TAX FAIRNESS, TAX PENALTY AND TAX COMPLIANCE: EVIDENCE FROM SMALL AND MEDIUM ENTERPRISES IN KWARA STATE, NIGERIA

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Abstract

Collection and administration of income tax from taxable individuals have been a major burden to the various levels of government most especially from Small and Medium Enterprises (SMEs) owners. However, among all the taxes, individual income taxes in Kwara State are relatively shrinking due to factors contributing to low tax compliance. This study investigates the tax fairness, tax penalty and tax compliance of Small and Medium Enterprises (SME) owners in Kwara State. Primary data were collected through self-administered questionnaire. The population for the study was three hundred and sixty-five (365) Small and Medium Enterprises (SMEs) captured into tax net by the Kwara State Internal Revenue Service. The sample size was one hundred and eighty-six (186). The stratified sampling technique was employed and the data has statistically analysed using, the Multiple regression analysis. Results of the study showed that: tax fairness had a positively significant effect with tax compliance ($t = 4.556$, $p < 0.001$) *at 0.05% level of significance; tax penalty was significant with a positive effect* ($t = 3.703$, $p < 0.000$) *at 0.05% level of significance on the compliance level of SMEs owners in Kwara State. The study concluded that tax fairness and tax penalties had strong significant, positive effect with the tax compliance of SMEs owners in Kwara State. Thus, it was recommended that government should further increase public tax penalty on tax matters and ensure that tax system is being fair to all SMEs owners in the state so as to increase the current level of tax compliance among SMEs in the State.*

Keywords: Tax Fairness, Taxpayers' Penalty, Tax Compliance, Small and Medium Enterprises

I. Introduction

The increasing incidence of tax non-compliance has led to the loss of huge amount of tax revenue to the various levels of government globally and generally. This has become a matter of great concern to the government, tax authorities as well as researchers on the implications it has on economic sustainability, growth and development. Tax non-compliance is suggested to be a more severe problem in developing and transitional countries. In developing countries, New Zealand for instance, statistical evidence shows that as much as US$285 Billion tax revenues were loss annually due to tax non-compliance (Cobham, 2005).

In Nigeria specifically, at the Federal level, severity of tax compliance problem which were recorded by Federal Inland Revenue Service (FIRS) indicate that, 654 tax cases was audited in 2008. This resulted ₦92.2 Billion tax revenue loss to the Federal Government (Federal Inland Revenue Service, 2009). At the State government level, the government

had also recorded huge amount of loss of tax revenue to tax non-compliance. This is particularly more prominent among Small and Medium Enterprise (SMEs) owners in sub-sector (Odeyemi, 2010).

Small and Medium Enterprises (SMEs) occupy a centre stage in the transformational activities of most national economic, developed and developing countries all over the world. This is not unconnected with the fact that SMEs owners are no doubt important catalysts in tax revenue generation to the government for economic growth and development. Small and Medium Enterprises (SMEs) are life blood in revenue generation of most economies all over the world (Ahiawoddzi & Adade, 2012).

In developed countries, such as New Zealand, taxation issues are pervasive to SMEs owners as they are affected by tax decisions made by the government in terms of their business structures, wages paid to employees, amount of charitable contributions made, and the amount of profits made for the period. New Zealand SMEs are regulated under a self-assessment tax regime which requires fair and honest reporting of their tax liability and prompt payment of their taxes (James & Alley, 2002). For SMEs owners, compliance issues are significant to their primary concerns. Tax non-compliance has been associated with poor record keeping for tax purposes (Franzoni, 2009).

In Nigeria, about 80 percent of the country's labour force is employed by SMEs owners. It has been equally documented that SMEs provide 70 percent of industrial sector employment and 60 percent of the agricultural sector employment (Adelaja, 2007). SMEs have been described as effective frontiers job creator. As a matter of fact, the role of SMEs in economic growth and development cannot be down played. This means that any policy aimed at maximizing tax revenue generation should target SMEs owners. Moreover, developing effective tax administration that will voluntarily capture SMEs owners into tax net is always difficult (Odeyemi, 2010).

Progeny problem associated with tax revenue generation nationwide is the reaction of taxpayers to factors such as tax fairness and tax penalty that shape compliance attitude of taxpayers. These reactions may have effects on the government ability to generate income tax revenue. Recently, the problem of tax compliance as related to the attitude of taxpayers was amplified by the Minister of Finance on a Television Programme (Good Morning Nigeria on Nigerian Television Authority) on the 6th of March, 2018 that the expected tax return is yet to be achieved. She reiterated that more than 130,000 individuals have been identified not to have fully complied with tax payments.

In view of this, taxpayers are not fairly taxed by the government which in turn serves as a disincentive to taxpayers. Poor tax fairness may also lead to low efficiency, high collection charges, waste of time for taxpayers and tax administrator, low amount received from taxes and deviations of optimum allocation of resources (Fagbemi & Abogun, 2013). This envisages that SMEs are affected disproportionately by unfair tax system when scaled by their sales and asset. As a result, small and medium enterprises may develop various forms of non-compliance of taxes based on their best ways to evade

tax. Opaqueness inordinacy in tax process and enforcement make tax compliance unduly burdensome to SMEs owners and often have a significant effect on their compliance level, as they might tempt to crystallise into various ways of paying lower than their tax burden or not pay at all (Abubakari & Christopher, 2013). The process or system used in the determination of tax rate is not systematical and transparent enough to justify fairness or equity in the face of taxpayers (Bubakari *et al.*, 2013).

Moreover, in spite of the varieties of tax penalties ranging from monetary fine, prison sentence, community service, education programme specified in the tax law and many unspecified once, government does not seem to have the political will to implement or impose those penalties on the non-compliant taxpayers. This may be due to government inability to display how tax revenue has been judiciously used. Where tax payers have obviously violated element of tax law, government finds it difficult to impose appropriate fines and other penalties. (James *et al.*, 2002)

Based on this premise, this study examined tax fairness, tax penalties and tax compliance among Small and Medium Enterprises in Kwara State, Nigeria. In order to achieve this, the following hypotheses in their null forms were tested.
$H_0$1: Tax fairness does not significantly affect tax compliance level of SMEs in Kwara State.
$H_0$2: Tax penalty does not significantly affect tax compliance level of SMEs owners in Kwara State.

2. Literature Review

2.1 Conceptual Review

The definition of tax compliance in its most simple form is usually cast in terms of the degree to which taxpayers comply with the tax law. However, like many such concepts, the meaning of compliance can be seen almost as a continuum of definitions. This ranges from the narrow law enforcement approach, through wider economic definitions and even a comprehensive versions relating to taxpayer' decisions to conform with the wider objectives of society as reflected in tax policy (Desta, 2010).

Taking the narrow end of the continuum first, one argued that, the degree of non-compliance may be measured in terms of the 'tax gap' (Andreoni, Erard & Feinstein, 2008). This represents the difference between the actual revenue collected and the amount that would be collected if there were 100 per cent compliance. Andreoni *et al.* (2008) include a time dimension to compliance but are still mainly concerned with tax evasion as the central part of the tax gap definition. As they put it: 'A popular indication of the magnitude of evasion is the tax gap - the difference between the federal income taxes households actually owe, and what they report and pay voluntarily on a timely basis.'

Regarding time dimension, James (2014) states that a taxpayer might eventually pay his/her full liability but, if the payment is late, the taxpayer cannot be considered to have been compliant. A more recent definition of tax compliance by Brown and Mazur (2013) consists of three distinct types: payment compliance, filing compliance and reporting compliance. However, these basic concepts of the 'tax gap' of non-compliance seem to be far too simplistic for practical policy purposes.

Successful tax administration requires taxpayers to co-operate in the operation of a tax, rather than be forced to undertake every aspect of their obligations unwillingly. The Board of Internal Revenue Service (2016) has two definitions - gross tax gap and the net tax gap. The gross tax gap is the amount of 'true' tax liability that is paid 'voluntarily' and on time and the net tax gap is this amount less tax paid late or collected by the Board of Internal Revenue Service through enforcement activities. Both the gross and net tax gaps can be further divided into three main components; the non-filing gap, the under-reporting gap, and the underpayment gap. The underreporting gap is in turn made up of three elements - underreported income, overstated offsets and net arithmetical mistakes (Board of Internal Revenue Service, 2016).

Administrative procedures and decisions as well as appeal arrangements all have a part to play but the tax system cannot work properly without a reasonable degree of willing compliance on the part of taxpayers themselves. There is the question whether 'compliance' refers to voluntary or compulsory behavior. If taxpayers 'comply' only because of dire threats or harassment or both, this would not appear to be proper compliance even if 100 percent of the tax were raised in line with the 'tax gap' concept of non-compliance (Desta, 2010).

A detailed economic definition of tax compliance should also take into account other possible economic effects of the tax system and its enforcement. There have been some economic analyses of such possibilities, for example, Cowell (2015) who considered the case where a worker can choose not just between working in the legal or illegal sectors but how much time to spend in work of any sort as opposed to leisure. It has also been specifically shown that uncertainty in tax audits could affect labour supply. It seems reasonable to conclude that tax administration could reduce potential tax revenue by discouraging taxable economic activity.

Paradoxically, therefore, a severe tax enforcement policy could even claim to have improved tax compliance by the narrow 'tax gap' definition because it would have reduced the amount there was to collect. Timing issues will also affect the value of the potential revenue available. A taxpayer might eventually pay his or her full liability but if it is paid late it cannot be considered to be full compliance or worth as much as tax liability paid on time or even before the due date. In economic terms, money in the future is worth less than the same nominal sum of money now (Desta, 2010).

If the Government does not receive tax payments on time it either increases the amount it has to raise elsewhere or reduces the revenue available for public expenditure. Although

late payments of tax fit many of the 'tax gap' measures, they do not represent full compliance. As already indicated above, tax compliance may be seen in terms of tax avoidance and tax evasion. The two activities are usually distinguished in terms of legality, with avoidance referring to legal measures to reduce tax liability and evasion to illegal measures. James (2014) describes tax avoidance as the legal manipulation of an individual's affairs in order to reduce tax. Clearly tax evasion is a form of noncompliance.

However, if taxpayers go to inordinate lengths to reduce their liability, this could hardly be considered 'compliance' either. Such activities might include engaging in artificial transactions to avoid tax, searching out every possible legitimate deduction, using delaying tactics and appeals wherever this might reduce the flow of tax payments and so on. 'Tax exiles' even seem to prefer to emigrate rather than fulfil their obligations as citizens.

Franzoni (2009) further notes that tax compliance means true reporting of the tax base, correct computation of tax liabilities (accuracy), timely filing of tax return, and timely payment of the amounts due, that is timeliness. Also, Marti (2014) defines tax compliance as fulfilling all tax obligations as specified by the law freely and completely. Tax compliance, in respect of income tax, is defined as the ratio of declared income to actual income (Chang, Troutman & Bryan 2015).

In all the expressions, compliance can be understood as acting in accordance with the law while non-compliance is deviation from the law. Based on the above expressions, the definition of tax compliance can be shortly refined as the desire or willingness of the taxpayers to act in accordance with the tax law and the voluntary effort they exercise to pay their tax liability on timely basis.

Ishola (2011) opined that tax fairness or equity should be based on a person's ability to pay and there should be equal sacrifice, that is, the burden of tax should be according to one's ability. He classified tax equity into two; vertical and horizontal equity. Vertical equity is the tendency for proportion of income taken as tax to rise as income rises, while horizontal equity could be seen as the principle that taxpayers with the same income and commitment should pay the same amount of tax.

As stated by Bhatia (2006), tax fairness could be seen as a good tax system, in order to achieve various objectives. A good tax system, therefore, is one which is designed on the basis of an appropriate set of principles, such as equality or fairness and certainty. The attitude of taxpayers is an important variable determining the contents of a good tax system. It may be assumed that each taxpayer would like to be exempted from paying tax, while he would not mind if others bear that burden.

According to James (2014), the most obvious requirement of tax fairness is to treat equal people in equal circumstances in an equal way. The problem here is in deciding who is equal to whom. Similarly, Due et al., (2001), argued that what is fair or equitable in

taxation is inevitably a value judgment; no scientific specification of an equitable distribution pattern is possible, or people may be equal income wise while they may be unequal regarding their expenditure, wealth, total utility and so on. Such a pattern can be specified only on the basis of a consensus of attitudes of persons in the contemporary society.

Lemessa (2005) also argued that a major responsibility is to ensure that all taxpayers dealt with by a given official are accorded similar treatment and that all officials dealing with a given taxpayer would accord the same treatment. Brooks (2001) stated that tax fairness has always been widely regarded as the most important criteria in judging a tax system. The problem of unfairness is that a tax system allows taxes to be shifted from dishonest to honest taxpayers. The fairness of a tax system may also be perceived in different ways by the taxpayers and tax authorities. What is fair in the eye of the tax authorities may not have the same image in the mind of the taxpayers.

Furthermore, Due et al., (2001) argue that persons will oppose taxes that they feel strike them "unfairly" and allow others to escape a "reasonable" burden, and they will favour taxes they accept to concentrate on others, especially when "others" are non-humans such as corporations. Regardless of this inherent problem ensuring the fairness or equity of a tax system is second to nothing. To put it differently, it is essential that a good tax system should appear equitable to the tax payers.

Tax penalty is a punitive measure that the tax law imposes for the performance of an act that is denounced, or for the failure to perform a required act such as failure to timely file return or filing wrong or undervalued returns etc. If a taxpayer is required to file an income or excise tax return and fails to do so timely, a late filing penalty may be assessed. The penalty is 5% of the amount of unpaid tax per month (or partial month) the return is late, up to a maximum of 25%. How does tax penalty imposable on taxpayers for noncompliance can promote tax compliance amongst taxpayers? Deterrence factors such as probability of being audited and being detected by tax authorities are found to reduce noncompliance among taxpayers (Allingham & Sandmo, 1972; Doram, 2009).

Nigeria Personal Income Tax Act (PITA 2011 as amended) strengthens such issues as record keeping, self-assessment and provides penalty of ₦50,000 and ₦500,000 for individuals and companies respectively for contravening the provisions of the Act.

Furthermore, under self-assessment in Nigeria, the failure of taxpayers to file returns will make them liable upon conviction to pay a sum of ₦200 and further ₦40 for everyday during which the failure continues (FIRS, 2013). In Malaysia, if it is discovered during the audit process that there is underreporting or misstatement, a penalty will be imposed under sub-section 113(2) of the ITA (1967), although revenue authorities in Malaysia encourage individual taxpayers who underreport their income to voluntarily make disclosure of such underreporting if later they understand that they made underreporting of their income. Failure to do so is subject to penalty depending on the time that has lapsed between omission and voluntary disclosure (Internal Revenue Board, 2000).

Allingham et al., (1972) introduced a theoretical economic model that indicates that penalties have an impact on tax compliance. There have been mixed results on the effect of tax penalties on tax compliance.

Small and Medium Enterprises (SMEs) are characterised by uncertainty, innovation and evolution. As such, a firm understanding of SMEs would require a good knowledge of its features. As noted by Aderemi (2003), SMEs are usually small, privately-owned or family-managed business offering basic goods and services, which tend to lack organisational and managerial structures with the urban ones tending to be more structural than their rural counterparts.

In Nigeria specifically, Micro, Small and Medium Scale Enterprises (MSME) policy by Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) in 2007 defined Micro Enterprise as one whose total assets (excluding land building) is less than 5 million naira with less than 10 employees, while Small Enterprise has its total assets (excluding land and building) to be more than 5 million naira but less than 50 million naira with more than 10 employees but less than 50. Medium scale firms are those having more than 50 employees but not exceeding 200 with total assets (excluding land and building) of more than ₦50 million but not exceeding ₦500 million.

Theoretical Framework

This study is anchored on two theories which are the Social Capital Theory and Economic Deterrent Theory. The theory of social capital as propounded by Bourdieu (1972) makes a distinction between three types of capital: economic, social, and cultural-symbolic (Bourdieu, 1972). Economic capital is characterised by the power of direct conversion into money, and is institutionalised in the form of property rights. This theory affirms that tax compliance by citizens is specifically influenced by their individual behaviour and social norms. The theory assumes that individual behaviour in taxation is basically influenced by social interaction like other forms of behaviour. The theory follows that an individual is most likely to comply with tax requirements if he believes members of his reference group also comply, just as he is also likely not to comply if he believes that members of his reference group do not comply (Ali, 2013).

The economic deterrence theory is a theory under criminology developed by Becker (1968). The theory is built on the perception that an individual will be deterred from committing a crime if the benefit of the crime is outweighed by the consequence of committing the crime. The theory is premised on the belief that all individuals are aware of the consequences associated with criminal behaviour. Taxpayers will act contrary to the law after evaluating the uncertain advantages of a successful evasion against the risk of being caught and punished. Rational taxpayers will evade taxes if the expected benefits are greater than the cost of being caught.

Empirical Review

Sheikh (2014) examined the influence of tax penalties on taxpayers' compliance in Malaysia. Structured questionnaire was used to collect data from the respondents. Pearson's correlation and logistic regression were used for inferential statistical analysis. The finding of the study suggested that penalty rate as well as detection rate did have a significant effect on tax evasion. However, Lai, Yusoff and Yap (2014) found the relationship between tax penalties rate and tax non-compliance to be insignificant.

Alm (2015) conducted a research study in US on tax system, tax penalty and tax compliance. An empirical study with experimental designed and data were analysed with correlation and regression method. The result of the study showed that tax system has little significant direct effect on tax compliance while tax penalty has high significant effect on tax compliance among taxpayers (SMES) in UK.

Adesina and Obazee (2016) examined tax knowledge, penalties and tax compliance in small and medium scale enterprises in Nigeria. The study was conducted using survey research design, data were collected through questionnaire and the data were analysed using least square regression method. The results of the study showed that tax knowledge had positive significant impact on tax compliance while tax penalty had insignificant positive impact on tax compliance.

Nuridaya, Rosiati and Hassan (2017) investigated tax penalties and tax compliance of small and medium enterprises in Malaysia. Structured questionnaire was used to collect data from the respondents. Pearson's correlation and logistic regression were used for inferential statistical analysis. The outcome of the study suggested that the threat of punishment encouraged taxpayers to become less compliant which might indicate their rebellious act towards the government.

In a related study conducted by Coleman and Wilkins (2017) the findings of their study revealed that there was diversity of opinion and attitudes towards the tax system and compliance issues amongst the Australian public. One of the likely factors that could impede attitudinal change is the uneven level of comprehension or involvement in the tax system.

Ali, Fjeldstadand Sjursen (2017) examined factors that determine citizens' tax-compliance attitude in Kenya, Tanzania, Uganda and South Africa. Using the 2011/2012 Afro-barometer survey data, their study find out that tax compliance attitudinal is positively correlated with provision of public services in all the four countries. However, the correlation depends on the specific service in question and differs between countries. Tax knowledge and awareness are found to be positively correlated with tax compliance attitude. Conversely, frequent payment to non-state actors in exchange for security and individual's perception that their own ethnic group is treated unfairly by the government are negatively correlated with tax compliance attitude.

Puri, Bambang and Lukytawati (2018) examined the effects of tax fairness, tax penalties, and audit probability towards tax compliance in Indonesia. The study used primary data generated through experimental economics and Variance Analysis. Tax compliance measured from the number of units reported by taxpayers, the amount of value indicated by taxpayers, and participation from taxpayers. The result of the study showed that the taxpayer with higher income had lower compliance compared with the taxpayer with lower income. The study found that taxpayers prefer to report their assets at lower rates. The effort of enforcement from the government by implementing tax penalties and audit probability shows greater effect towards tax compliance.

Nwidobie, Barine and Michael (2018) examined factors that motivate individual taxpayers' compliance to fiscal obligations in Nigeria. 695 individual and corporate taxpayers in the densely populated and industrial areas of Lagos and Ogun States with high numbers of individual taxpayers were sampled for this study using the cluster sampling technique. Primary data obtained from administered questionnaires were analysed using the ordinary least squares (OLS). The result of the study showed that fear of punishment for tax default, religious beliefs and economic factors had positive relationships with tax compliance; while penalty, financial commitments, level of income, developmental projects/programmes of government and perceived benefits of tax had negative relationships with tax compliance.

Golodine (2018) conducted a research survey design on the impact of threat of punishment on tax compliance and non-compliance attitudes of SMEs owners in Russia. A researcher-structured questionnaire was used to collect data from the respondents. Pearson's correlation and logistic regression were used for inferential statistical analysis. The outcome of the study suggested that the threat of punishment has encouraged taxpayers to become less compliant which might indicate their rebellious act towards the government.

3. Methodology

For this study, survey research design was used. Self-administered questionnaire were used to collect data from literate respondents (SMEs owners in Kwara State), a total number of 365 SMEs owners were obtained from the records of Kwara State Internal Revenue Service (KWIRS) as population for this study. Out of this population, sample size of 186 SMEs owners were selected as determined by Krejcie and Morgan (1970) table. This number was selected using stratified sampling technique to achieve a fairly representative of the population. This sampling method was informed by the relative homogeneity of SMEs characteristics of the enterprise under the study. To achieve this, the study categorised all the SMEs owners in Kwara State that make up the sample size into homogeneous strata based on the nature of their business such as (Trading, Service, Manufacturing/Agro-Allied and Others). Descriptive statistics of the variables as well as multiple regression analysis was carried out to assess the relative predictive power of the

independent variable, which is tax fairness and tax penalties on the dependent variable, which is tax compliance.

The model for this study was adopted from Rhoar (2006), but was however modified in order to provide an insight about the habit of SMEs owners in Kwara State towards tax fairness (TF) and tax penalties (TP) both as a function of tax compliance. The functional relationship is shown in equation (1)

$TCOMP=f(TF, TP)$.....(1)

Wheretax fairness (TF) and tax penalties (TP) are used as function of tax compliance (TCOM). This can be further expressed in a multiple regression form as follows:

$TCOM=P\beta_0+\beta_1TF+\beta_2TP+E$..... (2)

Where;
TF =Tax fairness
TP = Tax Penalties
TCOMP =Tax compliance
E=error term
β_1-β_2= Parameters of the regression

4. Results and Discussion of Findings

4.1 . Results of the Preliminary and Basic Analysis

Based on the Krejcie and Morgan (1970) sample size technique and stratified sampling method, 186 copies of the study's research instrument were sent to SMEs owners. However, 177 copies were returned which represent 95.1% response rate. Out of these 177 questionnaires returned, a total of 166 were usable for data analysis. The remaining 11 questionnaires were excluded due to the issue of unproductive responses and outliers.

Descriptive statistics for the independent and dependent variables (tax fairness, tax penalty and tax compliance).The mean score for each variable indicates a general agreement by the respondents in relation to their opinion or perception since the standard deviation score shows a moderate variability of each individual responses from the mean scores. The Cronbach's alpha scores exceeded the acceptable 0.40 threshold. The graphical test of normality conducted suggested that the data is normally distributed to an appreciable degree.

A multi-collinearity test was performed in regards to two independent variables, that is tax fairness and tax penalty. The result of the test reveal that Variance Inflation Factors (VIFs) for the two independent variables were both below the threshold of 5 (Craney & Surles, 2002), indicating absence of any Multicollinearity.

4.2 Descriptive Statistics

4.2.1 Tax Fairness (TF)

The Tax fairness of the respondents towards tax compliance is presented in the table below. The results showed that the mean scores concerning the respondents' tax fairness range from 3.26 to 3.65 together with the standard deviation from 1.36to 1.96. Majority of the respondents strongly disagreed that tax fairness in terms of TF1 to TF6 had influence on tax compliance. This suggested that the respondents had a strong disagreement on tax fairness towards the tax compliance. Generally, the overall mean scores and standard deviation of 3.4578 and 0.9205, respectively on all the items on tax fairness, indicate that the respondents strongly agreed on tax fairness.

Table 4.1: Descriptive Statistics of Tax Fairness (TF)

S/N	Items	Mean	S.Dev	Minimum	Maximum
1	Tax system in Kwara State captures all classes of taxpayers	3.65	1.48	1	5
2	Existing tax law in Kwara State gives room for substantial taxpayers to evade tax	3.30	1.70	1	5
3	Income tax system requires me to pay more than fair share compared to others with higher income	3.34	1.65	1	5
4	The amount of tax payment is always certain	3.64	1.36	1	5
5	High income earner contribute or pay more tax than low income earners in Kwara State	3.26	1.96	1	5
6	Political and religious affiliation protect some group of taxpayers from paying tax	3.54	1.68	1	5

Source: Authors' computation, 2019 based on SPSS Outputs, (2019)

4.2.2. Descriptive Statistics of Tax Penalty (TP)

The respondents' views on tax penalty among SMEs owners in Kwara State were expressed through items TP1 to TP5 and presented in table 4.2. The mean of these constructs are ranged from 3.45 to 3.74; the standard deviation of these items range from 1.59 to 2.69. This statistical description is an indication that the respondents perceived the

tax penalty strong agreement with tax compliance. Of these items, TP4 had the lowest mean score of 3.45 and more respondents (67.4%) expressed strong agreement with the item (that is, Payment of tax owing only) than the other four items. Also, items TP1 revealed the perception of the respondents on the tax compliance. The descriptive statistics of these items, as documented in table 4.2indicate that the mean scores of the items were 3.74 with an associated standard deviation of 1.260. With the overall mean score of 3.585 and standard deviation of .9097, the respondents generally perceived that tax penalty had strong effect on tax compliance.

Table 4.2: Descriptive Statistics of Tax Penalty (TP)

SN	Items	Means	S.Dev	Minimum	Maximum
1	Payment of tax owing only	3.74	2.60	1	5
2	Payment of tax owing plus interest	3.50	1.94	1	5
3	Payment of tax owing plus interest plus a civil penalty of 50% of tax evaded	3.50	1.94	1	5
4	Payment of tax owing, interest and civil penalty as well as being charged with criminal offence, brought to court	3.45	1.65	1	5
5	Payment of tax owing, civil penalty as well as being charged with criminal offence, brought to court and either imprisoned or put on prohibition	3.67	1.57	1	5

Source: Authors' computation, 2019 based on SPSS Outputs, (2019)

4.2.3 Tax Compliance

The views of the respondents on tax compliance in Kwara State were expressed through items TC1 to TC7 (tax base, correct computation of tax liabilities, timely filling of tax return and timely payment of tax liabilities) and the results of the descriptive analysis of the items are documented in table 4.3 below. Specifically, the results revealed that the perception of the respondents about the tax compliance in Kwara State, Nigeria as convened in items, TC1 to TC7 was strong, which is indicated in the strong mean scores of 3.31 to 3.62 together with the mean of 1.40 to 1.87, respectively. However, in a comparison of the items, more respondents (62.1%) expressed strong agreement with item TC1 (i.e., Declaration of all sources of my income is essential for a good tax system) than in the other six items. Overall mean scores and standard deviation of 3.453 and

0.7915, respectively, on all the items on tax compliance indicate that the respondents strongly agreed on tax compliance.

Table 4.3: Descriptive Statistics of Tax Compliance (TCOM)

SN	Items	Means	S.Dev	Minimum	Maximum
1	Declaration of all sources of my income is essential for a good tax system	3.60	1.40	1	5
2	Effective tax system depend on declaration of all sources of income	3.40	1.62	1	5
3	Over deduction of expenditure to reduce tax liability is unpatriotic	3.31	1.69	1	5
4	It is very essential to collect all relevant data before filling of tax return	3.34	1.66	1	5
5	If tax advisor advises me not to declare all my income, I would take his advise	3.45	1.56	1	5
6	I usually file my tax return before the due date	3.43	1.42	1	5
7	I pay my tax liabilities as early as possible in order not pay interest	3.47	1.87	1	5

Source: Authors' computation, 2019 based on SPSS Outputs, (2019)

4.3 Regression Analysis

As shown in Table 4.4 below. Model summary, multiple correlation coefficients (R) of 0.910 indicated a strong relationship between the dependent and the set of predictors as a whole. The coefficient of determinant (R^2) is 0.825 which means that 83% of variation in the dependent variable can be explained by the independent variables while 17 percent are taken care of by the error term and may be attributed to other factors influencing tax compliance but not included in this study.

Table 4.4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0.910	0.828	0.825	0.330	2.2

a. Predictors: (Constant), TF, TP

b. Dependent Variable: TCOM

Source: Authors' computation, 2019 based on SPSS Outputs, (2019)

Table 4.4 above showed F-Statistics (33.00) is equally significant at 1% which indicates that overall regression model is fit. The analysis also shows Durbin Watson statistics of 2.2 which seems slightly higher than average benchmark of 2 (Field, 2009). However, the model is devoid of autocorrelation concern. Therefore, the model possesses an averagely higher predictive power.

Table 4.5: Regression Results

Variables	Coefficient	Std. Error	T-statistics	Sig.
(Constant)	0.404	0.113	3.589	0.000
TF	0.446	0.065	4.556	0.001
TP	0.383	0.104	3.703	0.000

Dependent Variable: TCOM

Source: Authors' computation, 2019 based on SPSS Outputs, (2019)

4.4 Discussion of Findings

This section presents the discussion of key findings in relation to the research objectives of the study. The discussions are presented in the sequence of the research hypotheses.

4.4.1 Tax Fairness and Tax Compliance of SMEs owners in Kwara State

From the empirical analysis and hypothesis tested, the study found that tax fairness has positive effect and is significant at 0.05 level of significance on the level of tax compliance. Result from the regression showed $\beta = 4.556$, p-value< 0.001. However, tax fairness provide support to hypothesis one (H1) on the influence of tax fairness on tax compliance behaviour among SMEs owners. This implies that tax fairness provide a strong effect on the relationship between tax compliance and tax fairness. However, the finding is in line with the results of Casal, *et al.* (2016), Devos (2012), Pantya (2016), Jimenez (2016), Ali (2013) and Abubakar, et al., (2013) where results showed tax fairness had significant positive relationships with tax compliance. The result is in contrast with the findings of (Wilson & Sheffrin (2005), Helhel and Admed (2014). They

found out that tax fairness had no significant positive effect on tax compliance. The result was in line with the assumption of the social capital theory as it suggested that the fear of social stigmatisation is one of the possible deterrent factors of tax non-compliance. Result also concurred with the a priori expectation that tax fairness would extremely reduce the problem of tax noncompliance.

4.4.2 Tax Penalty and Tax Compliance of SMEs owners in Kwara State

The second variable which is the tax penalty depict a positive and significant influence on tax compliance behaviour in the regression result at 0.05% level of significance with β = 3.703, p-value< 0.000. This finding was consistent with the results of Doran (2009), Oluchi (2012) and Namusonge *et al.*(2014). However, result of this study negated the findings of Gordon (1990), Martina, *et at.*,(1998) Alm, *et al.*(1992) and Feld, *et al.* (2007) as the result of their studies showed that tax penalty had negative effects on tax compliance. The result was in line with the assumption of the economic based theory that taxpayers are amoral utility maximisers; they are influenced by economic motives such as profit maximization and probability of detection. The Finding of the study was also in line with a priori expectation that tax penalty would reduce the problem of tax non-compliance among Small and Medium Enterprises (SMEs), owners in Kwara State.

5. Conclusion and Recommendations

Based on the result of the hypotheses tested, the study concluded that tax fairness and tax penalty had significant positive effects on tax compliance. As SMEs owners became more aware and committed to pay taxes, had good relationship with tax authority and felt the benefit of paying taxes, the level of tax compliance increased. Therefore, there was a positive relationship between tax fairness and tax compliance. The study also showed the existence of significant positive relationship among tax fairness, penalty and tax compliance. This was elaborated with the hypotheses tested which showed that as stiff tax penalty is put in place, the level of tax compliance increases and the opposite is the same.

Based on the findings, the following recommendations were made for improvement of the existing tax compliance level as related to tax fairness and tax penalty that had significant positive effect in reducing the level of tax noncompliance among SMEs owners in Kwara State:

i. First, in order to enhance the existing tax compliance level of small and medium taxpayers in Kwara State, government, through its agency (Kwara State Internal Revenue Service), should ensure that tax system are made fair to all SMEs owners in the State in equal circumstances in an equal way.

ii. It was also recommended that the practical implementation of tax penalties and fines such as payment of tax owned and plus interest, civil penalty, imprisonment or be put on prohibition etc should be provided under tax laws and associated regulations in order to

build a tax payment culture so as to increase the current level of tax compliance level among SMs owners in Kwara State.

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