

Effect of Religiosity, Tax Knowledge and Public Governance Quality on Taxpayers' Compliance in Southwest, Nigeria

Bukola Elizabeth Abiola¹, Olusola Esther Igbekoyi (Ph.D)², Kolawole Mohammed Akande^{3*},
Oluyemi Ayodeji Olayisade⁴

^{1,3,4}Department of Accounting, College of Social and Management Science, Afe Babalola University, Ado-Ekiti, Ekiti State, Nigeria

²Department of Accounting, Faculty of Administration and Management Sciences, Adekunle Ajasin University, Akungba-Akoko, Ondo State, Nigeria

*Corresponding Author: akandekm@pg.abuad.edu.ng

Abstract

This study examined the effect of religiosity, tax knowledge and public governance quality on taxpayers' compliance in Southwest, Nigeria. Descriptive research of a survey type was adopted and the study covered all the registered 23,289 SMEs across all the states in the Southwest region of Nigeria; out of which, 393 was sampled using proportionate and convenience sampling techniques. A close ended questionnaire was used to elicit the needed information from the sampled respondents across the study location. Pearson correlation and simple linear regression were used to analysis the responses of the respondents. However, before the administration of the instrument, validity and reliability of the instrument were carried out. It was discovered that religiosity, tax knowledge and public governance quality have a positive and significant effect on tax compliance among SMEs in Southwest, Nigeria. Based on the discoveries made, it was concluded that there is a statistically significant effect of religiosity, tax knowledge and public governance quality on taxpayers' compliance in Southwest, Nigeria. Thus, it was recommended that effort must be made by governments at all levels to engage in activities that indicates their sense of accountability to Nigerians. The perception of quality of governance should be improved by imbibing the tenets of representative democracy which will encourage tax payers to comply with tax laws and regulations.

Keywords: Religiosity, Tax Knowledge, Public Governance Quality, Taxpayers' Compliance

1. Introduction

Tax compliance is the fulfillment of tax regulations by the taxpayers. According to Cong (2018), tax compliance is the transparent accountability of taxpayers to tax authorities. Tax compliance simply means making timely payments, generating, and submitting tax information to the relevant tax authorities according to tax laws (Benno, Markus & Alison, 2017). Voluntary compliance with tax regulations by taxpayers explains their eagerness to be patriotic and contribute their quota to

Received: 28 June 2023

Revised: 8 July 2023

Final Accepted 15 July 2023

Copyright © authors 2023

209

DOI: <https://doi.org/10.5281/zenodo.8151572>

the development of society. The failure of taxpayers to dully comply with tax regulations suggests that taxpayers might be committing an act of noncompliance. Non-compliance of taxpayers with tax laws will not only affect the operational activities of the government, it will equally affect the competitiveness of the nation.

The compliance level of taxpayers is suspected to be low in Nigeria, particularly those in the informal sector like owners and staff of Small and Medium Scale Enterprises. This category of people always finds it difficult to comply with tax laws and regulations since it will reduce the profit made. In the opinion of James, Zaimah and Kamil (2015), some citizens, specifically the entrepreneurs, find it uneasy to execute their civic duties by paying their taxes timely. Oladejo (2020) acknowledged this assertion in her speech at the meeting of World Bank that took place in Washington DC that there are many eligible taxpayers in Nigeria; out of which, only people in the formal sector have their taxes deducted at source and the remaining ones represent the self-employed who appeared not to be tax-cultured. This limits the capacity of the government to defray its growing expenses.

The competitiveness of countries heavily rests on their ability to generate expected revenues and embarks on developmental projects capable of enticing both local and foreign investors. Hence, tax compliance has long been debated universally and several studies have been conducted on the subject matter. Whichever aspect these studies focus on concerning the motives for people, corporations to meet or avoid their tax responsibilities, the general aim is the same, which is to explain issues surrounding tax policies in generating revenue to defray government expenses. Traditionally, a larger part of the studies on tax compliance focused on economic deterrence models where economic factors such as tax penalties, tax amnesty and tax audits are proposed as a means to improve the compliance level of taxpayers.

In this present day, this approach has been criticized by scholars who firmly believed in non-economic factors as a way to stimulate voluntary compliance of taxpayers. This is the focus of this study and it can be explained from two viewpoints. The first viewpoint sheds light on the external values of taxpayers, like the influence of governments' actions on taxpayers that eventually determine their compliance level while the other one focused on the values which are internal to the individual (Ogiedu, 2020). These are values derived primarily from culture, religion, family and morale. While family and cultural values have been expansively studied in recent times, tax morale, it appeared that religiosity, tax knowledge and public governance quality as determinants of taxpayers' compliance have not been explored in the Southwest region of Nigeria, particularly among Small and Medium Scale Enterprises.

Religiosity explains the pledge of individuals to their religions and also their level of obedience to the lessons of the religion. Dabor, Kifordu and Abukaker (2021) opined that in the initial stage of this method, the influence of religiosity on compliance has been neglected and that only recently has this factor been emphasized as something to be explored to provide a better understanding in terms of the attitudes of taxpayers towards tax compliance. This is perhaps because, irrespective

Received: 28 June 2023

Revised: 8 July 2023

Final Accepted 15 July 2023

Copyright © authors 2023

210

DOI: <https://doi.org/10.5281/zenodo.8151572>

of religion, spiritual faith is projected to offer a sound internal control for citizens to differentiate between bad and good attitudes.

Religiosity is anticipated to efficiently avert adverse behaviour and boost the positive attitudes of taxpayers. Hence, religiosity is supposed to positively stimulate taxpayers to willingly comply with tax regulations. Several studies have been conducted on the connection between religiosity and tax compliance. However, findings reported were mixed. For example, Harun Buahtyan, Kaium and Sawyer (2016) reported a negative relationship while Dina (2018), Nor (2018), Hakim, Safira and Muhammdah (2019), Agbetunde, Akinrinola and Anyahara (2020) and Abodher, Ariffin and Saad (2020) reported a positive relationship.

According to Alkhatib, Hamad and Hermas (2020), tax knowledge reveals that there is a link between taxpayers' capacity to grasp tax rules and regulations and their ability to comply. Mohd. Rizal, Mohd, Rusyidi and Wan-Fadillah (2013) claimed that many SMEs are not conversant with tax laws and regulation hence, they perceive local authority charges are the same with government taxes. This misunderstanding has an influence on their compliance choice since they may believe that by paying council levies, they have paid tax and complied. Because of their failure to grasp tax law requirements, SMEs, many times, failed to pay their tax responsibilities, according to Kojo, Martin, Adombiru, Edisi and Akuetteh (2020). Worryingly, available studies in this context reported mixed findings. While this discovery is in tandem with the reported findings of Adesina and Mohd. Rusyidi, and Wan Fadillah (2013), Uyioghosa (2016) and Kojo, Martin, Adombiru, Edisi and Akuetteh (2020) that tax knowledge has a positive effect on taxpayers' compliance, it related inversely to the findings of Hantono (2021) who reported otherwise. This is a vacuum in literature that this study filled.

The quality of public governance is a general concern for citizens as it centers directly on the benefits of tax revenue. Mudathir (2019) described public governance as the organization and distribution of political goods in terms of basic social amenities, security, civil and political freedom and sound health system that can guarantee a good living for the citizens. It is of good quality if these political goods are provided as and when and thereafter influences the compliance level of taxpayers to tax laws and regulations. The quality of public governance is typically dependent on the ways the government exercises its authority to attain its purposes.

Quality public governance is assumed when state governments provide the expected political goods needed to improve the living standard of the populace. Findings reported on the connection between quality public governance and tax compliance are mixed and therefore motivate the researcher to further examine the subject matter. Harun, Buahtyan, Kaium and Sawyer (2016) and Lutfi and Hijattullah (2020) reported a negative effect while Oladejo (2020) reported that in the short run, government effectiveness, political stability, regulatory quality and control of corruption have a positive and significant effect on taxpayer compliance. He further reported that voice and accountability have a negative and statistically significant effect on tax compliance in Nigeria.

Received: 28 June 2023

Revised: 8 July 2023

Final Accepted 15 July 2023

Copyright © authors 2023

211

DOI: <https://doi.org/10.5281/zenodo.8151572>

James, Zaimah and Kamil (2015) and James (2017) discovered that taxpayers' perception about tax service quality and public governance quality is significantly related to compliance behavior.

Apart from the mixed findings, available studies on the subject matter indicate that no single study captured all the state governments in the Southwest region of Nigeria. This is worrisome given that the region has the highest number of small businesses through which adequate revenue can be generated to improve the revenue pool of the government. In the same vein, only a few studies jointly captured religiosity, tax morale and quality public governance as non-economic factors to determine tax compliance in the chosen location for this study. This is a gap in literature that this study filled. Based on the gaps, the researcher will examine the effect of religiosity, tax morale and public governance quality on taxpayers' compliance in Southwest, Nigeria.

Since studies on the subject matter are relatively few in the chosen location thus, the present study does not only add to the limited literature on the influence of religiosity, tax morale and public governance quality on tax compliance but also extends the work of other researchers in Nigeria. This study will add to the extant literature and shed light on the connection between the independent and dependent variables. Also, the findings of this study will be beneficial to policymakers, business owners, regulatory bodies and other scholars.

2. Literature Review and Hypothesis Development

Religiosity

Conceptually, religiosity is a multidimensional phenomenon that different scholars have conceptualized from different perspectives. Josephine (2017) posited that religiosity is broadly about religious involvement and orientation. He added that it includes ritualistic, intellectual, communal, moral, cultural, experiential, ideological, creedal, doctrinal and consequential dimensions. Sociologists of religion observed that an individual's belief, experience, behaviour and sense of belonging often are not consistent with their actual religious beliefs, since there is much diversity in how one can be religious or not. According to Nor Raihana (2018), religiosity is the embodiment of individual attitude, value and behaviour. Religiosity is personal life recognition of attitude and quality of life which follow religious values and become his/her belief. Religiosity is more concerned on the elements of noble values on religion than practice and ritual from religious formalities.

People who have high knowledge of religion can prevent an individual to have a negative attitude because if someone has strong religion, they will follow the law made by God and law in society. Mustapha (2020) posited that religiosity is an encouraging principle and commitment of individuals to act in society in a good way or bad way. Augustine (2017) defined religiosity as the level of commitment to one's religion. Explaining this, religiosity is a personal attitude toward religion in general, not just one aspect of religion, but also encourages the person to become a

religious person. More specifically, religiosity is individual to believe, consolidate and spiritualize the religious norms to become one. Thus, it becomes part of the conscience and identity of religiosity which included circumstances that encouraged the follower or believer of religious teaching to think, behave and act in accordance with the teachings of his religion.

Tax Knowledge

Tax knowledge is one of the many factors that contribute to a high level of compliance among taxpayers. Tax knowledge, according to James (2017), is the amount of awareness or sensitivity of taxpayers to tax policy. The methods through which taxpayers become aware of tax legislation and other tax-related information are referred to as tax knowledge. The level of formal general education received by taxpayers is a significant factor in their understanding of tax requirements, particularly in terms of registration and filing requirements. Citizens generally have little understanding about government real spending and the expense of government-provided public services (Pamella, 2020). As a result, taxpayers who lack tax knowledge are compelled to seek the help of tax professionals. Taxpayers' understanding of taxation is one of the most important strategies to raise public awareness.

Hantoto (2021) defined tax knowledge as tax payers' awareness of the policies that guide the operation of taxes in an economy. Fundamentally, individuals have a right to appropriate information about how a country's tax system operates. Adesina and Uyioghosa (2016), on the other hand, claims that general education levels are strongly linked to tax avoidance. People who are well-informed about their duties to register as taxpayers and to record and pay their taxes correctly are examples of national and civic duty. The majority of individuals that have little comprehension of what tax laws entail or why the tax system is constructed and handled the way it is (Richmell, 2016).

Public Governance Quality

The concept of public governance is understood by different scholars as different things in different ways. The World Bank defined governance as a way of exercising power in managing a country's economic and social development resources (Harun Buahtyan, Kaium & Sawyer, 2016). Public governance actually means the use of power by the government, that is, how the president and his ministers, senators, members of the House of Representatives and public services operate to promote democracy, accountability and transparency, formulate and implement good policies, effectively and efficiently manage Nigeria's human and financial resources to achieve the country's substantive development, to achieve economic prosperity and to alleviate poverty (Oladejo, 2020).

According to Oladejo (2020), governance is the process whereby a society makes crucial decisions, ascertains whom they involve and how an account is being rendered. Explaining this, governance

Received: 28 June 2023

Revised: 8 July 2023

Final Accepted 15 July 2023

Copyright © authors 2023

213

DOI: <https://doi.org/10.5281/zenodo.8151572>

comprises of complex procedures, mechanisms, relationships, institution and processes through which groups of individuals and citizens articulate their interests, practice their rights and commitments and mediate their differences. Governance is not all about how a social organization or government interact with their citizens (Ebenezer, et. al., 2019), but it relates more to the nation's capability to serve citizens and other stakeholders of an economy, as well as the manner in which public functions are being carried out, management of public resources and exercising public regulatory powers. In this context, governance can be viewed as the institutions and traditions by which authority in a nation is exercised for the common good.

Taxpayers' Compliance

Augustine (2017) argued that tax is a generalized exaction, which may be levied on one or more criteria upon individuals, or other legal entities. Corroborating this, Mustapha (2020) gave a more embracing meaning of tax by saying that tax is a compulsory levy or contribution made by the citizens to the state or even an alien, subject to the jurisdiction of the government, for reasons of residence or property and this contribution is for a general common use. As posited by Ebenezer, Alhassan and Erasmus (2019), tax is a compulsory levy imposed on a subject or upon his property by the government to provide security, social amenities and create conditions for the economic well-being of the society. Similarly, Renee (2019) defined tax as a form of levy imposed on all residents living in, as well as non-residents doing business within a tax jurisdiction.

Having conceptualized tax, compliance is a common concept that is applicable in every discipline. According to Agbetunde, Akinrinola and Anyahara (2020), compliance is the degree of conformity with a stated idea or assertion. Explain this, compliance is a common phenomenon used in agreement or conformity with a given terms and conditions at a given period of time. Richmell (2016) defined compliance as an act of obeying an instruction or order. Failure to abide with an established laws and order calls for sanction in every organization. This is not only applicable to the private organization but also to the society at large.

According to Agbetunde et al., (2020), compliance in relation to tax is the willingness of the tax payers to pay their taxes, duties and charges as and when due. Tax compliance simply means making timely payments, submitting and generating tax information to the relevant tax authorities according to the required format. Corroborating this, Peter and Rufus (2020) defined tax compliance as the transparent accountability of taxpayers to the tax authority. It is the willingness of an individual to conform with the relevant tax authorities by paying their charges. In support of the definition of Peter and Rufus (2020), Oladejo (2020) added that tax compliance is the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. Explain this, tax compliance is a person's act of filing their tax returns, declaring all taxable income accurately and disbursing all payable taxes within the stipulated period without having to wait for follow-up actions.

Conceptual Framework

Received: 28 June 2023

Revised: 8 July 2023

Final Accepted 15 July 2023

Copyright © authors 2023

214

DOI: <https://doi.org/10.5281/zenodo.8151572>

Figure 1 gives the overview of the explained and explanatory variables.

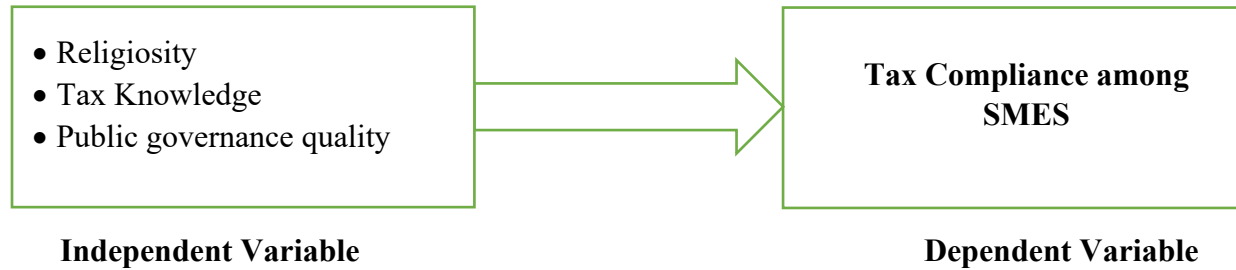


Fig 1: Conceptual Framework

Source: Author's Compilation, 2021.

Theoretical Framework

Theoretically, this study is underpinned by social contract theory. As cited by Mangoting, Sukoharsonob, Rosidic and Nurkholisd (2015), this theory was propounded by Thomas Hobbes and Jean Jacques Rousseau. They went further to explain social contract as an implied agreement between the Government and the people she governed where the citizens give up some rights to the Government, for the Government to undertake some established responsibilities which the citizens would not be able to perform on their own. These rights include rights to properties, wealth, and movement among others. Therefore, the Government as part of its agreement has to create wealth for the citizens, provide security, infrastructural facilities and social amenities as a result of the rights that the citizens sacrificed to her.

In the view of Muhammed (2018), this theory is a branch of the social contract concept which believes that human beings in their nature are rational and selfish and tends to go to extreme lengths to ensure that maximum utility is obtained, including giving up some of their rights and rendering of resources of tax payments. From this perspective, there are two sides of this theory (rationality and selfishness). Human beings are rational in nature because everyone understands that achievement of utility could be an everlasting dream and not reality without making some sacrifices. They are selfish because they make demands in exchange for their sacrifice. Based on these views, it could be deduced that taxpayers are displeased when they play their assigned role by fulfilling their part of the contract, watching the Government not playing their expected roles.

From the perspective of taxpayers among small and medium scale enterprises, this theory sees taxes, as a means of exploiting the wealth of taxpayers by the Government. Thereby the social contract theory functions as a reminder to both parties involved in social contract that they have significant roles to be played which are beneficial to both parties (Renee, 2019). It should be noted that social contract is not expressly signed by both parties (i.e. the Government and the citizens),

Received: 28 June 2023

Revised: 8 July 2023

Final Accepted 15 July 2023

Copyright © authors 2023

DOI: <https://doi.org/10.5281/zenodo.8151572>

but it is implied by actions and constitutions. It is documented in Nigerian constitution that taxes should be paid by citizen, that the Government should provide security for her citizens, social amenities, employment, infrastructural facilities, and improved standard of living and that the citizens should comply with the established tax regulations.

This theory holds strong and accurate assumptions; however, it has been criticized based on some limitations. Firstly, it apportions a lot of power to the government to make laws, under the guise of protecting the public. Also, contract can be unfair for the people in most cases. The theory's representation of humans is incorrect because it was established during the great upheaval and prolonged religious wars. Another critic of this theory is that it supposes that things are done out of selfish motives, ignoring the place of proper motivation in performance of people.

This theory finds great relevance to the study because it explains the reason for efficient tax administration, as well as other factors like tax compliance and tax evasion which influence tax yield. Social contract also highlights the implied agreement between the people and the government, where the people would give up their economic resources in form of tax payments, so that the government would recompense their contribution by providing social amenities and infrastructures. It takes cognizance of the fact that poor compensation from the government can make capable citizens evade tax which would reduce their compliance level and ultimately yield low tax revenue.

Empirical Review

Mohd. Rizal, Mohd. Rusyidi, and Wan Fadillah (2013) examined the role of religiosity in the relationship between tax education and tax knowledge towards tax compliance. Pearson correlation and hierarchical regression were adopted to test the hypotheses. 90.0 % of the respondents indicate that there are religious people. From analysis, it was discovered that the respondents' tax compliance was lower compared to their education and knowledge towards tax.

James, Zaimah and Kamil (2015) conducted a study titled, public governance quality and tax compliance behavior in Nigeria: the moderating role of financial condition and risk preference. Using descriptive statistics and multiple regression analysis method, the major finding of this study is that public governance quality has a significant positive relationship with tax compliance behavior. The study also indicates that risk preference has a strong negative moderating effect on the relationship between public governance quality and tax compliance behavior. Administration of income tax in Nigeria is characterized by low compliance level and therefore, there is no doubt that improvement in public governance quality would contribute significantly to reawakening the culture of tax compliance among individual taxpayers in Nigeria. The current study focuses on tax morale, religiosity, public governance quality as against the study under review that centered on public governance quality.

Adesina and Uyioghosa (2016) investigated the impacts of tax payers' knowledge and penalties on tax compliance amongst small and medium enterprises in Nigeria using a survey research design. The data obtained from questionnaire were analyzed using the Ordinary Least Square regression method. The results showed that tax knowledge had a positive significant impact on tax compliance while tax penalty had insignificant positive impact on tax compliance.

Harun Buahtyan, Kaium and Sawyer (2016) examined the effect of governance quality and religiosity on tax compliance in Italy. Ordinary least squares have been used to analyze the data gathered covering the period of 2002–2015 based on the latest data of Tax Compliance. The results show the negative impact of governance quality and religiosity on Tax compliance. In Germany, Benno, Markus and Alison (2017) conducted a study titled, tax compliance, tax morale and governance quality. Using Pearson correlation analysis method, the study revealed a strong correlation between tax morale and tax evasion/compliance. Geographically, the study under review was conducted in Germany as against the current study being carried out Southwest, Nigeria.

Josephine (2017) investigated the determinants of tax compliance among small and medium enterprises in Nakuru central business district, Kenya. Data collected was analyzed using descriptive and inferential statistics with the aid of SPSS package. The findings of the study revealed that perceived opportunity for tax evasion has no statistically significant effect on tax compliance among SMEs. There exist a statistically insignificant, negative relationship between perceived opportunity for tax evasion and tax compliance. Tax knowledge and education has no statistically significant effect on tax compliance among SMEs, while there exists a statistically insignificant negative relationship between tax knowledge/education and tax compliance. The current study is an extension of the study under review as it examines the relationship between tax morale, religiosity, public governance quality and tax compliance among SMEs in Southwest, Nigeria.

James (2017) investigated the factors influencing tax payers' compliance behaviour, evidence from Nigeria. The collected data were treated statistically using multiple regression analysis and other statistical techniques. The results reveal that taxpayers' perception about tax service quality and public governance quality significantly related to the compliance behaviour. In addition, the effect of taxpayers' financial condition strengthened the capacity of the compliance model in predicting taxpayers' behaviour better and significantly moderated the influences of tax system structure, moral reasoning and occupation. The outcome of the study might not be outdated. This is as a result of change in power and economy system. On this basis, the current study is established.

Cong (2018) examined the relationship between tax administration, morale and compliance in small and medium enterprises in Lira municipality, Uganda. The study used descriptive and multiple regression analysis method. The study revealed that the level of tax compliance by SMEs operating in Lira Municipality is moderately low and as matter-of-fact tax to GDP ratio is a

Received: 28 June 2023

Revised: 8 July 2023

Final Accepted 15 July 2023

Copyright © authors 2023

217

DOI: <https://doi.org/10.5281/zenodo.8151572>

measure of compliance and this confirms that SMEs contributes little to the national treasury, it is therefore imperative that much has to be done in areas of tax administration and tax morale which are main determinants of tax compliance. The study also found out that taxpayer education and tax audit are positively correlated with tax compliance this therefore means that a boost in taxpayer education and tax audit would result into a positive increase in the level of tax compliance and subsequently boosting domestic revenue.

Okoye, Isenmila and Oseni (2018) investigate the effect of good governance on personal income tax compliance in Nigeria. Ordinary Least Square (OLS) was applied in testing the hypothesis. The study found a positive and statistically significant relationship between the independent variable (good governance) and the dependent variable (tax compliance) in Nigeria. While the study under review was conducted at the national level, the current study is delimited to Southwest, Nigeria.

Nor Raihana (2018) examined the influence of an individual's internal value, religiosity compared to external values reflected in attitudes towards government, tax authority and society as well as the impact of threat of punishment on components of tax compliance, namely voluntary tax compliance, enforced tax compliance and tax avoidance attitude in Malaysia. Using descriptive and inferential statistical tools, religiosity appeared to have a statistically significant positive impact only on taxpayers' willingness to voluntarily comply with tax laws. A different religiosity commitment appeared to influence a different tax compliance component, and religiosity was also evident as a moderating variable. The findings of this study shows that the taxpayers' perceptions of the government and tax authority had stronger influences on their willingness to voluntarily comply with the tax laws compared to their religiosity. While the predicting variable is delimited to religiosity, the current study extends to include tax morale, religiosity and public governance quality.

Dina (2018) investigated the influence of religiosity towards tax compliance in micro small medium enterprises in Australia. The study employed a simple linear regression analysis method and revealed that religiosities have a positive significant effect on tax compliance among micro small and medium enterprises in Australia. Geographically, the study under review was conducted in Australia as against the current study being carried out in Southwest, Nigeria.

Hakim, Safira and Muhammdah (2019) examined the effect of intrinsic religiosity on voluntary compliance in Indonesia. Using regression analysis method, the study found that religiosity has significant influence on tax amnesty reporting and that religiosity also moderate the influence of guilt cognitions on taxpayer's voluntary disclosure. The outcome of the study under review might not be tenable in Nigeria as a result of the difference in the geographical scope of the study.

Renee (2019) examined the role of religiosity in tax compliance in New Zealand. The study adopted correlation analysis method. The results found that most participants felt that religiosity can have a positive impact on tax compliance. Although religiosity can be influential on tax

compliance, its perceived strength is low compared with other variables such as New Zealand's source deduction (Pay as You Earn) system and civic duty.

Emmanuel and Anthony (2020) assess the suitability of religion and religiosity in small and medium-scale enterprises' (SMEs) tax compliance in Ghanaian markets. Using descriptive statistical tools, the study revealed that Ghanaian religious notoriety does not explain SMEs' tax compliance and that tax evasion is seen as ethical. Institutional, firm and entrepreneurs' characteristics are important determinants of SMEs' tax compliance. The current study intends to employ Pearson correlation and multiple regression analysis method as against the study under review that used descriptive statistical tools.

Oladejo (2020) determined the effect of public governance quality on tax compliance in Nigeria between 2008 and 2018. Collected data were analyzed using unit root test and Autoregressive Distributed Lags (ARDL). The result from the study showed that in the short run, four public governance indicators had positive significant effect on tax compliance in Nigeria. These are government effectiveness, political stability, regulatory quality and control of corruption. The result further showed that voice and accountability have a negative and statistically significant effect on tax compliance in Nigeria. The current study intends to employ Pearson Correlation and multiple regression analysis method as against the study under review that used unit root test and Autoregressive Distributed Lags (ARDL).

Abodher, Ariffin and Saad (2020) adopted a structured questionnaire to examine the impact of Islam and Islamic religiosity on tax non-compliance behaviour among self-employed taxpayers in Libya. Structural equation modelling analysis of the data collected suggested that both Islamic religiosities exhibited significant positive relationship with tax non-compliance behaviour among self-employed Libya taxpayers. The outcome of the study under review might not be tenable in Nigeria as a result of the difference in the method of analysis employed for the study.

Lutfi and Hijattulah (2020) examined the relationship between taxpayers' perception among SMEs in Yemen about the quality of public governance and their non-compliant behaviour in order to have better understanding of non-compliant behaviour. Using descriptive and inferential analysis method, the analysis reveals that public governance quality is perceived as low in Yemen. A simple regression analysis found that public governance quality has a significant negative influence on tax non-compliant behaviour. While the predicting variable is delimited to public governance quality and religiosity, the current study extends to include tax morale, religiosity and public governance quality.

Kojo, Martin, Adombiru, Edisi and Akuetteh (2020) examined the effect of dimensions of tax knowledge on tax compliance in the Ghanaian context using small and medium enterprises. The data was analysed using a structural equation modelling approach. The results of the study suggest that knowledge of tax rights and responsibilities, knowledge of employment income, and

awareness of sanctions were found to have a positive and significant relationship with tax compliance. Knowledge of business income was not statistically related to tax compliance.

A survey of religiosity, tax morale and compliance among micro, small and medium scales enterprises in Nigeria was carried out by Agbetunde, Akinrinola and Anyahara (2020). Collected data were analysed using percentages, mean and regression. The study found that religiosity (total, not neither inter- nor intra-personal), as well as tax morale components (especially, sentiment, norms and value, taxpayers' attitude and fairness of tax system, but not governance and trust), exerted a significant influence on tax compliance among operators of MSMEs in South-West, Nigeria. The current study is unique as it focuses on tax morale, religiosity, public governance quality and tax compliance among SMEs in Southwest, Nigeria.

Hantono (2021) examined the impact of tax knowledge, tax awareness, tax morale toward tax compliance boarding house tax. Multiple linear regression analysis shows that tax knowledge, tax awareness, and tax morale are significant toward tax compliance. The results of t-test showed that tax knowledge isn't approved and indicates it has a significant impact on affecting tax compliance, tax awareness is approved, and indicates that it has less impact on tax compliance. Also, tax morale isn't approved, indicating that it has a great impact on tax compliance.

3. Data and Methods

The study adopted descriptive research design of a survey type. This is considered appropriate because descriptive research describes situations in their normal settings as they occur and survey design allows every segment of the population to be represented through which inferences could be made. The study covered all the owners of SMEs in the Southwest region of Nigeria. According to SMEDAN national survey (2017), which is the latest, there are 23,289 SMEs across all the states in the Southwest region of Nigeria. The breakdown is given in table 1.

Table 1: Population of the Study

State(s)	SMEs
Lagos	8,395
Ogun	2,465
Oyo	6,131
Ondo	2,363
Osun	3,007
Ekiti	928
Total	23,289

Source: Author's Compilation, 2021.

According to Yamane (1964) model, the sample size for this study was 393 respondents. The Yamane model (1964) formula is given as:

$$n = \frac{N}{1 + N(e)^2}$$

Where:

n = sample size

N = the population size

e = level of significance

For the population of 23,289, the sample size based on the formula is:

$$n = \frac{23,289}{1 + 23289(0.05)^2} = 393$$

The study adopted a proportionate and convenience sampling techniques. Proportionate sampling with the help of Bowley's formula was used to determine the sample for each bank while convenience sampling technique was used to determine the respondents with which the questionnaires were administered to promote voluntary participation. Bowley's formula is given thus:

$$n = \frac{N!n!}{N}$$

Where:

n = sample size of each faculty

n! = total sample size

N! = population of each faculty

N = population of the study

Table 2: Sample Size of Each of the Sampled States

State(s)	SMEs
Lagos	$n = \frac{8,395(393)}{23,289} = 141$
Ogun	$n = \frac{2,465(393)}{23,289} = 41$
Oyo	$n = \frac{6,131(393)}{23,289} = 103$
Ondo	$n = \frac{2,363(393)}{23,289} = 40$
Osun	$n = \frac{3,007(393)}{23,289} = 51$
Ekiti	$n = \frac{928(393)}{23,289} = 16$

Received: 28 June 2023

Revised: 8 July 2023

Final Accepted 15 July 2023

Copyright © authors 2023

DOI: <https://doi.org/10.5281/zenodo.8151572>

Total	393
-------	-----

Source: Author’s Computation, 2021.

A close ended questionnaire was used to elicit the needed information from the sampled respondents across the study location. Pearson correlation and simple linear regression were used to analysis the responses of the respondents. However, before the administration of the instrument, validity and reliability of the instrument were carried out. Face and content validity were used to assess the validity of the instrument while a polite study was carried out in kwara State to assess the reliability of the instrument through which 0.782, 0.822, 0.804 and 0.788 reliability co-efficient for religiosity, tax knowledge, quality public governance and taxpayers’ compliance respectively were obtained through cronbach alpha. The study adapted one of the models used by Nazaruiddin (2019) to examine the role of religiosity and patriotism in improving taxpayers’ compliance. The model is given thus:

$$TPC = f(REL) \text{ ----- } 3.1$$

Where:

TPC is Tax Compliance

REL is Religiosity

However, the model was adjusted with the aim of achieving the stated objectives. While tax compliance was retained as the outcome variable, tax knowledge and public governance quality were added to the initial predictor.

$$TPC = f(REL, TAK, PGQ) \text{ ----- } 3.2$$

Where:

TPC is Tax Compliance

REL is Religiosity

TAK is Tax Knowledge

PGQ is Public Governance Quality

Linear representation of the models:

$$TPC = \alpha_0 + \alpha_1 REL + \alpha_2 TAK + \alpha_3 PGQ + U \text{ } (3.3)$$

α_0 = Intercept of relationship in the model, u = Error term and $\alpha_{1...3}$ is coefficient of the explanatory variables

It is expected that religiosity, tax knowledge and public governance quality will have a positive effect on tax compliance.

Model Specification

Measurement of Variables

Analysis of the Administered Questionnaire

Table 3: Analysis of the Administered Questionnaires

Questionnaires	Responses	Percentage (%)
Number of filled	360	91.6%
Number of Unfilled	0	0%
Number Not Returned	33	8.4%
Total	393	100%

Source: Field Survey, 2021

The result above reveals that out of the 393 questionnaires that were administered, 360 representing 91.6% were filled, while 7 representing 8.4% were not returned. This implies that the analysis of the items on the questionnaires was based on 360 respondents, being the number of the questionnaires correctly filled and returned.

Table 4: Pearson Correlation

	TAC	REL	TAK	PGQ
TAC	1.000000			
REL	0.776756	1.000000		
TAK	0.788093	0.341563	1.000000	
PGQ	0.449772	0.308770	0.438001	1.000000

Source: Researcher's Computation (2021).

Table 4 revealed that there is a positive relationship between TAC, REL, RAK and PGQ with correlation coefficient of 0.776756 for REL, 0.788093 for TAK and 0.449772 for PGQ. This indicates that the variables moved in similar directions across the sampled SMEs in Southwest, Nigeria. Similarly, the result also showed that there exists a positive relationship between REL, TAK and PGQ with the correlation coefficient of 0.941563 for TAK and 0.308770 for PGQ. Similarly, the relationship between TAK and PGQ was positive with correlation coefficient of 0.538001. Finally, the relationships between PGQ and other variables were positive. Looking at the correlation coefficient of relationship between the predictors that is not excessively high, it shows that there is no issue of multi-collinearity.

Table 5: Multiple Regression

Dependent Variable: tax compliance among SMEs in Southwest, Nigeria.

Variables	Coefficient	Std Error	T-Statistic	Prob.
C	4.968	0.362	13.736	0.000

Received: 28 June 2023

Revised: 8 July 2023

Final Accepted 15 July 2023

Copyright © authors 2023

DOI: <https://doi.org/10.5281/zenodo.8151572>

Religiosity	0.354	0.051	6.891	0.000
Tax Knowledge	0.220	0.101	2.294	0.031
Public Governance Quality	0.243	0.093	3.526	0.001

Source: Author's Computation, 2021. R - 0.742, Adjusted R-square - 0.551, F-statistics 47.487, P-value (F-stat) 0.000

The value of correlation coefficient (R) given to be 0.742 implies that there is a high relationship between taxpayers' compliance and the predictors in terms of religiosity, tax knowledge and public governance quality. The adjusted R² value stood at 0.551 and this indicates that 55.1% of the systematic change in taxpayers' compliance among SMEs in Southwest, Nigeria can be explained by religiosity, tax knowledge and public governance quality. An explanation of the remaining 44.9% variation in taxpayers' compliance among SMEs in Southwest, Nigeria can be given by other factors not in this model. Religiosity, tax knowledge and public governance quality have a positive and significant effect on tax compliance among SMEs in Southwest, Nigeria to the tune of 0.354(p=0.000<0.05), 0.220(p=0.031<0.05) and 0.243(p=0.001<0.05) respectively. Thus, the null hypotheses indicating that there is no significant effect of religiosity, tax knowledge and public governance quality on taxpayers' compliance in Southwest, Nigeria is rejected while the alternative hypotheses are accepted.

4. Data Presentation and discussion Findings

An attempt has been made to examine how taxpayers' compliance could be influenced by religiosity, tax knowledge and quality public governance with the use of multiple regression. It was discovered that religiosity has a positive and significant effect on taxpayers' compliance in Southwest, Nigeria to the tune of 0.354(p=0.000<0.05). This connotes that taxpayers' compliance stand the chance of increasing by 35.4% with just a 1% increase in religiosity across the Southwest zone of Nigeria. By implication, this reflects that taxpayers' compliance will increase with a reasonable increase in religiosity involvement and orientation. The positive and significant effect of religiosity on taxpayers' compliance might be attributed to the general believes that people with high knowledge of religion and internalized its principles and values might find it necessary to always obey tax laws and regulations. This outcome gave credence to the tenets of social contract theory that religiosity can influence the rationality and selfishness of taxpayers to trust the government to fulfil its constitutional obligations. This outcome corroborated the discoveries of Hakim, Safira and Muhammdah (2019), Agbetunde, Akinrinola and Anyahara (2020) and Abodher, Ariffin and Saad (2020) that religiosity has a positive effect on taxpayers' compliance. However, it failed to support the findings of Harun Buahtyan, Kaium and Sawyer (2016) that reported a negative effect of religiosity on taxpayers' compliance.

Another discovery is that the effect of tax knowledge on taxpayers' compliance is positive and significant to the tune of 0.220(p=0.031<0.05). This stipulates that a 1% increase in tax knowledge

will amount to 22% increase in taxpayers' compliance in Southwest, Nigeria. By inference, this finding explains that taxpayers in developing nations like Nigeria are naturally selfish and without adequate knowledge of tax laws and regulations alongside tax benefits, they might find it uneasy to pay their taxes as expected. This confirms the selfishness aspects of social contract theory that naturally people find it difficult to pay taxes, most especially in developing countries. The finding is positive and significant because the level of formal education received by taxpayers is a significant factor in their understanding of tax requirements, particularly in terms of registration and filling requirements. While this discovery is in tandem with the reported findings of Adesina and Mohd. Rusyidi, and Wan Fadillah (2013), Uyioghosa (2016) and Kojo, Martin, Adombiru, Edisi and Akuetteh (2020) that tax knowledge has a positive effect on taxpayers' compliance, it related inversely to the findings of Hantono (2021) who reported otherwise.

The last discovery was that public governance quality has a positive and significant effect on taxpayers' compliance in Southwest, Nigeria to the tune of 0.243($p=0.001<0.05$) indicating that a 1% increase in public governance quality will generate 24.3% increase in taxpayers' compliance. This outcome underscores that the compliance of taxpayers to contribute their quota in the provision of public needs must be backed by a certain level of confidence on public governance since. Taxpayers are more inclined to comply to tax laws if the exchange between the paid tax and the government performance are found to be unbiased. This finding established the discovery of James, Zaimah and Kamil (2015) and James (2017) that taxpayers' perception about tax service quality and public governance quality is significantly related to compliance behavior. However, it negated the findings of Harun, Buahyan, Kaium and Sawyer (2016) and Lutfi and Hijattulah (2020). They reported a negative effect of public governance quality on taxpayers' compliance.

5. Conclusions and Recommendations

Available studies on the subject matter indicate that no single study captured all the state governments in the Southwest region of Nigeria. This is worrisome given that the region has the highest number of small businesses through which adequate revenue can be generated to improve the revenue pool of the government. In the same vein, only a few studies jointly captured religiosity, tax knowledge and quality public governance as non-economic factors to determine tax compliance in the study location. All these constituted a vacuum in literature that this study filled. Based on the discoveries made, it was concluded that there is a statistically significant effect of religiosity, tax knowledge and public governance quality on taxpayers' compliance in Southwest, Nigeria. Thus, it was recommended that:

The religious values held by citizens in Southwest zone of Nigeria can be used to encourage them to increase their willingness to comply with tax laws and regulations.

In order to improve taxpayers' attitude, tax authorities should also continue the taxpayers' education and enlightenment programmes regularly.

Effort must be made by governments at all levels to engage in activities that indicates their sense of accountability to Nigerians. The perception of quality of governance should be improved by actually imbibing the tenets of representative democracy which will encourage tax payers to comply.

Future researches need to expand the scope of the sample so that it can increase the generalization of the results.

Reference

- Abodher, I., Ariffin, A. & Saad, O. (2020). The impact of Islam and Islamic religiosity on tax non-compliance behaviour among self-employed taxpayers in Libya. *Modern Economy*, 7(12), 1478-1497.
- Adesina, O. O. & Uyioghosa, O. (2016). Tax knowledge, penalties and tax compliance in small and medium scale enterprises in Nigeria. *Scientific Research Journal*, 8(1), 1-21.
- Agbetunde, L. A., Akinrinola, O. O. & Adekoya, A. A. (2020). Where lies the compliance? A value chain analysis of tax morale and compliance among self-employed taxpayers in a developing economy. *International Accounting and Taxation Research Journal*, 2(1), 1-21.
- Alkhatib, A. A., Hamad, M. Z. & Hermas, M. D. (2020). The Impact of Tax Ethics and Knowledge on Tax Compliance among Palestinian Taxpayers. *International Journal of Academic Research in Business and Social Sciences*, 10(6), 346–352.
- Augustine, A. (2017). Determinants of tax compliance behavior of Nigerian SMES: data screening and preliminary analyses. *Asian Social Science*, 11(28), 226 – 239.
- Benno, T., Markus, S. & Alison, M. (2017). Tax compliance, tax morale and governance quality. *European Journal of Political Economy*, 1(2), 49-66.
- Cong, N. (2018). *Tax administration, morale and compliance in small and medium enterprises in Lira municipality, Uganda*. A thesis submitted to Kyambogo University. 1-84.
- Dabor, A. O., Kifordu, A. A. & Abukaker, J. A. (2021). Tax compliance behavior and religiosity: the role of morality. *Palarch's Journal of Archaeology of Egypt/Egyptology*, 18(1), 3911-3935.
- Dina, D. (2018). *The influence of religiosity towards tax compliance in micro small medium enterprise in Australia*. Being a thesis submitted to President University, Cikarang Baru-Bekasi, Indonesia. 1-66.

- Ebenezer, T. O., Alhassan, M. & Erasmus, D. G. (2019). *Determinants of tax compliance in Ghana: the case of small and medium tax payers in greater Accra region*. Journal of Applied Accounting and Taxation, 4(1), 1-14
- Emmanuel, C. & Anthony, A. (2020). Religion and tax compliance among SMEs in Ghana. *Journal of Financial Crime*, 1(2), 1-16.
- Hakim, A., Safira, I. & Muhammdah, O. (2019). The effect of intrinsic religiosity on voluntary compliance in Indonesia. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 7(1), 1-13.
- Hantono, A. (2021). The impact tax knowledge, tax awareness, tax morale toward tax compliance boarding house tax. *International Journal of Research*, 9(1), 49-65.
- Harun, R., Buantyan, S. A., Kaium, A. M. & Sawyer, A. (2016). Impact of governance quality and religiosity on tax compliance: evidence from Italy. *Advances in Taxation*, 2(9), 89–110
- James, O. A. (2017). *An investigation of factors influencing taxpayers' compliance behaviour: evidence from Nigeria*. A thesis submitted Ahmadu Bello University. 1-92.
- James, O. A., Zaimah, Z. A. & Kamil, M. I. (2015). Public governance quality and tax compliance behavior in Nigeria: the moderating role of financial condition and risk preference. *Social and Environmental Accounting*, 5(1), 3-24
- Josephine, M. K. (2017). *Determinants of tax compliance among small and medium enterprises in Nakuru central business district, Kenya*. A thesis submitted to Kabarak University. 1-84.
- Kojo, K. T., Martin, K. A., Adombiru, M. A., Edisi, D. & Akuetteh, C. (2020). Tax knowledge and tax compliance of small and medium enterprises in Ghana. *South East Asia Journal of Contemporary Business, Economics and Law*, 21(5), 1-10.
- Lutfi, H. A. & Hijattulah, A. J. (2020). Public governance quality and income tax non-compliance among small and medium enterprises in Yemen. *International Journal of Accounting*, 3(8), 13-21.
- Mohd. Rizal, P., Mohd. Rusyidi, M. A. & Wan Fadillah, B. A. (2013). The perception of tax payers on tax knowledge and tax education with level of tax compliance: A Study the Influences of Religiosity. *ASEAN Journal of Economics, Management and Accounting 1 (1): 118-129*
- Mudathir, O. S. (2019). Public governance quality and personal income tax compliance: evidence from ilorin metropolis, Kwara State, Nigeria. *International Journal of Accounting & Finance (IJAF)*, 8(2), 43-63.

- Muhammed, A. (2018). *The way to tax compliance from tax evasion in Pakistan: a test of the mediating model of individual non-filers by utilizing the theory of planned behaviour*. A thesis submitted to the superior college, Lahore. 1-315.
- Mustapha, A. (2020). The effect of tax morale on the taxpayer in compliance with tax policies of government in Nigeria. *The Journal of American Taxation Association*, 1(2), 9-15.
- Nor Raihana, M. A. (2018). *The influence of religiosity on tax compliance in Malaysia*. A thesis submitted to Curtin University, Malaysia. 1-274.
- Ogiedu, K. O. (2020). Effects of religiosity on tax compliance in Nigeria. *Singaporean Journal of Business Economics, and Management Studies (SJBEM)*, 7(2), 54-69.
- Oladejo, A. O. (2020). Public governance quality and tax compliance in Nigeria (2008-2018). *Sumerianz Journal of Business Management and Marketing*, 3(6), 67-73.
- Okoye, A. E., Isenmila, P. A. & Oseni, A. L. (2018). Good governance and personal income tax compliance in Nigeria. *International journal of taxation*, 2(1), 1-16.
- Pamella, B. (2020). *An Analysis of Determinants of tax compliance by Small and Medium Enterprise in United Kingdom*. A thesis submitted to the Midlands State University. 1-93.
- Peter, O. I. & Rufus, S. O. (2020). Determinant of tax compliance of small and medium-scale enterprises (SMEs) in Edo state. *European Journal of Social Sciences*, 24(1), 7-32.
- Renee, N. (2019). *Religiosity and tax compliance; a practical study in New Zealand*. A thesis submitted to the University of Canterbury, Christchurch, New Zealand. 1-151.
- Richmell, B. A. (2016). Tax compliance among small and medium scale enterprises in Kumasi Metropolis, Ghana. *Journal of Economics and Sustainable Development*, 7(16), 1-12.