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Good Governance and Tax Compliance among SMEs in Nigeria: A Moderating Role of Socio-economic Factors

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Abstract
Tax revenues have become a key factor to governance without which lots of government functions are impeded. There is a constant struggle on taxpayers' compliance, especially among the small and medium enterprises in Nigeria due to taxpayers' perceived deficiencies in governance. Specifically, this study was conducted to examine how transparency, accountability, and responsiveness of government influence tax compliance among Small and Medium Scale Enterprises in Nigeria. The study employed the survey research design. Data were collected from primary sources through the use of structured questionnaires distributed to the SMEs at their place of work. The study adopted a Simple random sampling technique. The population of the study consist of 967,468 registered SMEs in Ekiti state. A sample size of 400 was selected using Taro Yamane's formula. Data collected were analyzed using descriptive statistics, structural equation model analysis, Ordinary Least Square (OLS) and regression analysis. The study found a positive significant relationship between the independent good governance and tax compliance among SMEs in Nigeria. The study concluded that good governance is positively and statistically related to tax compliance among SMEs in Nigeria which is an indication that good governance enhances tax compliance among SMEs in Nigeria. The study therefore recommended that government should also exhibit transparency, accountability and responsiveness in order to build public trust in the operators for tax compliance.

Keywords: Good governance, small and medium enterprises and tax compliance.

JEL Classification Codes: H21, D63.

1. Introduction

Globally, tax compliance has become a core issue, as no one literally enjoys paying taxes (Ali-Nakyea, 2014). Worldwide, the functioning of a state greatly depends on tax revenues as these are used to fund public expenditure. Egwaikhide and Udoh, (2012) the political, economic and social development of any country depends on the amount of revenue generated for the provision of infrastructure in that given country and the level of compliance by the citizen to pay their tax promptly. Meanwhile tax revenue cannot be generated unless tax payer comply with laws and pay their taxes effectively and adequately (Vegh & Gribnau, 2018). Governments all over the world have been confronted with the task of findings solutions to tax non-compliance, particularly in developing nations (Oteki & Ezekiel, 2014). Governments of the United States, the United Kingdom, France, Germany, South Africa and other developing countries, among others depend largely on tax income to finance various projects in their countries. In this regard therefore, tax is a compulsory levy imposed by government on the capital and/or income of individuals and companies, which serves as a source of revenue for the performance of various legitimate functions of the state (Olaoye, Ashaolu & Adewoye, 2009).

In Nigeria, the issue of tax compliance has worsened by the day, and this is mainly as a result of high cases of tax non-compliance of the large informal sector, especially in the small and medium scale business caused by the lack of proper systems and structures to enforce tax laws (Aryee, 2007). Small and medium enterprises being profit generating establishments are volatile establishments that need special treatment. Putting their nature into consideration, every little resource at their disposal can make a world of difference. For this reason, a number of Nigerian SMEs choose to remain in the informal sector because they feel the cost of compliance is too high. According to Musa, Saad & Ibrahim (2017), the main problem with the Nigerian tax compliance lies in among others, the assessment and collection process, particularly from those in small and medium enterprises. And a considerable number of those who pay taxes only do so because they are coerced by the authorities. Ingham & Sandmo (2012) opined that the traditional theory of tax compliance which is referred to as "deterrence theory" is which based principally on the assumption of fear of detection and punishment, is a major determinant factor of tax compliance. Gangl, Hofmann, and Kirchler (2015) argued that compliance involves tax payment by the taxpayer without any form of enforcement but positive mutuality of the taxpayer. According Siahaan (2012) posits that the difficulty faced in the process of convincing and sensitizing tax taxpayers to willingly pay their taxes is inherent function of the web of public distrust and declining public confidence in the institution of governance at all levels. This salient issue invariably wanes the morale of active and prospective taxpayers in the process of voluntary tax compliance within the context of the country. There is a wide gap between what is expected to be paid by tax payer and what is eventually paid in the year and over time. This brought to light the concept of good governance which requires a cursory look as it helps in reducing the tax revenue gap (Fagbemi, Uadiale and Noah 2010).

Picur and Riahi-Belkaui, 2016, emphasized that the institutional climate and the quality of governance of the countries in which tax payers live are important determinants of tax compliance. According to Adekoya, Enyi, and Akintoye (2019); Joshi. et al. (2014) accountability influences voluntary tax compliance, this implies that government transparency and accountability on tax collections and its proper usage will enhance voluntary tax compliance. One of the key constraints to tax compliance in Nigeria is governance problem. Governance is concerned with authority in the public sector as well as how the society organizes its affairs and manages its resources as opined by Alabede et al, (2011). They stated that high quality of governance delivers a good tax system, while the opposite will be the case if the quality of governance is low. Thus, a better tax system with good governance enhances compliance, and failure of the government to provide basic public amenities and infrastructure to the citizens, may force them not to comply with tax provisions. In particular, the tax agency can apply good public governance as a leveling ground to enhance tax compliance, and this can basically come

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to play through the canons of transparency, a culture of justice, and public accountability. According to the Corporate Governance Committee (2008), there are five principles of good public governance: transparency, accountability, equity (fairness), adherence to the rule of law, and a strong commitment.

Many studies have been carried out in respect of tax compliance and the factors that could influence it from varying perspectives. The main direction of most of the works done in previous studies as posited by Sandmo (2012), Musa, Saad & Ibrahim (2017), and others are related to enforced tax compliance. Such perspectives have been explored by tax administrators especially in developing cointries, yet with little result. Meanwhile, good governance as identified by Fagbemi, Uadiale and Noah 2010, Siahaan (2012), Joshi. et al. (2014) and Picur & Riahi-Belkaui, 2016, has become a very crucial aspect that needs a deeper research as it is a global concept considered to be of a significant influence on tax compliance in Nigeria. Azeez (2009) stated that if government is assumed as an entity that is accountable and transparent, taxes will be paid voluntarily by a lot of people, which lowers the need for coercion and generally increases tax compliance.

The aim of this study is to evaluate the nexus between good governance using transparency, accountability, as well as fairness and equity as proxies, and tax compliance in small and medium businesses in Nigeria, with a moderating role of socio-economic factors. Primary data through questionnaire is adopted as research instrument for the purpose of this study. This research work was conducted in Ekiti state, south western region of Nigeria.

This study will contribute to the existing literature on tax compliance by providing an empirical analysis and different perspectives on tax compliance in relation to good and quality governance with a moderating impact of socioeconomic factors. The study will be of great use to various stakeholders on tax matters, policy makers, and researchers as it would help in decision making.

The subsequent parts of this study contains related literature and a testable hypothesis in the second session, while the third section describes the research strategy, including variables, proxies statistical techniques, models and samples. The empirical results are presented in the fourth section and the final portion ends with recommendations.

2. Literature Review

2.1 Conceptual Review

2.1.1 Good Governance

Reilly (2009) perceives governance as the way organizations are directed and controlled to ensure that they are effective in achieving their objectives. He argues that whatever governance arrangements are in place in any complaint-handlings scheme, it is vital that they support and promote the integrity of the scheme and office holder and, above all, protect the independence of the office holder, especially from those over whom the scheme has a coverage and jurisdiction. Ribadu (2014) explains governance to mean the process whereby public institutions conduct public affairs, manage public resources and guarantee the realization of human rights. He argues

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that the quality of governance is an issue of increasing concern in the countries around the world – both developed and developing. According to Torgler (2005), inadequate governance may limit the degree of tax revenue mobilization, and tax compliance will suffer as a result. Furthermore, shedding more light on the governance and tax compliance linkage, Torgler (2005) posit that when people are satisfied with the level and quality of political goods financed from their tax investment, their tax compliance levels may escalate. Analyzing this relationship deeply, Everest Phillips and Sandall (2009) advance that there is an interdependent connection between governance quality and taxation and that governance quality influences the design of the tax system. Good governance breeds a fair and balanced tax system and equally a good tax system allows for quality governance. Good governance and effective tax systems positively influence tax revenue mobilization and tax compliance. Everest-Phillip and Sandall (2009) argued that good public governance necessitates a good tax system, and a good tax system necessitates good public governance. Citizens assist the government in fulfilling its responsibilities by providing financial support in the form of tax payments. The taxpayers should be concerned about what is going on in the government since they are the ones who fund it. As a result, governance issues may have either a beneficial or negative impact on taxpayer compliance behavior.

2.1.2 Transparency

Transparency may be explained to mean a situation where reliable, relevant and timely information about the activities of government is available to the public. Transparency ensures that information is available that can be used to measure the authorities performance and to guard against any possible misuse of powers. In essence, transparency serves to achieve accountability, which means that authorities can be held responsible for their actions. The concept of good governance is based on the implied social contract, which states that citizens which provide financial support to government and its functions by paying their fair share of taxes have the right to know what happens to those taxes, how they are spent and , what tangible benefit they receive (Dickerson, 2014; Vlachos & Bitzenis, 2018). Lewis (2006) and Lewis & Alemika (2005) investigations found a decrease in public satisfaction with government performance and democratic dividends in Nigeria. Fagbadebo (2007) also stated that Nigeria is a victim of bad public governance and that in order to promote effective public governance in Nigeria, accountability and transparency must be assured, transparency must be guaranteed to ensure good public governance in Nigeria. Thus, without transparency and accountability, trust will be lacking between a government and those whom it governs and this would result into social instability and an environment that is less than conducive to economic growth (Carstens, 2005)

2.1.3 Accountability

Accountability has been described as a key requirement of good governance (UNESCAP, 1997). According to Iyoha and Oyerinde (2010), accountability in the control and management of public funds is one of the most sensitive aspects of the activities of government in all democracies. This is corroborated by Otusanya (2012) who also explains that accountability is a key to the effective control and management of public funds by governments in all democracies. It is imperative that both the governmental institutions, private sector and civil society organizations must be accountable to the public and to their institutional stakeholders. However, this accountability differs depending on the organization and whether the decision is internal or external to an organization. Specifically, it is those that would be affected by the decisions or actions of the organization that the organization would be accountable to.

2.1.4 Responsiveness

Bojuwon and Obid (2015) stated that responsiveness is the tax authority time frame of responses to several questions asked by the taxpayers, and how self-employed or informal sector taxpayers accomplishes tax goals within a shortest time frame. In Nigeria, according to Natufe (2006), cited in Modugu, Eragbhe and Izedomi (2012), it was stated that the institution of governance at all tiers of government is engulfed in mesh of lack of public trust and confidence which had become the major challenge to tax payers' voluntary compliance. It is therefore, required to put all the necessary strategies in place to stimulate and enhance tax compliance in order to minimise tax avoidance, tax evasion and tax flight. Individual morale will be probably low where it is observed that government failed in providing the required public goods with the earlier tax payment and this is could be an indication of public distrust which might lead to a decline in voluntary tax compliance.

2.1.5 Tax Compliance

Tax compliance is deciding to pay taxes for the benefit of society and at the expense of personal benefits (Van Dijke et al., 2019). It is the will of the taxpayer to act according to the spirit and letter of tax rules and regulations and tax administration without the use of coercion (José et al., 2014; Newman et al., 2018). According to Akpubi and Igbekoyi (2019), developing countries, the government face great challenges in collecting tax revenues, which result in a gap between what they should collect and what they actually collect. Tax compliance is the willingness and ability on the taxpayer's part to obey the relevant tax laws, declare the actual income and pay the correct tax liability as assessed promptly (Sitardja &Dwimulyani, 2016). In the modern-day context, tax compliance study is credited to Allingham and Sandmo (1972), they used economics of crime approach which was developed by Becker (1968) to explain taxpayers' compliance and taxpayers' behaviour. Tax compliance had been defined by many researchers. Ahmed and Kadir (2015) defined tax compliance as the degree taxpayers complies with tax rules and regulation instituted in a country. Thiga and Muturi (2015) also defined tax compliance as the ability to fulfill tax obligation payment as required by the relevant tax laws.

According to Ng, Lee2 and Wong (2020), willingness to pay tax is the act of paying tax in conformity with the tax regulations by taxpayers. Tax compliance refers to the act of accurately filing all needed tax returns in line with the law and otherwise abiding by the tax reporting requirements. According to the theory of willingness to pay (Kahneman et al. 1990), self-motivation and social awareness have an impact on one's readiness to pay taxes. Meanwhile, Sanjaya (2008) argued that the indicators of the taxpayers' readiness to pay taxes are their awareness incentive to do so, their insight and knowledge regarding taxes, their attitude and compliance behavior, and the simplicity of the tax system. The majority of people in the nation will never look forward to paying their taxes, and no one does so without complaining. Few are truly willing and hold the responsibility of funding the country's government (Devano and Rahayu 2006), therefore efforts to maximize tax revenues sector cannot be properly achieved in the absence of a sense of willingness in the taxpayers themselves to willingly pay taxes. According to Sanjaya in Tatiana and Priyo (2009), tax knowledge, perceptions of tax penalties, tax-paying community awareness, perceptions of tax authorities, and perceptions of ease in the application of the taxation system all have an impact on people's desire to pay taxes.

2.1.6 Good Governance and Tax Compliance

Citizens of countries are interested in governance quality because it is linked to the benefits they receive from the government. According to Johnson & Omodero (2021), public governance quality is the process of selecting, evaluating, and replacing a country's leadership, as well as the government's ability to effectively and efficiently handle the country's resources in a fair and equitable manner. According to Alabede et al., (2011), good governance is concerned with power in the public sector as well as how society conducts its affairs and administers its resources). They claimed that excellent governance produces a good tax system, but poor governance has the reverse result. Therefore, a better tax system with strong governance increases compliance, and if the government fails to provide the residents with public amenities and infrastructure, it may drive them to disobey tax regulations.

The most alarming feature of Nigeria's economy is that, as a result of its lackluster commitment to good governance, it has consistently ranked among the least advanced developing nations in terms of the wise use of its resources from taxation and other sources (Okwori & Sule, 2016). According to Azeez (2009), many people will pay taxes voluntarily if it is considered that the government is an accountable entity, which reduces the need for coercion and generally, promotes tax compliance. To ensure that the taxpayers receive the most advantages for their tax contributions, the federal, state, and local governments must use taxpayer funds properly.

2.2 Theoretical Review

2.2.1 Deterrence Theory (DT)

The deterrence theory was propounded by Frey and Feld, (2002) which is premised on dealing with the challenges of tax compliance, in an attempt to seek an enforcement mechanism that can be complemented or substituted by the appeal to the citizen's tax morality. The traditional theory of tax compliance is referred to as “deterrence theory” which is based principally on the assumption of fear of detection and punishment (Allingham & Sandmo, 2012). According to Oladipupo and Obazee (2016) this theory places emphasis on incentives. The theory suggests that taxpayers are amoral utility maximizers who are influenced by economic motives such as profit maximization and probability of detection. Hence, the taxpayers analyze alternative compliance paths for instance whether or not to evade tax, the likelihood of being detected and the resulting repercussions and then select the alternative way that maximizes their expected after tax returns after adjusting for risk. Therefore according to the theory, in order to improve compliance, penalties for non-compliance should be increased. Thus, there is a theoretical positive relationship between tax penalty and tax compliance. Increase in tax penalty would lead to increase in tax compliance and vice versa.

However, Kornhauser (2007) argues that the deterrence theory which is based on the methods of enforcement through audit and penalties explains only a small fraction of actual voluntary tax

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compliance levels, as it has such poor explanatory power because it assumes that the decision to comply is based solely on a cost-benefit analysis in which people rationally weigh the benefits of non-compliance against the cost of detection and penalties. Korrnhauser (2007) therefore, explores the normative and cognitive aspects in his review of literature on tax compliance in order to explain why people pay or fail to pay taxes in the United States of America.

2.2.2 Legitimacy Theory

Legitimacy theory originated from political economy theory and also from the concept of organization legitimacy was propounded by Dowling and Pfeiffer (1975). Legitimacy is described as belief or trust in the government, tax authorities and other agencies that work for the common good of the citizens. The theory postulated that compliance is influenced by the level and extent of trust the citizens have on the government and its institutions (Kirchler et al., 2008). It is on this premise that it is assumed that tax compliance should be higher in an environment where citizens perceived high level of trust on the government rather than when there is lack of trust. Tax compliance with emphasis on African countries is shaped with a model of political legitimacy.

2.3 Empirical Review

Extant literature on good governance and tax compliance in relation for the moderating role of socio- economic factors in Nigeria by several researchers using different analytical methods have been studied.

Bandara and Weerasooriya (2019) elaborated the different perspectives of various scholars in relation to tax compliance and its relationships with other variables. Secondary data was used. This study mainly concentrates on
exhibiting the conceptual ideas held by various researchers in connection with this particular area, by reviewing various previous literatures. The study showed that tax rate, tax information, taxpayers' attitudes, legal framework and cost of tax compliance were found to be core drivers of tax compliance.

Orumwense, Esosa and Aiwoho (2021) examined the determinants of tax morale and tax compliance in relation to trust in government, culture, age, religion, education and employment. A cross sectional research survey design was adopted. The study used questionnaires as its research instrument for data collection. The study found out that transparency, accountability as well as the convenience of tax policies and tax complexities are major issues that determines tax compliance among various tax payers.

Eluro (2018) examined the determinants of tax compliance under the self- assessment scheme the private secondary
schools. Primary data was used through questionnaires. Both descriptive and inferential statistics namely mean, standard deviation, t test and One-way analysis of variance were utilized in analyzing data obtained. The study revealed that complexity of filing process was the highest ranked reason for tax non- compliance.

Nguyen et.al, (2019) ascertained the key factors affecting tax compliance among Vietnamese firms in Vietnam. Qualitative research was carried out through focus group discussions. Quantitative research has been conducted through interviews. Analysis of the model includes the following stages: Cronbach's test for reliability of the scale, exploratory factor analysis (EFA), confirmatory factor analysis (CFA) and structural equation model (SEM). The research showed that voluntary tax compliance is directly affected by the three factors of audit probability, corporate reputation and business ownership. The probability of audit and severity of sanctions have the strongest impact on tax compliance.

Oladipo (2020) investigated the effect of voluntary tax compliance on public accountability and transparency, enforcement tax compliance on government efficiency, tax avoidance on corruption control and tax evasion on good governance in Nigeria. Secondary data source was explored in presenting the facts of the situation. Secondary data source was explored in presenting the facts of the situation. The secondary data were obtained from relevant literatures, Central Bank of Nigeria Statistical Bulletin and National Bureau of Statistics publications among other. Data were tested using the Ordinary Least Square Linear Regression model. The study revealed that, voluntary and compulsory tax compliance are both component of tax compliance to enhance good governance for the development of the country.

Oluyombo and Olayinka (2018) examined the effects of tax compliance on the growth of government revenue in
Nigeria with emphasis on federally collected non-oil revenue. Secondary data was sourced from the Federal Inland Revenue Service management bulletin. The data were analyzed using ordinary least square regression. The study indicated that tax compliance have significant effect on boosting tax revenue generation and that tax default can cause significant variation in government revenue.

Johnson and Omodero (2021) evaluated the quality of governance as a major determinant of tax revenue generation which important to both the government and the Nigerian public. This study adopted time series data set from 2000 to 2020, subjecting the data to the unit root test. Corruption and political instability have a positive and significant impact on Nigeria's tax revenue mobilization.

Alabede et al. (2021) evaluated the relationship between taxpayers' perception about public governance quality and their compliance behavior as well as to determine whether the relationship is moderated by financial condition and risk preference individually and jointly. Primary data, using Abuja as geographical population, using cluster sampling techniques. The study showed that public governance quality has significant positive relationship with tax compliance behavior. The study also indicates that risk preference has strong negative moderating effect on the relationship between public governance quality and tax compliance behavior.

Widuri and Irawan (2019) analyzed the effect of trust in the government to tax compliance with the perception of tax justice as a mediating variable. The research method was the Structural

Equation Model, using the data collected from questionnaire. The study indicated that trust in the government and perceptions of tax fairness will affect taxpayer compliance with tax regulations.

Herman P. et al., (2019) determined how the effect of awareness such as good governance, tax understanding, and tax sanctions against taxpayers compliance, Micro, Small, and Medium Enterprises. The research adopted questionnaires to obtain responses using the convenient sampling technique. Validity testing was also adopted in the research, using Factor Analysis. Good governance has a positive significant effect on individual taxpayer compliance, tax understanding has a positive significant effect on individual taxpayer compliance, and tax sanctions has a positive significant effect on individual taxpayer.

Yuesti and Suardhik (2020) analyzed, test and explain the role of moderation in the implementation of technology and taxation information on the behavior of taxpayer compliance in the effect of Tax Compliance Costs and the effect of trust on the government on SMEs in Jembrana Bali regency. Survey research with .questionnaire as the main research instrument designed in this study to explain the results of the Analysis of Taxpayer Compliance Costs and Trust in Law and Government in Compliance of MSME taxpayers with technology variables and taxation information as moderating variables. The study revealed that taxation technology and information and the level of trust in the legal system and government can provide variations directly in improving the behavior of taxpayers to be better in carrying out tax obligations.

Dibie (2020) analyzed the determinants of tax policy compliance in Nigeria, by examining relationship between knowledge of tax laws and compliance in Nigeria; and the relationship between corruption and tax compliance. Primary data was adopted for the study through the use of questionnaires and interviews. The findings of this study also revealed that there is a strong positive correlation between corruption and tax evasion.

Kifordu, Igweh and Aloamaka (2020) explored avenues through which emerging economies and the Nigerian state in particular can utilize taxation both as a channel for revenue generation and as a medium for the enhancement of state-society relations with a view to promoting good governance. Deploying secondary evidence, the paper argued that there is a palpable disconnect between the government and society in Nigeria owing to the historical fact that revenue generation from the natural resources domain and its utilization has been without accountability and transparency. There is a palpable disconnect between the government and society in Nigeria owing to the historical fact that tax revenue generation and utilization have been without accountability and transparency.

Ewinetu (2019) investigated the determinants of tax compliance behavior in category "C" business income tax payers in Gozamen woreda / district/. Quantitative research approach and descriptive research design. The researcher used cross sectional primary data collected from 318 category C business income tax payers selected with simple random sampling techniques. The study employed both descriptive statistics, and inferential statistics methods of data analysis. The descriptive statistics was summarized using average, minimum, maximum, standard deviation, percentage and frequency. The research indicated that tax compliance behavior is negatively affected by the influence of referent group and experience on business activity at 1 percent level of significance but positively influenced by legal sanction and penalty which is statistically significant at 1 percent level of significance.

Uma et. al. (2018) explored the relationship between public governance quality and tax compliance behavior in developing countries in terms of what transpires between governments and citizens, leading the later to pay or to abstain from paying tax. This study adopted the conceptual approach and connects the concepts through synthesis of literature and previous research findings. The study concludes that socioeconomic condition mediates the relationship between public governance quality and tax compliance behavior in developing countries.

Khaerunnisa, Wiratno and Luthan (2016) evaluated the effect of the tax morality of the level of participation of citizens, the confidence level, the level of local autonomy, national pride, demographic factors, economic conditions, deterrence factors, and the tax system to tax compliance. Data was obtained by sending a questionnaire to the members of the Bogor City GAPENSI 80 respondents with data analysis using Partial Least Square (PLS). The study revealed that tax morality is intrinsic motivation to pay taxes arising from the moral duty or confidence in Governance which enhances the tax culture in taxpayers to contribute to the country by paying taxes.

Uma, Derashid and Ibrahim (2016) reviewed and integrated previous research and causes of noncompliance were identified – Socio economic condition, tax knowledge, perceived audit probability and prevailing social norm. The study was designed as a conceptual and integrative literature research in response to Bird’s (2013) assertion that over fifty years of noncompliance research has not produced a generally applicable solution to countries' tax problems. Having done extensive literature reviews, socio-economic conditions, tax knowledge/education, perceived Audit probability/effectiveness, prevailing social norm, attractiveness of the informal sector and public governance quality were picked based on their suitability for the Nigerian context.

Sitardja and Dwimulyani(2016) examined the influence of good public governance on tax compliance with trust as intervening in the non-financial companies listed in Indonesian Stock Exchange (IDX). The data used was obtained using SEM-PLS of 87 years observation of non-financial companies for the period 2014. Also, the use of questionnaire was adopted. The result of the study showed that a significant and positive indirect influences of tax fairness and tax transparency to tax compliance with trust as mediating variable.

Augustine and Akintoye (2019) examined the influence of Government Transparency (GTRP) on individual taxpayers’ voluntary tax compliance (VTC) behavior in Nigeria. Survey design was used with focus on South-West, Nigeria. Population was 5,216,422 registered taxpayers while a sample size of 1,200 was used to collect data with a validated questionnaire. The study used descriptive and inferential statistics to analyze data at 5% significance level.

The Result of the study showed that trust from government, government’s transparency and employment status have significant relationship with voluntary tax compliance behaviour while

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gender, age and educational level do not have significant relationships with voluntary tax compliance.

Okpeyoa ,Musahb and Gakpetor (2019) examined the factors that influence tax compliance by small and medium tax payers, the difference in the level of compliance between small and medium tax payers and strategies to improve tax compliance in Ghana. The study adopted stratified sampling technique and data was analyzed qualitatively and quantitatively. The study provided evidence that there is a significance difference in the tax compliance level between small and medium scale enterprises, which is largely attributed to the inability of small enterprises to file their tax returns on due dates and also to keep proper books of records of their business transactions.

Various studies have been reviewed and it was discovered that a few authors have written on relevance of good governance to tax compliance both in Nigeria and other countries , however, no detail work has been done in relation to the significance of good governance in SMEs in Ekiti State of Nigeria , especially with a moderating role of socio- economic factors. This presented a gap in literature that need to be filled, and this the focus of this study.

The following hypotheses stated in Null form were formulated in line with the specific objectives:

Ho1: Transparency in government does not have any significant effect of the willingness to pay tax by SMEs in
Ekiti State of Nigeria

Ho2: Accountability in government does not have any significant effect of the willingness to pay tax by SMEs in
Ekiti State of Nigeria

Ho3: Tax Fairness and Equity does not have any significant effect of the willingness to pay tax by SMEs in Ekiti
State of Nigeria

2.4 Conceptual Framework

Conceptual framework on good governance and tax compliance among SMEs in Nigeria: A Moderating Role of Socio-Economic Factors.

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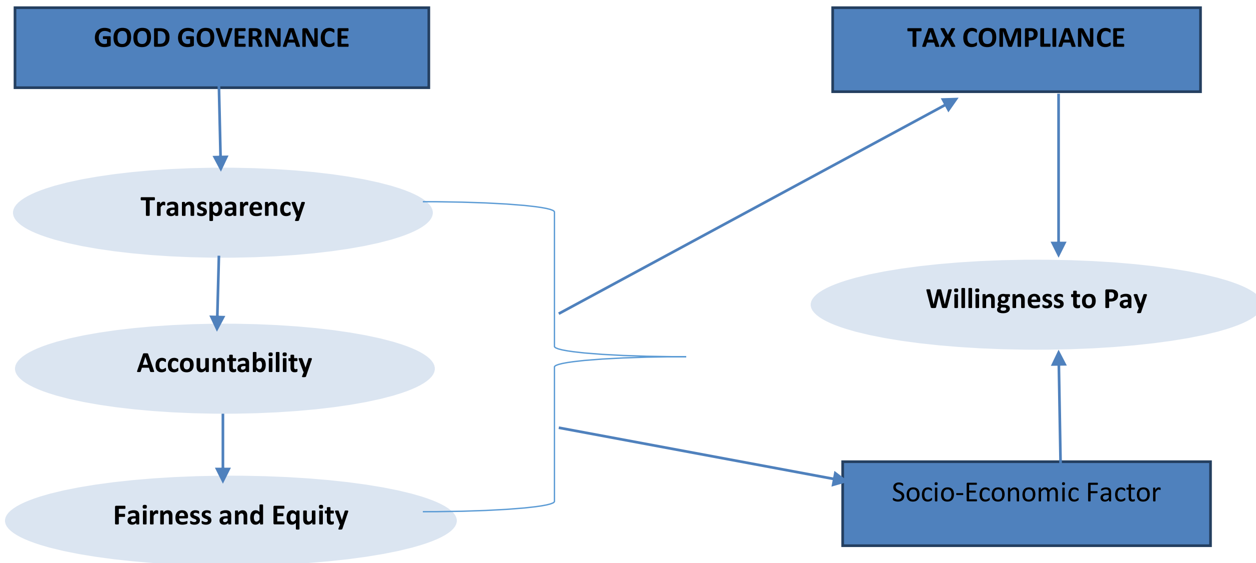
Independent Variable **Dependent Variable**



Source: Authors' Concept

3. Methods

Survey research design was used to examine the significance of good governance on tax compliance in SMEs in Nigeria, with a moderating role of socio- economic factors. The population of this study covered all the registered Small and Medium-scale Enterprises in Ekiti State. Adopting Simple random sampling technique, as of the period of this study, the SMEDAN report of 2021 showed that Ekiti State has a total number of 967,468 registered micro small, and medium-scale enterprises. From the population, the sample size is 400 which was determined using Taro Yamane's formula as revealed (in equation 1. below). Data were gathered using primary data which involved a structured questionnaire distributed among the micro, small and medium-scale enterprises in Nigeria using Ekiti State as a case study. To validate the data instruments used in the study, the reliability test was conducted using Cronbach's Alpha. This research work also adopted descriptive statistics and multiple regression analysis to establish if the relationship between good governance and tax compliance is statistically significant.

Taro Yamane's formula:

$$n = \frac{N}{1 + N(e)^2} \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots \ldots .3$$

Where:

N	=	Total Population
n	=	Sample Size
e	=	error term given as 0.05%

$$n = \frac{967{,}468}{1 + 967{,}468(0.05)^2}$$

n = 400

3.1 Reliability Test

The study employed Cronbach Alpha for the reliability of all the items employed in the study. Five (5) questions were raised in each of the variables. On the willingness to pay the Cronbach Alpha is 0.821, transparency in government has Cronbach Alpha of 0.776, accountability in government has Cronbach Alpha of 0.752, responsiveness in government has Cronbach Alpha of 0.711 while socio economic factors has Cronbach Alpha of 0.763. The outcome of the Cronbach Alpha for all the variables revealed a value exceeding 0.7 which gives assurance that all the items in the questionnaire are reliable.

Table 1 Reliability Statistics Table 1 Cronbach Alpha Test Results

S/N	Variables	No. of Items	Cronbach's Alpha
1	Willingness to Pay (WTP)	**5**	0.821
2	Transparency in Government (TIG)	**5**	0.776
3	Accountability in Government (AIG)	**5**	0.752
4	Responsiveness in Government (RIG)	**5**	0.711
5	Socio Economic Factor (SEF)	**5**	0.763

***Source:* Authors' Computation (2022)**

3.2 Model specification

The model specification below was developed in accordance with the study conducted by Okoye, Senmila & Oseni (2018) on Good Governance and Tax Compliance in Nigeria. The study adopted a model to evaluate the functional relationship between good governance and personal income tax compliance. The research work examined political legitimacy as a concept seen in the light of trust, equity and justice which are factors that encourage personal income tax compliance. This study went further from the study by the inclusion of few variables such as transparency, accountability and fairness and equity to proxy the independent variable. Thus, specified hereunder is the study model:

WTP = f (TIG, AIG, TFE)………………………………….. (2)

From equation 1, the model can be stated in econometric form as:

$WTP = \beta0 + \beta1TIG + \beta2AIG + \beta3TFE + \mu$ …………. ……………… (3)

Where:

WTP = Willingness to pay

TIG = Transparency

AIG = Accountability

TFE =Tax Fairness and Equity

β_0 = Constant of the equation

β_1, β_2, β_3, = Unknown Coefficient of the variables

μ = Error term

The *a priori* expectation for the examination of good governance on tax compliance in SMEs in Nigeria, with a moderating role of socio- economic factors is provided below; A-priori expectation = $\beta1> 0$; $\beta2 >0$; $\beta3>0$

4. Data Analysis and Discussion of Findings

4.1. Descriptive Statistics

Reported in Table 2 is the descriptive statistics for the analysis of good governance and tax compliance among SMEs in Nigeria: a mediating role of socio economic factor. The result showed that the average value of willingness to pay is 4.2085. This value is high when comparing with the scale of five points and it denotes that the mean value of willingness to pay is positive. The standard deviation measured the degree of variability rate to its average value stood at .44412 implying that the variation to the mean value is high. The willingness to pay is negatively skewed and can be described as a long left tail since the value stood at -.552 while its kurtosis value of -.010 is less than 3; hence, known as Platykurtic distribution.

Transparency in government recorded a mean value of 4.1465 varies from a minimum of 1 to a maximum of 5. The standard deviation measures the degree of variation from the mean recorded a value of .99488. This showed a low variability from its average value. The Skewness of -1.353 connotes that the variable has a long left tail as its value came out to be negatively signed while Kurtosis of 1.689 is lesser than 3, thus referred to as Platykurtic distribution its distribution is less than normal. More so, accountability in government has an average value of 4.1408 with a standard deviation of .88770, indicating there is high variability in accountability in government. The minimum value is 1 and the maximum is 5. It has a long left tail since it is negatively skewed with -1.206 and kurtosis value of 1.693 is described as Platykurtic distribution as its value is lesser than 3.

Responsiveness in government has an average value of 4.2507 while the degree of its variation given by the standard deviation stood at .97524. This revealed a higher variability from its mean. Responsiveness in government is negatively skewed as its value stood at -1.549 therefore can be described as a long left tail. The kurtosis value of 2.367 is lower than 3 thus referred to as Platykurtic distribution due to the low Kurtosis that is lesser than 3. Lastly, socio-economic factor has a mean of 3.9296 with its standard deviation of .99609 implied that low variability to its mean value. Socio economic factor is negatively skewed with a value of -.841 while its Kurtosis of .360 is less than
3.

Table 2 Descriptive Statistics

Variables	WTP	TIG	AIG	RIG	RIG
Obs	355	355	355	355	355
Mean	4.2085	4.1465	4.1408	4.2507	3.9296
Std. Deviation	.44412	.99488	.88770	.97524	.99609
Minimum	2.75	1.00	1.00	1.00	1.00
Maximum	5	5	5	5	5
Skewness	-.552	-1.353	-1.206	-1.549	-.841
Kurtosis	-.010	1.689	1.693	2.367	.360

Source: Author's Compilation (2022)

4.2. Test of Variables

4.2.1. Multicollinearity Test

The multicollinearity test in the study was employed with the aid of Tolerance value and Variance Inflation Factor (VIF). The tolerance value for transparency in government is .951, accountability in government has a tolerance value of .995 while the tolerance value for responsiveness in government is .946. This showed that all the variables have their tolerance values exceeding 0.10. This proofed that multicollinearity problem is not present in the model. In addition, the Variance Inflation Factor (VIF) for transparency in government is 1.052, accountability has a variance inflation factor of 1.005 while the Variance Inflation Factor (VIF) for responsiveness in government is 1.057. The three variables were all less than 10. The study therefore supports the conclusion of no multicollinearity problem in the model.

Table 3 Multicollinearity Test

Tolerance	VIF	1/VIF
.951	1.052	0.951
.995	1.005	0.995
.946	1.057	0.946
Mean VIF	1.04	

Sources: Author's Computation (2022)

4.2.2 Normality Test

The histogram normality and P-P Plot for normality distribution of the variables were employed. The outcomes of these two tests are reported in Figure 2 and Figure 3 respectively. From figure 2, the response of the respondents lied within the bean-shape of the histogram, thus supports the normality distribution of the variables. In figure 3, the P-P Plot revealed that variables in the model do not deviate too far from the regression standardized residual line.

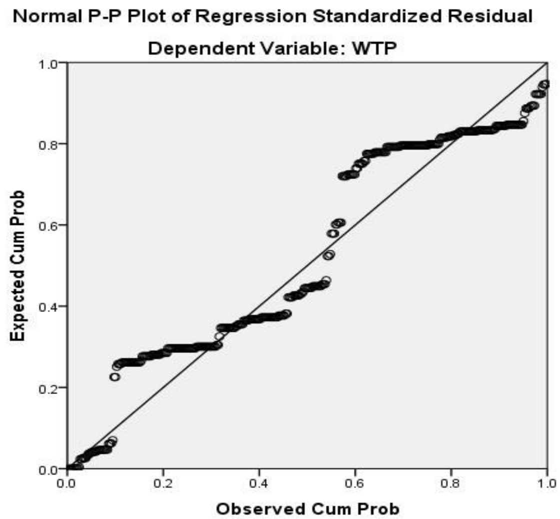


Figure 2: Histogram with normal curve
Source: Author's Computation (2022)

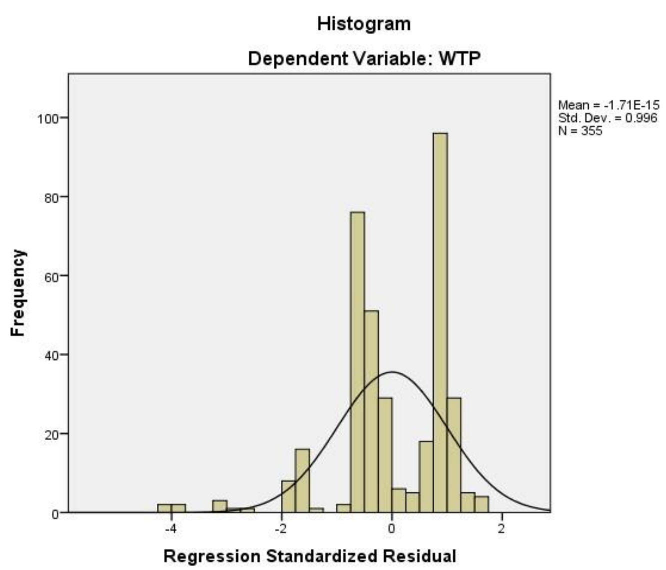


Figure 3: P-P Plot of Regression Standardized Residual
Source: Author's Computation, (2022)

Table 4 Post Estimation Test Results

Tolerance and VIF Value

Null Hypothesis	VIF	1/VIF
There is no multicollinearity among the variables (1/VIF >0.10)		1.04
Test for the Overall Significance of the Whole Model (F-Statistics)		
Null Hypothesis	**Statistics**	**Probability**
There is no overall significance in the research model (P<0.05)	560.825	0.000

Source: Author's Computation (2022)

4.2.3. Correlation Matrix

Table 5 presented the correlation matrix used in the analysis of good governance and tax compliance among SMEs in Nigeria. The result showed that transparency in government (TIG) is positive and significant, with a coefficient of 0.522. This showed that an increase in transparency in government will lead to a rise in tax compliance of SMEs in Nigeria. More so, accountability is significant and positive with a value of 0.538 implying that as accountability in government increase by a unit will lead to 0.538 unit increase in wiliness to pay tax among SMEs in Ekiti State, Nigeria. More so, the relationship between responsiveness in government (RIG) and willingness to pay (WTP) tax among SMEs in Ekiti State, Nigeria is positive, with a coefficient of 0.420, this indicates that as responsiveness in government increases, wiliness to pay (WTP) will also increase.

In addition, the coefficient of transparency in government in relation to accountability is negative with a value of 0.007. The value of this coefficient is insignificant as the probability value 0.889 exceeded 5%. Likewise, the coefficient of transparency in government and responsiveness in government revealed a significant negative relationship of 0.221 which implied that an inverse relationship between the two variables. Accountability in government and responsiveness in government showed an insignificant positive relationship of 0.0073. Considering the outcome of the coefficients of other explanatory variables in the model revealed that multicollinearity problem does not occur in the model as all the coefficient values were below the threshold of 0.7.

Table 5 Correlation Analysis of Study Variables

	WTP	TIG	AIG	RIG
WTP	1.0000			
TIG	0.522**	1.0000		
	(0.000)			
AIG	0.538**	-0.007	1.0000	
	(0.000)	(0.889)		
RIG	0.420**	-0.221**	0.073	1.0000
	(0.000)	(0.000)	(0.168)	

Source: Author's Computation, (2022)

4.3. Good Governance and Tax Compliance among SMEs in Nigeria

The regression model summary in Table 6 explained the joint effect of good governance and tax compliance proxy by willingness to pay tax in Nigeria. The table revealed the coefficient of determination R Square (R^2) and the adjusted value adjusted (R^2) of 0.827 and 0.826 respectively. The result showed that about 83% variation in the independent variables (transparency in government, accountability in government and responsiveness in government) jointly explained the dependent variable (tax compliance represented by willingness to pay). The remaining 17% represents the error term. Likewise, table 6 revealed the statistical significant of the whole model. It shows the extent to which the independent variables jointly explained the dependent variable. This is provided by the F-statistics value given as 560.825 which is significant at 1% level thus concluded that all the explanatory variables significantly predict the power of the dependent variable as the F-statistics stood at 560.825.

The individual analyses of the variables were considered in Table 7. It shows the statistical significant of transparency in government, accountability in government and responsiveness in government in the model. It also revealed the T-statistics, the beta coefficient, and the probability (p-value) of each parameter in the model. From Table 7, transparency in government (TIG) has a significant positive coefficient on the willingness to pay with a value of 0.287; t-statistics of 28.238, and a p-value of 0.000. It implied that as transparency in government (TIG) increases by a unit, will lead to 0.287 unit increase in willingness to pay tax among SMEs in Nigeria. Similarly, accountability in government (AIG) has a positive and significant coefficient of 0.252; t-statistics 22.674, and a pvalue of 0.000 with willingness to pay tax among SMEs in Nigeria. The result implied that a unit increase in accountability in government will lead to a 0.252 unit increase in willingness to pay tax among SMEs in Nigeria. In the same manner, responsiveness in government (RIG) has a significant positive coefficient on willingness to pay tax among SMEs in Nigeria with a value of 0.239; t-statistics 23.048, and, a p-value of 0.000. The result showed that a unit increase in responsiveness in government will lead to a 0.239 unit increase in willingness to pay tax among SMEs in Nigeria.

Table 6 Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F Change	Sig. F Change
1	.910[a]	.827	.826	.18530	560.825	.000

a. Predictors: (Constant), RIG, AIG, TIG

b. Dependent Variable: WTP

Table 8 Coefficient of Variation

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1 (Constant)	.958	.080		11.948	.000
TIG	.287	.010	.642	28.238	.000
AIG	.252	.011	.504	22.674	.000
RIG	.239	.010	.526	23.048	.000

Source: Author's Field Survey, (2022)

4.4. Good Governance and Tax Compliance among SMEs moderating role of social economic factors.

The Structural equation model (SEM) result in Table 7 explained the effect of good governance and tax compliance proxy with a moderating role of socio-economic factors. The table revealed the chi-square goodness of fit test statistics which test the overall significance of the model. The result showed the Chi squared value of 20.540 and a P-value of 0.000, which indicates that the model is significant at 5% level of significance, this concluded that all the explanatory (independent) variables significantly affect the dependent variable while moderating with Social economic factors. The R squared value of 0.842 showed that by moderating with social-economic factors, the explanatory variables predict 84.2% of the variation in the dependent variables.

The effect of the socio-economic factors on each individual variables were analyzed in Table 10. The result showed the Coefficient estimate, Z-statistics, the standard error, and the probability (p-value) of each parameter in the model. From Table 10, Socio-economic factor has a significant positive coefficient on accountability in government (AIG) with a value of 0.212; Z-statistics of 4.618, and a p-value of 0.000. It implied that as socio-economic factor (SEF) increases, there will be 0.212 unit increase in accountability in government among SMEs in Nigeria.

Also, socio-economic factor (TIG) has a positive and significant coefficient of 0.130; z-statistics 0.053, and a *P. value* of 0.013 with transparency in government SMEs in Nigeria. The result implied that an increase in socioeconomic factors there will be 0.130 increase in transparency in government among SMEs in Nigeria. In the same manner, socio-economic factor has a significant positive coefficient on responsiveness in government (RIG) among SMEs in Nigeria with a value of -0.199; z-statistics -3.902, and, a p-value of 0.000. However, the result showed that a unit increase in socio-economic factor will result in decrease in responsiveness in government among SMEs in Nigeria.

Table 11 gives the Linear model of the variables while including Socio-economic factors. It shows the statistically significant of socio-economic factor, transparency in government, accountability in government and responsiveness in government on willingness to pay tax among SMEs in Nigeria. The z-statistics, the coefficient estimate, and the probability (p-value) of the

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structured equation model was given. Transparency in government (TIG) has a significant positive coefficient on the willingness to pay with a value of 0.286; z-statistics of 28.238, and a p-value of 0.000. This shows that as transparency in government (TIG) increases there is 0.286 increase in willingness to pay tax (WTP) among SMEs in Nigeria. The result is also the same as that of accountability in government (AIG) which has a positive and significant coefficient of 0.250; z-statistics 21.841, and a p-value of 0.000 with willingness to pay tax among SMEs in Nigeria. The result agrees with what was obtained at the previous model with an increase in accountability in government will lead to a 0.250 unit increase in willingness to pay tax among SMEs in Nigeria. Also, responsiveness in government (RIG) has a significant positive coefficient on willingness to pay tax among SMEs in Nigeria with a value of 0.241; z-statistics 22.868, and, a p-value of 0.000. The result showed that a unit increase in responsiveness in government will lead to a 0.241 unit increase in willingness to pay tax among SMEs in Nigeria. This also agrees with what was obtained in previous model.

However, socio-economic factor (SEF) has a positive but not significant coefficient on willingness to pay tax among SMEs in Nigeria with a coefficient of 0.008, z-value of 0.773 and a p-value of 0.440. The result shows that an increase in Socio economic factor will lead to increase in willingness to pay tax among SMEs in Nigeria but the increase is not significant.

Table 9: Model Test

R squared	0.842
Test statistic	20.540
P-value (Chi-square)	0.000

Source: Author's Computation, (2022)

Table 10: Parameter Estimates with Socio-economy factor as the Explanatory variable

	Estimate	Std.Err	z-value	P(>|z|)
AIG~SEF	0.212	0.046	4.618	0.000
TIG ~ SEF	0.130	0.053	2.473	0.013
RIG~ SEF	-0.199	0.051	-3.902	0.000
TC~SEF	0.288	0.056	5.167	0.000

Source: Author's Computation, (2022)

Table 11: Parameter Estimates showing the moderating role of Socio-economic variable

	Estimate	Std.Err	z-value	P(>|z|)	Std.lv	Std.all
AIG	0.250	0.011	21.841	0.000	0.250	0.500
SEF	0.008	0.010	0.773	0.440	0.008	0.018
TIG	0.286	0.010	28.238	0.000	0.286	0.641
RIG	0.241	0.011	22.868	0.000	0.241	0.529

Source: Author's Computation, (2022)

4.5. Discussion of Findings

The findings obtained in the regression analysis of ordinary least square and also supported by a correlation test that proved that all the independent variables (transparency in government, accountability in government and responsiveness in government) employed exhibited a significant positive relationship with tax compliance among SMEs in Ekiti state. This result explained the vital roles played by the three independent variables in boosting the willingness to pay tax by the SMEs in Ekiti state, with a moderating significance of socio-economic factor. The result also implied that a unit increase in the independent variables will increases the willingness of SMEs in Nigeria to pay tax. This, therefore, implied that there is a critical need for government devote more focus on good governance which would ensure transparency, accountability and responsiveness required and this will invariably improve tax compliance among small, and medium scale enterprises in Ekiti State.

5. Conclusion and Recommendations

This study analysed good governance and tax compliance among small and medium enterprises in Ekiti state. The study examined the significance of good governance to taxpayers' compliance in SMEs with a cursory consideration of the role of socio-economic factors in the Ekiti state. The relationships among all independent variables on the dependent variable were reviewed. Good governance was represented by transparency (TIG), accountability (AIG), and responsiveness (RIG), while tax compliance was represented by willingness to pay (WTP).

The empirical result indicated that transparency, accountability and responsiveness exhibited a significant positive relationship to tax compliance among small and medium enterprises in Ekiti state. In the same vein, the study concluded that transparency in government, accountability in government, and responsiveness in government has significant positive relationship with the willingness to pay tax among SMEs in Nigeria. It is also concluded that Scio-economic factor has a significant positive relationship with transparency in government, accountability in government, and responsiveness in government. The moderating role of socio-economic factor in the relationship between good governance and tax compliance was positive but not significant. The findings of this research provide evidence that good governance promote Tax compliance among SMEs in Nigeria, with a moderating role of socioeconomic factors. The following recommendations were therefore provided:

i. Government and relevant tax authorities need to be aware of, understand, promote and appreciate good governance as a mechanism of enhancing taxpayers' compliance in Nigeria.
ii. It is crucial for government to build and maintain trust with the citizens in order to boost the morale to pay taxes.
iii. To facilitate the transparency, responsiveness and accountability in governance must be enforced and publicized.

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