although the acceptable level of R^2 depends on the research context (Hair,*et al.*, 2010). Enders (2020) proposed an R^2 value greater than zero as a minimum acceptable standard.

As shown in Table 4.11, the research model reveals 18% of the total variance in voluntary tax compliance. Therefore, the four sets of exogenous latent variables collectively explain 18% of the variance of voluntary tax compliance.

4.3.5 Assessment of Effect Size (f^2)

Table 4.12. Assessment of Effect Size (f^2)

Variables	Effect size (f^2)	Decision
Economic Factor	0.01	None
Peer Group Influence	0.03	Small
Tax Law Complexity	0.07	Small
Trust in Government	0.03	Small

Source: Research Survey, (2020).

This provides information about the magnitude and direction of the difference between two groups or the relationship between two variables. An ES can be a difference between means, a percentage, or a correlation (Vacha-Hasse & Thompson, 2004).

Table 4.12 itemised the effect sizes for the economic factor, peer group influence, tax law complexity and trust in government as 0.01, 0.03, 0.07 and 0.03 respectively. This resulted to

none, small, small and small respectively. Based on Thompson (2006) interpretation of effect size, the results suggest that the effect sizes of these four exogenous latent variables on voluntary tax compliance can be considered as none, small, small and small effect size respectively.

4.4 Discussion of Findings

From the empirical analysis and hypotheses tested, the empirical results showed that the independent variables proxy with trust in government, peer group influence and tax law complexity are significant positive determinants of voluntary tax compliance among SMEs owners in Oyo state. While economic factor has insignificant positive influence on voluntary tax compliance among SMEs owners in Oyo state, Nigeria.

4.4.1 Economic Factor and Voluntary Tax Compliance of SMEs Owners in Oyo State

The study found out that economic factors have positive influence but no significant influence on the level of voluntary tax compliance as indicated by ($\beta = 0.096, p < 0.073$). Therefore, it failed to provide support to the hypothesis one on the effect of economic factor on voluntary tax compliance among SMEs owners in Oyo state. This confirms the prediction of the social capital theory which states that the implementation of government programs ultimately depends less on authority and control than on mobilizing policy stakeholders, including policy recipients. The less the social capital, the more difficult such mobilization becomes. At the extreme, in a society with very low social capital, administrators are much more apt to find reliance on authority and control necessary, with resulting low governmental effectiveness. This implies that government policies towards ensuring tax compliance without motivating the taxpayer may end up yielding no result.

The result is in line with the findings of Mas'ud and Aliyu (2014); Bedi (2016). They found out that economic factor proxy with tax rate and audit probabilities have no significant positive effect on voluntary tax compliance. Conversely, the result is in contrast with the findings of Yongzi (2010); Kuug (2016); Dinku (2018) and Kanbiro (2018) who found that economic factor has significant positive effect on voluntary tax compliance. The finding, therefore disagree with the *a-priori* expectation of the study because it was expected that economic factor would have significant effect on voluntary tax compliance.

4.4.2 Trust in Government as a determinant of Voluntary Tax Compliance among SMEs Owners in Oyo State

As stated by research question two which intends to investigate the second objective to examine the impact of trust in government on voluntary tax compliance among SMEs owners in Oyo state. The result from the PLS-SEM analysis ($\beta = 0.163$, $p < 0.009$) indicated that there is a positive and significant relationship between trust in government and voluntary tax compliance. This implies that for a government which expects citizens to pay their taxes voluntarily, such a government should be ready to make available basic amenities to its citizen.

This goes in line with the prediction of expectancy theory that individuals have the tendency to relate rewards directly to performance and to ensure that the rewards provided are those rewards deserved and expected by the recipients, people can therefore trust government in a situation where their expectations are met. This significant positive finding is in line with the results of Antonios and Jorge (2009); Benk and Budak (2011); Modugu and Izedonmi (2012); Liucija (2014) and Stefenos (2019). However, the result is in contrast to the findings of Fadjar (2013)

and Kostritsa (2014). The result also goes in line with the a priori expectation that, trust in government would in no small way influence voluntary tax compliance among taxpayers.

4.4.3 Impact of Peer Group Influence on Voluntary Tax Compliance among SMEs owners in Oyo State

Similarly, the study revealed that peer group influence has significant and positive influence on the voluntary tax compliance among SMEs owners in Oyo state ($\beta = 0.172$, $p < 0.000$). The result supports the prediction of social capital theory that a person is more likely to participate in community building and bonding with those around him because, among other things, it works to their advantage. The implication of this is that many problems will be taken care of by social networking. Therefore citizen will now see that paying taxes voluntarily is a collective responsibility of every individual. The result likewise corroborates the a-priori expectation as the researcher expects that peer group influence would impact positively on the level of voluntary tax compliance among SMEs owners in Oyo state. Also the significant positive finding is in line with result of Inasius (2018) who concluded that one of the ways to pay taxes voluntarily is through the influence from peer group.

4.4.4 Influence of Tax Law Complexity on Voluntary Tax Compliance among SMEs Owners in Oyo State

Finally, the last research question is used to investigate the fourth objective which seeks to assess the influence of tax law complexity on voluntary tax compliance among SMEs owners in Oyo state. The study revealed that tax law complexity has significant and positive influence on the voluntary tax compliance among SMEs owners in Oyo state ($\beta = 0.246$, $p < 0.000$). This implies that laws and regulations relating to various taxes should be simple and comprehensive enough

such that everybody understands, this will give room for people to pay their taxes voluntarily as no barrier in terms of easily understanding tax laws will be no more an excuse. The result corroborates the a-priori expectation as the researcher expects that tax law complexity would in one way or the other influence voluntary tax compliance among SMEs owners in Oyo state. Also, the result has also found to be in support of previous findings such as Mckerchar (2007); David (2013) and Natrah (2014).

4.5 Summary of Findings

After all the results have been presented and the effects discussed in the preceding sections, the results of all the hypotheses tested are now presented in Table 4.13. As revealed in the Table 4.13, three out of the four hypotheses were supported.

Table 4.13: Summary of Hypotheses Testing

Variables	Beta	S.E		P Values	Decision
Economic Factor -> Tax Compliance	0.096	0.053	1.795	0.073	Not Supported
Peer Group Influence -> Tax Compliance	0.172	0.048	3.608	0.000	Supported
Tax Law Complexity -> Tax Compliance	0.246	0.059	4.188	0.000	Supported
Trust in Government -> Tax Compliance	0.163	0.062	2.636	0.009	Supported

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

This chapter focuses on the summary, conclusion and recommendations of the study. The chapter also presents the study's contribution to knowledge, suggestions for further studies and limitation as well as delimitation of the study.

5.1 Summary

Despite the fact that taxation is perceived to have being a dynamic tool for sustainable national development, the level of voluntary tax compliance by taxpayers has not been impressive and this has aggravated many failures on the part of the government. The tax noncompliance has often been attributed to such factors as lack of robust framework for the taxation of informal sector and high network individuals, thus limiting the revenue base and creating inequality; fragmented database of taxpayers and feeble structure for exchange of information by and with tax authorities, resulting in revenue leakage; inordinate drive by all tiers of government to grow internally generated revenue which has led to the arbitrary exercise of regulatory powers for revenue purpose.

Aside these other factors are: lack of clarity on taxation powers on each level of government and encroachment on the powers of one level of government by another; insufficient information available to taxpayers on tax compliance requirements thus creating uncertainty and non-compliance; Lack of or poor accountability for tax revenue; inadequate capacity which has led to the delegation of powers of revenue officials to third parties, thereby creating complications in the system; failure by tax authorities to honor refund obligations to taxpayers; the non-regular review of tax legislation, which has led to obsolete laws that do not reflect current economic

realities; and lack of strict adherence to tax policy direction and procedural guidelines for the operation of the various tax authorities (National Tax Policy, 2017).

The study reviewed several literatures on voluntary tax compliance. The literature review was divided into three sub-units which include the conceptual review, theoretical review and empirical review. In the same vein, the study was guided by theories such as expectancy theory, social capital theory, economic benefit theory and fiscal exchange theory. The findings of previous researchers on studies relating to this in recent years were also looked into and sectionalized as developed, developing and Nigeria for easy understanding and to expose the gap on the previous studies on the determinants of voluntary tax compliance.

The theories on which the study was anchored are expectancy theory and social capital theory. The study adopted survey research design. While the sample frame of the comprised three hundred and sixty seven (367) SMEs owners in Oyo state, captured into the tax net by Small Tax Office of FIRS. The data was sourced from the SMEs owners in Oyo state through self administered questionnaires and was analysed with the aid of descriptive and inferential statistics while the hypotheses were tested using Partial Least Square (PLS).

As most of the SMEs fall within the informal business, surprisingly, large percentage of them seem not pay their taxes voluntarily. Given the role of SMEs in an economy, this sector is pivot to the economic development of the country. Therefore, full compliance by this sector is very essential than any other sector of the economy as revenue through taxes generated will in no small way help in sustaining the economy. It is against this background that the study investigated the various factors influencing voluntary tax compliance in Oyo state, Nigeria. This was achieved through four specific objectives that were developed to proffer answers to the

research questions and they include: to determine the effect of economic factor on voluntary taxpayers' compliance among SMEs owners in Oyo state; to assess the effect of trust in government on voluntary taxpayers' compliance among SMEs owners in Oyo state; to examine the extent to which reference group affect voluntary taxpayers' compliance among SMEs owners in Oyo state; and to evaluate the relationship between tax law complexity and voluntary taxpayers; compliance among SMEs owners in Oyo state.

Lastly the study found among others that trust in government, peer group influence and tax law complexity have significant positive effect on voluntary tax compliance among SMEs owners in Oyo state, while economic factor as a determinant has no significant positive effect on voluntary tax compliance among SMEs owners in Oyo state.

5.2 Conclusion

Based on the empirical results of the hypotheses tested in chapter four, it was concluded that trust in government, peer group influence and tax law complexity have positive and significant effect on voluntary tax compliance among SMEs owners in Oyo state. Therefore, the study concluded that these three determinants are very essential in boosting voluntary tax compliance among taxpayers. This implies that adequate provision of basic amenities by the government will encourage taxpayers to pay their taxes willingly without being forced. Also, taxpayers will like to pay their taxes voluntary in a situation where the tax laws are self explanatory.

On the other hand, the study concluded that economic factor has no significant relationship with voluntary tax compliance among SMEs owners in Oyo state. This implies that government can only get maximum support from the people not necessarily by forcing them to do so but by implementing public friendly program to people.

5.3 Recommendation

From the conclusion of the study, the following recommendations are therefor made based on the empirical findings of this study in order to improve the level of voluntary tax compliance among SMEs owners in Oyo state.

- I. Based on the finding which shows that trust in government has significant positive effect on voluntary tax compliance among SMEs owners in Oyo state, this study recommends that government should spend revenue generated from taxes according to peoples' preferences by making sure that adequate facilities such as good road, access to good and affordable public education, regular electricity supply, security of life and properties are provided to the masses. This will typically encourage taxpayers to pay their taxes voluntarily.
- II. Government should embark on various sensitization program to reach various interest group on the importance of tax payment to both the government and the masses. This would solve the problem of information gap among various interest groups.
- III. Based on the result of hypothesis three, which shows that tax law complexity has significant positive effect on voluntary tax compliance among SMEs owners in Oyo state. This study therefore recommends that the government should review the existing tax laws through its agencies such as national assembly and Federal Inland Revenue Service (FIRS) to pave way for the enactment of tax laws which will be less sophisticated for people to understand with ease. This would solve the various problems of forms of complexity such as computational, forms and procedural complexities.

5.4 Contributions to Knowledge

This study examines the determinants of voluntary tax compliance among SMEs owners in Oyo state. Previous academic researchers have assessed the determinants of voluntary tax compliance using single independent variable as determinant. Based on the extant literature review, it was discovered that none of this researchers uses multi independent variables as used in this study.

In addition, this study uses Partial Least Square structural equation model as compare to previous studies such as (Ali and Fjelstad, 2014; Dinku and Alamirew, 2018; and Inasius, 2018) that used instrument such as multiple regressions, logit and probit estimation which always resulted to spurious findings due to variables involved which are latent in nature. Hence, this study caters for such abnormality.

5.5 Suggestions for further Studies

Research being a continuous effort, the following areas was suggested for further future researchers to:

- i. Consider more states when conducting their researches in assessing the determinants of voluntary tax compliance. This will provide more robust results which would go a long way in providing a more acceptable and reliable conclusion.
- ii. Consider other variables that can be used to determine voluntary tax compliance.
- iii. Make use of other sectors of the economy to ascertain whether the same factors can as well determine their level of voluntary tax compliance.

5.6 Limitation and Delimitation to the Study

This study is limited to informal sector of the economy, SMEs owners in particular and the independent variables used in the study. There are other variables that could be used to proxy the determinants of voluntary tax compliance that are not captured in this study. Another limitation is the sample size of the study which is limited to three hundred and sixty seven SMEs owners captured into the tax net by micro and small tax office of FIRS. This is because, there are still majority of them that had not been captured into the tax net.

In spite of these challenges however, this did not affect the findings of this study as a result of the adequate supportive and statistical evidence deploy to make the results reliable and fit for policy formulation.

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SURVEY QUESTIONNAIRE

Department of Finance and Accounting,
Kwara State University, Malete,
Kwara State.

Dear Respondent,

This question has been developed to gather feedback regarding Determinants of Voluntary Tax Compliance among Small and Medium Entrepreneurs in Oyo state, Nigeria. Your honest and objective response will in no small measure significantly contribute to the success of this work. The data will be used purely for academic purposes and treated with confidentiality.

Thank you for your cooperation.

Yours faithfully,

Ogunfunmilayo Taofeek .A.

16/27/MAC025

Section A: Questions 1-4 are related to your background. Please mark (X) only one option.

1. **Gender:** Male () Female ()
2. **Age:** 18 – 30 () 31 – 40 () 41 – 50 () 50 - 60 () 61 and above ()
3. **Formal Education:** First School Leaving Cert. () WAEC\GCE\NECO () NCE\OND () HND\B.S () Post graduate\Professional ()
4. **Business Classification:** Manufacture\Agro-Allied () Trading () Service () Others ()

Section B: Independent Variable. Please rate the extent to which you agree with each statement (X) according to the scale below. Please this applies to all sections. 1 = Strongly Disagree 2 = Disagree 3 = Undecided 4 = Agree 5 = Strongly Agree

	Statement on Economic Factor	SD	D	U	A	SA
a.	It is worth paying tax penalty rather than actual taxes because the likelihood of being caught is minimal.					
b.	Wealthier citizens are more likely to evade taxes since the level of absolute risk aversion decreases with income.					
c.	Higher tax rate is seen as an unfair treatment of taxpayers by the government.					
d.	I pay taxes as required by law because the penalty is severed.					
e.	Audit rates and the thoroughness of the audits could encourage taxpayers to be more prudent in completing their tax returns					
f.	I prepare my tax returns correctly because there is a strong chance that I may get caught					
g.	People accumulate their tax obligation as a result of lack of ability to pay.					

Section C: Independent Variable (Tick the appropriate space provided)

1 = Strongly Disagree 2 = Disagree 3 = Undecided 4 = Agree 5 = Strongly Agree

	Statements on Trust in Government	SD	D	U	A	SA
a.	Increase in tax revenue has led to appreciable development.					
b.	The services provided by the government are not comparable with the amount of taxes paid					
c.	The government is not being transparent in spending taxpayers' money.					
d.	Public funds are allocated equitably among citizens.					
e.	Access to good health facilities has substantially improved.					
f.	Security situation has significantly improved as a result of increase in tax revenue.					
g.	Government is highly responsible to both social and infrastructural facilities.					
h.	The tax authority is transparent.					

Section D: Independent Variable (Tick the appropriate space provided)

1 = Strongly Disagree 2 = Disagree 3 = Undecided 4 = Agree 5 = Strongly Agree

	Statements on Peer Group Influence	SD	D	U	A	SA
a.	I feel uncomfortable for not paying tax if others are paying their taxes.					
b.	The unwilling to fulfill someone else's tax obligation affects my tax behaviour.					
c.	I usually make decision to pay taxes based on friends' experiences or suggestions.					
d.	My decision to pay taxes is always influenced by my surroundings.					
e.	Compliance behaviour and attitudes towards taxation are affected by the social norms of an individual's reference group.					

Section E: Independent Variable (Tick the appropriate space provided)

1 = Strongly Disagree 2 = Disagree 3 = Undecided 4 = Agree 5 = Strongly Agree

	Statements on Tax Law Complexity	SD	D	U	A	SA
a.	The option of self assessment is in place, and the process and procedure are simple.					
b.	Constant tax education and enlightenment is in place					
c.	Overall performance of tax system is measured and reported periodically.					
d.	Tax policies and laws ensure equal investment opportunities and support for businesses.					
e.	The tax authority treats taxpayers in a respective manner.					
f.	Inability of states to prioritise tax effort may influence taxpayers' compliance.					

Section F: Dependent Variable (Tick the appropriate space provided)

1 = Strongly Disagree 2 = Disagree 3 = Undecided 4 = Agree 5 = Strongly Agree

	Statements on Voluntary Tax Compliance	SD	D	U	A	SA
a.	Declaration of all sources of income is essential for a good tax system.					
b.	Taxpayers always file their tax returns accurately and timely.					
c.	Effective tax system depends on declaration of all sources of income.					
d.	Citizens' willingness to pay taxes voluntarily rests on the government capacity to provide public goods.					
e.	I usually file my tax return before the due date.					
f.	If everyone pays the correct amount of tax, we would enjoy better public facilities.					
g.	Since the tax law does not treat everyone equally, it is fair for taxpayers to not declare all information correctly.					

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