



Vol. 2 | June 2019

UNIOSUN

INTERNATIONAL JOURNAL OF ACCOUNTING AND FINANCE



A Publication of

Department of Accounting, Banking & Finance

Faculty of Management Sciences,

Osun State University, Okuku

P. M. B. 2008, Okuku Osun State, Nigeria, West Africa

**UNIOSUN
INTERNATIONAL JOURNAL
OF ACCOUNTING
AND FINANCE**

VOL. II

JUNE, 2019

UIJAF

**A Publication of
Department of Accounting, Banking and Finance,
Osun State University, Osogbo.
Osun State, Nigeria.**

EDITORIAL BOARD

Editor-in-Chief

Prof. J. J. Adefila

University of Maiduguri,
Maiduguri

Editors

Prof. J.A Oloyede

Prof.A.R.Onaolapo

Ekiti State University, Ado-Ekiti

Ladoke Akintola University of

Technology Ogbomoso

Prof. O.O. Akilo

Obafemi Awolowo

University,Ile-Ife

Prof. M.A. Ijaiya

University of Ilorin ,Ilorin

Prof.S.N.O Ibenta

Nnamidi Azikiwe

University, Awka.

Prof.L.C.Obiora

Rivers State University,Port

Harcourt

Prof. V. N. Ezeabazili

Anambra State University,

Igbariam.

Dr. A.Olagunju

Osun State University,Osogbo

Dr.A.O.Gbadebo

Osun State University,Osogbo

Dr.J.k Olowookere

Osun State University,Osogbo

Dr.O.A.Ilesanmi

Osun State University,Osogbo

Dr.A.O.Adebayo

Osun State University,Osogbo

Dr.H.T. Fasina

Ladoke Akintola University of

Technology Ogbomoso

Dr.I.B.Abdullahi

University of Ilorin, Ilorin

TABLE OF CONTENTS

Title Page	I
Publisher's Page	II
Editorial Board	III
Perfacatory Note	IV
Table of Contents	V-VI

Reforming Accounting and Financial Management Practice in Nigeria:
Lessons from the United Kingdom and New Zealand.

Obara, Lawyer Chukwuma (Ph.D) 1-20

Capital Structure and Corporate Performance In Nigeria
Joseph Edewor Agbadudu (Ph.D) 21-35

Financial Reforms and Nigerian Economic Growth
Adereti S. A. 36-54

Determinants of Corporate Social Responsibility
Disclosure in Nigerian Manufacturing Sector
Akinyomi Oladele John. (Ph.D) 55-72

An Evaluation of The Determinants of Tax Compliance
in Ilorin Metropolis

Taiwo Azeez Olaniyi¹ (Ph.D; ACA);
Kemi Kehinde Oyeniye² (B.Sc.);
and Abdulrasaq Kuranga³ (B.Sc.) 73-93

- Evaluation of Stakeholders' and Auditors' View on Fraud
Discovery and Reporting in Southwest, Nigeria
Amos Olusola Akinola 94-114
- Financial Literacy and Money Management Among Tertiary
Institution Students. A Study Of Selected Universities
in Osun-state, Nigeria.
Mrs. AKINYEDE O.M (Ph.D)
Mrs. OWOLABI, A.O (Ph.D)
Mrs. AKINOLA, .A.A 115-126
- Impact of Audit Quality on Analysts' Earnings
Forecast in Nigeria
BAMIGBADE, Dayo 127-138
- Longitudinal Analysis of Tax Policy Reforms and Economic
Growth in Nigeria, 1997-2017
Okpala Kenneth Enoch¹ (Corresponding Author)
Olagunju, Adebayo 139-167
- Political Risk and Bank Performance: Evidence from Nigeria
OLADIMEJI Moruff (Ph.D)
WORIMEGBE, Powel Maxwell
WORIMEGBE, Temitope Mariam 168-184
- Influence of International Financial Reporting Standards
on Share Prices of Nigerian Quoted Oil and Gas Firms
Sanni Michael Rotimi (Ph.D)
OLOWOOKERE Johnson Kolawole (Ph.D)
OJEDELE Mofoluwaso Iyabode (Ph.D) 185-208

AN EVALUATION OF THE DETERMINANTS OF TAX COMPLIANCE IN ILORIN METROPOLIS

Taiwo Azeez OLANIYI¹ (Ph.D; ACA); Kemi Kehinde OYENIYI² (B.Sc.); and
Abdulrasaq KURANGA³ (B.Sc.)

^{1,2&3} Department of Accounting, University of Ilorin, Ilorin, Kwara State, Nigeria

¹E-mail: niyitaiwo03@yahoo.com,

Phone Number : +2348035771449

²E-mail : kemioyeniya@yahoo.com

Phone Number: +2348039123039

²E-mail : abdulrasaqfukuranga@gmail.com

Phone Number: +2348069344629

Corresponding Author: DR. OLANIYI Taiwo Azeez

Phone Number: +2348035771449

E- Mail: niyitaiwo03@yahoo.com

Abstract

Tax constitutes the principal source of government revenue and the beauty of any government is for its citizen to voluntarily execute their tax obligations without much coercion and harassment. However, tax compliance among SMEs in Kwara State is poor such that they were being forced to pay either by locking up their business outfits or waylaid during marketing or transportation of their products.. Therefore, this study evaluates the factors that influences SMEs owners to willingly comply with tax obligation in Ilorin metropolis. A cross sectional survey design was adopted and sample size of one hundred and two (102) registered firms were selected. The primary data, which were collected through self-administered questionnaire, were treated statistically using simple percentage and probability multiple regression model (probit). The study reveals that all the variables: audit probability and fine rate (APF), tax morale (TM), tax fairness (TF) as well as trust in Government (TG) have positive significant effect on tax compliance in Ilorin metropolis (prob =0.004), 0.0175, 0.0060 and 0.0260 respectively at 5% level of significance. The study concludes that both deterrence (audit probability, fines and penalties) and socio-

psychological factors (TM, TF, TG) exert significant impact on tax compliance in Kwara State. However, it was recommended that: (i) Kwara State government and its tax authorities should increase tax audit and penalty/ fines for non-compliance, (ii) build trust in taxpayers by being honest with the use of tax proceeds. (iii) Also SMEs should be levied bearable tax liability in order to pave way for SME growth, give them better chances of survival in a competitive market with a view to stimulate more tax compliance and sustainable economic development in the state.

Keywords: Taxation, Compliance, Deterrence, Trust, Morale

JEL CODE: MM4

1 Introduction

One important aspect of the country's finance is its potential revenue which may be derived from various sources such as crude oil, agricultural produce, imported and manufactured goods. Studies including, Torgler (2011); Akan and Odita (2013); Lambe, (2015) have shown that taxes form major part of the government revenue worldwide, but not every government has been able to effectively exploit this great opportunity.

Tax revenue is an important instrument for economic growth and development in any developing country and it goes a long way in making funds available for the provision of public goods. However, the amounts of revenue derivable from taxes for executing its expenditure programs depend on the willingness of the taxpayers to comply with tax laws of the country (Abdulrasaq and Adafula, 2013).

Mukhlis, Utomo and Soesetyo (2014), stressed further that the size of a country's tax revenue is determined by the extent of tax compliance of its community, such that the larger the tax base and the greater the level of tax compliance, the greater the country's ability to raise funds from taxes and vice-versa. Thus, taxes constitute the principal source of government revenue and the beauty of any government and any good tax system is for its citizen to voluntarily execute their tax obligations without much coercion and harassment.

Fakile (2011) stated that Nigeria is governed by a federal system and the

governments' fiscal power is based on a three-tier tax structure divided among the Federal, State, and Local governments, each of which has different tax jurisdictions. The federal government controls all the major sources of revenue like import and excise duties, mining rents and royalties, petroleum profit tax and company income tax, value added tax among other revenue sources.

Worthy of note is that State and local government taxes are minimal, hence, this limits their ability to raise independent revenue and so they depend solely on allocation from federation account. The downturn in the oil sector has put greater pressure on the three-tiers of government to generate more revenue in order to meet electoral promises in terms of provision of basic necessities and infrastructure for the economic empowerment of its people. To achieve these goals, taxpayers needs to pay their taxes willingly and timely.

On the contrary, Asaph (2008) and Alabede, Ariffin and Zaimah (2014) revealed that there have been problems of low tax compliance in many developing countries of which Nigeria is not an exception.

Given that states are components of the country, what is happening at the country level must have emanated from among the states. What therefore could be responsible for the compliance and invariably factors that may shape tax payers behaviour in Kwara State using Ilorin metropolis as a reference point.

This scenario led to the test of following hypotheses:

H_{01} : audit probability and fine rate has no significant impact on tax compliance

H_{02} : tax morale has insignificant effect on tax compliance

H_{03} : tax fairness does not have significant effect on tax payers' compliance and;

H_{04} : taxpayers' trust in government has no significant effect on tax compliance

Non tax compliance is a continual and growing global problem in many developing countries, including Nigeria; it had bedeviled the Nigeria tax system right from the colonial time till date (Adegbe and Fakile, 2011). Kwara State is not left out in these acts of non compliance which poses serious challenges to mobilisation of tax revenues. Hence, there is the need to investigate the determinants

of tax compliance establish the underlining factors which tax authorities have to be aware of in a bid to increase the level of tax compliance and revenue in the State.

2. Review of Literature

Conceptual Clarification

Tax is a civic contribution imposed by the government on her subjects (individual and corporate bodies) with a view to financing its core responsibilities of ensuring optimum public welfare socially, economically and politically (Kabel and Nwokah, 2009). The study of the teachings of Christianity, Islam and other prominent religions in the world shows that tax is a religious duty which is based on social and civil responsibilities (Agbetunde, 2010). The religious backing for tax payment could also be found in Mathew: Chapter 22 verse 21, Mark: Chapter 12 verse 17 and Quran Chapter 6 verse 141 where it was summarized that what belong to Caesar must be given to Caesar and Zakat (tax) must be paid when there is income and must be paid on the day of harvest (i.e. as at when due)

Soyode and kajola, (2006) in their own submission view tax as a compulsory extraction of money by a public authority for public purposes. Lambe, (2015) describe taxes as an important fiscal policy tool for growth and development, in other words, tax is a levy on income of persons or companies, which provides definite source of revenue for government expenditures. Nightingale (2001) identified six reasons for taxation to include provision of public goods, redistribution of income and wealth, promotion of social and economic welfare, economic stability and harmonization and regulation.

Taxation is therefore a system of mobilizing money for the benefit of the generality of the people within a particular society, by means of contributions from individual persons or corporate bodies hence, if tax revenue is efficiently managed, it will assist the government in providing basic amenities for its citizens.

Tax compliance can be defined as the degree of willingness with tax laws and administration that can be achieved without the immediate threat or actual application of enforcement activity (Fakile, 2011). Also, Asaph, (2008) defined tax compliance as true reporting of the tax base, correct computation of the liability (accuracy), filing of the returns in time, and timely payment of the amounts due

(timeliness) and of which contrary leads to non-compliance.

McBarnet, (2001) divided tax compliance into three different forms first; he defined committed compliance as a form of compliance which refers the taxpayers' willingness to pay their taxes without any complaints. Secondly, he added capitulative compliance as reluctantly giving in and paying taxes. Lastly, creative compliance is defined as engagements to take advantage of the gaps in the tax law, possibilities of lowering the income level or to arrange a new expenditure policy according to tax obligations by not violating the obligatory base.

Kirchler (2007) defined tax non-compliance as the failure of taxpayer to meet tax obligations whether the act is done intentionally or unintentionally and that this may occur through failure to file tax returns, misreporting taxable income or misreporting of allowable subtractions from taxable income or tax due such as exemptions, deductions, tax credit among others. Akan and Odita, (2013) stated that there are tax protesters and tax resisters. Tax protesters attempt to evade the payment of tax using frivolous interpretations of tax laws, whilst tax resisters refuse to pay tax for some conscientious reasons (because they do not want to support the government or some of its activities).

Tax non-compliance is a universal phenomenon hindering efficient tax revenue productivity in both developing and developed countries (Alabede, Ariffin and Kamil, 2011). This means that the higher the tax payers' compliance the higher the revenue, and the more likely government will put in place developmental plans for the enhancement of the living standard of the people.

Determinants of tax compliance have been studied by various researchers, such as Kirchler, (2007); Nichita, (2012); Alabede, (2014) among others. This is as a result of the importance of these determinants in aiding tax levying and provision of public goods. Kirchler, (2007) provided a thorough description of the determinants of tax compliance dividing them into three categories; social psychological determinants comprising attitudes, different types of norms, fairness, perception as well as motivational features relating to tax compliance, political determinants such as complexity of law and tax system or fiscal policy, and economic determinants such as rational decision making process, and the effects of audits fines, tax rates, income on tax behaviour.

Nichita, (2012) in her study grouped the factors into five categories including: (i) *economic* factors comprising audit probability, fines, tax rates, income; (ii) *political-legislative*-which are the complexity of fiscal legislation, instability of regulations, excessive regulation; (iii) *socio-psychological*- includes attitudes, norms, perceptions, motivational postures, trust in authorities, power of authorities; (iv) *tax morale* which is intrinsic motivation of paying tax levies and (v) *neurological* factors- which are physical states corresponding to emotions, like happiness.

Nichita, (2012), stated that the classical economic model of tax evasion as developed by Allingham and Sandmo, (1972) assumes there are four different determinants that shape taxpayers' behavior such as audit probability, fines, tax rates and income. This model argues that tax compliance depends only on enforcement, given that the declared income is a positive function of the penalty and the probability of being caught.

According to Kirchler, (2007) a tax audit is an investigation made by the tax authority in order to verify the accuracy of tax returns and attempt to detect non-compliance behaviour and activities while audit probability is defined as the number of tax returns assessed (audited) divided by the number of tax returns received. Very few tax payers will like to be involved with tax audits for fear of being caught and penalized. The execution of penalties is important as the economic model further states that tax evasion decreases when audit probability and fines increases.

Mckerchar, (2001) stated that a marginal tax rate is determined by the amount of taxable income, and that a higher tax rates compared to the level of income will lead to non-compliance. Although, economic deterrence models are relevant in shaping compliance behavior, but other behavioral factors have also been found to influence compliance decisions.

(ii) Tax Morale

Tax morale is an intrinsic motivation for individual to pay taxes (Torgler, 2007). It relates to taxpayers' attitude or the moral obligation to pay taxes which influences their behavior.

Pope and Mohdali, (2010) argue that tax morale is mostly influenced by elements in

the external environment namely government, the tax authority and society as well as an individual's own attitudes shaped by moral and religious beliefs. Individual attitudes are considered as moral and religious beliefs.

Studies including Asaph, (2008); Fakile, (2011) have shown that the determinants of tax morale encompasses all the non-enforceable aspects of tax compliance either extrinsic (external) or intrinsic (internal). Therefore, tax morale is a major determinant that influences taxpayers to comply voluntarily with tax laws. Tax morale emphasizes that taxpayers' internal motivation, social norms, personal values, cognitive processes and sense of moral obligation to pay taxes can help to explain the motivation for voluntary tax compliance.

Thus, positive morale may signal higher voluntary compliance while negative morale will signal lower voluntary compliance (Modugu, Eragbeh and Izedonmi, 2012). It is then anticipated that through a better understanding of tax morale, tax compliance can be improved.

(iii) Perception of Tax Fairness

The extent to which the tax payers perceive a tax system to be fair influences their attitude to pay taxes (Abdulrasaq and Adafula, 2013). However, Alabede, Ariffin, and Idris, (2011) postulated that, a tax payer whose motive is to demonstrate his beliefs in a system will evaluate the fairness of the systems with objectivity whereas the taxpayer whose attitude is motivated by what benefit to derive from the system may label the tax system fair only if he is benefiting from it. The complexity of tax laws could also influence the compliance of tax payers.

Cummings (2005) stated that individuals believe that tax system that treats everyone equally, implementing horizontal justice is considered as fair while the quality comes when people can see that tax revenues are being used to provide valuable goods and services in an efficient way. Therefore, an unfair tax system could enhance the incentives to rationalise cheating.

(iv) Trust in Government and Tax System

Trust is a predictor of *voluntary compliance*, which is achieved without enforcement, based on taxpayers' willingness to act in the interest of their peers and

perform their duties as citizens in response to authorities' trustworthiness. Likewise, power is a predictor for *enforced compliance*, which is achieved through enforcement strategies (audits, penalties), based on taxpayers' risk and penalty aversion (Kirchler, Hoetzl and Wahl, 2008).

Winnicki (2013) stated that a well-ordered tax structure increases the trust in government, decreasing the incentives to get involved in illegal tax activities. The confidence in the state and willingness to comply increases as the perception of a strong judiciary system is more common. People are more willing to comply when they are treated equally by the tax law and state authorities and eager to contribute with a government that is willing to spend their money in a proper way and increasing the welfare of the society.

The efficiency of the tax authorities in collecting revenues, tracing frauds and penalizing tax offenders is important to keep tax compliance high. These aspects of trust and administrators efficiency have stronger effect on individual, than enforcement methods used by governments.

Theoretical Framework

This study is based on deterrence model and expectancy theories of motivation. The deterrence theory focused on the degree to which punitive fines and increased audits or stricter enforcement could serve to deter tax non-compliance. It was founded by Becker, 1968 and it is always referred to as the Beckerian economics of crime model. The model argues that tax compliance depends only on enforcement, given that the declared income is a positive function of the penalty and the probability of being caught. In this respect, increasing the probability of tax audits and imposing a large penalty rate in case of evasion would help the government to reduce tax evasion. Economic models clearly predict that higher penalties and audit probabilities should discourage non-compliance. Alabede, Ariffin and Idris, (2011) further stressed that this theory of tax compliance makes taxpayers to pay tax as a result of fear and sanctions. Hence, the need for enforcement would reduce non compliance.

The expectancy theory of motivation on the other hand argued that the strength of a tendency to acts depend on the strength of an expectation that an acts

will be followed by a given outcome and on the attractiveness of that outcome to the individual (Oyadonghan and Igbeng, 2013). This means that the extent to which tax payers comply with tax payments depends on the attractiveness of the benefit received from the state. Although the social political theory of taxation does not promise any benefit on the tax payer, it necessitated tax payment as a civil duty or responsibility without expecting a commensurate benefit or none from the government.

However, the relationship between taxpayers and state can be seen as a relational or psychological contract which involves strong emotional ties and loyalties (Winnicki, 2013). Individual sees payment of tax as a means of contributing their quota to the cost of providing social goods by government (Appah and Oyadoghan, 2011). Therefore, the expectation of tax payers is that government will make provision of social goods and services a priority since an individual cannot provide public goods by themselves.

Methodological Review of Literature

A number of studies have investigated the factors that can influence tax compliance both within and outside the country. Cummings, (2005) used both survey and field experiment to investigate the effects of cultural norms on compliance. Results showed that, the observed differences in tax compliance levels of Europeans countries under study can be explained by differences in the fairness of tax administration, in the perceived fiscal exchange, and in the overall attitude towards the respective governments.

Abdulrazaq and Adafula, (2013) evaluated taxpayers' attitude and its influence on compliance in Ghana using ANOVA method of analysis found that the taxpayers will continue to comply if the benefits from the government increases and tax rates were evenly distributed.

Mukhlis, Utomo and Soesetyo (2014) investigated the factors that may affect tax compliance of SME entrepreneurs in East Java, Indonesia using quantitative and qualitative approaches. The results showed that tax compliance can be built through tax fairness formed through the life of the entrepreneurs themselves and tax fairness built through increasing the understanding about taxes for the SME entrepreneurs.

Chirkos, (2015) investigated the relationship that exists between major tax compliance variables and the attitudes and behavior of both compliant and non-compliant selected individual taxpayers in Ethiopia, Amhara region. The study employed a mixed method approach drawing data using survey instrument and taxpayer interviews. It was revealed that tax morals, tax fairness tax awareness and to a lesser degree, tax enforcement have direct impact on taxpayer compliance.

Modugu *et al* (2005) in their assessment of government accountability and voluntary tax compliance in Nigeria found that the citizens' perception of government accountability is an instrumental factor that shaped the tax morale resulting into compliance.

Fagbemi and Abogun (2010) examine the impact of tax morale on voluntary tax compliance in Kwara State, using Pearson correlation and multiple regression analysis method. The study showed that tax morale has impact on voluntary compliance. Fakile (2011) analysed the effect of tax payers' morale on tax compliance in Nigeria. The result of the multiple regression analysis revealed a significant correlation between tax compliance and tax morale.

Alabede *et al* (2011) investigated the moderating effect of financial condition and risk preference on relationship between taxpayers' attitude and compliance behaviour. The data were statistically tested using moderated multiple regression, and the result revealed that taxpayer's attitude towards tax evasion is positively related to compliance behavior which means that attitude plays vital role in shaping compliance behavior of taxpayers.

Akan and Odita (2013) studied the effects of tax morale on tax compliance and tax policies in Nigeria. The data were regressed using multiple regression analysis and the result showed that social norms, attitude towards government, tax evasion and tax avoidance have significant effect on tax morale. On the other hand, there is no significant effect of attitude towards legal system and traditional institutions on tax morale.

Oyadoghan and Igbeng (2013) studied the effect of motivation on tax compliance considering the theories of social capital, goal oriented tax policies, expectancy and public participation in policy formulation in Niger Delta Region of Nigeria. The study revealed that expectancy, social capital, and goal oriented tax

policies improve tax compliance. Alabede, (2014) in a further study, focused on the differences in individual taxpayers' compliance behavior across demographic variables using the data extracted through a survey of individual taxpayers in Nigeria. The data were statistically treated using ANOVA technique. The study revealed that the demographic factors significantly affect taxpayers' compliance behaviour in Nigeria.

Having reviewed the past literatures and their contributions to knowledge, it was found that most of the studies carried out were based on socio-psychological factors which were suggested to bring about compliance (Fagbemi and Abogun, (2010); Modugu *et al*, (2012); Akan and Odita (2013); Alabede, (2014). However, this cannot ensure total compliance as Chirkos, (2015) stated that a tax system that combine both penalties and rewards is more effective in maximizing compliance than a system that focuses solely on sanctions and vice- versa. Therefore, this study investigates both deterrence variable (sanctions / deterrence) as well as socio- psychological (motivation) determinants of tax compliance in Ilorin metropolis, Kwara State..

Methodology

Model Specification

Fagbemi and Abogun (2010) identified the relationship between tax compliance and its determinants as:

$$COM = \beta_0 + \beta_1 TM + \beta_2 TG + \beta_3 CN + \varepsilon \dots\dots\dots (i)$$

Where;

COM = Tax compliance

TM = Tax morale

TG = Trust in government

CN = Cultural norms

ε = error term,

However, due to the nature of this study and the objectives pursued, the above model was adopted but with modification in terms of inclusion of two variables (tax fairness and audit probability and fine rate) and removal of cultural norms which

they found to be insignificant. The modified equation is given as:

$$TCOM = f(APF, TM, TF, TG)$$

$$Pr(TCOM \leq j | X_1, X_2, \dots, X_4) = \beta_0 + \beta_1 APF_i + \beta_2 TM_i + \beta_3 TF_i + \beta_4 TG_i + \mu_i \dots \dots \dots (ii)$$

Where:

Pr is probability; J, which ranges from 1-5

APF = Audit probability and Fine rate

TM = Tax morale

TF = Tax fairness

TG = Trust in government

TCOM = Tax compliance

μ = Random error term

B_0 = intercept, $\beta_1, \beta_2, \beta_3$ and β_4 = coefficients of independent variables

The apriori expectation is such that, $\beta_1 > 0, \beta_2 > 0, \beta_3 > 0, \beta_4 > 0$. By implication, a positive relationship is expected between deterrence variable (audit probability and fine rate) and tax compliance on one hand, and between socio-psychological factors (tax morale, tax fairness, and trust in government) on tax compliance on the other hand.

The inclusion of two variables (audit probability and tax fairness) to replace cultural norms (CN) makes the difference, because the findings in Fagbemi and Abogun, (2010) revealed that cultural norms has no significant effect on tax compliance.

Research Procedure

This study adopted cross-sectional survey design which is considered suitable when data are collected from a population through questionnaire distribution. Under this cross sectional survey design, data relating to the variables are collected to describe the relationship between the variables under study. Thus, tax compliance is the dependent variable while APF, TM, TF and TG are the independent variables

The targeted population and sample size for this study comprises of the one hundred and thirty seven (137) small and medium scale enterprises (SMEs) which are registered members of SMEDAN of which one hundred and fourteen operates in Ilorin metropolis (114). The sample size of one hundred and fourteen (114) was chosen because the bulk of these SMEs are located within the metropolis. This

sector is chosen because of high propensity of non compliance acts that is prevalent among them due to difficulty in capturing them into the tax net since most of them are not registered with the government.

The questionnaire is divided into two parts. The first parts accounts for relevant demographic data of the respondents while the second parts consists of four operational questions for each of the four variables of the study i.e. audit probability and fine rate, tax morale, tax fairness and trust in government. Self-administered questionnaire was designed according to the objectives of the study with mostly close ended questions, using a 5 point Likert scale ranging from 1-strongly agreed to 5-strongly disagreed.

The data collected in this research work were analyzed using simple percentages and probability multiple regression model (probit) which is useful in determining the predictive strength of the independent variables on the dependent variable.

This study focused on individual business owners in Ilorin metropolis who are duly registered with Small and Medium Scale Enterprises Development Agency (SMEDAN) because majority of these enterprises are located within the metropolis. The choice of this sector is as a result of the acts of non compliance prevalent among the Small and Medium scale Enterprises (SMEs) /self employed (Spicer and Lundstedt (1976). More so, this study is limited to these registered businesses for control purpose between January and September 2016 for data reliability

4. Results and Discussion of Findings

Out of the one hundred and fourteen (114) copies of questionnaire distributed, one hundred and two (102) were received while the remaining eleven were either not returned or not completed at all.

First, data on demographic variables are presented and interpreted followed by testing the reliability of the operational variable items. The interpretation of estimated parameters from the probit regression models was presented thereafter followed by test of the research hypotheses.

Table 1: Demographic Variables of Respondents

	Characteristics	Number	Percentage (%)	Cumulative %
Respondent status	Owner	77	76	76
	Manager	25	24	100
	Total	102	100	
Gender	Male	68	67	67
	Female	34	33	100
	Total	102	100	
Age of respondent	25-34 years	12	12	12
	35-44 years	28	27	39
	45-54 years	54	53	92
	55 years and above	9	8	100
	Total	102	100	
Educational qualification	Primary School	10	10	10
	Secondary School	07	07	17
	Diploma Certificates	21	20	37
	Graduates: University/ Polytechnic	48	47	84
	Higher Degree Holders	16	16	100
	Total	102	100	
Age of the firm	1-5 years	12	12	12
	6-10 years	46	45	57
	11-15 years	28	27	84
	15 years and above	16	16	100
	Total	102	100	
Industry classification	Trade	56	55	55
	Services	38	37	92
	Manufacturing	8	8	100
	Others	-	-	
	Total	102	100	
Staff strength	1-20	74	72	73
	21-40	14	14	86
	41-60	9	9	95

Source: Field Survey, (2016).

Table 1 shows that 75.5% of the respondents were business owners while 24.5% are managers: However, of the total sample, the male gender constitutes 66.7% while the female gender represents 33.3%. The age grouping indicates that majority of the respondents were between 45-54 years old while 52.9% and 7.8 were above 55 years of age. In terms of the academic qualification, 62.7% of the respondents hold a bachelor degree and above, 20.6% hold diploma certificates and 16.7% are secondary school certificates.

How long the SMEs respondents have been in existence is very important in this study as it gives assurance of the respondents in terms of quality of information supplied by the respondents. Evidence from table 1 shows that 12 respondents representing 11.8% have been in existence for at least 5 years, 46 respondent constituting 45% have been in the business for 6 to 10years, while 28 respondents constituting 27.5% have been in existence for 11-15years, 16 respondents constituting 15.7% have been in existence for above 15years.

Further analysis shows that the respondents of this study also cut across several forms of occupations; for instance, 54.9 % engage in trading activities, 37.3% are in service activities and 7.8% are in production activities. In terms of staff strength, the descriptive statistics shows that majority of the SMEs sampled (72.6 %) have a total number of the staff between 1-20. and the least staff strength presented by the respondent 4.9%.

Table 2; Reliability Statistics

Cronbach's Alpha	Numbers of Items
0.695	20

Source: Authors' Computation, (2016).

The reliability of the scale and/or the questionnaire (instrument) used for the operational variables was determined using Cronbach's Alpha test, which indicates that there is internal consistency in measuring the 20 variable items at 0.695. Therefore, since the coefficient obtained exceeds 50%, we can say the data obtained

for the study are anything to go by due to its high reliability and internal consistency.

Table 3: Model Result and Hypotheses Testing

Variables	Coefficient	Std. Error	z- statistic	Prob	dy/dx
Audit probability and fine rate	0.555295	0.240832	3.392629	0.0046	0.122198
Tax Morale	0.442060	0.242258	2.295663	0.0175	0.183706
Tax fairness	0.107658	0.038794	3.055178	0.0060	0.225535
Trust in Government	0.265452	0.164242	2.616223	0.0260	0.125689
R-squared	0.512481				
Adjusted R-squared	0.500342				
LR statistic	2.787160				
Prob.	0.00001				

Authors' Computation, (2016).

To achieve the objectives of the study, table 3 shows the effects of determinant of tax compliance in Ilorin metropolis. Using probit multiple regression analysis, the results obtained from the static model indicates that the overall coefficient of determination R-squared (R^2) is 51.25% which signifies that the equation has a good fit.

The signs and magnitude of the coefficients signify the effects of determinant of tax compliance in Ilorin metropolis. It indicates that all variables: audit probability and fine rate (APF), tax morale (TM), tax fairness (TF) and trust in Government (TG) are positive and significant. Additionally, four of the variables audit probability and fine rate (APF), tax morale (TM), tax fairness (TF) and trust in Government (TG) concur with a priori expectation.

In line with the first objective, the coefficients of audit probability and fine rate (APF) ($p=0.0046$) signify positive significant impact on tax compliance. This means that if tax authority should audit the SMEs owners at regular intervals and evaders were duly penalized, there is probability that tax compliance will increase by 1.2%. This result is consistent with the study of kirchler *et al*, (2008) and Ayanduba *et al*, (2012) but disagree with Mudugu *et al*, (2006)

With respect to second objective, tax morale (TM) has a positive significant

effect ($P=0.0175$) on tax compliance in Ilorin Metropolis, this means that if tax morale increases by 1.8% then compliance level will increase. This result is in line with Fagbemi and Abogun, (2010) Fakile (2011).

Addressing the third objective, the study in table 3 reveals that tax fairness (TF) has a positive significant effect on tax compliance as indicated by ($p=0.0060$). This means that if the tax system is beneficial to the taxpayers, there is likelihood of them complying with the tax rules and regulations, and raises the revenue base of the government in Kwara State. This result is consistent with the findings of Chirkos, (2015); Atawodi and Ojeka, (2012), who reported that lower tax rates will bring about voluntary compliance from the SMEs

Moreso, the significant coefficient ($P=0.0260$) of TG indicates that Trust in government (TG) has a positive significant effect on tax compliance in Ilorin Metropolis. By inference therefore, an increase in tax payers' trust in government will lead to increase of 1.3% in tax compliance. The finding is in line with the conclusion recorded by Oyadonghan and Igbneng, (2013).

In other word, if government is transparent in their accountability and spending of tax revenues, it will improve the level of SMEs owners' compliance; therefore the tax compliance will increase by 1.3%. The significant coefficients of audit probability and fine rate (APF), tax morale (TM), tax fairness (TF) as well as trust in Government (TG) variables (prob= 0.0046, 0.0175, 0.0060 and 0.0260 respectively at 5% level of significance clearly signify a their positive significant effect on tax compliance in Ilorin metropolis.

Overall, the findings from this study revealed that the determinants in this study (both socio-psychological factors and deterrence) jointly influence the direction of tax payers' compliance in Ilorin metropolis. Hence, these factors can be stated in the degree at which it has influence on the tax payers; trust in government, tax fairness, tax morale, audit probability and fine rate.

5. Conclusion and Recommendations

Positive and significant relationships were established between the variables deterrence and socio-psychological factors in Ilorin metropolis and tax compliance. The study confirms the significant influence that audit probability and

fine rate, tax morale, tax fairness and trust in government have on tax compliance. Based on this result, it was concluded that many SMEs owners will like to comply with tax payment if it is perceived that the rate of transformation from tax payment to public goods provision is high. Summarily therefore, it can be said that SMEs owners deliberately remained non-compliance due to lack of trust in the government and tax officials. Therefore, enhancing taxpayer's morale will enhance tax compliance in Ilorin Metropolis, while increase in tax audits and penalties will instill fear in the mind of tax payers and thereby enhance tax compliance.

From the conclusions above, the study therefore recommends that:

- i) The government of Kwara State should improve on tax audit while fine rate (penalty for non-compliance) should be increased as the fear of being caught would be sufficient to act as a deterrent to non-compliance. This will lead to an increase in the level of tax compliance
- ii) Government should find ways of enhancing taxpayer's morale (acting on their electoral promises) in order to increase their compliance.
- iv) The government of Kwara State and its tax authorities should pay attention to encouraging the citizens to build trust in them. Also, the system of taxation should be transparent, and the government should be honest with the use of tax proceeds to enlist tax payers compliance. Thus, Thus, the state government should explore these factors and make use of them so as to motivate the tax payers to voluntarily execute their tax obligation without much coercion or harassment.

References

- Abdulrazaq, A., & Adafula, C.J.(2013). Evaluating taxpayers' attitude and its influence on tax compliance decision in Tamale, Ghana. *Journal of Accounting and Taxation*, 5(3): 48-57.
- Adegbe, F.F., & Fakile, A.S. (2011). The impact of tax evasion on Federal Government of Nigeria revenue generation. *ICAN Journal of Accounting and Finance*.1(3):35-47
- Agbetunde, L.A. (2010). *Principles and Practice of Nigerian Personal Income Tax*. (2nded.), Lagos; ELTODA Ventures Ltd.
- Akan,D.C., & Odita, O.A.(2013). Tax morale and its effect on Tax payers compliance to tax policies of the Nigeria government. *Journal of Business and Management*. 12(6):35-55
- Akintoye,I.R., & Tashie, G,A. (2013). The effects of tax compliance on Economic growth and Development in Nigeria. *Journal of Arts and Social Science*. 11,(11) 48-64
- Alabede, J.O, Ariffin, Z.Z, &Idris, K.M.(2011). Individual taxpayers' attitude and compliance behaviuor in Nigeria. The moderating role of financial condition and risk preference. *Journal of Accounting and Taxation*. 3 (5):91-104.
- Alabede, J.O. (2014). *An exploratory Analysis of individual taxpayers compliance behaviour in Nigeria; A study of demographic differences and impact*. *International Journal of Accounting and Taxation*. 2(2):39-64.
- Appah, E.& Oyadonghan J.K.(2011). *The challenges of tax mobilization and management in the Nigeria economy*. *Journal of Business Admin Management*, 6 (2),128-136
- Asaph,A. (2008). Personal norms, tax payers' morale and tax compliance in Uganda. Unpublished dissertation, Makerere University, Uganda.
- Atawodi, O.W. & Ojeka, S.A. (2012).Factors that affects tax compliance among SMEs in North Central Nigeria. *International Journal of Business and Management*. 7 (12) 87.
- Anyaduba, J.O.,Eragbeh, E. & Modugu, P.K. (2012). Deterrent Tax measure and tax compliance in Nigeria. *European Journal of Business and*

Management. 4, (11) 39.

- Chikos, A.Y. (2015). A comparative study of compliant and non-compliant individual tax payers in Ethiopia evidence from Amhara region. *Pyrex Journal of African Studies and Development*, 1 (1): 001-008
- Cummings, R. G. (2005). Effects of tax morale on tax compliance: experimental and survey evidence. *Journal of Economical Literature*, No. H20
- Fagbemi, T. O. & Abogun, S. (2010). Factors influencing voluntary compliance of small and medium scale enterprises in Kwara State, Nigeria. *publication/fagbemito/PAPRE%2010*
- Fakile, A.S. (2011). *Analysis of Tax morale and Tax compliance in Nigeria*. Covenant University Ota, Ogun State.
- Kabel, B. D. & Nwokah, N.G. (2009). Boosting revenue generation by state government in Nigeria; The tax consultants options revisited. *European Journal of Social Sciences*, 8 (4): 49-53
- Kirchler, E. (2007). *The economic psychology of tax behavior*, Cambridge. University Press.
- Kirchler, E. Hoelzl, E. & Wahl, I. (2008). Enforced versus voluntary tax compliance. The slippery slope frame work. *Journal of Economics and Psychology*, 29: 210-225.
- Lambe, I. (2015). An Assessment of the contributions of tax revenue to economic development in Nigeria *International Journal of Business Management and Allied Sciences*, 2 (2): 2101-2113.
- McBarnet, D. (2001). *When compliance is not the solution but the problem: From changes in law to changes in attitude*. Australian National University, Center for Tax System Integrity; Canberra.
- McKerchar, M. (2003). Why do tax payers comply? past lessons and future direction in developing a model of compliance behavior. *Australian Tax Forum*, 18(2): 209-242.
- Modugu, K., Eragbeh, E. & Izedonmi, F. (2012). Government accountability and voluntary tax compliance in Nigeria. *Research Journal of Finance and Accounting*, 3 (5).
- Mukhlis, I. Utomo, S. H. & Soesetyo, Y. (2014). Increasing tax compliance through

- strengthening capacity of education sector for export, oriente handicraft field in East Java Indonesia. *European Scientific Journal*, 10 (7):35-41
- Naibei, I.K. (2008). Relationship between income size, inspection and vat compliance: evidence from private firms in Kenya. *International Multi-disciplinary Journal, Ethiopia*, 6 (1):1-17
- Nichita, R. (2012). *The Analysis of taxpayers' behaviour under the impact of fiscal policy changes*, Babes Bolyai University Cluj-Napoca. Faculty of Economics and Business Administration.
- Nichita, R. (2012). Understanding the determinants of tax compliance in self-assessment behavior as a prerequisite for increasing public levies. *The usv annals of Economic and Public Administration*, 12, (1):15-21.
- Nightingale, K. (2001). *Taxation: Theory and practice*. London, Prentice Hall.
- Oyadoghan, K. J. & Igbo, I.E. (2013). Motivation and tax compliance in Nigeria; *Issues and Theories. Journal of Business management and administration*, 1(2): 7-14.
- Pope, J. & Mohdali, R. (2010). The role of religiosity in tax morale and tax compliance. *Australian Tax Forum*, 25 (4): 565-596.
- Soyode, L. & Kajola, S.O (2002). *Taxation principles and practice in Nigeria*. Ibadan. Festinate publisher.
- Torgler, B. (2003). *Tax morale: Theory and analysis of tax compliance*. Unpublished doctoral dissertation, University of Zurich, Switzerland.
- Torgler, B. (2007). *The impact of tax morale and institutional quality on the shadow economy*, CESifo Working Paper, No. 1899
- Wenzel, M. (2005). Motivation or rationalization? Causal relations between ethics, norms and tax compliance. *Journal of Economic Psychology*, 26, 491-508.
- Winnicki, A.S. (2010). How tax morale and tax ethics affects tax compliance rate in Europe. Aarhus University, Europe.