FACTORS INFLUENCING SMEs VOLUNTARY TAX COMPLIANCE IN KADUNA

John Sunday[1] Ismail Lawal[2]
[1]*Department of Accounting, Faculty of Management Sciences, Kaduna State University, Nigeria*
[2]*Department of Procurement and Supply Chain Management, Faculty of Management Sciences, Kaduna State University, Nigeria*
Emails: johnsunday20@gmail.com[1]; ismail.lawal@kasu.edu.ng[2]
Correspondence: johnsunday20@gmail.com

Abstract
This study investigated the factors influencing SMEs voluntary tax compliance in Kaduna State. This study developed a model of SMEs taxpayers, which is underpinned by the theories of deterrence and social exchange. This study extends the current literature by investigating the direct effect of audit, service quality and trust in authority on voluntary tax compliance as the variables in the study. The main objective of the study is to investigate the factors influencing SMEs voluntary tax compliance in Kaduna State. The study administered questionnaires to a sample of 382 SMEs taxpayers operating in Kaduna state of Nigeria. SPSS was used to test the directional hypotheses. This study found that service quality and trust in authority have significant direct effects on Voluntary tax compliance, while audit was found to be insignificant on voluntary tax compliance. The findings of this study provide important insights to the tax authority, policy-makers and future researchers in understanding voluntary tax compliance of SMEs taxpayers. To curtail tax non-compliance amongst SMEs taxpayers in Kaduna state Nigeria, the tax authority should improve on its audit system and make the information about detecting tax evaders public to serve as a warning to potential evaders, provide quality services to taxpayers and build public trust in terms of professionalism or system base, which will lead to voluntary tax compliance.

Key words: *Voluntary Tax Compliance, Tax Audit, Service Quality, Trust in Authority, SMEs.*

Introduction

The amount of income earned and utilized by the government on public infrastructure for the benefit and development of any society is determine by the revenue generation. Likewise, the need to provide social amenities as well as administrative and technical support services for public well-being of citizens should be the most top must priority to every government. Taxes and tax systems are critical in producing resources to establish a strong nation, and this is especially true in developing or transitional

economies (McKerchar & Evans, 2009). Kirchler, Hoelzl, and Wahl (2008) contend that tax income is critical for covering public infrastructure development costs such as school, hospital, and other government expenses. Small and Medium Enterprises (SMEs) tax payers stand to be an important class of taxpayers with a significant potential for tax income Musa (2018). States that it is critical for SMEs to comply with taxes rules and regulations so that the government may provide superior public goods and services to its residents. Small and medium-sized enterprises (SMEs) are projected to play a critical role in the economic revolution. Therefore, this study considered four variables to examine non-compliance which are audit, service quality and trust in authority as the independent variables and voluntary tax compliance as the dependent variable.

Based on the above reasons which motivates and triggered the researcher to embark on this research work which shows, there is a need for this study which is believe will investigate the extent to which the determining factor influences the voluntary tax compliance will be address or reduce among (SMEs) taxpayers in Kaduna State. Despite all efforts and procedures put in place by competent authorities to reduce tax noncompliance, the problem persists, particularly in developing nations. Despite an increase in revenue generation in Kaduna state from 2015 report to the present, there is still work to be done because, according to Kaduna State Internal Revenue Service (KADIRS) report, there are approximately eight thousand, four hundred and eighteen (8418) members belonging to thirty-five (35) trade unions and associations (SMEs) were identified based on Kaduna State Internal Revenue Service. (Report, 2020b), to be four thousand, nine hundred and sixty-five (4,965) that were active, that is, complying with their tax obligations, while approximately three thousand, four hundred and fifty-three (3,453) are non-compliant, according to press statement by the governor of Kaduna state Mal Nasiru El'Rufai (2020) stated that the expected revenue to be generated by the state was expected to be (NGN400billion) out of which only (NGN50billion was generated indicating that there is still work to be done, which this study seeks to address in order to increase Kaduna state revenue. Therefore, this study focuses on enhancing voluntary tax compliance among SMEs tax payers by evaluating the influence of tax audit, service quality, trust in authority and government accountability as independent variables on voluntary tax compliance.

Objectives of the Study

The main objective of the study is to examine the determinants of voluntary tax compliance amongst SMEs taxpayer in Kaduna State. Specifically, the study has the following specific objectives: -

1. To examine impact of tax audit on voluntary tax compliance amongst SMEs tax payers in Kaduna State.

2. To investigate the impacts of service quality on voluntary tax compliance amongst SMEs tax payers in Kaduna State.

3. To determine the impact of trust in authority on voluntary tax compliance amongst SMEs tax payers in Kaduna State.

This study investigates what motivates and encourages SMEs taxpayers in Kaduna State, Nigeria, to voluntarily pay their taxes. For the period of (8) years, due to the information available this ranges from 2016 to 2023. The study will also add to the existing body of knowledge by way of investigating the influence of economic and non-economic factors on individuals taxpayers' believes on voluntarily compliance with tax regulations. The current study adds to this body of knowledge by exploring voluntary tax compliance and its determinants among small and medium-sized firms (SMEs) which will be more beneficial to developing nation like as Nigeria. However, a questionnaire was used to collect the data and the method to be employed was simple random, from the identified respondents. Furthermore, with a focus on real-world application, this study will be beneficial to policy makers on issues of SME tax non-compliance.

Literature Review

Voluntary Tax Compliance

Mwansele (2014) defines voluntary tax compliance as the willingness to fulfil tax responsibilities with minimal effort from the tax department administration and without the danger of the application of laws, an interference investigation, a warning, or a threat. Before submitting his tax return, the taxpayer complies without being threatened or cautioned. Similarly, Ayuba, Saad, and Ariiffin (2016) depicted tax compliance as the taxpayers' ability and wish to obey with their tax rules, report correct income, and pay actual taxes at the right time and date to the appropriate authority or authorities. Also, Ojochogwu and Stephen (2012) define tax compliance as the voluntary observance of all tax laws and regulations as specified by law, without the use of governmental coercion.

Tax Audit

Kircher (2008) tax audit is an examination of an individual's or organization's in other to make sure that appropriate tax returns are file in an to the appropriate tax authorities so as to ensure conformity with the authority's tax rules and regulations. Similarly, Marson and Khan (2021), a tax audit is a degree of investigation designed to determine the extent of fraud, willful default, or negligence committed by a taxpayer and to collect evidence for potential prosecution. Amah and Nwaiwu (2018), define audit as examination that takes place at the tax office, when taxpayers' books and financial documents are inspected appropriately.

Service Quality

Awaluddin and Tamburaka (2017), service quality is considered as the implementation of services that offer maximum satisfaction to taxpayers in relation to the quality of services delivered. Supadmi (2016), service quality consists of all the finest services offered to maintain the satisfaction of taxpayers in the tax service office and carried out in accordance with tax regulations.

Trust in Authority

Higgins, Rossignac-Milon, Bolger, Zee, and Boothby (2021) posit that, trust in authority is as an extraordinary quality of relationships, such as when two individuals who are already socially connected attach positive traits and intrinsic motivation to one another. According to Sitardja and Dwimulyani (2016), trust is a result of the connection between the authority which stands as the government and the governed in which the governed expectations coincide with their beliefs about the environment's uncertainty.

Tax Audit and Voluntary Tax Compliance

Adimassu and Jerene (2015) analyze data from five cities in Southern Nation Nationalities and Peoples' Regional State (SNNPRS), Ethiopia, using the Self-Assessment System (SAS). Using a cross-sectional survey approach using primary and secondary sources, 377 participants were surveyed for this study. The research found that audit is a significant on voluntary tax compliance. Inasius (2018) reveals that the prospect of an audit has a considerable effect on the income-tax reporting compliance of small and medium-sized firms (SMEs) in Indonesia. The research found that audit is a significant on voluntary tax compliance. Beredugo, Azubike, and Mefor's (2019) study investigates tax non-compliance and noncompliance in the Nigerian state of Cross

River, The research found that audit is a significant on voluntary tax compliance. Alemu (2020) investigates the impact of tax audits on taxpayer compliance in Hawassa City, The finding reveals that tax audit is significant on compliance. The directional hypotheses were developed based on Creswell assertion (2009) with reference to the findings of the previous studies discussed in the literature review as detailed above.

H_1: There is a relationship between tax audit and SMEs voluntary tax compliance

Service Quality and Voluntary Tax Compliance

Awaluddin and Tamburaka (2017) examine the impact if services quality on tax compliance, the study employed 98 participants. Multiple linear regressions were employed to analysed the data. It was shown that the quality of the service offered had a significant effect on tax compliance. Also, Ratnawati, Sari, and Sanusi (2019), result reveals that taxpayer compliance is influenced by factors including education, service quality, and accountability. Oktaviani, Kurnia Sunarto, and Udin (2020) result reveals that quality of services offered. influence taxpayer compliance. The directional hypotheses were developed based on Creswell assertion (2009) with reference to the findings of the previous studies discussed in the literature review as detailed above.

H_1: There is a positive relationship between service quality and SMEs voluntary tax compliance

Trust in Authority and Voluntary Tax Compliance

Mas'ud, Manaf, and Saad (2019) examine the global effects of trust in authority and power in authority on tax compliance to test the "Slippery Slope Framework's" The results demonstrate that trust in authority significantly affects taxpayer compliance. Also, Inasius (2019), investigate the impact of trust and power in ensuring taxpayer compliance. The results show that trust is crucial in influencing people to voluntarily comply with tax regulations. The directional hypotheses were developed based on Creswell assertion (2009) with reference to the findings of the previous studies discussed in the literature review as detailed above.

H_1: There is a positive relationship between trust in authority and SMEs voluntary tax compliance.

Theoretical Framework

Deterrence Theory

The deterrence theory was first proposed by Becker (1968) and is grounded in an economic analysis of criminal behavior. Becker's early works largely concerned themselves with the unpleasant and pleasurable effects of detection, speed, and severe punishment. Deterrence theory's utility concept was consolidated by Becker. According to Becker's deterrence theory, people will only partake in behaviors that offer the greatest potential payoff for the lowest possible risk. Becker (1968) argues that taxpayers make decisions about whether or not to engage in criminal activities depending on the detection possibility and the severity of the resulting punishment.

Therefore, the fundamental of deterrence theory is the elimination of incentives for disobedience. Tax audits, in accordance with the deterrence principle, are predicted to lead to a decrease in tax noncompliance. Consequently, reduced tax noncompliance ought to come from greater audit detection rates. If taxpayers perceived there is a high probability of detection and high penalties, taxpayer's files in accurate and timely report which reduce noncompliance.

Social Exchange Theory

Social Exchange Theory is another perspective, coming from the field of sociology and psychology. Drawing from the research of George, Homans and Blau (1964) created the social exchange theories. The idea suggests that the activity of exchanging goods and services between individuals and groups is crucial to maintaining social harmony. Interaction requires weighing the subjective costs and advantages of each party. All human interactions in social settings, together with the evaluation of the potential advantages and drawbacks of each, are encouraged through the use of subjective cost-benefit analysis. Therefore, people are more likely to act if the advantages of doing so outweigh the risks associated with doing so. Hence, trust is considered a factor that improves tax compliance whenever a taxpayer perceived that the government are trustworthy it boost their moral to comply voluntarily, and also, when taxpayers are treated with respect and provided with easy access to whatever information they could need, they are more likely to voluntarily comply with the tax laws without been compel to do so which means an improvements in service quality. According to social exchange theory, voluntary compliance will rise if there is a greater improvement on the variables mention that social exchange is underpinning chances are that a tax payer may not engage in non-compliance.

Methodology

Descriptive survey research design was employed. This is because it aims is to provide adequate explanation on the system of voluntary tax compliance of SMEs in Kaduna, a self-administered questionnaire was used to gather data in this quantitative investigation. The target respondents will be all business managers/owners representing their respective SMEs. The population sampling technique of this study is simple random sampling, therefore, the identified population of the study is 382 respondents base on Taro Yamene, survey method was employed to collect data through a primary source of data collection, an adapt questionnaire Adapted form from Christensen and Hite (1997) and Wenzel (2004), Farid Syahril (2013), Muehlbacher, Kirchler, and Schwarzenberger (2011), and Augustine, Enyi & Rufus (2019) was used to collect data from respondents and the questionnaires were administered to all respondents selected. Regression design was use, Statistical Package for Statistical Sciences (SPSS) version 20 was used as the tool,

Model Specification

The model for this study is stated as follow:

$$VTC_{it} = \alpha + \beta_1 AUT_{it} + \beta_2 SERQ_{it} + \beta_3 TA_{it} + e_{it}$$

Where:

VTC = Voluntary Tax Compliance

AUT = Audit

SERQ = Service Quality

TA = Trust in Authority

α = Constant

$\beta_1 \ldots \beta_4$ = Coefficient of the regression

it = Panel Data

e = Error term

Data Presentation, Analysis, Discussion and Interpretation

Descriptive Statistics

Table 1 Descriptive Statistics Result

Variables	Mean	Std. Deviation
AUDIT	3.634	.741
SERQ	3.771	.712
TRT AUTH	3.782	.905
VOLTAXCO	3.888	.701

Source: Field Survey (2023)

Table 1 shows that the mean scores for all the variables are 3.634, 3.771, 3.872 and 3.888. For audit, service quality and trust in authority (independent variables) and voluntary tax compliance (dependent variable) respectively. These are well above the 3.0 benchmark. Thus it could be inferred that the respondents have a good perception of the independent variables in relation to the dependent variable.

Correlation Matrix

Table 2 correlation matrix

Variable	**Audit**	**Service Quality**	**Trust in Authority**	**Government Accountability**	**Voluntary tax compliance**
Audit	1				
Service quality	0.037	1			
Trust in Authority	0.053	0.651	1		
Voluntary tax compliance	0.100	0.482	0.596	0.013	1

Source: field Survey (2023).

From the above result it shows a positive relationship that exists between voluntary tax compliance (VTC) and Audit (AUD). Service quality (SQ) has a positive moderate relationship with (VTC) as derive by the correlation coefficient of 0.482. Likewise, there is positive and strong relationship between (VTC) trust in authority with a coefficient of 0.596.

Audit (AUD) has a weak and a positive relationship with (SQ) derive from a correlation coefficient of 0.037, also, (AUD) with (TA) with a correlation coefficient of 0.053. Similarly, service quality (SQ) and trust in authority (TA) has a strong positive relationship with statistical inferences of 0.651. Hence, to conclude the relationship of the dependent variable (VTC) and all pairs of Independent variables (AUT, SQ, and TA) of SMEs taxpayers in Kaduna State.

The Regression Analysis

Table 3

R = 0.612 N = 362

R^2 =0.375 Fstatistic =53.35 pvalue= .000[b]

Adjusted R Square =0.368

Std. Error of the Estimate 0.64833

Coefficients

	Unstandardized Coefficients		standardized coefficients		
	B	Std Errow	Beta	T-values	P-values
(Constant)	1.588	0.247		6.440	0.000
Audit	0.048	0.029	0.067	1.607	0.109
Service QTY	0.173	0.065	0.161	2.682	0.008
Trust in authority	0.395	0.045	0.488	8.360	0.000

Source; field survey (2023)

The result from Table 3 reveals that audit has a coefficient value of 0.067 and P value 0.109. Base on the above result audit does not influence voluntary tax compliance. Therefore, there is no significant relationship between audit and voluntary tax compliance. This means that the directional hypothesis earlier established which states that; there is a positive relationship between audit and SMEs voluntary tax compliance the study does not support the earlier directional hypothesis which means that there is no positive relationship between audit and voluntary tax compliance.

The regression model above indicated that service quality has a coefficient value 0.161

and P value 0.008. This signified that service quality is positively and significantly impacting voluntary tax compliance. This means that the directional hypothesis earlier established support it. Similarly, the regression model above indicated that trust in authority has a coefficient value 0.488 and P value 0.000. This shows that trust in authority is positively significant on voluntary tax compliance. As expected from prior studies stands as the basis to accept the directional hypothesis earlier stated.

Conclusion and Recommendations

The study examined the determinants of tax compliance in Kaduna state. Four research question, specific objectives were formulated. The period of the study is 8 years (2016-2023) the study will benefit future researchers, policy makers and government agencies. Audit does not significantly influence SMEs voluntary tax in Kaduna State, Nigeria, while, service quality and Trust in authority indicate significant increases on SMEs voluntary tax compliance in Kaduna State.

Adequate measures should be put in place by government to support the existing mechanisms set in place to ensure effective good audit system by government officials. Also, to maintain and also improve the result, government should provide more public goods and services. Trust in authority which is significant from the above results indicates that, the more government trustworthy in terms of the revenue collected and the system at large the more the compliance among SMEs in Kaduna State.

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