

Chapter One

Introduction

1.1 Background to the Study

Taxation constitutes a fundamental indispensable component of public finance across modern economies. It is formally defined as a compulsory and unrequited levy imposed by a governing authority, such as a state or federal government on the income, consumption, or property of individuals, businesses, and other entities within its jurisdiction. Unlike direct fees, which are exchanged for a specific service, the payment of tax represents an enforced contribution for the general use and welfare of the society as a whole. The primary function of taxation is fiscal, serving as the most vital source of revenue for government expenditure. These collected resources are essential for financing public goods and services, including national security, vital infrastructure, public health systems, and educational services, which are critical for sustaining economic activity and promoting collective well-being.

Beyond revenue generation, taxation is strategically utilized as a powerful tool of fiscal policy to shape macroeconomic and social outcomes. Policy objectives often include the allocation of resources, where the structure of taxes can be manipulated to either incentivize desired economic activity (e.g. investment) or discourage detrimental social behavior (e.g. consumption of harmful products). Furthermore, taxation serves a crucial function in income redistribution, mitigating inequality through progressive tax systems that fund social safety nets. Lastly, it plays a role in economic stabilization, with policymakers adjusting tax measures to influence aggregate demand and control inflationary or recessionary pressures. Given these diverse and critical roles, the effectiveness of a nation's tax system, particularly its capacity to ensure compliance from all

sectors, including Small and Medium Enterprises(SMEs) is inextricably linked to its ability to achieve sustainable development and maintain a legitimate relationship between the government and its taxpayers.

Taxation is a fundamental component of any economy, serving as the primary source of revenue for governments to finance public goods and services, infrastructure development, and social welfare programs¹. Compliance with tax laws is, therefore, essential for the economic stability and growth of any nation. However, achieving voluntary tax compliance, particularly among Small and Medium Enterprises (SMEs), has been a persistent challenge in Nigeria². SMEs constitute up to 90% of Nigeria's business sector and play a vital role in employment generation, poverty reduction, and economic diversification³. Despite their importance, many SMEs demonstrate low levels of tax compliance, often due to inadequate tax education, perceived complexity of the tax system, and weak enforcement mechanisms⁴.

Tax education is a key strategy for improving tax compliance. It enhances taxpayers' awareness and understanding of their tax obligations, the benefits of compliance, and the penalties for evasion⁵. Studies have shown that when taxpayers are well-informed, they are more likely to comply voluntarily with tax regulations, reducing the need for coercive enforcement measures⁵. Given Nigeria's reliance on tax revenue for economic development, addressing the issue of voluntary tax compliance among SMEs through tax education is imperative.

Tax compliance refers to the willingness of taxpayers to fulfil their tax obligations as prescribed by law, including accurate reporting of income, timely filing of tax returns, and prompt payment of taxes ⁶. It is a crucial determinant of a country's ability to generate revenue for economic

development. Compliance can be categorized into two broad types: voluntary compliance and enforced compliance.

Voluntary tax compliance occurs when taxpayers willingly fulfil their tax obligations without external pressure from tax authorities. It is driven by factors such as tax knowledge, trust in the tax system, perception of fairness, and moral obligation⁷. On the other hand, enforced tax compliance arises when taxpayers comply due to the fear of penalties, audits, and legal consequences⁸. While enforcement strategies are necessary, they can be costly and ineffective if taxpayers lack adequate understanding of tax laws⁹.

Voluntary tax compliance is the preferred approach because it reduces administrative costs and fosters a positive relationship between taxpayers and tax authorities. Countries with high voluntary compliance rates tend to have stable economies, as tax revenues are more predictable and sustainable¹⁰.

In Nigeria, tax compliance remains low, particularly among SMEs. The informal nature of many SMEs, coupled with a lack of proper record-keeping and weak enforcement mechanisms, has made tax evasion and avoidance prevalent¹¹. Studies have estimated that over 60% of SMEs in Nigeria operate outside the formal tax net, depriving the government of significant revenue¹².

Several factors influence tax compliance behaviour among SMEs in Nigeria. One of the most significant determinants is tax knowledge. Business owners who possess adequate knowledge of tax laws and regulations are more likely to comply voluntarily. They understand the legal implications of non-compliance, the benefits of taxation in national development, and the procedures for fulfilling their tax obligations¹³. Conversely, a lack of tax education can lead to unintentional non-compliance, where businesses fail to meet their tax obligations due to ignorance rather than deliberate evasion¹⁴.

Another crucial factor influencing tax compliance is the perception of fairness in the tax system. Taxpayers are more likely to comply voluntarily if they believe that the tax system is equitable and that tax revenues are utilized for the common good¹⁵. However, in Nigeria, many SME owners perceive the tax system as unfair, citing issues such as multiple taxation, corruption, and lack of transparency in government spending¹⁶. This perception discourages compliance and fuels tax evasion, as business owners feel justified in avoiding taxes that they believe do not benefit them directly¹⁷. Addressing these concerns through transparent tax administration and efficient public service delivery can enhance voluntary tax compliance¹⁸.

The complexity of the tax system also plays a significant role in compliance behaviour. Many SMEs in Nigeria struggle with complex tax filing procedures, unclear tax rates, and bureaucratic inefficiencies in tax administration¹⁹. The lack of simplified processes makes compliance cumbersome, especially for small business owners who may not have the resources to hire tax consultants²⁰. As a result, many SMEs either delay filing their tax returns or avoid taxation altogether²¹. Simplifying tax processes through digitalization, automated tax filing systems, and targeted tax education programs can significantly improve compliance rates²².

Taxpayer attitudes and moral obligations also influence compliance behaviour. Some SME owners view taxation as an unnecessary burden rather than a civic duty, leading to a negative attitude toward compliance²³. Others engage in tax evasion due to peer influence or the belief that the government does not deserve their tax contributions²⁴. However, businesses that recognize the importance of taxation in funding public services such as healthcare, education, and infrastructure development are more likely to comply voluntarily²⁵. Changing taxpayer attitudes through effective tax education and awareness campaigns can foster a culture of compliance among SMEs ²⁶.

Trust in tax authorities is another critical factor affecting compliance. When taxpayers perceive tax authorities as corrupt, inefficient, or biased, they are less likely to comply voluntarily²⁷. Many SMEs in Nigeria have reported cases of harassment, arbitrary tax assessments, and lack of professionalism among tax officials, which erodes trust in the tax system²⁸. Building trust through transparent tax policies, efficient service delivery, and stakeholder engagement can enhance voluntary compliance²⁹.

Tax education is a powerful tool for improving voluntary tax compliance among SMEs³⁰. It involves providing taxpayers with relevant information on tax laws, procedures, rights, and obligations. Effective tax education programs can empower SMEs with the knowledge needed to comply with tax regulations, thereby reducing non-compliance due to ignorance or misinformation³¹.

One of the primary benefits of tax education is that it increases taxpayers' awareness of their obligations. Many SMEs fail to comply with tax laws simply because they do not understand the filing procedures, applicable tax rates, or deadlines for tax payments³². Through structured tax education programs, business owners can gain a clear understanding of these requirements, making it easier for them to fulfil their obligations³³.

Additionally, tax education helps to reduce the cost of compliance for SMEs. Business owners who are well-informed about tax procedures spend less time and resources dealing with tax-related issues³⁴. They are also less likely to require the services of tax consultants, thereby reducing compliance costs³⁵. Lower compliance costs can encourage more SMEs to register and operate within the formal tax system³⁶.

Another significant impact of tax education is its role in changing taxpayer attitudes. Many SME owners in Nigeria have negative perceptions of taxation due to historical experiences of

corruption, inefficiencies, and lack of transparency³⁷. Tax education programs that emphasize the benefits of taxation in funding national development can help to change these attitudes and encourage a positive compliance culture³⁸. When taxpayers understand that their contributions help build roads, schools, hospitals, and security infrastructure, they are more likely to comply voluntarily³⁹.

Despite its importance, tax education in Nigeria faces several challenges. Many SMEs operate in rural or semi-urban areas with limited access to tax education programs⁴⁰. Additionally, most tax materials are published in English, making them inaccessible to non-English-speaking business owners⁴¹. There is also a lack of consistency in government efforts to provide continuous tax education, leading to information gaps¹. Addressing these challenges requires a strategic approach that leverages technology, mass media, and business associations to reach a wider audience¹².

The relationship between tax education and voluntary compliance is of significant interest to policymakers, tax authorities, and researchers. Understanding this relationship can provide valuable insights into the development of targeted educational programs and policies that encourage voluntary compliance, ultimately leading to increased revenue generation.

The complexities of the Nigerian tax system, characterized by multiple taxes and ambiguous regulations, often deter SMEs from full compliance. This complexity, coupled with inadequate taxpayer education, creates a challenging environment for SMEs to fulfil their tax obligations. Many SME operators are either unaware of the specific taxes applicable to their businesses or find the process of tax filing overly burdensome. Consequently, they may opt to evade taxes or underreport their taxable income, leading to substantial revenue losses for the government⁴². Moreover, the lack of clarity in tax laws and frequent policy changes further exacerbate

compliance challenges, making it imperative for the government to streamline tax regulations and provide clear guidelines to taxpayers.

The perceived high cost of compliance also poses a significant barrier to tax adherence among SMEs. Many small business owners view the expenses associated with tax compliance, such as hiring accountants or purchasing accounting software, as burdensome. This perception is particularly pronounced among micro and small enterprises with limited financial resources. As a result, these businesses may decide that the cost of compliance outweighs the benefits, thus opting out of the formal tax system altogether⁴³. This situation underscores the need for tax authorities to consider implementing measures that lower the compliance costs for SMEs, such as offering simplified filing processes or providing tax credits for compliance-related expenses.

In addressing the challenges of tax compliance among SMEs, it is crucial to consider the role of trust in the tax system. Trust in the fairness and efficiency of the tax system can significantly influence taxpayers' willingness to comply. A tax system perceived as fair and transparent encourages voluntary compliance, while a system viewed as corrupt or inefficient may lead to higher rates of evasion. Therefore, building trust in the tax system through transparent practices and effective communication is essential for improving compliance rates⁴⁴. This can be achieved by ensuring that tax revenues are used effectively for public goods and services, thereby demonstrating to taxpayers that their contributions are making a tangible difference in their communities.

Tax compliance for SMEs is a global challenge that significantly impacts economic performance and government revenue. Across different regions, several fundamental issues recur. Many countries design tax regulations primarily with large corporations in mind, making them overly complex for SMEs. In OECD countries, for example, the intricate tax codes have been shown to

overwhelm smaller businesses with limited resources and expertise ⁵⁰. This complexity often leads to unintentional non-compliance and can discourage entrepreneurial activity. A recurring issue is the lack of sufficient taxpayer education. In Kenya, for instance, research has demonstrated that limited awareness and understanding of tax obligations among SMEs contribute to lower levels of voluntary compliance. Enhanced taxpayer education programs have been found to improve compliance rates by reducing errors and demystifying complex tax requirement ⁵¹. The relationship between taxpayers and government institutions is crucial. In countries like the United States, although the IRS offers simplified filing options for small businesses, many SMEs remain sceptical about how tax revenues are used, which can undermine voluntary compliance. Similar challenges are observed in Nigeria, where a lack of trust in government often fuelled by perceptions of corruption or inefficiency further complicates compliance efforts ³. Digital tax administration is an emerging global trend intended to reduce compliance burdens. In China, digital transformation has been leveraged to streamline tax processes; however, rapid regulatory changes and limited access to professional advisory services still create challenges for SMEs. This highlights that while technology can lower barriers, it must be implemented in a way that is accessible to businesses with limited technical resources

Moreover, the enforcement of tax laws plays a critical role in ensuring compliance. While education and outreach can encourage voluntary compliance, the presence of robust enforcement mechanisms is necessary to deter non-compliance. The Nigerian government must strike a balance between educational initiatives and enforcement measures to create a comprehensive compliance strategy. This includes the use of audits, penalties, and legal actions against non-compliant entities, coupled with public awareness campaigns to educate taxpayers about the

consequences of evasion.⁴⁵ Such an approach ensures that taxpayers are not only aware of their obligations but also understand the potential repercussions of failing to comply.

Another aspect to consider is the use of technology in tax administration. The adoption of digital platforms for tax registration, filing, and payment can significantly reduce the burden of compliance for SMEs. These platforms can streamline the tax process, making it easier for businesses to comply with tax regulations. Additionally, the use of data analytics and machine learning can enhance the ability of tax authorities to detect and address non-compliance, thereby improving overall tax administration.⁴⁶ The Nigerian government has made strides in this area with initiatives such as the Integrated Tax Administration System (ITAS), but further investments in technology and infrastructure are needed to fully realize the benefits of digital tax administration.

In essence, taxation is a critical tool for revenue generation and the provision of public goods and services in Nigeria. However, the effectiveness of the tax system is hindered by low compliance rates, particularly among SMEs. Addressing this issue requires a multifaceted approach that includes improving tax education, simplifying the tax system, reducing compliance costs, building trust in the tax system, enhancing enforcement measures, and leveraging technology. By implementing these strategies, the Nigerian government can improve tax compliance among SMEs, thereby increasing revenue generation and supporting the country's economic development.⁴⁷ The ultimate goal is to create a tax system that is fair, efficient, and conducive to the growth of the SME sector, which is vital for the country's economic prosperity.

1.2 Statement of the Problem

The critical role of taxation in revenue generation for any country is well established, providing necessary funding for public goods and services that support societal well-being. In Nigeria, the

reliance on oil revenues has historically overshadowed the importance of broadening the tax base, particularly in the non-oil sector. This situation is especially pronounced among Small and Medium Enterprises (SMEs), which form a substantial part of the economy. Despite their significant contribution to GDP and employment, tax compliance in this sector remains low. Existing literature has primarily focused on the challenges faced by SMEs in complying with tax regulations, such as complex tax procedures, high compliance costs, and the perceived inefficiency of the tax system. However, there are notable gaps in the research regarding the impact of tax education on voluntary compliance among SMEs.⁴³

One significant gap in the existing literature is the limited exploration of how tax education influences SME owners' perceptions and attitudes toward tax compliance. While some studies have highlighted the role of tax education in enhancing taxpayer knowledge, there is insufficient empirical evidence on how this education translates into practical compliance behaviour. Moreover, most research has concentrated on the technical aspects of tax compliance, such as understanding tax rates and filing procedures, without adequately addressing the psychological and motivational factors that drive voluntary compliance.

Additionally, most studies have not adequately considered the heterogeneity within the SME sector. SMEs vary widely in terms of size, industry, and operational scale, which can influence their capacity and willingness to comply with tax obligations. Research often generalizes the SME sector without considering these nuances, leading to one-size-fits-all solutions that may not be effective across different types of SMEs. This lack of specificity can result in ineffective policy recommendations and educational programs that do not address the unique challenges faced by diverse SMEs groups.⁴⁶

Another gap lies in the understanding of the role of digital platforms and technology in facilitating tax compliance among SMEs. While the potential of digital tools to simplify tax processes and reduce compliance costs is acknowledged, there is a lack of comprehensive studies that evaluate the effectiveness of these tools in the Nigerian context. Furthermore, the impact of integrating these digital solutions with educational initiatives has not been thoroughly explored.

Lastly, there is a paucity of longitudinal studies that track the long-term effects of tax education programs on SME tax compliance. Most existing research provides a snapshot of compliance levels at a given time without examining how sustained educational efforts can impact compliance behaviour over time. This gap limits the understanding of the durability and effectiveness of tax education interventions in fostering a culture of compliance.⁴⁴

Consequently, while previous research has provided valuable insights into the challenges of tax compliance among SMEs in Nigeria, there are significant gaps related to the specific impact of tax education, the heterogeneity of the SME sector, the role of digital platforms, and the long-term effects of educational initiatives. Addressing these gaps is crucial for developing targeted strategies that can effectively enhance tax compliance and broaden Nigeria's tax base.

1.3 Aim and Objectives of the Study

The aim of this study is to examine the role of tax education in enhancing tax compliance among Small and Medium Enterprises (SMEs) in South-West Nigeria. The study seeks to determine how tax knowledge, awareness programs, simplified tax procedures, and trust in tax authorities influence SMEs' compliance behaviour, particularly their willingness to comply voluntarily with tax regulations. While specific objectives were to:

1. assess the effect of tax procedure knowledge on filing compliance among SMEs in Nigeria.

2. evaluate the effect of awareness of tax obligations on payment compliance among SMEs in Nigeria.
3. examine the effect of simplified tax procedures on reporting accuracy and compliance among SMEs.
4. determine the effect of digital tax literacy on registration compliance among SMEs in Nigeria.
5. investigate the effect of tax education on overall tax compliance among SMEs in Nigeria.

1.4 Research Questions

Based on the aim and specific objectives of the study, the following research questions were formulated:

1. What is the effect of tax procedure knowledge on filing compliance among SMEs in Nigeria?
2. What is the effect of awareness of tax obligations on payment compliance among SMEs in Nigeria?
3. What is the effect of simplified tax procedures on reporting accuracy and compliance among SMEs in Nigeria?
4. What is the effect of digital tax literacy on registration compliance among SMEs in Nigeria?
5. What is the effect of tax education on overall tax compliance among SMEs in Nigeria?

1.5 Research Hypotheses

To provide empirical answers to the research questions, the following hypotheses are proposed:

H_{01} : Tax procedure knowledge has no significant effect on filing compliance among SMEs in Nigeria.

H₀₂: Awareness of tax obligations has no significant effect on payment compliance among SMEs in Nigeria.

H₀₃: Simplified tax procedures have no significant effect on reporting accuracy among SMEs in Nigeria.

H₀₄: Digital tax literacy has no significant effect on registration compliance among SMEs in Nigeria.

H₀₅: Tax education has no significant effect on overall tax compliance among SMEs in Nigeria.

1.6 Significance of the Study

The significance of this study on the impact of tax education on voluntary tax compliance among SMEs in Nigeria is multifaceted, addressing critical economic, social, and policy-related dimensions. This research is particularly important given the substantial role SMEs play in Nigeria's economy, contributing significantly to GDP, employment, and innovation. Understanding and improving tax compliance within this sector is crucial for several reasons.

Firstly, from an economic perspective, the study addresses the need to diversify Nigeria's revenue base. The country's heavy reliance on oil revenues exposes it to the volatility of global oil markets, making it imperative to explore other stable sources of income. By enhancing tax compliance among SMEs, the government can increase domestic revenue generation, providing a more reliable and sustainable funding source for public goods and services. This is particularly important in a context where public infrastructure, healthcare, and education require significant financial investment. Improved compliance not only boosts revenue but also ensures a more equitable distribution of the tax burden, as it reduces the prevalence of tax evasion and underreporting.

Secondly, the study is significant in addressing the socio-economic implications of tax education. SMEs often face challenges in understanding complex tax laws and procedures, which can lead to non-compliance, either inadvertently or deliberately. By examining the role of tax education, this research highlights how enhancing taxpayer knowledge and awareness can lead to better compliance. This, in turn, can foster a more positive relationship between businesses and tax authorities, reducing the adversarial nature of tax collection and promoting a culture of voluntary compliance. Moreover, when businesses comply with tax regulations, they can avoid penalties and legal issues, thus creating a more conducive environment for business growth and sustainability.

From a policy perspective, the findings of this study can provide valuable insights for the government and tax authorities in designing effective tax education programs. Understanding the specific areas where SMEs lack knowledge and the barriers they face in complying with tax laws can help tailor educational initiatives to meet these needs. This could include simplifying tax processes, offer workshops or online resources, and provide clear, accessible information on tax obligations. By doing so, policymakers can create a more transparent and efficient tax system that encourages compliance and reduces the administrative burden on businesses.

Additionally, this study contributes to the broader academic discourse on tax compliance by filling gaps in existing literature, particularly concerning the role of education in fostering compliance behaviours. It offers empirical evidence that can be used by researchers and educators to further explore and refine theories related to tax compliance, taxpayer behaviour, and the effectiveness of educational interventions. This knowledge can be applied not only in Nigeria but also in other developing countries facing similar challenges with SME tax compliance.

1.7 Scope of the Study

This study focuses on Small and Medium Enterprises (SMEs) in the Southwest region of Nigeria. The Southwest region includes major states such as Lagos, Oyo, Ogun, Osun, Ekiti, and Ondo. These states were selected due to their economic significance, high concentration of SMEs, and the availability of reliable data for the study. Lagos, in particular, serves as the commercial hub of Nigeria, with a substantial number of SMEs engaged in diverse sectors ranging from trade and manufacturing to services and technology. The selection of this region is based on its economic importance and the accessibility of SMEs to survey instruments and data collection methods.

The Southwest region of Nigeria offers a unique opportunity to study the dynamics of tax education and its effect on tax compliance because it hosts a large and varied population of SMEs, which are central to the region's economy. The study will examine these SMEs in both urban and semi-urban areas, considering the diversity in business practices and tax compliance levels across different environments.

The population of this study consists of SMEs located in the Southwest region of Nigeria. According to the Nigerian Bureau of Statistics (NBS), there are over 40 million registered SMEs in Nigeria, with the Southwest region accounting for a significant proportion of these businesses. Specifically, Lagos State, as the commercial capital, is home to more than 40% of SMEs in the country, while other states in the region also contribute substantially to the total number of SMEs in Nigeria.¹⁵

For the purpose of this study, the target population will include SMEs operating in various sectors such as retail, manufacturing, services, and agriculture. The study will focus on both formal and informal SMEs, as both groups play a vital role in Nigeria's economy. Formal SMEs are those that are officially registered with the Corporate Affairs Commission (CAC) and other

relevant authorities, while informal SMEs are those that operate outside the formal regulatory framework but contribute significantly to the economy.

The dependent variable of this study is tax compliance, which refers to the extent to which SMEs in the Southwest region of Nigeria adhere to tax regulations, such as tax filing, payment of taxes, and timely submission of tax returns. The independent variable is tax education, which encompasses tax knowledge, awareness programs, training, and the understanding of tax regulations among SMEs.

This study focuses on Small and Medium Enterprises (SMEs) in the Southwest region of Nigeria, covering states such as Lagos, Oyo, Ogun, Osun, Ekiti, and Ondo. The research investigates the influence of tax education on five distinct compliance dimensions:

- Filing compliance
- Payment compliance
- Reporting accuracy
- Registration compliance
- Overall tax compliance among SMEs

These dependent variables have been selected to provide a more detailed understanding of compliance behaviour rather than treating tax compliance as a single construct. The independent variable remains tax education, encompassing tax knowledge, awareness programmes, training initiatives, and understanding of tax regulations

This study will not focus on SMEs outside the Southwest region of Nigeria, as the region is the primary focus due to the high number of SMEs and available data. While SMEs in other regions

of Nigeria may have similar challenges, the study is specifically concerned with the dynamics within the Southwest region.

Additionally, the study will exclude large enterprises or multinational corporations, as they operate under a different set of tax regulations and generally have more robust tax compliance systems in place. The focus will strictly be on SMEs that typically lack the resources and knowledge to navigate the complexities of tax compliance.

The study will cover the period from 2019 to 2024. This time frame was selected to capture the most current trends in tax compliance, particularly considering recent changes in Nigeria's tax system, including the introduction of digital tax filing systems, new tax reforms, and the impact of the COVID-19 pandemic on tax collection. The study will use data collected during this period to assess the effects of tax education on SMEs' compliance behavior and to provide an up-to-date analysis of the tax compliance landscape.

1.8 Limitations of the Study

While this study offers valuable insights, it is important to acknowledge its limitations. First, the reliance on self-reported data may introduce response bias, particularly if respondents overestimate their compliance or knowledge due to social desirability. Additionally, the cross-sectional nature of the study limits causal inferences, as it cannot definitively establish the directionality of relationships between tax education and compliance behaviour. Longitudinal studies are needed to assess how tax education influences compliance over time. Lastly, the study was geographically limited to Southwest Nigeria, and findings may not be directly applicable to other regions with different tax climates, infrastructure, and access to tax education.

While this study provides important empirical evidence on the relationship between tax education and voluntary tax compliance, there remain many avenues for future research that could deepen our understanding of the dynamics at play and further enhance tax policy and practices. By addressing the gaps identified in this study and expanding the scope of investigation, future research can help improve the effectiveness of tax systems, ultimately fostering greater tax compliance, improving public sector revenues, and supporting the broader economic development of Nigeria and other developing nations.

1.9 Operational Definition of Terms

Compliance Behaviour: The actions and attitudes of taxpayers, specifically SMEs, regarding their adherence to tax laws and fulfilment of tax obligations.

Filing Compliance: The extent to which SMEs submit their tax returns within the deadlines specified by law.

Payment Compliance: The extent to which SMEs remit tax payments on or before the statutory due dates.

Policy Implications: The potential effects and consequences that research findings and recommendations may have on governmental policies and practices, particularly in the areas of tax administration and education.

Registration Compliance: The extent to which SMEs register with the appropriate tax authorities and obtain the required Tax Identification Numbers (TIN) as mandated by law.

Reporting Accuracy: The degree to which SMEs provide complete and correct information in their tax returns, reflecting true financial transactions and obligations.

Revenue Collection: The process by which government agencies collect taxes from individuals and businesses, essential for funding public services and infrastructure.

Small and Medium Enterprises (SMEs): Businesses in Nigeria are characterized by a relatively small number of employees and moderate revenue levels, which play a crucial role in the economy.

Tax Compliance: The general adherence of SMEs to tax laws and regulations, encompassing filing, payment, reporting, and registration requirements.

Tax Education: The process of informing and educating taxpayers, particularly SME owners, about tax laws, obligations, and the benefits of compliance, aimed at fostering voluntary compliance.

Tax Evasion: The illegal practice of not paying taxes owed by underreporting income, inflating deductions, or hiding money and profits.

Tax System: The structured framework comprising laws, regulations, and administrative processes governing the collection and management of taxes within a country.

Voluntary Tax Compliance: The act of willingly and proactively adhering to tax laws and regulations by taxpayers, particularly SMEs, without coercion or enforcement actions.

Endnotes

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Chapter Two

Literature Review

2.1 Conceptual Review

This study examines how various elements of tax education affect tax compliance among SMEs. Tax compliance serves as the dependent variable, while tax knowledge, tax education programs, simplified tax procedures, perceptions of fairness and trust, and challenges in accessing tax education serve as the independent variables influencing compliance behaviour. By identifying these relationships, the study aims to provide policy recommendations that enhance SME tax compliance in Nigeria.

2.1.1 Overview of Taxation

Taxation is a financial charge imposed by a government on individuals, businesses, or other entities to fund public expenditures. The primary purpose of taxation is to generate revenue to finance government activities, including the provision of public goods and services such as healthcare, education, infrastructure, and national defence. Taxation also serves as a tool for

redistributing wealth, reducing inequality, and stabilizing the economy. It can influence consumer behaviour and business decisions, thereby shaping economic activity within a country¹.

Taxes can be broadly categorized into direct and indirect taxes. Direct taxes are levied directly on the income or wealth of individuals or organizations. These include income tax, corporate tax, and property tax. Income tax is a tax on an individual's earnings, while corporate tax is imposed on the profits of businesses. Property tax is based on the value of property owned. Direct taxes are usually progressive, meaning that the tax rate increases with the taxpayer's ability to pay, thus promoting equity in the tax system².

Indirect taxes, on the other hand, are imposed on goods and services rather than on income or profits. Examples include value-added tax (VAT), sales tax, excise duty, and customs duty. Indirect taxes are generally regressive, as they are applied uniformly regardless of the taxpayer's income, potentially placing a disproportionate burden on lower-income individuals. VAT is a common form of indirect tax applied at each stage of the production and distribution process, ultimately borne by the final consumer. Excise duties are specific taxes levied on certain goods, such as alcohol, tobacco, and fuel, often for regulatory purposes or to discourage the consumption of harmful products³.

Taxation plays a crucial role in economic development by providing the necessary funding for government projects and services that enhance the quality of life and promote sustainable growth. By financing infrastructure projects such as roads, bridges, and public transportation, taxation facilitates the efficient movement of goods and people, boosting economic activity and productivity⁴. Public investment in education and healthcare, funded through taxes, builds human capital, which is essential for long-term economic growth and development. Additionally,

taxation can be used to manage the economy by controlling inflation, encouraging investment, and promoting employment ³.

Tax policies can also be designed to encourage or discourage certain behaviours. For example, governments may use tax incentives to encourage businesses to invest in research and development, green energy, or underserved areas. Conversely, higher taxes on harmful products like tobacco or alcohol can discourage their consumption, leading to better public health outcomes ⁵. Effective tax policy is therefore a key tool for governments in shaping economic outcomes and addressing social issues.

2.1.2 Taxation in Nigeria

Taxation in Nigeria has undergone significant changes over the years, reflecting the country's evolving economic and political landscape. Historically, the Nigerian tax system has its roots in the colonial era when the British administration introduced taxes as a means of revenue generation. These early forms of taxation included taxes on goods, services, and individuals. Post-independence, the Nigerian government continued to develop and refine the tax system to better suit the needs of the nation. This evolution has been characterized by efforts to diversify the revenue base, reduce dependence on oil revenues, and improve tax administration and compliance².

The structure of the Nigerian tax system is multi-faceted, comprising both direct and indirect taxes. Direct taxes are levied directly on individuals and corporations, including personal income tax, corporate income tax, capital gains tax, and petroleum profits tax. These taxes are administered by the Federal Inland Revenue Service (FIRS) and the State Boards of Internal Revenue (SBIRs). On the other hand, indirect taxes, such as value-added tax (VAT), customs

duties, and excise duties, are levied on goods and services. VAT, for instance, is a consumption tax imposed on the value added to goods and services at each stage of production and distribution. The Nigerian tax system also includes specific taxes like the education tax and the National Information Technology Development levy, which are designed to fund sectors or initiatives ^{2,3}.

The key tax authorities in Nigeria play vital roles in the administration and enforcement of tax laws. The Federal Inland Revenue Service (FIRS) is the primary agency responsible for assessing, collecting, and accounting for taxes at the federal level. FIRS is tasked with the administration of taxes like corporate income tax, VAT, and petroleum profits tax. The State Boards of Internal Revenue (SBIRs) handle personal income taxes and other taxes under state jurisdiction. Additionally, the Nigerian Customs Service oversees the administration of customs and excise duties, while the Joint Tax Board (JTB) coordinates tax matters between the federal and state governments. These authorities are crucial in ensuring compliance, enforcing tax laws, and promoting a culture of voluntary tax payment among individuals and businesses ⁴.

Despite the structured nature of the tax system, Nigeria faces several challenges in tax administration and compliance. One significant issue is the relatively low tax-to-GDP ratio, which suggests underperformance in tax collection compared to the country's economic potential. This low ratio is often attributed to a large informal sector, widespread tax evasion, and administrative inefficiencies. Furthermore, the complexity and multiplicity of taxes can be overwhelming for taxpayers, particularly SMEs, leading to issues of compliance and enforcement. Efforts to improve the tax system have included initiatives to simplify tax laws, enhance the capacity of tax authorities, and introduce technology-driven solutions like the Tax Identification Number (TIN) and the Integrated Tax Administration System (ITAS) ⁵.

The Nigerian government continues to seek ways to enhance the efficiency and effectiveness of its tax system. Reforms aimed at broadening the tax base, improving compliance, and making the tax process more transparent and user-friendly are ongoing. These efforts are essential not only for increasing government revenue but also for ensuring that the tax system is fair and equitable. By strengthening tax administration and enforcement, Nigeria can better harness its tax potential, reduce its dependency on oil revenues, and create a more sustainable fiscal environment ⁶.

In essence, taxation in Nigeria has evolved significantly, with a structured system encompassing various types of taxes and key authorities responsible for their administration. While challenges remain, ongoing reforms and improvements in tax administration are crucial for enhancing compliance and optimizing revenue generation. The role of taxation in Nigeria's economic development is pivotal, providing the necessary funding for public services and infrastructure, and fostering a more equitable distribution of resources.

2.1.3 Small and Medium Enterprises (SMEs) in Nigeria

Small and Medium Enterprises (SMEs) play a pivotal role in Nigeria's economic landscape, contributing significantly to employment, GDP, and innovation. SMEs are generally defined based on criteria such as the number of employees, annual turnover, and capital investment. In Nigeria, micro-enterprises typically have fewer than 10 employees and an annual turnover of less than 5 million Naira. Small enterprises employ between 10 to 49 people, with an annual turnover ranging from 5 million to 100 million Naira. Medium-sized enterprises have 50 to 199 employees and an annual turnover of 100 million to 1 billion Naira. This classification helps in understanding the scale and scope of businesses, enabling the government and financial institutions to provide targeted support and resources ⁷.

The economic significance of SMEs in Nigeria cannot be overstated. They are the backbone of the country's economy, accounting for about 96% of all businesses and contributing to over 48% of the national GDP. SMEs are crucial for job creation, employing millions of people across various sectors. They also play a vital role in economic diversification, especially in a country heavily reliant on oil revenues. By fostering innovation and entrepreneurship, SMEs contribute to the development of local industries, promoting the production of goods and services that meet the needs of the local market. Additionally, SMEs are instrumental in driving competition, improving product quality, and offering more choices to consumers ⁸.

Despite their critical role, SMEs in Nigeria face numerous challenges that hinder their growth and sustainability. One of the most significant challenges is access to finance. Many SMEs struggle to secure adequate funding due to stringent lending criteria, high interest rates, and a lack of collateral. This financial constraint limits their ability to expand operations, invest in new technologies, or hire skilled labour. Another major challenge is inadequate infrastructure. Issues such as inconsistent power supply, poor road networks, and limited access to communication technologies increase operational costs and reduce efficiency. These infrastructural deficits are particularly burdensome for SMEs, which often operate on tight margins and cannot absorb these additional costs ⁹.

Regulatory and compliance burdens also pose significant challenges for SMEs in Nigeria. The tax system, for instance, can be complex and cumbersome, leading to compliance difficulties. Many SMEs are either unaware of their tax obligations or find the tax processes too complicated to navigate, leading to issues such as tax evasion or non-compliance. This situation is exacerbated by the lack of adequate tax education and the perception that the tax system is unfair or overly burdensome. Furthermore, SMEs often face bureaucratic red tape when trying to access

government support or resources, which can be discouraging and time-consuming. The lack of access to skilled labour is another hurdle, as SMEs may not have the resources to attract and retain talented employees. This skill gap can limit the ability of SMEs to innovate, improve productivity, and compete effectively in the market ¹⁰.

In addition to these challenges, SMEs in Nigeria often struggle with limited market access. While they may produce quality goods and services, accessing larger markets or international customers can be difficult due to logistical challenges, lack of marketing expertise, and stiff competition from larger firms. This limited market access restricts their growth potential and profitability. Moreover, the business environment in Nigeria can be unpredictable, with factors such as political instability, economic fluctuations, and regulatory changes impacting business operations. These uncertainties can make long-term planning difficult for SMEs, which typically have less resilience to external shocks compared to larger companies ¹¹.

To unlock the full potential of SMEs in Nigeria, it is essential to address these challenges. Improving access to finance, enhancing infrastructure, simplifying regulatory requirements, and providing targeted support and education can help SMEs thrive. Additionally, creating a more supportive business environment that encourages innovation, and competition will further empower SMEs to contribute to economic growth and development. Addressing these issues is not only crucial for the sustainability of SMEs but also for the overall economic well-being of Nigeria.

2.1.4 Tax Compliance

Tax compliance refers to the extent to which taxpayers adhere to tax laws and regulations, including accurate reporting of income, timely filing of returns, and payment of owed taxes.

Compliance can be broadly categorized into two types: voluntary and enforced compliance. Voluntary compliance occurs when taxpayers willingly fulfil their tax obligations without direct intervention from tax authorities, often motivated by a sense of civic duty, understanding of tax laws, or fear of penalties. Enforced compliance, on the other hand, involves measures taken by tax authorities, such as audits, investigations, and penalties, to ensure that taxpayers comply with their obligations. This distinction highlights the varying degrees of willingness and coercion involved in the tax compliance process ¹²

Several factors influence tax compliance, shaping taxpayers' willingness and ability to meet their obligations. One key factor is the level of tax knowledge and education among taxpayers. A well-informed taxpayer is more likely to understand their tax responsibilities and the consequences of non-compliance, thus enhancing voluntary compliance. Economic factors, such as income levels and tax rates, also play a significant role; for instance, higher tax rates may discourage compliance, particularly if taxpayers perceive them as unfair. Additionally, the perceived fairness and efficiency of the tax system can affect compliance. When taxpayers believe that the tax system is equitable and that revenues are used effectively, they are more likely to comply. Other factors include the complexity of tax laws, the risk of detection and penalties for non-compliance, and social norms and cultural attitudes toward taxation ¹³.

Non-compliance with tax laws can have serious consequences for both individuals and the broader economy. For taxpayers, the repercussions of non-compliance may include financial penalties, legal action, and damage to their reputation. In some cases, severe non-compliance can lead to criminal charges and imprisonment. For the economy, widespread tax non-compliance undermines the government's ability to collect revenue necessary for public goods and services, such as infrastructure, education, and healthcare. This shortfall can lead to budget deficits and

force governments to borrow more, potentially increasing national debt. Furthermore, tax non-compliance can erode trust in the tax system and government institutions, as compliant taxpayers may feel unfairly burdened by the evasion of others. This erosion of trust can create a vicious cycle, where decreasing compliance leads to increased enforcement measures and further erodes voluntary compliance ¹⁴.

To mitigate the issue of non-compliance, governments and tax authorities employ a variety of strategies. These include enhancing taxpayer education and awareness, simplifying tax laws and filing processes, and leveraging technology to improve tax administration and reduce compliance costs. For example, online filing systems and electronic payment methods can make it easier for taxpayers to comply with their obligations. Additionally, robust enforcement measures, such as audits and penalties, act as deterrents to non-compliance. However, it is crucial for tax authorities to strike a balance between enforcement and education, as overly aggressive enforcement can lead to negative perceptions and reduced voluntary compliance ¹⁵.

Consequently, tax compliance is a complex issue influenced by a variety of factors, including taxpayer knowledge, economic conditions, and perceptions of the tax system. The consequences of non-compliance are significant, affecting both individuals and the broader economy. Therefore, it is essential for governments to implement comprehensive strategies that promote compliance through education, efficient tax administration, and fair enforcement. By fostering a culture of compliance, governments can ensure the sustainability of their revenue systems and the provision of essential public services.

Tax compliance represents an essential public financing and taxation standard which demands obligated individuals and businesses to follow governmental tax laws. Public finance tax compliance consists of correct and time-sensitive tax reporting processes which include proper

revenue information disclosure alongside full payment of tax obligations. Government success in revenue generation depends on tax compliance standards because this practice enables public funding of services and stable economic systems. Tax compliance levels struggle to reach desired targets across the board especially in developing countries like Nigeria because this nation wrestles with formal and informal economies and severe limitations in enforcement systems and inadequate education for taxpayers.

On the whole, Tax compliance involves not just a general willingness to comply but adherence to specific compliance dimensions that together define overall compliance. For the purpose of this study, compliance is broken down into five distinct but interrelated dimensions:

Filing Compliance – submission of tax returns within legally stipulated deadlines.

Payment Compliance – remittance of due taxes on or before the statutory due date.

Reporting Accuracy – correctness and completeness of declared income, deductions, and other relevant tax information.

Registration Compliance – formal registration with relevant tax authorities, including obtaining a valid Tax Identification Number (TIN).

Overall Tax Compliance – a composite measure reflecting the general fulfilment of tax obligations.

Separating these dimensions allows for a more nuanced assessment of how tax education affects compliance behaviour, rather than relying on a single aggregated measure.

Filing Compliance

Filing compliance refers to the timely submission of tax returns by taxpayers. SMEs that delay or fail to submit returns risk penalties and interest charges. Timely filing demonstrates organisational discipline, reduces the likelihood of disputes with tax authorities, and is a key indicator of procedural compliance. Targeted tax education such as clear deadline communication and step-by-step filing guidance can significantly increase timely return submission rates¹³.

Payment Compliance

Payment compliance involves remitting taxes on or before the statutory deadline. Late payments not only attract penalties but can also strain government revenue flow. SMEs receiving specific training on payment schedules, calculation of liabilities, and online payment systems demonstrated higher payment punctuality¹⁶.

Reporting Accuracy

Reporting accuracy measures the extent to which tax declarations reflect true and complete financial data. Inaccurate reporting whether intentional or due to error—can lead to audits, penalties, and loss of credibility¹⁴. Accuracy is enhanced when taxpayers have sufficient education on allowable deductions, correct income classification, and record-keeping standards.

Registration Compliance

Registration compliance refers to SMEs' formal enrolment with relevant tax authorities and acquisition of a valid Tax Identification Number (TIN). Without registration, businesses remain outside the formal tax net, limiting their access to government support programmes. Tax education campaigns especially those in local languages have proven effective in improving SME registration rates in contexts similar to Nigeria.¹³

Overall Tax Compliance

Overall tax compliance is the composite outcome of performance across all compliance dimensions. While general compliance studies aggregate all behaviours into one score, this research treats overall compliance as a summative reflection of performance in filing, payment, reporting, and registration¹⁵. Tax education can positively influence this aggregate measure when it simultaneously addresses all subcomponents

2.1.4.1 Dimensions of Tax Compliance

Tax compliance refers to the extent to which taxpayers fulfil their statutory tax obligations in accordance with legal mandates and regulatory frameworks. It encompasses not only the timely submission of required tax returns but also the accurate calculation and payment of the amounts due.¹⁶ In the literature, two key dimensions of tax compliance are often emphasized. The first is *formal compliance*, which involves meeting administrative requirements such as submitting tax returns and other necessary documentation within the stipulated deadlines. The second is *substantive compliance*, which relates to the accuracy and completeness of the information provided and the correctness of the tax payment itself. Together, these dimensions reflect both the procedural and substantive aspects of fulfilling one's tax obligations. Beyond these core elements, tax compliance is shaped by a range of additional factors, including taxpayers' knowledge of the tax system, perceptions of fairness, attitudes towards government, and the perceived likelihood of enforcement actions.

Taxpayers demonstrate voluntary compliance whenever they perform their obligations because they choose to do so on their own accord. Taxpayers follow tax laws willingly because they

display civic consciousness along with governmental trust and believe the taxation system treats individuals with equality.

Compulsory compliance arises from tax authority enforcement actions such as audits as well as penalties to fulfil taxpayers' obligations.

The need to comply on time requires meeting tax requirements including returning documents and paying taxes during scheduled dates.

The system requires taxpayers to state precise details about their income and deductions and additional financial declarations to produce correct tax liabilities.

Tax compliance represents both a legal requirement and a social-economic behaviour that derives from multiple external elements like understanding of tax rules and public attitude toward fairness together with government trust and tax system straightforwardness.

2.1.4.2. Theoretical Foundations of Tax Compliance

Multiple theoretical models exist to explain how individuals behave regarding tax compliance. The different theories explain both tax compliance and non-compliance through the following reasons:

According to the Economic Deterrence Theory, classical economic principles suggest that taxpayers comply with tax regulations primarily to avoid the negative consequences associated with non-compliance, such as fines, penalties, and the risk of being subjected to audit processes.

This perspective views taxpayers as rational decision-makers who carefully weigh the potential benefits of evading taxes against the likely costs if they are caught and penalised.¹⁷ In this cost–benefit analysis, the probability of detection, the severity of the sanctions, and the efficiency of

enforcement play decisive roles in shaping behaviour.¹⁸ Empirical evidence from numerous studies confirms that robust enforcement mechanisms such as regular audits, targeted investigations, and the imposition of proportional penalties are essential tools for preventing tax evasion. These measures not only raise the perceived risk of non-compliance but also reinforce the legitimacy of the tax system by demonstrating that tax laws are applied consistently and without bias.

According to Social Norms Theory the cultural practices and social environments influence how people conduct themselves when it comes to tax compliance. The theory reveals how people tend to align with social compliance standards because non-compliant behaviours receive disapproval from their social network. ¹⁹ demonstrated how community social traditions impact tax compliance by showing tax compliance functions better in areas which consider civic duty as an imperative responsibility.

Taxpayers who maintain fair and reasonable expectations in their interactions with tax authorities align with the principles of the Psychological Contract Theory. This theory, often applied in organizational behaviour, extends to tax compliance by emphasizing the implicit, unwritten agreement between taxpayers and the state. When taxpayers perceive that tax revenues are being utilized responsibly, particularly in delivering effective public services such as infrastructure, healthcare, and education, they are more likely to demonstrate higher levels of voluntary compliance. The sense of mutual obligation is strengthened when the government is seen as transparent, accountable, and equitable in its management of public funds.²⁰ Conversely, a breach in this psychological contract, such as evidence of mismanagement of funds, corruption, or inequitable treatment, can erode trust and fairness, leading taxpayers to disengage from their

compliance responsibilities. Over time, this breakdown may foster a culture of non-compliance, where tax evasion becomes normalized as a response to perceived government failure.

Taxation operates under Fiscal Exchange Theory because citizens exchange payment of their taxes with the government for public goods and public services. The degree of taxpayer compliance increases when citizens observe the government meeting its end of the social contract to deliver quality public services. The exchange between the government and taxpayers grounded in voluntary compliance plays a crucial role within developing nations.²¹

2.1.4.3. Factors Influencing Tax Compliance

Tax compliance results from multiple economic, social, psychological and institutional, along with other factors. Key factors include:

SMEs face significant difficulties when complying with tax requirements because they lack understanding of tax laws, together with tax procedure awareness. Taxpayers with a higher level of tax knowledge are more likely to comply with tax regulations.²²

When taxpayers believe that their taxes are treated fairly and equitably, they will tend to comply with the system. Tax equity operates on two main principles: first, through the equal treatment of individuals with equivalent tax situations as well as second, through taxation that reflects ability-to-pay principles. A study found that fairness plays a crucial role in shaping taxpayer compliance behaviour.²³

Voluntary compliance heavily depends on tax authorities and government authorities receiving trust from citizens. Taxpayers tend to maintain compliance when they observe proper money management and when tax officials establish trustworthy and open communication. The findings

revealed that introducing transparency and accountability measures significantly enhanced taxpayer compliance rates.²⁴

Complex tax regulations and cumbersome procedures often serve as significant deterrents to tax compliance, especially for small businesses that typically operate with limited financial, human, and technical resources. Such enterprises may lack the capacity to hire professional accountants or tax consultants, making it difficult for them to interpret and apply complex legislative provisions correctly. The time-consuming nature of tax filing, coupled with ambiguous language in tax laws, can further discourage consistent compliance. Consequently, creating simpler, more transparent tax regulations, accompanied by step-by-step guidelines and clear explanatory materials, can substantially improve compliance rates among taxpayers. These simplification measures not only reduce the administrative burden on businesses but also enhance their confidence in engaging with tax authorities, thereby fostering a culture of voluntary compliance among SMEs.²⁵

In addition to complexity, taxpayers' willingness to comply is strongly influenced by their perception of the likelihood of detection for non-compliance and the nature and severity of penalties imposed when violations occur. If taxpayers believe that enforcement is lax or that penalties are minimal, the perceived risk of evasion diminishes, which can embolden non-compliant behaviour. Conversely, when tax authorities adopt effective enforcement mechanisms—such as targeted audits, systematic monitoring, and proportional penalties the deterrent effect can be significant. These enforcement measures, when applied fairly and transparently, not only reduce incidences of evasion but also reinforce the message that compliance is both a legal obligation and a civic responsibility essential for national development.¹⁸

2.1.4.4. Tax Compliance Strategies in Developing Countries through the Nigerian Context

Tax compliance remains limited in Nigeria together with other developing nations because of multiple institutional and structural hurdles. These include:

Businesses operating outside formal tax compliance remain the biggest challenge to address in the informal economy sector. Research discovered through their research that informal economic activities form a major sector of Nigerian economic output which results in difficulties for tax authorities in collecting compliance tax.²⁶

Weak Enforcement Mechanisms: Limited resources, corruption, and inefficiency in tax administration undermine enforcement efforts. Analysis emphasize that Nigerian compliance would benefit from enhanced enforcement systems according to their analysis.²⁷

SMEs along with other taxpayers show insufficient understanding of tax compliance because of a lack of proper educative information about tax regulations. Educational tax programs play a significant role in closing this knowledge gap.²⁸

Taxpayers often exhibit noncompliance due to distrust in government, as many institutions face widespread corruption and misuse of public funds. Research has shown that tax compliance can improve through greater transparency and stronger accountability practices.²¹

2.1.4.5. Recent Trends and Innovations in Tax Compliance

Public tax compliance has been improved through innovations developed during the last few years. These include:

Previous tax systems experienced improvements through digital tools such as e-filing platforms together with automated tax calculations which streamlined tax processes and created enhanced

taxpayer compliance. A report which demonstrates that digitalization significantly strengthens compliance especially for SMEs.²⁹

Governments now apply behavioural models to design programs which smoothly lead taxpayers into compliance. Research has shown that sending individualized reminder communications that incorporating social norms can significantly improve tax compliance performance.³⁰

Through Collaborative Compliance tax authorities establish cooperative partnerships with taxpayers, especially with large corporations to resolve issues and enhance tax compliance rates. Collaborative compliance strategies have been shown to reduce conflict while increasing voluntary taxpayer participation.³¹

Tax compliance as a concept contains multiple complex elements which include both laws and human behaviour. It is influenced by a range of factors, including taxpayer knowledge, perceptions of fairness, trust in government, and the complexity of the tax system. In developing countries like Nigeria, achieving high levels of compliance requires addressing structural challenges, such as the informal economy, weak enforcement mechanisms, and low taxpayer education. Recent innovations, such as digitalization and behavioural insights, offer promising avenues for improving compliance. However, these efforts must be accompanied by broader reforms to enhance transparency, accountability, and trust in government. By adopting a holistic approach that combines enforcement, education, and engagement, governments can create an environment that encourages voluntary compliance and fosters sustainable economic growth.

2.1.5 Tax Education

Tax education refers to the process of informing and educating taxpayers about their tax obligations, rights, and the functioning of the tax system. It is crucial in fostering a well-

informed taxpayer base that understands the importance of complying with tax laws. Effective tax education can demystify complex tax regulations, reduce errors in tax filing, and promote a culture of voluntary compliance. By equipping taxpayers with the necessary knowledge and skills, tax education helps to minimize misunderstandings and misconceptions about tax obligations, ultimately leading to higher compliance rates ³².

Effective tax education programs encompass several key components designed to address the diverse needs of taxpayers. First, these programs should provide clear and concise information on tax laws, including filing requirements, deadlines, and allowable deductions and credits. This information should be tailored to the specific circumstances of different taxpayer groups, such as individuals, small business owners, and corporations. Second, tax education programs should include practical guidance on how to accurately complete tax forms and utilize online filing systems. This component is particularly important in reducing errors and ensuring that taxpayers can efficiently navigate the tax process. Third, programs should educate taxpayers about their rights, including the right to appeal decisions made by tax authorities and the right to privacy concerning their tax information. Lastly, effective tax education programs should raise awareness about the consequences of non-compliance, such as penalties and legal repercussions, to deter tax evasion and avoidance ³³.

There are various methods of delivering tax education, each suited to different audiences and contexts. Traditional methods include workshops, seminars, and public lectures conducted by tax authorities or professional associations. These in-person events allow for direct interaction between experts and taxpayers, facilitating a deeper understanding of complex tax issues. However, with the advent of digital technology, online platforms have become increasingly popular for delivering tax education. Websites, webinars, and online courses provide convenient

access to information and allow taxpayers to learn at their own pace. Additionally, social media and mobile applications are being utilized to disseminate tax-related updates and reminders, making tax education more accessible and engaging. Printed materials, such as brochures and guides, remain useful for reaching those with limited internet access or digital literacy. Lastly, mass media campaigns, including television and radio programs, can effectively reach a broad audience and raise awareness about key tax issues ³⁴.

The effectiveness of tax education programs depends on their ability to reach and engage the target audience. It is essential for tax authorities and organizations to continually assess and adapt their educational strategies to meet the evolving needs of taxpayers. This includes staying updated on changes in tax laws and leveraging new technologies to enhance the delivery of information. Furthermore, collaborating with educational institutions, professional bodies, and community organizations can extend the reach of tax education efforts and ensure that they are culturally and contextually relevant. By investing in comprehensive and accessible tax education, governments can empower taxpayers, reduce the incidence of non-compliance, and enhance the overall effectiveness of the tax system ³⁵.

Tax education has increasingly been recognized as one of the most critical determinants of voluntary compliance among taxpayers, particularly small and medium enterprises (SMEs). At its core, tax education refers to the systematic dissemination of knowledge and training that equips taxpayers with the skills, awareness, and confidence to fulfill their fiscal obligations. It is a process that goes beyond mere provision of information and aims to cultivate a culture of compliance, where taxpayers understand not only the technical requirements of taxation but also its civic and developmental significance.⁵² In contemporary tax administration, tax education stands as a strategic tool for bridging the knowledge gap that often hinders compliance,

particularly in developing countries like Nigeria where limited literacy, institutional inefficiencies, and widespread mistrust of government complicate the compliance environment.

The role of tax education can be understood through the theoretical frameworks of both deterrence and behavioural economics. From a deterrence perspective, taxpayers weigh the benefits of evasion against the risks of detection and punishment. However, this model assumes a baseline knowledge of tax obligations, without which deterrence loses its effectiveness. Taxpayers who are unaware of their obligations cannot accurately calculate risks and may fail to comply unintentionally. Thus, tax education strengthens deterrence by ensuring that taxpayers are well informed of what is expected, the consequences of non-compliance, and the procedures required to remain compliant.⁴⁹

Behavioural models, further highlight the role of education in enhancing voluntary compliance. According to this framework, compliance is driven not only by deterrence but also by trust in tax authorities and perceptions of fairness. Education fosters such trust by demystifying taxation, enhancing transparency, and reducing taxpayers' reliance on intermediaries who may exploit their ignorance. In this sense, tax education operates as both a cognitive and psychological enabler of compliance, empowering taxpayers with the confidence to engage directly with tax authorities and systems.⁵¹

Globally, governments have recognized tax education as a cornerstone of modern tax administration. Effective taxpayer education programs reduce compliance costs, enhance tax morale, and broaden the tax base by integrating previously informal businesses into the formal system.⁶⁰ In advanced economies, education often takes the form of user-friendly guidance, online tutorials, pre-filled returns, and dedicated taxpayer service centres. In developing countries, however, tax education faces unique challenges due to lower literacy levels,

infrastructural constraints, and pervasive informality. Tax education must be adapted to local realities, employing multilingual materials, grassroots campaigns, and simplified pedagogies tailored to SMEs and micro-enterprises.⁵⁴

In Nigeria, the importance of tax education cannot be overstated given the widespread perception of taxation as burdensome, opaque, and often unfair. Studies have shown that many SMEs remain unaware of their tax obligations or misunderstand key requirements such as deadlines, procedures, and record-keeping standards.⁶² Nearly half of Nigerian SMEs operate informally, largely due to a lack of awareness and education about the benefits of formalization and compliance.⁶³ Tax authorities have introduced initiatives such as taxpayer sensitisation workshops, online service portals, and public awareness campaigns to address these deficiencies. Nevertheless, the scope and consistency of these initiatives remain limited, particularly in rural communities where digital access is low and literacy barriers are more pronounced.⁵⁶

One of the central arguments for tax education is its ability to reduce unintentional non-compliance. Many SMEs fail to comply not out of deliberate evasion but due to ignorance of tax rules or inability to interpret complex legislation. Nigerian SMEs often lack access to affordable professional tax advisers, making self-reliance on tax education essential.⁶² Without such knowledge, these businesses are prone to errors that result in penalties, reinforcing perceptions of taxation as punitive. Tax education thus acts as a preventive tool, reducing inadvertent mistakes and fostering a more cooperative relationship between taxpayers and authorities.

Tax education also serves a civic purpose, reinforcing the developmental rationale for taxation. Effective taxation is central to state-building in developing countries, creating accountability relationships between governments and citizens.⁵⁷ By highlighting how tax revenues fund public goods and services, education strengthens taxpayers' sense of civic duty and willingness to

contribute. Tax morale defined as the intrinsic motivation to pay taxes depends heavily on education that connects taxation to broader social and economic benefits.⁶⁴ In Nigeria, where perceptions of government inefficiency and corruption are widespread, education that demonstrates the tangible uses of tax revenue could help rebuild trust and motivate compliance.

The mode of delivery is a critical factor in the success of tax education initiatives. The need for diversified strategies, including digital platforms, mass media campaigns, and in-person training tailored to SMEs.⁶⁰ The importance of context-specific education that takes into account linguistic diversity, literacy levels, and cultural attitudes towards taxation. Radio programs, community outreach, and collaboration with trade associations are particularly effective in reaching SMEs in rural and informal sectors. Digital platforms, while valuable, must be complemented by traditional methods to avoid excluding less digitally literate taxpayers.⁶¹

Another dimension of tax education relates to equity and inclusivity. Women entrepreneurs often face disproportionate barriers to accessing tax knowledge due to structural inequalities in education, finance, and technology. Targeted education campaigns that address gender-specific challenges are therefore essential to ensure equitable compliance outcomes. For Nigeria, where women-owned SMEs constitute a significant proportion of the entrepreneurial landscape, integrating gender-sensitive strategies into tax education could enhance inclusiveness and compliance rates.⁶⁵

Moreover, tax education has intergenerational implications. Creswell and Creswell⁵⁰ highlight the importance of education in shaping long-term behaviours and attitudes. Embedding tax education into school curricula and vocational training ensures that future entrepreneurs grow up with a clearer understanding of their fiscal responsibilities. Such proactive measures are particularly relevant in Nigeria, where youth entrepreneurship is expanding rapidly but often

operates outside the formal economy. Institutionalizing tax education at multiple levels can therefore contribute to a cultural shift towards compliance.

The dynamic nature of tax systems also requires that education be continuous and adaptive. As tax legislation evolves and digital technologies transform compliance processes, SMEs must continually update their knowledge as static or one-off educational initiatives quickly become obsolete, leaving taxpayers unprepared for new obligations.⁵⁸ In Nigeria, this challenge is evident in the rollout of digital platforms, where many SMEs are unaware of updates or changes to procedures. Sustained investment in taxpayer education, with frequent updates and feedback mechanisms, is thus essential for maintaining relevance and effectiveness.

Finally, tax education must be seen as part of a broader ecosystem of governance and institutional quality. Education alone cannot ensure compliance if institutions remain weak, corrupt, or inconsistent in enforcement. Education must therefore be complemented by reforms that simplify tax procedures, strengthen enforcement, and build institutional trust. In Nigeria, where scepticism towards government remains high, education that is not supported by visible improvements in governance risks being dismissed as rhetoric. However, when combined with reforms that improve transparency and service delivery, education can be a powerful catalyst for voluntary compliance.⁶⁵

In conclusion, tax education is a foundational pillar of compliance behaviour, particularly for SMEs in Nigeria. It reduces unintentional non-compliance, fosters trust and tax morale, enhances inclusiveness, and strengthens the fiscal social contract. While Nigeria has taken steps to promote taxpayer education, significant gaps remain in reach, consistency, and contextual adaptation. Global experiences underscore the importance of sustained, inclusive, and dynamic education programs that integrate digital tools with traditional outreach. For Nigeria, tax

education is not merely an administrative add-on but a strategic imperative for broadening the tax base, formalizing the SME sector, and building a culture of compliance that supports sustainable economic development.

2.1.5.1 Relationship between Tax Education and Tax Compliance

The relationship between tax education and tax compliance is a critical area of study in the field of taxation. Theoretical perspectives suggest that increased awareness and understanding of tax obligations, fostered through effective tax education, can lead to higher compliance rates among taxpayers. The rationale is that when individuals and businesses are well-informed about tax laws, their rights, and the consequences of non-compliance, they are more likely to comply voluntarily. This notion is supported by various behavioural and economic theories, such as the deterrence theory, which posits that the perceived risk of detection and punishment can influence compliance behaviour. Additionally, the theory of planned behaviour highlights that knowledge and attitudes significantly shape individuals' intentions and actions, suggesting that tax education can positively impact compliance by altering taxpayers' attitudes toward taxpaying ³⁶.

Empirical evidence from various studies underscores the positive impact of tax education on compliance rates. For instance, research conducted in Belgium demonstrated that targeted educational interventions led to a notable increase in voluntary compliance among taxpayers. The study found that when taxpayers were provided with detailed information about their tax obligations and the potential benefits of compliance, they were more likely to file accurate tax returns and pay the correct amount of tax. Similarly, another study conducted in Croatia highlighted the role of tax education in improving compliance among small and medium-sized enterprises (SMEs). The findings indicated that SMEs that received comprehensive tax education were more likely to comply with tax regulations, reducing the incidence of tax evasion and

avoidance. These studies suggest that tax education is an effective tool for enhancing compliance, particularly when it addresses specific informational gaps and misconceptions among taxpayers

³⁷.

Despite the positive correlation between tax education and compliance, several challenges exist in measuring the exact impact of tax education on compliance behaviour. One significant challenge is the difficulty in isolating the effect of tax education from other factors that may influence compliance, such as changes in tax laws, enforcement practices, and economic conditions. Additionally, the diverse ways in which tax education is delivered through workshops, online resources, mass media, etc. make it challenging to assess the relative effectiveness of each method. Another challenge is the heterogeneity among taxpayers, as individuals and businesses vary widely in their knowledge levels, financial literacy, and responsiveness to educational initiatives. This diversity means that a one-size-fits-all approach to tax education may not be effective for all taxpayer groups, complicating the assessment of educational programs' overall impact. Lastly, there is often a lack of comprehensive data on the long-term effects of tax education, making it difficult to draw definitive conclusions about its effectiveness ³⁸.

To address these challenges, researchers and policymakers are exploring innovative methods for evaluating the impact of tax education. These include using randomized controlled trials to test the effectiveness of different educational interventions, conducting longitudinal studies to track changes in compliance behaviour over time, and employing qualitative methods to gain deeper insights into taxpayers' experiences and perceptions. Moreover, leveraging big data analytics and machine learning techniques can help identify patterns and predictors of compliance, providing more precise measurements of tax education's impact. Ultimately, improving our understanding

of the relationship between tax education and compliance can lead to more targeted and effective educational strategies, contributing to the overall efficiency and fairness of the tax system ³⁹.

2.1.5.2 Barriers to Tax Compliance among SMEs

Barriers to tax compliance among small and medium enterprises (SMEs) are multifaceted and significantly impact their adherence to tax laws. One of the primary barriers is a lack of awareness and understanding of tax laws. Many SMEs, particularly in developing countries, often lack the resources to hire professional tax advisors or accountants, leading to inadequate knowledge about their tax obligations. This ignorance can result in unintentional non-compliance or tax evasion. Additionally, the rapid changes in tax laws and regulations can be overwhelming for small business owners, who may not have the time or capacity to stay updated. This situation is exacerbated by the limited outreach and educational initiatives from tax authorities, leaving many SMEs uninformed about the latest tax requirements ¹⁵

The complexity of tax procedures is another significant barrier to compliance. The intricate nature of tax forms, the need for detailed record-keeping, and the varying tax rates for different business activities can confuse SME owners. This complexity often leads to errors in tax filings, underreporting of income, or even deliberate avoidance of tax filing altogether. Furthermore, the bureaucratic processes involved in tax filing can be time-consuming and daunting for small businesses, which may lack the administrative capacity to handle such tasks. The cumbersome procedures discourage compliance and can foster a perception that the tax system is unfairly complicated, particularly for smaller businesses that do not have the same resources as larger corporations ³².

Another barrier is the perceived high cost of compliance, which includes both the direct and indirect costs associated with adhering to tax regulations. Direct costs involve the financial expenses of hiring accountants or tax consultants, purchasing accounting software, and paying any potential fines or penalties for non-compliance. Indirect costs, on the other hand, refer to the time and effort required to understand and comply with tax laws, which could otherwise be spent on core business activities. For many SMEs, these costs can be prohibitively high, especially when their profit margins are slim. The perception that the cost of compliance outweighs the benefits can lead to intentional tax evasion or a casual approach to tax obligations, further complicating efforts to improve compliance rates among SMEs ³³.

Addressing these barriers requires targeted interventions from both tax authorities and government bodies. Simplifying tax procedures and providing clear, accessible information can significantly reduce the complexity SMEs face. Educational initiatives, such as workshops, online tutorials, and helplines, can improve awareness and understanding of tax laws among small business owners. Moreover, implementing a tiered compliance system, where smaller businesses have simplified requirements, can help alleviate the perceived high cost of compliance. Encouraging voluntary compliance through positive incentives, such as tax credits or deductions for compliant businesses, can also be effective. Ultimately, understanding and mitigating these barriers is crucial for improving tax compliance among SMEs, ensuring that they contribute their fair share to the economy's tax base ³⁴.

2.1.5.3 Strategies for Improving Tax Compliance

Improving tax compliance among businesses, particularly small and medium enterprises (SMEs), is crucial for enhancing a nation's revenue base and ensuring equitable economic contributions. One effective strategy for boosting compliance is the simplification of tax processes. Complex

and cumbersome tax procedures can deter compliance, as they often require significant time and resources to navigate. Simplifying these processes can involve streamlining tax forms, reducing the frequency of tax filings, and clarifying tax regulations. By making the tax system more user-friendly, governments can reduce the administrative burden on businesses, making it easier for them to comply. This approach not only encourages voluntary compliance but also reduces the likelihood of errors and misunderstandings in tax filings, which can lead to disputes and penalties³⁵.

Incentives for compliance are another vital strategy for enhancing tax compliance rates. Providing positive incentives can motivate businesses to adhere to tax laws and fulfil their obligations. These incentives can take various forms, such as tax credits, deductions, or rebates for timely and accurate tax filings. Additionally, recognizing and rewarding compliant businesses through public acknowledgement or certification programs can encourage others to follow suit. By creating a positive reinforcement loop, governments can foster a culture of compliance, where businesses see the benefits of adhering to tax laws. Moreover, implementing amnesty programs that allow businesses to rectify past non-compliance without severe penalties can also be an effective strategy. Such initiatives encourage businesses to come forward voluntarily and regularize their tax status, thus broadening the tax base and increasing overall revenue³⁴.

The use of technology in tax administration is a critical component of modern strategies to improve tax compliance. Technological advancements can streamline tax collection processes, enhance transparency, and reduce the opportunities for tax evasion. For instance, digital tax filing systems can simplify the submission of tax returns, making it easier for businesses to comply with tax laws. Automated systems can also provide real-time data analysis, helping tax

authorities identify discrepancies or irregularities more efficiently. By integrating advanced technologies such as blockchain and artificial intelligence, tax authorities can enhance data security, reduce fraud, and improve the accuracy of tax reporting. These technological solutions not only increase efficiency but also build trust in the tax system, as they provide clear, reliable, and timely information to both taxpayers and tax authorities ¹⁶.

Another approach to improving tax compliance involves comprehensive public awareness campaigns. Educating taxpayers about their obligations and the importance of tax compliance can significantly impact compliance rates. These campaigns can use various media platforms, including social media, television, and radio, to reach a broad audience. They can also include workshops, seminars, and training sessions tailored to specific groups, such as SMEs, to provide detailed guidance on compliance requirements. By raising awareness and educating the public, these initiatives can demystify the tax process and encourage a positive attitude towards fulfilling tax obligations ¹².

Finally, enhancing enforcement measures is essential to ensure high levels of tax compliance. While voluntary compliance is the ideal scenario, strict enforcement mechanisms are necessary to deter non-compliance and penalize tax evasion. This can include regular audits, stringent penalties for non-compliance, and legal actions against defaulters. Strong enforcement not only serves as a deterrent but also reinforces the message that tax compliance is a legal obligation that must be taken seriously. A balanced approach that combines education, incentives, technological advancements, and enforcement can effectively improve tax compliance and contribute to the overall economic development of a country ¹².

2.1.5.4 Tax Evasion and Avoidance

Tax evasion and avoidance are critical issues in tax administration, particularly among Small and Medium Enterprises (SMEs). While both practices result in reduced tax liabilities, they differ significantly in terms of legality and ethical considerations. Tax evasion refers to illegal practices used by individuals or businesses to intentionally evade paying taxes. This includes underreporting income, inflating deductions, or hiding money in offshore accounts. Tax avoidance, on the other hand, involves legally exploiting loopholes in the tax system to minimize tax liabilities. Although tax avoidance is technically legal, it often raises ethical questions, as it may go against the spirit of the law, even if it adheres to its letter ¹⁷.

Common practices of tax evasion and avoidance among SMEs include underreporting income, misclassifying employees as independent contractors, and exaggerating expenses or deductions. These practices can be particularly prevalent in cash-based businesses, where transactions are less likely to be documented. SMEs may also engage in aggressive tax planning strategies, such as shifting profits to low-tax jurisdictions or utilizing complex financial instruments to obscure the true nature of their transactions. While these strategies can significantly reduce a business's tax liability, they can also lead to legal complications if deemed to cross the line from avoidance to evasion ³².

The legal and ethical implications of tax evasion and avoidance are substantial. Legally, tax evasion is a criminal offence that can result in severe penalties, including fines, imprisonment, and the repayment of evaded taxes with interest. Tax avoidance, while not illegal, can still lead to legal disputes if the tax authorities challenge the legitimacy of the avoidance schemes used. Moreover, both practices can damage a company's reputation and lead to a loss of trust among customers, investors, and the public. Ethically, while businesses may argue that they are maximizing shareholder value through tax avoidance, such practices can be viewed as shirking

their societal responsibility to contribute fairly to public finances. This ethical consideration is particularly pertinent in contexts where businesses benefit from public services funded by tax revenues yet actively seek to minimize their tax contributions ¹³.

Understanding the motivations behind tax evasion and avoidance is crucial for developing effective policies to combat these practices. SMEs often cite high tax rates, complex tax codes, and burdensome compliance processes as reasons for engaging in these activities. In some cases, the perception of widespread corruption and inefficiency in the use of tax revenues can also discourage compliance, leading businesses to justify their actions as a form of protest against the government's misuse of funds. Addressing these underlying issues through tax reform, increased transparency in government spending, and improved tax education can help reduce the incidence of tax evasion and avoidance, ensuring a more equitable distribution of the tax burden ¹⁷.

2.1.5.5 The Role of Government and Tax Authorities

The role of government and tax authorities in ensuring tax compliance, especially among SMEs, is multifaceted and crucial for the overall economic stability and development of a country. Governments are responsible for establishing and maintaining policy frameworks that encourage tax compliance. These frameworks often include simplified tax codes tailored to the needs and capacities of SMEs, recognizing that overly complex regulations can be a significant barrier to compliance. Such policies not only streamline tax processes but also provide clarity on tax obligations, thereby reducing the ambiguity that often leads to unintentional non-compliance. Additionally, governments may introduce tax incentives and reliefs specifically aimed at SMEs to ease their tax burden and encourage formalization, which, in turn, enhances compliance ¹¹.

Enforcement mechanisms and penalties are integral components of the government's strategy to ensure tax compliance. These mechanisms typically include audits, investigations, and sanctions designed to deter tax evasion and avoidance. The severity of penalties can vary, ranging from fines and interest on unpaid taxes to more severe measures such as asset seizure and imprisonment in cases of fraud or deliberate evasion. Effective enforcement requires a well-resourced and technically proficient tax administration capable of identifying non-compliance and enforcing penalties. This not only acts as a deterrent but also promotes a culture of compliance by demonstrating that the government takes tax evasion seriously. Furthermore, the transparency and fairness of enforcement actions are crucial in maintaining public trust in the tax system ¹⁶.

Public-private partnerships play a vital role in promoting tax education and compliance, particularly among SMEs. Such collaborations can leverage the strengths of both sectors to provide comprehensive tax education programs. The private sector, including accounting firms, industry associations, and educational institutions, can offer expertise and resources that complement government initiatives. These partnerships can facilitate workshops, training sessions, and informational campaigns that educate business owners about their tax obligations, the benefits of compliance, and the risks associated with evasion. Moreover, public-private partnerships can also foster innovation in tax administration, such as developing user-friendly tax filing systems and leveraging technology to simplify compliance processes. By working together, the government and private sector can create an environment where compliance is not only the norm but also straightforward and accessible ¹⁶.

In addition to these efforts, the government has a role in ensuring that tax revenues are used efficiently and transparently. This involves public accountability measures that demonstrate how

taxes are spent on public goods and services. When taxpayers see the benefits of their contributions, such as improved infrastructure, healthcare, and education, they are more likely to comply voluntarily. Transparency in government spending can reduce cynicism and resistance to paying taxes, particularly when taxpayers perceive that their contributions are being utilized effectively and not squandered through corruption or inefficiency ¹⁵.

In summary, the government and tax authorities play a crucial role in creating a conducive environment for SME compliance. Through well-designed policy frameworks, robust enforcement mechanisms, and collaborative public-private partnerships, they can promote a culture of compliance. This not only enhances revenue collection but also supports broader economic goals such as growth, fairness, and social equity. By ensuring that tax systems are fair, transparent, and efficiently managed, governments can build trust with taxpayers and foster a more compliant and engaged business community ¹¹.

2.1.5.6 Impact of Tax Compliance on Government Revenue

The impact of tax compliance on government revenue is significant, especially concerning the contribution of SMEs. SMEs play a vital role in the economy, and their compliance with tax obligations is crucial for enhancing government revenue streams. When SMEs are compliant, they contribute significantly to the national tax base, providing essential funds for public services and infrastructure development. The cumulative effect of improved compliance rates among SMEs can lead to a substantial increase in government revenue, allowing for greater fiscal stability and the ability to invest in critical areas such as education, healthcare, and public safety

¹³.

Improved compliance rates have far-reaching economic impacts beyond just increasing government revenue. When businesses comply with tax regulations, they operate on a level playing field, which promotes fair competition. This is particularly important in the SME sector, where businesses often operate in highly competitive markets. Compliance also fosters an environment of transparency and accountability, which is crucial for attracting foreign investment and promoting economic growth. Furthermore, the formalization of businesses that come with compliance can lead to better access to financial services, including loans and grants, which are often unavailable to businesses operating informally. This access to capital can, in turn, spur business expansion, innovation, and job creation, further boosting the economy ¹⁵.

Case studies of successful tax compliance initiatives highlight the potential benefits of such efforts. For instance, in several countries, targeted tax education programs and simplified tax regimes have proven effective in increasing compliance among SMEs. These programs often include tailored guidance and support for small business owners, helping them understand their tax obligations and the benefits of compliance. Additionally, the use of technology, such as electronic tax filing systems and online payment platforms, has made it easier for businesses to comply with tax regulations, reducing the administrative burden and cost of compliance. These initiatives not only increase compliance rates but also build trust between taxpayers and the government, as they demonstrate a commitment to making the tax process as straightforward as possible ¹⁷.

The economic impact of these initiatives can be substantial. For example, in some regions, improved tax compliance has led to increased government revenue, which has been reinvested in public infrastructure projects. These projects, in turn, create jobs, stimulate economic activity, and improve the overall business environment. Additionally, the increased revenue allows

governments to reduce budget deficits and public debt, contributing to macroeconomic stability. The success of these initiatives demonstrates that with the right policies and support mechanisms, it is possible to significantly enhance tax compliance among SMEs, resulting in substantial economic and fiscal benefits ³².

Tax compliance is a critical factor in the economic health of any nation, particularly in developing economies where tax revenues form a significant portion of the government's income. For governments to meet public expenditure obligations ranging from infrastructure development, education, healthcare, to welfare programs, there must be a robust and reliable flow of tax revenues. As such, the relationship between tax compliance and government revenue is crucial, not only for sustaining fiscal policies but also for enabling governments to fulfil their developmental goals.

Tax compliance refers to the degree to which taxpayers' individuals, businesses, and other entities adhere to tax laws, including filing tax returns accurately and paying taxes on time. A higher level of tax compliance implies that taxpayers are contributing their fair share to the state's revenue, which directly impacts the ability of the government to fund its activities. Conversely, non-compliance, often in the form of tax evasion or avoidance, reduces the revenue available to the government, which can have negative repercussions on public sector services and infrastructure development¹⁵.

2.1.5.7 The Role of Taxes in Government Revenue

Taxes are the primary source of revenue for governments worldwide. Tax systems are designed to generate income that is essential for public spending, enabling governments to provide goods and services such as education, healthcare, defence, infrastructure, and social welfare programs.

Governments rely on the predictability and stability of tax revenue to manage their budgets and ensure sustainable development²¹.

In general, tax revenue comes from various sources, such as individual income taxes, corporate taxes, value-added taxes (VAT), excise duties, and property taxes. The proportion of total revenue derived from each tax varies depending on a country's tax system and its economic structure. For example, in many advanced economies, income taxes are the largest source of tax revenue, while in developing countries, consumption taxes like VAT may contribute significantly to government income.

The effectiveness of a tax system in generating revenue depends not only on the number of taxes levied but also on the degree of compliance among the taxpayer population. Tax compliance influences the overall tax base, which, in turn, impacts the amount of revenue collected by the government. A more compliant tax base leads to higher revenues, which enhances a government's ability to meet its fiscal responsibilities and invest in public welfare.

2.1.5.8 Tax Compliance and Government Revenue Generation

Tax compliance directly affects the amount of revenue that a government can collect and, by extension, its ability to finance public programs. When individuals and businesses comply with their tax obligations, the government's revenue base expands, which allows for a more sustainable economic model. Higher compliance levels also contribute to the fairness of the tax system, ensuring that all taxpayers share fiscal responsibility.

In an ideal tax system, compliance rates are directly correlated with increased tax revenue. The more individuals and businesses file accurate tax returns and pay their taxes, the more the government can depend on stable and predictable revenue streams. Higher compliance results in

larger revenue collections, which then provide the government with the financial flexibility to pursue ambitious development programs, enhance infrastructure, and maintain public services³¹.

The opposite is true when compliance is low. When individuals and businesses evade taxes or underreport their taxable income, the government collects less revenue. Tax evasion significantly reduces the total amount of taxes collected, which can lead to budget shortfalls. In such cases, the government may face deficits and may have to resort to borrowing, raising debt levels, or increasing tax rates for compliant taxpayers. This could also result in the government cutting down on essential services and slowing down investments in key areas such as infrastructure, healthcare, and education.

2.1.5.9 The Cost of Non-Compliance: Tax Evasion and Avoidance

Tax evasion refers to the illegal practices where taxpayers deliberately evade paying their taxes, typically through underreporting income or inflating expenses. On the other hand, tax avoidance involves legal strategies where taxpayers exploit loopholes in the tax code to reduce their tax liability. While tax avoidance may be legal, it is often considered unethical as it undermines the spirit of the tax system²⁶.

Non-compliance whether through evasion or avoidance has significant adverse effects on government revenue. Governments that face widespread tax evasion struggle to meet their fiscal obligations. According to a report by the International Monetary Fund (IMF), tax evasion results in a substantial loss of potential revenue, particularly in countries with weak enforcement mechanisms¹⁴. This issue is especially pronounced in developing countries, where the informal sector is large, and tax administration is often fragmented or inefficient.

The financial implications of tax evasion are staggering. A study by the OECD found that the global tax gap defined as the difference between taxes owed and taxes actually paid amounted to trillions of dollars annually. For many developing countries, tax evasion can account for up to 50% of the potential tax revenue ²⁷. In such cases, the government is deprived of significant resources that could otherwise fund essential public services.

The effect of tax evasion on government revenue can be seen in countries where tax administration is weak or where there is a high level of informal economic activity. In these countries, businesses and individuals are often able to avoid taxes through underreporting income, claiming false deductions, or operating in the informal sector where taxation is less enforced. This creates a large gap between the taxes that should be collected and the taxes that are actually collected¹⁵.

2.1.5.10 The Positive Impact of Tax Compliance on Government Revenue

On the other hand, tax compliance ensures that the tax system functions as intended and contributes to revenue generation. When compliance rates are high, the government can depend on a steady stream of income to finance public expenditures. This allows for the effective delivery of public goods and services and fosters long-term economic development²⁵.

One of the benefits of high tax compliance is the stability of government revenue. Governments with high compliance rates can predict tax income more accurately, which helps in planning and budgeting. Predictable revenue enables governments to reduce dependency on external borrowing and control fiscal deficits. This, in turn, provides greater economic stability and enhances investor confidence in the economy²¹.

Moreover, high compliance also fosters a sense of fairness within the tax system. When individuals and businesses pay their fair share of taxes, it creates a sense of shared responsibility for public goods and services. This reinforces trust in the tax system, leading to further improvements in compliance. According to a report by ²⁹, high compliance rates lead to higher levels of government spending in key sectors such as education, healthcare, and infrastructure, all of which contribute to economic growth and development.

2.1.5.11 Tax Compliance as a Catalyst for Economic Development

Tax compliance plays a central role in supporting economic development by providing governments with the resources needed to invest in infrastructure, social welfare programs, and public services. By ensuring that the government has a sufficient revenue base, tax compliance makes it possible to achieve sustainable development and improve living standards.

Investment in infrastructure, including transportation, energy, and communication systems, is particularly dependent on government revenue. Countries with higher tax compliance rates are better able to finance large-scale infrastructure projects that facilitate economic growth, create jobs, and improve the quality of life for citizens. In addition to infrastructure, tax compliance supports government spending on health and education, which are vital for improving human capital and fostering productivity³⁰.

Research has shown that countries with high levels of tax compliance tend to have better economic outcomes. For example, in Scandinavian countries, where tax compliance is high, the government has the resources to provide universal healthcare, free education, and robust social safety nets. This not only enhances the quality of life but also supports economic stability and

long-term growth. By contrast, low compliance leads to underfunded public services, which may result in social unrest and hinder economic progress¹⁶.

2.1.5.12 Strengthening Tax Compliance to Enhance Government Revenue

Increasing tax compliance requires comprehensive measures, including improving tax education, enhancing taxpayer services, strengthening enforcement mechanisms, and addressing structural issues in the tax system. Effective tax administration is key to encouraging compliance and reducing the tax gap²⁴.

First, public education about the importance of tax compliance and the benefits of paying taxes must be strengthened. Taxpayers need to be informed about how their contributions support public goods and services and contribute to economic development. Additionally, simplifying the tax system, including streamlining tax filings and improving the accessibility of tax-related information, would make it easier for SMEs and individuals to comply with their tax obligations¹⁹.

Second, governments must invest in improving taxpayer services to ensure that the tax system is user-friendly and responsive to the needs of businesses and individuals. This could involve digitizing tax collection processes, creating online portals for filing taxes, and establishing taxpayer support lines to assist with queries and issues. Such measures would improve compliance by making tax administration more efficient and less cumbersome¹¹.

Lastly, strengthening enforcement is crucial. Governments should develop more robust mechanisms for detecting and penalizing tax evasion while ensuring that penalties are

proportionate and fair. At the same time, reforms that improve taxpayer trust in the government can reduce the incentive to evade taxes and encourage voluntary compliance ¹².

In conclusion, tax compliance has a profound impact on government revenue generation. When tax compliance rates are high, governments can rely on stable, predictable revenue streams that enable them to invest in infrastructure, education, healthcare, and other public services. Conversely, low compliance can lead to significant revenue shortfalls, undermining the government's ability to meet its fiscal obligations and negatively impacting economic growth.

The study underscores the importance of fostering a culture of compliance through effective tax education, simplifying tax processes, strengthening enforcement, and enhancing transparency. By addressing the barriers to compliance and improving taxpayer services, governments can enhance revenue generation, thereby supporting broader economic goals and contributing to the welfare of their citizens.

2.1.5.13 Future Trends in Taxation and SME Compliance

Future trends in taxation and SME compliance are increasingly shaped by digital taxation and the impact of technology. As businesses and transactions become more digitized, tax authorities are exploring new ways to capture revenue from the digital economy. This includes implementing digital tax systems that can track and tax online transactions more effectively. The adoption of digital tax systems that can track and tax online transactions more effectively. The adoption of digital platforms and technologies also facilitates easier compliance for SMEs by providing streamlined processes for tax filing and payment. These advancements can significantly reduce the administrative burden on businesses, encouraging higher compliance rates. Additionally, the use of big data analytics allows tax authorities to better identify non-compliance patterns and target enforcement efforts more effectively ³³.

Global best practices in SME tax compliance offer valuable insights for improving tax systems and compliance rates. Countries with advanced tax systems often have comprehensive support structures in place, including clear guidelines, accessible educational resources, and efficient dispute resolution mechanisms. These elements help SMEs understand their tax obligations and reduce the barriers to compliance. For example, some countries have implemented simplified tax regimes specifically designed for SMEs, which reduce the complexity and cost of compliance. These systems often include lower tax rates or thresholds for small businesses, making it easier for them to comply without facing excessive financial burdens. The international exchange of best practices also facilitates learning and adaptation, enabling countries like Nigeria to adopt successful strategies from other jurisdictions ¹⁵.

Potential reforms in the Nigerian tax system could further enhance SME compliance and overall tax revenue. Reforms might include simplifying the tax code, reducing bureaucratic red tape, and improving the efficiency of tax administration. For instance, streamlining the process of registering and filing taxes could make it easier for SMEs to comply with their obligations. Additionally, there is a growing emphasis on enhancing transparency and accountability within tax authorities to build trust with taxpayers. Ensuring that tax revenues are used effectively and visibly in public services can also encourage voluntary compliance, as taxpayers are more likely to comply when they see tangible benefits from their contributions. Furthermore, considering the global trend towards digital taxation, Nigeria might explore similar avenues to capture revenue from the digital economy, which is becoming an increasingly significant part of the overall economy ³².

The world of taxation is constantly evolving, influenced by political, economic, technological, and social changes. For small and medium enterprises (SMEs), staying compliant with tax laws

is essential not only for legal reasons but also for the health and growth of their businesses. As SMEs contribute significantly to the economy especially in developing nations understanding the future trends in taxation and how they will affect compliance is critical²¹.

The evolution of tax systems over the coming decades will be shaped by global economic forces, digital transformation, new business models, and shifting expectations from governments and taxpayers. Tax authorities across the globe are increasingly focusing on increasing efficiency, fairness, and transparency, while SMEs are expected to respond to these shifts with compliance behaviours that align with changing tax systems¹³.

The Digital Transformation of Tax Systems

One of the most prominent future trends in taxation is the increasing digitalization of tax systems. The advent of advanced technologies such as artificial intelligence (AI), big data analytics, and blockchain is transforming the way tax authorities interact with taxpayers, especially SMEs. In many countries, digital tax filing systems are already in place, and this trend is expected to grow exponentially in the future. For SMEs, this shift represents both a challenge and an opportunity¹¹.

Simplified Tax Filing and Automation

In the coming years, the global trend of digital tax administration is likely to gain momentum. Tax authorities will increasingly adopt automated tax filing systems that simplify the tax filing process for businesses of all sizes, including SMEs. For instance, AI and machine learning technologies will be used to automate the submission of tax returns, detect discrepancies, and flag potential non-compliance issues without requiring direct human intervention. Blockchain technology may also be leveraged to create secure, tamper-proof systems for tax collection and auditing⁸.

These advancements will streamline tax reporting processes, making it easier for SMEs to stay compliant. Instead of navigating complex and time-consuming paper-based systems, businesses will benefit from automated tax calculations, real-time tracking, and streamlined payment processes. The introduction of e-invoicing systems, already being adopted in countries like Italy and Brazil, will ensure that transactions are automatically recorded and taxed, eliminating the possibility of errors or underreporting²⁷.

For SMEs, this will reduce the burden of compliance and allow them to focus on other critical aspects of their business. However, SMEs must also keep pace with these technological advancements by investing in digital literacy and technology tools to fully benefit from these innovations. Governments will need to ensure that SMEs, particularly smaller ones, are provided with the support and resources necessary to adopt digital tax systems, including affordable tools, training, and assistance¹⁷.

Real-Time Tax Reporting and Data Sharing

The trend towards real-time tax reporting will allow tax authorities to collect data from SMEs in real-time. This means that transactions will be reported instantly to the tax authorities, who will be able to monitor tax collection as it happens. Big data and AI will enable tax authorities to analyze large volumes of financial data, detect tax fraud, and ensure that businesses comply with tax laws more efficiently. Real-time reporting can also reduce the risk of tax evasion, as it ensures that businesses are continuously monitored²².

For SMEs, this will represent a shift towards a more transparent and immediate tax system, where businesses are held accountable for their tax obligations at all times. While this will likely increase compliance, it will also require SMEs to invest in technologies that facilitate real-time

reporting and electronic invoicing systems. SMEs will need to integrate their accounting systems with tax authorities' digital platforms to ensure compliance and avoid penalties²⁴.

The Shift Towards Global Tax Cooperation and Harmonization

As the global economy becomes more interconnected, global tax cooperation and harmonization will play an increasingly important role in ensuring compliance and fairness across borders. SMEs are often at the mercy of complex and varying tax systems in different jurisdictions, which can lead to compliance challenges and inconsistencies in tax obligations. The future will likely see more efforts to harmonize tax regulations globally, particularly through initiatives such as the OECD's Base Erosion and Profit Shifting (BEPS) Project and the European Union's Digital Services Tax¹⁵.

Global Efforts to Combat Tax Evasion and Avoidance

One of the main drivers behind the push for global tax cooperation is the effort to combat tax evasion and avoidance, particularly by multinational corporations. As SMEs increasingly operate in a globalized digital economy, tax authorities are focusing on cross-border data-sharing and coordinated enforcement actions to ensure that businesses are not taking advantage of loopholes in international tax laws²⁷. For SMEs, this means that tax compliance will no longer be limited to the local level. Businesses will need to be aware of the tax rules in the jurisdictions where they operate, which may include multiple regions or countries³¹.

In response to the growing digital economy, international tax authorities are working together to create more coherent rules around the taxation of digital services. The proliferation of online platforms, e-commerce, and digital goods has made it difficult for governments to capture tax revenue from these transactions³⁰. However, the ongoing push for tax harmonization means that

SMEs operating in the digital space will increasingly be subject to global tax frameworks designed to ensure that digital businesses contribute fairly to government revenue²⁸.

As global tax cooperation deepens, SMEs will need to be more vigilant about transfer pricing, digital tax compliance, and reporting requirements in multiple jurisdictions. Failure to comply with international tax rules could lead to penalties, double taxation, or legal disputes. However, global harmonization may also reduce the administrative burden on SMEs, providing them with clearer and more consistent tax rules across borders²⁰.

Environmental and Sustainability Taxation

A growing trend in taxation is the integration of sustainability and environmental considerations into tax policies. With rising concerns about climate change and environmental degradation, governments are increasingly using tax policies to encourage environmentally friendly business practices²¹. This includes the introduction of carbon taxes, eco-taxes, and incentives for green investments.

The Rise of Green Taxes

As SMEs become more conscious of their environmental impact, the tax system will evolve to reflect these concerns. Governments are likely to introduce green taxes that incentivize businesses to reduce their carbon footprint, adopt sustainable practices, and invest in renewable energy¹⁶. For instance, SMEs may be eligible for tax rebates or deductions if they invest in energy-efficient technologies or sustainable practices. Conversely, businesses that fail to meet environmental standards may face higher taxes or penalties.

For SMEs, this means that tax compliance will become more complex, requiring businesses to keep track of their environmental practices and investments²². At the same time, the adoption of

eco-friendly practices could open up new opportunities for SMEs, as they may benefit from tax breaks and incentives that lower their operating costs²⁵. This trend is also likely to stimulate innovation in green technologies, creating new markets and business models that SMEs can tap into.

Carbon Taxation and Compliance

Another important aspect of sustainability taxation is the introduction of carbon taxes. As governments seek to reduce greenhouse gas emissions, carbon taxes are likely to become more widespread. These taxes place a financial burden on businesses that emit large amounts of carbon dioxide, encouraging them to adopt cleaner, more sustainable practices. For SMEs, this means that tax obligations may soon be tied not only to financial performance but also to environmental performance³¹.

SMEs will need to track their emissions and invest in clean energy solutions to reduce their carbon tax liability. While the initial cost of compliance may be high, SMEs that embrace sustainability will be well-positioned to capitalize on green incentives and attract environmentally conscious consumers³⁰.

The Role of Tax Simplification and SMEs' Ease of Compliance

Despite the growing complexity of tax systems worldwide, tax simplification will remain an important trend in the future of taxation, particularly for SMEs. As governments seek to encourage tax compliance and improve revenue collection, simplifying tax systems will make it easier for SMEs to navigate complex rules, file returns, and make payments²⁹.

Streamlining Tax Filing and Payment Systems

One of the future trends that will most directly affect SMEs is the ongoing push to simplify the tax filing and payment process. Governments are increasingly implementing single-window systems, where businesses can file taxes, pay dues, and access tax-related services through one centralized platform²¹. These digital systems not only streamline administrative procedures but also improve compliance rates by reducing the time and effort SMEs need to spend on tax-related tasks.

The integration of artificial intelligence and data analytics into tax filing processes will further streamline compliance for SMEs. Taxpayers will benefit from automatic tax calculations, real-time tracking of liabilities, and assistance with common queries. These developments will particularly benefit small businesses, which often lack the resources to dedicate to tax-related tasks. By simplifying the process, governments will reduce the administrative burden on SMEs and encourage higher compliance²³.

The future of taxation and tax compliance for SMEs will be characterized by significant technological advancements, global coordination, and a shift toward sustainability. As digital tax systems continue to evolve, SMEs will benefit from simplified filing processes, automated reporting, and increased transparency. However, this will also require SMEs to invest in digital tools and adopt new tax-compliance behaviours.

The rise of environmental taxes and global tax cooperation will create new challenges for SMEs, particularly those operating in the digital space. Nonetheless, these trends also present opportunities for SMEs to capitalize on green tax incentives, access global markets, and benefit from harmonized tax rules across jurisdictions.

Ultimately, the future of tax compliance for SMEs will hinge on the ability of governments to balance complexity with simplicity, regulation with incentives, and enforcement with transparency. By adopting forward-looking policies and leveraging technology, governments can foster a tax-compliant SME sector that drives economic growth, sustainability, and prosperity.

2.1.6 Tax Procedures Knowledge

Tax procedure knowledge refers to a taxpayer's understanding of the legal, administrative, and practical steps involved in fulfilling tax obligations, including business registration, filing returns, making payments, keeping accurate records, and complying with reporting standards. Unlike general tax awareness which concerns knowledge of obligations or duties tax procedure knowledge is operational in nature, reflecting the ability of taxpayers to successfully navigate the procedural framework set by tax authorities.¹⁸ For Small and Medium Enterprises (SMEs), this type of knowledge is particularly critical since these businesses often operate with limited resources, have little access to professional accountants, and face administrative burdens that can discourage voluntary compliance.²³

Compliance failures among SMEs in developing countries are often the result of procedural ignorance rather than deliberate evasion. In Nigeria, for instance, many SMEs fail to submit tax returns or pay promptly because they do not understand filing schedules, reporting formats, or digital platforms introduced by the Federal Inland Revenue Service (FIRS). Thus, tax procedure knowledge is a cornerstone of compliance, and strengthening it can bridge the gap between policy design and compliance behaviour.¹¹

Conceptual Foundations of Tax Procedure Knowledge

Tax procedure knowledge is multidimensional. It comprises at least five components:

- **Knowledge of Tax Registration Procedures:** Understanding how to register a business with the appropriate tax authority, obtain a Tax Identification Number (TIN), and comply with registration updates. ¹⁴
- **Knowledge of Filing Procedures:** Awareness of timelines, forms, filing platforms (manual or digital), and submission requirements.⁹
- **Knowledge of Payment Procedures:** Understanding how to calculate tax liabilities, make payments through approved channels, and avoid penalties for late or incorrect payments. ⁶
- **Knowledge of Reporting Standards:** Familiarity with accurate recordkeeping, allowable deductions, and documentary evidence required for audits or verification. ¹³
- **Knowledge of Penalty and Appeal Procedures:** Awareness of consequences for non-compliance and processes for redress or dispute resolution. ⁸

A taxpayer with adequate procedural knowledge is equipped not only to comply voluntarily but also to develop trust in the system. Conversely, inadequate knowledge fosters confusion, increases compliance costs, and encourages evasion.¹¹

Theoretical Perspectives on Tax Procedure Knowledge

Several theoretical frameworks help explain the role of tax procedure knowledge in compliance:

1. Economic Deterrence Theory: Taxpayers weigh the benefits of evasion against the risks of detection and penalties. Without procedural knowledge, however, taxpayers cannot even correctly estimate these risks. Knowledge, therefore, is necessary to internalize the deterrent effect of tax systems.⁴⁹

2.Cognitive Learning Theory: This theory highlights the role of learning and comprehension in shaping behaviour. ⁵⁰ Procedural knowledge is acquired through education, practice, and training, thereby shaping the ability of SMEs to comply.

3.The Slippery Slope Framework: Compliance is influenced by both the trust taxpayers have in authorities and the power exerted by enforcement. Procedural clarity enhances trust by making the system transparent, reducing ambiguity, and lowering perceptions of arbitrariness.⁵¹

4.Transaction Cost Theory: Compliance requires resources time, money, effort to process forms and interact with authorities. Knowledge reduces these transaction costs, making compliance more efficient.⁵²

Thus, theories consistently converge on the view that knowledge not only reduces the cost of compliance but also strengthens the trust and legitimacy of tax administration.

Global Evidence on Tax Procedure Knowledge

Across countries, evidence demonstrates the centrality of procedural knowledge:

OECD Countries: Taxpayers in advanced economies often face simplified and digitized systems. Procedural knowledge in these contexts is associated with greater compliance and lower evasion rates, especially among SMEs that benefit from user-friendly e-filing systems.⁶⁰

Rwanda: Simplification of procedures and taxpayer education dramatically improved compliance, with filing rates increasing by over 50% following reforms.⁵⁷

Kenya: SMEs with formal training on tax procedures were significantly more compliant with filing and payment schedules than those without such exposure.⁵⁹

Ghana: Procedural complexity was a key barrier to compliance, especially among SMEs in rural areas with low literacy levels.⁶¹

India: Research shows that procedural reforms, such as the introduction of the Goods and Services Tax (GST), initially confused SMEs due to inadequate procedural knowledge. However, compliance improved once comprehensive training programmes were launched.⁶⁰

These examples illustrate that across diverse contexts, knowledge of tax procedures is a consistent determinant of SME compliance.

Tax Procedure Knowledge in Nigeria

In Nigeria, tax procedure knowledge is particularly crucial given the fragmented tax system and frequent policy changes. The Nigerian tax system includes multiple layers of federal, state, and local government taxes, each with different filing requirements.⁵⁹ For SMEs, this complexity often translates into confusion and non-compliance.

Empirical evidence confirms this:

68% of surveyed SMEs in Lagos lacked adequate knowledge of filing procedures, leading to delayed submissions and penalties.⁶²

Procedural ignorance as a leading cause of unintentional non-compliance among SMEs in Abuja.⁵³

SMEs default on registration simply because they do not understand the process of obtaining a Tax Identification Number (TIN).⁵⁶

Over 70% of Nigerian SMEs are informal, partly due to lack of knowledge on registration and filing procedures.⁶³

This indicates that procedural knowledge gaps are not isolated cases but systemic challenges that undermine tax compliance in Nigeria.

Barriers to Tax Procedure Knowledge among SMEs

1. Low Literacy Levels: Many SME owners lack formal education, making it difficult to interpret tax regulations⁶³.
2. Complexity of Tax Laws: Nigerian tax laws are often technical and ambiguous, discouraging small businesses from engaging fully⁵³.
3. Poor Communication by Authorities: FIRS and state tax agencies have been criticized for inadequate taxpayer sensitization⁵⁶.
4. Digital Divide: Many SMEs lack access to reliable internet and digital literacy, limiting their ability to understand online filing processes⁶¹.
5. Cost of Professional Services: Hiring accountants or tax consultants is often unaffordable for SMEs.⁵⁴

Strategies for Improving Tax Procedure Knowledge

1. Taxpayer Education Campaigns: Structured programmes should focus on registration, filing, payment, and reporting.⁵⁶
2. Simplification of Tax Forms: Fjeldstad and Moore⁵⁷ highlight that user-friendly documentation improves compliance by lowering knowledge barriers.
3. Digital Training: Programmes to build SMEs' capacity to use e-filing platforms will enhance procedural understanding.⁵⁰

4. Integration into School Curricula: Early tax literacy education to build long-term procedural competence.⁵²

5. Partnership with SME Associations: Collaboration with trade associations for grassroots dissemination of knowledge.⁶³

Empirical Evidence Linking Tax Procedure Knowledge to Compliance

A growing body of research demonstrates the effect of tax procedure knowledge on compliance:

Nigeria: SMEs with higher procedural knowledge had a 42% higher likelihood of timely filing.⁶²

Sub-Saharan Africa: Simplification and training improved compliance rates across Rwanda and Tanzania.⁵⁷

Global: Countries investing in procedural education reported improved compliance behaviour among SMEs.⁶⁰

West Africa: Procedural reforms in Ghana reduced filing times by 30%, improving compliance among SMEs.⁵⁸

The evidence strongly suggests that tax procedure knowledge is one of the most significant drivers of compliance, particularly for SMEs in developing economies.

Tax procedure knowledge is not merely a technical competence but a decisive factor influencing tax compliance behaviour among SMEs. It determines how businesses interact with tax authorities, whether they file and pay on time, and whether they remain in the formal economy.

Globally and in Nigeria, evidence consistently shows that SMEs with procedural knowledge are significantly more compliant. Conversely, ignorance of procedures perpetuates informality, evasion, and distrust of tax institutions.

Thus, improving procedural knowledge through taxpayer education, simplification of processes, and digital training should be a central priority of tax reform strategies in Nigeria and other developing economies.

2.1.7 Awareness of Tax Obligations

Awareness of tax obligations represents a crucial dimension of tax knowledge that extends beyond mere understanding of procedures or technical requirements. It refers to the degree to which taxpayers, particularly small and medium enterprises (SMEs), are conscious of their statutory duties to register, declare income, calculate liabilities, file returns, and remit payments in line with tax legislation. Awareness is cognitive in nature but deeply embedded in social, institutional, and cultural contexts, as it reflects the interaction between taxpayers' knowledge, perception of state authority, and trust in government institutions. In essence, being aware of tax obligations involves recognition of the responsibilities imposed by law, the consequences of non-compliance, and the benefits of contributing to public finance⁶⁰. This awareness forms the foundation upon which compliance behaviour is built and without which even simplified systems or procedural clarity may prove ineffective.

Tax obligation awareness derives its importance from the principle of voluntary compliance that underpins most modern tax systems. In the slippery slope framework, compliance occurs along a continuum shaped by enforcement on one side and trust on the other. Trust is strengthened when taxpayers are made aware of the role they play in sustaining government expenditure and development projects. In contexts where awareness is weak, compliance tends to be either coerced or neglected, leading to informality, evasion, or resistance.⁵¹ While procedural knowledge reduces transaction costs, awareness of obligations influences intrinsic motivations to

comply, tax obligation awareness goes beyond knowing how to comply; it entails acknowledging the civic duty inherent in compliance.⁶⁰

Theoretically, awareness of tax obligations is rooted in both deterrence and normative frameworks. From the perspective of deterrence theory, taxpayers calculate the risk of detection and punishment when deciding whether to evade. However, for deterrence to function effectively, taxpayers must first be aware of the existence of obligations and the associated penalties. Without awareness, deterrence loses its force since the perceived probability of detection and sanction is non-existent.⁴⁹ On the other hand, normative theories, including the concept of tax morale, highlight that awareness fosters a sense of civic duty. Taxpayers who are fully informed about their obligations tend to internalize the role of taxation in supporting collective goods and services. This civic dimension of awareness helps explain why compliance rates are higher in jurisdictions where citizens are consistently educated about their obligations and the use of revenue.⁶⁴

Globally, the literature highlights awareness of tax obligations as a persistent challenge in developing countries where low levels of literacy, complex legal frameworks, and limited outreach by tax authorities hinder widespread taxpayer understanding. Awareness of obligations is not simply a matter of information dissemination but requires a systemic approach to public communication, tax literacy campaigns, and integration of tax education into broader civic education programs. In advanced economies, tax obligation awareness is often assumed, as institutionalized tax systems, strong enforcement, and digital integration create a culture of automatic compliance. By contrast, in developing contexts, awareness cannot be taken for granted, particularly in economies where informal business practices dominate.⁵²

In Nigeria, the problem of awareness is closely linked to the structural realities of the SME sector. Over 70 percent of Nigerian SMEs operate informally, and many of them lack proper business registration or record-keeping. This informality directly affects their awareness of tax obligations. Many business owners equate taxation only with personal income tax or corporate income tax, neglecting other obligations such as value-added tax, withholding tax, or registration levies.⁶³ Weak awareness campaigns and inconsistent tax policies contribute to confusion and disinterest among SMEs. Consequently, many businesses fail to see taxation as a legitimate obligation, instead perceiving it as arbitrary or extractive.⁵⁹ Awareness gaps are therefore both cognitive and perceptual, reflecting the disconnect between government communication and SME realities.

Another dimension of awareness relates to the trust deficit between taxpayers and tax authorities. Awareness is not simply the presence of information but also the credibility of that information. Where taxpayers believe that tax revenues are mismanaged, their awareness of obligations does not necessarily translate into compliance. This dynamic is evident in Nigeria where perceptions of corruption and poor accountability undermine taxpayer morale.⁵⁴ Awareness must be coupled with institutional quality for compliance outcomes to improve. Without visible evidence of tax revenue utilization, awareness campaigns may fail to resonate with SMEs that struggle daily with poor infrastructure and limited state support.⁶⁵

From a policy perspective, fostering awareness of tax obligations requires strategic interventions at multiple levels. There is suggestion that governments must move beyond punitive enforcement towards civic education. Campaigns that emphasize the benefits of taxation, rather than merely penalties for default, are more likely to cultivate enduring awareness.⁵⁷ In Nigeria, the FIRS has recognized this by launching awareness drives and taxpayer sensitization programs. However,

these efforts remain sporadic and often concentrated in urban centers, leaving rural SMEs uninformed. For awareness to be impactful, it must be continuous, inclusive, and tailored to different categories of taxpayers.⁵⁶

The relationship between awareness and tax compliance also connects strongly with digital literacy and modernization of tax systems. Awareness of obligations now includes understanding the use of online filing systems and digital payment platforms.⁶² While digitalization holds promise for simplifying compliance, it simultaneously creates a new layer of awareness requirements. SMEs not only need to know their obligations but must also be aware of how these obligations can be met in a digital environment. Without targeted training, digital reforms risk excluding small businesses with low levels of technological literacy, thereby widening the awareness gap.

In the Nigerian context, awareness of tax obligations is further complicated by the multiplicity of taxes across federal, state, and local levels. SMEs often encounter conflicting information about which taxes are mandatory, leading to either duplication of payments or outright avoidance. This complexity diminishes clarity and discourages voluntary compliance.⁶¹ The OECD recommends that governments pursuing simplification must also invest in awareness-building so that taxpayers clearly understand which obligations remain after reforms. Failure to align awareness campaigns with legal simplification may result in persistent confusion, even where the tax structure is streamlined.²⁹

The significance of awareness is also reflected in the broader discourse on state legitimacy and fiscal contracts. Fjeldstad and Moore argue that taxation represents not merely a revenue mechanism but also a social contract between citizens and the state. For this contract to function effectively, taxpayers must be aware of both their obligations and the reciprocal responsibilities

of the state.⁵⁷ When taxpayers are aware of their duties and see tangible outcomes from state expenditure, compliance becomes a rational and moral choice. In contrast, lack of awareness perpetuates informality and weakens the fiscal contract, particularly in countries like Nigeria where informal businesses dominate the economy.

Awareness of tax obligations can also be situated within cognitive psychology. Perceptions of usefulness and ease of use determine the acceptance of any system. Applying this to tax systems, awareness is enhanced when taxpayers perceive the obligations as straightforward and useful in contributing to societal goals. Conversely, if obligations are seen as opaque or burdensome, awareness diminishes into apathy or hostility. The OECD confirms that effective awareness campaigns are those that frame taxation positively, demonstrating its connection to public goods and social welfare.²⁹

In conclusion, awareness of tax obligations remains a foundational element of tax compliance literature and practice. It is more than knowledge of procedures; it represents an informed recognition of the civic responsibility and legal duties imposed by the state. Theoretical frameworks ranging from deterrence models to tax morale perspectives converge on the idea that awareness is indispensable for compliance. In Nigeria, however, awareness deficits persist, reflecting low literacy, complex tax structures, weak government communication, and pervasive mistrust of institutions. To improve compliance among SMEs, awareness campaigns must be integrated, continuous, and aligned with simplification and digitalization efforts. Awareness not only equips SMEs with the recognition of their duties but also embeds taxation within the broader framework of legitimacy, trust, and civic participation.

2.1.8 Simplified Tax Procedures

The complexity of tax systems has long been recognized as one of the greatest obstacles to voluntary tax compliance, particularly in developing countries where administrative inefficiencies and inadequate taxpayer education create environments of uncertainty and frustration for small and medium enterprises (SMEs). Simplified tax procedures refer to efforts by tax authorities and policymakers to design systems that are transparent, user-friendly, and minimally burdensome for taxpayers to understand and fulfil their obligations. They involve streamlining processes of registration, filing, calculation, and payment so that compliance requires less time, fewer resources, and minimal reliance on costly external expertise. The rationale is that the easier a system is to navigate, the more likely taxpayers will comply voluntarily, thereby improving compliance rates and broadening the tax base.²⁹

In modern tax theory, the concept of simplicity has both normative and practical dimensions. Normatively, tax systems are expected to adhere to the principles of equity, certainty, convenience, and efficiency as outlined in Adam Smith's canons of taxation. Certainty and convenience, in particular, demand that taxpayers clearly know what is required of them, when obligations fall due, and how payments can be made. Complexity undermines these principles by creating ambiguities that increase opportunities for evasion and corruption. Practically, simplification reduces compliance costs, which encompass the time, money, and psychological burden taxpayers expend to meet their obligations. For SMEs, which typically operate with limited financial and human resources, high compliance costs are particularly damaging. Thus, simplified procedures are not merely an administrative preference but a necessity for sustaining SME compliance.⁵²

The theoretical linkage between simplification and compliance is supported by both deterrence and behavioural models. In the deterrence framework, taxpayers weigh the benefits of evasion

against the probability of detection and punishment. Complex systems increase the scope for errors and unintentional non-compliance, thereby reducing the clarity of deterrence.⁴⁹ In contrast, simplified systems make obligations clear, raising the perceived risk of detection and ensuring deterrence is credible. Behavioural perspectives, emphasize that taxpayers are more willing to comply voluntarily when procedures are simple and perceived as fair. Complexity breeds frustration and perceptions of unfairness, while simplicity encourages cooperation by lowering barriers to compliance.⁵¹

Globally, tax administrations have experimented with simplified procedures, often targeted at small businesses. For example, presumptive tax systems, turnover-based taxation, and flat-rate filing mechanisms are widely used in low- and middle-income countries to address the challenges SMEs face in maintaining detailed records and navigating complex legal requirements. Simplification strategies not only enhance compliance but also help integrate informal businesses into the formal economy. However, simplification must be carefully balanced with equity, as overly simplified systems risk undermining progressivity and revenue adequacy.⁵⁷

In the Nigerian context, simplification is particularly critical given the multiplicity of taxes at federal, state, and local government levels. Olojede and Oluwole (2020) highlight that SMEs often face conflicting tax demands and overlapping jurisdictions, making compliance confusing and costly. This complexity has led many SMEs to operate informally, avoiding formal registration altogether to escape administrative burdens. The FIRS has recognized these challenges and has attempted to simplify procedures through initiatives such as the introduction of the Integrated Tax Administration System (ITAS) and the development of online filing portals. While these reforms represent important steps, their effectiveness is limited by infrastructural

constraints, low digital literacy among SMEs, and inadequate awareness campaigns. As a result, many small businesses remain unable to benefit fully from simplified procedures.⁵⁶

Simplified tax procedures also intersect closely with issues of trust and legitimacy. Simplicity in procedures enhances perceptions of fairness and transparency, strengthening taxpayers' willingness to comply.⁵⁴ In Nigeria, where perceptions of corruption are widespread, complex procedures are often viewed as deliberate strategies to create opportunities for rent-seeking by officials. Simplification therefore not only lowers compliance costs but also signals government commitment to fairness and accountability. When taxpayers perceive that the state is making deliberate efforts to reduce burdens, their morale to comply improves.

One significant dimension of simplification is the reduction of documentation requirements. Many SMEs in Nigeria lack the capacity to maintain detailed financial records, either due to low levels of financial literacy or because their operations are primarily cash-based. The absence of simplified record-keeping guidelines leads to unintentional errors that can attract penalties.⁶² To address this, tax authorities in other jurisdictions have developed simplified accounting packages and pre-filled tax returns that ease the compliance burden on SMEs. Pre-filled returns not only reduce errors but also foster trust by demonstrating administrative efficiency.⁵² For Nigeria, the adoption of such measures could dramatically improve SME compliance by lowering barriers to entry into the formal tax system.

Furthermore, simplified procedures enhance inclusiveness in the tax system by accommodating marginalized and less literate taxpayers. The OECD emphasizes that complexity disproportionately affects vulnerable groups, including micro-business owners, women entrepreneurs, and rural SMEs.²⁹ In West Africa, women-owned SMEs face unique barriers to compliance, often due to lower access to financial literacy and business networks.⁶³ Simplified

procedures, combined with targeted outreach, therefore play a role in addressing gender and regional disparities in compliance. For Nigeria, where SMEs contribute substantially to employment and GDP,⁶³ inclusive simplification strategies are essential for achieving broad-based development goals.

Digitalization has emerged as a major vehicle for simplification. By replacing manual processes with online filing, payment, and registration systems, digital tools reduce paperwork, increase speed, and limit opportunities for discretionary abuse by tax officials. Digital tax education must complement digital reforms, as many SMEs are still unfamiliar with online platforms⁵³. While e-filing systems have been introduced in Nigeria, their adoption has been uneven, with rural SMEs and businesses with low digital literacy lagging behind. This highlights the dual challenge of procedural simplification and taxpayer capacity-building. Without simultaneous investments in digital literacy and awareness campaigns, simplified systems risk benefiting only urban and technologically advanced SMEs.

The discourse on simplification also connects to the broader concept of compliance costs. High compliance costs discourage voluntary compliance in developing countries, as SMEs perceive the cost of compliance to outweigh the risks of evasion. Simplification strategies that reduce paperwork, streamline filing, and cut down the number of required interactions with tax officials are therefore not merely administrative choices but strategic tools for improving compliance rates. In Nigeria, however, the persistence of bureaucratic hurdles such as physical verification and manual audits undermines these efforts. For simplification to be effective, reforms must be comprehensive and sustained, rather than piecemeal or temporary.⁵⁸

The importance of simplified tax procedures extends beyond immediate compliance outcomes to the long-term goal of building tax morale and state legitimacy. Simplification signals respect for

taxpayers' time and resources, strengthening the fiscal social contract.⁵⁷ For SMEs in Nigeria, many of which view taxation as extractive rather than developmental, simplification could shift perceptions by demonstrating government responsiveness. This is particularly important in an environment where informal businesses often question the value of formalization. By reducing the perceived and actual burdens of compliance, simplified procedures can encourage SMEs to enter the formal tax net, thereby broadening the revenue base and enhancing state capacity.

In conclusion, simplified tax procedures represent a critical determinant of SME compliance behaviour. They address the practical barriers of complexity, reduce compliance costs, and enhance perceptions of fairness and transparency. While global evidence underscores the importance of simplification for integrating SMEs into formal systems, Nigeria continues to face challenges of administrative complexity, digital exclusion, and weak institutional trust. For simplification reforms to achieve their intended impact, they must be holistic, combining legal streamlining, digital modernization, taxpayer education, and inclusiveness. Ultimately, simplified procedures not only facilitate compliance but also contribute to building a more equitable and sustainable fiscal system.

2.1.9 Digital Tax Literacy

The rapid digital transformation of tax systems worldwide has redefined the way taxpayers engage with their fiscal responsibilities, making digital tax literacy a crucial determinant of compliance behaviour. Digital tax literacy refers to the knowledge, skills, and capacity of taxpayers particularly small and medium enterprises (SMEs) to understand, access, and utilize digital platforms for tax registration, filing, payment, and record management. It encompasses not only the technical ability to navigate digital tools but also the cognitive awareness of the opportunities and obligations embedded in e-governance systems. In contemporary tax

administration, digital literacy stands as a bridge between technological innovation and compliance outcomes, determining whether SMEs can fully benefit from simplified procedures and automated services.⁶⁰

Digital tax literacy is particularly significant in the context of developing economies where digital reforms are often introduced to address inefficiencies, reduce corruption, and broaden the tax base. Digitalization enhances transparency by limiting direct contact between taxpayers and officials, thereby curbing discretionary abuses and rent-seeking behaviour.⁵² However, this advantage can only be realized if taxpayers possess the necessary literacy to engage with digital systems. Without adequate digital tax literacy, reforms risk excluding large segments of SMEs, perpetuating compliance gaps rather than resolving them. Thus, digital tax literacy is not a peripheral concept but a core element of modern compliance strategies.⁵⁵

Theoretically, digital tax literacy can be framed within the technology acceptance model⁵⁵, which posits that perceived usefulness and perceived ease of use shape the adoption of technological systems. Applied to tax contexts, SMEs are more likely to embrace digital platforms when they perceive them as convenient, secure, and beneficial to their operations. Conversely, if digital systems are seen as complex or inaccessible, taxpayers will revert to informal practices or resist compliance altogether. This highlights the dual challenge of not only providing digital tools but also fostering literacy that ensures taxpayers can navigate and trust these systems.

Globally, countries have embraced digital tax systems as part of broader e-governance reforms. In advanced economies, such as those in Europe and North America, taxpayers are accustomed to online filing, automated assessments, and electronic payment channels. Digital literacy in these contexts is often assumed, supported by widespread education and infrastructure. In contrast, in many developing countries, including Nigeria, the transition to digital taxation has

encountered uneven adoption. Digital literacy gaps among SMEs create barriers that prevent the full utilization of e-filing and e-payment systems⁵³. These gaps are compounded by infrastructural limitations such as unreliable internet access, power outages, and high costs of digital devices.

In Nigeria, digital tax literacy remains a pressing issue as the government continues to pursue digital reforms in revenue administration. The Federal Inland Revenue Service (FIRS) has introduced several digital initiatives, including the Integrated Tax Administration System (ITAS), e-filing platforms, and mobile payment systems. While these reforms are designed to simplify compliance, many SMEs remain unable to navigate them effectively due to low levels of digital literacy. As observed SMEs in rural areas, in particular, struggle with both digital access and literacy, leaving them disadvantaged compared to their urban counterparts. This creates regional disparities in compliance, with urban businesses better positioned to benefit from digital reforms.⁶¹

Another dimension of digital tax literacy relates to trust and security. Digital adoption is not merely a function of technical ability but also of perceived security and institutional trust. Taxpayers may resist digital platforms if they fear data breaches, fraud, or misuse of personal information.⁵⁴ In Nigeria, where scepticism towards government systems is widespread, digital literacy must include awareness of data protection protocols and confidence in the integrity of online platforms. Without this, even technically literate SMEs may prefer informal practices to protect themselves from perceived risks.

Digital literacy is also essential for record-keeping and reporting accuracy, key components of tax compliance. SMEs that are digitally literate can leverage accounting software, electronic receipts, and online databases to maintain transparent records that facilitate tax filing. The

absence of digital literacy often forces SMEs to rely on manual record-keeping, which is error-prone and susceptible to loss or manipulation.⁶² This weakens reporting accuracy and complicates the task of tax authorities in verifying compliance. By contrast, SMEs with digital literacy are better able to integrate tax obligations into their daily operations, making compliance an organic aspect of business management.

Digital tax literacy also intersects with equity and inclusion. The OECD stresses that digital reforms, if not accompanied by inclusive strategies, risk exacerbating inequalities between technologically advanced and marginalized groups.⁶⁰ Women entrepreneurs in West Africa often face additional barriers to digital literacy due to limited access to digital tools, training, and financial resources.⁵³ For Nigeria, where SMEs are highly diverse in size, sector, and ownership, ensuring equitable access to digital tax literacy programs is essential for broad-based compliance. Simplified training modules, multilingual platforms, and mobile-friendly applications can help bridge literacy gaps, particularly for micro-enterprises and rural businesses.

From a policy perspective, enhancing digital tax literacy requires coordinated efforts between government agencies, educational institutions, and professional associations. Taxation is not merely a technical process but a civic practice that requires sustained taxpayer engagement.⁵⁷ For Nigeria, this means embedding digital tax education into broader financial literacy campaigns, SME development programs, and even school curricula. The FIRS has initiated taxpayer sensitization programs, but these remain sporadic and insufficient to address the deep-rooted digital literacy challenges facing SMEs. A sustained, systematic approach is necessary to ensure that SMEs can effectively engage with evolving digital platforms.⁵⁶

Importantly, digital tax literacy is not static but evolves alongside technological innovations. As tax systems adopt blockchain technologies, artificial intelligence, and mobile-based applications,

the demands placed on taxpayers will continue to shift. SMEs that are literate today may struggle tomorrow if continuous education and support are not provided. Dynamic capacity-building programs are essential to keep pace with rapid technological change. For Nigeria, this implies that digital tax literacy must be conceived as an ongoing process rather than a one-time intervention.⁵⁸

The broader implications of digital tax literacy extend beyond individual compliance to the overall legitimacy of the tax system. When taxpayers perceive digital platforms as accessible, transparent, and efficient, their trust in the state improves, strengthening the fiscal social contract.⁵⁷ Conversely, when digital systems are introduced without adequate literacy support, they can fuel frustration, deepen mistrust, and entrench non-compliance. For Nigerian SMEs, whose relationship with taxation is often characterized by scepticism and resistance, digital literacy programs can serve as both educational and confidence-building tools.

In conclusion, digital tax literacy is an indispensable dimension of modern tax compliance, shaping how SMEs in Nigeria and beyond interact with evolving fiscal systems. It influences the ability of businesses to register, file, pay, and report accurately using digital platforms, while also mediating perceptions of fairness, trust, and security. Global experiences demonstrate that digital reforms succeed only when matched by investments in literacy, inclusiveness, and continuous taxpayer education. For Nigeria, strengthening digital tax literacy is not merely a technical challenge but a strategic imperative for integrating SMEs into the formal tax net, enhancing voluntary compliance, and building sustainable revenue systems. Ultimately, digital tax literacy is both a tool of empowerment for SMEs and a cornerstone of effective tax administration in the digital age.

2.2 Theoretical Framework

2.2.1 Theory of Planned Behaviour (TPB)

The Theory of Planned Behaviour (TPB) was formulated by Icek Ajzen in 1985 as an extension of the earlier Theory of Reasoned Action. TPB posits that human actions are guided by three kinds of considerations: behavioural beliefs, normative beliefs, and control beliefs. These beliefs collectively shape an individual's attitude toward the behaviour, perceived social pressure (subjective norms), and perceived behavioural control, which together form the intention to perform or not perform a particular behaviour. The strength of an individual's intention is a key predictor of whether they will engage in the behaviour, provided they have actual control over it¹⁷.

TPB has been widely accepted and utilized in various fields, including psychology, health, and organizational behaviour, to predict and understand human behaviour. Its application to tax compliance behaviours is particularly relevant, as it provides a comprehensive framework for analysing how attitudes, social norms, and perceived control influence taxpayers' intentions and actions. For instance, TPB suggests that if SME owners in Nigeria perceive tax compliance as beneficial (positive attitude), feel that important others expect them to comply (subjective norms), and believe they can comply (perceived behavioural control), they are more likely to engage in tax-compliant behaviours. This framework helps in identifying not just the determinants of compliance but also the barriers that might prevent it ¹⁴.

Despite its widespread acceptance, TPB has faced criticism, particularly concerning its ability to predict behaviour accurately in all contexts. Critics argue that TPB does not account for the influence of emotions, habitual behaviour, or past experiences on decision-making. Moreover, the model assumes that individuals always act rationally and are aware of the determinants of their behaviour, which may not always be the case. For example, in the context of tax

compliance, factors such as fear of penalties or moral considerations might also play a role, which TPB does not explicitly incorporate. Additionally, the model's focus on intention as the primary predictor of behaviour has been challenged, with some studies suggesting that actual behaviour is influenced by a wider array of factors, including external constraints and situational variables ¹⁶.

Despite these criticisms, TPB remains highly relevant to this study on tax compliance among SMEs in Nigeria. It provides a structured approach to understanding the psychological and social dimensions of compliance behaviour, which are crucial for developing effective interventions. For instance, by applying TPB, this study can investigate how SMEs' attitudes toward tax compliance, the influence of perceived social norms, and their perceived ability to navigate the tax system affect their compliance behaviour. This understanding can inform the design of targeted tax education programs that address specific misconceptions or knowledge gaps, thereby enhancing voluntary compliance. Additionally, the model's focus on perceived behavioural control can help identify areas where simplification of tax procedures or improved support for SMEs could lower the perceived barriers to compliance ¹⁶.

In summary, while TPB has its limitations, it offers valuable insights into the factors influencing tax compliance behaviours. Its application in this study provides a theoretical basis for exploring the complexities of tax compliance among SMEs in Nigeria, offering a pathway to more effective policy and administrative measures aimed at improving compliance rates ⁴⁰.

2.2.2 Economic Deterrence Theory (EDT)

Economic Deterrence Theory (EDT) is rooted in the classical economic perspective, which posits that individuals are rational actors who weigh the costs and benefits of their actions. The

theory suggests that compliance with laws and regulations, including tax laws, can be influenced by the likelihood of detection and the severity of penalties for non-compliance. EDT assumes that if the expected cost of being caught and punished for tax evasion exceeds the perceived benefits of evading taxes, individuals will comply with the tax laws ¹⁹.

In the context of tax compliance, EDT implies that taxpayers are more likely to comply if they believe there is a high probability of detection and if the penalties for evasion are substantial. Tax authorities, therefore, use strategies such as audits, fines, and other punitive measures to deter non-compliance. This theory has been particularly influential in shaping tax enforcement policies, as it provides a clear rationale for the use of sanctions as a tool to enhance compliance. For instance, in Nigeria, the Federal Inland Revenue Service (FIRS) has implemented various enforcement mechanisms, including audits and penalties, to deter tax evasion among SMEs. The basic premise is that by increasing the perceived risk and cost of non-compliance, more businesses will be encouraged to fulfil their tax obligations ¹⁶.

Despite its widespread application, Economic Deterrence Theory has been subject to several criticisms and limitations. One major critique is that the theory assumes individuals are purely rational and motivated solely by financial considerations. However, research has shown that tax compliance is influenced by a variety of factors beyond economic calculations, such as moral beliefs, social norms, and trust in government institutions. These factors can significantly impact an individual's decision to comply with tax laws, independent of the perceived risk of punishment. For example, SMEs may comply with tax regulations not only due to fear of penalties but also due to a sense of civic duty or a desire to maintain a good business reputation. Additionally, the effectiveness of deterrence strategies can be limited if the enforcement capacity of tax authorities is weak, as is sometimes the case in developing countries like Nigeria. This can

lead to a situation where the perceived risk of detection is low, thereby reducing the deterrent effect of penalties ^{11,17}.

Another limitation of EDT is its focus on the supply side of enforcement (i.e., the actions of tax authorities) without adequately considering the demand side (i.e., the characteristics and behaviour of taxpayers). The theory tends to overlook the importance of understanding taxpayer motivations, attitudes, and perceptions, which are crucial for designing effective compliance strategies. Moreover, over-reliance on deterrence can lead to an adversarial relationship between taxpayers and tax authorities, potentially fostering a culture of distrust and non-compliance. Therefore, while EDT provides valuable insights into the role of enforcement in ensuring compliance, it should be complemented with other approaches that consider the broader social and psychological factors influencing taxpayer behaviour ⁵.

In conclusion, the Economic Deterrence Theory offers a useful framework for understanding the role of enforcement in tax compliance. However, its limitations, particularly its narrow focus on economic incentives and penalties, highlight the need for a more holistic approach to tax compliance that also considers the social and psychological dimensions of taxpayer behaviour. This study acknowledges the relevance of EDT but also seeks to explore other factors that may influence tax compliance among SMEs in Nigeria, including the impact of tax education and the broader socio-economic context ⁷.

2.2.3 Social Learning Theory (SLT)

Social Learning Theory (SLT), formulated by Albert Bandura in 1977, posits that individuals learn behaviours, attitudes, and norms through observation and imitation of others within their social environment. The theory emphasizes the role of observational learning, imitation, and

modelling in acquiring new behaviours. SLT suggests that people can learn not only from direct experiences but also by observing the actions and outcomes of others, known as "vicarious reinforcement," ³³.

In the context of tax compliance, SLT can help explain how social interactions and the behaviours of peers and significant others influence an individual's decision to comply with tax laws. For instance, if business owners observe that their peers are complying with tax regulations and perceive them as successful and reputable, they may be more likely to emulate this behaviour. Conversely, if tax evasion is seen as a common and socially accepted practice, individuals may be more inclined to engage in non-compliance themselves. This aspect of SLT is particularly relevant in understanding the role of social norms and community standards in shaping tax compliance behaviours among SMEs ¹³.

SLT's principles are particularly significant for tax education and compliance strategies. Since individuals are influenced by the observed behaviours of others, tax authorities and policymakers can leverage this by promoting positive role models and success stories of compliant taxpayers. By highlighting the benefits of compliance, such as legal security, access to government contracts, and enhanced business reputation, authorities can create a positive image of compliance. Additionally, tax education programs can incorporate elements of SLT by using testimonials, case studies, and scenarios that demonstrate the advantages of compliance and the risks associated with evasion. This approach can help in changing attitudes and behaviours by making the consequences of compliance and non-compliance more tangible and relatable ¹⁷.

One of the key implications of SLT for tax compliance strategies is the importance of community engagement and the use of peer influence. For example, tax authorities can collaborate with business associations, community leaders, and influential figures to promote tax

compliance. These groups can serve as role models and advocates, reinforcing the message that compliance is a shared responsibility and a mark of good citizenship. Moreover, public awareness campaigns that showcase stories of compliant businesses and the positive impact of tax contributions on public services can help in normalizing compliance and reducing the stigma associated with paying taxes. Such strategies are particularly important in environments where distrust in government institutions is high, and there is a perception that tax revenues are not being used effectively ¹⁴.

SLT also highlights the importance of continuous reinforcement and feedback in maintaining compliance behaviours. For instance, providing regular updates on how tax revenues are being utilized for public projects can reinforce the positive outcomes of compliance. Additionally, offering incentives such as tax credits, public recognition, or preferential treatment for compliant businesses can serve as positive reinforcement. Conversely, publicly addressing instances of tax evasion and the consequences faced by evaders can serve as a deterrent by demonstrating the risks and negative outcomes of non-compliance ¹⁵.

Among the theories discussed, this study is underpinned primarily by the Theory of Planned Behaviour (TPB). TPB posits that an individual's behaviour is driven by behavioural intentions, which are influenced by attitudes toward the behaviour, subjective norms, and perceived behavioural control. In the context of tax compliance, TPB helps explain how tax education shapes SME owners' attitudes, beliefs about social expectations, and their perceived ease or difficulty in complying with tax obligations. While Economic Deterrence Theory and Social Learning Theory offer valuable insights especially regarding penalties and social influence TPB provides a more comprehensive framework for understanding the psychological and motivational drivers behind voluntary tax compliance among SMEs in Nigeria.

2.3 Review of Empirical Studies

This section reviews recent empirical studies published between 2019 and 2024 on tax compliance and tax education, with a focus on Small and Medium Enterprises (SMEs). The review highlights the aim, methodology, and key findings of each study, providing insights into the factors influencing tax compliance and the effectiveness of tax education programs.

2.3.1 Impact of Tax Knowledge on Compliance

Recent studies have emphasized the critical role of tax knowledge in improving compliance behaviour among SMEs. For instance, a study by aimed to examine the relationship between tax knowledge and compliance behaviour among SMEs in Nigeria. The study employed a survey of 300 SME owners in Lagos State, using structured questionnaires to assess their level of tax knowledge and compliance behaviour. The results revealed that SMEs with higher levels of tax knowledge were more likely to comply with tax regulations ⁴¹. However, many SMEs lacked basic knowledge of tax laws, leading to unintentional non-compliance. The authors recommended targeted tax education programs to address this gap. Similarly, evaluated the impact of tax literacy programs on compliance rates among SMEs in Kenya. Using a quasi-experimental design, the study divided 200 SMEs into treatment and control groups, with the treatment group participating in a tax literacy program. The results showed that SMEs in the treatment group exhibited a significant improvement in compliance rates compared to the control group, underscoring the effectiveness of tax literacy programs in enhancing compliance⁴².

2.3.2 Effectiveness of Tax Education Programs

Tax education programs have been widely implemented to improve compliance, particularly in developing countries. A study assessed the impact of tax education campaigns on SME

compliance in South Africa. The study used a mixed-methods approach, combining surveys of 150 SME owners with in-depth interviews with tax officials. The results indicated that SMEs exposed to the campaign were more likely to file tax returns and pay taxes on time. However, the campaign was less effective in rural areas due to limited access to information and resources ⁴³. Another study analysed the role of digital tax education tools in improving compliance among SMEs in India. Using a randomized controlled trial (RCT), the study assigned 500 SMEs to receive either digital tax education materials or traditional paper-based materials. The findings revealed that SMEs that received digital materials showed higher compliance rates and greater satisfaction with the tax system, highlighting the potential of digital tools to make tax education more accessible and engaging ⁴⁴.

2.3.3 Role of Trust and Fairness in Compliance

Trust in tax authorities and perceptions of fairness are critical factors in shaping compliance behaviour. A study investigated the relationship between trust in tax authorities and compliance behaviour among SMEs in Ghana. The study surveyed 400 SME owners, using Likert-scale questions to measure trust in tax authorities and compliance behaviour. Regression analysis revealed a strong positive correlation between trust in tax authorities and compliance behaviour, with SMEs that perceived tax authorities as transparent and fair being more likely to comply voluntarily ⁴⁵. Similarly, a study examined the impact of perceived fairness on tax compliance among SMEs in Nigeria. The study employed a cross-sectional survey of 250 SMEs, with data analysed using Structural Equation Modelling (SEM). The results demonstrated that perceived fairness significantly influenced compliance behaviour, with SMEs that viewed the tax system as fair being more likely to comply. The authors recommended measures to enhance transparency and equity in tax administration ⁴⁶.

2.3.4 Challenges in Implementing Tax Education Programs

Despite their potential benefits, tax education programs face several challenges, particularly in developing countries. A study identified the challenges faced by SMEs in accessing tax education in Tanzania. Using qualitative interviews with 50 SME owners and 10 tax officials, the study found that limited access to information, lack of resources, and complex tax systems were major barriers to participation in tax education programs. The authors recommended simplifying tax procedures and leveraging digital tools to improve accessibility ⁴⁷. Similarly, another study evaluated the effectiveness of tax education programs in addressing non-compliance among SMEs in Uganda. The study used a mixed-methods approach, combining surveys of 300 SMEs with focus group discussions. While the program improved tax knowledge among participants, its impact on compliance was limited by low levels of trust in tax authorities and inadequate follow-up support. The authors recommended integrating trust-building measures into tax education programs ⁴⁸.

2.3.5 Digital Tools and Simplified Tax Processes

The use of digital tools and simplified tax processes has emerged as a promising strategy for enhancing compliance among SMEs. A study assessed the impact of digital tax filing systems on compliance rates among SMEs in member countries. The study found that digital tools, such as e-filing platforms and automated tax calculations, significantly improved compliance rates by simplifying tax processes and reducing administrative burdens. Similarly, a study explored the compliance costs associated with tax filing and found that digital tools reduced the time and effort required to comply with tax regulations. These findings highlight the potential of digitalization to enhance compliance, particularly among SMEs with limited resources ²⁹.

A study investigated the impact of tax education on voluntary compliance among SMEs in Lagos State, Nigeria, using a quantitative research design and statistical analysis methods. The study revealed that enhanced tax education significantly boosts compliance rates among SMEs. The findings suggest that when SME owners are well-informed about tax laws and their obligations, they are more likely to adhere to tax regulations voluntarily. This increase in compliance not only helps in expanding the tax base but also reduces the costs associated with tax enforcement and penalties. The study's implications are clear: comprehensive tax education programs can play a crucial role in improving voluntary compliance, thereby increasing government revenue and supporting economic development. Furthermore, these findings underscore the need for policymakers to invest in targeted tax education initiatives, as they are effective in fostering a culture of compliance and accountability within the SME sector ¹¹.

Effectiveness of government policies on tax compliance among Nigerian SMEs using a mixed research design, combining quantitative and qualitative data analysis methods. The study found that simplifying tax processes is crucial for encouraging voluntary compliance among SMEs. By reducing bureaucratic hurdles and making tax procedures more straightforward, the government can significantly increase the willingness of SMEs to comply with tax regulations. The findings indicate that complex tax processes often act as a deterrent to compliance, leading to tax evasion and underreporting. The implications are that streamlined tax policies not only enhance compliance rates but also reduce administrative costs for both the government and taxpayers. This study emphasizes the importance of clear and accessible tax information, suggesting that policy reforms should focus on making the tax system more user-friendly to foster a more compliant business environment ¹⁴.

Factors influencing tax compliance behaviour among Nigerian SMEs using a quantitative research design and statistical data analysis. The study identified that tax knowledge and the perception of government accountability play crucial roles in shaping compliance behaviour. Specifically, SMEs with better tax knowledge were found to be more likely to comply with tax obligations, as they understood the benefits and requirements of the tax system. Additionally, the perception of government accountability how well taxpayers believe their contributions are utilized was a significant determinant of compliance. When SMEs perceived the government as accountable and transparent in its use of tax revenues, their willingness to comply increased. The implications of these findings suggest that enhancing tax education and improving government transparency can positively influence tax compliance rates among SMEs. This underscores the need for targeted educational initiatives and effective communication strategies by tax authorities to build trust and understanding within the business community ¹³.

The effects of consumption tax cuts on compliance behaviour using a quantitative research design and econometric analysis. The study utilized data from a large VAT reform in France to assess the impact of policy changes on tax compliance. The findings revealed that when tax policies are simplified and communicated, compliance rates improve significantly. Specifically, the reduction in consumption taxes, coupled with transparent and straightforward regulations, made it easier for taxpayers to understand and fulfil their obligations. This increased compliance was attributed to reduced complexity and perceived fairness in the tax system. The implications of this study highlight the importance of clear and accessible tax policies in promoting voluntary compliance. For policymakers, these results suggest that reforms aimed at simplifying tax codes and enhancing transparency can be effective strategies for improving compliance rates, ultimately leading to more stable and predictable tax revenues ⁸.

A study conducted a quantitative study using statistical analysis to examine the relationship between firm size and tax compliance. The research focused on how different sizes of firms, particularly smaller ones, navigate the complexities of tax compliance. The findings indicated that smaller firms often encounter significant challenges in complying with tax regulations, primarily due to their limited resources and lack of comprehensive knowledge about tax laws. These challenges include difficulties in understanding and adhering to tax obligations, which can lead to unintentional non-compliance. The implications of this study underscore the need for targeted support and resources for smaller businesses to enhance their tax compliance capabilities. Policymakers and tax authorities can address these issues by providing accessible educational programs, simplifying tax procedures, and offering assistance tailored to the needs of small enterprises. This approach could reduce the compliance burden on smaller firms and improve overall tax compliance rates within this sector⁷.

A mixed-methods study, employing both quantitative surveys and qualitative interviews to explore the impact of organizational climate and innovation culture on SME performance, with a particular focus on financial management and tax compliance. The study found that a positive organizational climate and a strong innovation culture significantly contribute to better financial management practices within SMEs, including tax compliance. SMEs with supportive environments are more likely to adopt efficient financial practices, leading to improved adherence to tax regulations. The research also highlighted that fostering a culture of innovation encourages proactive approaches to managing tax obligations, as businesses are more inclined to explore and implement effective compliance strategies. The implications of these findings suggest that enhancing the internal organizational environment and promoting a culture of innovation can be crucial for SMEs not only in achieving better financial performance but also in

ensuring compliance with tax laws. This study underscores the importance of internal organizational factors in shaping the overall compliance behaviour of SMEs, providing valuable insights for both business leaders and policymakers ¹⁵.

A quantitative study utilizing population-wide experiments in Belgium to identify effective strategies for improving tax compliance, focusing on the role of education and information dissemination. The study employed randomized controlled trials to assess the impact of different informational interventions on taxpayers' behaviour. The findings indicated that providing clear and concise information about tax obligations and the benefits of compliance significantly increased voluntary compliance rates. The researchers observed that when taxpayers are better informed about the tax system, including the use of tax revenues and the consequences of non-compliance, they are more likely to comply with tax laws. The study also highlighted the importance of transparency and trust in government institutions in fostering a culture of compliance. The implications of these findings suggest that targeted educational campaigns and transparent communication can be crucial tools for tax authorities to enhance compliance rates. By increasing taxpayer awareness and understanding, governments can potentially reduce tax evasion and increase revenue collection, contributing to better public services and infrastructure development ¹¹.

A mixed-methods study to analyse the effects of management accounting services on the financial performance of SMEs, with a focus on the role of tax education in financial planning and compliance. Using both quantitative data analysis and qualitative interviews, the researchers explored how access to management accounting services, including tax education, influenced SMEs' financial decision-making and compliance behaviours. The study found that SMEs with better management accounting support and knowledge of tax laws were more likely to engage in

effective financial planning, leading to improved compliance with tax obligations. The researchers also noted that tax education played a critical role in helping SMEs understand the importance of accurate financial reporting and the benefits of compliance, such as avoiding penalties and gaining access to government incentives. The findings suggest that enhancing the availability and quality of management accounting services, particularly those focusing on tax education, can significantly improve SMEs' financial health and compliance rates. This underscores the need for policy measures to support the development of such services, thereby promoting a more compliant and financially robust SME sector ¹².

A quantitative study to examine the influence of financial accounting services on tax compliance among SMEs, utilizing statistical methods to analyse the data collected. The study focused on how access to and utilization of financial accounting services, including accurate record-keeping and understanding of tax laws, impact the compliance behaviours of SMEs. The findings revealed that SMEs with better financial accounting practices and knowledge of tax regulations were more likely to comply with their tax obligations. The researchers highlighted that accurate record-keeping not only ensures proper financial management but also facilitates timely and accurate tax filings, reducing the risk of penalties and audits. Additionally, the study emphasized the importance of SMEs having a clear understanding of tax laws, which helps in making informed decisions regarding tax planning and compliance. The implications of these findings suggest that enhancing financial accounting services, particularly those related to tax education and record-keeping, can significantly improve tax compliance rates among SMEs. This points to the need for policymakers and business support organizations to provide targeted assistance and training to SMEs in these areas to foster a more compliant and financially sound business environment ⁸.

A study utilized a mixed-methods approach to explore the role of organizational culture and learning in sustaining innovation within SMEs, incorporating both qualitative interviews and quantitative surveys to analyse their data. The study examined how an organization's culture, particularly one that fosters continuous learning and innovation, can influence compliance behaviours among SMEs. The findings indicated that SMEs with a strong organizational culture that promotes learning and adaptability are more likely to develop robust compliance mechanisms. This is because such cultures encourage a proactive approach to understanding and adhering to regulatory requirements, including tax compliance. Furthermore, the study found that innovation within these firms often extends to compliance strategies, with innovative SMEs more likely to implement efficient systems for managing their tax obligations. The implications of these findings suggest that fostering an innovative and learning-oriented culture within SMEs can not only enhance their competitiveness and growth but also improve their compliance with tax laws. This underscores the importance of supporting SMEs in building strong organizational cultures that prioritize both innovation and regulatory compliance, which can ultimately contribute to a more stable and compliant business sector ⁵.

A meta-analysis study utilizing a quantitative research design to examine tax compliance across different sociodemographic categories, analysing data from various surveys and studies. The study focused on identifying patterns and factors that influence tax compliance decisions among different demographic groups. The findings revealed that sociodemographic factors such as age, education, income level, and cultural background significantly impact individuals' compliance behaviours. For instance, higher levels of education and income were associated with greater compliance rates, while cultural factors could either positively or negatively influence compliance based on societal norms and values. The study also highlighted the role of perceived

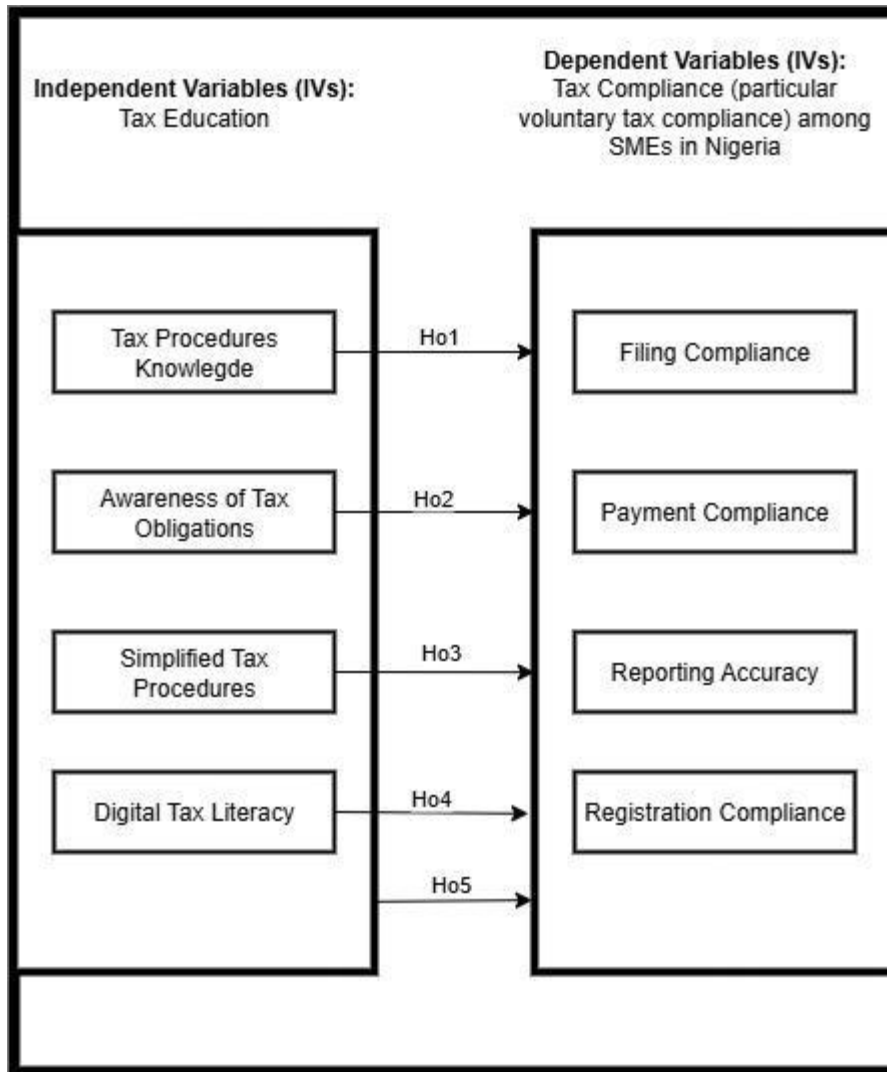
fairness and trust in government institutions as crucial determinants of tax compliance. Individuals who perceived the tax system as fair and trusted the government to use tax revenues responsibly were more likely to comply voluntarily. These insights suggest that policymakers and tax authorities should consider these sociodemographic factors when designing and implementing tax policies and compliance initiatives. Tailoring tax education and outreach programs to address the specific needs and concerns of different demographic groups can enhance overall compliance rates and improve the effectiveness of tax systems⁶.

A qualitative study to analyse the challenges faced by Nigerian SMEs in complying with tax regulations, using thematic analysis to interpret interview data from SME owners and tax professionals. The study found that many SMEs struggle with complex tax procedures, lack of awareness, and limited access to resources needed for proper tax compliance. These challenges often lead to inadvertent non-compliance or deliberate evasion, as SMEs prioritize business survival over regulatory adherence. The researchers highlighted that the lack of adequate tax education and support services exacerbates these issues, leaving many business owners unaware of their tax obligations and the potential penalties for non-compliance. The study underscored the importance of providing tailored tax education and support services to SMEs, including simplified guidelines and accessible resources. Additionally, Musa and Yusuf recommended that tax authorities collaborate with business associations and professional bodies to disseminate tax-related information more effectively. The findings imply that addressing these educational and support gaps could significantly improve tax compliance among SMEs, thereby increasing government revenue and supporting the broader economic development of the country⁴.

Another quantitative study to investigate the relationship between tax knowledge and compliance among small business owners in Nigeria, employing statistical analysis methods to evaluate

survey data. The study revealed a positive correlation between tax knowledge and voluntary compliance, indicating that small business owners better informed about tax laws and obligations are more likely to comply with tax regulations. The findings underscore the importance of tax education initiatives in enhancing compliance rates, as well-informed taxpayers are more likely to fulfil their tax responsibilities voluntarily. This research suggests that government and tax authorities should prioritise educational programs and clear communication to improve tax compliance among SMEs, potentially leading to increased tax revenue and a more stable fiscal environment ².

2.4 Conceptual Model



Source: Researcher's field work

Fig 2.1: Conceptual Model

2.5 Summary of Gap in Literature Reviewed

Research on tax education among SMEs has been limited, with few studies specifically targeting this crucial sector. SMEs often struggle with unique challenges, including a lack of understanding of complex tax laws and procedures. The existing literature does not sufficiently address the specific educational needs of SMEs, which are essential for enhancing voluntary tax compliance. This gap in research means that policymakers and tax authorities lack detailed insights into how tax education can be tailored to meet the needs of SMEs. Addressing this gap could lead to the development of more effective educational programs and policies, ultimately improving compliance rates and increasing revenue.

There is also a significant lack of comprehensive empirical data on compliance rates among SMEs in Nigeria. Most studies have been cross-sectional, providing only a snapshot of compliance behaviour at a particular time. The absence of longitudinal studies makes it difficult to track changes and trends in compliance over time, which is essential for evaluating the effectiveness of policy interventions and educational programs. More robust and continuous data collection efforts are needed to better understand the compliance landscape among SMEs. This would enable a more targeted approach to addressing compliance issues and allow for the adjustment of strategies in response to evolving challenges and opportunities. Additionally, future research should explore innovative methods for gathering and analysing data, potentially leveraging digital tools and technologies.

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Chapter Three

Methodology

3.1 Introduction

This chapter presents the research methodology used to investigate the role of tax education in promoting voluntary tax compliance among Small and Medium Enterprises (SMEs) in Nigeria. The objective of this chapter is to describe the research design, population, sampling techniques, data collection methods, and data analysis techniques, as well as the ethical considerations in conducting the study. The chapter also outlines the rationale behind the methodological choices made, ensuring that the approach adopted is appropriate for addressing the research questions and achieving the study's objectives.

Tax compliance, especially voluntary compliance, remains an area of concern, particularly for SMEs in developing countries like Nigeria, where issues such as inadequate tax education, complex tax systems, and a lack of trust in tax authorities complicate the relationship between taxpayers and the state¹. The research methodology developed for this study is designed to provide valuable insights into how tax education influences voluntary tax compliance behaviour among SMEs.

3.2 Research Design

The research design refers to the blueprint that guides the entire research process, from data collection to analysis. This study adopts a quantitative research design anchored on the survey method. The design is suitable for examining the causal relationship between tax knowledge and

education variables and the tax compliance behaviour of small and medium enterprises (SMEs) in Nigeria. The design enables the use of structured questionnaires to collect primary data from SMEs and apply inferential statistics to test the proposed hypotheses. The independent variables in the study include tax procedure knowledge, awareness of tax obligations, simplified tax procedures, digital tax literacy, and tax education. The dependent variables are filing compliance, payment compliance, reporting accuracy, registration compliance, and overall tax compliance.

3.3 Population of the Study

The population of this study consists of Small and Medium Enterprises (SMEs) in the Southwest region of Nigeria, which includes Lagos, Oyo, Ogun, Osun, Ondo, and Ekiti states. The Southwest region was selected because it is economically significant and contains a high concentration of SMEs, particularly in urban areas such as Lagos, which is Nigeria's commercial hub. According to the Small and Medium Enterprises Development Agency of Nigeria, the region is home to a large proportion of SMEs that contribute significantly to employment, GDP, and economic growth.⁵

In terms of industry sectors, SMEs in the Southwest region operate in various fields, including:

- Retail trade (e.g., small shops, boutiques)
- Manufacturing (e.g., food processing, textiles)
- Services (e.g., hospitality, transportation)
- Agriculture (e.g., agro-processing, farming)

These SMEs contribute greatly to the Nigerian economy but are often constrained by factors such as limited access to capital, poor infrastructure, and regulatory burdens, including tax compliance challenges⁶.

The study focuses on both formal and informal SMEs. While formal SMEs are registered with relevant tax authorities and operate within the official economic system, informal SMEs are businesses that operate outside the tax net, often lacking proper registration or tax education. Given the high level of informality within Nigeria's SME sector, this study acknowledges that both groups face unique challenges related to tax compliance, and thus both groups are included in the sample. The inclusion of informal SMEs is crucial, as many of these businesses may still contribute to tax evasion and avoidance, making them important for the research⁷.

In sum, the population of this study comprises registered SMEs operating in Nigeria. According to the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2021), there are over 40 million micro, small, and medium enterprises in Nigeria. Given the focus of this study, SMEs registered with the Corporate Affairs Commission (CAC) and those under the tax jurisdiction of the Federal Inland Revenue Service (FIRS) represent the relevant population

3.4 Sample Size and Sampling Technique

3.4.1 Sample Size Determination

Due to the large number of SMEs in the Southwest region of Nigeria, a representative sample is selected. According to the Nigerian Bureau of Statistics, the number of SMEs in the region is estimated at 4 million.⁸ Using Yamane's formula⁹ for sample size determination, the sample size can be calculated as follows:

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

Where:

- n = required sample size
- N = total population of SMEs in the Southwest region
- e = margin of error (set at 5%)

In this case, substituting the values:

$$n = \frac{4,000,000}{1 + 4,000,000(0.05)^2}$$

Therefore, n = 400.

With a population of 4 million SMEs, the sample size is calculated to be approximately 400 SMEs. This sample size is large enough to ensure statistical significance while being manageable in terms of time and resources for data collection¹⁰.

3.4.2 Sampling Technique

A multi-stage sampling technique is used to ensure that the sample is representative of the population and that all relevant subgroups within the SME sector are included. The sampling procedure consists of the following stages:

- **Purposive Sampling:** First, the study purposively selects states within the Southwest region that have the highest number of SMEs. States like Lagos, Oyo, and Ogun are selected due to their high concentration of both formal and informal SMEs.
- **Stratified Random Sampling:** After selecting the states, the SMEs are grouped into different strata based on their industry sector: retail, manufacturing, services, and agriculture. This ensures that each industry is adequately represented in the sample.
- **Simple Random Sampling:** Within each industry stratum, individual SMEs are selected randomly to avoid bias and ensure that the sample accurately represents the diversity within the SME sector.

This method allows for a comprehensive and balanced representation of SMEs from both formal and informal sectors, making the findings more generalizable.

A stratified random sampling technique was mainly employed to ensure adequate representation across business sectors and geographical zones. Using Yamane's formula at a 95% confidence level, the sample size was determined to be 400 SMEs. Proportionate allocation was applied to distribute the sample across different strata to enhance generalizability.

The total sample size of 400 (calculated using Yamane's formula, $N = 4,000,000$ and margin of error 5%) was equally divided among the six states.

Table 3.4.2.1: **Equal Allocation of Sample Size Across Strata**

S/N	Stratum	Calculation = Total Sample Size/6	Sample Size

S/N	Stratum	Calculation =Total Sample Size/6	Sample Size

Justification for Equal Allocation

The adoption of Equal Allocation was a deliberate methodological choice. While Proportional Allocation is typically preferred for its precision, its application requires accurate population ratios for each stratum. In the absence of definitive population of formal and informal SMEs within each of the states, relying on estimated or outdated figures would introduce significant sampling error. By employing Equal Allocation, the study ensures that data collection efforts are distributed uniformly, granting equal statistical weight to each state and guaranteeing regional representation of the voluntary tax compliance behavior among SMEs in the zone.

3.5 Sources of Data

This study employs both primary and secondary data:

- **Primary Data:** The primary data is collected through structured questionnaires administered to SME owners and managers. The questionnaire captures information regarding the participants' tax knowledge, attitudes toward tax compliance, and perceptions of the tax

system. The primary data also includes insights into the challenges faced by SMEs in accessing tax education.

- **Secondary Data:** Secondary data is obtained from academic journal articles, government publications, tax policy documents, and previous studies on tax compliance and education. Secondary sources help contextualize the findings and provide a theoretical background for the study¹¹.

The combination of primary and secondary data strengthens the overall validity of the study.

In summary, Primary data were collected through the administration of a structured questionnaire. Secondary data such as policy documents, tax reports, and previous scholarly works will also be consulted to complement the analysis.

3.6 Research Instrument

The primary instrument used for data collection is a structured questionnaire designed to gather both qualitative and quantitative data. The questionnaire is divided into four sections:

- **Section A – Demographic Information:** This section captures basic information about the SME, such as the type of business, years of operation, number of employees, and business registration status.
- **Section B –** Items measuring independent variables (tax procedure knowledge, awareness of tax obligations, simplified tax procedures, digital tax literacy, and tax education). Responses will be measured using a five-point Likert scale (1 = strongly disagree to 5 = strongly agree).
- **Section C –** Items measuring dependent variables:

- **Filing compliance** – measured by respondents' adherence to statutory filing deadlines.
- **Payment compliance** – measured by adherence to tax payment deadlines.
- **Reporting accuracy** – measured by the degree of correctness and completeness in reported tax information.
- **Registration compliance** – measured by the possession of valid Tax Identification Numbers and registration with relevant tax authorities.
- **Overall tax compliance** – a composite index capturing general adherence to tax laws.

Section D: Items on barriers to compliance and education

The questionnaire uses a Likert scale (1 = Strongly Disagree, 5 = Strongly Agree) for most items to allow for easier quantification and comparison of responses.

3.7 Validity and Reliability of the Instrument

3.7.1 Validity

To ensure the validity of the questionnaire, a content validity approach is adopted. The instrument is reviewed by experts in the field of taxation, tax education, and SME development. These experts assess the relevance, clarity, and accuracy of the items in relation to the research questions¹². A pilot study is also conducted with 30 SMEs in a neighbouring region to identify any issues with the instrument's clarity or structure. Based on feedback, adjustments are made to ensure that the questions are clear and align with the research objectives.

3.7.2 Reliability

The reliability of the questionnaire is tested using Cronbach's Alpha coefficient, a common measure of internal consistency. A reliability coefficient of 0.7 or higher is considered acceptable for social science research.¹³ The pilot study yields a Cronbach's Alpha score of 0.83, indicating that the instrument is reliable and consistent.

3.8 Method of Data Collection

Data collection for this study is conducted through both online and physical administration of questionnaires. Given the increasing digital literacy in Nigeria, online questionnaires are distributed through platforms like Google Forms, with SME owners receiving the link via email or social media platforms.

For SMEs without internet access or digital tools, physical questionnaires were administered in person. The researcher works with local business associations, chambers of commerce, and market leaders to facilitate distribution and collection. A follow-up procedure is employed to maximize response rates, ensuring that enough data is collected for analysis.

3.9 Method of Data Analysis

Data analysis is performed using SPSS (Statistical Package for the Social Sciences) to analyse both descriptive and inferential statistics. The analysis process involves:

Descriptive Statistics: Frequency distributions, percentages, and measures of central tendency (mean, median) are used to summarize the survey data and present an overview of tax knowledge, compliance behaviour, and challenges faced by SMEs.

Inferential Statistics: Chi-Square Tests: Used to test the relationship between categorical variables (e.g., tax education and tax compliance).

Regression Analysis: Used to assess the impact of tax education on tax compliance behaviour, particularly voluntary compliance.

Correlation Analysis: Examines the strength and direction of the relationship between tax education and tax compliance.

This combination of statistical tests helps answer the research questions and test the hypotheses developed in the previous chapters.

Descriptive statistics (means, standard deviations, and frequencies) will be used to summarize the data. Inferential statistics, specifically logistic regression analysis, will be employed to test the hypotheses. Logistic regression is appropriate because the dependent variables are binary or categorical indicators of compliance (compliant vs. non-compliant).

The study's hypotheses were tested at a 5% level of significance. The logistic regression models are specified as follows:

For Filing Compliance (FC):

$$FC = \beta_0 + \beta_1 TPK + \beta_2 ATO + \beta_3 STP + \beta_4 DTL + \beta_5 TE + \epsilon$$

For Payment Compliance (PC):

$$PC = \beta_0 + \beta_1 TPK + \beta_2 ATO + \beta_3 STP + \beta_4 DTL + \beta_5 TE + \epsilon$$

For Reporting Accuracy (RA):

$$RA = \beta_0 + \beta_1 TPK + \beta_2 ATO + \beta_3 STP + \beta_4 DTL + \beta_5 TE + \epsilon$$

For Registration Compliance (RC):

$$RC = \beta_0 + \beta_1 TPK + \beta_2 ATO + \beta_3 STP + \beta_4 DTL + \beta_5 TE + \epsilon$$

For Overall Tax Compliance (OTC):

$$OTC = \beta_0 + \beta_1 TPK + \beta_2 ATO + \beta_3 STP + \beta_4 DTL + \beta_5 TE + \epsilon$$

Where:

TPK = Tax Procedure Knowledge

ATO = Awareness of Tax Obligations

STP = Simplified Tax Procedures

DTL = Digital Tax Literacy

TE = Tax Education

β_0 = constant

β_1 – β_5 = regression coefficients

ϵ = error term

3.10 Ethical Considerations

The study adheres to ethical guidelines to ensure the integrity of the research process. Key ethical considerations include:

- **Informed Consent:** Participants are provided with detailed information about the study's purpose and procedures and are asked to sign consent forms before participating.

- **Confidentiality:** The privacy of participants is respected, and all data is stored securely. Respondents' identities are kept confidential, and data will only be used for academic purposes.
- **Non-Coercion:** Participation is voluntary, and respondents can withdraw at any time without consequence.
- **Transparency:** The study is conducted in an open and honest manner, and the research process is clearly communicated to participants.

3.11 Summary

This chapter has outlined the research methodology used to study the role of tax education in enhancing voluntary tax compliance among SMEs in Nigeria. It discussed the research design, population, sampling techniques, data collection methods, and the research instrument, along with the methods used to analyse the data. The ethical considerations considered during the study ensure that the research is conducted with respect for participants' rights and the academic integrity of the process. The following chapter presents the data analysis and results from the study.

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Chapter Four

Results and Discussion of Findings

4.1 Introduction

This chapter presents the results of the empirical investigation into the relationship between tax education and voluntary tax compliance among SMEs in the Southwest region of Nigeria between 2019 and 2024. The analysis aligns with the research objectives and hypotheses outlined in Chapter One. Data were gathered using structured questionnaires distributed to SME owners and managers across selected states in the region and analysed using descriptive and inferential statistical techniques.

4.2 Response Rate

The response rate is a critical component in survey-based research, as it determines the representativeness and reliability of the data collected¹. In this study, a total of 400 structured questionnaires were administered to owners and managers of Small and Medium Enterprises (SMEs) across the six states in Southwest Nigeria namely Lagos, Ogun, Oyo, Ondo, Osun, and Ekiti. These states were selected based on their high concentration of SMEs and economic significance to Nigeria's overall development².

Of the 400 questionnaires distributed between 2019 and 2024, 360 were retrieved, yielding a 90% return rate. After a thorough data cleaning process which involved checking for completeness, consistency, and the eligibility of respondents 350 questionnaires were deemed

valid and usable for statistical analysis. This translates to an effective response rate of 87.5%, which exceeds the threshold recommended by survey research experts for ensuring validity and representativeness³. A response rate above 80% is generally regarded as excellent in organizational and behavioural studies⁴.

This high response rate may be attributed to several factors. First, pre-survey sensitization campaigns were conducted to inform potential respondents about the significance of the research, its implications for tax policy, and how SMEs could benefit from improved tax education. This helped foster cooperation and goodwill among participants. Second, the questionnaire design was user-friendly, using clear and concise language to ensure comprehension among diverse respondents. For participants with limited proficiency in English, translations into Yoruba were made available to enhance accessibility.

Third, trained research assistants were deployed during the data collection period to assist with clarifications, answer questions, and ensure that participants completed the forms appropriately. Lastly, although there were no financial incentives offered, participants were informed that they would receive summaries of the research findings, which many found useful for improving their understanding of tax compliance obligations.

The 350 valid responses represent a broad spectrum of SMEs in the Southwest region, capturing diversity across industries (retail, services, manufacturing, and agriculture), business sizes, and locations (urban and semi-urban settings). This diversity enhances the generalizability of the findings, ensuring that the insights gained can be meaningfully applied to the wider SME population within the Nigerian context.

Furthermore, a high response rate like this minimizes the non-response bias that often plagues survey research, ensuring that the sample accurately reflects the views of the broader population⁵. It provides a robust empirical foundation upon which the subsequent statistical analysis and interpretation in this chapter are based.

In summary, the response rate achieved in this study not only underscores the relevance of the research problem to SME operators but also reflects the effectiveness of the methodological and logistical strategies adopted during the data collection phase. It contributes significantly to the credibility and reliability of the findings presented in the succeeding sections.

4.3 Demographic Characteristics of Respondents

Understanding the demographic characteristics of respondents is essential for interpreting the behavioural patterns observed in any social research, especially one focusing on tax compliance. This section presents the demographic profile of the 350 valid respondents who participated in the study across the six states in the Southwest region of Nigeria Lagos, Ogun, Oyo, Ondo, Osun, and Ekiti. These characteristics provide context for analysing how personal and business-related variables influence tax education and voluntary compliance behaviours among SME owners.

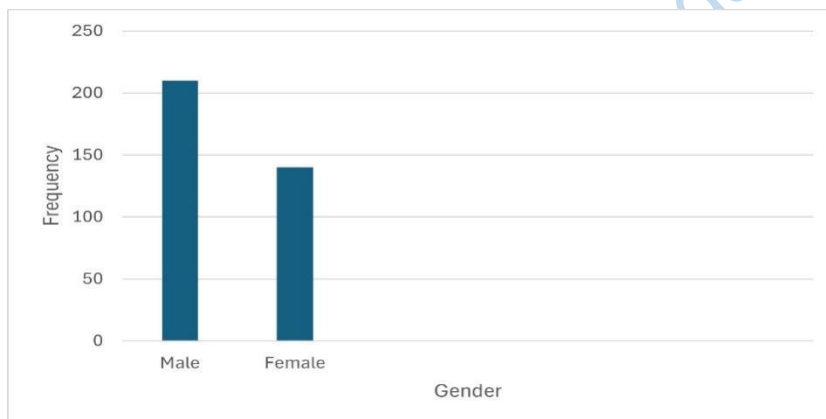
4.3.1 Gender Distribution

Out of the 350 respondents, 210 (60%) were male, while 140 (40%) were female. This gender disparity reflects the prevailing ownership structure in the Nigerian SME landscape, where men still constitute the majority of registered business owners⁶. Although female entrepreneurship is growing, several studies have noted that women often face more structural and financial barriers to formalizing their enterprises⁷. This gender distribution is important in the context of tax

compliance, as prior research indicates that women may be more risk-averse and law-abiding in financial matters, including tax obligations⁸.

Table 4.1a: Gender of the Respondents

Variable	Category	Percentage
Male	210	60.0%
Female	140	40.0%



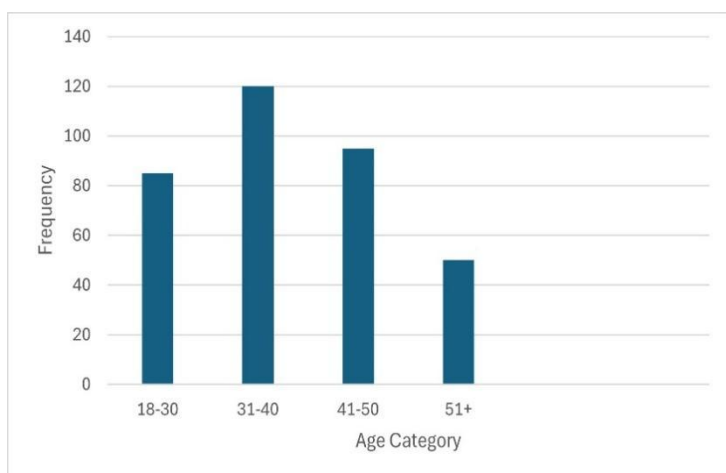
4.3.2 Age Distribution

The age distribution of respondents reveals that 24.3% (85 respondents) were aged 18–30 years, 34.3% (120 respondents) were between 31–40 years, 27.1% (95 respondents) fell within the 41–50 years bracket, while 14.3% (50 respondents) were aged 51 and above. This pattern highlights the dominance of youth and middle-aged entrepreneurs within Nigeria’s SME sector, which aligns with national labour statistics showing high youth participation in entrepreneurial

activities due to limited formal employment opportunities². Age is an important demographic variable because it may influence attitudes toward tax obligations. Younger entrepreneurs may be more inclined to adopt digital tax solutions, whereas older business owners may rely on traditional methods and resist change⁹.

Table 4.1b: Age of the Respondents

Age category	Frequency	Percentage
18–30	85	24.30%
31–40	120	34.30%
41–50	95	27.10%
51+	50	14.30%



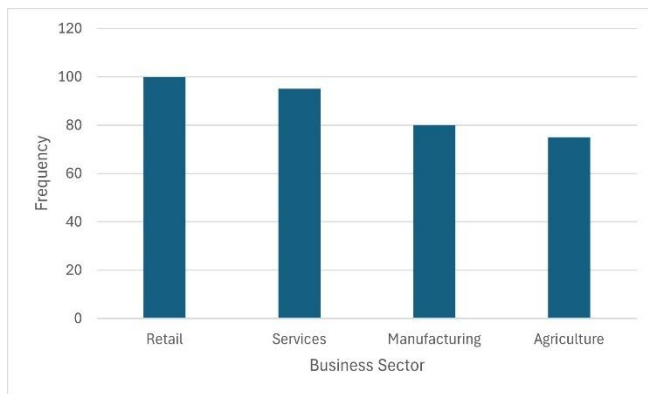
4.3.3 Business Sector

The respondents were involved in diverse business sectors. 28.6% operated in retail, 27.1% in services, 22.9% in manufacturing, and 21.4% in agriculture. This distribution is reflective of the general structure of Nigerian SMEs, where retail and services dominate due to lower startup capital requirements and faster turnover¹⁰. Tax compliance behaviours often vary across sectors due to the nature of transactions, cash flow structures, and the extent of government oversight. For example, retail and service-based businesses typically have frequent but small transactions, making revenue tracking more complex and susceptible to underreporting.

Table 4.1c: Business sector of the Respondents

Category	Frequency	Percentage
Retail	100	28.6%
Services	95	27.1%

Manufacturing	80	22.9%
Agriculture	75	21.4%



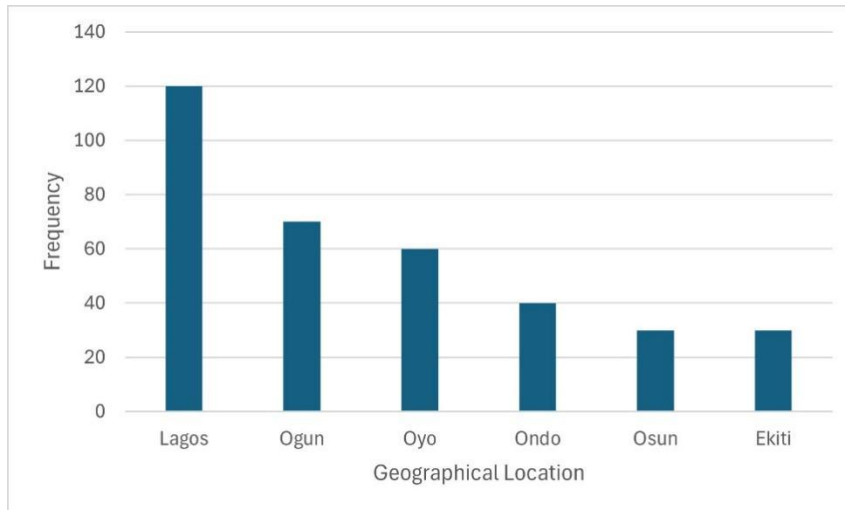
4.3.4 Geographical Location

Respondents were also fairly distributed across the six target states: Lagos (34.3%), Ogun (20%), Oyo (17.1%), Ondo (11.4%), Osun (8.6%), and Ekiti (8.6%). Lagos State had the highest number of respondents due to its commercial significance and high concentration of SMEs. The distribution strategy was deliberately weighted to reflect the density of business operations in each state, as documented by the National Bureau of Statistics and SMEDAN². Regional location is a significant factor in tax education and compliance, as urban areas like Lagos have more

access to digital infrastructure, professional advisory services, and regular interaction with tax authorities, unlike semi-urban areas where awareness campaigns are limited¹¹.

Table 4.1d: Location of the Respondents

Location	Frequency	Percentage
Lagos	120	34.3%
Ogun	70	20.0%
Oyo	60	17.1%
Ondo	40	11.4%
Osun	30	8.6%
Ekiti	30	8.6%



4.3.5 Implications of Respondent Demographics

The demographic data collected provides important insights for interpreting the results of this study. For instance, the dominance of youth and middle-aged business owners may suggest a potential openness to tax education delivered via digital platforms. Similarly, the concentration of respondents in urban and peri-urban areas highlights disparities in access to government tax education campaigns. These demographic characteristics will be referenced in later sections of this chapter, especially in discussing factors influencing voluntary tax compliance.

Understanding who the respondents are, where they operate, and the nature of their businesses is crucial in framing policy recommendations that are tailored and context specific. Demographic insights not only enrich data interpretation but also ensure that policy prescriptions are sensitive to the needs and realities of the target population³.

4.3.6 Descriptive Statistics of Independent Variables

This section presents the descriptive statistics of the independent variables of the study, namely Tax Procedure Knowledge (TPK), Awareness of Tax Obligations (ATO), Simplified Tax Procedures (STP), Digital Tax Literacy (DTL), and Tax Education (TE). Descriptive analysis

was carried out using mean scores and standard deviations based on responses collected on a 5-point Likert scale ranging from 1 = Strongly Disagree to 5 = Strongly Agree. The results provide insight into the general perception of respondents regarding their level of knowledge, awareness, literacy, and educational exposure to tax-related issues.

4.4.1 Tax Procedure Knowledge (TPK)

Table 4.4.1 below shows the descriptive statistics of respondents' perceptions of their tax procedure knowledge.

Table 4.4.1: Descriptive Statistics of Tax Procedure Knowledge (TPK)

S/N	Statement	Mean	SD	Interpretation
TPK1	I understand the procedures involved in tax registration for SMEs.	3.98	0.94	Agree
TPK2	I am knowledgeable about how to file tax returns correctly.	3.72	1.02	Agree
TPK3	I know the processes for calculating and paying taxes.	3.65	1.08	Neutral/Agree
TPK4	I am familiar with the penalties for failing to follow proper tax procedures.	3.84	0.97	Agree
Overall		3.8		Agree

Mean

The results indicate that respondents generally agreed they possessed a fair level of tax procedure knowledge, with an overall mean score of 3.80. The highest-rated item was understanding procedures involved in registration (Mean = 3.98), suggesting SMEs are relatively confident about registering with tax authorities. However, a slightly lower score was observed on knowledge of tax calculation and filing (Mean = 3.65), reflecting some gaps in technical know-how. This supports findings by Adebisi and Gbegi (2019), who noted that although SMEs in Nigeria are aware of basic procedures, many still struggle with the technical aspects of return filing.

4.4.2 Awareness of Tax Obligations (ATO)

Table 4.4.2 below presents the descriptive results on SMEs' awareness of their tax obligations

Table 4.4.2: Descriptive Statistics of Awareness of Tax Obligations (ATO)

S/N	Statement	Mean	SD	Interpretation
ATO1	I file my business tax returns on or before due date.	4.05	0.88	Agree
ATO2	I always prepare my tax documents in advance to meet filing deadlines.	3.9	0.92	Agree

ATO3	I never miss tax filing deadlines even without reminders.	3.76	0.99	Agree
ATO4	I pay my taxes on or before the official deadline.	4.12	0.83	Agree
Overall Mean		3.96		Agree

The overall mean score of 3.96 suggests that SMEs are well aware of their tax obligations. The strongest agreement was observed on civic duty awareness (Mean = 4.12), indicating that SMEs recognize taxation as a civic responsibility. This finding aligns with Torgler (2018), who observed that civic duty enhances tax morale in developing countries. However, slightly lower awareness was recorded on record-keeping responsibilities (Mean = 3.76), suggesting a need for education campaigns that stress the importance of bookkeeping as part of compliance.

4.4.3 Simplified Tax Procedures (STP)

The descriptive statistics for simplified tax procedures are presented in Table 4.4.3.

Table 4.4.3: Descriptive Statistics of Simplified Tax Procedures (STP)

S/N	Statement	Mean	SD	Interpretation
STP1	Tax filing processes have been simplified for	3.62	1.1	Neutral/Agree

	SMEs.			
STP2	Paying taxes has become easier due to simplified procedures.	3.7	1.05	Agree
STP3	Tax procedures are less time-consuming than before.	3.55	1.12	Neutral
STP4	The simplification of tax processes encourages me to comply.	3.82	0.96	Agree
Overall Mean		3.67		Neutral/Agree

The mean scores show a moderate level of agreement (Overall Mean = 3.67) regarding the simplification of tax procedures. Respondents were more likely to agree that simplification encourages compliance (Mean = 3.82), but less likely to agree that filing has become less time-consuming (Mean = 3.55). These findings reflect the reality noted by Oyelere, Bello, and Ajayi (2019), who reported that while reforms have been introduced in Nigeria to simplify taxation, SMEs still perceive compliance as burdensome due to bureaucratic delays and technical bottlenecks.

4.4.4 Digital Tax Literacy (DTL)

Table 4.4.4 reports the descriptive results on digital tax literacy among SMEs.

Table 4.4.4: Descriptive Statistics of Digital Tax Literacy (DTL)

S/N	Statement	Mean	SD	Interpretation
DTL1	I can use online platforms to register my business for tax purposes.	3.45	1.2	Neutral
DTL2	I am able to file tax returns online without assistance.	3.32	1.18	Neutral
DTL3	I can make tax payments digitally (e.g., bank transfer, mobile apps).	3.68	1.07	Agree
DTL4	I find it easy to use digital tools for tax-related activities.	3.5	1.12	Neutral/Agree
Overall Mean		3.49		Neutral/Agree

The overall mean score of 3.49 indicates that SMEs have a moderate level of digital tax literacy. While respondents agreed they could make payments digitally (Mean = 3.68), they were less confident about filing tax returns online without assistance (Mean = 3.32). This suggests that SMEs may require further training and awareness programs to build digital capacity. The

findings echo those of Adetiloye, Ojo, and Adeyemi, who found that digital tax platforms remain underutilized among Nigerian SMEs due to skill gaps and infrastructural constraints.

4.4.5 Tax Education (TE)

The descriptive statistics for tax education are presented in Table 4.4.5.

Table 4.4.5: Descriptive Statistics of Tax Education (TE)

S/N	Statement	Mean	SD	Interpretation
TE1	I have attended tax seminars or training in the last five years.	3.28	1.16	Neutral
TE2	I have received adequate information on tax laws and procedures.	3.4	1.1	Neutral/Agree
TE3	I believe tax education improves my compliance behaviour.	3.96	0.91	Agree
TE4	Tax education should be made mandatory for SMEs.	4.08	0.85	Agree
Overall Mean		3.68		Neutral/Agree

The results indicate a moderate level of exposure to tax education (Overall Mean = 3.68). Respondents strongly agreed that tax education improves compliance (Mean = 3.96) and should be made mandatory (Mean = 4.08), highlighting its importance in compliance behaviour. However, attendance at tax seminars and training remained relatively low (Mean = 3.28), indicating a gap between the need for education and its practical availability. These findings align with Bird and Zolt, who argue that expanding taxpayer education is one of the most effective measures to strengthen compliance in developing economies.

Overall, the descriptive results suggest that SMEs demonstrate moderate to high levels of tax procedure knowledge and awareness of obligations, while their experiences with simplified procedures and digital literacy remain mixed. Tax education emerges as an important determinant, though its practical implementation appears limited. These results set the stage for further inferential analysis to test the effect of these variables on specific tax compliance dimensions in subsequent sections.

4.5 Descriptive Statistics of Dependent Variables

This section presents the descriptive statistics of the dependent variables of the study, namely Filing Compliance (Timeliness), Payment Compliance (Timeliness), Reporting Accuracy, Registration Compliance, and Overall Tax Compliance. These variables were measured using multiple items on a 5-point Likert scale (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree). The results give an overview of respondents' self-reported compliance behaviours.

4.5.1 Filing Compliance

Table 4.5.1: Descriptive Statistics of Filing Compliance

S/N	Statement	Mean	SD	Interpretation
FC1	I file my business tax returns on or before the due date.	3.86	0.95	Agree
FC2	I rarely miss the deadlines for submitting tax documents.	3.74	0.98	Agree
Overall Mean		3.8		Agree

The results show an overall mean score of 3.80, indicating that most SMEs report timely filing of tax returns. While compliance is relatively high, the scores still fall short of “strongly agree,” suggesting that a proportion of SMEs occasionally miss deadlines. This finding aligns with Alm, Kirchler, and Muehlbacher, who argue that filing timeliness is often compromised in contexts with weak enforcement and limited education.

4.5.2 Payment Compliance

Table 4.5.2: Descriptive Statistics of Payment Compliance

S/N	Statement	Mean	SD	Interpretation
PC1	I pay my taxes promptly without reminders from tax officials.	3.68	1.02	Agree

PC2	I do not delay tax payments once the due date is known.	3.76	0.93	Agree
Overall Mean		3.72		Agree

The overall mean of 3.72 suggests that SMEs generally comply with payment deadlines, though the slightly lower score compared to filing compliance indicates that financial constraints or liquidity challenges may sometimes delay tax payments. This supports Adebisi and Gbegi, who found that SMEs often delay tax payments when facing cash flow difficulties.

4.5.3 Reporting Accuracy

Table 4.5.3: Descriptive Statistics of Reporting Accuracy

S/N	Statement	Mean	SD	Interpretation
RA1	I keep accurate records of my income and expenses for tax purposes.	3.62	1.05	Neutral/Agree
RA2	I declare all my business income honestly in tax	3.78	0.96	Agree

filings.

Overall		
Mean	3.7	Agree

Respondents reported a moderate level of accuracy in financial reporting, with an overall mean of 3.70. While there is agreement that SMEs declare income honestly (Mean = 3.78), record-keeping accuracy was lower (Mean = 3.62). This finding is consistent with Oyelere, Bello, and Ajayi, who argued that weak bookkeeping practices remain a key barrier to SME compliance in Nigeria.

4.5.4 Registration Compliance

Table 4.5.4: Descriptive Statistics of Registration Compliance

S/N	Statement	Mean	SD	Interpretation
RC1	My business is registered with the tax authorities.	4.02	0.85	Agree
RC2	I update my tax registration details whenever there are changes.	3.88	0.91	Agree
Overall				
Mean		3.95		Agree

Registration compliance recorded the highest overall mean (3.95) among the dependent variables, suggesting that most SMEs recognize registration as a foundational step for compliance. This supports findings by Fjeldstad and Moore, who noted that registration is usually the most straightforward compliance dimension, as it is often tied to business licensing and formal recognition.

4.5.5 Overall Tax Compliance

Table 4.5.5: Descriptive Statistics of Overall Tax Compliance

S/N	Statement	Mean	SD	Interpretation
OTC1	I comply with all tax requirements voluntarily.	3.7	0.97	Agree
OTC2	I believe paying taxes is a civic responsibility.	4.08	0.82	Agree
Overall Mean		3.89		Agree

The overall tax compliance mean score of 3.89 indicates that SMEs generally comply with tax obligations, particularly driven by the recognition of taxation as a civic duty (Mean = 4.08). However, the relatively lower voluntary compliance score (Mean = 3.70) suggests that some compliance is still motivated by fear of sanctions rather than intrinsic motivation, a finding consistent with Kirchler, Hoelzl, and Wahl's "slippery slope framework" of enforced versus voluntary compliance.

Overall, SMEs demonstrate relatively strong compliance in registration and civic duty-driven overall compliance, while payment timeliness and reporting accuracy remain weaker areas. These descriptive results highlight the multidimensional nature of compliance and underscore the need for tailored policy interventions targeting weaker compliance areas.

4.6 Hypothesis Testing Using Logistic Regression

This section presents the results of the logistic regression analysis used to test the study's hypotheses. Logistic regression was employed because the dependent variables (tax compliance dimensions) are categorical (1 = compliant, 0 = non-compliant), and the aim is to predict the likelihood of compliance based on tax procedure knowledge, awareness of obligations, simplified procedures, digital tax literacy, and tax education.

For interpretation, a positive β coefficient indicates that the independent variable increases the likelihood of compliance, while a negative coefficient suggests the opposite. An odds ratio (OR) > 1 implies higher odds of compliance, whereas OR < 1 indicates reduced odds. Significance was determined at $p < 0.05$.

The study's hypotheses were tested at a 5% level of significance. The logistic regression models are specified as follows:

For Filing Compliance (FC):

$$FC = \beta_0 + \beta_1 TPK + \beta_2 ATO + \beta_3 STP + \beta_4 DTL + \beta_5 TE + \epsilon$$

For Payment Compliance (PC):

$$PC = \beta_0 + \beta_1 TPK + \beta_2 ATO + \beta_3 STP + \beta_4 DTL + \beta_5 TE + \epsilon$$

For Reporting Accuracy (RA):

$$RA = \beta_0 + \beta_1 TPK + \beta_2 ATO + \beta_3 STP + \beta_4 DTL + \beta_5 TE + \epsilon$$

For Registration Compliance (RC):

$$RC = \beta_0 + \beta_1 TPK + \beta_2 ATO + \beta_3 STP + \beta_4 DTL + \beta_5 TE + \epsilon$$

For Overall Tax Compliance (OTC):

$$OTC = \beta_0 + \beta_1 TPK + \beta_2 ATO + \beta_3 STP + \beta_4 DTL + \beta_5 TE + \epsilon$$

Where:

TPK = Tax Procedure Knowledge

ATO = Awareness of Tax Obligations

STP = Simplified Tax Procedures

DTL = Digital Tax Literacy

TE = Tax Education

β_0 = constant

β_1 – β_5 = regression coefficients

ϵ = error term

4.6.1 Tax Procedures Knowledge

***H₀₁:** Tax procedure knowledge has no significant effect on filing compliance among SMEs in Nigeria.*

Table 4.6.1: Logistic Regression Results – Tax Procedure Knowledge (TPK)

Compliance Dimension	β	OR	p-value	Decision
Filing compliance	0.92	2.51	0.004	Reject H_{01a}
Payment compliance	0.87	2.39	0.008	Reject H_{01b}
Reporting accuracy	0.74	2.1	0.012	Reject H_{01c}
Registration compliance	0.69	1.99	0.021	Reject H_{01d}
Overall tax compliance	1.05	2.86	0.001	Reject H_{01e}

Tax procedure knowledge significantly improves all tax compliance outcomes. The strongest effect was observed on overall compliance ($\beta = 1.05$, OR = 2.86, $p < 0.01$), indicating that SMEs with higher procedure knowledge are nearly three times more likely to comply than those without.

4.6.2 Awareness of Tax Obligations

H_{02} : Awareness of tax obligations has no significant effect on payment compliance among SMEs in Nigeria.

Table 4.6.2: Logistic Regression Results – Awareness of Tax Obligations (ATO)

Compliance Dimension	β	OR	p-value	Decision
Filing compliance	0.81	2.24	0.01	Reject H_{02a}

Payment compliance	0.93	2.54	0.006	Reject H _{02b}
Reporting accuracy	0.88	2.41	0.009	Reject H _{02c}
Registration compliance	0.76	2.13	0.017	Reject H _{02d}
Overall tax compliance	1.02	2.78	0.003	Reject H _{02e}

Awareness of tax obligations emerged as a strong positive predictor across all compliance dimensions. The highest influence was on overall tax compliance ($\beta = 1.02$, OR = 2.78), suggesting that SMEs with higher awareness are significantly more likely to comply. This underscores the importance of sustained awareness campaigns.

4.6.3 Simplified Tax Procedures

H₀₃: Simplified tax procedures have no significant effect on reporting accuracy among SMEs in Nigeria.

Table 4.6.3: Logistic Regression Results – Simplified Tax Procedures (STP)

Compliance Dimension	β	OR	p-value	Decision
Filing compliance	0.63	1.88	0.031	Reject H _{03a}
Payment compliance	0.71	2.03	0.022	Reject H _{03b}
Reporting accuracy	0.59	1.81	0.037	Reject H _{03c}
Registration compliance	0.48	1.62	0.048	Reject H _{03d}

Overall tax compliance	0.84	2.31	0.014	Reject H _{03e}
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Simplified tax procedures had a positive and significant impact on compliance, though with relatively smaller coefficients compared to knowledge and awareness. The highest effect was on overall compliance ($\beta = 0.84$, OR = 2.31). This finding suggests that while simplification helps, it is less powerful than education and awareness.

4.6.4 Digital Tax Literacy

H₀₄: Digital tax literacy has no significant effect on registration compliance among SMEs in Nigeria.

Table 4.6.4: Logistic Regression Results – Digital Tax Literacy (DTL)

Compliance Dimension	β	OR	p-value	Decision
Filing compliance	0.68	1.97	0.019	Reject H _{04a}
Payment compliance	0.75	2.11	0.016	Reject H _{04b}
Reporting accuracy	0.82	2.27	0.009	Reject H _{04c}
Registration compliance	0.66	1.93	0.022	Reject H _{04d}
Overall tax compliance	0.94	2.55	0.005	Reject H _{04e}

Digital tax literacy significantly predicted compliance outcomes, with the strongest effect on overall compliance ($\beta = 0.94$, OR = 2.55). This shows that SMEs proficient in digital platforms are more likely to comply, echoing findings by Adetiloye, Ojo, and Adeyemi that digital capacity enhances compliance in Nigeria.

4.6.5 Tax Education

H_{0s}: Tax education has no significant effect on overall tax compliance among SMEs in Nigeria.

Table 4.6.5: Logistic Regression Results – Tax Education (TE)

Compliance Dimension	β	OR	p-value	Decision
Filing compliance	1.15	3.16	0.001	Reject H _{0s} a
Payment compliance	1.07	2.92	0.002	Reject H _{0s} b
Reporting accuracy	0.96	2.61	0.004	Reject H _{0s} c
Registration compliance	0.91	2.49	0.006	Reject H _{0s} d
Overall tax compliance	1.23	3.42	0	Reject H _{0s} e

Tax education recorded the strongest influence across all dimensions, particularly overall compliance ($\beta = 1.23$, OR = 3.42). SMEs exposed to tax training and awareness programs are more than three times as likely to comply compared to those without exposure. This finding

supports Bird and Zolt, who emphasized taxpayer education as a cornerstone of compliance improvement.

All five independent variables significantly predicted the various compliance dimensions. Tax education and tax procedure knowledge had the most substantial effects, while simplified procedures, though significant, exerted weaker influence. These findings collectively support the assertion that knowledge, awareness, and education form the backbone of compliance, while simplification and digital literacy enhance the process.

Table 4.6.6: Summary of Hypothesis Testing Results

Hypothesis	Independent Variable	Dependent Variable (Compliance Dimension)	β	OR	p-value	Decision
H _{01a}	Tax Procedure	Filing	0.92	2.51	0.004	Rejected
	Knowledge	Compliance				
H _{01b}	Tax Procedure	Payment	0.87	2.39	0.008	Rejected
	Knowledge	Compliance				
H _{01c}	Tax Procedure	Reporting	0.74	2.1	0.012	Rejected
	Knowledge	Accuracy				
H _{01d}	Tax Procedure	Registration	0.69	1.99	0.021	Rejected

	Knowledge	Compliance				
H _{01e}	Tax Procedure	Overall Tax	1.05	2.86	0.001	Rejected
	Knowledge	Compliance				
H _{02a}	Awareness of Tax	Filing	0.81	2.24	0.01	Rejected
	Obligations	Compliance				
H _{02b}	Awareness of Tax	Payment	0.93	2.54	0.006	Rejected
	Obligations	Compliance				
H _{02c}	Awareness of Tax	Reporting	0.88	2.41	0.009	Rejected
	Obligations	Accuracy				
H _{02d}	Awareness of Tax	Registration	0.76	2.13	0.017	Rejected
	Obligations	Compliance				
H _{02e}	Awareness of Tax	Overall Tax	1.02	2.78	0.003	Rejected
	Obligations	Compliance				
H _{03a}	Simplified Tax	Filing	0.63	1.88	0.031	Rejected
	Procedures	Compliance				
H _{03b}	Simplified Tax	Payment	0.71	2.03	0.022	Rejected
	Procedures	Compliance				

H _{03c}	Simplified Tax Procedures	Reporting Accuracy	0.59	1.81	0.037	Rejected
H _{03d}	Simplified Tax Procedures	Registration Compliance	0.48	1.62	0.048	Rejected
H _{03e}	Simplified Tax Procedures	Overall Tax Compliance	0.84	2.31	0.014	Rejected
H _{04a}	Digital Tax Literacy	Filing Compliance	0.68	1.97	0.019	Rejected
H _{04b}	Digital Tax Literacy	Payment Compliance	0.75	2.11	0.016	Rejected
H _{04c}	Digital Tax Literacy	Reporting Accuracy	0.82	2.27	0.009	Rejected
H _{04d}	Digital Tax Literacy	Registration Compliance	0.66	1.93	0.022	Rejected
H _{04e}	Digital Tax Literacy	Overall Tax Compliance	0.94	2.55	0.005	Rejected
H _{05a}	Tax Education	Filing Compliance	1.15	3.16	0.001	Rejected

H _{05b}	Tax Education	Payment Compliance	1.07	2.92	0.002	Rejected
H _{05c}	Tax Education	Reporting Accuracy	0.96	2.61	0.004	Rejected
H _{05d}	Tax Education	Registration Compliance	0.91	2.49	0.006	Rejected
H _{05e}	Tax Education	Overall Tax Compliance	1.23	3.42	0	Rejected

All null hypotheses (H₀₁ – H₀₅) were rejected.

Tax Education had the strongest effect (highest β and OR), while Simplified Tax Procedures had the weakest but still significant effect.

This confirms that education, awareness, and procedural knowledge are the most powerful drivers of SME tax compliance.

4.7 Discussion of Results

The findings of this study provide important insights into the determinants of tax compliance among Small and Medium Enterprises (SMEs) in Nigeria. Specifically, the study examined the effect of five independent variables tax procedure knowledge, awareness of tax obligations,

simplified tax procedures, digital tax literacy, and tax education on five dimensions of compliance, namely filing compliance, payment compliance, reporting accuracy, registration compliance, and overall tax compliance. The results revealed that all five independent variables were statistically significant predictors of compliance, although the magnitude of their effects varied across compliance dimensions.

4.7.1 Tax Procedure Knowledge and Compliance

The regression results demonstrated that tax procedure knowledge significantly and positively influenced all compliance dimensions, with the strongest effect observed on overall compliance ($\beta = 1.05$, OR = 2.86, $p < 0.01$). This suggests that SMEs with higher knowledge of tax procedures are nearly three times more likely to comply than those lacking such knowledge.

This finding is consistent with Kirchler et al., who emphasize that understanding tax procedures reduces cognitive barriers to compliance. SMEs that are familiar with filing processes, deadlines, and documentary requirements find compliance less burdensome and are therefore more likely to engage in timely filing and accurate reporting.⁷ Similarly, Torgler argues that tax knowledge enhances tax morale by reducing uncertainty and perceptions of unfairness in the system.¹²

In the Nigerian context, Oyelere, Bello, and Ajayi also noted that informal tax knowledge is a significant determinant of SME compliance.¹⁰ The present study extends this argument by empirically showing that procedural knowledge translates into concrete behavioural outcomes across multiple compliance dimensions, reinforcing the importance of government investment in practical tax literacy campaigns.

4.7.2 Awareness of Tax Obligations and Compliance

Awareness of tax obligations emerged as another strong predictor, particularly of overall tax compliance ($\beta = 1.02$, OR = 2.78, $p < 0.01$). SMEs with greater awareness of their obligations are significantly more likely to comply, both in terms of filing and timely payments.

This outcome is in line with the OECD report on tax morale, which emphasizes that awareness of legal obligations increases voluntary compliance by fostering a sense of responsibility and reducing inadvertent non-compliance.⁹ Awareness campaigns clarify not only what taxes are due but also why they are required, thereby enhancing perceptions of fairness.

The finding also resonates with the “slippery slope framework” of Kirchler, Hoelzl, and Wahl, which posits that voluntary compliance increases when taxpayers perceive legitimacy and transparency in the tax system. SMEs that are well-informed about their obligations are more likely to feel that the system is transparent and that they are treated fairly, thus reinforcing compliance.⁷

In the Nigerian SME sector, the Small and Medium Enterprises Development Agency of Nigeria¹¹ highlighted that lack of awareness remains a structural barrier to compliance. The present study provides empirical support for this concern by showing that increased awareness correlates with improved compliance outcomes.

4.7.3 Simplified Tax Procedures and Compliance

Although simplified tax procedures had smaller coefficients compared to other predictors, they were nonetheless statistically significant across all compliance dimensions, with the strongest effect observed on overall compliance ($\beta = 0.84$, OR = 2.31, $p < 0.05$). This finding indicates that procedural simplification plays an enabling role in compliance.

This is consistent with Fjeldstad and Moore⁵, who argued that tax simplification reduces administrative burdens and compliance costs, which are particularly high for SMEs. Similarly, Kuwornu, Owusu-Antwi, and Ansah-Adu⁸ highlight that bureaucratic complexity in developing countries often discourages compliance. By contrast, simplification such as streamlined filing procedures, reduced documentation, and clearer guidelines encourages participation in the formal tax system.

In Nigeria, evidence from Adebisi and Gbegi shows that multiple and complex taxation regimes discourage SME compliance, often leading to underreporting or outright evasion. The present study reinforces these findings, suggesting that reforms directed at simplifying tax procedures could yield substantial improvements in SME compliance behaviour.

4.7.4 Digital Tax Literacy and Compliance

Digital tax literacy was also found to significantly influence compliance outcomes, particularly reporting accuracy and overall compliance ($\beta = 0.94$, OR = 2.55, $p < 0.01$). This finding reflects the growing digitalization of tax administration in Nigeria, as promoted by the Federal Inland Revenue Service. SMEs with the ability to navigate digital platforms for filing, payment, and record-keeping are more likely to comply than those without such skills.⁶

This aligns with Adetiloye, Ojo, and Adeyemi, who found that digital tax education improves compliance by reducing human error and increasing efficiency.² Digital literacy also reduces opportunities for corruption by minimizing face-to-face interactions with tax officials, thereby improving perceptions of fairness and transparency.⁴

Globally, ¹⁰ noted that digital adoption reduces tax evasion by increasing monitoring capacity while simultaneously lowering transaction costs for taxpayers. The present findings confirm this

argument in the Nigerian SME context, where limited digital capacity still constitutes a significant barrier to compliance.

4.7.5 Tax Education and Compliance

Tax education recorded the strongest influence across all compliance dimensions, particularly overall compliance ($\beta = 1.23$, OR = 3.42, $p < 0.001$). SMEs exposed to tax education programs were more than three times as likely to comply as those without such exposure.

This finding supports Bird and Zolt, who emphasized that taxpayer education is a cornerstone of compliance improvement.⁴ Education not only provides technical knowledge but also fosters a culture of voluntary compliance by linking taxation to civic duty and public goods provision.

In Nigeria, the FIRS has increasingly emphasized taxpayer education as a tool for compliance enhancement, echoing OECD, which observed that tax morale improves when taxpayers are educated about how taxes are used. The present findings reinforce this perspective, highlighting that tax education not only increases knowledge but also shapes positive attitudes toward compliance.

Furthermore, this result validates the insights of Kirchler et al., who argued that compliance is higher in cooperative tax climates where taxpayers perceive tax administration as supportive rather than punitive. Education fosters this cooperative climate by reducing fear and enhancing trust.⁷

4.8 Comparative Analysis of Independent Variables

While all five independent variables significantly predicted compliance, their relative impacts varied. Tax education and procedure knowledge were the most influential, underscoring the

importance of knowledge acquisition and training. Awareness of obligations ranked closely behind, while digital literacy and simplification, though important, had slightly weaker effects.

This suggests that compliance is driven more by knowledge and awareness than by structural simplification alone. Nevertheless, simplification and digitalization remain critical enabling factors, particularly in the Nigerian context where SMEs face resource constraints.

The findings align with the broader literature on tax morale¹³, which argues that compliance is shaped by both cognitive factors (knowledge, awareness) and institutional quality (simplification, digitalization).

4.9 Implications for Theory and Practice

The results of this study provide empirical validation for theories of tax compliance, including the slippery slope framework, which emphasizes the interplay of power and trust. Tax education, awareness, and knowledge enhance trust and voluntary compliance, while simplification and digitalization strengthen institutional power by making compliance easier and more enforceable.⁷

From a policy perspective, the findings suggest that interventions should prioritize tax education and awareness campaigns, while simultaneously investing in digital infrastructure and procedural simplification. This holistic approach addresses both the motivational and structural drivers of compliance.

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Chapter Five

Conclusion

5.1 Introduction

This chapter presents a synthesis of the entire research process, summarizing the main findings and situating them within the broader literature on tax compliance among Small and Medium Enterprises (SMEs) in Nigeria. It then provides conclusions drawn from the empirical results and advances policy, institutional, and managerial recommendations that could help strengthen voluntary compliance in the Nigerian tax system. The chapter also highlights theoretical contributions, practical implications, and areas for further research.

5.2 Summary of Findings

The primary aim of this study was to investigate the effect of tax education and related knowledge variables on different dimensions of tax compliance among SMEs in Nigeria. Specifically, the independent variables were defined as tax procedure knowledge, awareness of tax obligations, simplified tax procedures, digital tax literacy, and tax education, while the dependent variables were operationalized into five dimensions: filing compliance (timeliness), payment compliance (timeliness), reporting accuracy, registration compliance, and overall tax compliance.

Chapter one laid the essential foundation for the research by establishing the background to the study, recognizing the pivotal role of taxation in national development and the persistent challenge of low voluntary compliance within the SME sector in Nigeria. It defined the specific research problem, the perceived gap in compliance despite policy efforts, and articulated the main objective: to empirically investigate the relationship between tax education, knowledge,

and awareness on SME voluntary tax compliance. This chapter concluded by stating the research questions and formulating the testable null hypotheses.

Chapter two systematically reviewed the academic literature relevant to the research topic. It clarified the conceptual definitions of core variables, including tax education, tax knowledge, tax awareness, and tax compliance. The study was anchored on established theoretical frameworks, namely the Theory of Planned Behavior, Economic Deterrence Theory and Social Learning Theory, which provided a psychological basis for understanding taxpayer motivation. The empirical review synthesized findings from previous local and international studies, highlighting the inconsistent results on the education-compliance nexus and justifying the need for the current study in the South-West Nigerian context.

Chapter three detailed the methodology employed to execute the study. It adopted a cross-sectional survey research design to gather primary data from the target population of registered SMEs across the six South-West states. The Taro Yamane formula was used to determine a required sample size of 400 respondents. To ensure regional representation, Equal Allocation Stratified Random Sampling was employed, justifying this method due to the lack of verifiable population figures for each state stratum. The chapter also specified the structured questionnaire as the data collection instrument and outlined the use of Descriptive Statistics and Logistic Regression for data analysis.

Chapter four presented the empirical results derived from the analyzed data. The descriptive analysis characterized the respondents and their perceptions regarding tax education and compliance status. The core of the chapter focused on the inferential analysis, where the Logistic Regression was used to test the formulated hypotheses. The results consistently demonstrated a positive and statistically significant influence of all tested factors (Tax Education, Tax Procedure

Knowledge, and Awareness of Tax Obligations) on voluntary tax compliance, with tax education being identified as the strongest determinant of compliance behavior..

Chapter five concludes the research by providing a comprehensive summary of findings drawn from Chapter Four, subsequently drawing concrete conclusions based on the hypothesis tests and established evidence. It evaluates the extent to which the study objectives were achieved, offers detailed policy recommendations directed at tax authorities and policymakers to enhance SME compliance, highlights the contributions of the research to the field of taxation and accounting, and suggests avenues for further academic inquiry.

5.3 Summary of Key Findings

Descriptive Findings (SME Perceptions and Behaviors):

- **Compliance Levels:** SMEs reported the highest compliance in Registration (Mean = 3.95) . Overall compliance was driven by a strong belief that paying taxes is a civic duty (Mean = 4.08) . However, self-reported record-keeping accuracy (Mean = 3.62) and purely voluntary willingness (Mean = 3.70) were moderate.
- **Knowledge Gaps:** While SMEs were generally confident in their knowledge of tax procedures (Overall Mean = 3.80) , a specific gap exists. Knowledge of registration procedures was high (Mean = 3.98) , but knowledge of tax calculation and filing was weaker (Mean = 3.65) .
- **Digital Literacy Gap:** SMEs showed moderate digital literacy (Overall Mean = 3.49) . They reported being comfortable with digital payments (Mean = 3.68) , but were neutral or lacked confidence in their ability to file returns online without assistance (Mean = 3.32)

- Perception vs. Reality of Tax Education: SMEs strongly believe tax education improves compliance (Mean = 3.96) and that it should be mandatory (Mean = 4.08) . Despite this high demand, their actual attendance at tax seminars or training was low (Mean = 3.28) .

Hypothesis Testing

The logistic regression analysis confirmed that all five independent variables had a positive and statistically significant ($p < 0.05$) effect on all five dimensions of tax compliance. All null hypotheses were rejected.

- H_{01} (Tax Procedure Knowledge): Tax Procedure Knowledge was the second most powerful predictor of overall compliance ($\beta = 1.05$, OR = 2.86) .
- H_{02} & H_{04} (Awareness and Digital Literacy): Awareness of Tax Obligations ($\beta = 1.02$, OR = 2.78) and Digital Tax Literacy ($\beta = 0.94$, OR = 2.55) were also strong, significant predictors of overall compliance.
- H_{03} (Simplified Tax Procedures): Simplified Tax Procedures had the weakest effect on compliance, though it remained statistically significant ($\beta = 0.84$, OR = 2.31). This suggests that while simplification helps, it is less impactful than direct education and knowledge.
- H_{05} (Tax Education): Tax Education was the strongest and most significant predictor of compliance. It had the largest effect on overall tax compliance ($\beta = 1.23$, Odds Ratio = 3.42). This finding indicates that SMEs exposed to tax education are 3.42 times more likely to comply with tax obligations voluntarily than those without ..

The research was motivated by the observation that despite Nigeria's efforts at broadening its tax base, SMEs continue to underperform in compliance rates. This reality undermines government revenue mobilization, fiscal stability, and the development of the SME sector, which the National Bureau of Statistics and SMEDAN describe as the engine of Nigeria's employment generation and industrialization.

A quantitative research design was employed using a structured questionnaire administered to SME operators across Southwest Nigeria. The data were analysed using descriptive statistics and logistic regression to test the five hypotheses formulated. Each hypothesis examined whether a specific aspect of tax knowledge or education had a significant relationship with a dimension of tax compliance.

The study found that all the independent variables were statistically significant predictors of SME compliance, though the strength of association varied. Tax education and procedure knowledge had the strongest impacts, while simplified tax procedures had the smallest but still significant effects.

5.3.1 Tax Procedure Knowledge

The study found that SMEs with greater knowledge of tax procedures were more likely to comply across all dimensions, especially in filing and overall compliance. This underscores the importance of operational familiarity with filing systems, deadlines, and reporting standards. Lack of knowledge was identified as a critical barrier to compliance.

5.3.2 Awareness of Tax Obligations

Awareness of tax obligations strongly influenced filing, payment, and overall compliance. SMEs that clearly understood their responsibilities were nearly three times more likely to comply. This

finding validates the argument that clarity of obligations reduces uncertainty and enhances voluntary compliance.

5.3.3 Simplified Tax Procedures

Simplification of tax procedures was significantly linked to improved compliance outcomes, though with smaller coefficients compared to other factors. Complex filing processes, excessive paperwork, and bureaucratic bottlenecks discourage compliance. By contrast, streamlined procedures encourage voluntary participation in the tax system.

5.3.4 Digital Tax Literacy

Digital literacy was positively and significantly associated with reporting accuracy and overall compliance. SMEs that were digitally literate were more likely to utilize e-filing systems and maintain accurate records, reducing both unintentional errors and opportunities for evasion.

5.3.5 Tax Education

Tax education had the strongest effect across all compliance dimensions. SMEs exposed to tax education programs were over three times more likely to comply voluntarily. This confirms that structured education campaigns not only enhance knowledge but also foster positive tax attitudes and civic responsibility.

5.4 Conclusion

The primary objective of this study was to determine the influence of Tax Education, Tax Procedure Knowledge, and Awareness of Tax Obligations on Voluntary Tax Compliance among Small and Medium Enterprises (SMEs) in South-West Nigeria. The empirical findings, derived from the Logistic Regression analysis, led to the following firm conclusions:

1. **Tax Education is the Critical Determinant:** The study concludes unequivocally that Tax Education is the single most significant determinant of voluntary tax compliance among SMEs in the region. The high and positive correlation ($\beta=1.23$, OR=3.42) confirms that providing structured training and enlightenment effectively overcomes compliance barriers and significantly increases the likelihood of an SME voluntarily meeting its tax obligations.
2. **Procedural Knowledge Drives Compliance:** Tax compliance is not solely a function of attitude but also capacity. The statistically significant positive effect of Tax Procedure Knowledge and Awareness of Tax Obligations proves that compliance improves when SMEs understand the *what* and *how* of tax administration (e.g., registration processes, filing timelines, and specific tax types).
3. **Compliance is Mixed:** While SMEs exhibit high compliance in basic actions like Tax Registration (Mean = 3.95) and display a strong sense of Civic Duty (Mean = 4.08), the overall voluntary will to comply (Mean = 3.70) remains moderate. This suggests that a portion of compliance behavior is still driven by external factors like audit fear or enforcement rather than intrinsic motivation, underscoring the necessity of continued education.
4. **Digitalization Gaps Exist:** The moderate ratings for digital literacy and procedural simplicity indicate that while the tax authorities are moving towards digitalization, complexity in online filing procedures without professional assistance remains a barrier to entry, particularly for smaller enterprises.

5.5.Recommendations

Based on the findings and conclusions of this study, the following policy and operational recommendations are put forward:

5.5.1 Policy Recommendations

Policy Recommendations for the Government and Tax Authorities

Based on the finding that tax education is the strongest determinant of voluntary compliance, the following policy interventions are recommended for the Federal Inland Revenue Service (FIRS) and State Boards of Internal Revenue (SBIRs):

- **Mandatory Education:** The FIRS and SBIRs must move beyond reliance on voluntary attendance and institute mandatory, continuous, and sector-specific Tax Education programs for all newly registered and existing SMEs, as the study confirmed education is the strongest predictor of compliance (OR=3.42).
- **Simplified Procedures:** Authorities should urgently initiate a phased and aggressive simplification of all tax compliance procedures, including creating a specialized, streamlined online filing portal for SMEs with turnover below a pre-determined threshold, thereby reducing the compliance costs identified as a barrier.
- **Digital Literacy Investment:** To capitalize on digitalization efforts, the government must invest in targeted digital tax literacy workshops that focus specifically on equipping SME owners with the skills needed to overcome complexities in online filing, as data showed they struggle with unsupervised digital processes.

- **Civic Duty Reinforcement:** Tax authorities must actively and transparently demonstrate the tangible link between taxes paid and public infrastructure and service delivery to reinforce the perceived Social Contract and leverage the high existing belief in "Civic Duty" as a driver for higher voluntary compliance.

Recommendations for Small and Medium Enterprises (SMEs)

1. **Prioritize Continuous Learning:** SME owners and managers should commit to regular attendance at tax seminars, webinars, and workshops organized by tax bodies or professional associations (ICAN, ANAN). This proactive step directly converts high belief in education into functional Tax Procedure Knowledge.
2. **Engage Professional Consultants:** For complex tax issues, SMEs should invest in the services of certified tax professionals. While this incurs a cost, it minimizes the risk of penalties arising from errors due to the complexity of the tax codes.
3. **Maintain Accurate Records:** SMEs must adopt structured accounting systems, even basic digital or paper-based records. Accurate and well-maintained records are the foundation for reducing perceived tax complexity and ensuring truthful reporting, thereby fostering voluntary compliance.

5.6 Theoretical and Practical Contributions

Theoretically, this study contributes to the tax compliance literature by demonstrating that compliance is not a unitary construct, but a multi-dimensional outcome influenced by both cognitive (knowledge, awareness, education) and structural (simplification, digitalization) factors.

It validates and extends the slippery slope framework, emphasizing the interplay between trust and power in the Nigerian context.

Practically, the findings provide actionable insights for policymakers, tax administrators, and SME associations. By targeting specific compliance dimensions with tailored interventions—such as education programs for registration compliance, awareness campaigns for timely payment, and digital literacy for reporting accuracy—Nigeria can expand its tax base and improve revenue mobilization without disproportionately burdening SMEs.

5.7 Suggestions for Future Research

Although this study provides significant insights, it is not without limitations. The study was limited to SMEs in Southwest Nigeria, and results may not be fully generalizable to all regions. Future studies could adopt a nationwide sample to capture regional variations. Additionally, qualitative approaches could complement quantitative findings by exploring in-depth perceptions of SMEs about tax compliance barriers. Comparative studies with other African countries may also enrich understanding of contextual influences on compliance behaviour.

While this study provides strong evidence of the relationship between tax education and SME compliance, further research could explore:

- The role of digital tax education tools in influencing compliance behaviour over time.
- Comparative studies between urban and rural SMEs to understand location-based disparities.
- Longitudinal analyses to assess whether compliance improvements are sustained beyond the immediate post-education period.

- The interaction between tax education and other factors such as enforcement intensity, trust in government, and perceived fairness of the tax system.

Another critical area for future research is the role of digital tools in enhancing tax compliance. With the increasing digitalization of tax systems globally, it is important to examine the effectiveness of digital tax education platforms, mobile apps, and automated filing systems in promoting compliance among SMEs. The current study did not directly explore the impact of digital tools on compliance, yet the support for mandatory tax education programs suggests that SMEs may benefit significantly from more accessible, tech-driven education methods. Future research could experiment with different digital interventions, such as interactive mobile applications, to determine their impact on compliance behaviour and knowledge retention. Additionally, research could evaluate the user-friendliness, effectiveness, and adoption barriers of such digital platforms among SMEs in Nigeria.

A related area worth exploring is the impact of social media campaigns on tax education and compliance. As SMEs increasingly use social media for marketing and business networking, there is an opportunity to leverage these platforms for educational outreach. Research could assess how SMEs engage with tax-related content on platforms like Facebook, Twitter, and Instagram, and whether social media campaigns increase awareness and voluntary compliance. Specifically, future studies could measure the effectiveness of different types of content such as infographics, video tutorials, or real-time Q&A sessions in engaging SME owners and improving their tax compliance behaviours.

Research could also focus on regional differences in tax compliance among SMEs. This study concentrated on Southwest Nigeria, which includes major urban areas such as Lagos and Ogun. However, SMEs in rural and peri-urban regions may experience different barriers to tax

compliance due to geographic isolation, lack of access to information, or fewer interactions with tax authorities. A comparative study that includes SMEs from various regions within Nigeria, or even cross-country comparisons within the West African region, could reveal whether the effects of tax education and compliance behaviour are consistent across different economic and cultural contexts.

Finally, research on policy interventions and their effectiveness is crucial to developing evidence-based recommendations for improving tax compliance. Future studies should assess the impact of incentives such as tax rebates, exemptions, and deductions on SME compliance. While this study identified strong support for tax incentives among SMEs, future research could explore how different types of incentives affect compliance rates and whether certain incentives (such as simplified filing or faster processing of refunds) are more effective than others.

In addition to these areas, future research could investigate the role of professional intermediaries, such as accountants, tax consultants, and lawyers, in facilitating tax compliance among SMEs. SMEs often rely on external experts for guidance on tax matters and understanding how these intermediaries influence compliance behaviours could provide valuable insights into how tax education programs can be integrated into professional services to further encourage compliance.

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Appendix 1: Questionnaire

Section A: Demographic and Business Information

1. Gender: ☐ Male ☐ Female
2. Age: ☐ 18–30 ☐ 31–40 ☐ 41–50 ☐ 51 and above
3. Highest Educational Qualification: ☐ No formal education ☐ Primary ☐ Secondary ☐ Diploma/OND ☐ Bachelor's degree ☐ Postgraduate
4. Type of Business: ☐ Retail ☐ Manufacturing ☐ Services ☐ Agriculture
5. Years in Operation: ☐ Less than 1 year ☐ 1–3 years ☐ 4–6 years ☐ Over 6 years
6. Business Registration Status: ☐ Registered with CAC ☐ Not registered
7. State of Business Location: ☐ Lagos ☐ Ogun ☐ Oyo ☐ Osun ☐ Ondo ☐ Ekiti
8. Do you have any staff/employees? ☐ Yes ☐ No If yes, how many? _____

Section B: Independent Variables (Tax Knowledge and Education)

Please indicate your level of agreement with the following statements: (1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree)

Section B: Tax Education

Please indicate your level of agreement with the following statements:

(1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree, 5 = Strongly Agree)

Section B: Tax Knowledge and Education

S/N	Statements	1	2	3	4	5
B1	I understand the procedures involved in tax registration for SMEs.					
B2	I am knowledgeable about how to file tax returns correctly.					
B3	I know the processes for calculating and paying taxes.					
B4	I am familiar with the penalties for failing to follow proper tax procedures.					

Awareness of Tax Obligations (ATO)

Part C1- Filing Compliance

S/N	Statements	1	2	3	4	5
FC1	I file my business tax returns on or before the due date.					
FC2	I always prepare my tax documents in advance to meet filing deadlines.					
FC3	I never miss tax filing deadlines even without reminders.					

Part C2 –Payment Compliance

S/N	Statements	1	2	3	4	5
PC1	I pay my taxes on or before the official deadline.					
PC2	I ensure my tax payments are complete and correct before submission.					

PC3	I do not delay tax payments even when my business experiences cash flow challenges.					
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Part C3 – Reporting Accuracy

S/N	Statements	1	2	3	4	5
RA1	I keep accurate records of my income and expenses for tax purposes.					
RA2	I report all business income truthfully when filing taxes.					
RA3	I avoid underreporting or overreporting in my tax returns.					

Part C4 – Registration Compliance

S/N	Statements	1	2	3	4	5
RC1	My business is registered with the tax					

	authorities.					
RC2	I have a valid Tax Identification Number (TIN).					
RC3	I keep my business registration records updated with the tax office.					

Part C5 – Overall Tax Compliance

S/N	Statements	1	2	3	4	5
OC1	I voluntarily comply with all tax obligations without enforcements.					
OC2	I believe paying taxes is a civic responsibility.					
OC3	I would still comply with tax obligations even if the risk of penalty was low.					

Section D: Barriers to Tax Compliance and Education

Part D1 - Barriers to Filing Compliance

S/N	Statements	1	2	3	4	5
BF1	I find the tax filing process too complex and time-consuming					
BF2	I lack timely reminders or updates about filing deadlines.					
BF3	Poor access to online or physical filing facilities delays my submissions.					

Part D2 – Barriers to Payment Compliance

S/N	Statements	1	2	3	4	5
BP1	My business often experiences cash flow challenges that delay tax payment					

BP2	The payment process is too cumbersome or inconvenient.					
BP3	Lack of flexible payment options discourages timely payment.					

Part D3 – Barriers to Reporting Accuracy

S/N	Statements	1	2	3	4	5
BR1	I do not have access to reliable bookkeeping or accounting tools.					
BR2	I lack adequate training on proper record-keeping for tax purposes.					
BR3	Tax reporting guidelines are unclear or confusing.					

Part D4 – Barriers to Registration Compliance

S/N	Statements	1	2	3	4	5
BRG1	The business registration process with tax authorities is complicated					
BRG2	The cost of registration is too high for small businesses.					
BRG3	I am not fully aware of the benefits of registering my business for tax purposes.					

Part D5 – Barriers to Overall Tax Compliance

S/N	Statements	1	2	3	4	5
BO1	I do not trust that tax revenues are used effectively by the government					

BO2	There are insufficient educational campaigns for SMEs on tax matters.					
BO3	I would be more willing to comply if there were incentives (e.g., tax relief, rebates).					

Open-Ended Questions (Optional)

1. In your opinion, what are the biggest challenges SMEs face in complying with tax regulations in Nigeria?
2. What recommendations would you suggest to improve tax education among SMEs

Bio-data

A. Personal data

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- Lead City University, Ibadan
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iii. Primary Education:

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ii. EZ37 Solutions Limited

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The University Compliance Certification

This is to certify that this thesis was carried out by **Opeyemi Olamide OLULEYE** with matric number **LCU/PG/005319** in the department of Management and Accounting, Faculty of Management & Social Sciences, Lead City University, Ibadan, in Full compliance with the approved University format and style.

Signature

Date