International Journal of Innovative Research in Accounting and Sustainability
ISSN: 2736-1381 (Print), ISSN 2736-1500 (Online)
Vol. 9, No. 2, 2024

Tax Ethical Values and Tax Responsiveness of Micro, Small and Medium Scale Enterprises in South-West, Nigeria

***Vincent Aghone IKUOMOLA (FCA)[1] &**
Olusola Esther IGBEKOYI (Ph.D, FCA)[2]
Department of Accounting, Adekunle Ajasin University,
Akungba-Akoko, Ondo State, Nigeria.
[2]olusola.igbekoyi@aaua.edu.ng

***Corresponding Author: aghoneikuomola@gmail.com**

Abstract

The Nigerian business landscape, particularly Micro, Small, and Medium Enterprises (MSMEs), exhibits a limited degree of tax responsiveness due to a prevailing lack of trust in the tax authorities. This phenomenon has resulted in significant adverse consequences for the financial well-being of the nation's economy, mostly manifesting as a decline in revenue generation. This study evaluated the influence of tax ethical principles on tax non-responsiveness among micro, small, and medium-sized enterprises (MSMEs) in the South Western states of Nigeria. The research employed a primary data collection method by administering a questionnaire to a sample of 400 micro, small, and medium enterprises (MSMEs). The data collected was analyzed using logit regression and descriptive statistics. The results indicated that tax responsiveness is influenced in a significant and favorable manner by factors such as tax certainty and tax conveniences, but negatively influenced by the tax process. The research revealed that the presence of a consistent regulatory tax framework, a well-defined tax payment deadline, and a transparent payment procedure had a positive impact on the timely tax payment of Micro, Small, and Medium Enterprises (MSMEs). It is recommended that the government provide funds towards infrastructure and technology enhancements aimed at expediting and streamlining the process of tax payment. This measure is crucial for ensuring taxpayer compliance and augmenting government revenue generation.

Keywords: Tax ethical values, tax certainty, tax responsiveness, tax conveniences, tax process.

1. Introduction

The global issue of tax noncompliance has far-reaching implications for all nations (Dey-Ganto, 2018; Olaoye & Ekundayo, 2019). Chan and Levg (2009) argue that the problem of non-compliance with tax regulations has a global impact on tax administration, affecting both developed and developing countries. According to Terkper (2003), it is important to acknowledge that the informal sector holds a dominant position in the economy of developing nations. Consequently, the financial repercussions resulting from non-compliance with tax legislation are more substantial in developing countries compared to their wealthier counterparts. Based on empirical data pertaining to the extent of revenue loss across various countries worldwide, it is observed that the United States contributes approximately 2.7% to the global Gross Domestic Product (GDP), Switzerland accounts for 6%, and Italy represents a substantial 27%. Conversely, less affluent nations saw average revenue losses ranging from 25% to 35% of their respective GDP in the year 2002 (Bame-Altred, 2011).

Taxpayer compliance refers to the willingness of individuals to fulfill their tax obligations in line with the existing legal framework, without the need for scrutiny, extensive investigation, admonitions, or coercion, and without facing both legal and administrative penalties (Nurkins & Mushin, 2018). Obara and Nang (2017) assert that a significant proportion of tax non-compliance in Nigeria is observed among the micro, small, and medium-sized enterprises (MSMEs) sector, which constitutes around 60 to 65 percent of the nation's Gross Domestic Product (GDP). The informal nature of the organizational structures of MSMEs contributes to a significant occurrence of tax non-responsiveness and evasion. Nigeria has a significantly low tax compliance rate of 10% when compared to other nations, as reported by the Federal Inland Revenue Service in 2018.

Previous scholars such as Agbetunde and Kolawole (2020) believe that the level of tax administration and adherence to tax regulations significantly affects the long-term viability of micro, small, and medium enterprises (MSMEs) in advanced economies. Previous studies conducted by Ojeka (2011) and Agot and Ugwuoke (2018) have provided empirical evidence about the adverse consequences of tax-related variables, including tax rate, multiplicity, complexity, and education, on the growth and development of Micro, Small, and Medium Enterprises (MSMEs) in Nigeria. These factors have been found to exert a negative influence on the ability of MSMEs to effectively respond to tax obligations. Tax evasion across various businesses has had a detrimental impact on the financial stability of the Nigerian economy, leading to a decrease in government revenue generation. This study diverges from standard perspectives by analyzing the challenges associated with tax administration in Nigeria. It aims to explore the ideologies that influence taxpayer response and promote a sense of civic duty among taxpayers. The sustainability and long-term impact of a system are contingent upon the given value it receives.

According to the study conducted by Al-Zeer et al. (2019), the moral perspective of taxpayers towards the government has a crucial role in influencing their level of responsiveness towards taxation. Additionally, it has been indicated that this phenomenon has an impact on the attitudes and preferences of taxpayers towards taxation. According to Oluyombo and Olayinka (2018), the level of tax compliance among individuals and businesses in Nigeria is notably low. This can be attributed to various factors such as an inefficient tax administration, an inequitable and unjust tax system, outdated tax legislation, and administrative barriers. In a similar manner, Wilson et al. (2019) asserted that irrespective of the nature of the relationship, taxpayers' compliance behavior is significantly shaped by their apprehension of sanctions, penalties, and expenses linked to non-compliance.

Contrarily, Natirah (2014) presented an alternative viewpoint by asserting that tax compliance is contingent upon an individual's level of tax knowledge and their perception of the complexity inherent in the income tax system. Devano and Rahayu (2006) assert that various factors, such as the efficacy of a nation's tax administration system, the quality of services offered to taxpayers, the enforcement of tax laws, the frequency of tax audits, and the prevailing tax rates, collectively influence the level of responsiveness exhibited by taxpayers. Febriani and Kusmuriyanto (2015) identified an additional factor that contributes to the limited responsiveness of tax payers, namely the unhappiness of the public with public services, disparities in infrastructure development, and allegations of government corruption in relation to tax affairs.

The literature supports the notion that ethics in financial management can have a systematic influence on several aspects. Specifically, it has been established that ethical principles governing the tax system can affect the level of tax compliance. Hence, it is expedient to evaluate the role of ethics inside the Nigerian tax system. Hence, the primary objective of this research is to examine the impact of tax ethical values, specifically pertaining to tax certainty, tax convenience, and tax process, on the tax responsiveness of Micro, Small, and Medium Enterprises (MSMEs) in the South Western States of Nigeria. The selection of these values was deliberate, as empirical research has demonstrated their inherent capacity to ascertain the worth of a system and can be reflected in taxation policies. This study focused on examining the effects of tax certainty, tax conveniences, and tax processes on micro, small, and medium enterprises (MSMEs) in the South Western States of Nigeria.

2. Literature Review

2.1 Conceptual Review

This section covers the review of literature review to provide an in-depth explanation of the concept, the theoretical underpinning, review of existing studies and the gaps identified in literature.

2.1.1 Tax Responsiveness

Appah and Ebimobowe (2016) indicated that tax responsiveness refers to the willingness of individuals to comply with tax regulations and fulfill the tax responsibilities they have in a proper manner. Being compliant with tax regulations encompasses several key aspects, including accurate disclosure of all taxable income, precise computation of taxes owed, timely completion of requisite tax files, and prompt settlement of any outstanding tax obligations. According to Rahaqu's (2013) study, tax responsiveness refers to the act of complying with and adhering to taxes legislation through submission and acquiescence. According to Wosowei and Elizabeth (2016), tax responsiveness encompasses various dimensions that may be examined through three distinct perspectives of compliance, namely payment, filling out, and reporting.

In 2018, the Organization for Economic Co-operation and Development (OECD) categorized tax responsiveness into administrative and technological responsiveness. The act of fulfilling administrative lodging and payment criteria is commonly known as administrative responsiveness. The act of adhering to tax regulations in a precise and accurate manner is commonly known as technical compliance, or more formally, technical responsiveness. This study evaluates tax responsiveness from a technological compliance perspective. The reason for this phenomenon is that adherence to both the literal and intended meaning of tax laws and regulations can be described as the willingness of diverse taxpayers to submit precise tax returns voluntarily, without coercion.

2.1.2 Tax Ethical Value

According to Alm et al. (2021), ethics encompass the ideology, values, and code of conduct that govern an individual's behavior or that of a professional field. The concept of ethical tax value can be understood as an individual's viewpoint and approach towards taxes, reflecting their level of adherence to tax responsibilities as a taxpayer. In alternative terms, ethical values encompass activities that are deemed morally correct or incorrect, serving to shape and govern the character of individuals. According to Jimoh et al. (2012), Nigeria's slow development and progress can be attributed to the absence of ethical conduct and accountability among tax managers. Oladipo et al. (2022) suggest that ethical behavior encompasses the guiding principles and moral standards that individuals or groups adhere to.

Various types of values, such as ethical moral values, doctrinal values, social values, and aesthetic values, possess the capacity to influence individuals' attitudes and behaviors. Value systems encompass both prescriptive and prospective ideas. Foundational in nature, deliberate acts play a crucial role in shaping an individual's ethical conduct. Hertiningas and Yustin (2021) have identified several ethical issues associated with taxes, which encompass avoidance, proactive reporting, aggressive planning, alteration, and fraud. The ethical worth of taxation can be examined from the perspectives of both tax officials and taxpayers. The ethical difficulties that have been emphasized are to the administration of taxes, which is predominantly dependent on a systematic approach to managing taxes. The objective of this research is to evaluate the suitability of certain known tax principles, including tax certainty, tax conveniences, and tax processes, and to analyze the extent to which the respective tax authorities have effectively implemented these principles to promote tax compliance.

2.1.1.1 Tax Certainty and Tax Responsiveness

Tax certainty is achieved when there is a state in which the anticipated tax result can be reasonably foreseen, owing to the lucidity and straightforwardness of tax regulations, as well as the consistent implementation of effective administrative practices and mechanisms for resolving disputes (Demin, 2020). Schwarz (2018) posits that tax certainty can be analyzed via the lenses of legal frameworks, administrative practices, and mechanisms for resolving disputes. According to Schwarz (2018), the principle of legal certainty emphasizes the need of avoiding the use of legal discretion and instead promoting a tax system that is characterized by comprehensibility, predictability, and accessibility. In order to ensure administrative certainty, it is imperative that tax assessment and collection processes adhere to principles of transparency, predictability, impartiality, fairness, and timeliness. Lastly, it is imperative to ensure access to justice, including a fair trial, at the most affordable cost possible in cases where disputes arise. According to Schwarz (2018), the preservation of legal certainty and effective administration is perceived as a proactive approach, while conflict resolution is regarded as a reactive tactic.

Nevertheless, as per the findings of the Organisation for Economic Co-operation and Development (OECD, 2018), the concept of complete tax certainty is merely theoretical and lacks practical implementation. The presence of tax uncertainty provides an opportunity for both taxpayers and tax officials to develop tax positions that will eventually need to be reconciled. While tax certainty is a highly sought-after objective, it is important to acknowledge that there exist various uncertainties that may arise (Piper, 2014). Uncertainty may arise at several stages within the tax administration process, encompassing the identification of taxable transactions, tax assessment, valuation, and calculation. The potential causes of this issue include the presence of subjective assessments (such as provisions, prepayments, and accruals) that influence the calculation of income, challenges in accurately valuing non-recurring monetary employee benefits, difficulties arising from the specific characteristics of the business, complications related to the nature of transactions, challenges associated with the timing of asset acquisitions near the end of the fiscal year, jurisdictional complexities, and difficulties in interpreting legal regulations.

There exists a possibility that tax authorities may exploit taxpayers in an unjust manner with the intention of defrauding them, or conversely, that taxpayers may attempt to exploit ambiguous situations for their own unfair advantage. The presence of unregulated uncertainty inside the tax system has the potential to diminish the level of trust among taxpayers and discourage investment from both domestic and foreign entities. According to the study conducted by Junguera et al. (2017), voluntary tax compliance is contingent upon the tax payer's understanding of the underlying rationale behind tax payment, as well as their awareness of the national budget and expenditure strategies. Therefore, one could posit that micro, small, and medium enterprises (MSMEs) are likely to exhibit consistent adherence to tax regulations as a result of enhanced legitimacy, positive reputation, and a discernible link between taxation and the provision of public services.

2.1.1.2. Tax Convenience and Tax Responsiveness

Akpubi and Igbekoyi (2018) provide a definition of perceived usability as the degree to which a user believes that utilizing a system would facilitate the completion of their work, hence conveying the concept of tax convenience. This study examines tax compliance from the perspective of the perceived ease of computerized tax administration, specifically in relation to the process of filling out tax returns. According to Jain and Singh (2021), the process of e-filing refers to the electronic transmission or direct attachment of tax papers to the income tax office, as an alternative to traditional paper filing methods. In a study conducted by Jain (2017), it was found that electronic forms are experiencing a growing popularity due to their time-saving nature, accessibility from any location and at any time, reduction in taxpayer-tax authority interactions, and assurance of data accuracy. According to Muthu Lakshmi (2017), the implementation of electronic filing has been found to alleviate stress among tax payers, as well as provide significant time, resource, and financial savings. Tax payers are strongly encouraged to utilize e-filing and e-payment systems in order to ensure compliance with tax regulations.

The advantages of electronic filing of income tax returns for taxpayers' adherence have been examined by other scholars as well. According to Tias (2011) and Chavda (2018), the utilization of e-filing has been found to have a notable effect on individuals' attitudes. This, in turn, influences their behavioral intention to adopt and utilize e-filing systems, ultimately leading to enhanced tax responsiveness. Chavada (2018) asserts that e-filing is a streamlined procedure that provides reliable technical connectivity, hence rendering it more dependable than traditional paper-based tax filing. According to Arora (2016) and Chopra et al. (2017), electronic filing (e-filing) offers more accessibility, efficiency, convenience, and effectiveness compared to the traditional method of manually completing paper tax returns. Furthermore, e-filing does not necessitate extensive technical proficiency in order to successfully file taxes.The convenience idea has been identified as a fundamental basis for an efficient and effective taxation system. According to Smith (1999), it has been observed that each tax should be levied at the time or in the way that is most conducive to facilitating convenient payment by the taxpayer.

According to the Association of International Certified Professional Accountants (2017), facilitating the ability of taxpayers to fulfill their tax obligations in a manner and timeframe that is most convenient for them is of utmost importance. This approach would result in a reduction of compliance costs for taxpayers and administrative costs for tax authorities. In 1998, the Rwandan Revenue Authority (RRA) implemented significant reforms to enhance the convenience of the nation's tax system. The Rwanda Revenue Authority (RRA) commenced the utilization of electronic billing machines in 2012, as part of its responsibility to manage, collect, and record all taxes and certain non-tax revenue. Additionally, the RRA aims to offer services that facilitate the development of businesses. The implementation of the reform resulted in an increase in taxpayer compliance and business value-added tax (VAT) payment, facilitated by the introduction of simplified tax payment methods. Additionally, this reform led to a reduction in Rwanda's expenses related to tax administration and collection. The tax system in Rwanda was established with the objective of facilitating taxpayers in enhancing their financial resources and promoting adherence to tax regulations. Rwanda's latest placement of 56th in the 2017 Doing Business (DB) report serves as evidence of its progress in fostering a favorable business environment, which can be attributed to several factors such as tax reforms.

Nevertheless, it has been widely acknowledged that the punctual remittance of taxes plays a pivotal role in fostering the effectiveness of the tax system, hence enhancing its competitive edge. This is due to the fact that the appropriate timing of tax payment for the taxpayer is considered a fundamental tenet of a well-functioning tax system. According to Mayanga et al. (2018), a well-functioning tax system should prioritize investment and encourage taxpayers to invest and reinvest in their existing enterprises as well as other ventures. This approach is crucial for fostering economic growth, enhancing competitiveness, and generating employment opportunities. Both the convenience of the payment method and the timing of payment should be considered. Administrative efficiency in revenue collection can be justified by defining it in terms of the payment, date, and mode of all tax payments. In order to ensure compliance, it is imperative that the payment be made at the optimal time, taking into consideration the convenience of the taxpayer.

2.1.1.3. Tax Process and Tax Responsiveness

According to the Organization for Economic Co-operation and Development (2018), the fundamental objective of a tax authority is to effectively gather taxes and duties in adherence to legal regulations, while simultaneously upholding public trust in the tax system and its administration. The likelihood of individuals engaging in unlawful activities is heightened as a result of their lack of knowledge, disregard, or deliberate avoidance of tax obligations, which in turn exposes inadequacies within the tax administration system. Aribaba et al. (2019) argue that tax legislation ought to be designed in a manner that avoids direct intervention in state economic decisions, with the aim of enhancing and sustaining such decisions. Shahrodi (2010) argues that in order to foster compliance among rising micro, small, and medium enterprises (MSMEs), it is imperative to alleviate the burden of excessive taxation.

Farzhod (2000) conducted a study examining the influence of tax policy on micro, small, and medium enterprises (MSMEs). The study highlighted numerous issues that impede the ability of MSMEs to effectively adapt to taxation, such as elevated tax rates, multiple tax obligations, a dearth of tax incentives, and inadequate operational efficiency. It has been suggested that inadequate tax administration leads to diminished tax revenue and non-compliance. The study conducted by Muslichah (2015) demonstrated a correlation between tax simplification and compliance among tax-payers. Similarly, Yee et al. (2017) found evidence supporting a favorable association between tax fairness and compliance among tax-payers. Hardiningsih and Yulianawati (2011) argue that the non-compliance of tax payers can be attributed to a limited understanding of the tax regulations. Agustiningsih and Isroah (2016) propose that the assessment of tax payer compliance can be determined by the extent to which taxpayers possess a comprehensive understanding of prevailing tax laws and regulations, as well as their ability to effectively execute accurate tax filing procedures. Yee et al. (2017) suggested that an essential determinant influencing taxpayer compliance behavior is the level of comprehension regarding taxation.

Despite the widespread tendency among individuals to evade tax payments, Suryarini and Tarmudji (2009) underscored the importance of conscientious taxpayers fulfilling their commitments by accurately and punctually settling their tax liabilities. The positive and significant influence of taxpayer knowledge on taxpayer compliance has been substantiated by several scholars (Agustinininingsih & Isroadh, 2016; IIhamsyah et al, 2016, Savitri & Mustialdy, 2016). In contrast, the study conducted by Nugrobo et al. (2016) revealed that there is no significant influence of awareness on tax compliance.

2.2 Theoretical Review

2.2.1 Attribution theory

The attribution idea was first developed by Fritz Heider in 1958. The concept posits that individuals' responses to contemporary events are shaped by the attributions they make to their underlying causes. The hypothesis also assumes, from a scientific perspective, that individuals are actively seeking to comprehend the underlying variables that influence their own behavior as well as the behavior of others. Put differently, there is a keen interest among individuals to acquire knowledge about the underlying factors that contribute to the occurrence of certain occurrences. Based on Heider's 1958 theory, individuals strive to ascertain the dispositional attributes that underlie observed behavior through the process of assigning it to either internal or external factors, encompassing situational or dispositional causes. Weiner (1972) developed a model that focused on antecedent conditions, perceived causes, casual dimensions, psychological consequences, and behavior consequences. This model aimed to examine the perception of causality and the judgment of why a particular incident occurred, with a specific emphasis on how the allocation of responsibility influences subsequent behavior.

According to Dunning et al. (2004), in the context of informal reasoning, individuals commonly exhibit a tendency to attribute their successes primarily to their own efforts, while assigning blame for failures to external forces. This study provides empirical evidence supporting the notion that professors often hold students and/or their parents responsible for academic shortcomings, whereas students and their parents tend to attribute their failures on the instructor or the educational institution. Consequently, the prevalence of dispute and disagreement over the factors contributing to success and failure is widespread. The relevance of the attribution theory to this study lies in its association with the tax payers' limited response to tax payment, which may be attributed to the presence of a weak tax administration system. The non-compliance with tax payment can also be attributed to the dearth of social amenities and infrastructure facilities, which impede the functioning and growth of micro, small, and medium enterprises (MSMEs).

2.4 Empirical Review

The study conducted by Gberegbe and Umoren in 2017 examined the correlation between individuals' opinions of tax justice and their compliance with personal income tax in Rivers State. The sample for this study comprised 380 out of the total 7,865 registered Micro, Small, and Medium Enterprises (MSMEs) that are tax-paying entities. The study employed the Spearman correlation coefficient and multiple regression analyses as estimation approaches. The results indicated a significant positive influence of distributive fairness, procedural fairness, relative fairness, and the perception of tax justice on individuals' compliance with personal income tax in Rivers State. Ombe (2018) conducted a study examining the influence of tax compliance expenses on the behavior of medium and large companies that are taxpayers in Kenya. The findings of the study indicate that there is a significant decline in the taxpaying behavior of Kenyan taxpayers when tax compliance expenses increase. Single et al. (2018) conducted a study on corporate tax compliance and observed a positive association between trust and voluntary compliance. They also noted a trend towards the adoption of trust-based approaches in this context. When tax authorities are perceived as highly trustworthy, it indicates that corporate taxpayers are more likely to willingly and positively adhere to tax payment obligations.

In another study, Imam et al. (2015) conducted an examination of the impact of tax education on tax knowledge, tax fairness, and tax compliance within the handicraft small and medium-sized enterprise (SME) sector in Indonesia. The objective of their research was to assess the significance of knowledge in this context. The utilization of a questionnaire technique is employed as a means of gathering primary data. The results indicate that tax education has a positive and significant influence on individuals' understanding of taxation, perceptions of tax equity, and adherence to tax regulations. Ahmad et al. (2018) conducted a study to investigate the impact of tax knowledge, tax awareness, and tax amnesty on taxpayer compliance. The objective of the study was to examine the relationship between individuals' perceptions of tax compliance and the impact of tax knowledge, understanding, and amnesty. The research population consists of taxpayers who have submitted their tax returns at the East Semarang Pratama tax office, located in the central area of Java. The study employed a questionnaire as the data collection method, and participants were selected via convenience sampling. The results of the study indicated that there was a positive and statistically significant relationship between the understanding of taxes, the level of taxpayer awareness, and the perception of tax amnesty, and the degree of taxpayer compliance.

In a study conducted by Kurniawan (2020), the researcher investigated the effects of tax education in higher education on individuals' tax knowledge and its subsequent influence on personal tax compliance. The aim of this research was to provide a deeper understanding of the importance of tax knowledge. The objective of this study is to ascertain the potential impact of tax education in higher education on individuals' inclination to fulfill their tax obligations, by examining if enhanced tax knowledge influences their readiness to submit taxes. The results of a survey conducted on a sample of 100 students who meet the criteria for being taxpayers indicate that tax education has a substantial impact on tax compliance. Aremu and Siyanbola (2021) conducted a study in the informal sector of Ogun state, Nigeria, focusing on the relationship between tax compliance and education. The major objective of the study was to assess the influence of tax education on tax compliance within the informal business sector in Ogun State. The study employed primary data sources and adopted a survey design methodology. The findings of the study indicate that tax education exerts a substantial influence on taxpayer registration, leading to the conclusion that tax education significantly affects tax compliance within the state of Ogun.

According to Dibie and Dibie (2020), the efficacy of tax administration in Nigeria is impeded by several challenges. The primary source of data for this study was obtained by the administration of questionnaires and conducting interviews. The subsequent data analysis indicates a significant positive link between tax compliance and factors such as limited knowledge regarding taxes, lower educational attainment, and the prevailing socio-economic conditions in Nigeria. In their study, Iredele et al. (2018) examined the phenomenon of voluntary tax compliance in the informal sector economy, focusing on policy perspectives. The study focused on enterprises within the informal sector in the Ifako-Ijaiye Local Council Development Area of Lagos State. It aimed to evaluate the extent and challenges associated with voluntary tax compliance among these businesses operating within the informal economy. The findings indicated a notable deficiency in the rate of tax compliance among the informal sector.

The study conducted by Sjoerd et al. (2019) aimed to examine the potential role of the need for certainty in tax matters as a significant factor influencing the development and implementation of tax control frameworks within large organizations. Additionally, the researchers sought to determine whether the presence of a tax control framework of higher quality contributes to an enhanced perception of certainty regarding the organization's tax position. The study utilizes data obtained from a survey conducted among representatives of significant organizations in the Netherlands. The results suggest that tax compliance and the need for certainty both contribute positively to the efficacy of an internal control mechanism.

3. Methodology

The study is qualitative research conducted using the survey research design. Data was obtained from primary sources using questionnaire distributed to targeted respondents in the South Western States in Nigeria. The population consisted of 6,803,804 informal and formal MSMEs owners in Lagos, Oyo and Osun as targeted States. The population of the study is stated as; 6,803,804 informal and formal SMEs consist of Lagos state (3,476,247), Oyo State (1,400,389) and Osun State (1,927,168) (SMADEN, 2021). The study used Stratified and Simple Random techniques. The Taro Yamane sampling method (1967) was used to calculate the sample size from a given population. The following is Taro Yamane's (1967) sampling method using the formular stated thereafter. The of reliability of the research instrument was ascertained using Cronbach alpha to compute the Likert scale of Strongly agreed, Agreed, Undecided, Disagreed, and Strongly disagreed. The determination of sample size is stated thus:

$n = N/(1 + N(e)^2)$ ... ... *i*

Where: n = sample size, N= population

e = signifies the margin error (it could be 0.10, 0.05 or 0.01)

$n = \frac{6,803,804}{1+ 6,803,804\ (0.05)2} = \frac{6,803,804}{17008.51} = 400.02$, therefore $n \approx 400$ ii

Therefore, the sample size for this study is 400.

Given the variety of Nigeria three South Western states, choosing the same population size from the three would be inappropriate. As a result, this study adopted Falade et al. (2021) statistical equations to arrive at the specific population of each state.

$$N = \frac{P1}{n} \times n_1 \quad ... \quad ... \quad ... \ iii$$

Where; N= Sample population, P_1= Population of each unit, n= Total population of the study area

n_1= Calculated sample for the total population; therefore, we have

Lagos State = $\frac{3,476,247}{6,803,804} \times \frac{400}{1} = 204$ Oyo state = $\frac{1,400,389}{6,803,804} \times \frac{400}{1} = 83$

Osun State = $\frac{1,927,168}{6,803,804} \times \frac{400}{1} = 113$

3.1 Model Specification

This study model hinges on Olusegun (2021) model, with extensive modifications to meet the stated objective. The Olusegun (2021) model is as follows:

TNc= f (TRate, TComplex, TDeter)………iv

Where: *TRate*; Tax system structure, *TComplex*: Tax system complexity, *TDeter*; Deterrence sanctions

Modifying equation iv to capture objective one and three, we have equation below as;

TAXR = f (TAXCER, TAXCON, TAXPRO) ………(v)

TAXR: Tax Responsiveness, *TAXCER* : Tax certainty, *TAXCON*: Tax conveniences and *TAXPRO* : Tax Process

Olusegun (2021) study was modified for two reasons. First, the study was mainly interested in non-compliance with tax in Sub-Saharan Africa (SSA); hence, necessitated the need for this present study to change the dependent variable to tax responsiveness. Also, the three main hypotheses tested by Olusegun (2021) were not consistency with the main objectives for this present study.

The econometric version of equation (v) is given below;

$$TAXR = \beta o + \beta_1 TAXCER + \beta_2 TAXCON + \beta_3 TAXPRO + e \quad ..... \ ...... \ ...... \ (vi)$$

The logit form of equation

The logit technique is often used in econometric for primary based research. Given this, the study also adopted the logit technique in examining the earlier stated objectives.

The logit form of equation v is given below as:

$$log\sum\left(\frac{Pro(\text{TAXR})}{Pro(1-\text{TAXR})}\right)=\pi_0+\ \pi_1\text{TAXCER}\ +\ \pi\ _2\text{TAXCON}\ +\ \pi\ _3\text{TAXPRO}\ +\mu_t \ldots\ \ldots\ \ldots\ vii$$

The a priori expectation is stated statistically thus;

$\pi_1 > 0, \pi_2 > 0, \pi_3 > 0$

Table 1: Measurement of Variables

Variable	Measurement	Source
Tax Responsiveness	Strongly Agree or Agree were proxy as 1; while Undecided/ Disagree/Strongly Disagree were proxy as 0	Gujarati, Porter, & Gunasekar (2004).
Tax Process	Strongly Agree or Agree were proxy as 1; while Undecided/ Disagree/Strongly Disagree were proxy as 0	Gujarati, Porter, & Gunasekar (2004).
Tax Certainty	Strongly Agree or Agree were proxy as 1; while Undecided/ Disagree/Strongly Disagree were proxy as 0	Gujarati, Porter, & Gunasekar (2004).
Tax Conveniences	Strongly Agree or Agree were proxy as 1; while Undecided/ Disagree/Strongly Disagree were proxy as 0	Gujarati, Porter, & Gunasekar (2004).

Authors' Compilations (2024)

4 Data Analysis and Discussion of Findings

4.1 Description of Respondents

From the background information in appendix 1 attached, the date of incorporation demonstrates that the majority of the sampled SMEs in South Western States in Nigeria had been in existence for more than 5 years, suggesting that SMEs owners within the study region are acquainted with the applicable tax rules. On nature of organization, partnership was considered to have the highest number of SMEs ownership, followed by others. The implication is that most of the SMEs within the South Western States in Nigeria are jointly owned by people. On the level of annual sale, 55% was considered to have a turnover above 6 million naira per year; hence, suitable for SMEs operation. As shown in appendix 1, majority of the sampled business have been in the SMEs operation more than five years. Hence, know the implication of tax sanction when avoiding tax payment. Also, it was confirmed also that a large portion of sampled SMEs only paid tax in the last couple of a year. The implication is that amongst the sampled SMEs in South Western States in Nigeria, a large portion of them are tax evaders. This may be attributed to corruption on the part of tax administration or poor tax process.

Table 2: Description of Respondents

	F	(%)	Cum.
Date of Incorporation			
Below-1year	141	35.25	35.25
2years-5years	135	33.75	69.00
6years-Above	79	19.75	88.75
Others	45	11.25	100.00
Total	400	100.00	
Nature of Organization			
Sole Proprietor	83	20.75	20.75
Family Owned Business	55	13.75	34.50
Partnership	185	46.25	80.75
Others	77	19.25	100.00
Total	400	100.00	
Business's annual sales			
Less than N5m	180	45.00	45.00
Between N6 – N10m	156	39.00	84.00
Between N11– 15m	10	2.50	86.50
N 16m-above	54	13.50	
Total	400	100.0	

Where F indicates frequency, (%) indicates the percentage, cum represent cumulative %

Authors' Compilations (2024)

4.2 Test of Variables

4.2.1 Reliability Test

To examine the consistency and reliability of the research instrument, Cronbach's alpha (α) reliability testing tool was applied. Table 2 shows the estimate of the Cronbach alpha to test for the reliability of the five-point Likert scale and the demographic information used in this study so as to avoid spurious and invalid analysis. The findings show a very high Cronbach value of 0.755 which points to a consistent result. Which implies that instrument used for the study is reliable, since it is above the benchmark rule of thumb of 0.5.

Table 2: Reliability Statistics

Cronbach's Alpha	N of Items
0.755	400

Authors' Computation (2024)

4.2.2 Correlation Matrix

Table 3: Correlation Matrix

Variable	FIRMV	INSTUO	INSTUODIDP	MANG
TAXR	1.0000			
TAXCER	0.0124	1.0000		
TAXCON	0.0548	0.0712	1.0000	
TAXPRO	-0.0359	0.0633	0.0251	1.0000

Authors' Computation (2024)

In Table 3, it was found that tax responsiveness (TAXR), tax certainty (TAXCER), tax conveniences (TAXCON) and tax process (TAXPRO) were all in agreement with Pearson's correlation assumption, that states that a perfect and a strong correlation result is obtained when a variable is regressed against itself. The policy implication of the finding showed that each variable contributes to the willingness of individuals SMEs owners to comply with the applicable tax laws by paying taxes appropriately. Also, on the individual contribution of each of the independent variable to the overall performance of tax responsiveness in the South Western states, they all had moderate impact on the tax responsiveness.

4.3 Tax Ethical Value and Tax Responsiveness

The results of the logit regression are presented in Table 4. The coefficient of tax certainty (TAXCER), which exhibited statistical significance and demonstrated a robust correlation with tax responsiveness (TAXR), was determined to be 5%. This implies that the implementation and sustenance of consistent regulatory and policy frameworks by the government in managing taxation is highly probable, with a 99.9% likelihood, to enhance the level of tax compliance among small and medium-sized enterprises (SMEs) in the selected states of South Western Nigeria. The calculated coefficient of tax certainty (TAXCER) demonstrated a statistically significant impact on TAXR, as indicated by its t-value of 0.028. This discovery carries two policy implications. The provision of correct information by the government regarding the rationale and procedures involved in tax collection serves as a catalyst for Small and Medium Enterprises (SMEs) to comply with tax regulations and fulfill their tax obligations in a timely manner. According to Appah & Ebimobowe (2016), tax responsiveness can be described as an individual's willingness to comply with relevant tax legislation by fulfilling their tax obligations.

Furthermore, small and medium-sized enterprises (SMEs) exhibit a positive reaction towards tax payment when the tax base is modified to accurately represent the prevailing economic conditions. A small and medium-sized enterprise (SME) refers to a commercial entity operating within the real sector of the economy, characterized by a relatively limited capital base while exerting significant influence. Hence, it is imperative that the taxation of such a firm aligns with the prevailing economic conditions. Oboh et al. (2013) found that various tax preparation strategies had a notable influence on the compliance attitudes of taxpayers. Moreover, Gberegbe and Umoren (2017) and Ahmad et al. (2018) have identified a robust and noteworthy association between tax responsiveness and tax certainty. According to Ahmad et al. (2018), there exists a direct relationship between tax knowledge and education, and taxpayer compliance. Moreover, Chipeta (2002) shown that elevated tax rates amplify the financial obligations of taxpayers and foster the inclination towards tax cheating.

The statistical analysis using logit regression indicated that the coefficient value of TAXCON, which is 1.2 units, is statistically significant at a 5% level of significance. The findings of this study indicate that small and medium-sized enterprise (SME) owners in the South Western States of Nigeria exhibit a remarkably high level of compliance, with 99.9% adherence to tax payment regulations. The level of compliance is contingent upon the transparency and clarity of the payment method, encompassing both the payment schedule and the form of payment. Tax conveniences have an impact on the degree of tax responsiveness (TAXR). The provided a priori expectation aligns precisely with the observed outcome. Tax incentives have a significant impact on the responsiveness of the tax system, which may be observed through the implementation of two distinct approaches. In order to ensure timely collection, it is imperative for small and medium-sized enterprises (SMEs) to demonstrate a proactive attitude towards fulfilling their tax obligations, particularly as the fiscal year draws to a close.

Furthermore, the utilization of various payment methods, particularly electronic channels, significantly influences the level of tax responsiveness. According to Adam Smith, the optimal approach to tax collection is granting taxpayers the liberty to select the most suitable timetable and method for their individual circumstances. Tax responsiveness refers to the degree to which individuals adhere to and comply with tax regulations, and is influenced by factors such as tax incentives and the ease of tax compliance. The authors referenced in the text are Rahaqu (2013), Wosowei and Elizabeth (2016), and Wosowei. Moreover, the studies conducted by Abdusalam et al. (2014) and Iredele et al. (2018) have demonstrated a substantial impact of payment date and form on tax responsiveness, as evidenced in their separate research.

The results of the logit regression analysis indicate that the variable representing the tax procedure (TAXPRO) had a negative coefficient, but failed to achieve statistical significance at both the 5% and 10% conventional levels. Based on the obtained absolute t-statistic value of 0.76, which is lower than the critical value of the student t-test at a significance level of 5% ($t_{0.05}$= 2.042), the analysis indicates that the marginal impact reveals a lack of tax process responsiveness to tax responsiveness, as the estimated coefficient is zero. This result carries three economic implications for policy. One of the primary factors contributing to a decline in tax compliance among small and medium-sized enterprises (SMEs) is the inadequate assessment of tax liabilities, specifically in terms of accurately determining the taxable amount as stipulated by federal government regulations.

Furthermore, the presence of inaccurate calculations or errors in the computation of tax payments by small and medium-sized enterprises (SMEs) has a negative impact on their willingness to comply with tax obligations. Furthermore, the efficacy of the tax process is exacerbated by the tax administration's inadequate enforcement of tax regulations, resulting in a diminished degree of tax compliance among small and medium-sized enterprises (SMEs). The findings contradicted the previously expressed a priori prediction. The issue at hand could perhaps be linked to the nation's tax system, which has been marred by corruption and poor policy implementation.

The findings of this study indicate that the tax procedures implemented by tax authorities, as well as the ethical principles pertaining to tax certainty and convenience, has significant influence over the tax responsiveness of micro, small, and medium enterprises (MSMEs). Micro, small, and medium-sized enterprises (MSMEs) often participate in tax avoidance due to the lack of clear control over their organizational structures, which affords them the opportunity to do so. Nigeria's tax compliance rate is significantly low, standing at a mere 10% when compared to other nations (FIRS, 2018).

Consequently, it is imperative for tax administrators at various levels to ensure precise delineation of tax legislation pertaining to payment timing and methods. Additionally, they should establish an electronic payment system accompanied by comprehensive educational initiatives to facilitate convenient modes of payment. Furthermore, the elimination of administrative obstacles within the tax process and the optimization of its efficiency are crucial for enhancing the responsiveness of taxpayers.

Table 4: Logit Regression Model

Variable	Coefficient	Std. Error	z-Statistic	Prob.
TAXCER	1.0467	0.2196	2.22	0.028**
TAXCON	1.2520	0.2567	3.10	0.013**
TAXPRO	-0.8556	0.1758	-0.76	0.448
Constant	0.7351	0.1255	-1.80	0.072*
	Prob > chi2 = 0.6142; Pseudo R2 = 0.0033			

*Note: ** & * indicate significance at 0.05 and 0.1 Co-efficient is* Odds Ratio

Authors' Computation (2024)

5. Conclusion and Recommendations

This research examined the impact of tax ethical principles on the tax responsiveness of micro, small, and medium-sized enterprises (MSMEs) in the south-western states of Nigeria. In order to examine the relationship between tax responsiveness and its determinants, namely tax certainty, tax conveniences, and tax procedure, a regression analysis was conducted. The dependent variable, tax responsiveness, was regressed against these three independent components. Based on the results of the study, it can be concluded that tax incentives and predictability have a positive effect on the level of tax compliance exhibited by small and medium-sized enterprises (SMEs) in the South Western states of Nigeria. However, the tax administration procedure was found to have no statistically significant influence on tax responsiveness among these SMEs. This observation illustrates that an ineffective tax system hampers the timely fulfillment of tax obligations, but a well-established regulatory tax system, accompanied by accurate tax payment deadlines and a transparent payment framework, incentivizes small and medium-sized enterprise (SME) owners to promptly settle their tax liabilities. The tax ethical principles that foster tax responsiveness among small and medium-sized enterprises (SMEs) in the South Western states of Nigeria are believed to encompass a stable regulatory tax system, timely compliance, and a transparent payment framework.

The study therefore recommends that; government should review obsolete tax laws and ensure that tax laws are defined as to the time and mode of payment; government should maintain the e-channel method of tax payment using diverse mobile apps for tax collection through investment in technology. Doing this would promote mode of tax payment and encourage payment among SMEs owners; and need on the part of government to strictly followed the laid down policy by ensuring that tax processes are duly follow amongst tax administration and tax payers.

References

Abuamria, F. (2019). The effect of deterrence factors on discourages shadow economy level and tax evasion. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, *9*(1), 62–67.

Adebisi, J.F. & Gbegi, D.O (2013). Effect of tax avoidance and tax evasion on personal income tax administration in Nigeria. *American Journal of Humanities and Social Sciences* 1(3), 125-134

Akpubi, M. D., & Igbekoyi, O. E. (2018). Electronic taxation and tax compliance among some selected fast food resturants in Lagos State, Nigeria (Tax paper perspective). *European Journal of Accounting, Auditing and Finance Research, 7*(7), 52-80.

Alabede, J.O., Ariffin, Z. Z., & Idris, K. M. (2011). Individual taxpayers' attitude and compliance behaviour in Nigeria: The moderating role of financial condition and risk preference. *Journal of Accounting and Taxation* 3(5), 91-104.

Alstadsæter, A., Johannesen, N., & Zucman, G. (2019). Tax evasion and inequality. *American Economic Review*, *109*(6), 2073-2103.

Alm, J., & Torgler, B. (2011). Do ethics matter? Tax compliance and morality. *Journal of Business Ethics*, *101*, 635-651.

Besley, T., Jensen, A., & Persson, T. (2021). Norms, enforcement, and tax evasion. *Review of Economics and Statistics*, 1-28.

Bodea, C., & LeBas, A. (2014). The Origins of Voluntary Compliance: Attitudes toward Taxation in Urban Nigeria. *British Journal of Political Science,* 1, 1-24.

Braithwaite, V., Murphy, K., & Reinhart, M. (2007). Taxation Threat, Motivational Postures and Responsive Regulation. *Law and Policy,* 29(1), 137-158.

Brederode, R.F. (2014). A Normative Evaluation of Tax Law Enforcement: Legislative and Political Responses to Tax Avoidance and Evasion. 42(12), 764-783.

Coombs, W.T. (2007). Attribution theory as a guide for post-crisis communication research. *Public relations review*, *33*(2), 135-139.

Freedman, J. (2018). Restoring Trust in the 'Fairness' of Corporate Taxation: Increased Transparency and the Need for Institutional reform. In *Tax and Trust: Institutions, Interactions and Instruments*. 121-141. The Netherlands: Eleven International Publishing.

Hastuti, R. (2014). Tax awareness and tax education: A perception of potential taxpayers. *Tax Awareness and Tax Education: A Perception of Potential Taxpayers*, *5*.

Kurniawan, D. (2020). The influence of tax education during higher education on tax knowledge and its effect on personal tax compliance. *Journal of Indonesian Economy and Business: JIEB.*, *35*(1), 57-72.

McGee, R.W. (ed.). 2012. *The Ethics of Tax Evasion: Perspectives in Theory and Practice*. New York: Springer.

Mukhlis, I., Utomo, S.H., & Soesetio, Y. (2015). The role of taxation education on taxation knowledge and its effect on tax fairness and tax compliance on handicraft SMEs sectors in Indonesia. *international Journal of financial research*, *6*(4), 161-169.

OECD. 2015. OECD Tax Statistics. Revenue Statistics: OECD Countries-Comparative Tables.

Palil, M.R., Akir, M.R., & Ahmad, W.F. (2013). The perception of tax payers on tax knowledge and tax education with level of tax compliance: A study the influences of religiosity. *ASEAN Journalf*

Richardson, G. (2008). The relationship between culture and tax evasion across countries: Additional evidence and extensions. *Journal of International Accounting, Auditing and Taxation*, *17*(2), 67-78.

Salie, M., Strauss, N., Davids, M., Smit, Y., Boshoff, S., & Bruwer, J.P. (2014). The effects of sin tax on the profitability of SMME convenience stores in the Cape Metropole. *Topclass Journal of Business Management and Innovation*.

Sommer, L. (2011). The theory of planned behaviour and the impact of past behaviour. *International Business & Economics Research Journal (IBER)*, *10*(1). *Economics, Management and Accounting*, *1*(1), 118-129.

Weiner, B. (2012). An attribution theory of motivation. *Handbook of theories of social psychology*, *1*, 135-155.

Yenni M., Eko G.S., Rosidic, N. (2015). Developing a Model of Tax Compliance from Social Contract Perspective: Mitigating the Tax Evasion. Procedia - Social and Behavioral Sciences 211. 966 – 971F.