

TRUST IN GOVERNMENT, PEER GROUP INFLUENCE AND VOLUNTARY TAX COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES OWNERS IN OYO STATE, NIGERIA

Oyedele Oloruntoba, Ph.D, ACS.

Department of Accounting and Finance,
Ajayi Crowther University, Oyo
Email: oyeoloruntoba01@yahoo.com

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. Hence, this study looked at factors influencing voluntary; tax compliance among SMES owners in Oyo State, Nigeria. The specific objectives are. 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. 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 $p < 0.009$) and reference group influence ($b = 0.172$, $t = 3.608$, and $p < 0.000$) have significant positive impact on voluntary taxpayers' compliance at 0.05% level of significant among SMEs owners in Oyo state. 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.

Keywords: tax compliance, economic growth, SMEs, Oyo State, peer group, Nigeria

1. Introduction

Tax non-compliance 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).

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 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 in Shaik, 2017).

On the other side, other writers such as Smith and Kinsey (1987) argued that tax non-compliance is a deliberate behavior. 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 (Adams, 2003).

Inability of government to act responsibly and fairly to the plight of its citizens always has an adverse effect on tax reporting behavior 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). 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.

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.

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. From the reviewed literature, it was discovered that the joint effect of variables such as trust in government and reference group influence on voluntary tax compliance remains unexplored in a single research work. In addition to this, there exists methodological inadequacy in the previous works in the study area. Taking this into consideration, the research work intends to assess the relationship between trust in government and reference group influence, and voluntary tax compliance in Oyo state, Nigeria. Therefore, this study filled the gaps identified in the literature.

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

- a. To what extent does trust in government affect voluntary taxpayers' compliance among SMEs owners in Oyo state?
- b. What effect does peer group influence have on voluntary taxpayers' compliance among SMEs owners in Oyo state?

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:

- a. Determine the effect of trust in government on voluntary taxpayers' compliance among SMEs owners in Oyo State.
- b. Assess the effect of peer group influence on voluntary taxpayers' compliance among SMEs owners in Oyo state.

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

Ho1: Trust in government has no significant effect on voluntary taxpayers' compliance among SMEs owners in Oyo state, Nigeria.

Ho2: Peer group influence has no significant relationship with voluntary taxpayers' compliance among SMEs owners in Oyo state.

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 entrepreneur in Oyo state, Nigeria. Two determinants were looked at, which are trust in government and reference group influence 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.

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.

The study examined the determinants of voluntary tax compliance among small and medium entrepreneurs 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 one of the commercial centers in South-Western region of Nigeria, this avails the researcher to have more respondents for the study.

2. Literature Review

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. Another definition of tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately, and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions from the authority (Singh, 2003). 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 (accuracy) 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).

2.1.2 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 by taking place 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).

2.1.3 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 (Snaveley, 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).

2.1.4 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). 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.

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).

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 utilization 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

2.2 Theoretical Framework

The theoretical basis for this study is the expectancy theory and social capital theory, this is because no single theory captures the two 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.

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. 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, Afro barometer 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.

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.

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.

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 analyze 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.

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.

3. Methodology

3.1 Research Design

The research design employed for the study was a survey design. It was a design which involves the use of questionnaire survey technique and testing of hypotheses gathered from primary data.

3.2 Population of the Study

The population of this study comprised 4,396 small and medium scale entrepreneurs from the 33 local government areas of Oyo state. 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 entrepreneurs 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.

The formula goes thus:

$n = N \sqrt{1 + Ne^2}$. 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, (2021)

3.4 Method of Data Collection

The researcher made use of primary data which were gathered with the aid of self-administered questionnaires from the sampled SMEs owners in Oyo state. The primary data was collected from 367 SMEs. 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 is 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 Data Analysis and Estimation Technique

Based on the objectives of the study, the data collected was analyzed using both descriptive and inferential statistics. 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 (trust in government and reference group influence). 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, reference group influence and criminal penalty) and voluntary tax compliance. The model was written as follow:

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

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 one independent variable (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. 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:

$$VTC = \beta_0 + \beta_1 (TIG) + \beta_2 (PGI) + \epsilon_i$$

Where,

VTC— Voluntary tax compliance

TIG = Trust in Government

PGI = Peer Group Influence

β_0 = the intercept of the regression line

e_i = the error term

The a-priori expectation of the model is a positive relationship between the dependent variable and independent variables, i.e. β_1 , β_2 and > 0 .

4. Results 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.

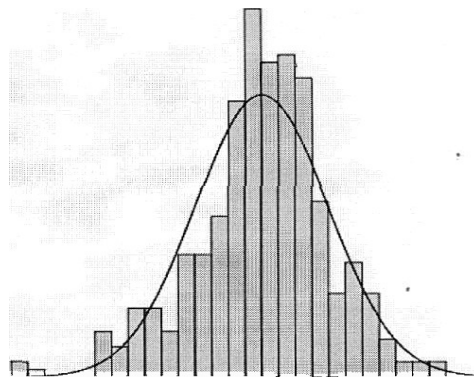
4.1 Preliminary Analysis of Data

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 of large sample size (Reinartz, 2019). And also the model is complex integrating two independent variables and one dependent variable (Henseler et al., 2012)

Histogram

Dependent Variable: Tax Compliance



Regression Standardized Residual

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.

Normal P – P plot of Regression Standardized Residual

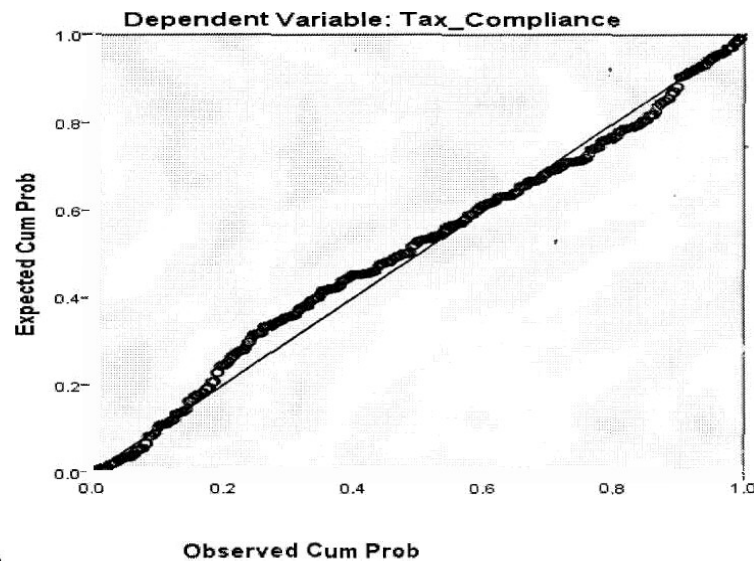


Figure 4.2, Scatter Plots between TIG, PGI and tax compliance

4.1.3 Multicollinearity Test

Table 4.1 Collinearity test (VIF and Tolerance)

Variables	N	Tolerance	VIF
Trust in Government (TIG)	367	.977	1.023
Peer Group Influence (PGI)	367	.816	1.225

Source: Research Survey, 2021

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 Demographic Characteristics of the Respondents

Table 4.2: 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
60 yrs. 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, (2021)

Table 4.2 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 Postgraduate\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.

4.2.2 Trust in Government

Table 4.3 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, (2021).

The result in Table 4.3 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 shows 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.

Peer Group Influence**Table 4.4 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
2	I usually make decision to pay taxes based on friends experience or suggestions	1	5	2.21	1.075
4	My decision to pay taxes is always influenced by my surrounding	1	5	2.41	1.070
5	Compliance behavior 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, (2021).

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.

4.2.4 Voluntary Tax Compliance**Table 4.5 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, (2021).

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 4.5. 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.

4.3.1 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 4.6 Cross Loading for the Latent Variables

Constructs	Items	PGI	TIG	TC
Peer Group influence (PGI)	PG11	0.665	0.203	0.180
	PG12	0.797	0.050	0.236
	PG13	0.777	-0.012	0.209
Trust in Government (TIG)	TIG2	0.181	0.888	0.219
	TIG3	-0.052	0.784	0.162
Tax Compliance (TC)	VTC4	0.203	0.198	0.724
	VTC5	0.215	0.148	0.768

Source: Research Survey, (2021).

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 be 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 4.6.

4.3.2 Assessment of Structural Model Result

Table 4.7 revealed the basic assumption summary supported and not supported in the study. This shows that all the variables were supported.

Table 4.7 Assessment of Structural Model Result for Hypotheses Testing,

Variables	Beta	S.E	T values	P Values	Decision
Pear Group Influence -> Tax Compliance	0.172	0.048	3.608	0.000	Supported
Trust in Government -> Tax Compliance	0.163	0.062	2.636	0.009	Supported

Source: Research Survey, (2021).

Hypothesis (H1) Based on the result shown in Table 4.7, 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 1 is supported.

Hypothesis (H2) predicted that peer group influence is related to voluntary tax compliance. Result (Table 4.7) showed a significant positive relationship between peer group influence and voluntary tax compliance. ($\beta = 0.172$, $t = 3.608$, and $p < 0.00$). Hence, hypothesis 1 is supported.

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 and peer group

influence are significant positive determinants of voluntary tax compliance among SMEs owners in Oyo state.

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

As stated by research question one which intends to investigate the first 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.

4.4.2 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.

4.5 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 4.8. As revealed in the Table 4.8, the two hypotheses were supported.

Table 4.8: Summary of Hypotheses Testing

Variables	Beta	S.E		P Values	Decision
Peer Group Influence -> Tax Compliance	0.172	0.048	3.608	0.000	Supported
Trust in Government -> Tax Compliance	0.163	0.062	2.636	0.009	Supported

5. Summary, Conclusion and Recommendations

The study reviewed several literatures on voluntary tax compliance. The literature review was divided into three sub-units which include the conceptual review, empirical review and theoretical framework. In the same vein, the study was guided by theories such as expectancy theory and social capital theory. The findings of previous researchers on studies relating to this in recent years were also looked into 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 analyzed 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 two specific objectives that were developed to proffer answers to the research questions.

Conclusion and Recommendations

Based on the empirical results of the hypotheses tested, it was concluded that both trust in government and peer group influence have positive and significant effect on voluntary tax compliance among SMEs owners in Oyo state. Therefore, the study concluded that these two 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 voluntarily while being motivated by groups such as friends, coworkers and family members.

The following recommendations are 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. 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. Secondly, government should embark on various sensitization programme 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.

References

- Adekoya, A. A., & Akintoye, I. R. (2019). Government transparency moderated by trust in government and voluntary tax compliance behaviour in Nigeria. *International Journal of Economics, Commerce and Management*, 7(5), 147-159.
- Ajiboye, A. B., & Dosunmu, Y. F. (2007). Contesting good governance in Nigeria: legitimacy and accountability perspectives. *Journal of social Science*, 21(3), 217-224.
- Alabi, A. (2017, January 18). Nairabet CEO to give out 5 million naira to 50 SMEs. <http://www.enterprise54.com/nairabet-ceo-akin-alabi>
- Ali, M., & Fjeldstad, O. (2014). Factors affecting tax compliant attitude in Africa. *Journal of Accounting Research*, 2(12), 233-245.
- Aim, J. (1999). A perspective on the experimental analysis of taxpayer reporting: The accounting review. *Journal of Accounting Literature*, 66(3), 577-593.
- Antonios, K., Leonardo, G., & Jorge, M. (2009). Tax compliance among low income earners. International Centre for Public Policy.
- Bello, D. Y. (2014). Tax morale and tax compliance: A theoretical and empirical analyses. *Journal of Asian Social Science*, 5(7), 351-367.
- Benk, S., & Budak, T. (2011). Power and trust as determinants of voluntary versus enforced tax compliance: Empirical evidence for the slippery slope framework from Turkey. *African Journal of Business Management*, 6(4), 1499—1505.
- Bobek, E. C., & Chung, J. (2007). The effects of friendly persuasion and gender on tax compliance behaviour. *Journal of Business Ethics*, 47, 133-145.
- Carpenter, C. (2003). SMEs finance in Nigeria. Paper presented for the roundtable on making small business profitable in Nigeria. <http://www.ypforum.org/news.carpenter>
- Christian, N. O. (2016). the challenge of revenue maximization in Nigeria through voluntary tax compliance. Ph.D. thesis.
- Decremer, D., and Tyler, T. R. (2007). The effects of trust in authority and procedural fairness on cooperation. *Journal of Applied Psychology*, 92(3), 639-674.

- Dinku, T., & Alamirew, A. (2018). External factors affecting taxpayers' compliance. The case of Amhara National Regional State Revenue Authority. *Journal of Business and Finance Analysis*, 4(3), 152-165.
- Fadjar, O. P. (2013). The effect of tax transparency and trust on taxpayers' voluntary compliance. *Journal of Business Research*, 3(2), 104-117.
- Feld, L. P., & Frey, B. S. (200d). Tax compliance as the result of a psychological tax contract: The role of incentives and responsive regulation. *Law and Policy*, 2(1), 102—120.
- Fowler, B. (2018, October 17). Driving tax compliance through innovative ideas. *The Sun*.
- Fowler, B. (2019, October 24). Nigeria loses five trillion naira to tax. Evasion annually. *The Punch*.
- Frey, B. S' (2003). Deterrence and tax morale in Frey, B.S. (2003). Deterrence and tax morale in the European Union, *European Review*, 11(3), 385 - 406.
- HM Revenue & Customs (2017). HM Revenue & Customs Performance in 2014 - 2015. Retrieved from <http://www.publication.parliament.uk/pa/cmpubacc/712.pdf>
- Henseler, J., Ringle, C. M., & Sarstedt, M. (2012). A new criterion for assessing discriminate validity in variance-based and variance-based structural equation modeling. *Journal of Academy in Marketing Science*, 43(1), 115-135.
- Inang, E. E., & Ukpong, G. E. (2017). A review pf SMEs credit delivery strategies in Nigeria. *CBN Economic and Financial Review*
- Inasius, F. G. (2018). Factors influencing small and medium enterprises tax compliance. *International Journal of Public Administration*, 5, 99-112.
- Jackson, B. R., & Milliron, V. C. (2001). Tax compliance research: Findings, problem, and' prospects. *Journal of Accounting Literature*, 5, 125—165.
- Jie, M . M. (2017). Taxpayers' attitude toward tax compliance in developed and developing countries. *Journal of Business and Financial Affairs*, 14(5), 316-329.
- Kirchler, E. (2007). *The Economic Psychology of Tax Behaviour*: Cambridge University Press.
- Kostritsa, M. (2014). The impact of social norms, trust and fairness on voluntary tax compliance in Australia. *Universal Journal of Accounting and Finance*, 7, 105-134.
- Larrisa-Margareta, B. (2012). Understanding the determinants of tax compliance behavior. *Journal of Economic and Public Administration*, 12(15), 98-112.
- Liucija, B. (2014). Effects of tax law complexity on voluntary tax compliance. *Scientific Annals of Economics and Business*, 61(1), 1-15.
- Mogudu, K., Eragbe, E., & Izedonmi, F. (2012). Government accountability and voluntary tax compliance in Nigeria. *Research Journal of Finance and Accounting*, 3(5), 69—76.
- Murphy, E. D. (2004). Relationship between tax compliance internationally and selected determinants of tax morale. *Journal of International Accounting, Auditing and Taxation*, 13, 133-145.
- Nandakishore, L. V. (2019). Bayesian analysis for component manufacturing processes. *Journal of Modern Applied Statistical Methods*, 9(2), 27-39.

- Obaid, M. M. (2020). An investigation of the determinants of tax compliance among Yemeni manufacturing SMEs. *International Journal of Psychosocial Rehabilitation*, 24(2), 1, 8080- 1,824
- Omosomi, O. (2019). Assessing current market condition and business growth prospects ' in Nigeria. PWC Publication
- Oyelaran, M. F. (2020). Measuring tax compliance among small and medium enterprises in Nigeria. *International Journal of Accounting and Taxation*, 6(2), 29-40.
- Paul, G. J. (2013). Enhancing voluntary compliance by reducing compliance cost: A taxpayer's approach. *Journal of Business and Management*, 10(7), 172-185.
- Reinartz, W., Haenlein, D., & Henseler, J. (2019). An empirical comparison of the efficacy of co-variance based and variance-based structural equation modeling. *International Journal of Research in Marketing*, 26(4), 332-344.
- Rohrschneider, R. (2005). Institution quality and perception of presentation in advanced industrial democracies. *Comparative Political Studies*, 38(7), 850-874.
- Shaik, A. M. (2017). Factors affecting voluntary compliance of category "C" taxpayers. *International Journal of Scientific and Research Publication*, 13(6), 207-288.
- Simon, H. EA. (1991). Organizations and market. *The Journal of Business*, 59(4), 209—224.
- Singh, V., & Bhupalan, R. (2003). The Malaysian self-assessment system of taxation: Issues and challenges. *International Journal of Public Administration*, 9, 154-165.
- Snively, K. (1990). Governmental policies to reduce tax evasion: Coerced versus service and values development. *Policy Science*, 23(1), 57-72.
- Stefanos, R. B. (2019). The effects of knowledge on tax compliance behaviour among Malaysian taxpayers. *Journal of Public Economics*, 25, 181-196.
- Tabachnick, B. G., & Fidell, L. S. (2007). *Using Multivariate Statistics* (5th ed.) Boston, MA: Allyn & Bacon
- Torgler, B. (2004). Tax morale and institutions. Centre for Research in Economics, Management and Art (CREMA)
- Tran, S. T., & Nguyen, S. (2015). Perceived tax evasion and the importance of trust. *Journal of Social Economics*, 38(2), 238-245.
- Welch, M. R., Bjarnason, T., & O'Donnell, P. (2009). The effects of perceptions, moral pressures and informal sanction on tax cheating. *Sociological Spectrum*, 25(1), 21-25.
- Yesi, B. M. (2019). Voluntary tax compliance: Impact of justice and trust in government authorities. *Journal of Psychosocial Rehabilitation*, 24(6), 3494-3508.