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FAIRNESS PERCEPTIONS AND INCOME TAX VOLUNTARY COMPLIANCE AMONG OWNERS OF MICRO ENTERPRISES IN JIGAWA STATE, NIGERIA: THE MODERATING ROLE OF TRUST

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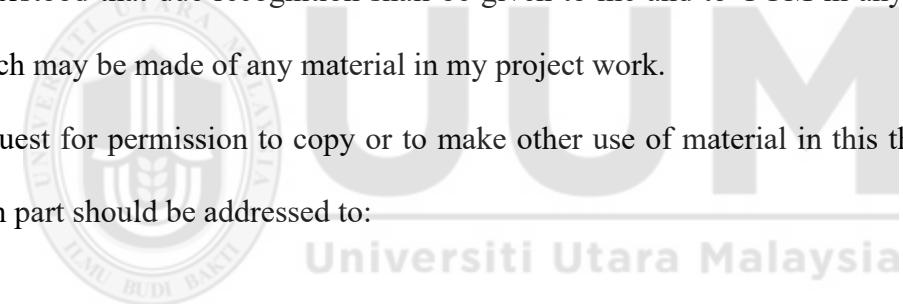
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ABSTRACT

Taxation represents a very important source of revenue for the government of any nation for economic growth and is being looked upon as a panacea to the myriad of societal needs. Hence, this study examines the fairness perceptions in Jigawa State and their effects on voluntary tax compliance. Further, the study examined the moderating role of trust in explaining voluntary tax compliance in Jigawa State. For that purpose, a cross sectional study was conducted. 249 questionnaires were collected from the 450 questionnaires issued in Jigawa State. The data was analyzed using SPSS and PLS to answer the research questions. In particular, factor analysis was conducted to determine the type of fairness dimensions in Jigawa State after the amendment of the Personal Income Tax Act 2011. The Partial Least Square (PLS) path modeling was used in examining the relationship between fairness perceptions and voluntary tax compliance and the moderating role of trust. Findings from the factor analysis reveal that there are four dimensions of fairness perceptions in Jigawa State. The dimensions are exchange fairness, horizontal fairness, personal fairness and vertical fairness. Moreover, the results reveal that fairness perceptions and trust in authority have significant and positive relationships with voluntary tax compliance. Additionally, trust moderates the relationship between fairness perceptions and voluntary tax compliance. Based on these findings, the contributions, implications and the limitations of the study were discussed.

Key word: Voluntary tax compliance, fairness perception, trust, moderating, PLS.

ABSTRAK

Percukaian merupakan sumber pendapatan yang sangat penting bagi pertumbuhan ekonomi dalam sesebuah negara. Percukaian juga dianggap sebagai penawar kepada pelbagai keperluan masyarakat. Sehubungan itu, kajian ini meneroka persepsi kesaksamaan di *Jigawa State* dan kesannya ke atas pematuhan cukai secara sukarela. Selain itu, kajian ini juga menguji peranan kebolehpercayaan sebagai pemboleh ubah perantara dalam menerangkan pematuhan cukai secara sukarela. Oleh itu, kajian keratan rentas telah dijalankan. Sejumlah 249 soalan kaji selidik dikumpulkan berbanding 450 soalan kaji selidik yang diedarkan di *Jigawa State*. Data dianalisis menggunakan *Statistical Package for Social Sciences (SPSS)* dan *Partial Least Square* (PLS) untuk menjawab soalan kajian. Secara khususnya, analisis faktor dijalankan dalam menentukan dimensi persepsi kesaksamaan di *Jigawa State* selepas pindaan Akta Cukai Pendapatan Individu 2011. Model PLS) telah digunakan dalam menguji hubungan di antara persepsi kesaksamaan dan pematuhan cukai secara sukarela serta kebolehpercayaan sebagai pemboleh ubah perantara. Dapatan daripada analisis faktor menunjukkan bahawa terdapat empat dimensi persepsi kesaksamaan di *Jigawa State*. Dimensi tersebut ialah kesaksamaan *reciprocal,* kesaksamaan mendatar, kesaksamaan menegak, dan kesaksamaan umum. Seterusnya, dapatan kajian menunjukkan bahawa persepsi kesaksamaan dan kebolehpercayaan kepada pihak berkuasa mempunyai kesan positif yang signifikan ke atas pematuhan cukai secara sukarela. Tambahan lagi, kebolehpercayaan merupakan pemboleh ubah perantara yang penting di dalam hubungan di antara persepsi kesaksamaan dan pematuhan cukai secara sukarela. Berdasarkan dapatan ini, sumbangan kajian, implikasi dan limitasi kajian juga dibincangkan.

Kata Kunci: Pematuhan cukai secara sukarela, persepsi kesaksamaan, kebolehpercayaan, perantara, PLS.

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LIST OF ABBREVIATION

AF	Administrative Fairness
AVE	Average Variance Extraction
CIA	Central Intelligence Agency
EF	Exchange Fairness
GDP	Gross Domestic Product
GF	General Fairness
HF	Horizontal Fairness
ITMA	Income Tax Management Act
KMO	Kaiser-Meyer-Olkin
NCI	Nigerian Council of Industry
PAYE	Pay As You Earn
PF	Personal Fairness
PITA	Personal Income Tax Act
PLS	Partial Least Square
SBIR	State Board of Internal Revenue
SEM	Structural Equation Modeling
SSF	Slippery Slope Framework
TA	Tax Authority
VF	Vertical Fairness
VIF	Variance Inflation Factor
VTC	Voluntary Tax Compliance

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

Tax compliance in Nigeria has been declining over time as revealed by tax as percentage of Gross Domestic Product, which is the most commonly global measure of tax compliance by country. Indeed, tax compliance declined from 7% in 2013 (Okonjo-Iweala, 2013) to 3.7% in 2015 (CIA World Factbook, 2015). This situation can be seen as insufficient to build a strong economy.

A comparison with other African countries also indicates various countries low tax compliance. Evidence from CIA World Factbook, 2015 reveals that African countries like Ghana, South Africa, Angola and Uganda are performing better than Nigeria in terms of tax as a percentage of GDP. Table 1.1 shows tax as percentage of GDP of Nigeria and the aforementioned African countries.

Table 1.1
Comparison Tax as a Percentage of GDP between Nigeria and Other Selected African Countries

Country	Tax as a percentage of GDP
Angola	32.2%
Ghana	23.2%
Nigeria	3.7%
South Africa	27.4%
Uganda	13.8%

Source: CIA World Factbook, 2015.

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Appendix A Questionnaire

Survey Questionnaire

Dear Respondent,

I am conducting a research on *FAIRNESS PERCEPTION ON INCOME TAX VOLUNTARY COMPLIANCE AMONG OWNERS OF MICRO ENTERPRISE IN JIGAWA STATE NIGERIA: THE MODERATING ROLE OF TRUST*

Therefore, I am pleased to inform you that you have been chosen to participate in this survey.

Please be advised that there is no right or wrong answer, only your views and opinions on each of the statements are required. Your responses are highly critical in achieving the objectives of this study. I assure you that confidentiality of your answer and the data collected will be used only for the purpose of this study. Please answer all questions.

In case you may require further information regarding this study, please contact me at:

Mr. Abba Ya'u Tel: +2348039749499 or +60103158183 E-mail: abbayau12@gmail.com

Thank you for sparing your precious time.

Yours Sincerely,

Abba Ya'u

Student, M.Sc. International Accounting

University Utara Malaysia.

Section 1: DEMOGRAPHIC DATA: Respondent's profile. Please cross (X) ONE ONLY in the box. Please provide answer to the following;

1: **Gender** Male   Female

2: **Age (Years)** below 30   31-40   41-50   51 and above

3. **Qualification** SSCE/GCE   ND/NCE   HND/BSC   Masters or PhD

4. **Type of Business**:

a. Block Molding

b. Water Factory

c. Livestock feed sale and milling

d. Poultry farm

e. Rental Service

f. Cement Business

g. Ice Block and frozen food

h. Event planning, cake baking and decoration

5. **How long have you been in this Business?**

Below 10   11-20   2 1-30   31 and above

6. Your annual income Below N1.5m   N1.5-2M   N2-2.5M   Above N2.5 M

> **Section 2: VOLUNTARY TAX COMPLIANCE.**
>
> **Please respond to the following statements by circling the appropriate option:**
>
> **1-Strongly Disagree (SD),   2-Disagree (D),   3- Neutral (N),   4-Agree (A),**
>
> **5-Strongly agree (SA).**

1	I feel a moral obligation to pay my tax in Nigeria	SD D N A SA
2	Paying my tax ultimately advantages everyone Overall, I pay my tax in Nigeria with good will	SD D N A SA
3	I think of taxpaying as helping the government of Nigeria do worthwhile things	SD D N A SA
4	I accept responsibility for paying my fair share of tax	SD D N A SA
5	Paying tax is the right things to do	SD D N A SA
6	Paying tax is a responsibility that should be willingly accepted by all citizens of Nigeria	SD D N A SA

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Section 3: TRUST IN AUTHORITIES.

Please respond to the following statements by circling the appropriate option:

1-Strongly Disagree (SD),   2-Disagree (D),   3- Neutral (N),   4-Agree (A),   5-Strongly agree (SA).

1	The current governmental authorities in Nigeria act fair towards their citizens	SD D N A SA
2	Because of new government, In Nigeria the interest of a few are not considered stronger than the interest of the community	SD D N A SA
3	The governmental institutions of Nigeria act upon their citizens' interest because of the influence of new government.	SD D N A SA

Section 4: FAIRNESS PERCEPTIONS.

Please respond to the following statements by circling the appropriate option:

1-Strongly Disagree (SD),   2-Disagree (D),   3- Neutral (N),   4-Agree(A),   5-Strongly agree (SA)

1	I believe the government utilizes a reasonable amount of tax revenue to achieve social goals, such as the provision of benefits for low-income families.	SD	D	N	A	SA
2	I believe everyone pays their fair share of income tax under the current income tax systems.	SD	D	N	A	SA
3	I think the government spends too much tax revenue on unnecessary welfare assistance.	SD	D	N	A	SA
4	I received fair value from the government in return for my income tax paid (e.g benefit)	SD	D	N	A	SA
5	It is fair that low income earners received more benefits from the government compared to high-income earners.	SD	D	N	A	SA
6	The income taxes that i have to pay are high considering the benefits I received from the government.	SD	D	N	A	SA
7	It is fair for individuals with similar amount of income to pay a similar amount of income tax	SD	D	N	A	SA
8	I believe it is fair for me to pay a similar share of income tax compare with other taxpayers earning an	SD	D	N	A	SA

equivalent amount of income.

9	It is fair that 'equals before tax are equals after tax'. For example, if a person earning N100,000 before tax pays N20,000 tax, everyone earning N100,000 income before tax should be left with N80,000 after tax.	SD D N A SA
10	It is fair that high-income earners are subject to tax at progressively higher tax rates than middle-income earners.	SD D N A SA
11	It is fair that middle income earners are taxed at a lower rate than high income earners	SD D N A SA
12	The share of the total income taxes paid by high income earners is much and too high	SD D N A SA
13	I believe that I pay my fair share of the tax burden under the current tax system	SD D N A SA
14	Compare to other taxpayers, I pay more than my fair share of income tax.	SD D N A SA
15	Middle income earners pay their fair share of income tax.	SD D N A SA
16	There are a number of ways available to me to correct errors in the calculation of my tax liability , if necessary, at no additional cost	SD D N A SA

| 17 | The administration of the income tax system by the Inland revenue is consistence across years and taxpayers. | SD | D | N | A | SA |

THANK YOU FOR YOUR COOPERATION

Appendixes B Factor analysis

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.847
Bartlett's Test of Sphericity	Approx. Chi-Square	10482.880
	Df	136
	Sig.	.000

Rotated Component Matrix[a]

	Component					
	1	2	3	4	5	6
GF1	.894					
GF2			.935			
GF3		.416		.829		
EF1		.849				
EF2	.898					
EF3			.928			
HF1		.445		.811		
HF2		.858				
HF3			.931			

VF1	.872					
VF2		.818				
VF3			.830			
PF1				.816		
PF2		.833				
PF3	.878					
AF1		.860				
AF2	.910					

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.[a]

a. Rotation converged in 5 iterations.

Appendix C Skewness and Kurtosis

Statistics

		FAIRNESSMEAN	TRUSTMEAN	VTCMEAN
N	Valid	243	243	243
	Missing	0	0	0
Skewness		-.062	.008	.167
Std. Error of Skewness		.156	.156	.156
Kurtosis		-1.214	-.635	-1.100
Std. Error of Kurtosis		.311	.311	.311