

EFFECT OF PERSONAL INCOME TAX DETERMINANTS ON TAX COMPLIANCE AMONG MICRO-ENTERPRISE IN TARABA STATE

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The impact of income taxes to the total revenue of Nigeria's government continued consistently low and is relatively shrinking due to low tax compliance. This study assesses the effect of personal income tax determinants on tax compliance among micro-enterprise in Taraba State. The study used survey cross-sectional research design and collected data using primary method through self-administered questionnaire. The population of this study is 205,418 micro-enterprise Taraba, while the sample size of 384 personal income tax payers. Regression analysis was used as techniques of data analysis with the help of SPSS version 23. The results showed that tax fairness has significant negative effect with tax compliance in Taraba state, Nigeria, Moreover, the results showed that tax knowledge and probability of detection, tax service quality have significant positive effect with tax compliance in Taraba State, Nigeria, while trust in government is not significant. Therefore, the study recommends that tax authorities in Taraba State prioritize continuous taxpayer education to enhance tax knowledge among micro enterprises, while also strengthening enforcement measures such as audits and sanctions to increase the probability of detection and discourage evasion. Improving the quality of tax services through transparency, efficiency, and the use of modern technology is equally essential to encourage voluntary compliance. Finally, rebuilding trust in government requires greater accountability, anti-corruption initiatives, and effective utilization of tax revenue in ways that directly benefit taxpayers.

Keywords: Personal income tax, Tax fairness, Tax service quality, Trust in Government and Tax compliance

1. Introduction

Governments are commanded to provide public services to their citizens. In order to fulfil this obligation, they require revenue, which is majorly generated through taxes

(Oladele, 2021). Many governments in the world need viable funding for social programs and infrastructure development to support socio-economic development (Gambetta et al., 2018). Moreover, compliance with tax payment is mandatory for all, and citizens are expected to adhere to the tax law freely; unfortunately, some people refuse to do so (Kadek et al., 2021). Furthermore, Personal Income Tax (PIT) remains one of the eldest and most significant sources of government revenue globally. In Nigeria, PIT serves as a crucial fiscal tool for mobilizing internal resources, redistributing income, and promoting economic development (Nasir, 2022).

Furthermore, Micro Enterprises (MEs) are those businesses whose total assets (excluding land and building) are above five million Naira but not exceeding five hundred million Naira and with a total workforce of between 10 and 199 employees (Kippa, 2023). Micro Enterprises (MEs) show an important role in Nigerian society as both employers and drivers of economic growth. Yet, tax non-compliance among MEs in Nigeria has been found to be very great (Moerenhout & Yang, 2022). Moreover, adequate knowledge of taxation, rules, policies, and legal obligations-plays a significant role in shaping taxpayer behavior. Many micro enterprise owners lack specific knowledge about tax processes, which reduces their willingness and ability to comply (Ibrahim & Lawal, 2022; Newman & Nokhu, 2018). A lack of tax knowledge often results in unintentional non-compliance or allows for manipulation by unethical tax agents (Carsamer & Abbam, 2023).

Moreover, trust in government when taxpayers trust that their contributions are used transparently for public welfare makes them more willing to comply with tax obligations (Kiptum et al., 2024; Prastiwi et al., 2021). In the realm of taxation, government trust creates a psychological contract between taxpayers and authorities, promoting compliance through a shared commitment to societal welfare (Prastiwi et al., 2021). Similarly, tax fairness also significantly influences PIT compliance. Taxpayers are more inclined to comply when they believe the tax system is equitable and that they are not being disproportionately burdened compared with others (Oladipo et al., 2022). For micro enterprises owners, fairness means being taxed according to income levels and business capacity, and being subject to the same standards applied to larger corporations.

Therefore, the probability of detection also plays an essential role in PIT compliance. When taxpayers perceive a high likelihood of audits or penalties, they are more likely to comply (Allingham & Sandmo, 1972; Mohammed et al., 2020). Compliance concerning the probability of detection has received attention from many researchers. More also, the quality of tax services provided by tax authorities plays a vital role in compliance. When ME operators receive efficient, courteous, and timely services from tax authorities, they are more likely to comply voluntarily (Kiptum et al., 2024). This research focus on owners/managers of micro enterprises such as pure sachet water factories, block molding factories livestock feed sale milling, rental services, ice block, cement businesses and poultry farms, cake baking and decoration in Taraba State, Nigeria. The above-mentioned businesses are the most common types of micro businesses found in Taraba State, which create many job chances for average citizens and generate much revenue for the owners.

Furthermore, Tax compliance among micro enterprises in Nigeria is poor, due to lack of proper enlightenment, multiple taxation, and complex filing procedures (Akan & Azaka, 2023). Also, in most developing nations, taxation has been perceived as a heavy task, and one which only helps the political elite in government and officials holding top-notch positions; this horrible mentality has been one of the driving factors

behind low taxpayers' compliance in developing economies, especially Nigeria (Ishak & Ali, 2020). The biggest problem, which makes taxpayers perceive PIT as unfair, is the fact that governments in Nigeria are perceived as corrupt and selfish, making taxpayers unwilling to voluntarily give money. Furthermore, the Taraba State government also faces internally generated revenue (IGR) issues, especially in 2023. Based on statistics from the National Bureau of Statistics (NBS, 2023), Taraba is the state with the least IGR, about ₦10.67 billion in the country, all because of non-compliance and the lack of focus on microenterprises in the state, which are part of the areas that generate IGR for both the state and the country at large.

Therefore, for the above problem stated, this study intends to assess the effect of personal income tax determinants on tax compliance among micro-enterprise in Taraba State. Furthermore, This study is important to the Nigerian government/state board of internal revenue may be among the primary beneficiaries of this study. It is hope that the outcome of this study may assist the legislature and executive in reviewing, updating and formulating the laws that may be helpful both to the government and the taxpayers so as to increase the level of tax compliance through generation of massive tax revenue. Also, the study may contribute by affirming and validating the postulation of Deterrence Theory, equity Theory. Therefore, as of methodological contribution, this study modified the content of the instrument to directly address the subject matter of the study.

2. Review of Empirical Studies and Hypotheses Development

Tax Fairness and Tax Compliance

Research conducted by (Debebe, 2021; Wulandari & Budiaji 2017) successfully and proven that positive perception results in good compliance behaviors. If tax fairness perception found exists, voluntary compliance will increase and vice versa. Simone *et al.* (2020) showed a substantial negative relationship between tax fairness and tax compliance. They found that the perception of a fair tax system significantly negative effects on tax compliance behavior, he also argued that tax compliance is the result of the overall fairness in the society, Hence the following hypothesis was formulated.

H₀₁: Tax fairness has no significant effect on tax compliance among micro enterprises in Taraba states.

Tax Knowledge and Tax Compliance

A study conducted by (Aremu & Siyanbola, 2021) that examined the effect of tax knowledge on tax compliance in the informal sector of Ogun state which documented a significant and positive effect between tax knowledge and tax compliance the result of the study revealed that tax knowledge has positive and significant relationship with tax compliance. In a study conducted by Saragih *et al.* (2021) that examined determinants of tax evasion. The results showed a negative and significant effect of tax knowledge toward the ethical perception of tax evasion.

H₀₂: Tax knowledge has no significant effect tax compliance among micro enterprises in Taraba states.

Probability of Detection and Tax Compliance

Research findings of Ya'u *et al.* (2020) on the effects of economic deterrence variables and royalty rates on petroleum profit tax compliance in Nigeria; an empirical analysis, the result indicated that there is positive and significant relationship between probability of detection and taxpayer compliance, postulates that the higher the probability of being detected, the higher the tax compliance. Areo *et al.* (2020) on his

work title, personal Income tax compliance in Nigeria: A Generalized Ordered Logistic Regression, the finding reveals that probability of detection was found to be negatively significant on taxpayer compliance on taxpayer compliance.

H03: Probability of detection has no significant effect on tax compliance among micro enterprises in Taraba states.

Trust in government and Tax Compliance

In the same vein, Alshira'h (2024) conducted research to examine the impact of trust in government on tax morale globally. The research relied on secondary world values survey cross country data from 92 countries between 1981 and 2014. Logit regression model was used to analyse the study's data. It was found that trust in government has a significant positive impact on tax morale.

Also in the work of Sulistyowati et al. (2024), this research aims to determine the influence of the role of tax knowledge, tax service quality, and trust in the government on Kemayoran District MSME taxpayer compliance the results of this research state that knowledge of taxation influences the compliance of Kemayoran District MSME taxpayers, the quality of tax service does not influence the compliance of Kemayoran District MSME taxpayers, and trust in the government does not influence the compliance of Kemayoran District MSME taxpayers.

H04: Trust in government has no significant effect on tax compliance among micro enterprises in Taraba states.

Tax Service Quality and Taxpayer Compliance

Kurniawan and Daito (2021) also conducted the research on the effect of tax sanctions and tax authorities' services on tax compliance and taxpayer awareness as moderation variable (survey on corporate taxpayers domiciled in Tangerang) the finding showed that tax service quality has a positive effect on corporate taxpayer. Contrarily, Mukiyidin et al. (2021) on the research title the effect of corporate taxpayer's compliance, the result showed tax service have a negative impact on taxpayer compliance. Hence the following hypothesis was formulated

H05: Tax service quality has no significant effect on tax compliance among micro enterprises in Taraba states.

Theoretical Review

Deterrence Theory

The Economic Deterrence Theory, rooted in the work of Becker (1968), asserts that individuals are rational actors who seek to maximize utility. Within the tax context, compliance is seen as a cost-benefit decision where individuals weigh the potential financial gains of evasion against the risks of detection and penalties. A higher probability of detection and severe penalties serve as deterrents, thereby increasing compliance behavior. This theory is relevant for understanding enforced compliance, particularly in developing economies like Nigeria where tax monitoring mechanisms are often weak. Micro-enterprise owners, who typically operate within informal sectors, may be more responsive to enforcement-based measures due to limited trust in voluntary systems. Thus, EDT complements TPB by explaining the external and enforcement-related factors that influence tax compliance.

Equity theory

Equity theory was found to be stable for this research because of its relative in addressing the perception of fairness. Equity theory explains whether the allocation

and distribution of resources are fair to relational parties, for example, taxpayer and tax authority. Equity is measured by looking at the costs to the benefits/rewards for an individual. Based on this relationship, the conclusion can be made that, where taxpayers perceive fair treatment from the relevant tax authority, they will voluntarily comply with tax regulations and government revenue will increase as a result of that voluntary compliance. Equity theory argues that partners should receive equal advantage. For example, taxpayers need to receive equal care, love, consideration and equal distribution of income by government before they engage in voluntary tax compliance tax compliance.

3. Method and Model

Considering the nature of this study, a cross-sectional survey research design was used, because the data is collected at one point in time (Doreen, 2020). Equally, this study used survey because it entails going to the field and collecting the relevance and required data. The population of this study in these selected LGAs collectively encompass a micro enterprise population of approximately 205,418. The reason of selecting the three local government these LGAs represent the areas with the highest number of microenterprises in the state. state board of internal revenue (SBIR). The sample size of this study is 384 was selected from a total population of 205,418, based on the guidelines provided by Krejcie and Morgan (1970). Moreover, this study used stratified sampling; also, the study used questionnaires as a method of data collection. More also, interval scale was used because is appropriate for this study. Multiple and inferential regression analysis was used as techniques of data analysis with the help of SPSS.

Model Specification

This model was tested and thus transformed as follows:

Tax Compliance = (tax fairness, tax knowledge, probability of detection, trust in government and tax service quality)

$$TC = \beta_0 + \beta_1 TF_i + \beta_2 TK_i + \beta_3 PD_i + \beta_4 TG_i + \beta_5 TSQ_i + \epsilon \dots \dots \dots (1)$$

Where:

TC= Tax Compliance, β_0 = Constant Coefficient, β_1 = Coefficient, TF = Tax Fairness,

β_2 = Coefficient, TK = Tax Knowledge β_3 = Coefficient, PD = Probability of detection

β_4 = Coefficient, TG= Trust in Government, β_5 = Coefficient, TSQ = Tax Service quality, ϵ = error term or standard error of estimated.

Table 1: Variable Definitions and Measurements

Variables	Definition	Measurement	Source
Tax Compliance	The extent to which taxpayers accurately, timely, and voluntarily file tax returns and pay taxes as required by law	Timely filing of tax returns, report	Ibrahim et al. (2025); Olumoh (2024)
Tax Fairness	The extent to which taxpayers perceive the tax system, rates, and enforcement processes as equitable and just	Perceived fairness of tax service, tax rate	Yau (2017); Rohim & Tjaraka, (2025)

Tax Knowledge	The level of awareness, understanding, and familiarity taxpayers have regarding tax laws, obligations, filing procedures, and penalties.	Awareness of tax laws	Ellawule et al. (2024); Njihia et al. (2025)
Probability of Detection	The perceived likelihood that tax authorities will detect non-compliance, evasion, or under-reporting.	Likelihood of detection during audits	Kirwa (2024)
Trust in Government	The degree to which taxpayers believe that the government uses tax revenues responsibly, transparently, and for public benefit.	Trust in government spending, policy	Tsikas (2017); Hayati et al. (2025)
Tax Service Quality	The perceived quality of services provided by tax authorities, including responsiveness, clarity, accessibility, and professionalism.	Clarity of tax information,	Susuawu et al. (2020)

Source: Author’s Analysis, 2025.

4. Result and Discussion

Multicollinearity Test

Table 2: Test of Multicollinearity

Independent Variables	Collinearity	
	Tolerance	VIF
Tax fairness	.790	1.266
Tax Knowledge	.916	1.091
Probability of detection	.945	1.058
Trust in Government	.921	1.086
Tax Service Quality	.708	1.412

Source: Author’s Analysis, 2025.

In this study, Variance Inflation Factor (VIF) and tolerance level of the independent variables were computed and examined through the use of regression to test the presence of multicollinearity. when VIF and tolerance level values exceed 10 and 0.10 respectively, it indicates the presence of multicollinearity. However, Table 4 shows that none of the values for tolerance and VIF exceeds these thresholds. Based on this, the issue of multicollinearity does not exist among the independent variables.

Correlation Matrix

Table 3: Person’s Correlation between the Study Variables

Variable	TC	TF	TK	PD	TG	TSQ
Tax Compliance	1					
Tax Fairness	.129	1				
Tax Knowledge	.447	.174	1			
Probability of Detection	.340	-.089	.063	1		
Trust in Government	.210	.149	.121	.013	1	
Tax Service Quality	.521	.426	.277	.155	.275	1

Source: Author’s Analysis, 2025.

Table 3 demonstrates the correlation matrix among the exogenous and endogenous latent construct and the result shows that no multicollinearity exist as all the independent variables scores are less than the cut-off values of 0.9 (Hair et al., 2016). In addition, these findings have affirmed the test of Variance Inflation Factor that was conducted to check multicollinearity. Accordingly, Ramayah et al. (2018) the data will be free of multicollinearity when the value of VIF is less than 10.

Multiple Regression Analysis and Hypothesis Testing

Table 4: Multiple Regression Results

Predictor	B	SE	t	P	Tolerance	VIF
(Constant)	5.224	1.970	2.652	.008	-	-
TF	-0.110	0.048	-2.298	.022	.790	1.266
TK	0.336	0.046	7.345	.000	.916	1.019
PD	0.159	0.050	3.189	.002	.945	1.058
TG	0.071	0.049	1.452	.147	.921	1.086
TSQ	0.365	0.043	8.758	.000	.708	1.412
R			0.639			
R ²			0.408			
Adjusted R ²			0.399			
F (5, df)			44.354			
P			< .001			

Source: Author’s Analysis, 2025.

Table 4 of this study. Firstly, the result has expressed the regression equation with predictors that are significant with the following result: R= 0.639, R²= 0.408, Adj. R²= 0.399, F-Change=44.354. It can also be observed that the correlation coefficients between the endogenous variable (tax compliance) and the five exogenous variables (between Tax Fairness, Tax Knowledge, Probability of Detection, Trust in Government, Tax Service Quality) is 0.639 together with predictors that accounts for 40.8% of variance in tax compliance. Cohen (1988) classified R² into 3 orders as follows: 0.02 as weak, 0.13 as moderate and 0.26 as substantial. Going by this classification, the value of R² in the regression result is substantial. Furthermore, the significance of F-test (44.354, p=0.000) confirmed the overall prediction of the independent variables to the dependent variable.

Accordingly, the best way to assess the regression model is to look at the contribution of each of the predictors on the dependent variable. Table 3 reveals that tax service quality is the best predictor that predicts the tax compliance with this result ($\beta=0.365$, $t=8.758$). The next predictor in order of significance is tax knowledge ($\beta=0.336$, $t=7.345$). Also, the next predictor in order of significance is probability of detection ($\beta=0.159$, $t=3.189$), More also, tax fairness is negative but significant ($\beta= -0.110$, $t= -2.298$), However, trust in Government ($\beta=0.071$, $t=1.452$). Is not significantly related to tax compliance in Nigeria. Concisely, four out of the five predictors have significant influence on the tax compliance on the hypotheses of this study. Therefore, this result implies that the tax compliance of the personal income determinant is greatly determined by its tax service quality, tax knowledge, probability of detection, tax fairness and hence, H1, H2 H3 and H5 are rejected while H4 is supported.

Discussion of findings

Tax fairness and Tax Compliance

The negative but significant result at ($\beta = -0.110$, $t = -2.298$, $\beta = 0.196$, $p = 0.022$). Suggests that fairness in this study context may be perceived as unbalanced or symbolic rather than practical, which reduces compliance rather than promoting it. This is academically valuable because it shows that fairness perceptions do not always lead to higher compliance their effect depends on how fairness is understood and experienced in the real tax environment. Therefore, negative but significant outcome demonstrates that fairness acts as both a motivator and a compliance driver, reinforcing the importance of equity in taxation policy. The result is consistent with finding of (Mahdi et al. 2020) However, the finding is not in agreement with the work Debebe (2021), Jolodar et al. (2019), and Faizal and Palil (2019).

Tax Knowledge and Tax Compliance

Tax knowledge in the field of taxation refers to the awareness, understanding, and ability of individuals or businesses to correctly interpret and apply tax laws, rules, and procedures in fulfilling their tax obligations. Therefore, hypothesis was put forward and tested; it was predicted that Tax knowledge has no significant effect tax compliance among micro enterprises in Taraba states. Contrary to the predicted hypothesis, the result showed that Tax knowledge have significant positive effect with tax compliance. This result is consistent with the finding of Muhammad et al. (2023), Hamid et al. (2020), and Aremu and Siyanbola (2021) found that tax knowledge has a positive effect between tax knowledge and tax compliance.

Probability of Detection and Tax Compliance

Therefore, hypothesis was put forward and tested; it was predicted that Probability of detection has no significant effect on tax compliance among micro enterprises in Taraba states. Contrary to the predicted hypothesis, the result showed that probability of detection have significant positive effect/relationship with tax compliance in Nigeria. The result of this study corroborates with the findings of Perabavathi et al. (2017); Ya'u et al. (2020) among others. These studies have confirmed that probability of detection have significant positive relation with tax compliance in different domains. On the other hand, the finding contradicts the result of Areo et al. (2020); Deyganto (2018) and Nguyen et al. (2020) in terms of direction where they found that probability of detection have negative relationship with tax compliance. This result implies that probability of detection being positive and significant at $p = 0.002$ means that the likelihood of taxpayers complying with tax obligations increases when they perceive a higher chance of being caught and penalized for noncompliance.

Trust in Government and Tax Compliance

Therefore, a hypothesis was put forward and tested; it was predicted that Trust in government has no significant effect on tax compliance among micro enterprises in Taraba states. Expertdily, the result indicated that trust in government is insignificant relationship with tax compliance. This result is consistent with the finding of Sulistyowati et al. (2024) and Henry et al. (2023). Widuri and Irawan (2019) found that trust in government has a negative insignificants and no relationship with tax compliance among SMEs. But contradict the findings of Saddaf et al. (2022) and Appiah and Aganaba (2024). Alshira'h (2024) found that trust in government and attitude have a positive and significant impact on tax compliance.

Based on the findings Trust in government result being insignificant at $p = 0.147$ means that taxpayers' perception of trust in government does not have a statistically meaningful effect on their compliance behavior in this study.

Tax Service Quality and Tax Compliance

Therefore, a hypothesis was put forward and tested; it was predicted that Tax service quality has no significant effect on tax compliance among micro enterprises in Taraba states. But the result indicated that tax service quality have significant positive relationship with tax compliance. The finding is consistent with past studies that investigated a similar relationship in different contexts. The result is justified by finding of Khamis and Mastor (2021); Kazi (2021); Qisthi (2021); Kurniawan and Daito (2021) among others. These studies have confirmed that tax service quality have significant positive relation with tax compliance in different contexts and countries. On the other hand, the finding contradicts the result of Mukiyidin et al. (2021); Alkhatib and Abdul-jabbar (2019) in terms of direction where they found that tax service quality has significant negative relationship with tax compliance. However, the result of this study contradicts the finding of Ridhan et al. (2021); Lallo (2019) in terms of significance, which found that there is no relationship between tax service quality and tax compliance.

Tax service quality result being positive and significant at $p = 0.000$ means that the quality of services provided by tax authorities strongly and positively influences taxpayer compliance.

5. Conclusion and Recommendation

The study concludes that strengthening taxpayer education, improving service delivery, enhancing enforcement, and revising fairness-related aspects of tax policy are key to improving compliance among micro enterprises. Therefore, the study recommends that tax authorities in Taraba State prioritize continuous taxpayer education to enhance tax knowledge among micro enterprises, while also strengthening enforcement measures such as audits and sanctions to increase the probability of detection and discourage evasion. Improving the quality of tax services through transparency, efficiency, and the use of modern technology is equally essential to encourage voluntary compliance. Furthermore, the fairness of the tax system should be addressed by simplifying tax rates, ensuring equity across taxpayers, and linking revenues to visible public services. Finally, rebuilding trust in government requires greater accountability, anti-corruption initiatives, and effective utilization of tax revenue in ways that directly benefit taxpayers.

Practically, the findings of this study carry important practical implications for tax administration and policy implementation in Taraba State, particularly in relation to micro enterprises. First, the positive and significant effect of tax knowledge suggests that improving taxpayer education is a key strategy for enhancing compliance. Theoretically, the present study empirically investigates the determinants of personal income tax and tax compliance in Nigeria. This study provides valuable theoretical implications by testing the relevance of deterrence theory, fiscal exchange theory, and equity theory in explaining tax compliance.

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