EFFECT OF SOCIO-PSYCHOLOGICAL FACTORS ON VOLUNTARY TAX COMPLIANCE IN GOMBE STATE.

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Abstract
Tax authorities across the world have struggled with the question of why people voluntarily comply with tax laws. To have a better insight into the phenomena, this study explores how religiosity, moral reasoning, perception of government and peer influence affects voluntary tax compliance behaviour of self-employed. Surveying 367 self-employed individuals, the results of regression analysis showed that religiosity and peer influence have significant positive impact on voluntarily tax compliance. However, the finding of the study revealed that moral reasoning and perception of government have no significant impact on voluntary tax compliance. This study recommends that government should also engage in massive campaign that will highlight the importance of paying taxes to individuals and also emphasises the religious injunctions on tax evasion since level of religiosity was found to have an influence on voluntary tax compliance behaviour.

Key words: Peer Influence, Perception of Government, Religiosity, Moral Reasoning, Voluntary Tax Compliance.

Introduction

The question "why some individuals pay their taxes voluntarily while others choose not to'' is as ancient as the taxes itself. Frey (1997) aptly pointed out that economic deterrent measures alone does not persuade all taxpayers to pay. It further states that some taxpayers voluntarily comply because of some social factors. Mohdali and Pope (2014) point out that enforcement alone will not solve the issue. Therefore, understanding what motivates taxpayers to comply beyond fear of penalties becomes crucial. This knowledge can then be used to foster a culture of voluntary tax compliance alongside existing enforcement mechanisms. Despite the presence of enforcement mechanisms,

tax non-compliance remains a stubborn hurdle for both developed and developing nations. Statistical evidence paints a grim picture. In the UK alone, Morgan Stanley Capital Investment (MSCI) estimates an annual corporate tax gap of £12 billion, with a staggering £82 billion shortfall across developed countries in 2021 (MSCI, 2022). Developing nations face similar struggles, with Cobham (2022) estimating an average loss of US$285 billion annually due to noncompliance. This pervasive issue significantly hinders revenue generation from tax sources, impacting both developed and developing economies like Nigeria.

Nigeria, like many developing nations, grapples with the pervasive challenge of tax noncompliance. The Federal Inland Revenue Service (FIRS) paints a stark picture: in 2022, Nigeria's tax potential stood at ₦15.857 trillion, yet only ₦10.793 trillion was collected, leaving a staggering gap of ₦5.064 trillion (FIRS, 2022). While Nigeria implements enforcement measures like ₦50,000 fines and frequent audits for identified defaulters, these have not entirely curbed noncompliance. Okoye et al. (2022) pointed out that enforcement alone would not solve the issue. Therefore, understanding what motivates taxpayers to comply beyond fear of penalties become crucial. This knowledge can then be used to foster a culture of voluntary tax compliance alongside existing enforcement mechanisms. Enforcement mechanisms exist but their impact is not universal. They primarily deter those contemplating evasion, leaving some honest citizens who comply regardless of low detection rates or small penalties (McGee, 2012). This begs the question: what drives compliance or non-compliance? Allingham and Sandmo (1972) model offer an answer. They view taxpayers as rational beings, risk-averse and seeking to maximize net income. Thus, their compliance hinges on a cost-benefit analysis. If the potential gains of evasion outweigh the risk of penalties, compliance suffers. While Allingham and Sandmo (1972) offer a model explaining tax compliance through economic deterrents. The study argued that the internal motivation to fulfil tax obligations, is a more accurate predictor of compliance behaviour than solely focusing on external penalties.

It is observed that traditional economic deterrents have not fully eradicated tax evasion in Nigeria, thus, exploring social-psychological factors influencing taxpayers' morale might offer a more nuanced understanding of compliance behaviour. This study builds on that perspective by analysing the voluntary tax compliance of self-employed Nigerians, a group traditionally prone to evading taxes. Existing research shows that social factors like religiosity (Mohdali et al., 2014), moral reasoning (Bobek et al., 2007), trust in government (Kirchler, 2007), and social norms (Saad, 2010) play a significant role in shaping tax compliance decisions. This study investigates how these factors, including taxpayers' perception of government governance quality and peer influence, affect the voluntary tax compliance of self-employed Nigerians. By focusing on self-employed individuals, this study aims to gain deeper insights into the complex

motivations behind tax compliance in a population particularly vulnerable to evasion. Ultimately, this research seeks to identify factors beyond enforcement mechanisms that can foster a culture of tax responsibility among self-employed Nigerians, leading to improved tax revenue generation.

Focusing on self-employed individuals is justified by their potential for greater tax evasion due to flexible income reporting and limited oversight. This study seeks to explore the specific factors that shape self-employed taxpayers' voluntary tax compliance in Nigeria by examining influence of religiosity, moral reasoning, perception of government and peer influence on voluntary tax compliance behaviour of self-employed individuals in Gombe State.

Literature Review and Hypotheses Development

Conceptual Review

Tax Morale

The concept of "tax morale" has been used to evaluate voluntary tax compliance. This concept has captivated the minds of tax scholars since the 1960s, with Alm and McCelellan (2012) tracing its origins back to the works of Schmölders (1960). However, mounting critiques of the deterrence model, for its limited scope and inability to fully explain taxpayer's behaviour, led to a surge in interest towards tax morale as a more nuanced and holistic approach to understanding voluntary tax compliance. Defined as an intrinsic motivation to pay taxes (Torgler, 2002), tax morale transcends the fear of penalties and delves into the ethical and civic values individuals hold regarding their tax obligations (Torgler & Muppy, 2004).

Religiosity and Voluntary Tax Compliance

The influence of religiosity on an individual's voluntary tax compliance has long been recognized, dating back to the time of Adam Smith. It was considered as an internal moral compass that guides tax compliance decisions (Torgler, 2002). In simpler terms, religiosity can be seen as a set of moral principles instilled by religious teachings, influencing the way individuals behave towards various societal obligations, including tax compliance. This study, however, specifically focuses on religious commitment as the aspect of religiosity that influences voluntary tax compliance. By examining how commitment manifests in various religious contexts, a deeper understanding of religiosity's impact on voluntary tax compliance can be attained. Based on the above objectives, the following hypothesis were formulated:

$H_{o1:}$ *Religiosity does not have a significant impact on voluntary tax compliance.*

Moral Reasoning and Voluntary Tax Compliance

The ethical compass of a taxpayer, known as their moral reasoning, plays a crucial role in motivating them to comply with tax laws. Bobek et al. (2007) highlight this, arguing it is one of the most significant factors influencing taxpayer behavior. Similarly, Chan et al. (2000) affirmed the link between moral reasoning and voluntary tax compliance, suggesting many taxpayers voluntarily comply due to their internal sense of obligation to obey the law. This internal moral compass, shaped by individual values and beliefs, ultimately influences their tax compliance decisions. Based on the above objectives, the following hypothesis were formulated:

H_{o2}: *Moral reasoning does not have a significant impact on voluntary tax compliance.*

Perception of Government and Voluntary Tax Compliance

The relationship between taxpayers and the government, often referred to as the psychological tax contract, has emerged as a crucial lens through which to understand voluntary tax compliance (Bobek et al., 2007). This complex interface, as Feld and Frey (2002) argued, shapes government policy and influences the way taxpayers perceive their obligations. At the heart of this contract lies the perceived fairness and equity of the tax system. When taxpayers believe their contributions are met with responsible government spending, trust in the system strengthens, fostering a positive voluntary tax compliance (McGee, 2012). Conversely, a perception of unfairness or misallocation of resources can breed resentment and erode compliance (Feld & Frey, 2002; Torgler, 2002). In a study Gedeo Zone of Southern Ethiopia Based on the above, the following hypothesis were formulated:

H_{o3}: *Perception of government does not have a significant impact on voluntary tax compliance.*

Peer Influence Voluntary Tax Compliance

While the role of peer influence in shaping voluntary tax compliance has received considerable attention in compliance studies, its impact remains somewhat elusive. Research findings in this area present a mixed picture, often highlighting the complex interplay between social norms and individual behaviour. Mohdali and Pope (2014), for instance, frame peer influence through the lens of social norms, suggesting that individuals tend to conform to the tax compliance behaviours prevalent within their social circles. However, Saad (2010) emphasizes a more nuanced perspective, arguing that taxpayers are also directly influenced by the specific actions and attitudes of those

around them, beyond simply adhering to established norms. Based on the above objectives, the following hypothesis were formulated:

H_{o4}: Peer influence does not have a significant impact on voluntary tax compliance

Empirical Review

In a study, Engida and Baisa (2014) examined determinants of taxpayers' compliance with the tax system in Mekelle city Ethiopia and found that probability of being audited, change in government policy and personal financial constraints are factors responsible for voluntary tax compliance in Makelle city Ethiopia. In a study of the influence of psychological factors on tax compliance decisions. Jayawardane (2015) examined the influence of psychological factors on tax compliance decisions and concluded that tax compliance is based on individual decisions on paying and evading tax compliance. Ayuba et al. (2016) examined moderating role of perceived service orientation on the tax compliance of Nigerian SMEs owners / managers (2016). Using the Partial Least Squares (PLS) path modelling technique of analysis, the results showed that the probability of detection, incentives, and the public governance quality had significant positive effects on tax compliance, while tax complexity had a significant negative effect on tax compliance. The finding however showed that tax rates and tax knowledge had no significant effect on tax compliance.

In another study, Kumshe et al. (2017) examined the effect of socio-psychological determinant variables on voluntary taxpayer compliance among self-employed individuals in Borno State, Nigeria and found that enhancing taxpayer's attitude and societal norms affect voluntary taxpayer compliance in the State. The study concluded that self-employed persons voluntarily comply as result of positive attitude and influence of societal norms. Similarly, Tilahun (2018) examined the economic and social factors of tax compliance behavior in Bahir Dar city administration business income taxpayers and found that factors such as fairness of the tax system, penalty, tax rate, perceptions of government spending and compliance cost were found to be the determinant factors that affect taxpayer's voluntary compliance. Deyganto (2018) examined the factors influencing tax voluntary compliance attitude with tax system and found that peer influence, perception on government speeding and perception on fairness and equity had no significant influence on tax voluntary compliance attitude of tax payers in Gedeo zone of Southern Ethiopia. Adekoya et al. (2019) examined the probable influence of government accountability on taxpayers' voluntary tax compliance behaviour in selected States in South-West, Nigeria. Using descriptive and inferential statistics to analyse the data, the finding of the study revealed that trust in government, had significant relationship with voluntary tax compliance behaviour in the study states.

Basri et al. (2019) examined the deterrence factors namely tax sanctions and social psychological factors consisting of procedural justice, trust in government authorities and moral norms on voluntary tax compliance of taxpayer in the city of Pekanbaru and concluded that trust did not affect voluntary tax compliance. In a study, Bhutta et al. (2019) investigated psychological reasons of tax compliance behavior by using extended theory of planned behavior variables of thirty-nine (39) direct tax payer population living in urban areas of Pakistan and found that perceived behavioral control, subjective norms, attitude towards behavior and moral obligation variables have significant impact on tax compliance behavior. In another study, Baeli (2021) examined tax compliance based on psychological factors and tax administration. Using survey method, the finding of the study revealed that awareness of paying taxes increased when various conditions are met, including the implementation of easy tax services, the existence of a penalty system for delays, a high desire to contribute to the state and the financial condition of taxpayers. Osman and Turmin (2023) investigated the factors that influence voluntary tax compliance among individual taxpayers in Malaysia. The finding of the study revealed that norms, individual values and attitudes had significant positive influence on voluntary tax compliance. The finding of the study however revealed that peer influence had no significant influence on voluntary tax compliance among taxpayers in Malaysia. In a conceptual study by Apriwarto (2024), the author analysis the factors influencing taxpayer compliance in carrying out tax obligations and found that taxpayer compliance is driven by social-psychological such as increased tax awareness, trust in government, and social norms, are critical in influencing taxpayer behavior. The study also concluded that demographic characteristics such as age, education, and income levels affect compliance likelihood.

Theoretical Framework

Motivation crowding theory (MCT) is widely accepted and used in the field of labour economics and social psychology. It stated that the intrinsic motivators to acts in certain way are being undermined by the extrinsic motivators like punishment and monetary incentive. The theory also posits that crowd-in may transpire through internal reward, for instance, intrinsic motivation may be triggered by the perception of having a fair procedure for filing by the taxpayer, while the crowd-out will be undermined by the threat of punishment *(Lewis, 1998). Over the last few years, crowding theory has been integrated into the field of economics and tax compliance studies. For instance, Frey (1997) has demonstrated the crowding effects of external factors and how they affect intrinsic factors in making compliance decision. Similarly, Feld and Frey (2002) show how crowding-effects explain tax compliance by incorporating both intrinsic and extrinsic factors. Their findings show that taxpayer's morale is significantly crowd out by the presence of incentive or sanction.

This study is underpinned by the MCT to combine both intrinsic and extrinsic factors in one framework in order to have an insight into the determinants of voluntary Tax compliance behaviour among self-employed business.

Methodology

The study examined self-employed businesses registered with the Gombe State Internal Revenue Services. A sample of 367 taxpayers was selected from a pool of 7,829, following sampling guidelines to ensure representativeness. This approach aimed to capture the diverse experiences of self-employed individuals in the population, providing a solid foundation for the study. The study collected data through self-administered questionnaire.

Variables Measurement

In this study, voluntary tax compliance was measured using five constructs. These constructs are adapted from Torgler et al. (2010). The items tend to enquire from the respondents whether cheating on taxes is justifiable or not. The items are measured using five-point likert scale where by five signified low voluntary tax compliance while one signified high voluntary tax compliance. As for the independent variable, religiosity, the extent of taxpayer's adherence to the teaching of a particular religion was used in measuring religiosity. This measurement was adopted from Mohdali et al. (2014). Moral reasoning in this study was measured using the degree at which a taxpayer believes that an action is ethical or unethical. Thus, the measurement of Kirchler and Wahl (2010) was adopted, the measurement of perception of government was adopted from Kirchler et al. (2010). It measured taxpayer's tax compliance decision based on the provision of social service and trust of government officials. Peer influence is adopted from Mohdali et al. (2014). This measurement seeks to explore the opinion of taxpayers on how the behaviour of people in his surroundings affect their tax compliance decisions.

Model specification

The following model is adopted to examine the relationship between social factors and voluntary tax compliance.

$$Y = ai + bx$$

$$VTC = b_0 + b_1 RLG + b_2 MR + b_3 PG + b_4 PI + e_{it}$$

Where:

VTC= Voluntary tax compliance

RLG= Religiosity

MR= Moral reasoning

PG = Perception of government

PI = Peer influence

ei = Error term

Results and Discussion

Descriptive Statistic

The overall mean score and standard deviation for both dependents and independents variable are shown in Table 1. Based on the table, the items for dependent variables were measured based on five-point scale.

Table 1: Descriptive Statistic for Dependents and Independents Variables

Variable	N	Minimum	Maximum	Mean	SD
Voluntary Tax Compliance	209	1	5	3.73	0.945
Religiosity	209	2	5	4.05	0.714
Moral reasoning	209	3	5	4.15	0.607
Perception of government	209	2	5	4.14	0.609
Peer influence	209	1	5	4.12	0.708

Source: Authors' computation, 2024

The results showed that the mean value for acceptance level by the respondent on voluntary tax compliance is 3.73 This indicates that majority of the self-employed taxpayers (respondents) agreed that the statement in the questionnaire is justified, which

by implication means that they have a low voluntary tax compliance behaviour. Also, the descriptive statistic for the independent's variables was expressed based on a five-point likert-scale in which the result shows that moral reasoning has the highest mean score of 4.14. This indicated that moral reasoning has the highest positive response.

Correlation Analysis

The detail of the Pearson product movement correlation is provided in table 2.

Table 2: Correlation Matrix

	voluntary tax compliance	Religiosity	Perception of government	Moral reasoning	Peer Influence
voluntary tax compliance	1				
Religiosity	.397**	1			
Perception of Government	.220**	.363**	1		
Moral reasoning	.177*	.297**	.545**	1	
Peer influence	.342**	.347**	.385**	.269**	1

Source: Authors' computation 2024

The results of the correlation analysis were used to investigate the relationship that exists between religiosity, perception of government, moral reasoning, peer influence, threat of punishment and voluntary tax compliance. It is also used to check if multicollinearity exist among the variables, from the finding of the study which shows that none of the variables has a coefficient of close to eight percent, thus there no threat of multicollinearity.

Results of Regression Analyses

This study employed a standard regression analysis to explore the key factors influencing voluntary tax compliance among self-employed individuals.

Table 3: Coefficients of Standard Regression Model

Model	**Unstandardized Coefficients**		**standardized Coefficients**	**T**	**p-value**
	B	**Std error**	Beta		
(Constant)	-.214	.643		-.333	.739
Religiosity	.597	.134	.309	4.456	.000**
Moral reasoning	.021	.158	.010	.131	.896
Perception of government	.034	.135	.019	.248	.804
Peer influence	.313	.097	.225	3.231	.001**
R-squared	0.45				
T-statistics	30.05				
P-value	0.0000				

Source: Authors' computation 2024

The proportion of the overall variance in the dependent variable that the independent variables collectively explained was given by the cumulative R-squared (R^2) of 0.45. In other words, it means that the religiosity, moral reasoning perception of government and peer influence used in the study all explained 45% of the variation in voluntary tax compliance of tax payers in Gombe state Nigeria. The t-statistics of 30.05, which is significant at one percent, indicates that socio-phycological factors and voluntary tax compliance model is fit. The P-value of t-statistics which is statistically significant at a level of 0.0000 implies that there is 99.9 percent probability that the relationship among the variables were not due to mere chance.

Table 3 revealed that the coefficient value for religiosity was 0.597 with a p-value of 0.000, which is significant at one percent. This signifies that religiosity has significant positive effect on the voluntary tax compliance. This suggests that religiosity plays a significant role in shaping tax compliance behavior. Hypothesis one states that religiosity does not have a significant impact on voluntary tax compliance, however, based on the regression result, which is significant at one percent, the hypothesis is therefore rejected. This implies that individuals with strong faith are more likely to adhere to their religion's teachings regarding tax compliance than those with weaker beliefs. The second hypothesis states that moral reasoning does not have a significant impact on voluntary tax compliance. Table 3 revealed that the coefficient value was 0.021 with a p-value of 0.89 which is neither significant at one percent nor five percent. This therefore means that moral reasoning does not have significant impact on voluntary tax compliance. The finding contradicts that of Osman et al. (2023) Based on the finding, we therefore fail to reject the null hypothesis. One possibility is the pervasiveness of unethical and corrupt practices within Nigerian society.

From the regression analysis obtained in this study, the perception of government is found not to be significantly influenced voluntary tax compliance, this means that in Nigeria, the perception of government services provided has no significant impact on voluntary tax compliance. it suggests that, unlike the findings in many other countries, taxpayers' views on public service delivery do not directly influence their willingness to comply with tax obligations. This aligns with the conclusions of Adekoya et al. (2019). However, this finding stands in stark contrast to the study of Apriwarto (2024).

Table 3 also revealed that the coefficient value for peer influence was 0.313 with a p-value of 0.001, which is significant at one percent. This signifies that peer influence has significant positive effect on the voluntary tax compliance. This suggests that peer influence plays a significant role in shaping tax compliance behaviour. The fourth hypothesis states that peer influence does not have a significant impact on voluntary tax compliance. The finding of this study contradicts that of Deyganto (2018) and Osman et al. (2023). However, based on the regression result, which is significant at one percent, the hypothesis is therefore rejected. The result indicates that the behaviour of people that surround a taxpayer influence his/her voluntary tax compliance behaviour. When taxpayers are in the midst of evaders, they also tend to behave in that way. Also, when a taxpayer is surrounded by those that are willing to comply, their actions will be motivated by those people's behaviour (Saad, 2010). So, peer influence has a positive effect on Nigerian taxpayer's behaviour.

Conclusion and Recommendations

Conclusion

This study examines the effect socio-psychological factors on voluntary tax compliance of self-employed taxpayers in Nigeria. The study basically analyses the influence of religiosity, moral reasoning, perception of government and peer influence on voluntary tax compliance. The results of the regression analysis showed that religiosity and peer influence positively and significantly influenced voluntary tax compliance while perception of government and moral reasoning does not affect voluntary tax compliance in Nigeria.

Recommendations

By implication, if Nigerian government is concerned with improving tax compliance, this study recommends that they should also lays an emphasis on socials factors since this study has provide empirical evidence which support that the social-psychological factors also influenced voluntary tax compliance. The study also recommends that government should also engage in massive campaigns that will highlight the importance of paying taxes to individuals and also emphasises the religious injunctions on tax evasion since level of religiosity was found to have an influence on voluntary tax compliance.

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