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Research Article

Tax Justice, Tax Administration and Tax Compliance of Small and Medium Enterprises in Lagos State

Oyedele Philips, Alao Monisola, Ifayemi Olayinka*

Department of Accounting, Babcock University, Ilishan-Remo, Nigeria

Abstract

The issue of tax compliance has been a major concern for governments worldwide, particularly in developing nations with low tax-to-GDP ratios. This may be due to the fact that strategies like tax reform, laws, and penalties to ensure tax compliance in Nigeria don't seem to be working as intended. In light of this, this study looked at how tax justice and administration affected SMEs' tax compliance in Lagos. An ex-post facto research design was used for the study. The population of the study consisted of 11,623 SMEs in Lagos State. Simple random sampling technique was utilized to ensure that every potential participant has an equal opportunity to be selected, and the Cochran formula was used to get an ideal sample size of 409 respondents across Lagos State, Nigeria. A structured questionnaire was formulated, and the validity as well as the reliability test of the questions were tested. The result shows that the questions were valid and reliable at a Cronbach alpha value > 0.7. All the questions distributed across the small and medium enterprises in Lagos State were collected and filled appropriately. Thus, the data were analysed using descriptive and inferential (multiple regression) statistics at the 5% level of significance. The findings of the study showed that tax justice and tax administration significantly affect tax morale in SMEs in Lagos state (Adjusted R2 = 0.026; F-Stat = 3.724; p-value < 0.05). The second hypothesis tested showed that tax justice and tax administration significantly affect tax fairness in SMEs in Lagos state (Adjusted R2 = 0.124; F-Stat = 15.39; p-value < 0.05). The study, therefore, revealed that tax justice and tax administration significantly affect tax compliance in SMEs in Lagos State. The study suggested that the government and tax authorities should adopt proactive measures to promote voluntary compliance among SMEs, emphasising the benefits of compliance and providing incentives for timely and accurate tax reporting. This could include offering discounts or incentives for early payment of taxes, as well as recognition programs for compliant taxpayers.

Keywords

Tax Justice, Tax Administration, Tax Compliance, Tax Morale and Tax Fairness

1. Introduction

Tax compliance is a growing international concern for tax authorities and public policy makers as tax evasion seriously threatens the capacity of governments to raise public revenue, especially in developing countries armed with limited resources but faced with massive development targets [1]. The economy may suffer from non-tax compliance behaviour, which is a problem everywhere in the world. Non-tax compliance behaviour has an impact on the growth and development of taxes. [2] asserted that tax authorities and public officials worldwide are becoming increasingly concerned

*Corresponding author: olayinkai@babcock.edu.ng (Ifayemi Olayinka)

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with non tax compliance.

In the US, SMEs are more likely than larger companies to violate tax laws and regulations [3]. According to [4], there is a great disparity between targeted and collected taxes in Bangladesh, which makes non-tax compliance a significant issue for the nation. In Indonesia, the government has offered numerous facilities, but these have not been able to inspire citizens to pay taxes. According to [5], SMEs in Africa have significantly lower compliance rates than larger companies. Small and medium-sized businesses (SMEs) in Ghana, South Africa, and Tanzania struggle to comply with tax laws and Nigeria has one of the lowest tax-to-GDP ratios at 6% compared to South Africa (26%), and other OECD countries (34.8% on average). [6] asserts that Nigeria is not exempt from worries about non-tax compliance challenges. It was reported that despite the fiscal policies put in place by the Nigerian government towards an efficient and effective tax system, tax evasion by individuals and corporate bodies still remains a major challenge to the three tiers of government as well as policymakers.

The factors that lead to non-tax compliance behaviour have been found in numerous academic studies. Political instability, pervasive corruption, low tax morale, and mistrust of the government are all significant variables that contribute to non-tax compliance behaviour, according to [7]. According to the [7], there are various degrees of non-compliance. Non-compliance may be caused by intentional fraud, unintentional error, or overpayment of taxes. Furthermore, even if a taxpayer may lawfully fulfill their obligations, their compliance may be questioned due to ambiguities in legal interpretation. [2] stated that business taxpayers' perceptions of fairness and tax complexity have a significant impact on desire to comply with the tax obligations. While [8] explains three aspects of tax fairness that play a critical role in compliance for MSMEs—general fairness, tax rate structure, and self-interest. [9] underscores that tax complexity directly and indirectly affects tax compliance, with the latter manifesting through increased compliance costs. As tax systems become more intricate, compliance expenses rise, necessitating additional training and professional guidance for taxpayers. [10] advocate for prioritizing tax morale and a sense of nationalism as key strategies to enhance tax awareness and increase taxpayer compliance.

In order to improve tax compliance, tax authorities are also quite important. [11] assert that revenue authorities have a vital role (and a vested interest) in making sure that taxpayer and other stakeholders are aware of their legal obligations. Tax policy plays a crucial role in influencing tax compliance. A well-designed and transparent tax policy can encourage voluntary compliance among taxpayers, while complex or unclear policies may lead to evasion or avoidance behaviors. Additionally, effective enforcement and administration of tax policies by the government can further enhance compliance levels in Lagos State.

Nonetheless, taxpayers make a substantial contribution to increased tax compliance. According to [12] the precise requirements placed on a taxpayer will vary depending on the taxation function and jurisdiction. The [7] noted that nearly all taxpayers, regardless of jurisdiction, are likely to fall under four general categories of obligations: system registration; timely filing or lodging of required taxation information; reporting accurate and complete information; and timely tax payment. [7] went on to say that failing to comply with these requirements may be viewed as non-compliant, and that "compliance" will fundamentally relate to the degree to which a taxpayer meets these obligations. There are, however, obviously different levels of non-compliance. Inadvertent error or deliberate fraud can result in noncompliance, as can overpayment of taxes. In addition, a taxpayer may legally carry out their responsibilities, but ambiguities in legal interpretation may cast doubt on their compliance.

Tax justice may be game changer approach to increase tax compliance. Researchers from all across the world are now focusing more on the importance of justice in connection to taxpayer trust. Treating taxpayers properly is necessary to establish trust. A taxpayer will have higher faith in the tax authority if they believe that a fair process was followed [13]. According to [14], the degree of compliance is determined by how taxpayers perceive the fairness of the tax system. Any rise in the perception of justice leads to an increase in tax compliance. The government's taxation strategy and policy are determined by the taxpayers' assessment of the fairness of the tax laws. If taxpayers believe the tax code is unfair, they are more likely to try to avoid paying their fair share of taxes [15].

The government of developed countries—mainly in Europe and some parts of Asia—use income tax to develop their countries in a way that benefits their citizens, the perception of tax justice rises more in developed countries than in developing ones, which in turn results in higher tax compliance. The citizens willingly and gladly pay their taxes because they have trust in the governments. However, governments in developing countries, primarily in Africa, have misappropriated tax revenue for their own personal benefit rather than prudently using it for the growth and benefit of their citizens. Consequently, citizens also engage in tax evasion and avoidance, which makes it more difficult for the government to carry out its social obligations to the populace. In light of this, the study poses the following questions: To what extent does tax justice and tax administration affect tax morale of SMEs in Lagos? How does tax justice and tax administration affect tax fairness of SMEs in Lagos? The primary purpose of this study is to investigate the impact of tax justice and tax administration on the tax compliance of SMEs in Lagos. Hence, the remainder of the article included the literature review, theoretical review, methodology, conclusion, and recommendation.

2. Literature and Theoretical Review

2.1. Literature Review

2.1.1. Tax Compliance

Tax compliance was defined by [16] as the timely filing of all required tax returns and the accurate reporting of tax liability in conformity with the tax laws and regulations in effect at the time the returns were filed. According to [17], Tax compliance refers to following the law's requirements for timely reporting and payment of taxes. It entails timely filing of tax returns, disclosure of all income, claim of appropriate tax reliefs, and timely payment of taxes. Tax compliance, according to [18], is the act of a person completing their tax returns, correctly disclosing any non-exempt financial gain, and paying all collectible taxes on time and in full without needing to be present for the tax authority's follow-up activities. [19], asserts that tax compliance is the deliberate act of abiding by tax regulations and properly honouring tax payment obligations. The willingness of a taxpayer to complete and submit tax returns without the use of any forms of nagging or coercion from the tax authority is referred to as tax compliance.

Tax compliance involves three elements: trust in authorities, respect for authorities' power, and tax compliance. Trust is the primary motivator of voluntary tax compliance. According to [20], taxpayers' perceptions of government accountability and openness increase their faith in the government, which is one of the key contributors to the moral principles that encourage voluntary tax compliance. Good tax education, trust between the government and the taxpayers, a good tax administration system, tax counselling, and a cordial relationship between the government and advocacy groups for the purpose of tax public relations and enlightenment are all ways to ensure tax compliance. Additionally, according to [21], tax compliance can be attained by utilizing tax public relations and creating a climate of tax awareness among taxpayers and the government (tax authorities). Taxpayers cannot abide by tax regulations unless they have a thorough understanding of them.

Hence, illumination and the availability of publications that assist taxpayers in smoothly filling out tax returns and making tax payments can be used to accomplish tax knowledge or education. Tax counselling is another method for achieving tax compliance. This entails providing taxpayers with services as needed on tax-related issues that will increase voluntary compliance. It also includes the process of people filling out tax returns step by step and the interpretation of tax rules. Aside from that, it also takes the shape of tax advice and training, which entails educating clients and providing advisory services, particularly on accurate tax assessment returns and techniques to maintain adequate accounting records and bookkeeping. Moreover, tax awards, prizes, or letters of recognition could be started; these involve the right appreciation and acknowledgement of taxpayers who are truthful, and timely. In additional, it includes providing tax advice and training, which includes educating individuals and providing advisory services, particularly regarding correct bookkeeping. The goal of all of these is to increase voluntary tax compliance in Nigeria's informal economy in order to increase revenue and promote economic growth.

Tax compliance also has to do with how effectively the government uses its resources; if resources are used effectively by the government, tax payers are more likely to willingly pay their taxes. Yet, if tax payers realize that the government practices wasteful behaviour, they may become angry and seek revenge by evading their taxes [22]. The tax authorities in Nigeria firmly think that tax education and awareness are essential for bringing more people and businesses into the tax system. As a result, tax campaigns, tax news, and tax information are now the focus of a significant amount of resources. While [23] opined that there is a substantial association between tax information and tax compliance behaviour, there is still a lack of conclusive empirical evidence about the impact of tax information on tax compliance.

On the other hand, enforced compliance presumes that authorities have the power to track down and apprehend tax evaders or offenders when enforcement compliance is accomplished by detection and fines. Enforced tax compliance is attained when taxpayers abide by pertinent tax regulations only as a result of coercion from a fictitious higher power or authority. This is accomplished through the deterrent effect of tax authority audits and fines. This happened when there is no other option, and taxpayers pay their taxes out of fear of audits and the enforcement of fines through coercion. It occurs when taxpayers think that the only way to pay taxes is through the use of force and coercion by the government and its agencies. This contrasts with voluntary compliance, which is achieved when taxpayers choose to follow the relevant tax regulations on their own initiative without facing any kind of intimidation or harassment from the tax authorities. According to [24], applicable tax laws without being subjected to any form of harassment or coercion from the tax authorities is voluntary compliance, which is based on an individual's willingness to respect and show trust in the government or tax authorities.

2.1.2. Tax Morale

The intrinsic drive to pay taxes, also known as tax morale, is a crucial component of the tax system because the majority of tax systems rely on taxpayers' voluntary compliance for the majority of their revenue. So, raising tax compliance could potentially boost revenue with (relatively) little enforcement work. In the short term, behavioral economic strategies can play a significant role in realizing this potential, but longer-term structural reforms are required to foster trust and legitimacy among taxpayers. It is odd, given this potential that very little attention has been given to tax morale [7]. The intrinsic motivation to pay taxes, or tax morale, is an important element of the tax system because the majority of tax systems rely on taxpayers' voluntary compliance for the majority of their revenue. In order to increase income with (relatively) little enforcement activity, tax compliance must be increased. But longer-term structural reforms are necessary to build taxpayer trust and legitimacy. In the short term, behavioral economic techniques can play a crucial role in reaching this promise. [25] show, for instance, that social norm about tax compliance drives taxpayers' intrinsic motivation to pay their taxes.

In general, nations with higher tax burdens have better tax morale. The general trend is that countries with high tax to gross domestic product (GDP) ratios have higher tax morale, notwithstanding significant country-specific variation. This could be a sign of a positive feedback loop between effective government performance, higher tax morale, and voluntary tax compliance (as well as effective enforcement); or it could be proof of a fiscal contract between taxpayers and the government (a willingness on the part of citizens to pay taxes in exchange for effective public services, according to [26]. This dynamic can be investigated further through regional-level analysis.

Age, education, gender, religion, and public trust in government all seem to have an impact on tax morale, according to a [27] analysis. The current global data and earlier analysis from eight years ago can be compared, and it turns out that many of the same elements seem to affect tax morale in both cases. At the worldwide level, it has been demonstrated that people who are older, more educated, or religious tend to have consistently higher levels of tax morale. Those with higher tax morale also have higher levels of faith in the government. With a few outliers in Africa, these results are replicated in the regional study, particularly in South America. The data also shows that small and medium-sized businesses (SMEs) and multinational enterprises (MNEs) have different elements that are likely to influence tax morale. The results for SMEs may be similar to those for people, but the tax morale picture is likely to be more complicated because to MNEs' larger size and complexity. Being a large element of the tax base, MNEs are particularly crucial to developing country revenue systems, which is why this research focuses on tax morale in MNEs. A poll on tax certainty has been used as a stand-in for a survey on tax morale in MNEs to overcome the lack of data for MNEs. Tax morale is most likely largely influenced by tax certainty. Simply put, MNEs may be less likely to engage actively or favourably in the tax system when they perceive low tax certainty (or at least the parts that are most uncertain). Tax certainty is a valuable potential proxy for tax morale because of this association and the lack of other specific statistics for tax morale in MNEs.

Poor tax morale is not the only factor contributing to informality in small businesses; measuring and comprehending tax morale in SMEs offers a way to combat the high rates of informality, in addition to other strategies like lowering bureaucracy and the costs of formalization. There are conflicting indications about this form of fiscal contract in Nigeria. [28], using survey data from all regions of Nigeria, discover no connection between residents' attitudes toward taxation and their experiences with public services. Similarly, [29] discover that Lagos residents, both wealthy and poor, do not immediately link property taxes with enhanced infrastructure and services. Contrarily, [30] discover that in Nigeria's urban areas, those who use public goods and services more frequently have higher levels of tax morale than those who have better access to privately-provided goods, which serve as a replacement for state provision.

2.1.3. Tax Fairness

A tax that is equitable for every taxpayer is said to be fair. This implies that a person with a lesser income should pay taxes based on that income. When low-income individuals pay the same amount of tax as someone in a much higher tax bracket that is considered an unfair tax [32]. According to [31], one of the qualities of a strong tax system is tax fairness, which is crucial in deciding taxpayers' tax compliance behaviour. There has been a lot of discussion about the impact of tax fairness on taxpayers' compliance behaviour, as stated by [32, 31].

Tax fairness has many different aspects, such as administrative fairness [31], personal fairness [33], general fairness [34], vertical fairness (Gberegbe et al., 2015), and horizontal fairness [34]. When taxpayers from comparable socioeconomic backgrounds pay the same tax rate, this is known as horizontal fairness. According to the concept of vertical fairness, payments should be made at several levels by persons with various economic circumstances. The provisions of tax legislation and the practices used by tax authorities are referred to as administrative fairness. The perception of taxpayers on the fairness of the tax system is frequently correlated with personal fairness. Finally, retributive fairness is concerned with the sanctions and penalties imposed on non-compliant taxpayers. From the perspective of general fairness, tax fairness is considered. This factor assesses a person's perception of the fairness of a nation's tax structure.

The impact of tax fairness perception on personal income tax compliance in Nigeria was also examined by [35]. The findings indicate a positive and statistically significant association between tax fairness perception and personal income tax compliance in River States, Nigeria. [31], on the other hand, looked at the relationship between tax compliance and justice from the perspective of rewards. The tax authorities should set up a number of incentive programs to reward people who adhere to tax laws, it was underlined. It was determined that because these taxpayers would perceive the tax code as fair, tax compliance would rise. The level of tax understanding and specificity is a crucial factor in how taxpayers pay their taxes. Tax knowledge has been identified as one of the essential factors impacting tax compliance behaviour [25].

2.2. Theoretical Review

In order to accomplish the goal of this research, stakeholder theory and economic or deterrence theory was used to provide a theoretical justification for the study. The choice of economic theory is used to explain how individual or organizations convince one another to refrain from initiating some course of action. A threat serves as a deterrent to the extent that it convinces its target not to carry out the intended action because of the costs and losses that target would incur. Also, this theory is relevant to this study because it helps to broaden the researcher's view in understanding the concept of stakeholders in tax justice issues and the relevant of the theory in the collecting taxes from individual and organisations. The concept of taxes indicates the imperative needed to make information available to wide range of users who are captured by this theory as either primary or secondary stakeholders. As a result, the research is relevant to both stakeholder theory and economic theory, which gives the underlying ideas a solid foundation.

2.2.1. Economic or Deterrent Theory

Cesare Beccaria and Jeremy Bentham, two utilitarian scholars of the eighteenth 100 years, fostered the discouragement hypothesis as both a clarification of wrongdoing and a procedure for killing it [36]. Beccaria battled that wrongdoing was not simply an assault on an individual, but rather likewise on society. Prevention is the utilization of dangers to convince a foe not to act, and it is essential for the more extensive thought of pressure. The "deterrence hypothesis," which holds that potential and actual offenders respond to both positive and negative incentives, and that the volume of offenses in the population is influenced by law enforcement and other forms of crime prevention, is the foundation of the economic theory of crime in its classical and modern forms.

Larger number of literatures on economic and deterrence which relies on comparative case studies explained the theory by using an undertake statistical analysis which is based on a relatively large number of historical studies [37, 38]. Some of the literature stresses the cognitive and affection errors in past failures of deterrence attempts. Also, a study reflects the rationalist or rational choice approach to understand this theory. The theory was, however, adjusted that behaviour on the basis of this anticipation or their anticipatory judgement is not infallible, thus accounting for the fact that confrontation happen through deterrence efforts.

The theory is related based on the concept of deterrence which is defined as the use of threats by one party to convince another party to refrain from initiating some course of action. A threat serves as a deterrent to the extent that it convinces its target not to carry out the intended action because of the costs and losses that target would incur.

2.2.2. The Stakeholder Theory

This theory was proposed by [33], with Nobel laureate prize winner Milton Friedman being the most vocal about it. It is accepted that the company's essential obligation is to amplify benefit and consequently increment the financial worth of its investors. The graphic representation of the concept is criticized for being ambiguous and unclear. Numerous academics have examined this theory and found flaws, such as the absence of a widely accepted normative basis [39, 40] it is as yet feeble on the grounds that a few researchers contend that it isn't completely illustrative, and observational examination of the hierarchical relationship stays a test [41, 42]. Finally, this theory is regarded a second-order theory that requires more improvement in its growth. [43] who acknowledge the reactions evened out against stakeholders' theory, propose to isolate the conventional exchange-based model from one of the connections that could have both hostile and cooperative perspectives. This is why the same authors support the creation of "mutual benefits" opportunities. It would be innocent to accept that straightforward authoritative arrangements could dispense with every single different perspective. Contracts are typically signed by parties who share a common viewpoint and have common interests.

Unlike the agency and stewardship theory, the stakeholder theory looks beyond the relationship between shareholders and managers to include other categories of stakeholders such as government, customers, suppliers, local communities, and employees. Stakeholder's theory was considered as a nexus of connection among triangular interest blocks of agents, principals, and other stakeholders. The stakeholder theory addresses morals and values in managing an organization. Addressing morals and value, in essence, suggests that every organization's goal is to create value for all stakeholders to justify their existence.

The stakeholder theory assumed that the firm is a social person and consequently responsible and accountable not only to the owners but also to numerous other interested parties whose action or inaction may affect. This implies that this theory proposes some level of inclusiveness that extends managers' concern beyond owners' interests and accommodates the interests of other stakeholders who are legitimately entitled to the wealth created by a firm as well as the quality financial information for decision usefulness. Managers' survival exists only when they are successful and only when they exhibit proficiency in the management of the resources entrusted with them better than someone else. This means that organisation must fulfil its economic responsibility to the shareholders and not this alone, but must also be obligated to fulfil the legal and ethical responsibility to other critical stakeholders like government, society, host communities, and customers to enable it meets it long-term value for the organisation sustainably.

The supported of stakeholder theory is its value for describing the world accurately just in a way that directly reflects the imperatives of management, which makes the stakeholder theory descriptive in nature, intent, explanatory value, and practical application rather than be normative [44].

Clarkson (1995) identified and distinguished between primary and secondary stakeholders. He describes primary stakeholders as those “without whose continuing participation the corporation cannot survive as a going concern.” This class of stakeholders possesses high level of interdependence between it and the corporation. On the other hand, secondary stakeholders are defined as those “who influence or affect, or are influenced or affected by, the corporation.” Stemming from this definition, it can be adduced that secondary stakeholders do not have direct relationship with the organization, and are not essential for the determination of the corporation going concern. However, secondary stakeholders can cause avoidable damage to a corporation. Consequently, effective manager will pay attention to the yearning, social, political and environmental [45].

According to adherents of this idea, such as [46], stakeholders are groupings of constituents in a business who have a legal claim against the firm in which they have a specific interest. This authority from stakeholders is thus reinforced by an exchange relationship between a company and its partner. [46] went on to say that stakeholders have certain interests to gain because of the beneficial ties they have with the company.

Despite the fact that the stakeholder’s theory attempts to provide remedy to the lapses identified in agency and stewardship theory, it has received considerable criticism from different scholars. [47] claimed that stakeholder theory lacks specificity, preventing it from being operationalized in a manner that permits scientific examination. Stakeholder theory, according to other critics, lacks acceptable criteria for corporate governance decision-making. Additionally, it is alleged that stakeholder theory is null and void and offers an incorrect perspective on how organizations function. Last but not least, the idea of a "social contract" in an organization is at odds with stakeholder theory, which holds that all stakeholders have the same interest in the business.

This theory is pertinent to the study because it broadens the researcher's perspective on the idea of stakeholders in tax justice concerns and the theory's applicability to tax collection from both individuals and organisations. This theory's significance to this study stems from the idea of taxation, which highlights the necessity of making information accessible to a broad spectrum of users who are either primary or secondary stakeholders.

2.3. Literature Gap

The study of tax justice, tax administration, and tax compliance has merit because it advances the goal of fairness [48], effectiveness, and efficiency in tax systems [49] and, as a result, improves tax collection [50], lowers tax evasion [51], and promotes equal distribution of tax burdens [52, 53]. [54] investigated the moderating role of tax compliance on the economic effect of tax, while [24, 55] studied factors that influence tax compliance. However, none of these studies considered the impact of tax justice and tax administration on tax compliance. Several studies in Nigeria, including those by [56, 57, 38] investigated tax administration, voluntary tax compliance, and tax justice. Other studies by [52, 32, 59, 38, 60, 21] also explored tax justice-related issues but did not specifically examine the impact of tax justice on SMEs' voluntary compliance or tax administration. This highlights the need for a study that examines the relationship between tax justice, tax administration, and tax compliance.

In addition to the gaps in this study, the researcher's observations of the recent conflict between River State and the Federal Government of Nigeria also highlighted additional reasons for conducting this research. The question of who can and cannot collect value-added tax, as well as the fact that states with higher tax revenue typically share less with those with lower tax revenue. Also, in the Transparency International (TI) report on the Corruption Perception Index, which gauges public opinion regarding corruption at the government level, Nigeria was ranked 121st out of 150 countries in 2008, 130th out of 150 countries in 2009, and 134th out of 178 countries evaluated in 2010 [61]. Taxpayer compliance is significantly impacted by Nigeria's high degree of government corruption and the distribution of tax money among its states, since it affects taxpayers' perceptions of tax fairness and depresses their morale. [6] opined that one of the factors that can influence a taxpayer's decision to comply with the law and fulfil their tax obligations is how they see the government and the law. According to [3] a taxpayer's behaviour in terms of tax compliance with the government and the law will depend on their level of trust. Therefore, this study aims to address these gaps and national issues by investigating the interplay between tax justice, tax administration, and tax compliance.

3. Methodology

3.1. Research Design

The research design chosen was a descriptive survey. The study's nature and the data's properties essentially served as the rationale for using a descriptive survey research design. This design's adoption is in line with earlier research on tax justice. These studies include those conducted by [62, 63] which were included in this study. In order to investigate the causal relationship between at least two variables of interest, where one is dependent and the other is regarded as independent, ex post facto research design permits the use of variables that already exist.

3.2. Population of the Study

According to the report [64], there are 11,663 registered SMEs in Lagos State and that would be the study's target poulation. Lagos was chosen for the study because most of the registered SMEs in Nigeria are in Lagos and the State is regarded as the economic nerve centre of Nigeria and Lagos State in particular has taken the lead in detecting and reducing tax evasion. This has been made possible by hiring tax consultants with expertise in forensic accounting and investigation. In the SMEs organisation in Lagos State, the study will focus on tax officials and tax players who are thought to possess sufficient expertise and experience in tax-related matters.

3.3. Sampling Technique

The study collected data using a variety of sampling techniques. In order to provide each possible participant an equal chance of being chosen, a random sampling technique was first applied. Purposive sampling was also used, which gave the researchers more freedom to choose which units to look at. Convenience sampling was also used since the researcher could easily get it. The study was explained to the respondents before the research equipment was sent out. In order to gather data, questionnaires were given to tax officers and taxpayers of SMEs that were registered in Lagos State. This strategy seeks to guarantee that the study's sample is complete and representative.

3.4. Sample Size

The sample size was calculated using Cochran's formula. To obtain the representative sample size for this study, the Cochran's formula (1997) of sample size was applied. The Cochran formula allowed the calculation of an ideal sample size given a desired level of precision, desired confidence level, and the estimated proportion of the attribute present in the population. A sample of any given size provides more information about a smaller population than a larger one, so there's a 'correction' through which the number given by Cochran's formula can be reduced if the whole population is relatively small.

The Cochran formula is:

$$n = \frac{NZ^2Pq}{d^2(N-1)+Z^2Pq}$$

N= the sample size derived from equation

e= the margin of error, e = 0.05 (95%)

p= the (estimated) proportion of the population which has the attribute in question,

q = 1-p. = 0.5

Z = selected critical value of desired confidence level Z table.

d = degree of accuracy (d=0.05)

z = 1.96

N is the population size = 11,663

Z represents confidence interval of 95% and a precision of 5%, P = 0.5

Where:

n = the sample size

N = the population size

Z =95% confidence interval (Z=1.96), P=0.5, q=1-p.

Therefore,

n = 11,663 (1.96)2 (0.5)(0.5)(0.05)2 (11,663 -1) + (1.96)2 (0.5) (0.5)

$$n = 371.94 \approx 372$$

With a 10% addition to make up for non-respondent, the sample size becomes (372 + 37) = 409. The justification behind adding 10% is to allow for non-response and wrongly filled questionnaire [64]. The total sample size used for the analysis is 409 SMEs in Lagos State.

3.5. Method of Data Collection

Primary data gathered through a self-structured questionnaire were collected. In order to ensure uniformity in response and to encourage participation, the questionnaires was kept short and structured with mostly multiple-choice selections in a five Likert scale. The questionnaires were preferred in this study because respondents of the study are literate and quite able to answer questions asked adequately. Also, the advantage of using primary data is that researchers are collecting information for the specific purposes of the study. The researchers interacted with the manager or head of the MSMEs and use other contacts to get their approval and request cooperation. The respondents were informed of the study's purpose, given notice of their rights, and given assurances regarding the confidentiality of the data they provided on the questionnaire. As a result, respondents were encouraged to provide their email address or pick up the questionnaire from security or reception during breaks or other times when they are less busy in order to increase response rates. The researcher and research assistance followed up. The researcher directly collected completed questionnaires or, in some cases, used Survey Monkey. Hence, the research instrument was used to collect data on both independent and dependent variables in this study.

3.6. Research Instrument

The research instrument collates data relating to the dependent and independent variables. There are two main variables that informed the structure of the questionnaire. The independent variable is made up of the variables of tax justice and tax administration, and the dependent variable is tax compliance. The indicators of tax justice and tax administration are tax evasion, tax avoidance, tax havens, and tax penalties, and the indicators, or dependent variables, of tax compliance are tax morale and tax fairness. The questionnaire is used because it is mostly used to collect data in most survey research methods, as it enhances adequate uniformity of response.

The questionnaires contained three main sections: Section A collects data on demographic features, while Section B and

Section C obtain information on the study variables. Section B focuses on independent variables, while section C is for dependent variables. Each variable question in the independent and dependent variables was designed in the form, and the design has a 5-point Likert scale of Strongly Agreed, Agreed, Undecided, Disagreed, and Strongly Disagreed.

3.7. Methodological Limitation

The population of the study is restricted to Lagos State and does not encompass all 36 states in Nigeria. Because of the diverse business settings in each state, the respondents may have different viewpoints on tax justice, tax administration, and tax compliance, which could potentially alter the generalisability of the research findings throughout the nation. Also, a number of variables that may affect tax compliance decisions and outcomes were not taken into account in this work, including ownership structure, industry sector, business size, and financial literacy levels. In order to provide policymakers and tax authorities with useful insights, researchers can create more complex models of tax compliance behaviour by looking at the interactions between these characteristics and variables related to tax administration and justice.

Comparative research conducted in other countries may also provide important new information on how SMEs differ in their tax compliance practices. Researchers can determine contextual elements that influence compliance outcomes by comparing tax systems, regulatory frameworks, enforcement methods, and cultural norms across nations or regions. Attempts to modify tax laws and enforcement tactics to the unique requirements and difficulties encountered by SMEs in various settings can be guided by the results of this comparative study.

Assessing the impact of technological innovations on tax compliance among SMEs is another important area for further research. Digital technologies such as online filing systems, data analytics tools, and digital platforms have the potential to transform tax administration processes and compliance outcomes. By exploring the effectiveness of these innovations in enhancing compliance behaviour, researchers can identify opportunities to leverage digital tools to improve tax administration efficiency and effectiveness.

4. Data Analysis and Results

H01: There is no significant effect of tax justice and tax administration on tax morale of SMEs in Lagos state.

Table 1. Regression Estimate for Model One.

Dependent Variable: TM	Model One			
	Coefficient	**Std. Error**	**T Stats**	**Prob.**
(Constant)	3.551	0.133	26.663	0
Tax Evasion	0.01	0.041	0.232	0.816
Tax Haven	0.065	0.053	1.236	0.217
Tax Avoidance	-0.093	0.045	-2.049	0.041
Tax penalty	0.129	0.041	3.109	0.002
Adjusted R^2	0.026			
F-Stat	3.724 (0.00)			

Source: Researcher's Work (2024) @Chosen Significant level of 5%

$$TC = \beta_o + \beta_1 TE + \beta_2 TH + \beta_3 TAv + \beta_4 TP + \varepsilon \ldots \text{Model 3}$$

$$TC = 3.92 + .075TE + .019TH - .057TAv - .038TP$$

Interpretation

The regression estimates on Table 1 shows that proxies of tax justice and tax administration have both positive and negative effect on Tax compliance measured by Tax morale (TM). This is indicated by the signs of the coefficients, which are β>&<0. Some of these results are consistent with a-priori expectations.

From Table 1, the sign of the coefficient shows that tax evasion (TE) has a positive effect on tax compliance as measured by tax morale (TM), with a coefficient of 0.010. This positive effect is statistically not significant as the t-statistic significance level shows 0.816 which is more than 0.05 significant levels chosen for this study. In the same way, tax haven (TH) also has a positive effect on tax morale, with a coefficient of 0.065. This positive effect is however not statistically significant as the t-statistic significance level shows 0.217 which is higher than 0.05.

Furthermore, tax penalty (TP) has a positive effect on tax compliance measured by tax morale (TM), with a coefficient of 0.129. This positive effect is however statistically significant as its t-statistic significance level shows 0.00 which is less than 0.05 chosen level of significance for this study. However, only tax avoidance (TAV) has a negative effect on tax compliance measured by tax morale (TM), with a coefficient of -0.093. This negative effect is however significant as the t-statistic significance level shows 0.04 which is less than 0.05.

The Adjusted R-square of the model showed that 2.6%, this suggest that variations in tax compliance measured by tax morale (TM) of the sampled population can be attributed to all our independent variables put together, while the remaining 97.4% variations in tax compliance measured by tax morale (TM) are caused by other factors not included in this model.

However, the F-test showed a probability value of 0.00 which indicates that the explanatory variable is statistically significant because the probability value is less than 5%, the level of significance adopted for this study. Therefore, the model is statistically significant. Thus, the null hypothesis that tax justice and tax administration have no significant effect on tax morale of SMEs in Lagos state is rejected.

Table 2. Regression Estimate for Model One.

Dependent Variable: TF	Model Two			
	Coefficient	Std. Error	T Stats	Prob.
(Constant)	3.573	0.225	15.894	0.000
Tax Evasion	0.346	0.07	4.95	0.000
Tax Haven	0.208	0.089	2.33	0.020
Tax Avoidance	-0.185	0.076	-2.427	0.016
Tax penalty	-0.326	0.07	-4.655	0.00
Adjusted R^2	0.124			
F-Stat	15.39 (0.00)			

Source: Researcher's Work (2024) @Chosen Significant level of 5%

$$TF = \beta o + \beta 1TE + \beta 2TH + \beta 3\ TAv + \beta 4\ TP + \varepsilon \text{ Model 2}$$

$$TF = 3.573 + .346TE + .208TH - .185TAv - .326TP$$

Interpretation

The influence of tax administration and tax justice variables on tax fairness (TF) is explained by the regression estimate shown in Table 2. The signs of the coefficients, which indicate the direction in which the effect goes, are positive to negative. With a coefficient of 0.346, tax evasion (TE) shows a significant positive influence on tax fairness, suggesting that higher perceived tax fairness is linked to more tax evasion. This effect is statistically significant (p =.000), indicating that tax evasion has a strong impact on SMEs in Lagos State's opinions of tax fairness.

Similarly, with a coefficient of 0.208, tax haven activities (TH) have a positive influence on tax fairness, but one that is not as significant as tax evasion. Nonetheless, compared to tax evasion, this effect is significant at the 0.05 level (p =.020), suggesting a significant but less considerable influence. On the other hand, tax avoidance (TAv), with a coefficient of -0.185, has a negative effect on tax fairness. The result suggests that among SMEs in Lagos, a lower perception of tax fairness is linked to greater levels of tax evasion. Tax avoidance has a statistically significant influence (p =.016) on the business community's sense of tax fairness, which is a negative outcome.

Moreover, tax penalty (TP), with a coefficient of -0.326, has a significant negative impact on tax fairness. This implies that lower perceptions of tax fairness among SMEs are correlated with higher susceptibility to tax penalties. The statistical significance of the tax penalty effect (p =.000) suggests that it has a strong impact on the impression of tax fairness.

The model's overall explanatory power, as demonstrated by the modified R-squared value of 0.124, indicates that the independent variables included in the analysis account for 12.4% of the variation in tax fairness. This suggests that SMEs in Lagos State's views of tax fairness and tax administration variables together account for a moderate amount of the variation in these perceptions. It's important to know that the model is unable to account for 87.6% of the variation, indicating the existence of other significant variables that were not taken into account for this study.

The model is statistically significant (p=.000), according to the F-test, suggesting that the independent variables taken together have a substantial impact on people's perceptions of tax fairness. As a result, the null hypothesis which holds that tax administration and justice have no appreciable impact on tax fairness in SMEs in Lagos State is rejected. This emphasizes how important it is to take tax policy and enforcement strategies into account when forming the SME sector's perceptions of tax fairness.

5. Discussion of Finding

Examining the impact of tax administration and justice on the tax morale of SMEs in Lagos, Nigeria, was one of the study's goals. Tax morale was the dependent variable in the study, while the four independent variables were tax evasion, tax haven, tax avoidance, and tax penalty. The model was a linear regression. Regression research results demonstrated that, depending on the particular variable, tax administration and justice can have either a positive or negative impact on tax morale. The study also discovered that, in contrast to tax rate and tax compliance cost, tax knowledge was one of the most important factors influencing tax compliance.

In a survey of 392 SMEs across all geo-political zones in Nigeria, [23] discovered that while tax rate and tax compliance cost were not significant determinants of tax compliance behaviour, tax system complexity, tax deterrence sanction, tax non-compliance opportunity, tax information, and tax attitude and perception were. Since tax information may raise knowledge, decrease uncertainty, and foster better relationships of trust and collaboration between taxpayers and tax authorities, the author stated that it is essential for improving tax morale and voluntary compliance. The author also recommended that in order to create and carry out efficient tax policies and tactics that may affect taxpayers' cognitive and affective aspects, tax authorities should embrace a behavioural economics viewpoint.

Similarly, [64] used factor analysis to examine the variables that support SMEs' non-compliance with tax obligations in Zimbabwe's CBDs of Bulawayo, Gweru, and Harare. The complexity of the tax system, norms, economic reasons, and disincentive to tax evasion and possibilities of tax evasion were the four elements that the author recognized as having the highest ranking as causes for non-tax compliance. Additionally, the author discovered that tax knowledge was one of the factors that weighted very strongly on the possibility and deterrence of tax evasion, suggesting that tax information might improve tax compliance by raising the perceived risk and expense of evasion. The author suggested that tax authorities should enforce tax rules and penalties, educate and inform people, and streamline the tax system.

Additionally, [52] used regression analysis and descriptive statistics to evaluate the impact of taxes on the performance of SMEs. The tax rate, tax compliance costs, tax penalties, and tax information were found to have a substantial impact on the growth, profitability, and sales turnover of SMEs. Additionally, the author discovered that tax information significantly and favourably affected SMEs' performance. This suggests that tax information might boost SMEs' performance by lowering tax uncertainty, boosting tax planning, and making tax compliance easier. The author recommended that tax authorities take a taxpayer-friendly stance when it comes to tax administration and give SMEs sufficient and timely tax information.

According to the regression analysis, tax administration and justice can influence tax fairness in a good or negative way, depending on the variable in question. Tax avoidance and the tax penalty had negative and significant impacts on tax fairness, but tax haven and tax evasion had positive and significant benefits. These results are in line with prior research on tax fairness and compliance.

According to a study of 392 small and medium-sized enterprises (SMEs) throughout all of Nigeria's geographic zones that was carried out by [23], tax avoidance and the threat of a tax penalty were identified as variables that discouraged tax compliance, whereas tax haven and tax evasion were identified as major predictors of tax compliance behaviour. According to the author, taxpayers saw tax havens and evasion as acceptable ways to deal with high taxes and low-quality public services, but tax avoidance and penalties were seen as harmful and immoral ways that broke the social compact between the state and its citizens. Additionally, the author claimed that tax authorities may benefit from taking a behavioural economics stance in order to craft and execute tactics and policies that appeal to taxpayers' rational and affective minds.

In a similar vein, [63] used structural equation modelling to examine how tax fairness affected tax compliance among Nigerian SMEs. There were four factors that affected tax fairness, which the author identified as having a positive and statistically significant effect on tax compliance: distributive fairness, procedural fairness, retributive fairness, and informational fairness. Tax avoidance and tax penalties were determined to have negative impacts on procedural and informational fairness, respectively, whereas tax havens and distributive fairness were found to have favourable benefits, according to the author. The author stated that tax officials should do a better job of communicating with and educating people, as well as making the tax system and administration fairer.

Furthermore, [64] evaluated the influence of tax fairness on tax compliance intention among SMEs in Nigeria, using descriptive statistics and multiple regression analysis. The author discovered that tax fairness had a positive and substantial influence on tax compliance intention, and that tax fairness was measured by three dimensions: horizontal fairness, vertical fairness, and exchange fairness. The author also discovered that tax evasion and tax haven had good impacts on horizontal fairness and exchange fairness, respectively, whereas tax avoidance and tax penalty had negative effects on vertical fairness and exchange fairness, respectively. The author stated that tax authorities should assure the equality and efficiency of the tax system and the tax administration, and offer enough and timely tax information to taxpayers.

6. Conclusion and Recommendations

This study aimed at analyzing the effect of tax justice and tax administration on various aspects of tax compliance among small and medium-sized enterprises (SMEs) in Lagos state, Nigeria. Through regression analysis and examination of relevant variables, the research sought to shed light on the relationships between tax justice, tax administration, and SME behaviour regarding tax compliance. Overall, the findings contribute to the understanding of the dynamics between SMEs and tax authorities in Lagos state, offering insights into the factors that influence tax compliance among this important sector of the economy.

The results pertaining to Hypothesis One indicate that tax justice and tax administration have a significant impact on tax compliance among SMEs in Lagos state. The regression analysis revealed a positive and statistically significant relationship between tax justice factors, such as fairness and equity, and SMEs' compliance with tax obligations. These findings suggest that perceptions of tax fairness and equity play a crucial role in shaping SMEs' willingness to comply with tax regulations, highlighting the importance of fostering trust and confidence in the tax system to promote voluntary compliance. In reference to Hypothesis Two, the results indicate that the tax morale of SMEs in Lagos State is significantly impacted by tax justice and tax administration factors. Regression analysis showed that tax administration and justice can affect tax morale in either a favourable or negative way, depending on the specific variable. The study also found that one of the most significant elements impacting tax compliance was tax morale, as opposed to tax rate and tax compliance cost.

Recommendation

Based on the findings of the study, the following recommendations were made to improve the effectiveness of tax justice, tax administration, and tax compliance in small and medium enterprises in Lagos state. The government and tax authorities should prioritize efforts to enhance tax justice and fairness by ensuring that tax laws and regulations are transparent, equitable, and consistently enforced. This involves addressing issues of procedural fairness, distributive justice, and informational transparency to build trust and confidence among SMEs in the tax system. Also, the government and tax authorities should prioritize efforts to improve tax morale by ensuring that better information, individual and social norms, trust in government and fairness of administration, and concepts of reciprocity and the social contract. This is because the establishment of an efficient tax system encourages a norm of tax payment in Nigeria, and improves the performance of companies, which has been hindered by several factors like low sales, high production costs, low capital utilisation, a lack of foreign exchange to buy the necessary materials and inputs, a poor power supply, and low-quality goods and services in comparison to western nations where her government has established effective tax systems that allow small and medium-sized businesses to prosper and promote the practice of businesses paying taxes.

Abbreviations

FIRS	Federal Inland Revenue Service
GDP	Gross Domestic Product
ICPC	Independent Corrupt Practices and Other Related Offences Commission
IRS	Internal Revenue Service
MNEs	Multinational Enterprises
MSMEs	Micro, Small and Medium Enterprises
OECD	Organisation for Economic Co-operation and Development
SMEDAN	Small and Medium Enterprise Development Agency of Nigeria
SMEs	Small and Medium Enterprises
VAT	Value Added Tax

Conflicts of Interest

There is no conflict of interest that exists to the best of the researcher's knowledge.

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