

## DETERMINANTS OF TAX COMPLIANCE AMONG SMES IN LAGOS STATE

Salawu, Muinat Wuraola<sup>1</sup> and Salawu, Moruff Adeyemi<sup>2</sup>

<sup>1</sup>Department of Accounting, University of Lagos, Akoka, Yaba, Lagos State

<sup>2</sup>Department of Accounting, School of Business Education Federal College of Education  
(Technical) Akoka, Lagos Nigeria

1

### Abstract

*The study examined factors affecting tax compliance among small and medium scale Enterprises (SMEs) which operate within Lagos State. The sample area was however limited to SMEs within Yaba Local Council Development Area and 171 SMEs which formed the sample size was selected using the simple random sampling process. A self-designed questionnaire with a Cronbach alpha value of 73.4 % was utilized in collection of primary data from owners or managers of the sampled SMEs. The research hypotheses were tested at 5% level of significance using Pearson Correlation Coefficient. Tax rate was found to have insignificant effect on tax compliance level among SMEs in Lagos State ( $r=0.230$ ,  $p>0.05$ ), while tax audit( $r=0.507$ ), tax awareness( $r=0.613$ ), tax fairness( $r=0.579$ ) and taxpayer's perceptions of government spending of tax revenues ( $r=0.480$ ) were found to significantly affect tax compliance level among SMEs in Lagos State with tax awareness and tax rate having the highest and lowest effect respectively. The study thus recommended that the tax authorities should continue to raise awareness of tax and taxation processes among SMEs through effective dissemination of information on tax procedures, regulations and policies amongst others.*

**Keywords:** Tax audit, Tax awareness, Tax compliance, Tax fairness,

### 1. Introduction

Taxation is as old as humanity as the foremost ever known system of taxation was in earliest Egypt around 3000 – 2800 BC in the first reign of Egypt (Adeoti, 2020). Taxes are thus mandatory levies backed up by government authority which are paid on the income and properties of individuals, businesses as well as corporate organizations and the taxpayers do not expect to get something specific in return (Cornelius, Ogar & Okar, 2016). Taxes and taxation are indispensable elements of endeavors to build a progressive nation including cases of emerging and transitional economies (McKerchar & Evans, 2009). However, the rate of tax non-compliance in Nigeria is high and this has led the government to explore various means through which there can be improvement in tax revenue collection to finance both fiscal and monetary policies (Aladejebi, 2018).

In bio-technology related fields in Europe 2014, SMEs are responsible for about 20% of patents (a measure of innovation); 95% of businesses; and up to 60-70% of employment opportunities (Alm, 2019). SMEs are also important contributors to the rate of employment opportunities (up to 50%) and have generated about 48% of the national Gross Domestic Product (GDP) in the last five (5) years in Nigeria (PwC, 2020; National Bureau of Statistics, 2019). Thus, the degree of

tax compliance among SMEs is expected to significantly impact on government tax revenues as a result of the volume of revenue generated by this sector.

SMEs in Nigeria are however bedeviled by double taxation situations as a result of regulation by different government agencies thereby leading to tax avoidance and tax non-compliance situations among the SMEs (Alm, 2019; Atawodi & Ojeka, 2012).

Tax related issues including multiple taxation, high tax rates and penalties have also been identified as a major factor responsible for the high death rate of SMEs in Nigeria as Linda (2020) asserts that within the first five years of operation about 80% of SMEs in Nigeria go into liquidation. Tax rates, tax knowledge, tax awareness, tax audit, tax collection methods, taxpayer perception, tax fairness, and other factors have all been identified as impacting tax compliance among SMEs. As a result, in Nigeria, clarification on the issues affecting SMEs' tax compliance is required. This study thus sought to evaluate the factors determining level of tax compliance among SMEs in Nigeria with specific emphasis on how tax fairness, tax rate, tax audit, tax awareness, and taxpayers' perceptions of government spending affect tax compliance among SMEs in Lagos State.

## 2. Literature Review

### 2.1 Conceptual Review

#### 2.1.1 Concept of Tax Compliance

This is a behavioral issue as taxpayers either pay willingly or are forced to pay their taxes (Fagbemi & Abogun, 2015). Andreoni, Erard and Feinstein (1998) described tax compliance as the willingness of taxpayers to comply with tax laws which increase growth and development of the economy. Tax compliance also refers to a taxpayer's ability and desire to abide by different tax regulations, as dictated by the political, ethical, and legal environment, as well as other situational elements relevant to a specific time and place (Palil & Mustapha, 2011). Tax compliance is used to describe the payment of tax due without any excuses by the taxpayers (Braithwaite, 2009) and is used to express the willingness of taxpayers to settle their tax liabilities (Kirchler, 2007) while tax noncompliance refers to the discrepancies between the expected tax due and the actual amount of tax paid (Braithwaite, 2009). Utilization of tax revenues generated, corruption, fraud and embezzlement, and the government's attempts to combat fraud and corruption influences taxpayers' willingness towards fulfillment of tax obligations (Abiola & Asiweh, 2012). Tax compliance among SMEs is influenced by various factors which includes the level of trust in government operations and activities as a higher level of trust in government results in greater tax compliance among SMEs and vice-versa (Aladejebi, 2018).

#### 2.1.2 Tax Rate and Tax Compliance among SMEs

Due to high tax rates, SMEs, which contribute significantly to a country's tax income, do not comply with appropriate tax legislation in Nigeria (Aladejebi, 2018) as regulatory burdens fall unreasonably on SMEs globally and hence, they chose to avoid tax (Pope & Abdul-Jabbar,

2008). Several previous studies have looked at how tax rates affect tax compliance, however conflicting results have been recorded. Kim (2008); Ali, Cecil, and Knoblett (2001) discovered that tax compliance is significantly and positively influenced by tax rates while Pellizzari and Rizzi (2014); Seren and Panades (2013) discovered that the relationship between both variables is negative and insignificant.

A higher tax rate and low amount of income, according to Charles, Ibrahim, and Williams (2020), are a core issue impacting tax compliance among SMEs in Ghana. Mas'ud, Aliyu, and Gambo (2014) discovered that tax rate and tax compliance in Africa had a significant and indirect association in the 17 African nations evaluated during a two-year period (2012–2013). The factors inducing tax non-compliance in North Central Nigeria were identified as complex tax filing procedures and high tax rates by Atawodi and Ojeka (2012). This study thus explores the effect of tax rates on tax compliance among SMEs in Lagos State and hypothesizes that:

***H0<sub>1</sub>: Tax rates have no significant effect on tax compliance among SMEs in Lagos State.***

### **2.1.3 Tax Audit and Tax Compliance among SMEs**

Tax audit deals with examining of the tax report of a taxpayer by the appropriate tax authorities so as to establish and/or enforce maximum compliance with relevant tax regulations. It is a procedure whereby the tax authority attempts to verify the accuracy of the tax returns (Kirchler, 2008). Using secondary data, Agumas (2016) discovered a strong correlation between the likelihood of audit detection and the degree of tax compliance in Ethiopia. Modugu and Anyaduba (2014) discovered that tax audit has a favorable association with company tax compliance in Nigeria, but Olaoye and Ekundayo (2018) discovered that tax compliance is insignificantly affected by tax audit in Nigeria. Also, there is no known literature examining how tax audit influences tax compliance of SMEs in Nigeria. This led the study to hypothesize that:

***H0<sub>2</sub>: Tax audit does not have a significant effect on tax compliance among SMEs in Lagos State.***

### **2.1.4 Tax Awareness and Tax Compliance among SMEs**

Tax awareness is directly related to the taxpayers' level of understanding of extant tax regulations which influences tax compliance level (Palil & Mustapha, 2011). It is therefore assumed that SMEs awareness of the relevant tax regulations and policies would assist in ensuring increased tax compliance. Evidence in support of this was found in Zimbabwe (Newman & Nokhu, 2018) and Ghana (Lumumba, Migwi & Magutu, 2010). Lumumba, Migwi and Magutu (2010) opined that most SMEs in Ghana did not fulfill their tax obligations due to lack of tax awareness. Also, Newman and Nokhu (2018) assumed that poor tax awareness culture among taxpayers breeds negative attitudes to tax while a good tax awareness culture builds positive attitudes to tax. However, limited studies have been carried out on SMEs in Nigeria to ascertain this phenomenon. The study thus examined the following hypothesis:

***H0<sub>3</sub>: There is no significant effect of tax awareness on tax compliance among SMEs in Lagos***

### **2.1.5 Tax Fairness and Tax Compliance among SMEs**

The fairness of a tax system is a relative measure of its ability to judge taxpayers on a similar basis and is used to measure how good the tax system of a country is (Thomas, 2012). Tax fairness occurs when taxpayers are required to pay taxes according to their revenues and capability (Lymer & Oats, 2009) and determines the level of tax compliance to a large extent (Jackson & Milliron, 1986). Chau and Leung (2009) are also of the opinion that non-compliance among taxpayers increases in response to increases in the tax system unfairness.

Ahmad and Hijjatulah (2019) also examined the effect of tax fairness on sales tax compliance using the survey method and discovered that tax fairness significantly influences sales tax compliance among Jordanian manufacturing SMEs. Faizal and Palil (2015) in Malaysia using the questionnaire as a data collection instrument found out that respondents opine to the fact that tax fairness could influence their level of tax compliance.

Mixed results however exist in the literature as to how tax fairness influences tax compliance among SMEs. Benk, Cakmak and Budak (2011) and Tumwesigye (2011) explained that tax fairness does not significantly affect tax compliance among SMEs while Maseko (2014) found that tax fairness among SMEs influences the level of tax compliance. Also, scanty studies have examined the influence of tax compliance on tax fairness in Nigeria SMEs. The study therefore examined the following hypothesis:

***H04: There is no significant relationship between tax fairness and tax compliance among SMEs in Lagos State.***

### **2.1.6 Taxpayers Perception of Government Spending and Tax Compliance among SMEs**

Feld and Frey (2007) opined that tax compliance as a psychological contract showing an intricate relationship between taxpayers and the tax collectors in evidencing that an equitable exchange of resources has occurred. In the same vein, Torgler and Schneider (2009) suggested the need to consider taxpayers' perception in identifying factors responsible for reduction in level of tax compliance.

Various studies examined the relationship between taxpayers' perception and tax compliance for example; tax compliance level has been found to be greatly impacted by the taxpayer's perception of governments' usage of tax revenues generated, corruption and the government efforts to combat corruption and fraud (Abiola & Asiweh, 2012). Theresa, Sutrisno, Imam and Zaki (2015) also assumed that tax compliance can be positively affected through provision of public services by the government using taxes paid.

Magiya (2016) investigated into the factors that impact tax compliance in the Nairobi East Tax District and discovered that government effective usage of tax revenue with regards to provision of public amenities influences taxpayer's perception and leads to higher tax compliance levels. The findings of Maseko (2014) in Zimbabwe SMEs for the tax period of 2009 to 2011 revealed that the perceptions of SMEs owner on government usage of funds generated greatly affect their tax compliance behaviour. However, there is scanty literature determining this relationship among SMEs in Nigeria, the study therefore hypothesized that:

*H0s: Taxpayers' perception of government spending does not significantly affect tax compliance among SMEs in Lagos State*

### 2.1.6 Conceptual Framework

## 2.2 Theoretical Review

### 2.2.1 Theory of Planned Behaviour

The theory was proposed by Ajzen in 1985 and developed from what was assumed of human behavior. The theory states that individuals' behaviour within a society is impacted by certain characteristics or determinants that arise from specific causes and emerge in a planned manner (Erten, 2002). The capacity to conduct a certain activity, according to Benk, Cakmak, and Budak (2011), is because the individual has a specific goal for that behavior, which is defined by behavioural attitude, subjective norms, and perceived behavioural control (Armitage & Conner, 2001).

The theory has been used in previous related studies including Magiya (2016); Mutai (2013); Benk, Çakmak, and Budak (2011); Ajzen (2002); McMillan and Conner (2003) and would assist the study in identifying the behavior of SMEs to tax compliance due to the tax rate, tax awareness and tax audit.

### 2.2.2 Benefit Received Theory

This theory was widely known in the late 18th and early 19th centuries but became more popular with the development and advancement of the ability to pay theory by John Stuart Mills in 1872 (Aladejebi, 2018). Knut Wicksell in 1896 and Erik Lindahi in 1919 initially developed it and was further extended in the work of Richard Musgrave in 1959 and Paul Samuelson in 2000 (Aladejebi, 2018). This theory is premised on the fact that value exchange occurs between taxpayers and the government, where the government supplies certain products and services to society's members who contribute based on proportion of benefits received (Bhartia, 2009). The theory thus posits that taxpayers usually consider the returns (benefits) they receive from the government compliance with relevant tax regulations (Martinez-Vazquez, 2001). This theory will help explain how tax fairness and taxpayers' perception of government spending affects tax compliance among SMEs in Lagos State. Aladejebi (2018) and Ferry, Gabriel and Lilian (2015) have made use of the theory in previous related studies.

## 3. Methodology

The field survey research design which gives greater room to study a particular phenomenon and is useful in generalizing from a sample study to a population was adopted for the study. It has also been used in previous related studies like Charles, Ibrahim and Williams (2020), Ahmad and Hijjatulah (2019), Olaoye and Ekundayo (2020) and Aladejebi (2018).

SMEs in Yaba, a Local Council Development Area (LCDA) in Lagos State totaling 300 as established in Ola (2019) form the population for this study. The choice of the LCDA is due to its nearness to the researchers which makes for effective coverage and lower cost impact. Using

the Yamane (1964) formula and adopting 5% margin of error, 171 SMEs was derived as the sample size. A simple random sampling technique was deployed in selecting the SMEs used for the study.

A structured questionnaire was used in elucidating information from respondents, though this was distributed online as a web-based questionnaire using Google forms considering the Covid-19 guidelines of National Centre for Disease Control and Presidential Task Force. Using the internal consistency method for test of reliability, the Cronbach's Alpha formula derived a value of 73.4% which indicates high reliability of the research instrument.

Data collected from the online surveys were tabulated, summarized and interpreted making use of descriptive statistics. The study's findings are presented using tables and mean, standard deviation, percentages and frequency were used for interpretation while the hypotheses were tested using Pearson Correlation Coefficient employing the Statistical Package for Social Sciences (SPSS) version 26.

#### 4. Results and Discussion

Data was collected from the sample size of 171 respondents and is as presented and analysed below. A 100% response rate was achieved as all responses from the sample size were retrieved, this may be largely due to the non-personal mode (online) of data collection used.

Table 1 presents the socio demographic characteristics of respondents who participated in the study.

**Table 1: Socio-Demographic Characteristics of Respondents**

Variable	Frequency	Percentage (%)	
<b>Age</b>	18-27 years	92	53.8
	28-37 years	16	9.4
	38-47 years	32	18.7
	48 years and above	31	18.1
	<b>Total</b>	<b>171</b>	<b>100.0</b>
<b>Gender</b>	Male	81	47.4
	Female	90	52.6
	<b>Total</b>	<b>171</b>	<b>100.0</b>
<b>Cadre/ Position</b>	Owner	107	62.6
	Manager	64	37.4
	<b>Total</b>	<b>171</b>	<b>100.0</b>
<b>Years of Business Operation</b>	Less than 5 years	101	59.1
	5-15 years	53	31.0
	15 years and above	17	9.9
	<b>Total</b>	<b>171</b>	<b>100.0</b>
<b>Highest Academic Qualifications</b>	SSCE	32	18.7
	OND/NCE	14	8.2
	BSc/HND	79	46.2
	MSc/MBA	32	18.7
	PhD	9	5.3
	Others	5	2.9
	<b>Total</b>	<b>171</b>	<b>100.0</b>
<b>Annual Turnover</b>	₦0 - ₦100,000	63	36.8
	₦100,000 - ₦500,000	43	25.2
	₦500,000 - ₦1,000,000	65	38.0
	<b>Total</b>	<b>171</b>	<b>100.0</b>

Source: *Field Survey (2021)*

The majority of the respondents are between the ages of 18 and 27 years while the least respondents are between ages 28 and 37 years. The other two categories of ages (i.e. 38 and 47 years, 48 years and above) have almost the same percentage of respondents. This is in line with reality and the current situation of the country where majority of school leavers venture into entrepreneurship before getting paid employment. The age category with the least percentage (i.e. 28 and 37 years) represents the age where most people try to build their career within a paid employment job. This however indicates that most of the respondents are young individuals with requisite intellect and skills which are needed to start a SME.

Analysis from table 1 shows that a slightly higher percentage of respondents (52.6%) are of the female gender. This could be linked to the fact that females usually practice their vocational skills as business owners; although, results show that both genders are well represented in the study. Also, a greater percentage of respondents (62.6%) are the owners of the SMEs while 37.4% are managers of the SMEs. This shows that most of the respondents are able to provide accurate responses to the questions posed. Comparison of the length of business years shows that more than average (59.1%) of the SMEs have run for less than five years while less than 10% have been run for longer years (15 years and above). This goes a long way to show that the survival rate of SMEs in Nigeria is low, and it is necessary to understand the taxation issues behind it.

A total of 72.9% of the respondents have acquired a minimum of a post primary education or a degree; although, about 26% have acquired post graduate education. This shows that the respondents can manage a SME and is also consistent with the findings on age of respondents. The distribution of the annual turnover between ₦0 and ₦1,000,000 was, however, almost evenly distributed with the least percentage (25.1%) making a turnover of between ₦100,000 and ₦500,000 annually.

Table 2 presents the descriptive statistics of statements made to determine how tax compliance level is impacted by the tax rate among SMEs in Lagos State.

**Table 2: To what extent does tax rate affect tax compliance among SMEs in Lagos State?**

Statements	N	Mean	Std. Deviation	Remarks
The level of tax compliance among SMEs who are charged with a higher tax rate is high.	171	2.8655	1.25066	Neutral
SMEs should be charged a lower tax rate in order to increase their compliance level.	171	4.3099	0.72182	Agree
All SMEs should be charged same rate of tax regardless of their level of turnover as this will improve tax compliance.	171	2.3977	1.10336	Disagree
The level of tax compliance among SMEs is not affected whether they are charged a higher or lower tax rate.	171	2.2749	0.95819	Disagree
The tax rate charged on SMEs with lower income is not too high to inhibit maximum	171	2.6374	1.00446	Neutral

compliance level.

<b>Average</b>	<b>171</b>	<b>2.8971</b>	<b>1.00769</b>	<b>Neutral</b>
----------------	------------	---------------	----------------	----------------

Source: Field Survey (2021)

Table 3 presents results of the Pearson moment correlation analysis for research hypothesis one using the statements in table 2.

Table 3: Pearson moment correlation analysis for Hypothesis One

		<b>Tax Rate</b>	<b>Tax Compliance</b>
<b>Tax Rate</b>	Pearson Correlation	1	.230
	P-value		.170
	N	171	171
<b>Tax Compliance</b>	Pearson Correlation	.230	1
	P-value	.170	
	N	171	171

Source: Researcher's Computations from SPSS version 26 (2021)

Tables 2 and 3 reveal that respondents were generally neutral (mean=2.8971; SD= 1.00769) on how tax compliance level is impacted by tax rates among SMEs in Lagos State. Results of the associated hypothesis test likewise demonstrate that tax compliance is not significantly influenced by the tax rate ( $r=0.230$ ,  $p>0.05$ ). Consequently, hypothesis one is retained as results indicate insignificant effect of tax rate on tax compliance among SMEs in Lagos State. This is however inconsistent with the findings of Charles, Ibrahim and Williams (2020); Mas'ud, Aliyu and Gambo (2014) and Atawodi and Ojeka (2012) who found a significant effect of tax rate and tax compliance. This inconsistency may be due to differences in the organizations studied as well as time period differences.

Table 4 shows the descriptive statistics of statements raised to ascertain the respondent's perception how tax compliance level is affected by tax audit among SMEs in Lagos State.

Table 4: To what extent does tax audit affect tax compliance among SMEs in Lagos State?

<b>Statements</b>	<b>N</b>	<b>Mean</b>	<b>Std. Deviation</b>	<b>Remarks</b>
The probability of detection of under-reporting in the returns filed have a great effect on SMEs tax compliance level	171	3.7953	0.78903	Agree
The higher the chance of detecting tax irregularities, the higher the tax compliance level among SMEs	171	3.7427	0.87002	Agree
The enjoyment of allowances or reductions for filing a full and accurate reports will improve tax compliance level among SMEs	171	3.9474	0.77659	Agree
The existence of penalty charges for tax evasion and tax reduction influences SMEs tax compliance decision	171	3.8421	0.82867	Agree
Tax audit does not influence the level of tax compliance among SMEs	171	2.6199	1.06906	Neutral



<b>Average</b>	<b>171</b>	<b>3.5895</b>	<b>0.86667</b>	<b>Agree</b>
----------------	------------	---------------	----------------	--------------

Source: Field Survey (2021)

Table 5 shows the results of the Pearson moment correlation analysis for research hypothesis two using the statements in table 4.

**Table 5: Pearson moment correlation analysis for Hypothesis Two**

		<b>Tax Audit</b>	<b>Tax Compliance</b>
<b>Tax Audit</b>	Pearson Correlation	1	.507
	P-value		.000
	N	171	171
<b>Tax Compliance</b>	Pearson Correlation	.507	1
	P-value	.000	
	N	171	171

Source: Researcher's Computations from SPSS version 26 (2021)

Analysis from tables 4 and 5 shows that on average, respondents agreed (mean=3.5895; SD=0.86667) that tax audit affects tax compliance among SMEs in Lagos State to a great extent. The results of the related hypothesis test also reveal that tax compliance level is significantly impacted by tax audit ( $r=0.507, p<0.05$ ). Thus, hypothesis two is rejected as the findings show that tax compliance level is significantly impacted by tax audit among SMEs in Lagos State. This matches the findings of Olaoye and Ekundayo (2018); Agumas (2016); Modugu and Anyaduba (2014) and Badara (2012).

Table 6 shows the descriptive statistics of statements raised to determine how tax awareness affects tax compliance among SMEs in Lagos State.

**Table 6: How does tax awareness affects tax compliance among SMEs in Lagos State?**

<b>Statements</b>	<b>N</b>	<b>Mean</b>	<b>Std. Dev</b>	<b>Remarks</b>
The lack of awareness of tax collection procedures reduces SMEs tax compliance level	171	4.0351	0.82530	Agree
Most SMEs failed to comply with the tax laws because they are ignorant of various tax regulations and policies	171	4.0468	0.83886	Agree
Unawareness of tax issues does not hinder SMEs in complying with the relevant tax laws, regulations and policies	171	2.3860	1.05865	Disagree
Lack of awareness of tax benefits affects tax compliance behavior among SMEs	171	4.0117	0.80431	Agree
The higher the tax awareness programme, the higher the compliance level among SMEs and vice versa	171	4.0351	0.76616	Agree
<b>Average</b>	<b>171</b>	<b>3.7029</b>	<b>0.8587</b>	<b>Agree</b>

Source: Field Survey (2021)

Table 7 presents Pearson moment correlation analysis results for research hypothesis three using the statements in table 6.

**Table 7: Pearson moment correlation analysis for Hypothesis Three**

	<b>Tax Awareness</b>	<b>Tax Compliance</b>
--	----------------------	-----------------------

<b>Tax</b>	Pearson Correlation	1	.613
<b>Awareness</b>	P-value		.000
	N	171	171
<b>Tax</b>	Pearson Correlation	.613	1
<b>Compliance</b>	P-value	.000	
	N	171	171

Source: Researcher’s Computations from SPSS version 26 (2021)

Analysis from tables 6 and 7 shows that on average, respondents agreed (mean=3.7029; SD=0.8587) that tax awareness affects tax compliance level among SMEs in Lagos State significantly.

The results of the test of related hypothesis also shows that tax awareness significantly affects tax compliance ( $r=0.613, p<0.05$ ). Thus, hypothesis three is rejected as findings show that tax compliance level is significantly affected by tax awareness among SMEs in Lagos State. Newman and Nokhu (2018) in Zimbabwe and Lumumba, Migwi and Magutu (2010) in Ghana found similar results.

Table 8 shows the descriptive statistics of statements raised to ascertain how tax influences tax compliance among SMEs in Lagos State.

**Table 8: How does tax fairness affects tax compliance among SMEs in Lagos State?**

Statements	N	Mean	Std. Dev	Remarks
The tax system is biased towards low income earners, hence reduction in tax compliance level among SMEs	171	3.6842	0.94852	Agree
The tax system favours big organizations as compared to SMEs, hence this reduces their level of tax compliance	171	3.6491	0.97904	Agree
Tax compliance level will increase when SMEs pay lower amount of tax and large corporations pay higher amount of tax	171	3.7602	0.89826	Agree
Either there is fairness in the tax system or not, SMEs will comply with the relevant tax laws	171	2.6023	1.03173	Neutral
To increase tax compliance level, a fair and equitable allowance should be granted to SMEs for complying with tax laws	171	4.0760	0.75930	Agree
<b>Average</b>	<b>171</b>	<b>3.5544</b>	<b>0.92337</b>	<b>Agree</b>

Source: Field Survey (2021)

Table 9 presents Pearson moment correlation analysis results for research hypothesis four using the statements in table 8.

**Table 9: Pearson moment correlation analysis for Hypothesis Four**

		Tax Fairness	Tax Compliance
<b>Tax Fairness</b>	Pearson Correlation	1	.579
	P-value		.000
	N	171	171
<b>Tax</b>	Pearson Correlation	.579	1
<b>Compliance</b>	P-value	.000	

N 171 171

**Source:** Researcher's Computations from SPSS version 26 (2021)

Tables 8 and 9 shows that, on average, respondents agreed (mean = 3.5544; SD= 0.92337) that tax fairness affects tax compliance level among SMEs in Lagos State. The results of the related hypothesis test also suggests that tax compliance is significantly impacted by tax fairness ( $r=0.579$ ,  $p<0.05$ ). Thus, hypothesis four is rejected as findings show that tax compliance level is significantly impacted by tax fairness among SMEs in Lagos State. This is in line with the findings of Ahmad and Hijjatulah (2019), Nduruchi, Makokha and Namusonge (2017), and Faizal and Palil (2015).

Table 10 presents the descriptive statistics of statements raised to determine how taxpayers perception of government spending affects tax compliance among SMEs in Lagos State.

**Table 10: Does taxpayers' perception on government spending affect tax compliance among SMEs in Lagos State?**

Statements	N	Mean	Std. Dev	Remarks
Tax compliance level among SMEs is determined by the use of the tax revenues generated to achieve public goals	171	3.9415	0.80226	Agree
SMEs failed to comply with tax laws because there is misuse of the tax revenues collected	171	3.9591	0.88355	Agree
The higher the effective usage of the tax revenue, the higher the compliance level among SMEs and vice versa	171	4.0702	0.77139	Agree
Lack of government intervention in SMEs operations reduces tax compliance	171	3.8830	0.93198	Agree
The use or misuse of tax revenues for public amenities does not affect tax compliance level among SMEs	171	2.4444	1.18873	Disagree
<b>Average</b>	<b>171</b>	<b>3.6596</b>	<b>0.91558</b>	<b>Agree</b>

**Source:** Field Survey (2021)

Table 11 presents Pearson moment correlation analysis results for research hypothesis five using the statements in table 10.

**Table 11: Pearson moment correlation analysis for Hypothesis Five**

		Taxpayers' Perception	Tax Compliance
<b>Taxpayers' Perception</b>	Pearson Correlation	1	.480
	P-value		.000
	N	171	171
<b>Tax Compliance</b>	Pearson Correlation	.480	1
	P-value	.000	
	N	171	171

**Source:** Researcher's Computations from SPSS version 26 (2021)

Analysis from tables 10 and 11 shows that on average, the respondents agreed (mean = 3.6596; SD= 0.91558) that taxpayers' perception affects tax compliance among SMEs in Lagos State. Although, the results of the test of related hypothesis reveal that taxpayers' perceptions of

government expenditure have a marginally significant influence on tax compliance ( $r=0.480$ ,  $p<0.05$ ). Hypothesis five is thus rejected as results indicate that tax compliance is significantly affected by tax perception of government spending among SMEs in Lagos State. This is consistent with the findings of Magiya (2016) and Maseko (2014).

## 5. Summary and Conclusion

Tax audit, tax awareness, tax fairness and taxpayers' perception of government spending all determine the tax compliance level of SMEs in Lagos State. The tax rate, on the other hand, was found to insignificantly affect the tax compliance level of SMEs in Lagos State. It was also shown that, among the variables evaluated, tax awareness has the greatest impact on tax compliance. Thus, an increase in the tax awareness programme is expected to lead to an increase in compliance level among SMEs in Lagos State. The study's findings are consistent with the results of major studies like Olaoye and Ekundayo (2018), Ahmad and Hijjatullah (2019), and Magiya (2016).

Tax authorities in Lagos State should ensure thorough tax audit by empowering audit staff and ensuring they are qualified to carry out audits which would increase tax compliance among SMEs as well as government revenues subsequently. The tax authority should raise awareness through effective dissemination of information to SMEs owners and managers on tax procedures, regulations and policies. There should be appropriate dissemination of information as to the way and manner through which the government spends tax revenue generated towards ensuring increased tax compliance among SMEs in Lagos State.

The study was able to espouse the major factors affecting the tax compliance of SMEs in Lagos State with particular focus on tax rate, tax audit, tax awareness, tax fairness and taxpayers' perception of government spending. However, the tax rate which would ordinarily have been a significant determinant of compliance was empirically found to be insignificant in tax compliance determination among SMEs in Lagos State.

The study also established the most relevant and significant of the factors determining tax compliance in Lagos State.

## References

- Abiola, J. & Asiweh M. (2012). Impact of tax administration on government revenue in a developing economy - a case study of Nigeria. *International Journal of Business and Social Science*, 3(8) Retrieved from [www.ijbssnet.com](http://www.ijbssnet.com)
- Adeoti, D. O. (2020). In the beginning was tax: A history of taxation in Nigeria. *The Tax Club, Unilorin*. Retrieved from <https://unilorintaxclub.com.ng/2020/05/14/in-the-beginning-was-tax-a-history-of-taxation-in-nigeria-by-adeoti-daniel-oluwatosin/>
- Agumas, A. M. (2016). Impact of tax audit on improving taxpayer's compliance: Empirical evidence from Ethiopian revenue authority at federal level. *International Journal of Accounting Research (IJAR)*, 2(12), 1 – 19.

- Ahmad, F. & Hijjatulah, A. (2019). The effect of tax fairness on sales tax compliance among Jordanian manufacturing SMEs. *Academy of Accounting and Financial Studies Journal*, 23(2).
- Ajzen, I. (2002). Perceived behavioural control, self-efficiency, locus of control, and the theory of planned behaviour. *Journal of Applied Social Psychology*, 32(4), 665-683.
- Aladejebi, O. (2018). Measuring tax compliance among small and medium enterprises in Nigeria. *International Journal of Accounting and Taxation*, 6(2), 29-40.
- Ali, M. M., Cecil, H. W., & Knoblett, J. A. (2001). The effects of tax rates and enforcement policies on taxpayer compliance: A study of self-employed taxpayers. *Atlantic Economic Journal*, 29(2), 186-202. <https://doi.org/10.1007/BF02299137>
- Alm, J. (2019). What motivates tax compliance? *Journal of Economic Surveys*, 33(2), 353-388.
- Andreoni, J., Erard, B. & Feinstein, J. (1998). Tax compliance. *Journal of Economic Literature*, 36, 818-860.
- Armitage, C. J., & Conner, M. T. (2001). Efficacy of the theory of planned behavior: a meta-analytic review. *British Journal of Social Psychology*, 40(4), 471-499
- Atawodi O. & Ojeka S. (2012). Factors that affect tax compliance among small and medium enterprises (SMES) in north central Nigeria. *International Journal of Business and Management*, 7(12), 87 – 96.
- Badara, M. S. (2012). The effect of tax audit on tax compliance in Nigeria (A study of Bauchi State Board of Internal Revenue). *Research Journal of Finance and Accounting*, 3, 74-80
- Benk, S., Çakmak, A. F., & Budak, T. (2011). An investigation of tax compliance intention: A theory of planned behavior approach. *European Journal of Economics, Finance and Administrative Sciences*, 28, 180-188.
- Braithwaite, V. (2009). *Defiance in taxation and governance: Resisting and dismissing authority in a democracy*. Cheltenham, UK: Edward Elgar.
- Charles, P., Ibrahim, A. & Williams, A. (2020). Compliance with income tax administration among micro, small and medium enterprises in Ghana, *Cogent Economics and Finance*, 8(1).
- Chau, G., & Leung, P. (2009). A critical review of Fischer's tax compliance model: A research synthesis. *International Accounting, Auditing and Taxation*, 1(2), 34-40.
- Cornelius, M. O, Ogar, A., & Oka, F. A. (2016). The impact of tax revenue on economic growth: Evidence from Nigeria. *IOSR Journal of Economics and Finance* 7(1), 32-38.
- Erten, I. H. (2002). *Different assessment methods and student achievement*. In Monty, M. & M. Quigley (Eds.) Proceedings of the 2<sup>nd</sup> and 3<sup>rd</sup> international ELT research conferences, 138-144. Instabul: Isik University Press.
- Fagbemi, T. O. & Abogun (2015). *Factors influencing voluntary tax compliance of small and medium scale enterprises in Kwara State, Nigeria*. Retrieved from [www.ibrarian.net](http://www.ibrarian.net)
- Faizal, S. M. & Palil, M. R. (2015). Study on fairness and individual tax compliance in Malaysia: preliminary findings. *International Journal of Business, Economics and Law*, 8(1), 74

- Feld, L. P., & Frey, B. S. (2007). Tax compliance as the result of a psychological tax contract: The role of incentives and responsive regulation. *Law and Policy*, 29(1), 102-120.
- Ferry, B., Gabriel, A., & Lilian, O. (2015). Perception of tax fairness and personal income tax compliance in Ken Saro-Wiwa Polytechnic, Bori. *Journal of Economics and Finance*, 6(1), 1-11
- Jackson, B. R. & Milliron, V. C. (1986). Tax compliance research: Findings, problems, and prospects. *Journal of Accounting Literature*, 5(1), 125-165.
- Kim, S. (2008). Does political intention affect tax evasion? *Journal of Policy Modelling*, 30(3), 401-415. <https://doi.org/10-1016/j.jpolmod.2007.12.004>
- Kirchler, E. E. (2008). Enforced versus voluntary tax compliance: The slippery framework. *Journal of Economic Psychology*, 29(2), 210 – 225.
- Linda, O. (2020). *Reasons SMEs fail in Nigeria*. Retrieved from <http://www.sme360.ng/2020/07/11/reasons-smes-fail-in-nigeria/>
- Lumumba, O., Migwi, S. & Magutu, O. (2010). Taxpayers' attitudes and tax compliance behaviour in Kenya: How the taxpayers' attitudes influence compliance behaviours among SMEs business income earners. *African Journal of Business and Management*, 1, 112 – 122.
- Lymer, A. & Oats, L. (2009). *Taxation: Policy and Practice*. 16<sup>th</sup> ed. Birmingham: Fiscal Publications.
- Magiya, S. O. (2016). *Determinants of tax compliance among small and medium sized enterprises in Nairobi east tax district*. Graduate Thesis and Dissertation, School of Business, University of Nairobi.
- Martinez-Vazquez, J. (2001). *The impact of budgets on the poor: Tax and benefit incidence*. Georgia State University.
- Maseko, N. (2014). Determinants of tax compliance by small and medium enterprises in Zimbabwe. *Journal of Economics and International Business Research* 2(3), 48 – 57.
- Mas'ud, A., Aliyu, A. A., & Gambo, E. J. (2014). Tax rate and tax compliance in Africa. *European Journal of Accounting Auditing and Finance Research*, 2(3), 22-30.
- McKerchar, M., & Evans, C. (2009). Sustaining growth in developing economies through improved taxpayer compliance: Challenges for policy makers and revenue authorities. *E-Journal of Tax Research*, 7(2), 171-201.
- McMillan, B. & Conner, M. (2003). Using the theory of planned behaviour to understand alcohol and tobacco use in students. *Psychology, Health and Medicine*, 8(2), 317 – 328.
- Modugu, K. & Anyaduba, O. (2014). Impact of tax audit on tax compliance in Nigeria. *International Journal of Business and Social Science*, 5(9), 207 – 215.
- Mutai, M. K. (2013). *The determinants of tax compliance among small and medium enterprises in Uasin-Gishu County*. Graduate Thesis and Dissertation, School of Business, University of Nairobi.

- National Bureau of Statistics (2019). Micro, small and medium enterprises (MSME) national survey, 2017 report. *Small and Medium Enterprises Development Agency of Nigerian (SMEDAN)*.
- Nduruchi, M., Makokha, N. & Namusonge, G. (2017). Determinants of tax compliance among small and medium enterprises in Bungoman County, Kenya. *European Journal of Business and Management*, 9(18), 46 – 51.
- Newman, W. & Nokhu, M. (2018). Evaluating the impact of tax knowledge on tax compliance among small medium enterprises in a developing country. *Academy of Accounting and Financial Studies Journal*, 22(6).
- Olaoye, C. O. & Ekundayo, A. Y. (2018). Effects of tax audit on tax compliance in Ekiti State, Nigeria. *European Journal of Accounting, Auditing and Finance Research*, 6(5), 13-19.
- Palil, M. R., & Mustapha, A. F. (2011). Factors affecting tax compliance behaviour in self-assessment system. *African Journal of Business Management*, 5(33), 12864-12872.
- Pellizzari, P., & Rizzi, D. (2014). Citizenship and power in an agent-based model of tax compliance with public expenditure. *Journal of Economic Psychology*, 40, 35-48.
- Pope, J., & Abdul-Jabbar, H. (2008). Small and medium-sized enterprises and tax compliance burden in Malaysia: Issues and challenges for tax administration. *Small Enterprise Research*, 16(1), 47-60.
- PwC (2020). *Building to last: Nigeria*. MSME Survey. Retrieved from [www.pwc.com/ng](http://www.pwc.com/ng)
- Seren, M. J., & Panades, J. (2013). Do higher tax rates encourage/discourage tax compliance? *Modern Economy*, 4(12), 809-817. <https://doi.org/10.4236/me.20133.412086>
- Theresa, W. D., Sutrisno, T., Imam, S. & Zaki, B. (2015). The role of taxpayer's perception of the government and society to improve tax compliance. *Accounting and Finance Research*, 4(1), 180 – 187. <http://dx.doi.org/10.5430/afr.v4n1p180>
- Thomas, C. (2012). Assessing tax fairness dimensions in a small developing economy. *Business and Economics Journal*, 1(62), 1-8.
- Torgler, B., & Schneider, F. (2009). The impact of tax morale and institutional quality on the shadow economy. *Journal of Economic Psychology*, 30(2), 228-245.
- Tumwesigye, S. (2011). *Audit rates, penalties, fairness and tax compliance in Uganda revenue authority*. (Unpublished Master Thesis), Makerere University