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**FACTORS INFLUENCING VALUE ADDED TAX (VAT)
COMPLIANCE INTENTION AMONG SMEs IN NIGERIA**

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**MASTER OF SCIENCE (ACCOUNTING)
UNIVERSITI UTARA MALAYSIA
JULY 2018**

**FACTORS INFLUENCING VALUE ADDED TAX (VAT) COMPLIANCE
INTENTION AMONG SMEs IN NIGERIA**

By

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**Thesis Submitted to
Tunku Puteri Intan Safinaz School of Accountancy,
Universiti Utara Malaysia,
in Fulfilment of the Requirement for the Degree of Master of Science (Accounting)**



**TUNKU PUTERI INTAN SAFINAZ
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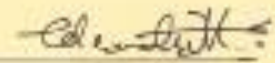
: FACTORS INFLUENCING VALUE ADDED TAX (VAT) COMPLIANCE
INTENTION AMONG SMEs IN NIGERIA

Program Pengajian
(Programme of Study)

: Master of Science (Accounting)

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ABSTRACT

The contribution of Value Added Tax (VAT) to the total revenue of Nigeria remains consistently low and is relatively decreasing due to low compliance by the Small and Medium Enterprises (SMEs). Prior studies gave more attention to income tax compliance than VAT compliance; however, VAT is ranked as the most non-remittance tax in recent times. Considering all the factors that can influence VAT compliance are numerous but just a few would adhere specifically to Nigeria which are discussed in this study. Thus, this study investigates empirically the factors influencing VAT compliance intention among SMEs in Nigeria. In order to gain in-depth understanding of the phenomenon, the study incorporates detection probability, penalty magnitude, SME reputation, fairness in the tax system and mental tax accounting into the Theory of Planned Behaviour (TPB). The study was designed using SMEs survey method. Cluster random sampling technique was applied to select the samples of the study from the six industrial areas in Kano state, Nigeria. The primary data were collected through self-administered questionnaire, which were treated statistically using multiple regression analysis and other statistical techniques. The results reveal that SMEs' perception about subjective norms, perceived behavioural control, detection probability, SME reputation and fairness in the tax system are positively significant to VAT compliance intention. However, attitude towards VAT compliance, penalty magnitude and mental tax accounting are not related to VAT compliance intention among SMEs in Nigeria. By implication, the findings of the study suggests that policy makers should map-out strategies to improve the quality of services through fairness in the tax system, publishing the names of defaulting SMEs and improving their performance on detection. Furthermore, policies should be directed towards strengthening these factors to reawaken the culture of VAT compliance among SMEs in Nigeria.

Keywords: mental tax accounting, reputation, theory of planned behaviour, value added tax, tax compliance.

ABSTRAK

Sumbangan Cukai Nilai Tambah (VAT) kepada jumlah pendapatan Nigeria masih rendah secara konsisten dan berkurangan kerana kadar kepatuhan yang rendah daripada Perusahaan Kecil dan Sederhana (PKS). Kajian lepas memberi perhatian kepada kepatuhan cukai pendapatan berbanding kepatuhan kepada VAT; namun kebelakangan ini VAT disenaraikan sebagai cukai yang paling kurang dibayar. Dengan menganggap banyak faktor yang boleh mempengaruhi pematuhan VAT, hanya beberapa yang boleh dipatuhi khususnya di Nigeria dibincangkan dalam kajian ini. Oleh itu, kajian ini menyelidik secara empirik faktor-faktor yang mempengaruhi niat kepatuhan VAT dalam kalangan PKS di Nigeria. Untuk mendapatkan pemahaman yang mendalam mengenai fenomena tersebut, kajian ini menggabungkan kebarangkalian pengesanan, magnitud penalti, reputasi PKS, keadilan dalam sistem cukai dan mentaliti perakaunan cukai ke dalam Teori Tingkah Laku Terancang (TLT). Kajian ini direka menggunakan kaedah kaji selidik terhadap PKS. Teknik pensampelan rawak berkluster digunakan untuk memilih sampel kajian dari enam kawasan perindustrian di negeri Kano, Nigeria. Data utama dikumpulkan melalui soal selidik yang ditadbir sendiri, yang dianalisa secara statistik menggunakan kaedah analisis regresi berganda dan teknik-teknik statistik lain. Hasil kajian menunjukkan persepsi PKS mengenai norma subjektif, kawalan tingkah laku yang dilihat, kebarangkalian pengesanan, reputasi PKS dan keadilan dalam sistem cukai adalah positif terhadap niat kepatuhan VAT. Walau bagaimanapun, sikap terhadap pematuhan VAT, magnitud penalti dan mentaliti perakaunan cukai didapati tidak berkaitan dengan niat pematuhan VAT dalam kalangan PKS di Nigeria. Secara implikasinya, hasil kajian ini mencadangkan kepada penggubal dasar untuk merangka strategi bagi meningkatkan kualiti perkhidmatan melalui keadilan dalam sistem cukai, mengumumkan nama PKS yang tidak patuh dan meningkatkan prestasi pengesanan. Selain itu, dasar juga perlu menuju ke arah mengukuhkan faktor-faktor tersebut bagi penyusunan semula budaya pematuhan VAT dalam kalangan PKS di Nigeria.

Kata Kunci : mentaliti perakaunan cukai, reputasi, teori tingkah laku terancang, cukai nilai tambah, pematuhan cukai.

ACKNOWLEDGEMENT

I am indeed grateful to **GOD** for making it possible for me to undertake a course in MSc Accounting. In addition, I am greatly indebted to several individuals and organizations for their immense contributions for the successful completion of this programme. First and foremost, my sincere appreciate goes to my supervisor: Dr. Idawati Ibrahim. I humbly recognize with your scholarly support, guidance and guardian throughout the course of my programme. It was a great pleasure working under your supervision. I also express my gratitude to all the lecturers who made contributions and comments on my proposal especially; Associate professor Natrah Saad and Associate professor Zaimah Zainol Ariffin.

I thank the management and staff of Federal Inland Revenue Service, North-East, Bauchi, especially Mallam Munkaila Hussain Abubakar for his support during the fieldwork of this study. Similarly I appreciate the management and staff of SMEDAN North-west and North-east, Nigeria for their support during the field work. I also appreciate the management of ATA Polytechnic, Bauchi for sponsoring and granting me study leave to pursue this programme. To my colleagues in ATAP, Bauchi, Azare campus and enormous others are equally acknowledged. To my extended family: Gimbas and the Manzogs, I am indeed grateful for their prayers and support.

Finally, I sincerely appreciate the patience, cooperation, encouragement and support of my father- Mr. Yohanna Gimba, my siblings- Gimba, Alheri, Avurumdha, Mary and Dauda(Azi), my children- Chongfy, Chimchong, Rahchong, Sharon and Shalom. Special regards to my Pastor- Rev. Leonard Lim and friends who motivated me throughout the programme- Engr. Liti, Engr. David, Lawi, Nahla, Nishtiman, Mrs. Daju, FGC and RCCG family. **Shalom!!!**

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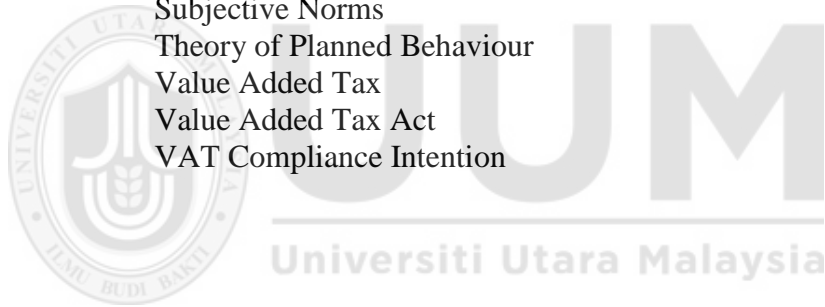
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LIST OF ABBREVIATIONS

Abbreviations	Description of Abbreviation
AVC	Attitude towards VAT Compliance
CBN	Central Bank of Nigeria
DP	Detection Probability
ECOWAS	Economic Community of West African States
FIRS	Federal Inland Revenue Services
FTS	Fairness in the Tax System
GAO	Government Accountability Office
GDP	Gross Domestic Product
GST	Goods and Services Tax
IMF	International Monetary Fund
MTA	Mental Tax Accounting
OECD	Organization for Economic Cooperation and Development
PBC	Perceived Behavioural Control
PM	Penalty Magnitude
SMEDAN	Small and Medium Enterprises Development Agency of Nigeria
SME	Small and Medium Enterprise
SN	Subjective Norms
TPB	Theory of Planned Behaviour
VAT	Value Added Tax
VATA	Value Added Tax Act
VCI	VAT Compliance Intention



CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Taxation is a source of government revenue that is important in the growth and development of a country. However, the revenue can only be increased if the persons/organizations are willing to comply with the tax law of the country (Salman, 2011). In relative terms, compliance rate need to be increased so as to ensure an increased revenue base (Ayuba, 2014). As compared to Gross Domestic Product (GDP), the tax revenue in Nigeria has dropped tremendously in 2016 to 6% from what was applicable in 2014 (12%). As compared to other countries, the contribution of tax revenue to GDP in Nigeria is among the lowest across Africa. For instance, tax revenues to GDP for Ghana, Cote d'Ivoire, Egypt and South Africa are 20.8%, 15.3%, 15.8% and 26.9%, respectively in 2016 (Morrissey, Haldenwang, Schiller, Ivanyna, & Bordon, 2016). The key reasons to the low contribution of tax revenue to GDP in Nigeria are, drop in prices of oil and non-compliance behaviour among taxpayers (Alabede, 2012). However, the non-compliance behaviour is more obvious on the non-oil tax, which contributes to low percentage of total revenue in Nigeria (Nwaolisa & Kasie, 2012; Omokhuale, 2016).

As stated above, the non-oil tax revenue has accounted for a smaller proportion of the total revenue in Nigeria due to non-compliance behaviour of taxpayers. Despite the need to increase the non-oil tax revenue through sensitization, audit and penalizing defaulters,

the trend for Value Added Tax (VAT) keeps decreasing (FIRS, 2016). Thus, prompts the need to further conduct a study on VAT (Ayuba, 2014; Omesì & Nzor, 2015).

Hence, this study is conducted on VAT (non-oil tax), especially at this period that the Nigerian government is relying less on revenue from oil taxes.

VAT is an indirect tax in which the burden is passed on to the final consumer as part of the price of a good or service (Cnossen, 2015). The issues surrounding VAT non-compliance has been a great concern in recent times, especially in the European Union (EU) (Webley & Ashby, 2010). For example, The European Commission (2004) issued a report on VAT revenue loss, which is as high as 10% in some EU countries. In another study, Bergman and Nevarez (2006) reported that in developed countries, VAT revenue losses vary from a low value of 3% in United Kingdom (UK) and France to a high VAT revenue loss of 40% in Italy. Furthermore, VAT revenue losses in 2011 were as much as; 16% in France, 12% in the UK and 11% in Australia (Barbone, Bird, & Vazquez-Caro, 2012). In addition, is VAT revenue loss of about 22% in Chile (Webley & Ashby, 2010).

VAT non-compliance is not only an issue with developed countries but has equally affected developing countries, especially, Nigeria. For instance, Okoyeuzu (2013) reported that, the Federal Inland Revenue Service (FIRS) clamped down on the hospitality industry in Abuja arresting about nine managers that failed to register their companies for VAT purposes and have not filed returns as mandated by law. The study of Okoyeuzu (2013) further stated that, the FIRS arrested the Chief Executive Officers

(CEOs) of seven companies in Lagos who failed to remit ₦2.17 billion (USD13.5million) as accumulated VAT collections in 2012.

Furthermore, the Managing Director of International Monetary Fund (IMF), Ms. Christine Lagarde was in Nigeria in January, 2016, where she suggested that the Nigerian government can improve the revenue collections from VAT through increasing the VAT rate (which is 5%) and among the lowest in the world (CNBCAfrica, 2016). For instance, Benin Republic, Ghana and South Africa operate VAT rates of 18%, 15% and 14%, respectively (Adeyemo, Fakile, Obigbemi, & Ben-Caleb, 2017). However, the issue on VAT in Nigeria, is not on VAT rate but on compliance rate, which is as low as 10% (Tijjani, 2016). In addition to the low compliance rate, the tax manager FIRS, Mr. Mukaila (personal communication on 4th April, 2017), stated that the tax drive initiated by the current Executive Chairman FIRS, Mr. Fowler revealed that, out of the total 'supposed' VATable persons (organizations/persons that have registered or need to be registered for VAT purposes), only 10% is compliant. In his words, 'if the percentage of compliance rate can be increased, then, there is no need for the VAT rate to be increased'.

In the same vein, as compared to previous years, the targeted figure for VAT is usually greater than the actual collections. For instance, in the year 2011, the targeted VAT figure was ₦770.04 billion but the actual VAT collection was ₦561.07 billion. So also in the year 2015, the targeted was ₦709.72 billion and the actual collection was ₦498.23. In addition, the percentage change of VAT collections in 2011 as compared to 2012 shows

an increase of 26.6%. While in 2015 as compared to 2014, the VAT actual collection shows a percentage decrease of 38.0%. This means that the percentage decrease is larger in recent times, thus, prompt for studies in the phenomenon. A detail of VAT target and actual collections for five years (2011 – 2015) in Nigeria is presented in Table 1.1.

Table 1.1
Value Added Tax (₦ Billion)

Year	Target	Actual	% Change in VAT Actual Collections
2011	770.04	561.07	-
2012	794.67	710.55	+26.6
2013	945.28	802.68	+13.0
2014	849.34	802.96	+0.03
2015	709.72	498.23	-38.0

Source: Tax Revenue Statistics. FIRS (2016).

For the 2016 VAT target and actual, to the best of the researcher's knowledge, there has not been an official figure released. However, the Nigerian finance minister in a retreat on the Annual Corporate Strategy organized by the FIRS in February, 2017 expressed dismay over the total tax collected in 2016, which is ₦3.303 trillion (USD9.16 billion) as against the targeted figure of ₦4.957 trillion (USD13.75 billion). Reacting to the speech of the finance minister, the FIRS boss expressed his regret over not meeting the targeted figure especially on the poor VAT collection (Olawoyin, 2017). Hence, the FIRS boss promised to proffer ways to increase the VAT compliance rate, which is in line with the objective of this study.

Similarly, as compared to other revenue in Nigeria, for instance from oil and gas, while VAT shows a consistent shortfall between the target and the actual as discussed above, the collections from oil and gas tax shows a consistent figure above the targeted, except

for 2015, where the target exceeded the actual collections, which is attributed to the fall in the prices of oil (Omesi & Nzor, 2015). Details of the target and actual collections of VAT and oil and gas tax are presented in Figures 1.1 and 1.2, respectively.

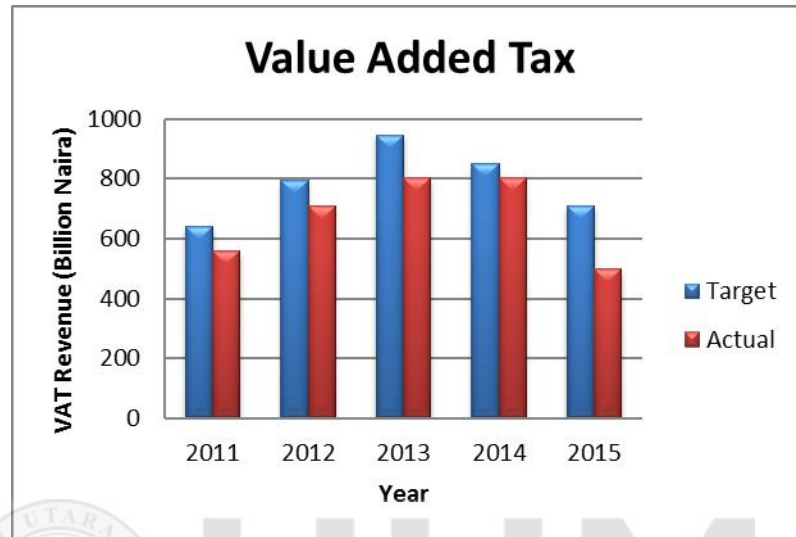


Figure 1.1
Value Added Tax (Target vs. Actual)
 Source: Tax Revenue Statistics. FIRS (2016)

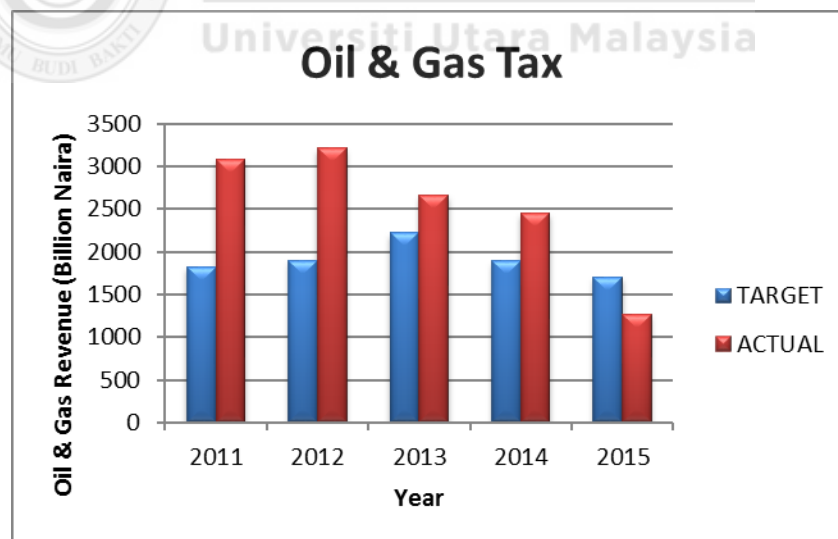


Figure 1.2
Oil and Gas Tax (Target vs. Actual)
 Source: Tax Revenue Statistics. FIRS (2016)

So many factors were observed to have contributed in the gap between the target and actual VAT revenue, such as the non-compliance behaviour of Small Medium Enterprises (SMEs), which contributed to the low rate of VAT compliance in Nigeria (Eragbhe & Omoye, 2014). Mukaila (personal communication on 4th April, 2017) opined that, the non-compliance rate is higher among the SMEs. He added that, the low contribution of VAT is attributed to the non-compliance behaviour of SMEs based on the records filed at the FIRS. As part of the requirements of the law, all VATable persons and organizations are expected to remit monthly VAT collections to FIRS (FIRS, 2017).

Furthermore, the SMEs' intention to comply can be affected by both economic and socio-psychological factors (Walsh, 2012). In Nigeria, the economic factors such as, penalties, sanctions and audit probability among others have played a great role in tax compliance (Alabede, Ariffin, & Idris, 2011; Anyaduba et al., 2014; Anyaduba et al., 2012; Ebimobowei & Peter, 2013; Ironkwe & Peter, 2015; Modugu & Anyaduba, 2014; Muhibat, Abdul Azeez, & Tope, 2013; Ocheni, 2015). While socio-psychological factors such as, fairness in the tax system, attitude towards compliance, among others has greatly influenced the compliance behaviour of SMEs in Nigeria (Alabede, 2012; Atawodi & Ojeka, 2012).

Nevertheless, the disturbing revelation as stated above on VAT non-compliance in developed and developing countries and with the statistical presentation of decline in VAT revenue in Nigeria, the government cannot sit back to allow the challenges associated with non-compliance among the SMEs deter its chance of meeting up the

expectations of IMF as one of the top 20 economies in the year 2020 (International Monetary Funds, 2010). Therefore to support the intentions of the Nigerian government to increase VAT compliance nationwide, this study suggests factors that will influence VAT compliance intention among SMEs through incorporating economic and socio-psychological factors into the Theory of Planned Behaviour (TPB).

1.2 Problem Statement

Despite the efforts of the Nigerian government to increase the tax revenue over the years, statistical evidence has proven that the contribution of tax revenue to GDP is still low (6% in 2016) as compared to Ghana (20.8%), Cote d'Ivoire (15.3%), South Africa with (26.9%) and far below the average in Organization for Economic Cooperation and Development (OECD) countries (34.3%) (Morrissey et al., 2016). However, the performance of VAT is disappointing and unsatisfactory, as compared to other tax revenues in Nigeria (Olawoyin, 2017). For instance, the percentage of personal income tax in 2015 is 53% of the total tax revenue, while VAT contributed only 13% (FIRS, 2016).

Similarly, some countries in the Economic Community of West African States (ECOWAS) member states (Nigeria is one of the member states) achieved a higher percentage of VAT to total tax revenue more than Nigeria. For instance, Togo and Ghana recorded 44.3% and 30.1% respectively (Cnossen, 2015). The low contribution of VAT is attributed to the non-compliance behaviour of SMEs based on the records filed at the FIRS (Mukaila, personal communication on 4th April, 2017). By law, all VATable

persons and organizations are expected to remit monthly VAT collections to FIRS (FIRS, 2017). Hence, the officers of the FIRS have records of compliant persons and organizations. Thus, this study suggests factors that would influence VAT compliance among the SMEs in Nigeria, so that the VAT collections will improve to meet up the VAT percentage to total tax revenue as previously reported in some ECOWAS member states.

Furthermore, the current Malaysian Prime Minister referred GST (also called VAT) as a saviour to the Malaysian economy due to an improved compliance rate (Kasipillai & Krever, 2016). However, the Nigerian Minister of Finance at a press conference in Washington posited that, the VAT compliance rate in Nigeria is as low as 10%, due to non-compliance behaviour of persons/organizations charged with the responsibilities of remitting the VAT collections. To quote the words of the Nigerian Minister of Finance as reported by Tijjani (2016, p. 1):

“Currently, Nigeria has a VAT rate of 5%, which is one of the lowest in the world. But we also have a very low rate of VAT compliance, which is as low as 10%”.

This means that, the issue of low VAT collections in Nigeria has nothing to do with the VAT rate, but the compliance rate. Thus, this study adopted best practice from other developing countries as Nigeria, so that VAT can be referred to as ‘saviour’ to the Nigeria economy. As compared to other African countries, Nigeria has consistently recorded very low VAT revenue. For instance in 2011, Nigeria was ranked the lowest in the group of sub-saharan countries in terms of VAT productivity based on GDP (Baunsgaard, 2014). The study also highlighted poor understanding and managing factors

that influence compliance as among the factors responsible for the low VAT productivity on GDP recorded by Nigeria. This phenomenon remains unexplained with the little research on VAT compliance in Nigeria (Eragbhe & Omoye, 2014).

In addition, Muehlbacher, Hartl and Kirchler (2015) also observed that non-remittance of tax will not only reduce revenue for the government but exposes the person/organization to winding up of their businesses due to lack of segregating tax collections from the business funds (lack of mental tax accounting). In Nigeria, about 70% of SMEs close down their businesses within five years of establishment as a result of lack of segregating tax collections from the business funds (Yusuf & Dansu, 2013). This study investigates the relationship between mental tax accounting and VAT compliance intention among SMEs in Nigeria.

Mental tax accounting was adapted from mental accounting, which is a concept developed by Thaler (1980) to capture how outcomes are perceived, activities are assigned so that decision can be made. Mental tax accounting was examined in the study conducted by Muehlbacher and Kirchler (2013), where they defined mental tax accounting as a process of segregating the tax liability from the gross income. Their study posited a significant relationship between mental tax accounting and tax compliance. Though, the study of Muehlbacher and Kirchler (2013) was conducted in a developed country on tax compliance, this study applied mental tax accounting on VAT compliance among SMEs in Nigeria as a developing country. This was done to improve the

compliance rate of SMEs through segregating the VAT collections from the business proceeds.

Besides low mental tax accounting, perceived fairness was found to play great role in predicting compliance among SMEs. That is, when the SMEs perceive the system is fair, it will encourage voluntary compliance (Farrar & Thorne, 2013). However as posited by when Akinboade (2014), Kennedy (2013) and Mativo and Muturi (2015), the taxpayers perceived the tax system is unfair when the system is complex, the cost of compliance is high and there are issues of multiple taxation, hence, affects their compliance behaviour. The study of Akinboade (2014), listed factors such as the cost and effort of collecting tax on SMEs are high and the resources to employ expert to assist them on blocking loop-holes are not sufficient, hence affect the compliance behaviour of SMEs. In addition, Eragbhe and Omoeye (2014) stated that, the tax system in Nigeria is seen as complex by most SMEs, as a result of that, it is difficult for the SMEs to comply with tax laws. The study further posits that VAT accounted for about 33% of the total compliance cost experienced by SMEs in Nigeria, which is the highest as compared to other compliance cost for other types of taxes, such as income tax and withholding tax. Thus, this study investigated the relationship between fairness in the tax system and VAT compliance intention among SMEs in Nigeria.

Theoretically, most of the studies conducted on tax compliance in Nigeria, were centred on income tax compliance (Alabede, 2012; Anyaduba, Eragbhe, & Modugu, 2014; Anyaduba, Eragbhe, & Prince, 2012; Ayuba, Saad, & Ariffin, 2016; Modugu &

Anyaduba, 2014; Modugu, Eragbhe, & Izedonmi, 2012; Muhrtala & Ogundeji, 2013). While the few studies conducted on VAT in Nigeria, did not focus on compliance (Adereti, Sanni, & Adesina, 2011; Adeyemo et al., 2017; Chigbu, 2014). Based on the researcher's knowledge, the only published study on VAT compliance in Nigeria is by Eragbhe & Omoye (2014). Therefore, there is a need to conduct a study on VAT compliance in Nigeria.

Moreover, previous studies on tax compliance in Nigeria focused only on factors from the deterrence theory. For instance, Ebimobowei and Peter (2013) who focused on random tax audit, cut off tax audit, conditional tax audit among others, Anyaduba et al. (2014) focused on stiff penalties, tax deterrent policies among others and Modugu and Anyaduba (2014) focused on tax audit, probability of audit, penalties and enforcement. While Alabede (2012) incorporated the economic and socio-psychological factors into the Fischer model of tax compliance (refer to Appendix B for full list of published empirical studies in Nigeria on VAT/tax compliance). The study by Eragbhe & Omoye (2014) on VAT compliance also did not incorporate both the economic and socio-psychological factors into a theory. Swistak (2016) suggests applying both economic and socio-psychological factors will be more effective in studying compliance, because none of the factors can work effectively in isolation as they complement each other.

Consequently, this study focused on VAT compliance by incorporating economic and socio-psychological factors into the TPB model. This study expanded the TPB model to capture factors from deterrence theory, social exchange theory and prospect theory to suit

the assumption that compliance intention is influenced by economic and socio-psychological factors (Benk, Cakmak, & Budak, 2011; Huda, Rini, Mardoni, & Putra, 2012).

In addition, this study introduced SME reputation as a factor under the deterrence theory. As posited by Webley, Adams and Elffers (2002), a belief that one's reputation may suffer as a result of being caught evading is also a deterrent measure and this may be particularly relevant in a business context. That means, deterrence can be self-imposed as a result of reputation (protecting the business image) or from an external body (penalty and detection) to ensure compliance. Some prior studies have established the relationship between reputation and the deterrence theory. For instance, Morse (2012) opined that when the public assigns reputation demerits (stigma) to non-compliant taxpayers and gives the compliant taxpayer, then the utility of non-compliance decreases and vice versa. This means that, the perception of the public on a complaint taxpayer, increases the reputation of the taxpayer, hence, decreases the non-compliance intention of the taxpayer, and vice versa.

Furthermore, on studies conducted, on the factors influencing VAT compliance intention among SMEs and to the knowledge of the researcher, nothing much is known empirically about the relationship between SME reputation and the study on mental tax accounting on VAT compliance intention among SMEs in Nigeria. This study introduced these new concepts in Nigeria to answer the call for more empirical studies on the factors that would influence VAT compliance in Nigeria as suggested by Eragbhe and Omoye

(2014). In the same vein, the opinion of others about the values of an enterprise matters greatly, and also the FIRS states that the reputation of the SME can be tarnished if they (FIRS) take legal actions on them for non-compliance (FIRS, 2017). This study defines SME reputation as the perception of others on the values of a company which is characterized by how the SME relate to issues pertaining to their business social responsibilities. As failure to remit the VAT collections will cost the SME its reputation and in the long run affects the success of the business.

Lastly, most studies conducted on VAT compliance among SMEs were centred on developed countries (Adams & Webley, 2001; Webley et al., 2002; Zídková, 2014), thus, there is need to bridge the gap between developed and developing countries. The suggestion was made by these scholars; Adams and Webley (2001), Alabede (2012), Anyaduba, Eragbhe and Modugu (2014), Keen (2009), Mittone (2001) Webley et al. (2002) and Webley and Ashby (2010). Hence, this study was conducted in Nigeria, a developing country.

Based on the problem statement discussed above, thus, there is a need to carry out a study on factors influencing VAT compliance intention among SMEs in Nigeria. Hence, the research questions were presented in the next section.

1.3 Research Questions

This study examined the following research questions:

1. What is the level of the SMEs VAT compliance intention in Nigeria?

2. What is the relationship between attitude towards VAT compliance, subjective norms, perceived behavioural control influence and VAT compliance intention among SMEs in Nigeria?
3. What is the relationship between detection probability, penalty magnitude, SME reputation and VAT compliance intention among SMEs in Nigeria?
4. What is the relationship between mental tax accounting, fairness in the tax system and VAT compliance intention among SMEs in Nigeria?

1.4 Research Objectives

The main objective of this study is to identify factors influencing VAT compliance intention among SMEs in Nigeria. The specific objectives include:

1. To identify the level of the SMEs' VAT compliance intention in Nigeria.
2. To investigate the relationship between attitude towards VAT compliance, subjective norms, perceived behavioural control and VAT compliance intention among SMEs in Nigeria.
3. To examine the relationship between detection probability, penalty magnitude, SME reputation and VAT compliance intention among SMEs in Nigeria.
4. To investigate the relationship between of mental tax accounting, fairness in the tax system and VAT compliance intention among SMEs in Nigeria.

1.5 Significance of the Study

The significance of this study cannot be overlooked; this is in line that the study will contribute significantly in the following areas.

1.5.1 Theoretical Contribution

Taking into account the findings in the previous studies and development in the literature on VAT compliance (Adams & Webley, 2001; Webley et al., 2002; Zídková, 2014), this study expanded the TPB model to include deterrence theory, social exchange and prospect theory to suit the assumption that compliance intention is influenced by economic and socio-psychological factors (Benk et al., 2011; Huda et al., 2012). In addition, Swistak (2016) suggests applying both economic and socio-psychological factors will be more effective in compliance, because none of the factors can work effectively in isolation as they complement each other. SME reputation and mental tax accounting were added as there are no studies relating them to VAT compliance intention among SMEs in Nigeria. These factors were suggestions from the literature (for example, Adams & Webley, 2001; Ashby, Haslam, & Webley, 2009; Bergman & Nevarez, 2006; Bird, 2014; Bobek, Hageman & Kelliher, 2012; Eragbhe & Omoye, 2014; Mittone, 2001; Muehlbacher, Kirchler, & Schwarzenberger, 2011; Musau, 2015; Webley et al., 2002).

SME reputation as a factor that influences VAT compliance is so scarce and up to the researcher's knowledge, there is no publication as regards SME reputation as a variable in tax compliance studies. However, reputational cost is listed among the consequences of non-compliance as stated by FIRS (2016). Thus, this study defines SME reputation as the perception of others on the values of a company which is characterized by how the SME relate to issues pertaining to their business social responsibilities. As failure to remit the VAT collections will cost the SME its reputation and in the long run affects the success of the business. In the same vein, mental tax accounting in VAT compliance is

the process of segregating the VAT collections from the proceeds of the business. Furthermore, Webley et al. (2002) stated that, the interesting aspect of mental tax accounting to VAT issues is to know whether SME owners separate the VAT collections from their business turnover or they perceive VAT collections as “their money”, which is in line with the objective of this study.

Finally, this study focused on a developing country, thereby bridging the research gap on VAT compliance between developing and developed countries as suggested by these studies (Donna D. Bobek et al., 2012; Chau & Leung, 2009; Gangl, Hofmann, Pollai, & Kirchler, 2008; Hofmann, Hoelzl, & Kirchler, 2008; Ling, Osman, Muhammad, Yeng, & Jin, 2016).

1.5.2 Practical Significance

The study would help to a great extent in suggesting ways to improve VAT administration in a developing country like Nigeria. First, the study suggested relevant information that may enrich the knowledge and provide proper understanding about VAT compliance intention among SMEs in Nigeria. It may further assist in forecasting the needed resources that will be allocated for VAT audit and investigation in the annual budget. As well as ensuring an effective management and tackling the issues surrounding VAT non-compliance behaviour in Nigeria, which will result in improved VAT compliance rate as well as increase the revenue base of Nigeria through increased VAT collections.

The study may also be beneficial to Nigeria, as empirical studies explaining the VAT compliance intention of SMEs are so rare. Therefore, the study provides information about the factors that influence VAT compliance intention among SMEs in Nigeria. The information provided about the importance of each factor in the SMEs' compliance intention model will serve as a stepping stone for the government in formulating policies and strategies to improve VAT compliance intention among SMEs.

Furthermore, this study may go a long way to assist the FIRS to appraise their performance in order to see where to improve voluntary compliance, and also checkmate how efficient and effective they have been to devise appropriate policies to combat VAT non-compliance behaviour among SMEs in Nigeria. This can be possible through granting incentives to the SMEs that are complying and improving on the audit procedure to penalize defaulting SMEs. This may increase VAT compliance among SMEs and ensure a rise in the revenue generation of the Nigerian government, particularly at this time of diversification and less reliance on revenue from oil.

In addition, the Nigerian government has incorporated skill acquisition programmes in secondary and tertiary curriculum to encourage the youth to be self-reliant. This gesture by the government can be extended to encourage compliance behaviour by incorporating mental tax accounting in secondary and tertiary curriculum, consistent public campaign through mass media and on-going seminars for the SMEs. This will encourage and sustain compliance behaviour among the SMEs. Finally, this study may act as a stepping ground for future researchers who are interested in the area of VAT compliance.

1.6 Scope of the Study

Most today's large companies were yesterday's SMEs, and these SMEs need to be nurtured to ensure they grow. Thus, SMEs have a great role in the growth and development of any nation (Aryeetey & Ahene, 2004; Atawodi & Ojeka, 2012). SME is defined by SMEDAN (2013 pp.10-11) as 'an enterprise whose total assets (excluding lands and buildings) are above ₦5m but not exceeding ₦500m, with a total workforce between 10 and 199 employees). However, if there exist a conflict on classification between employment and assets criteria, the employment-based classification will take precedence'. For instance, an enterprise with a total assets (excluding lands and buildings) of less than ₦5m, but has a workforce of 10 or more employees, such an enterprise will still be classified as an SME, because, the workforce supersedes in defining and categorizing an SME in Nigeria.

This study is centred on the SMEs in Nigeria and the sample was drawn from Kano state, north-west Nigeria. Kano state was chosen because it is the largest populated city in the northern Nigeria (National Population Commission, 2006). In addition, Kano state has 8,286 registered SMEs, representing 11.8% of the total SMEs in Nigeria (refer to Appendix G for full list of SMEs in Nigeria) (SMEDAN, 2013). The report shows that, the four major ownership of SMEs by economic sector (Education services, wholesale/retail, manufacturing and food/accommodation) are well represented in Kano state.

Kano is a centre of industrial and commercial activities for decades with a large number of SMEs that have attracted people of different ethnic and religious background. Hence, the sample to be derived from the population can be relatively representative. In addition, most of the SMEs in Nigeria have one or more businesses in Kano state (Hilman & Gorondutse, 2013). Thus, the choice of SMEs as the unit of analysis for this study was influenced by the fact that SMEs contribute 46.54% of Nigerian's GDP. In addition, SMEs play important role in economic development of Nigeria (SMEDAN, 2013). Hence, getting more SMEs into the VAT net will increase the compliance rate, thereby increasing the tax revenue of the Nigerian government.

Furthermore, the scope of this study is on the compliance intention of SMEs. Intention has been proven by prior studies of having a greater authority to represent behaviour (Ajzen, 2011). In the same vein, Saad (2011) posits that, perceived behavioural control has a higher influence on an individual that has an intention to perform certain behaviour than an individual without intention. Thus, this study suggests that an SME with an intention to comply will be more likely to engage in compliance behaviour than an SME without an intention to comply.

1.7 Organization of Thesis

This thesis has produced five chapters. The first chapter of the thesis started with an introduction to the study. The introductory chapter of the study starts with the background of the study, which denotes that although VAT non-compliance is an issue in developed and developing countries, it is more serious in developing countries, like Nigeria. After the background of the study, follows the problem statement, which

presents both the practical and theoretical gaps. This chapter also discussed the research questions, research objectives significance of the study as well as the scope of the study.

The related literature were reviewed in the second chapter and is sub divided into five sections starting with an overview of VAT in Nigeria, followed by the concept of VAT compliance. Other sections in the chapter are the underpinning and supporting theories, VAT compliance among SMEs, factors influencing VAT compliance intention among SMEs and lastly the summary wrapped up the chapter. The methodology of the study was presented in chapter three, which consisted of eleven sections. The research framework of the study started the chapter, followed by the hypotheses developed for the study. Other sections discussed in the chapter are; research design, operational and measurement of variables used for the study. Also included in this chapter is the population of the study, the sample size, data collection instruments and techniques for data analysis wrapped up the chapter.

Chapter four focused on the data analyses and findings of the research work. The chapter is organized into thirteen sections and several subsections. While chapter five summarized key findings, the significance of the findings as well as their theoretical, practical and policy implication. Lastly, recommendation for future research and conclusion were also highlighted in chapter five.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter considered the review of related literatures on the factors influencing tax compliance among SMEs, with a special emphasis on VAT compliance intention among SMEs. The three constructs of TPB (attitude towards VAT compliance, subjective norms and perceived behavioural control), detection probability, penalty magnitude, SME reputation, fairness in the tax system, as well as mental tax accounting were examined with VAT compliance intention among SMEs. The chapter is sub-divided to discuss; an overview of VAT in Nigeria, the underpinning and supporting theories, VAT compliance, factors influencing VAT compliance among SMEs and lastly, the summary of the chapter.

2.2 An Overview of VAT in Nigeria

The overview of VAT in Nigeria cannot be overlooked, hence, is discussed in three sub-heads; the concept, VATable persons and calculation of VAT.

2.2.1 The Concept of VAT

The concept of VAT in Nigeria can be traced to November, 1991 where a committee was inaugurated to conduct extensive research on the new concept (VAT), thereby make recommendations. The government chose 1st January, 1993 to implement VAT, but was later shifted to 1st September, 1993 (Sanni, 2012). However, Aguolu (2002) reported that the timing for commencing VAT was wrong because the Nigerian populace assumed the introduction of VAT will increase the prices of goods and services, as it happened in

1993 when the pump price of gasoline was increased by 150% which had a direct inflationary effect on the prices of transport, that led to an indirect effect on prices of food and other necessities.

Notwithstanding on the issues raised above, in January 1994, VAT was finally introduced in Nigeria to replace the sales tax, which operated under Decree No. 7 of 1986 (Ugwoke, 2013). The study further stated that, one of the reasons behind the replacement of sales tax to VAT is because, the sales tax was so narrow and nullifies the nature of a consumption tax, which is expected to cut across all consumable goods and services. Thus, VAT was introduced in Nigeria. Hence, FIRS (2006, p.2) defines VAT as, “an indirect tax levied on goods and services consumed. It is an indirect tax because the burden of the payment is on the final consumer of the goods and services”.

Furthermore, Ugwoke (2013) opined that VAT is a consumption tax levied at every stage of transaction which is borne by the final consumer of those goods and services. This means that, in every stage of transaction of VATable goods and services, there is VAT inclusive, which is finally borne by the final consumer of the VATable goods and services. In addition, Abdul-rahamoh, Taiwo and Adejare (2013) define VAT as a consumption tax. That is, the more you buy or consume, the more tax you pay. In the same vein, Oladipupo and Izedonmi (2013) posited that VAT which is an indirect tax is paid at each stage a value is added. This means that VAT is a multi-stage tax which applies whenever goods and services are supplied through the chain of distribution. The

study also stated that, the VAT payable to the government is the difference between the output VAT and the input VAT.

From the definitions of VAT from various scholars and also the definition from the FIRS, one can conclude that, VAT is an indirect tax because the final tax liability lies with the final consumer of such goods and services. VAT can also be defined as a tax on consumption, that is, if you do not consume such VATable goods or services, you cannot be liable to pay. In addition, VAT payable shall be determined by the difference between the output and input VAT. This is further explained in 2.2.2 of this chapter.

According to VAT Act (2007, p.15) as amended, there are certain goods and services which are subjected to VAT at 5%, those exempted from VAT, as well as goods that are zero-rated. The Act states that, “all goods and services are VATable except those exempted by the Act from time to time”. Since from the replacement of sales tax to VAT, among the list exempted from VAT as provided in the VAT Act (2007, p.15) as amended are; all medical and pharmaceutical products, basic food items, books and educational materials, baby products, fertilizer, plant and machinery, medical services, services rendered by community banks and mortgage institutions. In addition, the VATable goods and services that are rated at 0% include; non-oil exports, purchases by diplomats, purchases for use in undertaken by Non-Governmental Organizations (NGOs), religious and social clubs or societies that are recognized by law and their activities are not profit-oriented and their services are in the interest of the general public (Igweonyia, 2011; VAT Act, 2007, p.16).

As posited by Igweonyia (2011), most SMEs are unaware on how to calculate the VAT payable, hence, they are not so clear on the concepts of input and output VAT as well as the person responsible to collect VAT on behalf of the government. Therefore, the subsequent sub-sections will further discuss the person(s) responsible for collecting VAT on the authority of the government, alongside the offences and penalties for non-remittance, the concepts of input and output VAT as well as how VAT is calculated.

2.2.2 VATable Persons

A VATable person is an individual, organization or SME that has been registered at FIRS for VAT collections on behalf of the government. According to VAT Act (2007, p.5) as amended, a VATable person includes “an individual or body of individuals, family, corporations, sole trader, trustee or executor or a person who carries out in a place an economic activity, a person exploiting tangible or intangible property for the purpose of obtaining income there from by way of trade or business or a person or agency of government acting in that capacity”. In addition to the requirements by the Act, “a VATable person shall, within six months of the commencement of the Act or within six months of the commencement of business, whichever is earlier, register with FIRS for the purpose of VAT” (VAT Act, 2007 p.4).

In the same vein, Adereti et al. (2011) define a VATable person, as an individual or group of person that is engaged in the sales of VATable goods and services whether resident or non-resident in Nigeria, who sells goods or renders services in Nigeria. Furthermore, section 10(1) of the VAT Act (2007 p.5) as amended describes a non-resident person “as an individual or company that carries on economic activities in

Nigeria is also obliged to register for VAT, using the address of the person with whom he/she has a subsisting economic activity for purposes of correspondence with FIRS and for compliance with the VAT Law”. The non-resident person or company is required to register and include 5% (from 1993 to date since the VAT rate is still the same) in its invoice and the remittance of the VAT shall be in the currency (₦) of the Nigerian government (FIRS, 2017; Sanni, 2012).

Furthermore, as captured by Abay (2013), a VATable person can be a sole proprietor, professional, a partnership, limited liability company among others. Therefore, this study will refer VATable persons as SMEs and in the subsequent sub-section describe steps to arrive at the VAT payable and also discuss briefly the concept of input and output VAT.

2.2.3 Calculation of VATs

Sanni (2012) explained that, VAT liability arises where the input VAT is lesser than the output VAT. This means that, SMEs add up (separately) all input and output VAT, deduct the input VAT from the output VAT and remit the excess of output VAT to the FIRS. However, if the total input VAT for the accounting month exceeds output VAT, the SME applies to the FIRS for a refund. In addition, the due date for remittance of VAT according to FIRS is 21st of every month (FIRS, 2017), as failure to adhere to the stipulated date, would attract penalties, “a sum equal to 5% per annum (plus interest at the commercial rate) of the amount of tax remittable shall be added to the tax and the provisions of the VAT Act (as amended) relating to collection and recovery of unremitted VAT, penalty and interest shall apply” (VAT Act, 2007 p.7). In practice, the penalty for VAT non-compliance is ₦5,000 (USD14) each, for the defaulting month(s) (Mukai, 2012).

personal communication on 4th April, 2017). Furthermore, the knowledge of how VAT is calculated will make it easier for an SME to comply (Igweonyia, 2011), thus, the illustration of how VAT is calculated is presented in Figure 2.1.

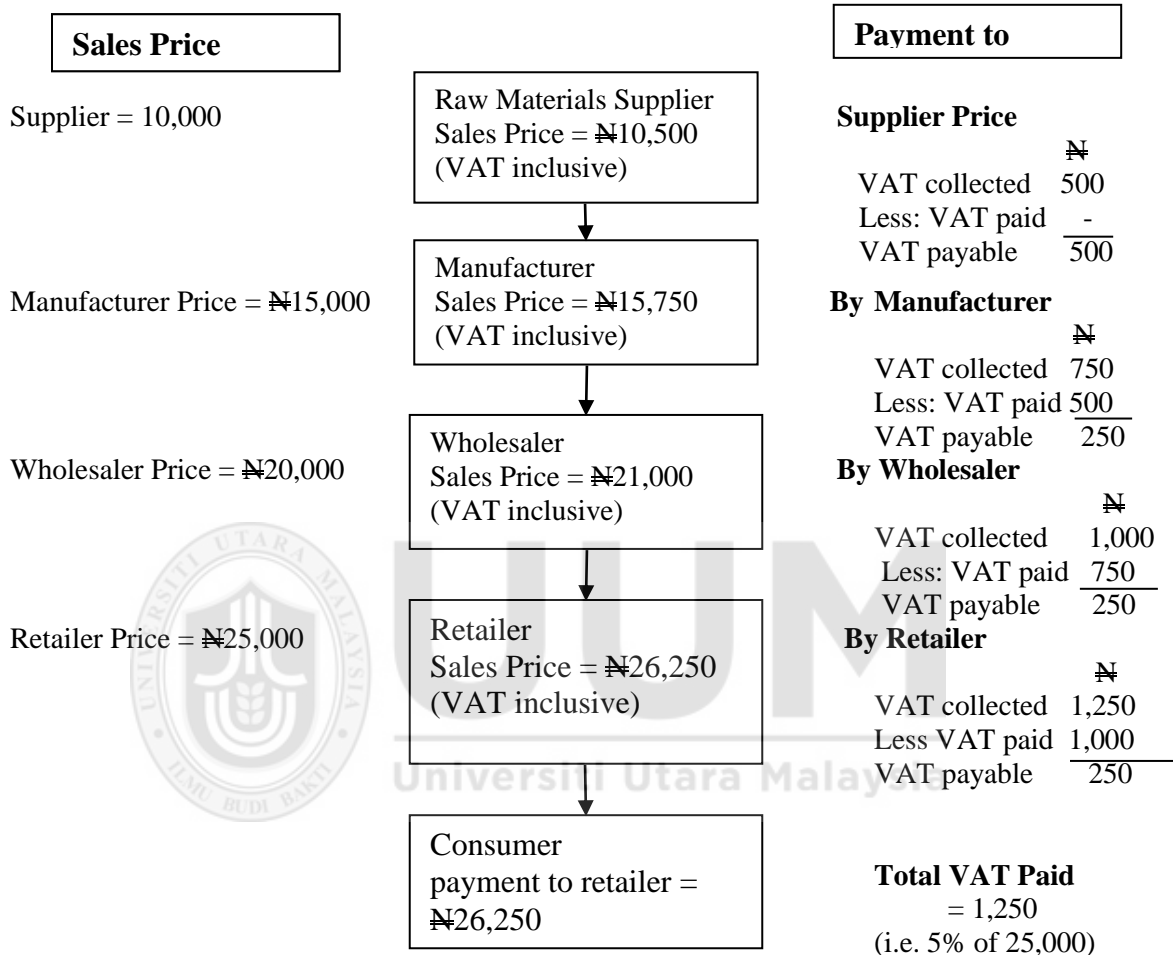


Figure 2.1
Calculation of VAT in Nigeria
 Source: Adapted from FIRS (2006, p.3)

The output and input VAT as described in Figure 2.1, opined that, the supplier gives goods to the manufacturer at ₦10,500 (5% VAT inclusive) and the manufacturer sold the goods at ₦15,750 (5% VAT inclusive) to the wholesaler. From the angle of the supplier, ₦500 is the output VAT and since the supplier does not have an input VAT, the ₦500

becomes the VAT payable to FIRS. Subsequently, from the angle of the manufacturer were he paid ₦10,500 (VAT inclusive) to the supplier, in which the ₦500 paid to the supplier is an input VAT to the manufacturer. The manufacturer then sells the goods to the wholesaler with a VAT of ₦750 (₦15,750 - ₦15,750/1.05). Therefore the VAT payable by the manufacturer shall be ₦250; which is, ₦750 (output VAT) minus ₦500 (input VAT). However, if the input VAT is greater than the output VAT, the SME shall be entitled to refund, which the SME is expected to present a tax invoice to claim the refund (Adereti et al., 2011). The tax invoice contains among others, the taxpayer's identification number, the name and address of the taxpayer, VAT registration number, name of purchaser or client, gross amount of transaction, date of supply, tax charged and rate supplied (VAT Act, 2007 p.5).

In addition to the above, there are prior studies that opined, lack of understanding and managing factors that influence compliance is among the reasons behind the non-compliance intention of a taxpayer which extend to an SME (Baunsgaard, 2014; Eragbhe & Omoye, 2014). Furthermore, the low contribution of VAT in Nigeria is attributed to the non-compliance behaviour of SMEs (Mukaila, personal communication on 4th April, 2017). This means that, to improve the VAT compliance rate among SMEs, it is of great importance to identify the factors which are embedded in the theories that explain the behavioural intention of SMEs. This study assumes that, if there is an increase in the VAT compliance rate among SMEs in Nigeria, it will result to an increase in VAT collections, which will increase the revenue base of Nigeria. Hence, the subsequent

sections discussed the underpinning and supporting theories to the factors influencing the VAT compliance intention among SMEs.

2.3 Underpinning and Supporting Theories

The study on VAT compliance is incomplete without considering the study on tax compliance in general as most of the determinants of VAT compliance on SMEs are drawn from previously acquired economic and socio-psychological factors of tax compliance. Tax compliance cut across many disciplines such as; economists, accountants, sociologists and psychologists who are interested in the study of tax compliance. As a multi discipline study, theories on tax compliance are from diverse sources, which make the use of one theory is insufficient for explaining the phenomenon (Alabede, 2012). Thus, this study incorporated the economic and socio-psychological factors into one model.

As a result of the above, and for a better understanding of VAT compliance, the underpinning theory relevant to this research is Theory of Planned Behaviour (TPB) and supported by other theories (prospect theory, social exchange theory and deterrence theory) were discussed in the subsequent sub-chapters in drafting the framework for this study. The TPB was adopted as the underpinning theory for this study because; it has been established as a major theory to explain compliance intention of an individual, which extends to an SME (Ajzen, 2011; Huda et al., 2012; Langham, Paulsen, & Hartel, 2012; Saad, 2012). In addition, most of the studies in Nigeria did not apply the TPB. For instance, Alabede (2012) incorporated the economic and socio-psychological factors into a model, however, the study incorporated these factors into the Fischer model of tax

compliance. Other studies conducted in Nigeria, dwelt more on deterrence theory and captured only the economic factors influencing tax compliance (Anyaduba et al., 2014; Ebimobowei & Peter, 2013; Modugu & Anyaduba, 2014). Thus, TPB is the most suitable model for this study in Nigeria for some reasons. Firstly, TPB is established as the major theory to explain the intention of an individual to perform certain behaviour as previously discussed. Secondly, attitude, subjective norms and perceived control beliefs have been found by studies in Nigeria to influence the behaviour of an individual (Alabede et al., 2011; Anyaduba et al., 2014; Anyaduba et al., 2012; Ebimobowei & Peter, 2013; FIRS, 2016; Hilman & Gorondutse, 2013; Ironkwe & Peter, 2015; Modugu & Anyaduba, 2014; Muhibat et al., 2013). Thirdly, based on the researcher's knowledge on published studies, economic and socio-psychological factors incorporated into TPB have not been applied by previous studies in Nigeria. Hence, applying the three constructs in the TPB will add to the scarce study on VAT compliance and make it unique in Nigeria.

Furthermore, the deterrence, social exchange and prospect theories have also been applied by most scholars in explaining the factors influencing tax compliance intention and behaviour of individuals, which the factors are also peculiar to SMEs. Hence, the subsequent sub-sections discussed the theories used for this study, starting with the TPB.

2.3.1 Theory of Planned Behaviour (TPB)

The TPB was developed by Ajzen (1985), which is an improved form of the Theory of Reason Action (TRA) as suggested by Ajzen and Fishbein (1977). The TRA assumes that human beings behave in a sensible manner, and the constructs that predict intention under the TRA are attitude and subjective norms (Ajzen & Fishbein, 1977). While the TPB

assumes behaviour of an individual within the society, are under the influence of definite factors, originated from certain reasons and emerged in a planned way (Ajzen, 1985). The study further stated that the constructs that predict intention are attitude, subjective norms and perceived behavioural control. That is, perceived behavioural control is the addition to the two determinants of intention as described in TRA. The TPB is graphically presented in Figure 2.2.

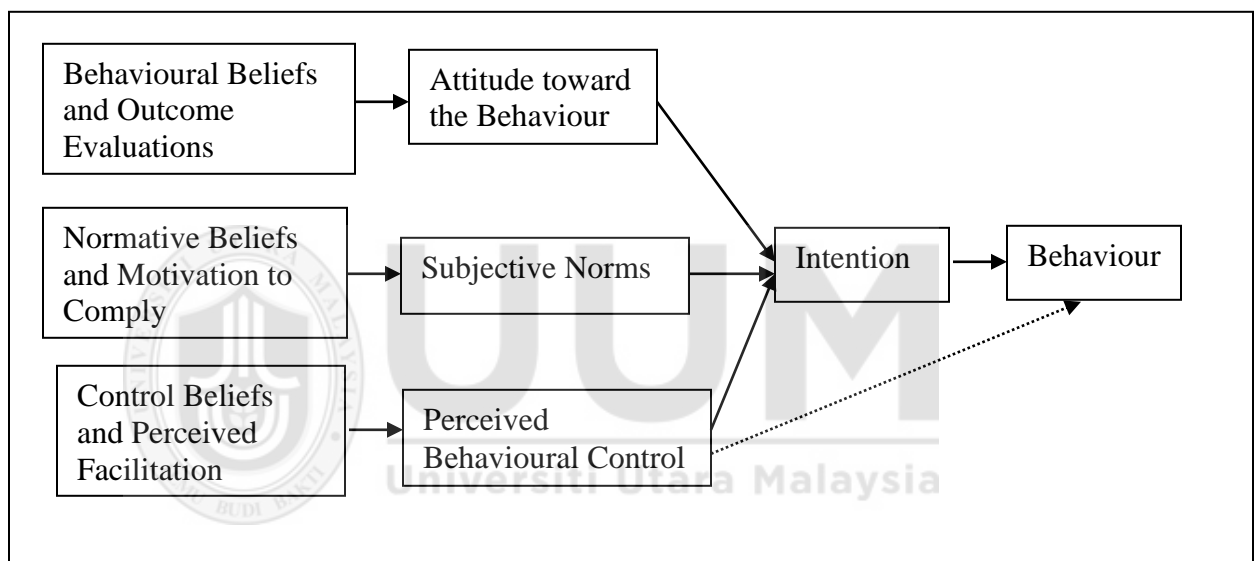


Figure 2.2
Theory of planned behaviour
 Source: Ajzen (1989 p. 256).

As seen in Figure 2.2, Ajzen (1989) described three kinds of belief as determinants of the three constructs that predicts behaviour through intention. The first is the behavioural beliefs which are assumed to influence attitudes towards the behavioural intention of an individual, while the second is the normative beliefs which constitute the underlying determinants of subjective norms and the third is the control beliefs which provide the basis for perceptions of behavioural control. In relating attitude to behaviour via

intention, Helhel and Ahmed (2014) suggested that attitude is the cause of an individual's behaviour towards another person, event or object which is aided by the intention to perform that particular behaviour. That is, an SME that has an attitude towards VAT compliance will comply if it has the attitude to do so. Also, on attitude-behavioural intention relationship, Benk et al. (2011) stated that a person's attitude towards any object is the function of his/her belief about the object and the implicit evaluative response associated with those beliefs. For example, an SME that belief in remitting the VAT collections to the government, such an SME will be willing to comply than an SME that does not belief on VAT remittance. As posited by other studies, attitude refers to the individual's evaluation (favourable or unfavourable) of the target behaviour and is formed based on perceptions or knowledge from prior experience, which is achieved through an intention to perform the target behaviour (Ajzen, 2012; Langham et al., 2012; Terry, Hogg, & White, 1999).

Subjective norms on the other hand which is the second construct that predicts intention, capture the opinions of social reference groups (such as family and friends) regarding whether the individual should engage in the behaviour or not (Huda et al., 2012). In another study, subjective norm is seen as a social pressure put on another individual to perform a certain behaviour (White, Smith, Terry, Greenslade, & McKimmie, 2009). Furthermore, Benk et al. (2011) summed up the three constructs that predict intention and described them as attitude, subjective norms and perceived behavioural control. In their study, subjective norm is described as the perception about what the other individuals who are important to him or her will think, if he or she performs certain behaviour or not.

This scenario can also be extended to the SME. This means that, the perception of the referent group on VAT compliance intention of SMEs matter most, which can either influence the SME to remit the VAT collections to the government or not.

Saad (2011) stated that the perceptions of the taxpayers on the expectations of the people who are most important to the taxpayers can be evaluated through injunctive and descriptive qualities. As described under the concept of subjective norms, injunctive quality applies to the perception of an individual on the expectations from the referent group on the performance of certain behaviour or not. The descriptive quality component relates to the perception of an individual whether the referent group would perform or not perform such behaviour expectant from the individual (Ajzen, 2011). This means that the concept of subjective norms can be evaluated through the expectation to perform certain behaviour by individuals and also the performance of the same behaviour by the same individuals, who are referred to as referent group.

Lastly, perceived behavioural control (PBC) which is the additional construct to the TRA denotes the perceived ease or difficulty in performing the behaviour. Previous studies state that when people observe a behaviour and the consequences of that behaviour, they recall the sequence of events and use this information to guide subsequent behaviours (Devos, 2012; Ebimobowei & Peter, 2013; Kautonen, van Gelderen, & Fink, 2015). For example, if the detection probability for non-compliance behaviour of SMEs is high from past records, it will encourage the SMEs to comply and sustain such compliance behaviour. However, if the detection probability for non-compliance behaviour among

SMEs from past record is low, then the possibility of compliance behaviour will also be low among the SMEs. Hence, the sequence of events has a great influence on behaviour which is sharpened by an intention to perform such behaviour.

Furthermore, perceived behavioural control is opined as the most difficulty level of the performance displayed by an individual and can sometimes affect the behaviour directly, especially if there is a legal sanction (Benk et al., 2011). This means that, perceived behavioural control can either affect the behaviour through an intention to perform the behaviour or directly affects the behaviour. The direct effect of perceived behavioural control mostly happen when the behaviour cannot be performed by the individual at will (Terry, Hogg, & White, 1999). That is an external influence need to be applied to ensure the behaviour is performed. However, the scope of this study examined the relationship between the factors influencing the VAT compliance **intention** among SMEs in Nigeria.

Previous studies have shown that TPB conceptualizes strength of intention as an immediate antecedent of behaviour (Ajzen, 1989, 2011). The author described intention as the factor indicating the degree of individual efforts and readiness in order to perform a certain behaviour, which has to do with attitudes, subjective norms and perceived behavioural control (Ajzen, 2011). Attitude has been described as an individual's evaluation (favourable or unfavourable) of the target behaviour and is formed based on perceptions or knowledge from prior experience (Ajzen, 2012; Langham et al., 2012; Terry et al., 1999). According to Ajzen (2010) in the TPB, behaviour can only be performed where an intention is initiated. That is, an individual efforts to perform a

certain behaviour must be initiated by an intention through attitude towards the behaviour, subjective norms and perceived behavioural controls (Langham et al., 2012).

Despite the scope of the study is the compliance intention, however, as seen in Figure 2.2, the TPB suggests that perceived behavioural control with intention will have a direct effect on the actual behaviour. This relationship suggests that anyone with a high perceived behavioural control and has develop an intention to perform certain behaviour, that individual will be more likely to engage in that behaviour than an individual with a low perceived behavioural control. This can also be interpreted that, perceived behavioural control has a higher influence on an individual that has an intention to perform certain behaviour (Saad, 2011). As well as intention is a proxy to behaviour (Ajzen, 2011). That means intention has a greater authority to represent behaviour. Thus, this study suggests that an SME with an intention to comply will be more likely to engage in compliance behaviour than an SME without an intention to comply. In summary, intention to comply has a great influence on compliance behaviour.

Some examples of studies that have successfully applied the TPB in predicting behavioural intention include; fairness perceptions and compliance behaviour (Saad, 2011); Evaluating taxpayers' attitudes and influence on tax compliance (Abdul-Razak & Adafula, 2013); Improving tax compliance (Langham et al., 2012); The analysis of TPB to pay zakah (Huda et al., 2012) and social influence in the TPB (White et al., 2009). Therefore, this study considered the TPB as the underpinning theory to explain the influence of attitude towards VAT compliance, subjective norms, perceived behavioural

control on VAT compliance intention among SMEs. Aside the TPB, other theories relevant to this study as supporting theories are discussed in the following sections.

2.3.2 Deterrence Theory

According to deterrence theory, people obey the law because they are scared of getting caught and being punished. The theory investigates the deterrent effects of sanctions or threat of punishment on illegal or unwanted behaviour. The economic analysis of crime began with Becker's classic article on crime and punishment (Becker, 1968). While Becker mentioned tax evasion as an area of application for his general model, Allingham and Sandmo (1974), provided the analysis on the theory. Hence, the authors became the first to empirically apply the theory on the factors influencing tax compliance behaviour, which led to the development of A-S model of tax compliance. In addition, A- S model assumes that, the taxpayer finds the most favourable level of evasion given the penalty rate and the detection probability (Alabede, 2012). The implication of deterrence theory is that non-compliance among SMEs can be reduced by either increasing the penalties for non-compliance or by increasing the detection probability so as to discourage VAT non-compliance behaviour among SMEs.

Becker (1968) in his submission argued that the expected satisfaction of alternative decision of an individual is determined by the identified possible outcomes, which are usually assigned to the desire of the satisfaction and by attaching the probability for uncertain outcomes. Ariel (2012) posited that, there are two basic types of deterrence; general and specific. He further described general deterrence as a form of deterrent measure designed to prevent crime in the general population. Thus, the state's

punishment of offenders serves as deterrence to others who are yet to participate in criminal activities. While specific deterrence is designed by the nature of the sanctions to deter only the individual offender from committing that crime in the future. Proponents of specific deterrence also believe that punishing offenders severely will make them unwilling to commit such offence in the future (Spiranovic, Roberts, Indermaur, Warner, Gelb & Mackenzie 2011).

Richardson (2006) posited that most research studies on tax compliance behaviour used general deterrence, particularly with respect to the different forms of possible sanctions. The principle assumption of the deterrence theory is that an increase in either the probability of detection of crime or punishment of crime or both will decrease the economic rewards of the criminal activity (Alabede, 2012). Another addition to the principle of the theory is that if the probability of detection and the penalty is high, it would deter individuals from committing crimes (Anyaduba et al., 2014).

In addition, factors under the deterrence theory (for instance, tax audit, penalties and enforcement, probability of detection, tax rate among others) have been adopted and applied in several tax compliance studies undertaken by Anyaduba et al. (2012), Faridy, Copp, Freudenberg and Sarker (2014), Gangl et al. (2008), Modugu and Anyaduba (2014), Nyamwanza, Mavhiki, Mapetere and Nyamwanza (2014) and its application in reducing tax non-compliance has produced diverse results in empirical studies. In spite of the inconsistencies in the findings of the application of the deterrence theory on tax compliance, the theoretical principles of economic deterrence clearly predict that higher

penalties and audit probabilities should discourage non-compliance. The evidence suggests that though both have some deterrence effect (Andreoni, Erard, & Feinstein, 1998), higher audit probabilities probably have more impact than higher penalties (Elffers, Robben, & Hessing, 1992).

Furthermore, a belief that one's reputation may suffer as a result of being caught evading is also a deterrent measure and this may be particularly relevant in a business context (Webley et al., 2002). That means that, deterrence can be self-imposed as a result of reputation (protecting the image of an SME) or from an external body to ensure compliance. Some prior studies have established the relationship between reputation and the deterrence theory. For instance, Morse (2012) opined that when the public assigns reputation demerits to non-compliant taxpayers and gives reputation merits to the compliant taxpayer, then the utility of non-compliance behaviour among taxpayers decrease and vice versa. This means that, the perception of the public on a compliant taxpayer, increases the reputation of the taxpayer, hence, decreases the non-compliance behavioural intention of the taxpayer. For example, an SME that the public assigns reputation merits based on VAT compliance, will comply so as to sustain the reputation of the SME in the eyes of the public.

In the same vein, the deterrence theory posits that non-compliance as a rational individual decision is based on the probabilities of detection and punishment (Alabede, 2012). This means that, the public would impose reputational sanctions and credible reputation penalties to the taxpayer, or an SME to ensure compliance behavioural intention. An

example of a reputational penalty to be applied by the public on a non-compliant taxpayer or SME is stigma (Morse, 2012). That is, the public will stigmatized an individual or SME found evading tax or non-remitting the VAT collections in the case of SMEs. Hence, an SME will comply so as to protect its image and reputation.

Some examples of studies that have successfully applied deterrence theory in predicting behavioural intention include; Deterrence and moral persuasion effects on corporate tax compliance (Ariel, 2012); Public governance quality and tax compliance behaviour in Nigeria (Alabede, Ariffin, & Idris, 2011); A taxonomy of tax compliance literature (Richardson & Sawyer, 2001); Corporate taxpayers' compliance under the self-assessment system in Malaysia (Isa, 2012); Factors influencing taxpayers' compliance behaviour in Nigeria (Alabede, 2012); Do audits enhance VAT compliance (Bergman & Nevarez, 2006) and Tax compliance and norm formation under high-penalty regime (Morse, 2012).

Therefore, this study applied the deterrence theory to discuss the detection probability, penalty magnitude and SME reputation as both external and internal measures to influence VAT compliance intention among SMEs. This study assumes an increase in detection probability and penalty magnitude as well as the reputation of an SME will result to an increase in VAT compliance intention among SMEs. However, a decrease in the perception of the SME on the detection probability, penalty and the reputation of the SME will result to a decrease in the compliance intention among SMEs in Nigeria.

As stated previously, the use of one theory may be insufficient to explain the phenomenon (tax/VAT compliance) (Alabede, 2012). Hence, TPB and deterrence theories may not fully explain the compliance behavioural intention of SMEs. Thus, the social exchange theory is discussed in the following sub-section to examine the human attitude, interactions and belief in compliance behaviour (Devos, 2014).

2.3.3 Social Exchange Theory

Previous studies have shown that, social exchange theory is among the most influential conceptual paradigm for understanding compliance, bridging such disciplines as psychology (Gouldner, 1960; Homans, 1958) and sociology (Blau, 1964). Although different views of social exchange have emerged, theorists agree that social exchange involves a series of interactions that generate obligations among individuals (Emerson, 1976). Social exchange theory was developed by Blau (1964) based on the work of Homans (1958). The theory as stated by Blau (1964, p.1) posits that, ‘the exchange of social and material resources is a fundamental form of human interaction’.

Within the social exchange theory, these interactions are usually seen as interdependent and contingent on the actions of another person (Blau, 1964). This means that, interaction among individuals is guided by the costs and benefits from such interaction. For instance, an individual will be encouraged to perform the behaviour, if the benefits to be derived from such behaviour outweigh the cost and vice versa. Relating this theory to the fairness in the tax system, government can reciprocate remittance of VAT collections by the SMEs through reducing the cost of compliance, resolving issues related to multiple taxation and complexity of the tax system, as that will encourage the SMEs to improve

their compliance intention (Akinboade, 2014; Ojeka 2011). Furthermore, Homans (1974) provided three propositions to the theory of social exchange, which are highlighted below:

The success proposition: This proposition is also referred to as ‘the principle of reward’, which states that, behaviour that generates positive consequences is likely to be repeated. That is, individuals are likely to undertake an action, if such action is rewarded by some benefits. In applying the proposition in VAT compliance, SMEs perception about the tax incentives from the government may have a great influence on their VAT compliance intention. Tax incentive is defined as strategies adopted by the government to reduce the tax burden for a specific period. These include; tax holidays for a limited period, reduced import tariffs and custom duties among others (Graham, Hanlon, Shevlin, & Shroff, 2014).

According to Feld, Frey and Torgler (2006) tax compliance can be improved through offering rewards to taxpayers. In their study, they stated that the government can offer tax amnesty to encourage non-compliant taxpayers to improve their compliance behaviour. That is, tax incentive will not only be beneficial to the SME compliant group but also a sweet pill for the SME non-compliant group to comply with VAT obligations. In Nigeria, there are tax incentives granted to SMEs, these include, the Federal Government Special Intervention Fund for SMEs (FGIFS), Bank of Industry (BOI) and the Central Bank of Nigeria’s Intervention Fund (CBNIF) (Chizoba, 2017), and the SME Credit Guarantee Scheme (SCGS), and Microfinance banks (Feyitimi, Temitope, Akeem, & Oladele, 2016).

The stimuli proposition: The second proposition states that behaviour that has been rewarded through provision of services in the past will be performed in similar situations. That is, if in the past, the government has assisted the SMEs that remit the VAT collections as at when due through government grants and loans, it will encourage the SMEs to comply by remitting subsequent VAT collections as at when due. A government grant is a financial award given by the government which are not expected to be repaid (Taiwo, Falohun, & Agwu, 2016). While government loans are usually distributed through government organizations, so that only registered persons/enterprise will have access to the loan, and also for ease of repayments of the loan (Feyitimi et al., 2016). For instance, the loans granted to SMEs in Nigeria are channeled through the SMEDAN. Applying this proposition to VAT compliance, the study suggests that if the government provides services to the SMEs through grants and loans as ways of compensating them for VAT remittance, it will encourage the SMEs to remit subsequent VAT collections as at when due.

The value proposition: The proposition states that, the more the value of the rewards for action, the more the individual engages in such an act, so that more rewards can be achieved. This means that, when an SME remits VAT collection and the government grants the SME some incentives, it will encourage the SME to comply. Applying this proposition to VAT compliance, the study suggests that if in the past the VAT remittances by the SMEs have been rewarding, then the more they will be willing to comply in future. In other words, if the SMEs perceive that, the government will be fair in the tax system through reducing the cost of compliance, resolving issues related to

multiple taxation and complexity of the tax system; it will encourage the SMEs to improve their compliance intention. Studies have shown that, SMEs consistently admit the cost of complying with tax regulation is a constraint on their growth and development as compared to big businesses, hence, the SME perceive the tax system as unfair which affects their compliance behaviour (PricewaterhouseCoopers, 2007). Also, the issues of multiple taxation, tax complexity have been found as burden among SMEs in Nigeria, which negatively affects their compliance behavioural intention (Ojeka, 2011). Hence, this suggests that fairness in the tax system through the characteristics mentioned above will encourage the VAT compliance intention among SMEs.

Although, the factors mentioned above have played great roles in the social exchange theory, however, the role of fairness in the tax system cannot be overlooked, which this study examined the characteristics used by the SMEs in Nigeria to weigh the fairness or unfairness of the tax system. As stated by Akinboade (2014) and Ojeka (2011), the SMEs consider the tax system as unfair when the cost of compliance is high, the tax system is complex and there are issues of multiple taxation. Hence, this study adapted these characteristics to measure the relationship between fairness in the tax system and VAT compliance intention among SMEs in Nigeria.

The social exchange theory has been applied in a number of studies of tax compliance, which include the studies of Alabede (2012); Farrar and Thorne (2013); Igbeng, Tapang and Usang (2012); Verboon and Goslinga (2009). Alabede (2012) opined that, the reason behind the exchange of value is for the government and the taxpayers to be in a

reasonable relationship, where the individuals pay tax and the government provides some benefits, for example, tax incentives that were mentioned previously. That is, the government can reciprocate the compliance intention of SMEs through cutting cost of compliance and tackling the issues surrounding multiple taxation faced by the SMEs in Nigeria. According to Verboon and Goslinga (2009), distributive fairness affect tax compliance. That is, people who experience a higher tax burden than others tend to be less compliant. For example, SMEs that previously experienced a higher burden of cost of compliance will tend to be less compliant to those SMEs that do not experience a higher burden of cost of compliance and vice versa.

Therefore, this study applied the social exchange theory to discuss fairness in the tax system as a factor to influence VAT compliance intention among SMEs. This study assumes an increase in the perception of the SME on the fairness in the tax system through reducing the cost of compliance, multiple taxation as well as simplicity in the procedure for VAT compliance, will result to an increase in VAT compliance intention among SMEs. However, a decrease in the perception of the SME on the fairness in the tax system will result to a decrease in the compliance intention among SMEs. Hence, fairness in the tax system discourages tax evasion behaviour among SMEs and improves voluntary compliance (Abdul-Razak & Adafula, 2013; Eragbhe & Omoeye, 2014).

2.3.4 Prospect Theory

Prospect theory was developed by Kahneman and Tversky (1979) and has gained relevance, adopted and applied by many scholars in tax compliance studies. Some of the scholars are; Alm, Martinez-vasquez and Torgler (2010), Alabede (2012), Thomas

(2013), Elffers and Hessing (1997) and Cullis, Jones and Savoia (2012). The theory indicates that, decision makers are concerned about the gains and losses rather than the ultimate level of their wealth (Kahneman & Tversky, 1979). The theory also assumes that the decision makers will be risk-averse in gain situations and risk-seeking in loss situations (Muehlbacher et al., 2015). That is, most decision makers are reluctant to take risk in a gain situation and are willing to take risk in a loss situation. As a result, the willingness of individuals to take risk or not is largely influenced by the way decisions are conceived (Alabede, 2012).

As posited by Thomas (2013), economists and psychologists have found that prospect theory is a relevant predictor of taxpayer behaviour. The author further opined that prospect theory assumes that, decision outcomes are evaluated in relation to a reference point that divides the value function in a loss and a gain domain. That is, decisions are made based on a desired point which is focused on either a loss or gain situation. In addition, Kamleitner, Korunka and Kirchler (2012) opined that, the prospect theory is the framing effect that is most relevant to tax compliance as it describes how individuals evaluate risk and states that people are risk averse when it comes to gains but risk seeking when it comes to loss. As a result of that, the reference point is a major concern in the prospect theory. Hence, it predicts the tax compliance (non-compliance) behaviour of individuals (Muehlbacher et al., 2011).

Muehlbacher and Kirchler (2013) opined that, besides other factors, mental accounting practices affect the taxpayers' reference points. Because keeping an extra mental tax

account after segregating the tax liability from gross income, will result in the net income as a reference point. While integrating the tax due with the net income will result to the gross income as the reference point. Hence, tax compliance can be predicted when the net income is the reference point, and tax evasion are formed when the gross income is the reference point. For example, if the SME segregate the VAT collections from the gross income, the reference point is the net income, thus, will yield a higher VAT compliance intention than integrating the VAT collections with the net income and making the gross income as the reference point.

Furthermore, the risk of paying a fine in case of an audit seems less threatening when the taxpayer decides on the net income as the reference point. Hence, that will result to an increase in the compliance rate among taxpayers (Duggan, 2016). In the same vein, Muehlbacher and Kirchler (2013) posited that when an individual mentally segregate the tax due from the gross income, thereby making the net income as a reference point, that may be a good decision for remittance of the tax component. This is because, the taxpayer will perceive remitting the tax component as a gain than when the reference point is the gross income. Therefore, according to the theory, tax compliance is increased when the reference point is the net income rather than the gross income of the business, thus, payment of tax is seen as a gain rather than a loss. Hence, this study assumes, VAT compliance as a kind of tax compliance can also be increased if the SME's reference point for making decision is on the net income of the business, rather than the gross income.

Similarly, Alm, Kirchler and Muehlbacher (2012) believe that, prospect theory provides a useful base upon which further analysis of tax compliance can build, since some individuals frame any payment of taxes as a loss, these individuals would likely engage themselves in risk-seeking behaviour. This in turn can influence these individuals to non-compliance behaviour (Alm et al., 2012). Another factor for framing can be attributed to the perception of audit probabilities by individuals. There is overwhelming evidence from psychology that taxpayer's "overweight" the low probabilities that they face in tax compliance; that is, even when they are fully informed, taxpayer's systematically act as if the probability of audit that they face is much higher than its actual probability (Muehlbacher et al., 2015). If taxpayers give more weight to the probability of an audit than they ought to (at least relative to an expected utility model), then tax compliance will be greater than the level predicted by the standard economics approach (Duggan, 2016).

The prospect theory has been applied in a number of studies of tax compliance, which include; Factors influencing taxpayers' compliance behaviour in Nigeria (Alabede, 2012); Mental tax accounting and voluntary compliance (Duggan, 2016); Corporate taxpayers' compliance under the self-assessment system in Malaysia (Isa, 2012); Tax compliance of small business owners (Kamleitner, Korunka, & Kirchler, 2012); Mental accounting and tax compliance (Muehlbacher et al., 2015); A taxonomy of the tax compliance literature (Richardson & Sawyer, 2001) and Approach to increasing small business tax compliance (Thomas, 2013). Therefore, this study applied the prospect theory to discuss mental tax accounting as a factor to influence VAT compliance intention among SMEs. This study assumes that, the rate of VAT compliance intention

among SMEs will increase if the SME's reference point for making decision is on the net income of the business, rather than the gross income.

2.4 VAT Compliance Intention

Compliance is seen as a social influence which involves action that is influenced by an individual to conform to a rule, such as, a policy, law or standard (Shaharuddin & Palil, 2012). As pointed out by Braithwaite and Wirth (2001), tax compliance involves taxpayers meeting their obligations in accordance with the tax assessment Act and court decisions. According to Iskandar and Bhaduri (2016), tax compliance is a process whereby a taxpayer files all required tax returns accurately and report the tax liability as at when due and in accordance with relevant regulations. In the same vein, tax compliance involves making tax payments and submitting relevant information required by the tax authorities as expected (Asnawi, 2013). Furthermore Swistak (2016), defines tax compliance as a process where a taxpayer complies with declaring accurate income, filing and making returns to the government. In addendum, tax compliance involves; collecting, remitting and keeping records of all tax-related matters (Eragbhe & Omoye, 2014).

Intention to comply on the other hand is the effort an individual put in to perform certain behaviour. That is, intention precedes the performance of certain behaviour (Ajzen, 1985, 2011). in addition, the willingness to perform (or not to perform) a certain behaviour by an individual is largely dependent on the intention to perform the behaviour (Huda et al., 2012). As described in Figure 2.2, intention mediates the relationship between, attitude towards behaviour, subjective norms, perceived behavioural control and behaviour. That

is, intention is formed through the combination of the three constructs thereby making the performance of behaviour easier. Similarly, Ajzen (2011) stated that intention is a proxy for actual behaviour. That is, intention has a greater authority to represent behaviour. Among the studies that have utilized the concept of intention as a proxy for behaviour include, Benk et al. (2011) and Huda et al. (2012). Therefore, this study adopted the TPB and followed Ajzen (2011) assumption on intention with other factors that influence the compliance intention among SMEs.

Literature on VAT cannot be complete without a touch on tax, because the factors influencing tax and VAT share similarities (Adams & Webley 2001). Thus, VAT compliance is a process whereby an individual or corporation registers, collects and remits VAT collections free from errors to the relevant tax authorities, as well as adhere strictly to the rules and regulations as contained in the VAT Act (as amended). Similarly, as stated by Efebera, Hayes, Hunton, O'neil, Jardine-Tweedie and Wright (2004), intention to perform a behaviour is as strong as performing the behaviour. That is, the probability of an SME to remit the VAT collections to the government is usually high if the SME has an intention to comply. Hence, this study considered the intention of SMEs in VAT compliance.

Furthermore, an SME or individual is expected to register and obtain a Tax Identification Number (TIN). TIN is issued by FIRS to identify every taxpayer and is expected to be used when making a transaction with the tax office (FIRS, 2016). The tax office stressed further that TIN is issued free of charge to all taxpayers on request and can only be issued

after the taxpayer has presented all relevant documents to the tax authority. According to FIRS (2016), the documents that should be presented before TIN is issued are; application form for TIN which has to be duly completed by the VAT agent; certificate of incorporation; memorandum and article of association (where applicable); date of commencement and accounting year of the business, name of bankers, auditors and tax consultants; valid email address and phone number among others. On computation as one of the elements of VAT compliance, liability to VAT can only arise where the input VAT is less than the output VAT (Sanni, 2012). However, if the total input VAT for the accounting month exceeds output VAT, the SME is obliged by law to apply to the FIRS for a refund of the excess amount. The due date for remittance of VAT according to FIRS is 21st of every month (FIRS, 2017), as failure to adhere to the stipulated date, will attract penalties, as spelt out by the Act (VAT Act, 2007 p.7).

Similarly, an SME is expected to keep records. As posited by Liu and Lockwood (2015), small firms in the UK with annual taxable turnover of up to £150,000 are allowed to use a simplified flat rate VAT scheme, which was introduced in 2002 and that allows the firms to pay VAT at a single rate on their total sales. The flat rate, which depends on the industry, varies between 4% and 14.5%, is intended to reflect the average VAT rate in each industry and reduce the compliance cost associated with keeping detailed records and calculating VAT for each transaction separately. In the same vein, Chen and Md Taib (2016) opined that, the threshold for Malaysia is a gross turnover of at least RM500,000 (~~RM~~4,375,000), which covers a period of 12 months (or any period within less than 12 month) in relation to the supply of taxable goods or services. However, suppliers with

turnovers below the registration threshold can voluntarily register if they wish to make supplies to registered businesses that prefer to make acquisitions from other registered enterprises for the purpose of tax invoices. Hence, once the businesses (less than the registered threshold) are registered, they must comply with all GST administration requirements including regular filing of GST returns (Kasipillai & Krever, 2017).

In Nigeria, the VAT Act requires every SME (registered for VAT purposes) to keep proper records and books. Alongside the books that are expected to be kept by the SME is the VAT account (Nwanyanwu, 2015). The VAT account according to VAT Act (2007) summarizes the output and input VAT in a 'T' form account. At the end of the accounting month, if there is a credit balance, VAT payable is remitted through the designated collecting bank. However, if there is a debit balance, it means the SME can apply for a refund and the amount will be made after necessary verification by FIRS. In addition, the due date for remittance of VAT according to FIRS is 21st of every month (FIRS, 2017), as failure to adhere to the stipulated date, would attract a "penalty of ₦5,000 (USD14) for every month in which the failure to make returns continues" (VAT Act, 2007 p.7).

On tax verification, tax officers are sent to monitor every SME (registered for VAT purposes) from time to time. According to FIRS (2006), such visits are to ensure that SMEs comply with the VAT rules and regulations and also to ensure that VAT collections are properly accounted for as well as providing necessary suggestion where necessary. In the same vein, Adereti et al. (2011) posited that VAT drives (audit and

investigation) normally take place at the discretion of the tax controllers or state monitors. Such tax drives are established to boost VAT collections through encouraging voluntary compliance and also enforcing compliance on defaulters (Sanni, 2012). Therefore, this study defines VAT compliance intention as the degree of effort which is characterized by economic and socio-psychological factors an SME employs, in order to ease its compliance to VAT. Hence, considered the general factors influencing tax (VAT inclusive) compliance intention and thereby related some of the factors peculiar to VAT among SMEs in Nigeria as a developing country.

2.5 Overview of Factors Influencing VAT Compliance Intention

As previously defined by this study, VAT compliance intention is the degree of effort which is characterized by economic and socio-psychological factors an SME employs, in order to ease its compliance to VAT. Initially, previous studies based their research on tax compliance. However, as posited by Adams and Webley (2001), there are similarities on the factors that influence tax and VAT compliance, hence, this study adopted the factors that influence tax compliance and examined these factors on the relationship with VAT compliance intention among SMEs in Nigeria.

Walsh (2012) stated that, factors that can influence tax compliance are either economic factors or socio-psychological factors. Economic factors such as sanctions, fines, tax rate, audit probabilities, penalties, coercive power, income were found to influence tax compliance in the studies conducted by these scholars (Ahmed, 2013; Allingham & Sandmo, 1974; Alm et al., 2012; Ashby, et al., 2009; Chau & Leung, 2009; Kastlunger, Muehlbacher, Kirchler, & Mittone, 2011; Kirchler, 2007; Kirchler, Hoelzl, & Wahl,

2008; Kogler, Batrancea, Nichita, Pantya, Belianin and Kirchler, 2012; Musau, 2015; Nyamwanza et al., 2014). In addition, other scholars have identified economic factors as playing key roles in VAT compliance. Examples of economic factors as stated by the studies are tax rate, detection probability, penalty, complexity of the tax system among others (Adams & Webley, 2001; Webley et al., 2002).

In the same vein, if control measures are effective and sound to detect and punish non-compliers, tax compliance is effective (Nyamwanza et al., 2014). Subsequently are studies conducted in Nigeria on deterrent measures as effective tools for enforcing compliance on taxpayers. Factors like tax rate, income, penalties, sanctions, enforcement, audit probability were found to have a significant relationship with tax compliance (Alabede, Ariffin, & Idris, 2011; Anyaduba et al., 2014; Anyaduba et al., 2012; Ebimobowei & Peter, 2013; Ironkwe & Peter, 2015; Modugu & Anyaduba, 2014; Muhibat, Abdul Azeez, & Tope, 2013; Ocheni, 2015).

However, other scholars identified socio-psychological factors such as social norms, personality, equity and fairness in the tax system, trust in the tax administration, perception of government accountability, personal norms as factors influencing tax compliance (Alabede, 2012; Bobek et al., 2012; Cowell, 1992; Devos, 2014; Hauptman, Horvat and Korez-Vide 2014; Inasius, 2015; Richardson, 2006; Webley & Ashby, 2010). In addition, Christian and Alm (2014) posited that socio-psychological factors like morality, social norm and a sense of fairness in the tax system are likely factors that would influence compliance.

In Nigeria as the focus of the study, there are few empirical studies that have offered possible explanation on reasons behind VAT non-compliance behaviour among SMEs. As posited by Eragbhe and Omoye (2014), the tax system in Nigeria is seen as complex by most SMEs. As a result of that, it is difficult for the SMEs to comply with the VAT laws. They further posited that VAT accounted for about 33% of the total compliance cost experienced by SMEs in Nigeria, which is the highest as compared to other compliance cost for other types of taxes, such as income tax and withholding tax. Compliance costs are costs beside the actual tax liability that an SME bears in the course of VAT remittance. Which include; cost of compiling the tax returns, cost of the relevant computations, paying professional tax advisors, incidental costs of postages among others (Maseko, 2014).

In addition to the cost of compliance as a factor for non-compliance behaviour of SMEs is the report by PricewaterhouseCoopers (2007). The report stated that, SMEs consistently admit the cost of complying with tax regulation is a constraint on their growth and development as compared to big businesses, hence, the SME perceive the tax system as unfair which affects their compliance behaviour. Also, the issues of multiple taxation, tax complexity and lack of proper education about tax related issues have been found as burden among SMEs in Nigeria, which negatively affects their compliance behavioural intention (Ojeka, 2011). The author suggests that the government can grant tax related incentives and provide support assistance (for example, reducing the cost of compliance and multiple taxation) to the SMEs.

Furthermore, Atawodi and Ojeka (2012), in their study on factors that affect tax compliance among SMEs in Nigeria, identified fairness in the tax system as a factor among others that encourage compliance among SMEs. In addition is the study conducted by Helhel and Varshalomidze (2015) on factors influencing tax attitudes and tax compliance; where the result of their findings showed a significant positive relationship between fairness and trust in government officials with tax compliance. So also, a few studies identified socio-psychological factors (such as, fairness, social norms, personal norms, tax incentives) have positive effect on income tax compliance in Nigeria (Eniola & Ektebang, 2014; Eragbhe & Omoye, 2014; Gorondutse, 2012; Kayode & Anthony, 2012; Olalekan & Dansu, 2013).

The studies conducted in other developing countries are not far from the findings in Nigeria. According to Akinboade (2014), the perception of a complex tax system in registration give rise to non-compliance behaviour among the SMEs. In the same vein, Richardson (2006) in a cross country study involving 45 countries opined that, complexity is the most determinant of tax non-compliance. However, Kennedy (2013) posited that when the tax authority appears to understand their responsibilities and are willing to respond to queries during the registration process, it will reduce the complexity and enhance tax compliance among SMEs. Similarly, when the system is fair, clear, consistent and easy to understand, it will promote filing compliance among the SMEs (Mativo & Muturi, 2015).

In another study, tax compliance will be possible among SMEs if they perceive that the deterrent measures make evasion more difficult. There is value of tax remittance in terms of government accountability and providing services such as, water, good roads and security among others (Musau, 2015). The study added that, when information about taxes are made available and accessible, tax filing procedures is less complex and trust in government is high, and that will encourage compliance among SMEs. In a study conducted in Kenya, the effective and regular use of Electronic Tax Register (ETR) has a great influence on VAT compliance. That is, fraud is minimized when the use of ETR is encouraged in VAT remittance (Naibei, Siringi, & Musonera, 2011).

Although, the factors mentioned above have played great roles in ensuring tax as well as VAT compliance among SMEs, however, the role of mental tax accounting, SME reputation, fairness in the tax system, detection probability, penalty magnitude and the three constructs of TPB (attitude towards VAT compliance, subjective norms and perceived behavioural control) cannot be overlooked, which this study examined their relationship with VAT compliance intention among SMEs in a developing country like Nigeria. Therefore, the factors are discussed in the following sub-sections, starting with the attitude towards VAT compliance.

2.5.1 Attitude towards VAT Compliance

Ajzen and Fishbein (2005) conceptualized attitude as the amount of affection which lies for or against an object been observed. In the same vein, Helhel and Ahmed (2014) opined that attitude is the cause of an individual's behaviour towards another person, event or object. Furthermore, an attitude towards any object is the function of one's belief

about the object and the implicit evaluative response associated with those beliefs (Benk et al., 2011). As posited by other scholars, attitude refers to the individual's evaluation of the target behaviour and is formed based on perceptions or knowledge from prior experience, and the target behaviour can be favourable or unfavourable (Ajzen, 2012; Langham et al., 2012; Terry et al., 1999). Therefore, this study defines attitude towards VAT compliance as the way and manner SME act towards VAT compliance which is formed based on previous knowledge and experience from the government in terms of auditing, penalty or incentive.

Attitude has been applied as a predictor to intention and behaviour in some studies. Ajzen and Fishbein (2005) opined that attitude can be divided into two types. The first type is the general attitude toward physical objects (for instance, ethnicity, policies and events), while the second type is the attitude towards performing a certain behaviour with respect to a target. For example, an SME can have a positive or negative attitude towards VAT compliance intention. Saad (2011) focused on the impact of the perception of fairness on the attitudes toward compliance. The study supported the assertion that negative perception of taxpayers on the tax system particularly in procedural fairness will result to a negative attitude of the taxpayers towards compliance. This means that, perception of fairness in the tax system affects either negative or positive attitudes of the taxpayers. In addition, the perception of taxpayers on the tax system has a great effect on the attitudes of the taxpayers toward compliance. Thus, fairness perceived is an influential predictor for attitude (Devos, 2014).

Positive attitudes towards the tax system and the taxpayer's willingness to pay taxes is attributed to the concept of voluntary tax compliance (Helhel & Ahmed, 2014). The study opined that most taxpayers' attitudes are influenced by the approach of the government towards compliant and non-compliant taxpayers. Hence, if the government's approach to issues meets the expectation of the taxpayer, it will encourage voluntary compliance and increase positive attitudes toward compliance. For example, if the expectations from the SMEs (such as, tax incentive, fairness in the tax system, cutting the cost of compliance) are met by the government, the attitudes of the SMEs will be positively influenced towards VAT compliance intention. Similarly, if the government policies are not SME friendly, it will discourage compliance behaviour through a negative attitude towards VAT compliance. Those non-friendly government policies that were highlighted by the study of Helhel and Ahmed (2014) are, high tax rates, inappropriate public expenditures, poor tax system structure among others.

In relating attitude to tax compliance (which also include VAT), some studies posited positive relationship between attitudes and tax compliance. That is, compliance in persons has been attached to their attitudes whether to comply or not (Benk et al., 2011; Nkwe, 2013), while other studies found that the attitude towards compliance depends on how an SME is treated by the government. That is, the SMEs expect the government to provide its citizens with the basic needs, so as the value of the tax they are paying/remitting will be felt, thus, encouraging compliance behaviour (Nyamwanza et al., 2014; Oladipupo & Izedonmi, 2013). Furthermore, attitude is the first construct in the

TPB that predicts intention as earlier discussed. The second construct that predicts intention in TPB is the subjective norms, which is discussed in the next sub-section.

2.5.2 Subjective Norms

Subjective norm is the second constructs that predicts intention in the TPB. Subjective norms capture the opinions of social reference groups (such as family, friends and co-workers) regarding whether the individual should engage in the behaviour or not (Huda et al., 2012). Similarly, subjective norm is the expectations of important people such as family members, friends, and co-workers among others (Bobek et al., 2012). That is, an individual decisions or behaviour are influenced by the approval or disapproval of close persons to him/her. In another study, subjective norm is seen as a social pressure put on another individual to perform a certain behaviour (White et al., 2009). Furthermore, subjective norms are seen as primarily determinants of behavioural intention (Miniard & Cohen, 1981). Therefore, this study defines subjective norms as social pressure put on an SME by important persons (such as, family members, peers and co-workers) to aid remittance of the VAT collections to the government as at when due.

In previous studies, subjective norm is seen as an integral part of social norm. for instance, in a submission by Hechter and Opp (2001), social norm is divided as oughtness norms and descriptive norms. According to their study, oughtness norms are those standards and regular behaviours which are based on what is observed and are less restrictive. Examples of oughtness norms are injunctive, subjective and personal norms. That is, subjective norm forms part of social norms that influences an intention or behaviour. In another study conducted by Cialdini and Trost (1998), subjective norm is

projected as one of the constructs of social norm alongside; personal, descriptive and injunctive norms. Injunctive norms are what the group expect or do not expect from an individual. That is, the society can sanction tax evasion as unethical and tax compliance as ethical (Cialdini & Goldstein, 2004). Higgs (2015) posited descriptive norms as the perceptions of how others behave from what other people do. For example, SMEs may decide not to report their full income because others are not reporting and there is little or no sanction from the tax authority.

In addition, personal norms which are also referred to as personal ethical beliefs or moral obligation are one's self perception of what is right or wrong. For example, an SME may internalize tax evasion as an unethical behaviour and will not trade the path of tax evasion. Likewise an SME can internalize VAT compliance as an ethical behaviour, and it will be easy for that SME to remit the VAT collections to the authority as at when due. Personal norms are seen to have a direct relationship with tax compliance, while subjective norm has an indirect relationship with tax compliance but a direct relationship with personal norms (Blanthorne & Kaplan, 2008). This means that, personal norm mediates the relationship between subjective norms and tax compliance.

However, in the study conducted by Bobek et al. (2012), personal and subjective norms have a direct relationship with tax compliance but injunctive and descriptive norms have an indirect relationship with tax compliance, thereby personal and subjective norms mediate the relationship between injunctive and descriptive norms with tax compliance. That means, subjective norm has a direct relationship with tax compliance, as against the

position of Blanthorne and Kaplan (2008) as captured previously. This assertion of relating subjective norms with tax compliance can also be applied to VAT compliance, because the factors that affects tax compliance and VAT compliance are similar (Adams & Webley, 2001).

Furthermore, some studies posited subjective norm has significant influence on intention (Huda et al., 2012; Trivedi, Shehata, & Mestelman, 2005), while the study conducted by Bobek et al. (2012) showed a direct relationship between subjective norms and compliance. Some studies opined a positive relationship between subjective norms and intention to comply (Kautonen et al., 2015; Langham et al., 2012; Miniard & Cohen, 1981; White et al., 2009). That is, a social pressure put on an individual can influence the performance of certain behaviour. Furthermore, Saad (2012) found that subjective norm is an important determinant among the taxpayers in Malaysia. In addition, Ajzen (2012) posited that subjective norm is positively related to behavioural intention for males compared to females in the study he conducted. Bobek et al. (2012) in their study showed a direct relationship between subjective norms and compliance.

However, Ramayah, Yusoff, Jamaludin, and Ibrahim (2009) opined that subjective norms have a relatively small significant influence on compliance as compared with the other two constructs of the TPB (attitude and perceived behavioural control). In the same vein Huda et al. (2012) posited that, there is no significant influence of subjective norms on intention (Huda et al., 2012; Trivedi et al., 2005). As discussed previously the importance of perceived behavioural control (which is also a construct that predicts intention in the

TPB) on intention cannot be over-emphasized, thus, this study discussed the construct in the subsequent sub-section.

2.5.3 Perceived Behavioural Control

With the mind-set that not all behaviours are under personal choice, Ajzen (1985) extended the TRA model by proposing a new concept ‘perceived behavioural control, which when combined with attitudes and subjective norms, it becomes the TPB. Perceived behavioural control which is the last construct in TPB and the additional construct to the TRA is described as, ‘perceived control over performance of a behaviour’ (Ajzen, 2002). In addition, it can be an act of observing a behaviour and the consequences of that behaviour, which one can recall the sequence of events and use this information to guide subsequent behaviours (Devos, 2012; Ebimobowei & Peter, 2013; Kautonen et al., 2015). That is, perceived behavioural control denote the ease and difficulty in performing behaviour.

Perceived behavioural control is categorized into two components, namely, self-efficacy and controllability (Ajzen, 2002) . Self-efficacy is a personal judgement (internal factors) on how an individual can cope and sustain a particular behaviour (Bandura, 2001). And controllability involves the external factors to ensure consistency in a behaviour of an individual (Ajzen, 2002). This study adopted the external factors to address the perceived behavioural control as a construct of the TPB, which is in line with the study of Langham et al. (2012). Thus, defines perceived behavioural control as the perception of SMEs on the ease and difficulty of VAT compliance as a result detection, audit and penalty magnitude from the government.

Terry et al. (1999) in their study examined the role of self-identity and the three constructs of the TPB. According to the study, participants would have a stronger intention to engage in household recycling, if they perceived a high level of perceived behavioural control. Hence, perceived behavioural control emerged as a significant predictor of intention. That is, perceived behavioural control has a great influence on the intention to comply. In the same vein, Chu and Wu (2007) in their study on the acceptance of e-filing in Taiwan suggest that, perceived behavioural control is the most significant variable to influence the acceptance of e-filing among taxpayers. While attitude and subjective norms, were ranked second and third, respectively. This further suggests that perceived behaviour control is the strongest among the three constructs of the TPB. This is in line with the findings in the study of Terry et al. (1999).

Furthermore, Langham et al. (2012) posited that, perceived behavioural control is composed of two elements, which are; the individual's behavioural control and their ability in performing the required behaviour. In their study, the items used to measure the perceived behavioural control construct were; no threat of detection or audit, fearful of punishment for something one has no control over, perceived unfairness of the law, among others. The study opined that, the direct measure of perceived behavioural control was significant but the salient beliefs used in their final model estimation were not significant. Thus, difficulty in compliance increases when the individual has no control over his/her behaviour (Langham et al., 2012).

In addition, White et al. (2009) examined two studies on the predictors of intention to engage in household recycling. The first study reported on recycling behaviour, while the second examined the role of group norms on intention. The result of the two studies posited that, perceived behavioural control is a significant predictor of intentions. That is, perceived behaviour control has a great influence on compliance intention. This finding is in line with the utility of the TPB as posited by Ajzen (2011), thus, the construct can predict the VAT compliance intention as applied in this study. In the same vein, Saad (2011) opined that, in tax compliance, it is believed that a taxpayer that accurately complete and file the tax return forms with Inland Revenue appears to have a high perceived behavioural control and such an individual is likely to comply with the tax obligations. Likewise, if a taxpayer believes in tax avoidance and evasion without being caught, such an individual will have high perceived behavioural control over non-compliance to tax obligations. This means that high or low perceived behavioural control lies with the taxpayer's perception of the things he or she holds in high esteem. For example, an SME that has a high perceived behavioural control on the chances of being caught during an audit exercise by the authority will be willing to engage in VAT compliance intention than an SME that has a low perceived behavioural control of being caught not remitting VAT in an audit exercise.

Huda et al. (2012) in their study on the influence on muzakki's intention to pay zakah opined that, perceived behavioural control is positively related with the muzakki's intention to pay out his zakah. The outcome of their study is in line with Ajzen (2011) which posits that, perceived behavioural control has the attributes to either strengthen or

weaken intentions. For example, if the SME perceive compliance to be within its power, the intention gets strengthened. The intention to comply weakens if the SME perceive difficulty in compliance. Thus, the way and manner an SME perceive the ease or difficulty in compliance by way of an audit exercise or penalty magnitude either strengthens or weakens its intention to comply. Furthermore, perceived behavioural control was also found to play a significant predictor in decision making (St. John, Edwards-Jones, & Jones, 2010). The study opined a high or low perceived behavioural control affects the way and manner decisions are taken. That is, persons with a high perceived behavioural control tend to be more stable in decision making than those persons with a low perceived behavioural control. For instance, an SME with a high perceived behavioural control has a greater chance of making good decisions to comply to VAT obligations than an SME with a low perceived behavioural control.

However, the intention to perform a certain behaviour may be decreased when the individual does not have control over the behaviour (Trivedi et al., 2005). The study applied penalties components as the factors to measure perceived behavioural control. Thus, these factors were found to be statistically insignificant to compliance intention. This means that most taxpayers in the study of Trivedi et al. (2005) comply with tax obligations even with the absence or little of penalty components. Despite the findings from the study of Trivedi et al. (2005), the importance of detection probability and penalty magnitude cannot be overlooked, especially with the SMEs that 'find it thrilling to beat the VAT system'. Swistak (2016) in his study on tax penalties in SMEs compliance opined that, neither economic nor socio-psychological factors can work

effectively in isolation. Hence, combining the factors will result to an effective in tax compliance. Thus, the relationship between detection probability and VAT compliance intention is discussed in the next sub-section.

2.5.4 Detection Probability

Detection probability is the process of inspection that errors are discovered in a tax return. These errors could be intentional or unintentional (Antonides & Robben, 1995). Maciejovsky, Kirchler, and Schwarzenberger (2007) define detection probability as an inspection that triggers tax compliance. This means that the chances of tax compliance could be dependent on the probability of detection. For example, the SME will comply with VAT obligations if it feels the chance of detection is high and vice versa. Musa, Saad and Ibrahim (2017) in their study on a pilot study conducted on tax compliance behaviour of small corporate taxpayers in Nigeria opined that, audit is usually referred in literature as detection or audit probability, audit rates, among others. The study further classified audit rates as terms usually applied by scholars using secondary data for easy estimation of audit rates. While those scholars on survey studies usually focused on detection probability. Hence this study being a survey study adopted the detection probability to discuss its relationship with VAT compliance intention among SMEs.

Thus, this study defines detection probability as the process which the authorities initiate an inspection on an enterprise to detect flaws or inappropriate behaviour, so as to ensure VAT compliance among SMEs. Most studies on detection probability were done on income tax compliance. For instance, Maciejovsky et al. (2007) investigation showed that past audits have an effect on future behaviour as well as subsequent audits. Their study

further posited that, the experience of a previous audit and the consequences of such audit may change taxpayers' perceptions of future audits and the perceived success of detecting non-compliance. On the one hand, prior audits could increase the relevance of audits and punishments, which lead to more compliance in the future due to a high probability of getting caught for non-compliance (Kahneman & Tversky, 1979).

However, if the aim of detecting non-compliance through audits are not successful, SMEs (registered for VAT purposes) may conclude that auditors have limited capacities to detect evasion and consequently, the risk of evasion might be estimated low, and hence, evasion is more likely in upcoming years (Kotowski, Weisbach, & Zeckhauser, 2014). In addition, a greater probability of detection will reduce tax evasion among taxpayers (Luttmer & Singhal, 2014). This means that, when the taxpayers perceive a large probability of detection from the authority, it will reduce tax evasion among the taxpayers. Subsequently, if the probability of detection is low, it will encourage tax evasion among the taxpayers. Similarly, a survey conducted in Australia confirmed the assertion that most taxpayers perceive a negative relationship between detection probability and tax evasion (Wenzel, 2004). That means an increase in detection probability, decreases tax evasion and vice versa.

Similarly, in a study that focused on corporate SMEs in Malaysia, Abdul-Jabbar (2009) opined that, audit has a negative impact on tax non-compliance among corporate SMEs. That is, an increase in audit decreases tax non-compliance, hence, increases tax compliance. This finding is in line with Allingham and Sandmo (1974) theoretical

analysis that if a taxpayer perceives the probability of detection is high, it will encourage him or her to comply. For instance, VAT compliance intention will be effective, when the SMEs perceive a high probability of being caught not remitting the VAT collections to the government.

Furthermore, Mendoza and Wielhouwer (2015) posited that non-compliance behaviour among the SMEs can be reduced to the barest minimum if the SME perceived a detection probability. In another study conducted by Cowell (2002), thorough audit exercise can trigger past records of evasion which may lead to the application of a deterrent measure so as to ensure subsequent compliance. Hence, detection probability has been an effective deterrent measure to ensure tax compliance among SMEs (Gangl, Torgler, Kirchler, & Hofmann, 2014; Ndumia, 2015).

Despite the mixed findings in prior studies, most of the studies believed in the positive relationship between detection probability and tax compliance. That is, an increase in detection probability increases tax compliance, which extends to VAT compliance among SMEs. This is also in line with the findings of Allingham and Sandmo (1974) and Jackson and Milliron (1986). Consequently, detection probability may be an important variable in VAT compliance intention among SMEs in a developing country like Nigeria. In the same vein, Alabede, Idris and Ariffin (2011) stated that penalty largely depends on the probability of detection and audit. That is, the tax authorities penalize evaders through audit and detection which in turn lure the SMEs to comply for fear of getting caught and

sanctioned. Therefore, this study considers the relationship between penalty magnitude and VAT compliance in the next sub-section.

2.5.5 Penalty Magnitude

The laxity by some SMEs has made penalty to be one of the best options to implement compliance. Penalty in compliance is the process of increasing power of the authorities to ensure enforced compliance (Kirchler et al., 2008). Most prior studies operationalized penalty in two forms. The first form is considered as the actual penalty experienced by taxpayers for tax non-compliance (Alm, 2012; Elffers et al., 1992; Jackson & Milliron, 1986; Webley, Adams, & Elffers, 2004). The second form is considered as a perceived penalty from other taxpayers in similar group (Ashby, Webley, & Haslam, 2009; Inasius, 2015; White et al., 2009). Thus, this study defines penalty magnitude as the extent the authority impose disciplinary measures on SME for failure to remit the VAT collections as at when due.

Nyamwanza et al. (2014) in their studies revealed that penalty is found to be the most effective variable in enforcing compliance. That is, taxpayers need to be coerced to comply with tax obligations. This means, that failure to sanction a non-compliant taxpayer, will result to non-compliance behaviour among taxpayers. This is also applicable to VAT compliance as it has been established by Adams and Webley (2001) on the factors affecting income tax compliance share similarities with factors affecting VAT compliance. In addition, other studies conducted on enforced compliance, found that penalty plays a great role to deter, motivate and correct improper behaviour of taxpayers (Poppelwell, Kelly, & Wang, 2012; Wenzel, 2001). The findings are in line

with the classical studies on economics analysis, which posited that an increase in penalty, increases the taxpayer's compliance behaviour and vice versa (Allingham & Sandmo, 1974; Becker, 1968).

Furthermore, Kirchler (2007) stated that compliance is enforced through application of tax penalties on SMEs that are not willing to pay or remit the VAT collections as the case may be. In addition, penalties have been found to be the most effective tools in Zimbabwe. As most SMEs avoid remitting VAT collections by bribing the tax collection officers through keeping two set of records and sometimes relocating to new sites without notifying the tax officials (Nyamwanza et al., 2014). Similarly, Aizenman and Jinjarak (2008) in their study on factors explaining the collection efficiency of the VAT opined that, penalty triggers an efficient collection of VAT, through sanctioning a non-compliant agent (SME). The study further stated that, greater polarization and political instability reduce the efficiency of the VAT remittances. This inefficiency from the government agency lowers penalty on tax evasion, which in turn discourages VAT compliance.

Okoye, Akenbor and Obara (2012) in their study on the causes of low level of tax compliance in the informal sector in Nigeria opined that, tax compliance would increase, if the government penalizes any tax defaulter. However, their findings indicated that the penalty rate for defaulters in Nigeria is very low; hence tax compliance in the informal sector is very low. Thus, the study recommended that, the Nigerian government should increase the penalty rate to coerce compliance among the taxpayers. In the same vein, Adeyemo et al. (2017) in their conceptual paper on the value of VAT in Nigeria

recommended that, penalty for failure of VAT remittance should be made strict by the government, so as to curb any non-compliance behaviour as regards to VAT remittance in Nigeria. Similarly, most taxpayers in Nigeria prefer giving bribes to the tax officials than remitting the tax collections into the government purse (Micah, Chukwuma, & Asian, 2012). This means, that the authority cannot fully implement penalty to defaulters, when they choose to collect bribes from taxpayers.

In another study, penalty is seen as a stick approach to correct improper behaviour (Umar, Derashid, & Ibrahim, 2017). However, Mendoza and Wielhouwer (2015), posited that the stick (penalty) can be replaced with a carrot (trust-building factors), so that it will encourage those in the compliant group and also win over those in the non-compliant group to the compliant group. This means that, factors like granting tax incentives (for example; tax relief, reduction in tax compliance cost of the compliant group) to the compliant group with the aim of winning the non-compliant to be compliant. Similarly, Swistak (2016) posited that penalties have the potential to work effectively if used as an auxiliary means of delivery and implementing a sound compliance strategy. Subsequently, a belief that one's reputation may suffer as a result of being caught evading tax is also a deterrent measure in a business context (Webley et al., 2002). That is, deterrence can be self-imposed as a result of reputation. Therefore, SME reputation is discussed in the next sub-chapter.

2.5.6 SME Reputation

Previous studies on SME reputation as a predictor for VAT compliance is so scarce and to the researcher's knowledge, there is no publication as regards the relationship between

SME reputation and tax or VAT compliance intention among SMEs in Nigeria. However, Eragbhe and Omoye (2014) in their study on SMEs' compliance cost in Nigeria suggested more empirical studies on factors that influence tax compliance as the opinion of others about the value of an enterprise matters greatly. Also, reputational cost is listed among the consequences of non-compliance as outlined by FIRS (2016). With these assertions, the present study explored previous literatures and studies on SME reputation and related the findings to VAT compliance intention among SMEs in Nigeria. Thus defines SME reputation as the perception of others on the values of an SME, characterized by how the SME relate to issues pertaining VAT remittance, which will either improve or tarnish the image of the SME and in the long run affect the survival of the business.

Hilman and Gorondutse (2013) in their study drew the conclusions that reputation has a great influence on organizational performance. In another submissions, business reputation attracts significance to customers (Lange & Washburn, 2012), and a good reputation drives positive information to the stakeholders. Stakeholders in this context can be internal and external, which are; customers, government agencies, suppliers, employees among others (Lange, Lee and Dai, 2011). Therefore, reputation of a business goes a long way to produce a competitive advantage and performance (Comeig, Fernández-Blanco & Ramírez, 2015; Dulleck, Kerschbamer & Sutter, 2011; Watson & Kitchen, 2010). Competitive advantage in this context is a condition that puts a company in a favourable or superior business position which can be achieved through fulfilling its obligations and abiding by the rule of law (Junaidu, 2012).

The rule of law in business is mostly found in family business and most of the family businesses in Nigeria are SMEs (Onuoha, 2013). So, this means that family businesses owe a duty to comply with the requirements of the law operating in the country as that would fulfil their expectations of present and future wealth, status, proneness to integrity and ethical conduct in managing their businesses (Bauweraerts & Vandernoot, 2013). However, on how family businesses plan their taxation, there are scanty research regarding that assertion (Chen, Chen, Cheng & Shevlin, 2010; Sánchez-Marín, Portillo-Navarro, & Clavel, 2016). But as posited by Chen et al. (2010), tax issues can be tackled at the planning stage of the business. Also, the business should be concerned on the cost repercussions of tax non-compliance and its effect on the family value and reputation (Chen et al., 2010; Sánchez-Marín et al, 2016).

Adding to the literature on family business to tax compliance and considering an economic environment where social responsibility receives increasing attention like Nigeria, the systematic use of not paying tax (such as VAT) as at when due, can therefore generate a significant negative impact on the business' image (Hoffman, Hoelscher and Sorenson 2006). Since family businesses are more worried about loss of reputation or harm to the "family name", concerns related to internal and external reputation may lead family business to comply with tax obligations (Deephouse & Jaskiewicz, 2013).

Furthermore, the relationship between SME reputation and VAT compliance cannot be over emphasized. As observed by de Mello (2008), deterrence is not just a matter of punitive actions but a belief on a damage of reputation can serve as a preventive measure

for SMEs to comply. In addition, Webley et al. (2002) observed that a large proportion of the sample from their survey, believed that not only the reputation of the SME affects VAT compliance but also fairness in the tax system. Therefore, this study considers the relationship between fairness in the tax system and VAT compliance in the next subsection.

2.5.7 Fairness in the tax system

In addition to the factors already discussed and relevant to this study, is fairness in the tax system. Considering the nature of the deterrence measures such as detection probability and penalty magnitude, it will be of great importance for the tax policy to consider fairness in the tax system to ensure voluntary compliance. Jayawardane (2015), Julyan (2004) and Kirchler (2007) posited that, perceived fairness in the tax system has a positive significant relationship with compliance. That means an increase in perceived fairness in the tax system, increases compliance among the taxpayers. Therefore this study defines fairness in the tax system, as the perception of an SME on the way and manner it is treated by the government in terms of the cost of compliance, complexity in the tax system and issues surrounding multiple taxation, so as to build a mutual relationship between the tax authorities and the SMEs.

Prior literature indicated various dimensions of fairness perception. For example, Jackson and Milliron (1986) suggested horizontal fairness as a component to fairness. Horizontal fairness as defined by the study of Jackson and Milliron (1986), is giving equal treatment to equal individuals. In addition, Kirchler et al. (2008) opined the connection of trust with perceived fairness and discussed on the distributive and procedural fairness. The

dimensions as posited by the study help to build and maintain trust between the tax authority and the taxpayers. In a cross cultural study comparing the perceived fairness of individual taxpayers in New Zealand and Malaysian, Saad (2011) opined that, perceived tax fairness has several dimensions. These are; general fairness; exchange fairness; horizontal fairness; vertical fairness; retributive fairness; personal fairness; and administrative fairness. In other words, horizontal fairness recommends the same amount of tax to taxpayers of similar economic positions. In all the studies, perceived fairness has a great effect on tax compliance, which extends to VAT compliance among SMEs in developing country like Nigeria.

In the world of taxation, perceived fairness was found to play a great role in predicting compliance among SMEs in Holland (Adams, 1996). Furthermore, Adams and Webley (2001) in their study on VAT and small business owners, found that, the idea of small business carrying an unfair burden was a recurrent theme, hence, it affects compliance. That is, a large percentage of SMEs think the VAT system is not fair to them, because of the cost of compliance and issues surrounding the complexity of VAT. In the same vein, Akinboade (2014) identified some factors that influence perceived unfairness in the tax system for SMEs, such as; the cost and effort of collecting VAT on SMEs are high and resources to employ expert to assist them on blocking loop-holes are not sufficient, hence affects the compliance intention of SMEs. However, if the tax authorities are cooperating with the SMEs in closing down loop-holes, it will create an enabling environment that will encourage voluntary compliance (Kirchler et al., 2008). In addition, perceived

fairness are enhanced when SMEs participate in decision making on the use of tax revenues (Torgler & Schaltegger, 2007).

In another submission, Webley et al. (2002) suggest a sense of unfairness among SMEs affecting their compliance intention. In Canada, fairness in the tax system improves voluntary compliance. That is, when the SMEs perceive the system is fair, it will encourage them to comply without being forced (Farrar & Thorne, 2013). In addendum are studies conducted in Ghana and Nigeria where it was discovered that SMEs have concern for fairness in the tax system as that discourages tax evasion behaviour among SMEs and improves voluntary compliance (Abdul-Razak & Adafula, 2013; Eragbhe & Omoye, 2014).

In conclusion, Mukhlis, Utomo and Soesetio (2015) established a relationship between tax fairness and compliance. They opined of no certain acceptable dimensions, hence, fairness can be discussed with one or more dimensions depending on the contexts and objective of the study. Thus, this study examined the characteristics (cost of compliance is high, the tax system is complex, there are issues of multiple taxation, services from the government) used by the SMEs in Nigeria to weigh the fairness or unfairness of the tax system. Consequently, in examining the relationship between fairness in the tax system and compliance among SMEs in Nigeria, there are few studies conducted, and in most of the studies, income tax compliance was employed. Thus, this study adopted the variable and related it to VAT compliance intention among SMEs in Nigeria. Similarly, Muehlbacher et al. (2011) posited that some taxpayers view paying tax as parting away

with their income. With this assumption, the study adopted the variable (mental tax accounting) to investigate its relationship with VAT compliance intention among SMEs, which is discussed in the next sub-section.

2.5.8 Mental tax accounting

Mental accounting is a concept developed by Thaler (1980; 1985). He described mental accounting as a set of reasoning applied by individuals to keep track of financial activities among others. In the same vein, Duggan (2016) posited that the tendency for people to keep track of their income, expenditure and wealth by mentally categorizing them into different accounts is termed mental accounting. Also, mental accounting focus on the costs and benefits of transactions (Hastings & Booth, 2011). That is, an individual weighs the benefits he/she will get in a transaction against the cost. When the benefits outweigh the cost, such an individual takes such decision and vice versa.

In another submission, Kamleitner et al. (2012) describe mental accounting as a cognitive procedure where income is assumed based on personal finance and also relate to people operating several accounts independently of one another. In addition, the study posited that mental accounting also focus on the costs and benefits of transactions. Because, most SMEs report that they do not feel the benefits of public goods from government and no value for the VAT they remit to the government, hence, they see remitting VAT as a lost (Adams & Webley, 2001). However, the extent to which individuals operate mental account as a way to keep track of financial activities seems to vary as most times it depends on the norms of the group (Webley & Ashby, 2010). For instance, in the study conducted by Webley and Ashby (2010) in the UK and Australia, found that, some of the

interviewees in the hairdressing sector do not declare extra income gotten from out of work as a taxable income. Thus, they see the money as, “ours to spend as we wish”.

Adams and Webley (2001) posited mental accounting would be effective only if taxable incomes are seen as different from other non-taxable income. But as long as taxable incomes are perceived as part of the proceed of the business not subject to tax, then paying VAT will not be possible as it will be perceived as reducing income. Subsequently, other studies have recorded that mental accounting plays a significant role in VAT compliance (Adams & Webley, 2001; Ashby & Webley, 2009). Therefore, taking into consideration the definitions given by various scholars on mental accounting and mental tax accounting, this study defines mental tax accounting as a process whereby the VAT received is segregated from the business funds and kept in a separate account, which will be remitted to the tax authority as at when due.

Due to the significance of mental accounting in decision making which has a high tendency to influence behaviour and ensure tax compliance, the concept of mental tax accounting was developed. That is, relating the concept of mental accounting to tax related issues. Furthermore, the concept (mental tax accounting) was first used in the study conducted by Muehlbacher and Kirchler (2013), where they defined mental tax accounting as a process of segregating the tax liability from the gross income. And the outcome of their study showed the taxpayers that segregate the tax component from the business funds are less vulnerable to tax evasion to those claiming the ownership of the

gross income. Thus, there exists a relationship between mental tax accounting and tax compliance (Muehlbacher et al., 2015).

The main compliance issue in this context is the failure of SMEs to create mental tax accounts, which in turn mean that SMEs are not thinking about tax as they run their businesses and the perception of VAT money as something “briefly owned then taken away” may explain the reason behind most SMEs’ non-compliance behaviour (Adams & Webley, 2001). Therefore, the key element to consider in a sound and effective mental tax account is the mental separation of VAT collections from the gross income of the business, and also a sense of reasoning that tax is not ‘owned’ by the business (Muehlbacher & Kirchler, 2013). In addition, Muehlbacher et al. (2015) posited that age, gender and attitude towards compliance have significant relationship with compliance decisions and the key part to ensure compliance is the reference point.

Muehlbacher and Kirchler (2013) opined that, besides other factors, Reference point has to do with the outcome of a prospect theory which is relative to a subjective reference point and its influence on risk taking decisions (Kirchler, Muehlbacher, Hoelzl, & Webley, 2009; Muehlbacher, Kirchler, Hoelzl, Ashby, Berti, Job, Kemp, Peterlik, Roland-Levy, & Waldherr 2008). However, little is known about which reference point SMEs apply in their decision to comply, but from the study conducted by Muehlbacher and Kirchler (2013), mental accounting practices affect the taxpayers’ reference points, which is either the gross income or the net income. The authors opined that, keeping an extra mental tax account after segregating the tax liability from gross income will result

in the net income as a reference point. While integrating the tax due with the net income will result to the gross income as the reference point. Hence, tax compliance can be predicted when the net income is the reference point, and tax evasion are formed when the gross income is the reference point. For example, if the SME segregate the VAT collections from the gross income, the reference point is the net income, thus, will yield a higher VAT compliance intention than integrating the VAT collections with the net income and making the gross income as the reference point.

In examining the relationship between mental tax accounting and VAT compliance among SME, it was observed that non-compliance not only reduces revenue for the government but also the possibility of survival for non-compliant businesses is very slim. According to a report in Austria, an average of 20% of newly founded businesses is dismissed after three years and 32% after five years due to tax non-compliance as they see paying tax as parting away with their income (Muehlbacher et al., 2011). Research has also shown that, one of the reasons for early bankruptcy lies in planning and administration of the business' money flow and a major pitfall in handling their tax due (Muehlbacher et al., 2015). In Nigeria, about 70% of SMEs die within five years of establishment as a result of poor planning of business money flow (Kwanum & Luper, 2012). Thus, as mentioned in 1.5.2, the Nigerian government should incorporate mental tax accounting in secondary and tertiary curriculum as was done for skill acquisition to encourage and sustain compliance behaviour among would-established SMEs (refer to Appendix B for full list of published studies on tax/VAT in Nigeria). The summary of the variables discussed and the literature gaps identified is presented in Table 2.1.

Table 2.1
Summary of Variables and Gaps Identified

Variable	Previous studies – Related Literature	Related Issues – Evidence of Gaps
VAT compliance Intention	Adams & Webley, 2001; Ajzen, 1985; Ashby et al., 2009; Benk et al., 2011; Bird, 2010; Calvet & Alm, 2014; Devos, 2014; Efebera et al., 2004; Fjeldstad et al., 2012; Huda et al., 2012; Inasius, 2015; Kogler et al., 2012; Nyamwanza et al., 2014; Onu & Oats, 2014; Walsh, 2012.	- VAT compliance has received a little attention as compared to income tax compliance. - To bridge the research gap between developed and developing countries.
Attitude towards VAT Compliance	Ajzen, 2012; Benk et al., 2011; Helhel & Ahmed, 2014; Langham et al., 2012; Nkwe, 2013; Nyamwanza et al., 2014; Oladipupo & Izedonmi, 2013; Terry et al., 1999	Based on the researcher's knowledge on published studies, economic and socio-psychological factors incorporated into TPB have not been applied by previous studies in Nigeria. Hence, applying the three constructs in the TPB will add to the scarce study on VAT compliance and make it unique in Nigeria.
Subjective Norms	Huda et al., 2012; Miniard & Cohen, 1981; Trivedi et al., 2005; White et al., 2009 Kautonen et al., 2015; Langham et al., 2012; Saad, 2012; Ramayah et al., 2009; Bobek et al., 2012; Ajzen, 2011.	Most of the studies conducted in Nigeria on detection probability were done on income tax compliance. While this study applied detection probability on VAT compliance intention.
Perceived Behavioural Control	Devos, 2014; Ebimobowei & Peter, 2013; Kautonen et al., 2015; St. John et al., 2010; Terry et al., 1999; Ajzen, 2011; Chu & Wu (2007); Langham et al., 2012; Saad, 2011.	Most of the studies conducted in Nigeria on detection probability were done on income tax compliance. While this study applied detection probability on VAT compliance intention.
Detection probability	Cowell, 2002; Gangl et al., 2014; Maciejovsky et al., 2007; Mendoza & Wielhouwer, 2015; Ndumia, 2015; Musa et al., 2017; Luttmmer & Singhal 2014; Wenzel, 2004; Abdul-Jabbar, 2009; Antonides & Robben, 1995.	Most of the studies conducted in Nigeria on detection probability were done on income tax compliance. While this study applied detection probability on VAT compliance intention.
Penalty Magnitude	Ahmed, 2013; Ahmed & Braithwaite, 2005; Alabede, 2012; Anyaduba et al., 2014; Ariel, 2012; Muehlbacher & Kirchler, 2010; Ndumia, 2015; Nyamwanza et al., 2014; Ocheni, 2015; Okoye et al., 2012; Swistak, 2016	Most of the studies conducted in Nigeria on detection probability were done on income tax compliance. While this study applied detection probability on VAT compliance intention.

Table 2.1 (Continued)

Variable	Previous studies – Related Literature	Related Issues – Evidence of Gaps
SME Reputation	Comeig et al., 2015; de Mello, 2008; Deephouse & Jaskiewicz, 2013; Dulleck et al., 2011; Eragbhe & Omoye, 2014; Hilman & Gorondutse, 2013; Junaidu, 2012; Lange et al., 2011; Terungwa, 2011; Watson & Kitchen, 2010	SME reputation is a new concept in the Nigerian tax environment, despite the threat by FIRS, to implement reputational cost for non-remittance of tax/VAT collections.
Fairness in the Tax System	Abdul-Razak & Adafula, 2013; Adams & Webley, 2001; Akinboade, 2014; Devos, 2014; Eragbhe & Omoye, 2014; Farrar & Thorne, 2013; Jayawardane, 2015; Julyan, 2004; Kirchler, 2007; Kirchler et al., 2008; Torgler, 2011; Verboon & Goslinga, 2009.	Most studies conducted are on income tax compliance. While this study adapted the variable and tested it on VAT compliance intention among SMEs in Nigeria
Mental Tax Accounting	Adams & Webley, 2001; Duggan, 2016; Hastings & Booth, 2011; Kamleitner et al., 2012; Kirchler et al., 2008, 2009; Kwanum & Luper, 2012; Muehlbacher et al., 2015; Muehlbacher & Kirchler, 2013; Thaler, 1985; Webley & Ashby, 2010	Only tested in developed countries. Hence, bridging the research gap between developed and developing countries.

In conclusion, the research framework for this study applied both economic and socio-psychological factors into a model which is based on the recommendations by Swistak (2016). The study posited combining economic and socio-psychological factors into a model works effectively because the factors complement each other, and none works effectively in isolation. Therefore, the research framework that is further explained in chapter three is presented in Figure 2.3.

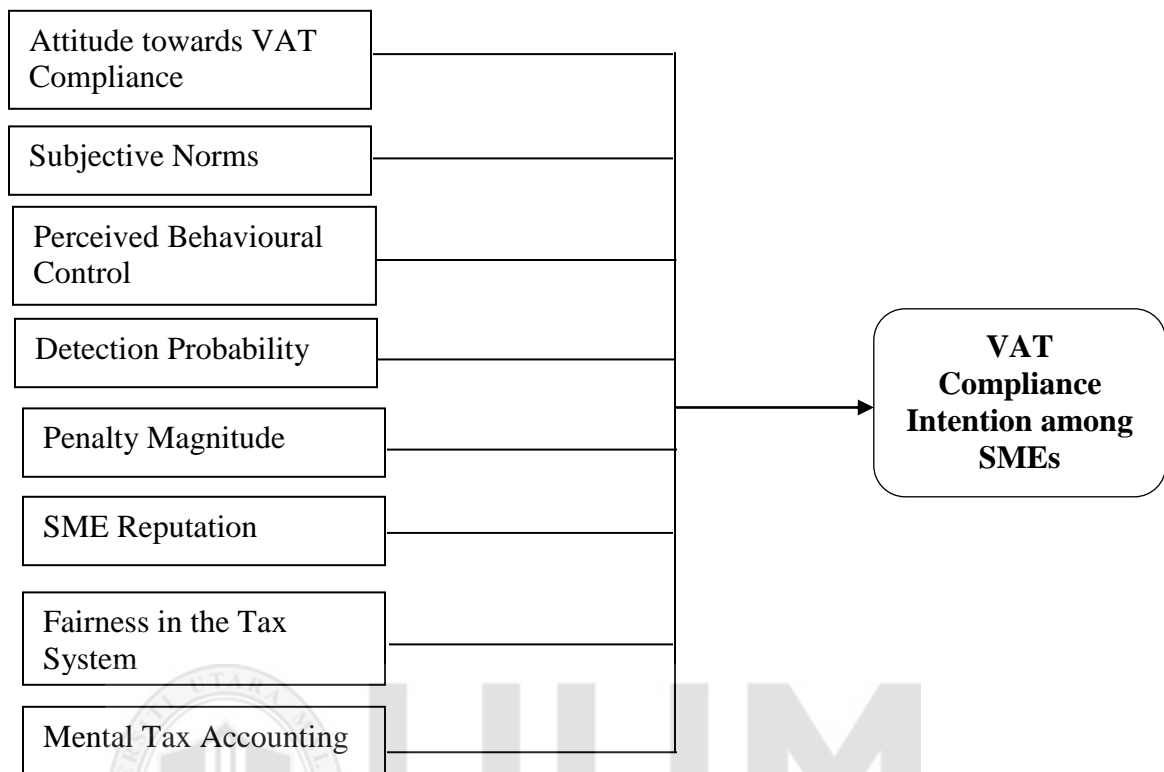


Figure 2.3
Summary of Variables used in this Study

2.6 Summary of the Chapter

This chapter highlighted the literature relevant to the study. An overview of VAT in Nigeria was discussed with a special emphasis on the calculation of VAT and the explanation of VATable persons, in which the study classified SMEs registered for VAT purposes as VATable persons. The underpinning theory for the study; theory of planned behaviour was also discussed alongside the supporting theories of the study, which are; deterrence theory, social exchange theory and prospect theory. The review made on these theories resulted in an important conclusion that no single theory can offer a thorough explanation on the factors that influence the VAT compliance intention among SMEs. In

order to have a positive outcome, the economic and social psychological factors were applied as complimenting each other for an effective conclusion. In reviewing the factors influencing VAT compliance intention among SMEs, particular attention was focused on attitude towards VAT compliance, subjective norms, perceived behavioural control, SME reputation, fairness in the tax system and mental tax accounting . In addition, detection probability and penalty magnitude were also adapted to take care of those SMEs that find it “thrilling to beat the VAT system”. The subsequent chapter of this study discussed the research methodology, which include research framework, hypotheses developed and research design.



CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter highlights the various research methods and procedures that were applied in addressing the research objectives toward suggesting answers to the research questions through hypothesis testing. These include; providing the research framework for the study; developing the hypotheses on the basis of the objectives; stating the research design for the study; providing operational definitions of the study's variables and the measurements of the variables of the study; the procedures for collecting the data as well as the instrument for the data collection; the technique of data analysis and finally the summary of the chapter.

3.2 Research Framework

Based on the literature reviewed and suggestions by several studies, this study has developed a research framework suitable for influencing VAT compliance intention among SMEs in Nigeria, using the TPB as the underpinning theory. As earlier discussed, the TPB is made up of the behavioural beliefs that predict attitude towards the behaviour, normative belief that predict subjective norms and control beliefs that predicts perceived behavioural control (Ajzen, 2011). The study further stated that, attitude, subjective norms and perceived behavioural control are predictors of intention. Intention is an important component in VAT compliance, because if SMEs do not have intention to comply, revenue cannot be increased (Langham et al., 2012).

The research framework for this study has eight independent variables that are constructed based on the predictors of intention as shown in Figure 3.1. Though the TPB does not stop with intention, it extends to behaviour, that is, intention mediates between attitude, subjective norms and perceived behavioural control and behaviour. However, this study stopped at the intention to investigate the relationship between the three constructs of the TPB with other variables gotten from other theories (deterrence, social exchange and prospect) and the compliance intention of SMEs in Nigeria. As stated by Benk et al. (2011); Efebera et al. (2004), intention to perform a behaviour is as strong as performing the behaviour. That is, the probability of an SME to remit the VAT collections to the government is usually high if the SME has an intention to comply. In the same vein, intention is the basis of the TPB, where the chances to exhibit a behaviour lies solely on the intention (Huda et al., 2012). That is, the SME that does not have an intention to comply will be faced with much difficulty to remit the VAT collections to the government. Similarly, intention is a proxy to behaviour (Ajzen, 2011). That means intention has a greater authority to represent behaviour. Thus, this study suggests that an SME with an intention to comply will be more likely to engage in compliance behaviour than an SME without an intention to comply. In summary, intention to comply has a great influence on compliance behaviour.

Though the TPB constructs have been tested and determined previously in tax compliance; attitude (Benk et al., 2011; Huda et al., 2012; Nkwe, 2013); subjective norms (Donna D. Bobek et al., 2012; Huda et al., 2012; Trivedi et al., 2005) and perceived behavioural control (Devos, 2014; Ebimobowei & Peter, 2013; Kautonen et al., 2015).

However, most of the studies conducted were done in income tax compliance, hence; this study adopted the variables (attitudes, subjective norms and perceived behavioural control) on VAT compliance intention among SMEs in Nigeria. According to Nyamwanza et al. (2014) and Oladipupo and Izedonmi (2013), attitude towards tax compliance depends on how the SME is treated by the government. That is, the SME expects the government to provide its citizens with the basic needs, so as to feel the value of the tax (VAT included) they are remitting. Subjective norms influence the intention to comply (Huda et al., 2012; Trivedi et al., 2005). That is, the influence from co-workers, family members and close associates has a great role to influence the SMEs' intention to comply. The ease or difficulty (perceived behavioural control) in performing a behaviour also, influences the compliance behaviour of a taxpayer (Devos, 2012; Ebimobowei & Peter, 2013; Kautonen et al., 2015). That is, the government's action on non-compliance behaviour of an SME may guide subsequent intention to comply for that SME.

In the same vein, detection probability and penalty magnitude were also tested and determined by other studies, which they were also adapted for this study. However, most of the previous studies were conducted on income tax compliance (Eragbhe & Modugu, 2014; Modugu, 2014; Musau, 2015; Nyamwanza et al., 2014). Hence, this study investigated their relationship with VAT compliance intention. Though, this study focuses more on encouraging voluntary VAT compliance intention among SMEs through socio-psychological factors, however, the SMEs that find it "thrilling to beat the VAT system" by not complying; a touch of the deterrent measure is suggested to ensure enforced compliance. Similarly, as suggested by Swistak (2016) on applying both

economic and socio-psychological factors on compliance, as none of the measures work effectively in isolation, because they complement each other.

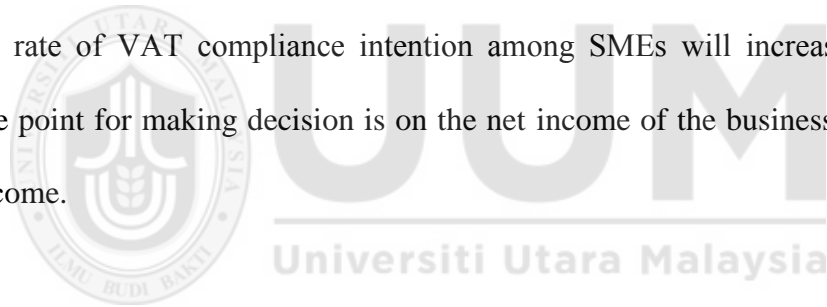
Furthermore, the study conducted by Andreoni et al. (1998) reported that an SME would comply if there is fear or risk of damage on the entity's reputation as a result of being exposed as a cheater. Also, a belief that one's reputation may suffer as a result of evading tax would influence the SME to comply (de Mello, 2008), this study adapted SME reputation as a variable. SME reputation is a new concept in the tax compliance environment, however, this study delved in other literature to establish its relationship with compliance intention. As suggested by Eragbhe and Omoye (2014) on the opinion of others about the values of an enterprise matters greatly, hence, more empirical studies on the factors to VAT compliance should be considered.

The deterrence theory implies that, compliance behaviour among taxpayers can be increased through detection probability and penalties for non-compliance (Alabede, 2012), or by the reputation of an enterprise (Morse, 2012). Hence, this study applied the deterrence theory to discuss the detection probability, penalty magnitude and SME reputation as both external and internal measures to influence VAT compliance intention among SMEs. Therefore, this study assumes an increase in detection probability and penalty magnitude as well as the reputation of an SME will result to an increase in VAT compliance intention among SMEs. However, a decrease in the perception of the SME on the detection probability, penalty and the reputation of the SME will result to a decrease in the compliance intention among SMEs in Nigeria.

Although, the low compliance level of SMEs in Nigeria might be caused by many factors, the relevance of fairness in the tax system cannot be undermined (Abdul-Razak & Adafula, 2013; Eragbhe & Omoye, 2014; Farrar & Thorne, 2013; Yahaya, 2015). The study conducted by Eragbhe and Omoye (2014) opined that, the non-compliance behaviour of SMEs may be an indicator that most SMEs are not quite satisfied with the attitude of the government towards governance, and especially the hike in the cost of running SMEs in Nigeria, high compliance cost and multiple taxation faced by the SMEs. In the same vein, the social exchange theory states that relationships between parties is based on cost and benefit, which the continuity of the relationship, lies with the rewards received by both parties (Alabede, 2012). Hence, perceived fairness in the tax system positively influenced VAT compliance intention among SMEs. Therefore, this study assumes an increase in the perception of the SME on the fairness in the tax system through reducing the cost of compliance, multiple taxation as well as simplicity in the procedure for VAT compliance, will result to an increase in VAT compliance intention among SMEs.

In addition, mental tax accounting has been tested and determined on tax compliance in developed countries (Adams & Webley, 2001; Duggan, 2016; Muehlbacher & Kirchler, 2013; Webley & Ashby, 2010). To the best of the researcher's knowledge, nothing empirical has been conducted on mental tax accounting in Nigeria as regards VAT compliance intention, hence, the current study. This is in line with the suggestion that future studies on mental tax accounting should be conducted in developing country to bridge the gap between developed and developing countries (Webley & Ashby, 2010).

Kamleitner et al. (2012) opined that, the prospect theory is the framing effect that is most relevant to tax compliance as it describes how individuals evaluate risk and states that people are risk averse when it comes to gains but risk seeking when it comes to loss. As a result of that, the reference point is a major concern in the prospect theory. Hence, it predicts the tax compliance (non-compliance) behaviour of individuals (Muehlbacher et al., 2011). In the same vein, Muehlbacher and Kirchler (2013) posited that when an individual mentally segregate the tax due from the gross income, thereby making the net income as a reference point, that may be a good decision for remittance of the tax component. Therefore, this study applied the prospect theory to discuss mental tax accounting as a factor to influence VAT compliance intention among SMEs, and assumes that, the rate of VAT compliance intention among SMEs will increase if the SME's reference point for making decision is on the net income of the business, rather than the gross income.



In line with the above, eight independent variables were adopted from theories, which are; Attitude towards VAT compliance, subjective norms, perceived behavioural control (TPB); detection probability, penalty magnitude and SME reputation (DT); fairness in the tax system (SET) and mental tax accounting (PT). The research framework for this study is presented in Figure 3.1.

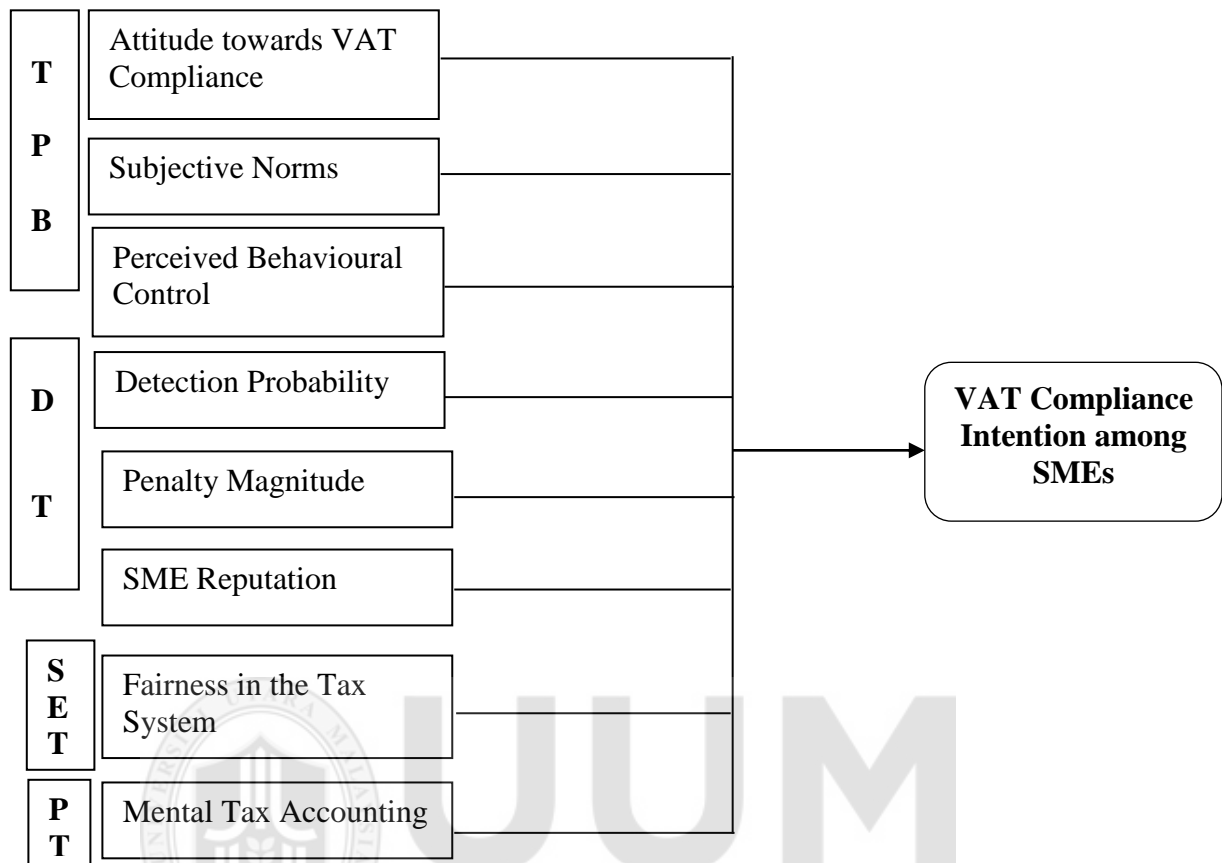


Figure 3.1
Research framework

3.3 Hypothesis Development

Based on the research objectives of this study, available evidence in literature and in line with the research framework of the study, the following hypotheses were developed. Hypotheses (H1-H3) were developed based on the first objective of this study, which is on the direct relationship between the three constructs of the TPB (attitude towards VAT compliance, subjective norms and perceived behavioural control) and the dependent variable (VAT compliance intention). The second objective provides ground for hypotheses (H4-H6) which is on the relationship between the independent variables

(detection probability, penalty magnitude and SME reputation) and the dependent variable (VAT compliance intention). Based on the third objective of this study, hypotheses (H7-H8) is developed which is to ascertain the relationship between the independent variables (fairness in the tax system and mental tax accounting) and VAT compliance intention among SMEs in Nigeria. The relationship between the independent variables and dependent variable as posited by previous studies are discussed in the subsection, starting with the attitude towards VAT compliance intention.

3.3.1 Attitude towards VAT Compliance and VAT Compliance Intention

Attitude is the amount of affection which lies for or against an object that is observed (Ajzen & Fishbein 2005). Similarly, Helhel and Ahmed (2014) stated that, an individual's behaviour towards another person, event or object is initiated by attitude. In addition, an attitude towards any object can be regarded as a function of one's belief about the object and the implicit evaluative response associated with those beliefs (Benk et al., 2011). Thus, this study defines attitude towards VAT compliance as the way and manner SME act towards VAT compliance which is formed based on previous knowledge and experience from the VAT remittances auditing by the government.

Some studies posit positive relationship between attitudes and tax compliance (Ajzen, 2011; Benk et al., 2011; Langham et al., 2012; Muhrtala & Ogundeji, 2013; Nkwe, 2013). In the same vein, Jayawardane (2015), Orviska and Hudson (2003) and Trivedi et al. (2005) opined that attitude towards tax are often significant but a weak relationship with compliance, because, there are other factors (fairness in the tax system, accountability among others) that will fine-tuned the relationship between attitude

towards tax and compliance. Alabede et al. (2011) opined that attitude is positively related to compliance in Nigeria if moderated with financial condition. However, there is an insignificant relationship between attitude of a taxpayer towards compliance (Nyamwanza et al., 2014; Oladipupo & Izedonmi, 2013). That is, there is no direct relationship of attitudes with compliance. These studies are of the opinion that, taxpayers form attitudes depending on how the government takes care of its citizen.

Similarly, Kirchler et al. (2008) opined that attitudes are insignificant predictors of actual behaviour. The study further posits that, tax attitudes depend on the perceived use of the funds collected, thus, tax attitudes are connected to knowledge. In the same vein, the burden of tax on SMEs affects their attitudes towards compliance. Hence, burden of tax reduces compliance among SMEs (Abdul-Razak & Adafula, 2013). Therefore, the hypothesis formulated is:

H1: There is a significant relationship between attitude towards VAT compliance and VAT compliance intention among SMEs in Nigeria.

3.3.2 Subjective Norms and VAT Compliance Intention

The second construct in the TPB that predicts intention is the subjective norm. This construct captures the opinion of social reference groups (such as family, friends and co-workers) regarding whether the individual should engage in the behaviour or not (Huda et al., 2012). Some studies opined a positive relationship between subjective norms and intention to comply (Kautonen et al., 2015; Langham et al., 2012; Miniard & Cohen, 1981; White et al., 2009). That is, a social pressure put on an individual can influence the

performance of certain behaviour. Thus, this study defines subjective norm as a social pressure put on an SME by important persons (such as, family members, peers and co-workers) to aid remittance of the VAT collections to the government as at when due.

Prior studies have posited that, subjective norm has significant influence on intention (Huda et al., 2012; Trivedi et al., 2005). While the study conducted by Bobek et al. (2012) showed a direct relationship between subjective norms and compliance, other studies opined a positive relationship between subjective norms and intention to comply (Kautonen et al., 2015; Langham et al., 2012; Miniard & Cohen, 1981; White et al., 2009). That is, a social pressure put on an individual can influence the performance of certain behaviour. Furthermore, Saad (2012) found that subjective norm is an important determinant among the taxpayers in Malaysia. In addition, Ajzen (2012) posited that subjective norm is positively related to behavioural intention for males as compared to females in the study he conducted.

However, Ramayah et al. (2009) opined that subjective norms have a relatively small significant influence with compliance as compared with the other two constructs of the TPB (attitude and perceived behavioural control). In the same vein Huda et al. (2012) and Trivedi et al. (2005) posited that, there is no significant influence of subjective norms on intention. Therefore, the hypothesis formulated is:

H2: There is a significant relationship between subjective norms and VAT compliance intention among SMEs in Nigeria.

3.3.3 Perceived Behavioural Control and VAT Compliance Intention

Perceived Behavioural Control (PBC) is the last construct in the TPB, which denotes the ease or difficulty in performing behaviour (Saad, 2011). In addition, it can be an act of observing a behaviour and the consequences of that behaviour, which one can recall the sequence of events and use this information to guide subsequent behaviours (Devos, 2012; Ebimobowei & Peter, 2013; Kautonen et al., 2015). This study adopted the external factors to address the perceived behavioural control as a construct of the TPB, which is in line with the study of Langham et al. (2012). Thus, defines PBC as the perception of SMEs on the ease and difficulty of VAT compliance as a result detection, audit and penalty magnitude from the authority.

White et al. (2009) in their study described PBC as a significant predictor of behavioural intention. That is, participants have stronger intention to perform an activity, if they perceived a high level of behavioural control. Furthermore, PBC was also found to play a significant predictor in decision making (St. John et al., 2010). Studies have also demonstrated PBC has significant influence on e-filing intention (Chu & Wu, 2007; Hung, Chang, & Yu, 2006). In the same vein, some studies concluded a positive relationship between PBC and tax compliance (Devos, 2014; Ebimobowei & Peter, 2013; Mendoza & Wielhouwer, 2015). Kautonen et al. (2015) in their study on predicting entrepreneurial intention opined that PBC is positively related to intention to comply.

However, Langham et al. (2012) in an empirical study posited that, PBC was significant in a direct measure but the salient beliefs used in the final model estimation were not

significant. Similarly, the cross cultural study conducted by Saad (2011) found that PBC was insignificant among the New Zealand taxpayers. Therefore, the hypothesis formulated for this study is:

H3: There is a significant relationship between perceived behavioural control and VAT compliance intention among SMEs in Nigeria.

3.3.4 Detection Probability and VAT Compliance Intention

This study defines detection probability as the process which the authorities initiate an inspection on SMEs to detect flaws or inappropriate behaviour, so as to ensure VAT compliance among the SMEs. Ahmed and Braithwaite (2005) in their study posited that detection probability has significant relationship with compliance. In the same vein, there are studies that confirmed the assertion of a positive relationship between detection probability and tax compliance (Modugu & Anyaduba, 2014; Musau, 2015; Ndumia, 2015; Nyamwanza et al., 2014). Furthermore, investigation has shown that past audits have an effect on future behaviour as well as subsequent audits. That is, past audits positively relates to compliance (Maciejovsky et al., 2007).

Furthermore, a greater probability of detection significantly reduces tax evasion among SMEs (Luttmer & Singhal, 2014). That is, an increase in detection probability increases compliance among SMEs. In another study, Mendoza and Wielhouwer (2015) posited that, detection probability has a positive relationship with tax compliance. Cowell (2002), also opined that, a thorough audit exercise can trigger past records of evasion and that can lead to the application of a deterrent measure so as to ensure subsequent compliance.

Hence, thorough audit positively relates to tax compliance. Subsequently, Alabede et al. (2011) stated that penalty largely depends on the probability of detection and audit. That is, the tax authorities penalize evaders through audit and detection which in turn lure the SMEs to comply for fear of getting caught and sanctioned. In the same vein, probability of detection has been an effective deterrent measure to ensure compliance among SMEs (Gangl et al., 2014; Lefebvre, Pestieau, Riedl, & Villeval, 2013; Ndumia, 2015).

However, some studies opined a negative relationship between detection probability and tax compliance (Gangl et al., 2014; Kotowski et al., 2014). That is, an increase in detection probability results to a decrease in compliance and vice versa. Therefore, the hypothesis formulated is:

H4: There is a significant relationship between detection probability and VAT compliance intention among SMEs in Nigeria.

3.3.5 Penalty Magnitude and VAT Compliance Intention

Due to the non-compliance behaviour of some SMEs, the application of penalty tends to be one of the most effective measures to enforce compliance behaviour. Kirchler et al. (2008) defines penalty in compliance as the process of increasing power of the authorities to ensure enforced compliance. Thus, this study defines penalty magnitude as the extent the authority impose disciplinary measures on SME for failure to remit the VAT collections as at when due.

Nyamwanza et al. (2014) in their studies revealed that penalty has a positive relationship with compliance. That is, an increase in penalty, increases compliance behaviour among

taxpayers, and penalty is one of the most effective variables in enforcing compliance. In addition, other studies conducted on enforce compliance, found that penalty has a significant relationship with deterrence, motivation and correcting improper behaviour of taxpayers (Poppelwell et al., 2012; Wenzel, 2004). Furthermore, Adams and Webley (2001) in their submission identified penalty magnitude as one of the factors that positively influence VAT compliance among SMEs.

However, Swistak (2016) posited that enforced penalty has the potential to work better if the government agency used it objectively as a means of delivering and implementing a sound compliance strategy. That is, penalty alone cannot influence compliance. Rather, it should be applied with other measures. In the same vein, the study conducted by Gangl et al. (2014) posited that, there is no relationship between penalty magnitude and compliance. This means that penalty does not influence compliance behaviour among taxpayers. Alm et al. (2010) also opined that penalty magnitude has no relationship with compliance, unless it is applied with other socio-psychological factors. That means, penalty magnitude can be significant with compliance, if it is applied alongside other socio-psychological factors.

In Nigeria, Modugu and Anyaduba (2014) posited a positive relationship between penalty magnitude and compliance. That is, an increase in penalty magnitude, increases compliance among taxpayers in Nigeria. However, Anyaduba et al. (2012) posited that penalty magnitude in Nigeria is inadequate and has not assisted in compliance, hence,

there is no relationship between penalty magnitude and compliance in Nigeria. Therefore, the hypothesis developed is:

H5: There is a significant relationship between penalty magnitude and VAT compliance intention among SMEs in Nigeria.

3.3.6 SME Reputation and VAT Compliance Intention

Studies on SME reputation as a factor to tax compliance are very rare. However, Eragbhe and Omoye (2014) in their study suggested more empirical studies on factors to influence VAT compliance, considering the opinion of others (stakeholders) on the value of an enterprise matters greatly. Therefore, the present study explored previous literatures and studies on SME reputation and related the findings to VAT compliance intention among SMEs in Nigeria. Hence, defines SME reputation as the effort taking by an SME to ensure VAT remittance to the authority, which is in line with the principles of the business, and not because of deterrent measures.

Business reputation is significantly related to stakeholders' perception of the business (Lange et al., 2011). That is, a good business reputation brings forth a good business image from the stakeholders' perspective. Stakeholders in this context are; customers, government agencies, suppliers etc (Lange & Washburn, 2012). Business reputation is also positively related to competitive advantage and performance (Lange & Washburn, 2012; Saeidi, Sofian, Saeidi, Saeidi, & Saaeidi, 2015). Competitive advantage in this context is a condition that puts a company in a favourable or superior business position

and this can be achieved through fulfilling its obligations and abiding by the rule of law (Jurevicius, 2013).

The rule of law in business is mostly found in family businesses and most of the family businesses in Nigeria are SMEs (Onuoha, 2013). However, there are scanty studies on how family businesses plan their taxes (Bauweraerts & Vandernoot, 2013; Chen et al., 2010; Desai & Dharmapala, 2006). But as posited by Bauweraerts and Vandernoot (2013) and Chen et al. (2010), non-compliance to tax obligations may have an influence (positive or negative) on the family value and reputation. In addition, Webley et al. (2002) opined not only that, the reputation of a business will be tarnished, but the success of the business will also be affected if the government publish their names as non-compliant. Hence, reputation positively relates to compliance. Therefore, the hypothesis developed is:

H6: There is a significant relationship between SME reputation and VAT compliance intention among SMEs in Nigeria.

3.3.7 Fairness in the Tax System and VAT Compliance Intention

Previous studies have indicated various dimensions of fairness perception. For example, Bobek (1997) identified three dimensions of fairness. These are; distributive, procedural and policy fairness. Based on the characteristics of the measures SMEs in Nigeria weigh a tax system to be fair or not (earlier mentioned), this study defines fairness in the tax system in accordance to the policy fairness, as the perception of an SME on the way and

manner it is treated by the government in terms of the cost of compliance, complexity in the tax system and issues surrounding multiple taxation.

Adams and Webley (2001) opined a positive relationship between fairness in the tax system and VAT compliance among small business men and women. In another study, Torgler (2011) posited a significant relationship between perceived fairness with tax compliance. Subsequently, Devos (2014) posited that the most understood requirement of fairness is to treat equal people in equal circumstances in an equal way. That is, a good tax system must be designed on the basis of an appropriate set of principles, such as equity and fairness. The study concluded that there is a positive significant relationship between fairness and tax compliance.

In addendum are studies conducted in Canada, Ghana and Nigeria where it was discovered that SMEs have concern for fairness in the tax system as that discourages tax evasion behaviour and improves voluntary compliance (Abdul-Razak & Adafula, 2013; Eragbhe & Omoye, 2014; Farrar & Thorne, 2013; Yahaya, 2015). In conclusion, while several studies have shown a positive relationship between fairness in the tax system with tax compliance (Adams & Webley, 2001; Adeyeye & Otusanya, 2015; Kirchler et al., 2008; Torgler, 2011; Webley et al., 2004; Wenzel, 2004), other studies found no relationship between fairness and tax compliance behaviour. For example, Verboon & Goslinga (2009) found no significant relationship between distributive fairness and tax compliance among entrepreneurs with high personal norms. Therefore the hypothesis formulated is:

H7: There is a significant relationship between fairness in the tax system and VAT compliance intention among SMEs in Nigeria.

3.3.8 Mental Tax Accounting and VAT Compliance Intention

Muehlbacher and Kirchler (2013) defined mental tax accounting as segregating the tax liability from the gross income. That is, having different mental accounts for tax liabilities and business funds. Their study further posited that, those that segregate the tax liabilities from the business funds find it easier to pay tax, than those that integrate the taxes with the business funds. Thus, this study in line with Muehlbacher and Kirchler (2013) defines mental tax accounting as a process whereby the SME segregates VAT received from the business funds and keep the VAT in a separate account, which will be remitted to the tax authority as at when due.

Mental accounting has been significant to the body of research on decision making in a variety of areas, such as: real estate (Seiler, Seiler, & Lane, 2010); gift cards versus cash gifts (Helion & Gilovich, 2014) as well as coupons and grocery expenditure (Milkman, Bazerman, & Beshears, 2007). In all the studies mentioned, the relationship between the decisions the respondents would take and mental accounting was positively significant.

Furthermore, mental tax accounting is assessed to have a significant relationship with tax compliance (Duggan, 2016; Muehlbacher et al., 2015). That is, an increase in mental tax accounting, increases tax compliance and vice versa. In another submission, Adams and Webley (2001) opined a positive relationship between mental accounting and VAT compliance. However, Ashby and Webley (2009) opined a weak relationship between

mental accounting and compliance as most of the respondents perceived proceeds from the business as gifts from their customers rather than maintaining mental accounts for tax and business funds. Similarly, Webley et al. (2002) found no relationship between mental accounting and compliance. Going by its significance, mental (tax) accounting is therefore an important consideration for improving VAT compliance among SMEs in Nigeria. Therefore the hypothesis formulated is:

H8: There is a significant relationship between mental tax accounting and VAT compliance intention among SMEs in Nigeria.

Table 3.1 gives the summary of the hypothesis developed from the research objectives of this study, alongside the related literature to support the proposed hypothesis.

Table 3.1
Summary of Hypotheses Developed

Research Objectives	Hypothesis Development	Related Literature to Support the Hypothesis
To investigate the relationship between Attitude towards VAT Compliance, Subjective Norms, Perceived Behavioural Control and VAT compliance intention among SMEs in Nigeria.	H1 – There is a significant relationship between attitude towards VAT compliance and VAT compliance intention among SMEs in Nigeria	Ajzen, 2012; Benk et al., 2011; Helhel & Ahmed, 2014; Langham et al., 2012; Nkwe, 2013; Nyamwanza et al., 2014; Oladipupo & Izedonmi, 2013; Terry et al., 1999.
	H2 - There is a significant relationship between subjective norms and VAT compliance intention among SMEs in Nigeria	Huda et al., 2012; Miniard & Cohen, 1981; Trivedi et al., 2005; White et al., 2009; Ramayah et al., 2009; Saad, 2012; Bobek et al., 2012; Langham et al., 2012'
	H3 – There is a significant relationship between perceived behavioural control and VAT compliance intention among SMEs in Nigeria.	Devos, 2014; Ebimobowei & Peter, 2013; Kautonen et al., 2015; St. John et al., 2010; Terry et al., 1999; Saad, 2012; Mendoza & Wielhower, 2015; Langham et al., 2012.

Table 3.1 (Continued)

Research Objectives	Hypothesis Development	Related Literature to Support the Hypothesis
To examine the relationship between Detection Probability, Penalty Magnitude, SME Reputation and VAT compliance intention among SMEs in Nigeria.	H4 - There is a significant relationship between detection probability and VAT compliance intention among SMEs in Nigeria.	Cowell, 2002; Mendoza & Wielhouwer, 2015; Modugu & Anyaduba, 2014; Musau, 2015; Ndumia, 2015; Nyamwanza et al., 2014
	H5 - There is a significant relationship between penalty magnitude and VAT compliance intention among SMEs in Nigeria	Adams & Webley, 2001; Ahmed & Braithwaite, 2005; Alm et al., 2010; Musau, 2015; Ndumia, 2015; Nyamwanza et al., 2014; Swistak, 2016.
	H6 - There is a significant relationship between SME reputation and VAT compliance among SMEs in Nigeria.	Chen et al., 2010; Deephouse & Jaskiewicz, 2013; Hilman & Gorondutse, 2013; Jurevicius, 2013; Lange et al., 2011; Lange & Washburn, 2012; Onuoha, 2013; Terungwa, 2011.
To investigate the relationship between Fairness in the Tax System Mental Tax Accounting and VAT compliance intention among SMEs in Nigeria.	H7 - There is a significant relationship between fairness in the tax system and VAT compliance intention among SMEs in Nigeria	Abdul-Razak & Adafula, 2013; Adeyeye & Otusanya, 2015; Devos, 2014; Eragbhe & Omoye, 2014; Farrar & Thorne, 2013; Saad, 2011; Torgler, 2011; Yahaya, 2015.
	H8 - There is a significant relationship between mental tax accounting and VAT compliance intention among SMEs in Nigeria.	Adams & Webley, 2001; Ashby & Webley, 2009; Duggan, 2016; Muehlbacher et al., 2015; Yusuf & Dansu, 2013

3.4 Research Design

Research design is a way of collecting, measuring and analyzing data to arrive at a solution (Sekaran & Bougie, 2010). Research design is also defined as a master plan specifying the methods and procedures for collecting and analyzing the needed information (Zikmund & Babin, 2006). This study adopted the survey research design because as posited by Jackson and Milliron (1986) and Torgler (2011), it is the most used research method recommended for the study investigating perception, attitude and behaviour of taxpayers.

According to Saunders, Lewis and Thornhill (2009), the survey method allows the researcher to gather quantitative data, analyze the data using descriptive statistics and thereby establish the possible reasons for the relationship between variables. Also, the survey method provides a fast, cheap, efficient and accurate assessment on a given population and also provide accurate information (Zikmund, Babin, Carr, & Griffin, 2013). This method has been applied in previous studies on compliance (for instance, Alabede, 2012; Aminu, 2015; Idawati, 2013; Saad, 2011). Hence, this study applied the survey method using the quantitative research approach. Quantitative research approach is a measurement where numbers are used to represent the phenomenon being studied (Creswell, 2007). The study posited further that, the quantitative research approach is the most appropriate for a study that is complex and possess a large population as this study.

Additionally, the survey research using questionnaires from a large sample is inexpensive and easy, as compared to data gotten from observation, interview and secondary data (Zikmund, Babin, Carr, & Griffin, 2010). Comparing questionnaire to other methods highlighted previously, the nature and characteristics of the interviewer may influence the answers of the respondents in an interview. Also, observation, may not give a better understanding of certain behaviours because people may behave differently when they know they are being observed (Zikmund et al., 2013). Similarly, secondary data may be inappropriate for a study like this, because of the issues surrounding record keeping by the respondents, and if the records are available, they may be out-dated, since the data was collected many years ago. As a result of the above, the quality of the secondary data may not be guaranteed (Saunders et al., 2009).

Therefore, a survey method using questionnaire as the instrument for data collection is found to be more appropriate in Nigeria because there is little or no influence on the observer's subjectivity (Aminu, 2015). Similarly the number of SMEs in Nigeria is large, and for easy collection of data and high representation, the survey method is considered better than other methods (Atiku & Danja, 2014). The questionnaire applied for this study consist of four parts, namely Part A, B, C and D. Part A covers the perception of SMEs on the factors influencing VAT compliance Intention, Part B covers the VAT compliance Intention among SMEs using a VAT scenario, Part C covers the demographical information of the respondents, while Part D required comments and suggestion of VAT if any. That is, the Part D is optional, hence only 62 of the respondents made comments and suggestion. The analysis of the results is presented in chapter four.

3.5 Operational Definition and Measurement of Variables

As described by Saunders et al. (2009), operationalization of variables is the translation of concepts into tangible indicators of their existence, so that it can be practically measured. Based on previous studies on SMEs, the target respondents are usually the owners, managers, administrative staff, etc, given that they have adequate knowledge regarding their business' strategies, overall business situations and the remittance of VAT collections to the relevant tax authority (Aminu, 2015; Poppelwell et al., 2012). Therefore, the unit of analysis for this study is the SME and the target respondents are owners, managers, and administrative staff, among others of SMEs in Nigeria. This is in line with some studies on SMEs (Aminu, 2015; Ashby et al., 2009; Biabani & Ramezani, 2011; Eragbhe & Modugu, 2014; Hilman & Gorondutse, 2013; Inasius, 2015; Musau, 2015; Ritsema, Thomas, & Ferrier, 2003; Webley et al., 2004).

This study adapted measurements based on previous studies relevant to the study, and with some modifications. The research model consists of eight independent variables and one dependent variable: Attitude towards VAT compliance, subjective norms, perceived behavioural control, detection probability, penalty magnitude, SME reputation, fairness in the tax system, mental tax accounting and VAT compliance intention among SMEs in Nigeria. In this study, the Likert scale was adopted for all the items as the respondents were asked to indicate their responses to each question on a five-point scale (strongly disagree, disagree, neutral, agree and strongly agree with score from 1, 2, 3, 4 and 5, respectively). See Table 3.2 for items used to measure all the variables and the sources. (Refer to Appendix A for the hypothetical VAT scenario used for VAT compliance intention and a copy of the questionnaire).

The Likert scale is found to be more appropriate for this study due to the nature of the respondents and the information they are required to provide (Dawes, 2008). In addition, a scale between five and seven points is more reliable than higher or lower scales and is likely to produce better results. Thus, a scale with no midpoint may increase the measurement error (Dawes, 2008). This rating scale was applied in some studies on tax compliance, they include; Ahmed (2013), Alabede (2012) and Devos (2014).

Therefore, the operational definition and the measurement adapted with some modifications for all the variables are highlighted in the sub-section, starting with the dependent variable; VAT compliance intention.

3.5.1 VAT Compliance Intention (VCI)

Intention is the basis of the TPB (Benk et al., 2011). Ajzen (2011) described intention as the factor indicating the degree of individual efforts in order to perform certain behaviour. In the same vein, Benk et al. (2011) posited that, intention is explained by attitudes towards behaviour, individual norms and perceived behavioural control. Thus, this study, adopted VAT compliance intention as the dependent variable and defines it as the degree of effort which is characterized by economic and socio-psychological factors an SME employs, in order to ease its compliance to VAT.

VAT compliance intention was measured with five items using a hypothetical VAT scenario as adapted from Efebera et al. (2004), Langham et al. (2012) and Saad (2011) with some modifications. As posited by Langham et al. (2012), hypothetical scenario is used to overcome the difficulty in measuring the actual compliance behaviour of a taxpayer, and it provides the respondents with detailed on real life scenario, where they are required to report on how they will behave given the same circumstance. The hypothetical scenario has been applied in previous studies on compliance behaviour (Alabede, 2012; Efebera et al., 2004). A high score in the VAT compliance intention variable is an indication that the SMEs are likely to comply with VAT obligations in such a given scenario, while a low score indicates not likely to comply by the SMEs in such scenario.

3.5.2 Attitude towards VAT Compliance (AVC)

This study defines attitude towards VAT compliance as the way and manner SME act towards VAT compliance which is formed based on previous knowledge and experience

from the VAT remittances auditing by the government. This study measured the perception of the SMEs on remittances of VAT collections using four items as adapted from Saad (2011) and Trivedi et al. (2005) with some modifications. A high score in the attitude towards VAT compliance variable is an indication that the SMEs are likely to have positive attitude towards VAT compliance while a low score indicates a negative attitude towards VAT compliance among SMEs in Nigeria.

3.5.3 Subjective Norms (SN)

This study defines subjective norm as a social pressure put on an SME by important persons (such as, family members, peers and co-workers) to aid remittance of the VAT collections to the government as at when due. The study measured the expectations of family members, friends and co-workers on the SMEs on VAT compliance using four items as adapted from Bobek et al. (2012) and Saad (2011) with some modifications. A high score in the subjective norm variable is an indication that the SMEs are likely to comply with pressure from family members, peers and co-workers while a low score indicates low influence of family members, peers and co-workers on VAT compliance among SMEs in Nigeria.

3.5.4 Perceived Behavioural Control (PBC)

Perceived behavioural control is determined by the control beliefs that facilitate performance of a behaviour (Huda et al., 2012). In the study conducted by Efebera et al. (2004), detection risk and penalty magnitude were considered as sub-constructs of perceived behavioural control. That is, it is an external force or pressure that influences one to behave in a planned way. This study defines perceived behavioural control as the

perception of SMEs on the ease and difficulty of VAT compliance as a result of detection, audit and penalty magnitude from the authority. The perceived detection, audit and penalty magnitude is in line with TPB as applied in the study conducted by Langham et al. (2011). While the other variables (detection probability and penalty magnitude) used in the framework for this study are in line with the deterrence theory, which is consistent with the studies conducted by Alabede (2012) and Nyamwanza et al. (2014).

Perceived behavioural control was measured through the perception of the SMEs on the threat of audit and detection, the easy or difficulty in VAT compliance using five items adapted from Efebera et al. (2004) and Langham et al. (2011) with some modifications. Item PBC3 (there is threat of detection and audit) measures the chances of detection from the perspective of the TPB as adapted from Langham et al. (2011). A high score in the perceived behavioural control variable is an indication that the presence of perceived detection will make it easy for the SMEs to comply while a low score indicates a difficulty of VAT compliance among the SMEs even with perceived detection from the authority.

3.5.5 Detection Probability (DP)

Detection probability is the process of inspection that errors are discovered in a tax return. These errors could be intentional or unintentional (Antonides & Robben, 1995). Maciejovsky et al. (2007) defined detection probability as an inspection that triggers tax compliance. Thus, this study defines detection probability as the process which the authorities initiate an inspection on an enterprise to detect flaws or inappropriate behaviour, so as to ensure VAT compliance among SMEs. The variable was adapted for a

touch of the “stick” approach for those that find it thrilling to “beat the VAT system”. This study measured the perception of the SMEs on the likelihood of detection by the authorities, and whether or not the detection probability is high, as adapted from Alabede (2012) and Efebera et al. (2004) with some modifications. Item DP4 (I cannot cheat, because the authorities will detect the cheating) measures detection in terms of cheating from the deterrence theory perspective as adapted from Alabede (2012). A high score in the detection probability variable is an indication that the SMEs are likely to comply if the chances of getting caught for non-remittance are high while a low score indicates the chances of getting caught for non-remittance is low, hence, encourages non-compliance among SMEs in Nigeria.

3.5.6 Penalty Magnitude (PM)

Penalty in compliance is the process of increasing power of the authorities to ensure enforced compliance (Kirchler et al., 2008). Umar et al. (2017) describe penalty as a stick approach to enforce compliance among individuals. Thus, this study defines penalty magnitude as the extent the authority impose disciplinary measures on SME for failure to remit the VAT collections as at when due.

Penalty magnitude was measured through the perception of the SMEs on whether the penalty by the authority is high or not, whether other SMEs that are not remitting the VAT collections are sanctioned by the authorities. These and other items were measured using four items adapted from Efebera et al. (2004) and Nyamwanza et al. (2014) with some modifications. A high score in the penalty magnitude variable is an indication that the SMEs are likely to comply if the penalty imposed by the authority is high while a low

score indicates the penalty imposed by the authority is low, hence, discourages compliance behavioural intention among SMEs in Nigeria.

3.5.7 SME Reputation (SR)

This study defines SME reputation as the effort taking by an SME to ensure VAT remittance to the authority, which is in line with the principles of the business, and not because of deterrent measures. Despite, previous studies on SME reputation and VAT compliance intentions are so rare. However, this study ascertained the relationship between SME reputation and VAT compliance intention using four items adapted from Efebera et al. (2004), Lange et al. (2011) and Verboon and Goslinga (2009) with some modifications. A high score in the SME reputation variable is an indication that the SMEs are likely to comply if they feel their reputation will have adverse effect as a result of non-compliance behaviour while a low score indicates that, non-compliance behavioural intention does not affect reputation of SMEs in Nigeria.

3.5.8 Fairness in the Tax System (FTS)

As defined by this study, fairness in the tax system is the perception of an SME on the way and manner it is treated by the government in terms of the cost of compliance, complexity in the tax system and issues surrounding multiple taxation. Fairness in the tax system is adapted as an independent variable for the study and four items adapted from Alabede (2012), Efebera et al. (2004) and Verboon and Goslinga (2009) with some modifications were used. A high score in the fairness in the tax system variable is an indication that the SMEs are likely to comply if they perceived the tax system is fair through reducing the cost of doing business, multiple taxation and cost of compliance

while a low score indicates the tax system is not fair to SMEs, hence, encourages non-compliance among SMEs in Nigeria.

3.5.9 Mental Tax Accounting (MTA)

Mental tax accounting is one of the variables that emerged at the qualitative study conducted by Adams and Webley (2001). They conducted the interview on some selected SMEs about their compliance with reporting tips as income. In another study, most participants confessed low compliance, as they perceived proceeds from the business as gifts from their customers rather than mentally categorizing this money as VATable income (Ashby & Webley, 2009). Furthermore, mental tax accounting was tested by Duggan (2016) and Muehlbacher and Kirchler (2013), where they found a positive relationship with tax compliance.

Thus, this study defines mental tax accounting as a process whereby the VAT received is segregated from the business funds and kept in a separate account, which will be remitted to the tax authority as at when due. Mental tax accounting was adapted as an independent variable for the study and four items from Duggan (2016) and Muehlbacher and Kirchler (2013) with some modifications were used to measure the items. A high score in the mental tax accounting variable is an indication that the SMEs are thinking alongside VAT as they plan their businesses while a low score indicates the SMEs are not thinking alongside VAT when planning their businesses, hence discourages the VAT compliance intention among SMEs in Nigeria.

The summary of the operational definition of the variables and the measurement items for the variables adapted for this study is presented in Table 3.2.

Table 3.2

Summary of Operational Definition and Measurement of Variables

Code	Variables	Operational Definition	Measurement Items	Source of Measurement
VCI	VAT Compliance Intention	VAT compliance intention is the degree of effort which is characterized by economic and socio-psychological factors an SME employs, in order to ease its compliance to VAT.	<ul style="list-style-type: none"> - Declare the amount to FIRS - Keep until FIRS comes for audit - Amount is small, still declare - Keep the money as part of profit - Declare the total at once 	Efebera et al. (2004), Langham et al. (2012) and Saad (2011)
AVC	Attitude towards VAT compliance	Attitude towards VAT compliance is the way and manner SME act towards VAT compliance which is formed based on previous knowledge and experience from the VAT remittances auditing by the government.	<ul style="list-style-type: none"> - Upset for non-remittance - Guilty for non-remittance - Pleased for remittance - High audit rate by FIRS 	Saad (2011) and Trivedi et al. (2005)
SN	Subjective Norms	Subjective norm is a social pressure put on an SME by important persons (such as, family members, peers and co-workers) to aid remittance of the VAT collections to the government as at when due.	<ul style="list-style-type: none"> - Family and peers expect i remit the VAT collections - Family and friends will approve remittance - Family and Friends will remit if faced with same situation - Co-workers will expect i remit the VAT collections 	Bobek et al. (2012) and Saad (2011)
PBC	Perceived Behavioural Control	Perceived behavioural control is the perception of SMEs on the ease and difficulty of VAT compliance as a result of detection, audit and penalty magnitude from the authority.	<ul style="list-style-type: none"> - Difficult not to comply, because of detection - Easy to remit, because of penalty - Detection and audit is high - Easy to comply, even without penalty - I can still not remit, even with penalty and detection 	Efebera et al. (2004) and Langham et al. (2011)

Table 3.2 (Continued)

Code	Variables	Operational Definition	Measurement Items	Source of Measurement
DP	Detection Probability	Detection probability is the process which the authorities initiate an inspection on SMEs to detect flaws or inappropriate behaviour. So as to ensure VAT compliance intention among the SMEs	<ul style="list-style-type: none"> - FIRS will know if i do not remit - Detection probability is high - FIRS would not mind, if i did not remit the VAT collections - FIRS will detect if i cheat 	Alabede (2012) and Efebera et al. (2004)
PM	Penalty Magnitude	Penalty magnitude is the extent the authority impose disciplinary measures on SME for failure to remit the VAT collections as at when due.	<ul style="list-style-type: none"> - Penalty is high - SMEs can still cheat - Penalty is low - SMEs not complying are not sanctioned 	Efebera et al. (2004) and Nyamwanza et al. (2014)
SR	SME Reputation	SME reputation is the effort taking by an SME to ensure VAT remittance to the authority, which is in line with the principles of the business, and not because of deterrent measures.	<ul style="list-style-type: none"> - Reputation of my SMEs will tarnish for non-remittance. - In line with my business principles to comply - A tarnished SME affects business - I remit VAT collections because of reputation and not deterrent measures. 	Efebera et al. (2004), Lange et al. (2011) and Verboon and Goslinga (2009)
FTS	Fairness in the Tax System	Fairness in the tax system is the perception of an SME on the way and manner it is treated by the government in terms of the cost of compliance, complexity in the tax system and issues surrounding multiple taxation	<ul style="list-style-type: none"> - Cost compliance affects my compliance intention - VAT I remit and the services from the government is not okay - VAT I remit is higher than the reward I get from government - Multiple taxation and complexity affects my compliance intention 	Alabede (2012), Efebera et al. (2004) and Verboon and Goslinga (2009)
MTA	Mental Tax Accounting	Mental tax accounting is a process whereby the SME segregates VAT received from the business funds and keep the VAT in a separate account, which will be remitted to the tax authority as at when due.	<ul style="list-style-type: none"> - VAT is not my personal money - I record VAT as customer pays - All money from sales, does not belong to me - Having separate accounts aid compliance 	Duggan (2016), Muehlbacher and Kirchner (2013)

3.6 Population and Sample of the Study

According to Saunders et al. (2009), population refers to the entire group of people, events or things of interest that the study tries to examine. The population used for this study is the SMEs operating in Nigeria but the sample for the study was restricted to SMEs in all the sectors located in Kano state, north-west Nigeria. Kano state was chosen as the sample because, it is the largest populated city in the northern Nigeria (National Population Commission, 2006). Furthermore, there are a total of 72,838 SMEs in Nigeria and Kano state has 8,286 registered SMEs, representing 11.8% of the total SMEs in Nigeria and 53.8% of the total SMEs in the north-west, Nigeria (SMEDAN, 2013). (Refer to Appendix G for the full list of SMEs in Nigeria as categorized by state).

In addition to the report by SMEDAN (2013), the four major ownership of SMEs by economic sector (Education services, wholesale/retail, manufacturing and food/accommodation) are well represented in Kano state. Similarly, Kano state is a centre of industrial and commercial activities for decades with a large number of SMEs that has attracted people of different ethnic and religious background (Kano state investors' handbook, 2013). Hence, the sample derived from the population can be relatively representative. That is, the SMEs in Kano share similar features with SMEs from other parts of Nigeria. Hence, the results from Kano can be generalized to cover SMEs in Nigeria (Sokoto & Abdullahi, 2013). Lastly, most of the SMEs in Nigeria have one or more businesses in Kano state (Hilman & Gorondutse, 2013).

3.7 Sample Size and Sampling Technique

Zikmund et al. (2013) described sample size as a sub-set or some part of the larger population of the study. In the same vein, sample size is important in most studies as it is practically impossible for research that investigates large number of elements to collect data, test or examine every element (Sekaran & Bougie, 2010). The sample size for this study is 382 SMEs. This is obtained from the sampling formula by Dillman (2007) as cited in Aminu (2015) and confirmed from Krejcie and Morgan (1970) table for determining sample size.

The sample size is calculated thus:

$$n = \frac{(N)(p)(1-p)}{(N-1)\left(\frac{B}{C}\right)^2 + (p)(1-p)}$$

Where:

n = completed sample size needed

N = size of population

p = proportion expected to answer a certain way (50% or 0.5 which is most conservative)

B = acceptable level of sampling error (0.05)

C = Z statistic associate with confidence interval 1.96 = 95% confidence level

$$n = \frac{(72,838)(0.5)(1 - 0.5)}{(72,838 - 1)\left(\frac{0.05}{1.96}\right)^2 + (0.5)(1 - 0.5)} = 382.19$$

However, studies have shown that in order to obtain enough data, sample size is increased by many researchers to compensate for non-response (Sekaran & Bougie, 2010). Specifically, Adomi, Ayo and Nakpodia (2007) revealed that people are reluctant to complete questionnaires in Nigeria. Accordingly, the sample size of this study was increased to 500 or by 31% (118) to overcome the problem of likely non-response rate. The sample size for this study was in line with the suggestion of Bartlett, Kotrlik and Higgins (2001). The study suggested that, the sample size can be increased by a figure greater or equal to 30%. Thus, this study increased its sample size by 31%.

In addition, the sample of the study was selected using the cluster random sampling technique. According to Saunders et al. (2009), cluster random sampling involves selection of samples through several stages before the final sample elements are reached. For the purpose of this study, the technique was applied in two stages. In the first stage, the six industrial areas (Bompai, Sharada phase I, Sharada phase II, Challawa, Tokarawa and Kawaji) were the six clusters, while in the second and final stage, samples were selected randomly from each cluster based on the respective sample size (Sekaran & Bougie, 2010) as shown in Table 3.3. Thus, this study adopted proportionate sampling to ensure that sufficient number of respondents were selected based on the list of SMEs as provided by SMEDAN north-west, Nigeria to represent each industrial area (Sekaran & Bougie, 2010). The sample frame is presented in Table 3.3.

Table 3.3
Sample Frame

S/N	SMEs Location by Industrial Area	SMEs Population by Industrial Area	Proportionate Sample for each Industrial Area
1	Sharada Phase I	1608	97
2.	Sharada Phase II	1332	80

3.	Kawaji	1472	89
4.	Bompai	1442	87
5.	Challawa	1414	85
6.	Tokarawa	1018	62
	Total	8,286	500

3.8 Pre-test and Pilot Study

The purpose of the pilot study is to test the adequacy of the survey instrument as well as test the validity and reliability of the instrument. According to Sekaran and Bougie (2010), validity measures the extent to which an instrument is measureable, while the reliability measures the extent to which an instrument is free from error, consistent and stable across various items of the scale. In addition, the pilot study will give a glimpse of the real conditions and also highlight some ambiguous and difficult questions so that it can be dropped or amended and improve the clarity of the instruments for better understanding.

At the first stage, a pre-test was conducted through the inputs of experts in the field of VAT and research methodology in Nigeria and also the staff of the FIRS were involved to the content validation process. After this first validation process, the questionnaire was amended in accordance with the suggestions by the expert. The suggestions include rewording and recoding of some items used in the study. Based on the feedback from the pilot study questions and the experts on VAT compliance behaviour, some items were reworded and recoded. The pilot study was conducted to get feedback that will be used to enhance the procedures of the main data collection.

The pilot study was conducted for three weeks (23rd March 2017 – 12th April 2017). A total of 40 questionnaires were administered to selected SMEs in Kano state, north-west, Nigeria. The questionnaires were administered in excess to take care of the issues surrounding non-response (Salkind, 2007). Out of the 40 questionnaires, 35 were completed and returned. Five of the returned questionnaires were not properly completed, thus removed from the analysis. Therefore, a total of 30 questionnaires were used for further analysis. This is in line with the recommendation of Bartlett et al. (2001) that the sample size for pilot starts from 15-30 respondents.

This study used the Cronbach's alpha to test the reliability of measures and also the internal consistency of the measurement items. Cronbach's alpha was used because it is widely recommended for social science research (Hair, Black, Babin, & Anderson, 2010; Sekaran & Bougie, 2010). As posited by Hair et al. (2010) a Cronbach's alpha coefficient of at least .70 is considered sufficient and acceptable. Therefore, the results of the Cronbach's alpha after amending the questionnaire by way of dropping unnecessary questions and rescaling other questions are presented in Table 3.4.

Table 3.4
Pilot Study Reliability Result

Variable	Items	Cronbach's Alpha
VCI	5	.784
AVC	4	.738
SN	4	.716
PBC	5	.849
DP	4	.739
PM	4	.705
SR	4	.716
FTS	4	.845
MTA	4	.738

3.9 Data Collection Instruments and Procedures

3.9.1 Instruments

This study made use of primary data and the data were sourced from the SMEs in Nigeria through administration of questionnaires. Questionnaires are found to be more appropriate for the study due to its advantages over other methods of data collection, in terms of better and straight-forward generation of statistics, such as coding, tabulation and analysis (Sekaran & Bougie, 2010). In addendum, most people are more familiar with questionnaires; hence, they are more comfortable responding to questionnaires than participating in an interview (Alabede, 2012). The questionnaires distributed for this study were accompanied by a cover letter, which assures confidentiality of the respondents, and may encourage them to provide sensitive information compared to interview (Aminu, 2015).

Questionnaires are classified into open and closed-ended. The close-ended questionnaires have many check boxes for respondents to complete, while open-ended questionnaires have a number of questions that are open for respondents to comment (Saunders et al., 2009). The close-ended questionnaire is among the reliable data collection instruments widely used. It helps the respondents to make choices quickly and it is easy for the researcher to code the information for further analysis (Sekaran & Bougie, 2010). Close-ended questionnaires are found to be more appropriate for study like this and also due to the advantages it has compared to other methods of data collection, in terms of better and

straight-forward generation of statistics, such as coding, tabulation and analysis (Sekaran & Bougie, 2010). Hence, this study employed the closed-ended questionnaire.

3.9.2 Procedures

The data collection process started with an introductory letter from OYA Graduate School of Business, Universiti Utara Malaysia (UUM) on the 8th March, 2017. The researcher arrived in Nigeria from Malaysia on the 18th March, 2017 and conducted the full survey from 21st March – 30th May, 2017. Firstly, the research engaged the services of the staff of FIRS north-east in Bauchi state and experts in the field of VAT and research methodology for the content validation process. After that, the questionnaire was amended in accordance with the suggestions by the experts and staff of the FIRS. This process lasted for 2 weeks (21st March – 4th April, 2017).

Next in the data collection process was a visit to SMEDAN north-west office in Kano state, Nigeria. The researcher explained the purpose of the visit with the aid of an introductory letter from UUM and sought the cooperation of SMEDAN to enhance and ensure full coverage of the data collection. In addition 12 research assistants were appointed and trained by the researcher with the officers of SMEDAN in attendance. As a way to encourage and ensure a thorough work from the research assistants, the researcher paid a token as honorarium (allowance) to encourage the research assistants. Hence, the research assistants did a great job and the distribution of the questionnaires lasted for 3 days (16 – 18 April, 2017). As at 23rd May 2017, a total of 175 questionnaires were retrieved from the respondents by the research assistants and additional days were given for follow up of the late respondents. By 30th May, 2017, an additional 213

questionnaires were collected from the respondents by the research assistants. The summary of the data collection process is presented in Figure 3.2.

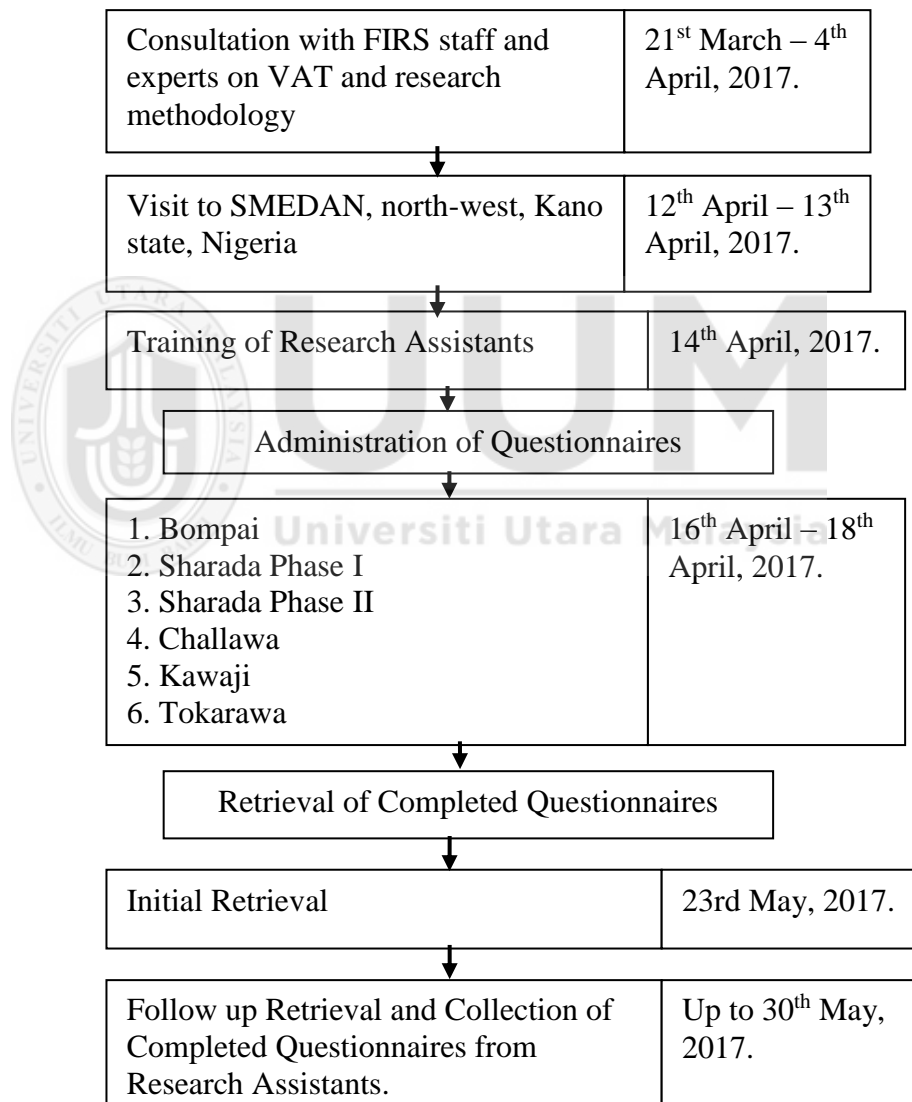


Figure 3.2

Procedure for Data Collection

3.10 Data Analysis Techniques

Method of data analysis is the procedure and statistical tools by which researchers analyze data, test research hypotheses and subsequently refine theories. This study employed descriptive statistics, correlation analysis and multiple regression analysis using the Statistical Package for Social science (SPSS) version 23. The SPSS was first developed in the 1960s with the aim of analyzing quantitative data (Bryman & Cramer, 2001). They further added that time is saved when using SPSS, because it enables the user to analyze quantitative data very fast. Therefore, the data to be collected for this study was subjected to data analysis using the SPSS version 23.

3.10.1 Descriptive Statistics

Descriptive statistics is often used to describe phenomena of interest (Sekaran & Bougie, 2010). Similarly, descriptive statistics is used to describe and compare demographics (Saunders et al., 2009) Descriptive information is analyzed statistically in terms of how frequent certain phenomenon of interest occurs (i.e., frequency), the average score or central tendency (i.e., mean) and the extent of variability (i.e., standard deviation) (Saunders et al., 2009). As posited by Sekaran (2006), frequency is a statistical term that shows numbers are repeated twice or more in a data set and the frequency of the variables are listed in a table called the frequency distribution table.

According to Sekaran and Bougie (2010), mean which is sometimes referred as arithmetic mean is the average of all numbers. That is, the quantity is obtained by

summing two or more variables and divides by the number of the variable. And lastly, standard deviation is a measure that is used to quantify the amount of variation in a given set of values (Saunders et al., 2009). Thus, this study applied descriptive analysis to ascertain the mean, standard deviation, maximum and minimum of the entire sample and the variables that are applied in the study.

3.10.2 Reliability Analysis

This study used the Cronbach's alpha to test the reliability of measures and also to test the internal consistency of the measurement items. Cronbach's alpha was used because it is widely recommended for social science research (Hair et al., 2010; Sekaran & Bougie, 2010). Furthermore, Cronbach's alpha was commonly used in testing the internal consistency of items in compliance studies (Duggan, 2016; Efebera et al., 2004; Yesim Helhel & Varshalomidze, 2015).

The reliability test for this study was conducted three times. The pilot study was the first test carried out on the data collected from the respondents and the test gave information about the internal consistency of the measurement items in the construct. This information resulted in amending the instrument prior the main study. The second reliability test was conducted after the data for the main study were collected prior factor analysis while the third and last test came after the factor analysis (construct validity). Thus, the reliability of the measures of the study was based on the result of the final test.

As posited by Hair et al. (2010) a Cronbach's alpha coefficient of at least .70 is considered sufficient and acceptable. However, George and Mallery (2003) provided a

rule of thumb for rating Cronbach's alpha coefficient as follows: $>.90$ (excellent); $>.80$ (good); $>.70$ (acceptable); $>.60$ (questionable); $>.50$ (poor) and $<.50$ (unacceptable). Therefore, the interpretation of the result of reliability test in this study was guided by this rule of thumb.

3.10.3 Factor Analysis

As posited by Hair et al. (2010), factor analysis is a statistical tool that is used to combine items into a smaller set of new composite dimensions in order to create dimensions that make up the original variables. The study identified two basic types of factor analysis, namely; Confirmatory Factor Analysis (CFA) and Exploratory Factor Analysis (EFA). Since the instruments adapted were developed and used in international studies, the EFA is the appropriate technique applied to this study to evaluate the construct validity of the instruments in Nigeria's environment. The EFA was also applied in the study conducted by Alabede (2012).

To successful conduct an EFA, the procedures recommended in DeCoster (1998) was followed by the researcher for this study. Firstly, the assumptions (which is similar to the assumptions of multiple regression analysis) underlying the application of EFA were evaluated. Secondly, the items of each principal construct were submitted to EFA using IBM SPSS statistics 23. Thirdly, the Kaiser- Meyer-Olkin Measure of Sampling Adequacy (KMO) and Bartlett's Test of Sphericity were examined to ensure they are within the limit as suggested by Arkkelin (2014), Hair et al. (2010) and Meyers, Gamst, and Guarino (2006). Furthermore, the anti-image correlation coefficient, communality and the total explained variance for the factors extracted were also reviewed to ensure a

minimum criterion of factor analysis is met. Finally, factors rotation was also examined to determine the factor loadings of each component in the analysis. For the purpose of the factors rotation, this study used the varimax approach. This approach was adopted because DeCoster (1998) described it as the best orthogonal rotation and Hair et al. (2010) opined that maximum possible simplification can be achieved with varimax.

Thus, the results for this study are interpreted using the rule of thumb as provided Arkkelin (2014); Hair et al. (2010); Meyers et al. (2006) which states that the Kaiser – Meyer- Olkin (KMO) should be greater than 0.60 ($>.60$); the Barlett’s test of Sphericity should be significant at $p < 0.05$; communality should be greater than 0.50 ($>.50$); the total variance should explained at least .60 and anti-image correlation coefficient should not be less than 50%. The result of the analysis is presented in chapter four of the study.

3.10.4 Correlation Analysis

This study used correlation to establish the strength of the relationship between the variables of the study. The strength of the relationship between variables of this study will be established at a statistically significant level of ($p < .01$) and ($p < .05$) and the interpretation of the strength of the relationship is interpreted using the rule of thumb provided in Meyer et al. (2006) in which correlation coefficients of 0.5, 0.3, and 0.1 are regarded as strong, moderate and weak effect, respectively.

3.10.5 Multiple Regression Analysis

The multiple regression analysis explains the relationship between two or more independent variables and one dependent variable (Cohen, Cohen, West, & Aiken, 2013).

According to Sekaran and Bougie (2010), multiple regression analysis has been used severally in the field of research where two or more independent variables are used on a dependent variable. In the same vein, Tabachnick and Fidell (2007) posited that for a multiple regression analysis to be performed, at least two independent variables are required. Thus, this study has eight independent variables, hence, qualifies for multiple regression analysis.

Furthermore, to avoid a biased statistical result in a multiple regression, there are certain assumptions that should be met (Meyers et al., 2006). The fundamental assumptions of multiple regression as stated by Pallant (2007) and applied by this study include; sample size, normality, linearity and Multicollinearity. Therefore, in interpreting the regression results, the adjusted R^2 and the weight of the contribution of each independent variable were evaluated as recommended in Hair et al. (2010).

3.11 Summary of the Chapter

This chapter introduced the methodological approach for the research work. The research framework as derived from various empirical studies of VAT compliance intention among SMEs. Eight hypotheses were formulated in line with the research framework, research questions and objectives. The population of the study, sample size and sampling technique were discussed. The approach for the research was quantitative through the use of questionnaire, and to collect the data, a four-part questionnaire was designed and administered to the respondents with the help of research assistants at SMEDAN. The data collected were analyzed statistically using descriptive statistics, correlation analysis,

reliability analysis, factor analysis and multiple regression analysis. The results of the various statistical analyses carried out on the data are provided in the next chapter.



CHAPTER FOUR

RESULTS AND FINDINGS

4.1 Introduction

This chapter contains the overall findings of the study which are based on the statistical techniques that were discussed in chapter three. These techniques were used to test the hypothesis developed to investigate the relationship between the independent variables (AVC, SN, PBC, DP, PM, SR, FTS and MTA) and dependent variable (VCI), as described in the research framework, which is in line with the research objectives. Basically, IBM SPSS statistics 23 was employed for data analysis and interpretations were based on the descriptive statistics, reliability, factor loading, Pearson correlation coefficient and multiple regression analysis.

4.2 Response Rate

Following the suggestions by Sekaran and Bougie (2010) on the compensation for non-response, the sample size for this study was increased from 382 to 500 as captured in chapter three of the study. In line with that, 500 questionnaires were distributed to SMEs in Kano, north-west, Nigeria through research assistants in SMEDAN. SMEDAN is an agency that manages and controls the affairs of SMEs in Nigeria.

As a result of the cooperation from the research assistants in SMEDAN, out of the 500 questionnaires distributed to the SMEs in Kano, north-west, Nigeria, 388 questionnaires were retrieved as at 30th May, 2017, representing a response rate of 78%. However, out of

the 388 questionnaires retrieved, only 373 questionnaires were used for further analysis, making a valid response rate of 75%. The 15 questionnaires were rejected on the basis of incomplete and wrong filing. The distribution of questionnaires among SMEs is presented in Table 4.1.

Table 4. 1
Distribution of Questionnaires and Response Rate

Questionnaire	Frequency	Percentage (%)
Administered	500	100
Retrieved	388	78
Badly Completed	15	3
Usable	373	75

Based on the rating on response rate as stated by Baruch and Holtom (2008) and Sink and Mvududu (2010), 50% response rate is adequate, 60% is regarded as good, while response rate of 70% is very good. Therefore, it can be concluded that a response rate of 75% of the questionnaire forms administered or 98% of sample size recorded in this study was adequate for analysis and reporting.

4.3 Non-Response Bias Test

Studies have shown that, non-response bias exists when a researcher is unable to get responses from the respondents as a result of difficulties in contacting the respondents or the respondents declined to participate in the survey (Berg, 2005). In the same vein, the occurrence of non-response bias will affect the generalization of the sample to the population of the study (Groves, 2006). Therefore, it is important to assess this kind of error in a survey study as this, before moving to the main study.

As a result of the above, the study divided the respondents into two groups, namely; early respondents (completed questionnaire returned on or before 23rd May, 2017) and late

respondents (completed questionnaire between 24th May – 30th May, 2017) and conducted a Levene's test for equality of variance to determine whether there is difference in variation between the early and late respondents. As suggested by Arkkelin (2014), the Levene's test for equality of variance provides a test of the t-test assumptions, that the variance in the two groups are similar. In the same vein, the Levene's test significant level of greater than .01, .05 or .10 buttressed that the data did not violate the assumption of equal variance and non-response bias does not exist. Thus, this study reveals that the mean score and standard deviation for early response and late response are not quite different. For instance, the mean score for fairness in the tax system for early responses is 3.61 while that of late responses is 3.68 indicating a variation of 0.07 between the two groups. This implies that the differences between the two are quite not different. The summary of the group statistics for the early and late respondents is presented in Table 4.2.

Table 4.2
Group Statistics for the Early and Late Respondents

	Response	N	Mean	Std. Deviation	p-Value
VCI	Early Responses	167	3.41	.914	.752
	Late Responses	206	3.63	.949	
AVC	Early Responses	167	3.69	.939	.720
	Late Responses	206	3.81	.875	
SN	Early Responses	167	3.63	.778	.508
	Late Responses	206	3.69	.824	
PBC	Early Responses	167	3.49	.934	.410
	Late Responses	206	3.55	1.01	
DP	Early Responses	167	3.19	1.03	.350
	Late Responses	206	3.43	.961	
PM	Early Responses	167	3.13	1.00	.738
	Late Responses	206	3.23	.988	
SR	Early Responses	167	3.78	.879	.908
	Late Responses	206	3.93	.886	
FTS	Early Responses	167	3.61	.847	.031
	Late Responses	206	3.68	.970	
MTA	Early Responses	167	3.50	1.09	.011
	Late Responses	206	3.70	.928	

Table 4.2 equally indicates the corresponding p-values (refer to Appendix C for the full results of the Levene's test of equality test). As suggested by Arkkelin (2014), if the result under Levene's test for equality of variance indicates a significant value larger than .01, .05 or .10, then the data did not violate the assumption of equal variance. The significant value for all the variables in this study (Table 4.2) is greater than .01 ($p > .01$). SME reputation has the greatest p-value of .908 while mental tax accounting has the lowest significant value of .011. Since significant values of all the variables are larger than .01 ($p > .01$), which suggests that the differences between early responses and late responses are not significant. Therefore, the assumption of equal variance between the two groups was not violated; hence, it can be assumed fairly that there is no issue of non-response bias in the data for the study.

4.4 Initial Data Examination, Screening and Preparation

Screening, editing and preparation of initial data are essential steps before any further multivariate analysis. It is also important to conduct data screening to identify any potential violation of the basic assumptions related to the application of multivariate techniques (Hair et al., 2010). In addition, preliminary data examination enables the researcher to gain a deeper understanding of the data collected. Therefore, missing data and outliers are checked and treated accordingly.

4.4.1 Analysis of Missing Data

Due to the adverse effects of missing data in analysis, the researcher visited SMEDAN north-west office at Kano and trained the research assistants on the importance of the information needed as well as the full cooperation and participation of the SMEs. In

addition, incentives (allowances) were given as a means of motivating the research assistants. Upon receiving the completed questionnaires, the researcher went through to ensure that all questions were answered correctly. That is, to ensure that the boxes are checked. As stated by Hair et al. (2010), mean can be used to replaced missing values that are less than 5% per item. In this study, missing value was not recorded, which the study gives credit to the effort put together by the researcher, SMEDAN and the research assistants.

4.4.2 Analysis of Outliers

Investigating outliers is an essential step so that statistical results cannot be misleading. As posited by Hair et al. (2010), outliers may occur in a random distribution, due to measurement error. Hence, outliers should be detected for deletion. Similarly, outliers distort statistics which may lead to unreliable results from a sample. Thus, Mahalanobis D^2 can be employed to treat the outliers (Tabachnick & Fidell, 2007). In addition, if univariate outliers are treated, it will not certainly take care of multivariate outliers. However, treating multivariate outliers take care of univariate outliers (Hair et al., 2010).

In aligning with the opinion of Tabachnick and Fidell (2007), this study employed Mahalanobis D^2 to treat multivariate outliers.. Hence, Mahalanobis D^2 was calculated using linear regression methods in IBM SPSS v23, followed by the computation of the Chi-square value. Given that 38 items were used in this study, no outlier case was detected as the highest value of Mahalanobis D^2 is 33.86036. therefore, as suggested by Tabachnick and Fidell (2007) in SPSS (Probability_{MD²}<.001) all the items in the study had 0, which translates no traces of outlier.

4.5 Respondents Profile

The demographic information of the respondents contains a number of aspects relating to the firms. Information such as, gender of the respondent, marital status, age, position in the business, business annual turnover, whether they make use of tax agents in remitting the VAT collections as well as other information as presented in Table 4.4. Firstly, the result indicates that about 61.4% of the respondents were male and 38.6% were females. In the same vein, about 61.1% of the respondents are above 30 years of age, while 38.9% are within 15 to 30 years of age.

The option on the position in the business of the respondents indicate that 55%, representing more than half of the SMEs in Nigeria are managed by the owners, which is in line with the findings of Aminu (2015). Furthermore, the descriptive analysis revealed that 86.6% of the respondents do not make use of tax agents, while only 13.4% make use of tax agents. This implies that, most SMEs remit VAT collections without the assistance of a tax agent. The comprehensive detail of demographic information is presented in Table 4.3.

Table 4. 3
Demographic Information of the Respondents

Category	Frequency (n=373)	Percentage (Total=100)
Gender		
Male	229	61.4
Female	144	38.6
Marital Status		
Single	100	26.8
Married	266	71.3
Others	7	1.9
Age		
Below 15 years	0	0
15 years – 30 years	145	38.9
Above 30 years	228	61.1

Table 4.3 (Continued)

Category	Frequency (n=373)	Percentage (Total=100)
Position in the Business		
Owner/manager	205	55.0
Accountant/finance officer	53	14.2
Admin/clerical officer	94	25.2
Others	21	5.6
How long Business Established		
Less than 1 year	10	2.7
1 year – 5 years	156	41.8
6 years – 10 years	117	31.4
Above 10 years	90	24.1
Business Annual Turnover		
Less than RM 5m	124	33.2
RM 5m – RM 50m	178	47.8
RM 51m – RM 200m	62	16.6
RM 201m – RM 500m	9	2.4
Employees in the Company		
10 persons – 49 persons	289	77.5
50 persons – 99 persons	54	14.5
100 persons – 149 persons	22	5.9
149 persons - 199 persons	8	2.1
Nature of Business		
Educational services	60	16.1
Wholesale/retail	83	22.3
Manufacturing	129	34.6
Accommodation and food	69	18.5
Others	8	8.6
Business Location		
Bompai	63	16.9
Sharada phase I	74	19.8
Sharada phase II	59	15.8
Challawa	63	16.9
Kawaji	62	16.6
Tokarawa	52	14.0
Tax Agent		
Yes	50	13.4
No	323	86.6

4.6 Factor Analysis and Reliability Test

Factor analysis was conducted in this study in order to test the construct validity of the research. The responses obtained from the respondents were submitted for test using IBM SPSS Statistics 23. The KMO value for all the variables was 0.787, Bartlett's test of

Sphericity for all the variables is significant (.000) and the eight factors extracted explained 66.46% of the variance in the model for this study. Thus, the outcomes met the minimum criterion and the items are suitable for factor analysis according to the rule of thumb as stated by Arkkelin (2014), Hair et al. (2010), Meyers et al. (2006).

An EFA was conducted on the items with orthogonal rotation (varimax). The eight factors extracted using varimax rotation is in line with the eight factors theorized in this study. MTA loaded clearly on component 1, AVC loaded on component 2, PBC loaded clearly on component 3. So also, FTS, DP, PM, SR and SN loaded on component 4, 5, 6, 7 and 8 respectively. Furthermore, the anti-image correlation coefficient of each item of the variables ranging from .570 to .877 (above .50) and the items loaded in value between .501 and .854. In the same vein, the lowest communality for all items was .524 after deleting two items (SR4 and FTS3) that had communality of less than 0.5 (see Appendix D for factor analysis before deletion of items).

In addition, the responses from the dependent variable (VAT compliance intention) were submitted for test using IBM SPSS Statistics 23. The KMO value was 0.651, Bartlett's test of Sphericity is significant (.000) which suggests the variable is appropriate for factor analysis. The factor analysis on the items of VAT compliance intention yielded one factor just as theorized in this study. This factor accounted for 67.24% of the variance with all the four items loading above .60 while the lowest value of communality and anti-image correlation coefficient (after deleting VCI2) were .516 and .596 respectively. Therefore, the results from the independent and dependent variables met the criteria set for factor analysis and all the items are deemed qualified for correlation and multiple regression

analysis. The detailed results on factor loadings after rotation, Anti-image and communalities for each component are shown in Table 4.4 for independent variables and the dependent variable is shown in Table 4.5.

Table 4. 4
Factor Analysis (Independent Variables)

Component	Loading	Anti-image	Communality	Total Variance
MTA				11.25%
MTA1	.806	.791	.708	
MTA2	.829	.801	.779	
MTA3	.794	.821	.711	
MTA4	.692	.792	.654	
AVC				10.84%
AVC1	.789	.771	.725	
AVC2	.815	.763	.751	
AVC3	.759	.846	.741	
AVC4	.639	.804	.633	
PBC				9.91%
PBC1	.501	.877	.524	
PBC2	.813	.825	.711	
PBC3	.802	.790	.736	
PBC4	.673	.834	.566	
FTS				8.47%
FTS1	.732	.818	.664	
FTS2	.787	.785	.690	
FTS4	.590	.820	.510	
DP				7.00%
DP2	.723	.632	.605	
DP3	.806	.588	.716	
DP4	.721	.570	.682	
PM				6.94%
PM2	.558	.711	.556	
PM3	.854	.590	.777	
PM4	.809	.597	.750	
SR				6.88%
SR1	.592	.876	.656	
SR2	.778	.770	.686	
SR3	.579	.788	.635	
SN				5.17%
SN1	.518	.877	.524	
SN3	.714	.706	.670	
SN4	.528	.847	.583	
KMO: .787			Total Variance Explained	66.46%
Bartlett's test of Sphericity: .000				

Note: SR4 and FTS3 were deleted in factor analysis because the communalities are .369 and .411 respectively.

Table 4. 5

Factor Analysis (Dependent Variable)

Component	Loading	Anti-image	Communality	Total Variance
VCI				67.24%
VCI1	.920	.596	.847	
VCI3	.789	.790	.622	
VCI4	.902	.600	.813	
VCI5	.638	.779	.516	
KMO: .651				
Bartlett's test of Sphericity: .000				

Note: VCI2 was deleted in factor analysis because the Anti-image is .281.

In the same vein, the reliability of the measures used in this study was established by testing the internal consistency of the measurement items using Cronbach's alpha. For this purpose, the reliability of the items measuring each of the variables was tested twice. The first test was done before factor analysis was carried out. The purpose of the first assessment was to confirm the reliability of the items on each variable. While the second test was to confirm the reliability of the items extracted for each variable after construct validity.

From the first assessment, a number of items (VCI1, VCI3, VCI5, SN2, PBC5 and PM1) were recoded to get positive values in factor analysis. The recoding of these items were essential so as to address the issues surrounding central tendency with low responses in either the strongly agree or strongly disagree. Recoding has been applied in a number of tax studies (see, for example, Abdul-Jabbar, 2009; Alabede, 2012; Ibrahim, 2013; Torgler, 2011). In addition, the Cronbach's alpha for each construct was conducted to ensure the items are reliable to measure the construct. However, SN2, PBC5, PM1, AVC3 and DP1 were deleted from the analysis so that the Cronbach's alpha coefficients of the constructs can be greater than the minimum criterion of .70.

Furthermore, the Cronbach's alpha coefficients were checked after factor analysis to ensure that, the coefficient of each construct or component is .70 and above. Thus, the result of the reliability test of the variables reveals that the Cronbach's alpha coefficients are all greater than the .70, which is recommended as acceptable level (Hair et al., 2010; Pallant, 2007). The result of the reliability test is presented in Table 4.6.

Table 4. 6
Reliability Test

Variable	Before EFA		After EFA	
	Items	Alpha	Items	Alpha
VCI	5	.721	4	.830
AVC	4	.809	4	.809
SN	3	.703	3	.703
PBC	4	.754	4	.754
DP	3	.701	3	.701
PM	3	.711	3	.711
SR	4	.709	3	.712
FTS	4	.719	3	.709
MTA	4	.835	4	.835

Note: 1. EFA = Exploratory Factor Analysis

2. Items dropped during reliability test before factor analysis include; SN2, PBC5, DP1 and PM1

3. Items dropped in the course of factor analysis include; SR4, FTS3 and VCI2

4.7 Descriptive Analysis

Descriptive statistics are often used to describe the basic characteristics of the data. This study analyzed the mean, standard deviation, maximum and minimum value of each variable through descriptive statistics in IBM SPSS statistics 23 (refer to Appendix E for full results of respondents). The results of the descriptive statistics are shown in Table 4.7 to 4.15.

4.7.1 VAT Compliance Intention

A VAT scenario was used and the options to measure the VAT compliance intention of SMEs are VCI1, VCI3, VCI4 and VCI5. The result reveals that the mean scores range

from 2.46 to 3.53 and standard deviation from 1.273 to 1.345. The average mean scores and standard deviation for the four items used to measure VCI is 2.75 and .610, respectively. These descriptive statistics suggest that, only a smaller percentage of the SMEs in Nigeria will declare the additional VAT if they are faced with similar scenario. Hence, this study concludes that, at the time this data are collected for the study, the compliance intention among SMEs in Nigeria is relatively low. The descriptive statistics on VAT compliance intention is presented in Table 4.7.

Table 4. 7

Descriptive Statistics on VAT Compliance Intention (n=373)

Code	Statement	Min	Max	Mean	Std. Dev.
VCI	VAT Compliance Intention	1	5	2.75	.610
VCI1	Audu should declare the ₦100,000 to FIRS because the amount is large	1	5	2.46	1.345
VCI3	Despite the ₦100,000 is small, Audu should declare the amount to FIRS	1	5	2.54	1.339
VCI4	Audu should not keep the ₦100,000 as part of his profit	1	5	3.53	1.273
VCI5	Audu should make effort to declare the total of ₦400,000 at once	1	5	2.49	1.329

Note: Item VCI2 was dropped in the descriptive statistics as the item was rejected by factor analysis.

4.7.2 Attitude towards VAT Compliance

The attitude towards VAT compliance, which was measured using AVC1, AVC2 and AVC4. The mean scores range from 3.73 to 3.82 and the standard deviation from 1.078 to 1.150. The results revealed most SMEs believe that they will be guilty if they do not remit the VAT collections to the government; hence, it is an indication that the SMEs are likely to have positive attitude towards VAT compliance. On a whole, these descriptive statistics suggest that, positive attitude towards VAT compliance influences compliance intention among SMEs in Nigeria. The descriptive statistics on attitude towards VAT compliance is presented in Table 4.8.

Table 4. 8

Descriptive Statistics on Attitude towards VAT Compliance (n=373)

Code	Statement	Min	Max	Mean	Std. Dev.
ATT	Attitude towards VAT Compliance	1	5	3.76	0.896
AVC1	I would be upset if I don't remit the VAT collections to the government	1	5	3.73	1.150
AVC2	I would feel guilty if I don't remit the VAT collections to the government	1	5	3.82	1.120
AVC3	I would feel pleased if I remit the VAT collections to the government	1	5	3.77	1.144
AVC4	The likelihood of being audited by FIRS is very high, so I will not be pleased if I don't comply	1	5	3.73	1.078

4.7.3 Subjective Norms

The expectations from family, peers and co-workers to VAT compliance intention were measured using SN1, SN3 and SN4. The mean scores range from 3.56 to 3.74 and standard deviation from 1.042 to 1.152. The results of this analysis indicate that most of the SMEs believe that family and peers would remit the VAT collections if they are faced with similar situation. Thus, these descriptive statistics suggest that, the expectation from, family, peers and co-workers have an influence on VAT compliance intention among SMEs in Nigeria. The descriptive statistics on subjective norms is presented in Table 4.9.

Table 4. 9

Descriptive Statistics on Subjective Norms (n=373)

Code	Statement	Min	Max	Mean	Std. Dev.
SN	Subjective Norms	1	5	3.66	0.803
SN1	My family and peers will expect me to report the VAT collections to FIRS as at when due	1	5	3.69	1.056
SN3	My family and peers would remit the VAT collections if they are faced with similar situation	1	5	3.74	1.042
SN4	My co-workers would expect me to remit the VAT collections to the government	1	5	3.56	1.152

4.7.4 Perceived Behavioural Control

The ease and difficulty of complying by the SMEs was measured using PBC1, PBC2, PBC3 and PBC4. The results revealed that most of the SMEs feel that, it is easy to remit

the VAT collections because of the magnitude of detection from the authority. Hence, perceived detection will make it easy for the SMEs to comply. On the whole, the mean scores range from 3.48 to 3.66 and the standard deviation from 1.141 to 1.219. Thus, these descriptive statistics suggest that, the presence of perceived detection will make it easy for the SMEs to comply, thus, perceived behavioural control has a role to VAT compliance intention of SMEs in Nigeria. The descriptive statistics on perceived behavioural control is presented in Table 4.10.

Table 4. 10
Descriptive Statistics on Perceived Behavioural Control (n=373)

Code	Statement	Min	Max	Mean	Std. Dev.
PBC	Perceived Behavioural Control	1	5	3.55	.897
PBC1	Due to the effectiveness of detection by the authorities, it is difficult not to comply	1	5	3.66	1.141
PBC2	With the magnitude of detection, it is easy for me to remit the VAT collections to the authority	1	5	3.60	1.150
PBC3	There is threat of detection and audit	1	5	3.48	1.219
PBC4	It is easy for me to remit the VAT collections to the authority, even without penalty	1	5	3.49	1.215

4.7.5 Detection Probability

The relationship between detection probability and VAT compliance was measured using DP2, DP3 and DP4 and the results revealed that most SMEs are of the opinion that the probability of detection is high. Hence, the SMEs are likely to comply if the chance of getting caught for non-remittance is high. Overall, the mean score range from 3.24 to 3.41 and standard deviation from 1.240 to 1.335, which suggests the probability of detection has a role in VAT compliance intention of SMEs in Nigeria. The descriptive statistics on detection probability is presented in Table 4.11.

Table 4. 11

Descriptive Statistics on Detection Probability (n=373)

Code	Statement	Min	Max	Mean	Std. Dev.
DP	Detection Probability	1	5	3.32	0.997
DP2	The probability of detection is very high	1	5	3.41	1.240
DP3	The FIRS will mind if I did not remit the VAT collections	1	5	3.24	1.335
DP4	I cannot cheat because the authorities will detect the cheating	1	5	3.31	1.307

4.7.6 Penalty Magnitude

The views of the SMEs on penalty magnitude were measured using PM2, PM3 and PM4. Specifically, the mean scores range from 3.09 to 3.27 and standard deviation from 1.253 to 1.278. The results of this analysis indicate that the majority of the SMEs believe that the penalty for non-compliance is very low. These descriptive statistics suggest that the penalty impose by the government does not necessarily discourage non-compliance among SMEs in Nigeria. The descriptive statistics on penalty magnitude is presented in Table 4.12.

Table 4. 12

Descriptive Statistics on Penalty Magnitude (n=373)

Code	Statement	Min	Max	Mean	Std. Dev.
PM	Penalty Magnitude	1	5	3.19	0.994
PM2	SMEs can still cheat even with the presence of penalty	1	5	3.09	1.253
PM3	The penalty of non-compliance is very low. That is, business as usual	1	5	3.27	1.272
PM4	Other SMEs that are not complying are not being sanctioned by the government	1	5	3.20	1.278

4.7.7 SME Reputation

The mean scores for SME reputation range from 3.80 to 3.90 and standard deviation from 1.106 to 1.113. The results of this analysis indicate that the majority of the SMEs believe that SME reputation has a role in VAT compliance intention. Hence, the SMEs are likely to comply if they feel their reputation will have adverse effect as a result of non-

compliance behaviour. These descriptive statistics suggest that the reputation of the SMEs as well as the success of the business will be affected if the SMEs do not remit the VAT collections to the government. The descriptive statistics on SME reputation is presented in Table 4.13.

Table 4. 13
Descriptive Statistics on SME Reputation (n=373)

Code	Statement	Min	Max	Mean	Std. Dev.
SR	SME Reputation	1	5	3.86	0.885
SR1	The reputation of my business will tarnish if I don't remit the VAT collections to FIRS	1	5	3.80	1.113
SR2	It is in line with my business principles to report the VAT collections to FIRS	1	5	3.90	1.106
SR3	A tarnished reputation for not reporting the VAT collections will affect the success of my business	1	5	3.89	1.113

Note: Item SR4 was dropped in the descriptive statistics as the item was rejected by factor analysis.

4.7.8 Fairness in the Tax System

The views of the respondents on the fairness of the tax system were measured using FTS1, FTS2 and FT4. Specifically, the results reveal that most SMEs are of the opinion that the cost of compliance, multiple taxation and complexity of the tax system affect their compliance intention. The mean scores range from 3.57 to 3.71 and standard deviation from 1.121 to 1.180. The results of this analysis indicate that the majority of the SMEs believe that the government is not fair to SMEs in Nigeria. Hence, the SMEs are likely to comply if they perceived the tax system is fair through reducing the cost of doing business, multiple taxation and cost of compliance. These descriptive statistics suggest that fairness in the tax system influences VAT compliance intention. The descriptive statistics on fairness in the tax system is presented in Table 4.14.

Table 4. 14

Descriptive Statistics on Fairness in the Tax System (n=373)

Code	Statement	Min	Max	Mean	Std. Dev.
FTS	Fairness in the Tax System	1	5	3.65	0.916
FTS1	The cost of compliance is high as compare to bigger businesses, hence, affects my compliance intention	1	5	3.57	1.156
FTS2	The amount of VAT I remit and the service I get from the government is not okay	1	5	3.66	1.180
FTS4	The cost of compliance, multiple taxation and complexity of the tax system affect my compliance intention.	1	5	3.71	1.121

Note: Item FTS3 was dropped in the descriptive statistics as the item was rejected by factor analysis.

4.7.9 Mental Tax Accounting

The mean scores for mental tax accounting range from 3.51 to 3.71 and standard deviation from 1.104 to 1.296. The results of this analysis indicate that the majority of the SMEs believe that VAT is money which they collect from their customers and remit to the government. Hence, it is an indication that the SMEs are thinking alongside VAT as they plan their businesses. These descriptive statistics suggest that mental tax accounting (mental segregation of VAT from the proceeds of the business) will influence VAT compliance intention among SMES. The descriptive statistics on mental tax accounting is presented in Table 4.15.

Table 4. 15

Descriptive Statistics on Mental Tax Accounting (n=373)

Code	Statement	Min	Max	Mean	Std. Dev.
MTA	Mental Tax Accounting	1	5	3.61	1.008
MTA1	I never consider VAT as my personal money	1	5	3.61	1.296
MTA2	I record the amount I will remit as VAT instantly after a customer pays me	1	5	3.60	1.246
MTA3	All the money I earn from my business should not belong to me	1	5	3.51	1.276
MTA4	Having separate accounts for my business income, expenses and VAT, promotes the success of my business	1	5	3.71	1.104

4.8 Analysis of Open-Ended Questions

The Part D of the questionnaire for this study was on comments and suggestion of VAT if any. Out of the 373 questionnaire usable for this study, only 62 of the respondents made comments and suggestion. From the comments and suggestion, this study grouped the comments in accordance to the variables for this study. The results show that 38 respondents, representing 61% are of the opinion that fairness in the tax system influences VAT compliance intention among SMEs. In addition, the respondents feel that, fairness in the tax system can strengthen their attitude towards VAT compliance and have separate accounts for VAT collections (mental tax accounting).

Similarly, 11 respondents, representing 18% exhibited non-compliance behaviour, because, they do not see the need to remit the VAT collections to authority, and they only remit when they make profit. This means, that the intention to comply is low. Because, VAT is an indirect tax that consumers pay as they purchase VATable goods and service. So, whether profit is made or not, VAT need to be remitted as long as transactions of VATable goods and services have been offered. Conclusively, factors like, penalty, threshold, detection were mentioned in the open-ended response. The respondents suggested ways the government can improve in detection and penalty, through e-payment of VAT remittance and stiff penalties for defaulters. Introduction of threshold and influence from family members and co-workers too were highlighted as part of the comments and recommendations. Thus, the summary of the result is presented in Table 4.16.

Table 4. 16
Results of Open-Ended Questions

Category/Variable	n	Percentage (%)	Sample Comments
Fairness in the Tax System	38	61	<ul style="list-style-type: none"> - Fairness in the tax system can go a long way to make SMEs exclude VAT collections from the business proceeds. - The cost of compliance is high. It affects my compliance -The cost of compliance is in the increase for SMEs - It is possible for SMEs to operate different account for VAT, if the government is fair to the SMEs
Non-compliance behaviour	11	18	<ul style="list-style-type: none"> - The VAT system is not friendly to SMEs. There is no need to remit the VAT collections - There is no benefit for remitting VAT - To some extent, I do not see the use in remitting VAT collections to the government -Actually, I only remit VAT when I make a high profit - there is no benefit for remitting VAT
Penalty	5	8	<ul style="list-style-type: none"> - The government should introduce stiff penalties to the SMEs that are not remitting the VAT collections - FIRS should intensify effort on VAT collections and penalty should be imposed on defaulters for non-remittance - VAT remittance should be made compulsory and those defaulters should be dealt with.
Threshold	3	5	<ul style="list-style-type: none"> - Remitting VAT will be possible if not all SMEs are made to remit - The government should introduce threshold so that not all SMEs should remit.
Detection	3	5	<ul style="list-style-type: none"> - The government should put a mechanism to detect fraud and non-remittance - The government implements e-payment of VAT collections. Thus, reduces fraud
Subjective Norm	2	3	<ul style="list-style-type: none"> - My staff will expect me to remit the VAT collection, because, it is a policy in my organization. - The expectations from my family members on VAT remittance is high
Total	62	100	

4.9 Assumptions for Parametric Analysis

The relationship between VAT compliance intention and its predictors are examined by multiple regression analysis and correlation analysis. As stated by Pallant (2007), the

fundamental assumptions of multiple regression should be considered in analyzing the data. As stated by Meyers et al. (2006) the violation of one or more of these assumptions may cause statistical results to be biased or distorted. Thus, the fundamental assumptions considered in this study are discussed in the subsequent headings.

4.9.1 Sample Size

As opined by Bartlett et al. (2001) and Pallant (2007), the main issue about sample size, lies with generalization of result, because the result on a small sample might lack the power for generalization. Tabachnick and Fidell (2007) proposed a formula for calculating sample size for multiple regression ($N > 50 + 8M$, where M is the number of the independent variables). Based on the formula, the sample size for this study should be greater than 114 ($N > 114$). Going by the number of usable questionnaires of 373 (see Table 4.1); the sample size is greater than 114 and thus considered meeting the requirements for multiple regression analysis.

4.9.2 Normality Test

As posited by Pallant (2007), data are normally distributed around the dependent variable scores in a multiple regression technique. In addition, the study stated that normality can be assessed by graphical and statistical methods. Under the graphical methods, normality is assessed by a normal probability plot (Hair et al., 2010). The study added that the data distribution is assumed to follow the diagonal line. Furthermore, Meyers et al. (2006) submitted that the normality can be assessed through a statistical method by skewness and kurtosis measures, which should not exceed ± 1 and ± 3 , respectively. However, Hair et al. (2010) stated that the commonly used critical values are ± 1.96 and ± 2.58 for .05

significant level and .01 significant level respectively. Hence, the study of Hair et al. (2010) suggest skewness and kurtosis measures, which should not exceed ± 1 and ± 3 , respectively.

Kurtosis values and skewness of all the variables in this study lay within the recommended maximum limit of ± 3 and ± 1 as suggested by Hair et al. (2010). Similarly, the normality of data distribution was assessed using a normal probability plot (refer to Appendix F for multiple regression SPSS output) which shows that, the data distribution for the regression fairly followed the diagonal line. On the basis of the results of the statistical and graphical assessments of the data distribution, therefore, the normality of the data for this study was fairly assumed. The result for normality test is presented in Table 4.17.

Table 4. 17
Test for Normality (n=373)

Variable	Mean	Std Deviation	Skewness	Kurtosis
VCI	2.75	.610	.589	.025
AVC	3.76	.896	-.647	.088
SN	3.66	.803	-.310	-.464
PBC	3.55	.897	-.485	.153
DP	3.32	.997	-.427	-.406
PM	3.19	.994	-.081	-.712
SR	3.86	.885	-.980	1.304
FTS	3.65	.916	-.782	-.490
MTA	3.61	1.008	-.743	.027

4.9.3 Linearity

Meyers et al. (2006) stated that, multiple regression assumes that the variables in a statistical analysis are related in a linear manner to each other. However, a mild deviation from linearity is not an issue in multiple regression analysis (Williams, Grajales, & Kurkiewicz, 2013). The use of scatter plot is the most commonly applied technique in

assessing the linearity between two variables (Hair et al., 2010; Meyers et al., 2006). Specifically, the variables are related linearly if they produced an oval shape. Alternatively, Pearson correlation coefficients can also be used to assess the degree of linear association between two variables (Hair et al., 2010; Meyers et al., 2006).

This study assessed the linear relationship between the variables through a matrix scatter plot and Pearson correlation coefficients, which produced an oval shape as recommended (refer to Appendix F for multiple regression SPSS output). In the same vein, the correlation coefficients (see Table 4.19) show a fairly linear association between the variables.

4.9.4 Multicollinearity

According to Williams et al. (2013), Multicollinearity is the presence of correlation existing between the predictors (independent variables). The presence of Multicollinearity in analysis may affect predictive strength of an independent variable by the extent to which it relates to other independent variables (Hair et al., 2010). Meyers et al. (2006) added that a correlation of $>.90$ is an indication that a Multicollinearity problem exists. Furthermore, the study added that Multicollinearity can be assessed through the tolerance and variance inflation factor (VIF). Generally, the rule of thumb is that a Multicollinearity with a tolerance value within the threshold of $.10$, which translates to a VIF of 10 , is acceptable (Hair et al., 2010).

Thus, this study assessed the Multicollinearity using tolerance and VIF values as well as Pearson correlation coefficients. As presented in Table 4.18, the values of VIF for each

independent variable were within the threshold of 10, which corresponds to a tolerance value of .10; as such, Multicollinearity did not pose an issue among the variables used in the study. In addition, the results of the correlation analysis reported in Table 4.19 indicate that correlation coefficients between variables were below .90.

Table 4. 18
Test for Multicollinearity on Independent Variables

Variable	Tolerance	Variance Inflation Factor (VIF)
AVC	.744	1.343
SN	.614	1.629
PBC	.724	1.380
DP	.897	1.115
PM	.866	1.155
SR	.652	1.534
FTS	.704	1.420
MTA	.712	1.404

4.10 Correlation Analysis

Pearson correlation was conducted to measure the relationship between all the variables in the study and the interpretation of the results is in accordance to the rule of thumb as provided by Meyers et al. (2006) and discussed in chapter three. The results of the correlation between the variables are significant at five percent (5%) and one percent (1%) significance level is presented in Table 4.19.

As seen in Table 4.18, fairness in the tax system (FTS) and subjective norms (SN) have a moderate relationship on VAT compliance intention (VIC) with a correlation coefficient of 0.343 and 0.354, respectively. While the strength of the correlation for mental tax accounting (MTA), SME reputation (SR), detection probability (DP), penalty magnitude (PM), attitude towards VAT compliance (AVC) and perceived behavioural control (PBC)

is weak with a correlation coefficient of 0.216, 0.295, 0.158, 0.122, 0.247 and 0.295, respectively.

The result of inter-correlation among the independent variables shows that, MTA has a stronger relationship with SR ($r=.518$; $p<.01$) and a lowest relationship with PM ($r=.006$) than other independent variables. In the same vein, SR has a stronger relationship with FTS ($r=.398$; $p<.01$), which is the highest and a lowest relationship with DP ($r=.062$) than other independent variables.

Furthermore, FTS has the highest correlation with SN ($r=.406$; $p<.01$), and a lowest relationship with PM (.100) than other independent variables.

DP has a stronger correlation with PM ($r=.313$; $p<.01$), while AVC has a stronger correlation with SN ($r=.458$; $p<.01$), FTS ($r=.303$; $p<.01$), SR($r=.276$; $p<.01$) and MTA ($r=.228$; $p<.01$). In addition, SN has a stronger relationship with PBC ($r=.481$), SR ($r=.237$). Therefore, the overall, result of the correlation analysis suggests that there is a fair degree of relationships among the variables of the study.

Table 4. 19
Correlation Matrix of the Variables

		VCI	AVC	SN	PBC	DP	PM	SR	FTS	MTA
VCI	Pearson Correlation Sig. (2-tailed)	1								
AVC	Pearson Correlation Sig. (2-tailed)	.247** .000	1							
SN	Pearson Correlation Sig. (2-tailed)	.354** .000	.458** .000	1						
PBC	Pearson Correlation Sig. (2-tailed)	.295** .000	.298** .000	.481** .000	1					
DP	Pearson Correlation Sig. (2-tailed)	.158** .002	.083 .109	.067 .199	.007 .897	1				
PM	Pearson Correlation Sig. (2-tailed)	.122* .019	.130* .012	.181** .000	.032 .535	.313** .000	1			
SR	Pearson Correlation Sig. (2-tailed)	.295** .000	.276** .000	.237** .000	.217** .000	.062 .230	.077 .137	1		
FTS	Pearson Correlation Sig. (2-tailed)	.343** .000	.303** .000	.406** .000	.362** .000	.042 .423	.100 .054	.398** .000	1	
MTA	Pearson Correlation Sig. (2-tailed)	.216** .000	.228** .000	.181** .000	.129* .013	.062 .234	.006 .903	.518** .000	.294** .000	1

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

4.11 Multiple Regression Analysis

The result of the multiple regression analysis indicates the effect of the independent variables over the dependent variable. The adjusted R^2 value of 0.206 shows that the independent variables for this study contribute 20.60% in predicting VAT compliance intention among SMEs in Nigeria. This suggests that, the model applied in this study has a significant ability to predict the compliance intention of SMEs in Nigeria by 20.06%. The result also describes the extent to which SMEs perceived the VAT compliance intention. The summary of the regression model is indicated in Table 4.20.

Table 4. 20
Summary of the Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.472 ^a	.223	.206	.836	2.164

a) Predictors: AVC, SN, PBC, DP, PM, SR, FTS, MTA

b) Dependent variable: VCI

On the contribution of each variable, five variables made a significant contribution to the VAT compliance intention model, while the contributions of other variables were marginal. Among the variables that made significant contributions, is a new variable introduced by this study (SME reputation). Specifically, the regression result indicates that subjective norms ($\beta=.175$; $p<.01$), perceived behavioural control ($\beta=.112$; $p<.05$), detection probability ($\beta=.119$; $p<.05$), SME reputation ($\beta=.0129$; $p<.05$) and fairness in the tax system ($\beta=.150$; $p<.01$), were significant, and that, they also relate to VAT compliance intention positively. Thus, the regression result is an indication that these variables (SME reputation, fairness in the tax system, detection probability, subjective

norms and perceived behavioural control) are important in understanding VAT compliance intention among SMEs in Nigeria. The weight of the regression for the variables is presented in Table 4.21.

Table 4. 21
Coefficients or Weights of the Regression

	Unstandardized Coefficients		Standardized Coefficients		p-Value
	B	Std. Error	Beta	t	
AVC	.031	.056	.030	.556	.579
SN	.205	.069	.175	2.972	.003**
PBC	.108	.052	.112	2.066	.040*
DP	.112	.046	.119	2.449	.015*
PM	.019	.047	.020	.399	.690
SR	.137	.061	.129	2.257	.025*
FTS	.154	.056	.150	2.733	.007**
MTA	.042	.051	.045	.819	.413

Note: Significant levels are: ** p<.01; * p<.05 (** & * indicates 1% and 5% respectively)

4.12 Testing of Hypotheses

The hypotheses developed on the relationship between the independent variables and dependent variable as depicted in the research framework in chapter three were tested in this section.

Hypothesis 1 stated that there is a significant relationship between attitude towards VAT compliance and VAT compliance among SMEs in Nigeria. The statistical results as presented in Table 4.20 indicate that the attitude of SMEs towards VAT compliance was not significant with VAT compliance intention in Nigeria. However, the variable has a beta value of .030, which translates that attitude towards VAT compliance among SMEs in Nigeria only enhances the VAT compliance intention, holding other variables constant positively by 3.0% (Beta coefficient).

Hypothesis 2 stated that there is a significant relationship between subjective norm and VAT compliance intention among SMEs in Nigeria. The statistical results as presented in Table 4.20 indicate that subjective norm was significant with VAT compliance intention among SMEs in Nigeria. Furthermore, the result also suggests that a unit improvement in subjective norms, holding other variables constant will enhance the VAT compliance intention of SMEs positively by 17.5% (Beta coefficient).

Hypothesis 3 stated that there is a significant relationship between perceived behavioural control and VAT compliance intention among SMEs in Nigeria. The statistical results as presented in Table 4.20 indicate that perceived behavioural control was significant with VAT compliance intention among SMEs in Nigeria. Furthermore, the result also suggests that a unit improvement in perceived behavioural control, holding other variables constant will enhance the VAT compliance intention of SMEs positively by 11.2% (Beta coefficient).

Hypothesis 4 stated that there is a significant relationship between detection probability and VAT compliance intention among SMEs in Nigeria. The statistical results as presented in Table 4.20 indicate that the perception of detection probability by the SMEs in Nigeria on VAT compliance intention was significant. Furthermore, the result also suggests that a unit improvement in detection probability holding other variables constant will enhance the VAT compliance intention of SMEs positively by 11.9% (Beta coefficient).

Hypothesis 5 stated that there is a significant relationship between penalty magnitude and VAT compliance intention among SMEs in Nigeria. The statistical results as presented in Table 4.20 indicate that the perception of penalty magnitude by the SMEs in Nigeria was not significant on VAT compliance intention. However, the variable has a beta value of .020, which translates that penalty magnitude only enhances the VAT compliance intention among SMEs in Nigeria, holding other variables constant positively by 2.0% (Beta coefficient).

Hypothesis 6 stated that there is a significant relationship between SME reputation and VAT compliance intention among SMEs in Nigeria. The statistical evidence documented in Table 4.20 indicates that the impact of SME reputation on VAT compliance intention among SMEs in Nigeria was significant. Furthermore, the result also suggests that a unit improvement in SME reputation holding other variables constant will enhance the VAT compliance intention of SMEs positively by 12.9% (Beta coefficient).

Hypothesis 7 stated that there is a significant relationship between fairness in the tax system and VAT compliance intention among SMEs in Nigeria. The statistical results as presented in Table 4.20 indicate that the perception of fairness in the tax system by the SMEs in Nigeria was significant with VAT compliance intention. In addition, the result also suggests that a unit improvement in fairness in the tax system holding other variables constant will enhance the VAT compliance intention of SMEs positively by 15.0% (Beta coefficient).

Hypothesis 8 stated that there is a significant relationship between mental tax accounting and VAT compliance intention among SMEs in Nigeria. The statistical evidence documented in Table 4.20 indicates that the impact of mental tax accounting on VAT compliance intention among SMEs in Nigeria was not significant. However, the variable has a beta value of .045, which translates that mental tax accounting only enhances the VAT compliance intention among SMEs in Nigeria, holding other variables constant positively by 4.5% (Beta coefficient).

Therefore, the summary of the findings for this study is presented in Table 4.22

Table 4. 22

Summary of Findings

Hypotheses	Statement	Findings
H1	There is a significant relationship between attitude towards VAT compliance and VAT compliance among SMEs in Nigeria	Rejected
H2	There is a significant relationship between subjective norms and VAT compliance intention among SMEs in Nigeria	Accepted
H3	There is a significant relationship between perceived behavioural control and VAT compliance intention among SMEs in Nigeria	Accepted
H4	There is a significant relationship between detection probability and VAT compliance intention among SMEs in Nigeria	Accepted
H5	There is a significant relationship between penalty magnitude and VAT compliance intention among SMEs in Nigeria	Rejected
H6	There is a significant relationship between SME reputation and VAT compliance intention among SMEs in Nigeria	Accepted
H7	There is a significant relationship between fairness in the tax system and VAT compliance intention among SMEs in Nigeria	Accepted
H8	There is a significant relationship between mental tax accounting and VAT compliance intention among SMEs in Nigeria	Rejected

4.13 Summary

This chapter discussed the detailed results of various analyses conducted on the data collected. Firstly, the reliability analysis of the variables after the pilot study and rescaling of the questions scored above .70. The factor analysis of all the variables used in this study was also conducted to test the construct validity for the research. In addition, descriptive analysis was conducted, where SME reputation had an overall high mean score and penalty magnitude had an overall low mean score, translating a positive and negative perception by SMEs in Nigeria respectively. Lastly, the correlation and multiple regression analysis were also conducted; where five variables (Subjective Norms, Perceived Behavioural Control, Detection Probability, SME Reputation and Fairness in the Tax System) were positively significant while three variables (Attitude towards VAT compliance, Penalty Magnitude and Mental Tax Accounting) were insignificant to VAT compliance intention among SMEs in Nigeria. The discussion and conclusion on these findings are presented in chapter five.

CHAPTER FIVE

DISCUSSION, IMPLICATIONS AND CONCLUSION

5.1 Introduction

The empirical findings which are reported in chapter four are based on the objectives reported in chapter one of this study. Thus, this chapter discusses the findings based on the direct relationship between the independent variables (attitude towards VAT compliance, subjective norms, perceived behavioural control, detection probability, penalty magnitude, SME reputation, fairness in the tax system and mental tax accounting) and VAT compliance intention among SMEs in Nigeria. In addition, the chapter provides the theoretical and practical contributions with the implication of the findings. The research limitations are highlighted in this chapter as well as suggestions for future study were offered. Finally, the chapter wraps with a conclusion of the study.

5.2 Discussion

This study primarily identified the factors influencing VAT compliance intention among SMEs in Nigeria. Based on the specific objectives of the study, this study identified the level of the SMEs' VAT compliance intention in Nigeria. Secondly, the study investigated the direct relationship between attitude towards VAT compliance, subjective norms, perceived behavioural control and VAT compliance intention among SMEs in Nigeria. Thirdly, the study examined the relationship between detection probability, penalty magnitude, SME reputation and VAT compliance intention among SMEs in Nigeria. Lastly, the study investigated the relationship between mental tax accounting,

fairness in the tax system and VAT compliance intention among SMEs in Nigeria. Therefore, the discussion on the findings based on the sequential flow of the objectives is highlighted in the subsequent sub-sections.

5.2.1 The Level of the SMEs' VAT Compliance Intention in Nigeria

The first objective of this study is to identify the level of the SMEs' VAT compliance intention in Nigeria. Thus, this study defines VAT compliance intention as the degree of effort which is characterized by economic and socio-psychological factors an SME employs, in order to ease its compliance to VAT. These economic and socio-psychological factors that are significant in this study are; subjective norms, perceived behavioural control, detection probability, SME reputation and fairness in the tax system. The findings of this study is in line with the findings of Swistak (2016), who opined that applying both economic and socio-psychological factors will be more effective in tax compliance, as none of the factors will work effectively in isolation.

Furthermore, the descriptive statistics output of VCI as presented in Appendix E indicates that only 26% of the respondents agreed that Audu should not keep the ₦100,000 as part of his profit (VCI4). Similarly only 27.3% of the respondents are of the opinion that, Audu should declare the ₦100,000 to FIRS because the amount is large (VCI1). In addition, the average mean scores and standard deviation for the four items used to measure VCI is 2.75 and .610, respectively (see Table 4.7). Thus, the descriptive statistics suggest that, only a smaller percentage of the SMEs in Nigeria will declare the additional VAT if they are faced with similar scenario.

In addition, the open-ended questions analysed in Table 4.16, indicates that, 11 respondents, representing 18% feel they should not remit the VAT collections to the tax authority, because they do not see the need to remit the VAT collections, and part of the 18% feel VAT should only be remitted when profit is made. Conclusively, the low level of VAT compliance intention identified in this study is in line with Mukaila (personal communication on 4th April, 2017). Where he opined that, the non-compliance rate is higher among the SMEs. Hence, this study concludes that, at the time this data are collected for the study, the compliance intention among SMEs in Nigeria is relatively low.

5.2.2 The influence of Attitude towards VAT Compliance, Subjective Norms and Perceived Behavioural Control on VAT Compliance Intention among SMEs in Nigeria.

The second objective of this study is to investigate the influence of attitude towards VAT compliance, subjective norms and perceived behavioural control on VAT compliance intention among SMEs in Nigeria. Thus, three hypotheses; H1, H2, and H3 were formulated to represent a significant relationship between attitude towards VAT compliance, subjective norms, perceived behavioural control and VAT compliance intention among SMEs in Nigeria. Thus, the subsequent sub-sections provide discussion on the direct relationship, starting with attitude towards VAT compliance.

5.2.2.1 Attitude towards VAT Compliance and VAT Compliance Intention among SMEs

This study defines attitude towards VAT compliance as the way and manner SME act towards VAT compliance which is formed based on previous knowledge and experience

from the government in terms of auditing, penalty or incentive so as to increase VAT compliance among SMEs. On the relationship between attitude towards VAT compliance and VAT compliance intention, the study's regression result does not support hypothesis (H1) which states that, there is a significant relationship between attitude towards VAT compliance and VAT compliance intention among SMEs in Nigeria. This means that, at the point of conducting this study, VAT compliance intention is not influenced by the attitude of the SMEs.

Although, this result does not support some previous studies (Benk et al., 2011; Helhel & Ahmed, 2014; Langham et al., 2012; Nkwe, 2013; Terry et al., 1999). However, the result is equally not surprising considering that some of the responses through the open ended section of this study opined that, their (SMEs) attitude towards VAT compliance can only be positive if the government is seen to be fair to the SMEs. Hence, further studies may consider fairness in the tax system as a mediator for attitude towards VAT compliance and VAT compliance intention among SMEs in Nigeria. Furthermore, Trivedi et al. (2005) and Bird (2010) are of the opinion that attitude towards compliance can be fine-tuned if the taxpayer perceive the tax system as fair. That is, people's perceptions of whether they are being treated fairly affect their attitude towards compliance.

This finding can also be attributed to the empirical study conducted by Oladipupo and Izedonmi (2013), where they opined that attitude towards VAT in Nigeria is less important to predict the compliance behaviour taxpayers. The study further stated that, evidence of lack of enforcement and follow up for non-compliance by the authorities

contributes to delay in remittances of tax collection, which in turn gives a lesser concern on guilt for not remitting the tax collections as at when due by the taxpayers. Similarly, Alabede et al. (2011) opined that attitude is positively related to compliance in Nigeria if moderated with financial condition. That is, for attitude to be positively significant on tax compliance in Nigeria, other factors such as, the financial conditions of the taxpayers need to be considered. Hence, attitude is seen to have an indirect effect on tax compliance in Nigeria.

Based on the findings of this study and other studies conducted in Nigeria on the attitudes of taxpayers and SMEs as regards tax and VAT compliance, it is unlikely for SMEs to exhibit a positive attitude towards compliance. Because, they feel other factors should be considered to fine-tune the relationship between attitudes and compliance.

5.2.2.2 Subjective Norms and VAT Compliance Intention among SMEs

This study defines subjective norm as a social pressure put on an SME by important persons (such as, family members, peers and co-workers) to aid remittance of the VAT collections to the government as at when due. The study also characterized subjective norms by the expectations from family, peers and co-workers. Under the relationship between subjective norms and VAT compliance intention among SMEs, the regression result provides evidence in support of hypothesis (H2), indicating that there is a significant relationship between subjective norms and VAT compliance intention among SMEs in Nigeria. This means that, as the expectation from family members, peers and

co-workers increases, the VAT compliance intention among SMEs in Nigeria also increases.

The finding relates well with the views of past studies that posit a positive significant relationship between subjective norms and VAT compliance (Huda et al., 2012; Miniard & Cohen, 1981; Trivedi et al., 2005; White et al., 2009). That is, a social pressure put on an individual can influence the performance of certain behaviour. This result also agrees with the comments from the respondents. For instance, a respondent stated that, “The expectations from my family members are high on VAT remittance, so I remit the VAT collections as at when due”. Another respondent stated that, “My staff will expect, because, it is a rule and every staff must abide by that rule”. This means that, VAT compliance intention among SMEs in Nigeria can be greatly influenced by the social pressure from family members, peers and co-workers, which in turn increases compliance rate among the SMEs.

In addition, the t-value for subjective norms (2.972; $p < .01$) is the strongest among the three constructs of the TPB as presented in chapter four of this study. This finding is consistent with the study conducted by Kautonen et al. (2015), where they stated subjective norm as the strongest predictor among the three constructs of the TPB (attitude, subjective norm and perceived behavioural control). With the assertions, this study suggests that the government should encourage those SMEs that perceive VAT remittance as norm. As that will encourage their compliance status, and because the study

has proven that, subjective norm is one of the important factors to predict VAT compliance intention among SMEs in Nigeria.

5.2.2.3 Perceived Behavioural Control and VAT Compliance Intention among SMEs

This study defines perceived behavioural control as the perception of SMEs on the ease and difficulty of VAT compliance as a result of detection, audit and penalty magnitude from the authority. The hypothesis formulated based on the perceived behavioural control variable is H3 which states that there is a significant relationship between perceived behavioural control and VAT compliance intention among SMEs in Nigeria. The finding provides support for H3 as the regression result suggests that there is a positive significant relationship between perceived behavioural control and VAT compliance intention. More so, the outcome of this findings is in line with previous studies that have demonstrated a significant relationship between perceived behavioural control with VAT compliance intention (Devos, 2014; Ebimobowei & Peter, 2013; Kautonen et al., 2015; St. John et al., 2010; Terry et al., 1999).

The findings can also be attributed to the inception of the new government, who was sworn in May, 2015. The main point agenda of the new government is to ensure rule of law (detection, penalizing defaulters etc) in every aspect of governance. Through instilling discipline in the minds of Nigerians and ensuring the rule of law in every sector of the economy. Initially, most taxpayers in Nigeria prefer giving bribes to the tax officials than remitting the tax collections into the government purse (Micah et al., 2012). This means, most taxpayers in the past, find it difficult to comply, because they believe in

giving out bribes than remitting tax collections with the authority. This was not only an issue with individual taxpayers but it affected the SMEs on VAT compliance. As posited by Oladipupo and Izedonmi (2013), a number of SMEs in Nigeria do not keep record of their tax liabilities, hence, experienced difficulties on how much should be remitted to the government as VAT collections. In addition, an act of dishonesty on the registered SMEs contributes to delay or failure to remit the VAT collections as at when due.

However, with the outcome from the study, it is assumed that, the new government has started achieving its aim on the rule of law in every sector, thus, the level of detection, audit and inspection, have increased which makes it easier for the SMEs to comply and remit the VAT collections to the authority as at when due. This finding further provides evidence that, SMEs have acknowledged that the probability of detection is very high (refer to Table 4.10). Hence, the suggestion of this finding is that the government should maintain the level of detection, audit and inspection, as perceive behavioural control is counted as one of the important predictors to VAT compliance intention among SMEs in Nigeria.

5.2.3 The Impact of Detection Probability, Penalty Magnitude and SME Reputation on VAT compliance intention among SMEs in Nigeria

The third objective of this study is to investigate the impact of detection probability, penalty magnitude and SME reputation on VAT compliance intention among SMEs in Nigeria. Thus, three hypotheses; H4, H5, and H6 were formulated to represent a significant relationship between detection probability, penalty magnitude, SME reputation and VAT compliance intention among SMEs in Nigeria. Thus, the subsequent

sub-sections provide discussion on the direct relationship, starting with detection probability.

5.2.3.1 Detection Probability and VAT Compliance Intention among SMEs

Detection probability is defined by this study as the process which the authorities initiate an inspection on SMEs to detect flaws or inappropriate behaviour, so as to ensure VAT compliance intention among the SMEs. Detection probability is characterized by this study as an effort put in by the authorities to ensure the SMEs comply with VAT obligations in Nigeria. H4 hypothesized that detection probability is significantly related to VAT compliance intention among SMEs in Nigeria. As predicted, the relationship between detection probability and VAT compliance intention was found to be positively significant. This means that, an increase in the detection probability will result to an increase in VAT compliance intention among SMEs in Nigeria. The finding relates well with the view of past studies that posit a positive significant relationship between detection probability and compliance (Cowell, 2002; Mendoza & Wielhouwer, 2015; Modugu & Anyaduba, 2014; Musau, 2015; Naibei et al., 2011; Nyamwanza et al., 2014).

This finding also confirms the principle assumption of the deterrence theory, which states that, an increase in detection probability will decrease the economic rewards of the criminal activity (Allingham & Sandmo, 1974; Becker, 1968). That is, an increase in detection probability decreases non-compliance behaviour, in turn, increases the compliance behaviour. In addition to the principle of deterrence theory, if the probability of detection is high, it would deter individuals from committing crimes (Anyaduba et al.,

2014), which is consistent with Gangl et al. (2014), that detection probability has been an effective deterrent measure drawing up the notion of the deterrence theory. In the same vein, Alabede et al. (2011) opined that detection probability is key in compliance, because, it serves as an entry point for penalty on non-compliance behaviour. That is, the tax authorities (FIRS) would identify those SMEs not remitting the VAT collections through audit and detection which will influence the SMEs to comply for fear of getting caught and sanctioned.

Another reason can be attributed to the new government that came in May, 2015 as discussed previously. The new government ushered a new chairman of the FIRS, who was sworn into office in December, 2015. The new FIRS boss served the Lagos State Board of Internal Revenue as the Executive Chairman for ten years, where he made a remarkable and outstanding record of increasing the tax collection of the state to about 500% within the period he served. This is no doubt that, the current administration appointed him as the Executive Chairman of FIRS. In addition to the effort of the FIRS boss, A. Mukaila (personal communication on 4th April, 2017) posited that on assumption to duty, the FIRS boss initiated a tax drive to back up his promise on ensuring increased tax collections through detection, audit and inspection. This will likely encourage and coerce taxpayer and VATable persons to pay and remit the VAT collections to the authority. Which will influence VAT compliance intention among SMEs in Nigeria?

Therefore, this study suggests that, the government should sustain the audit and detection strategies in relation to VAT compliance, as that will influence the SMEs to remit the

VAT collections to the authority. Since detection probability is an important factor to VAT compliance intention among SMEs in Nigeria.

5.2.3.2 Penalty Magnitude and VAT Compliance Intention among SMEs

The fifth hypothesis formulated in line with objective two of the study is H5 which states that, there is a significant relationship between penalty magnitude and VAT compliance intention among SMEs in Nigeria. This study defines penalty magnitude as the extent the authority impose disciplinary measures on SME for failure to remit the VAT collections as at when due. In addition, the study characterized penalty magnitude through the use of power from the authorities to ensure compliance among SMEs. Contrary to the prediction by this study, the finding was not supported; it revealed that penalty magnitude does not influence the VAT compliance intention of SMEs in Nigeria. That is, the penalty imposed by the authority on SMEs for non-compliance is not sufficient to influence the compliance intention among SMEs in Nigeria.

Although, this result does not support some previous studies that posit a positive relationship between penalty and compliance among SMEs (Biabani & Ramezani, 2011; Ebimobowei & Peter, 2013; Modugu & Anyaduba, 2014; Musau, 2015; Nyamwanza et al., 2014). However, it is consistent with the study that found no relationship between penalty magnitude and tax (VAT inclusive) compliance intention (Ahmed, 2013; Anyaduba et al., 2012; Faridy et al., 2014; Okoye et al., 2012). Consistent with Okoye et al. (2012), this result shows that penalty magnitude has lesser effect on tax compliance intention among SMEs in Nigeria. That is, even with the Nigerian tax law on penalties

for non-compliance; however, these penalties are not strictly pursued to the latter. In addition, Micah et al. (2012) stated that penalty which is one of the mechanisms for Nigerian tax enforcement is identified as weak. Hence, penalty has lesser impact on VAT compliance intention among SMEs in Nigeria.

In the same vein, failure to remit the VAT collection on or before the stipulated date, would attract penalties, “a sum equal to 5% per annum (plus interest at the commercial rate) of the amount of tax remittable shall be added to the tax and the provisions of the VAT Act (as amended) relating to collection and recovery of unremitted VAT, penalty and interest shall apply” (VAT Act, 2007 p.7). In practice, as stated by Mukaila (personal communication on 4th April, 2017), the penalty for non-compliance is ₦5, 000 (USD14) each, for the defaulting month(s). This study assumes that, the penalty is too light (small) and will not affect the SMEs’ compliance intention in a significant level. Therefore, this study suggests that the government should introduce stiff penalties to enforce VAT compliance intention among SMEs in Nigeria, which is in consistent with the suggestion by Okoye et al. (2012).

5.2.3.3 SME Reputation and VAT Compliance Intention among SMEs

The sixth hypothesis formulated in line with objective two of the study is H6 which states that there is a significant relationship between SME reputation and VAT compliance intention among SMEs in Nigeria. SME reputation is defined by this study, as the perception of others on the values of an SME, characterized by how the SME relate to issues pertaining VAT remittance, which will either improve or tarnish the image of the

SME and in the long run affect the survival of the business. As predicted, the relationship between SME reputation and VAT compliance intention was found to be positively significant. This finding indicates that, as the reputation of the SME increases, it will increase the compliance intention of the SME.

Eragbhe and Omoye (2014) suggested that the opinion of others about the value of a business means a lot, hence, more empirical studies on factors influencing VAT compliance should be considered. Since studies on the relationship between SME reputation and VAT compliance intention are very rare, this study explored previous literatures and studies on SME reputation and related it to VAT compliance intention among SMEs in Nigeria. Thus, the empirical result coincides with the findings of previous studies that posit SME reputation positively influences SMEs' social responsibility (Chen et al., 2010; Deephouse & Jaskiewicz, 2013; Hilman & Gorondutse, 2013; Jurevicius, 2013; D. Lange et al., 2011; Donald Lange & Washburn, 2012; Onuoha, 2013; Terungwa, 2011).

This finding is not surprising as most of the family businesses are concerned on the cost repercussions of tax non-compliance and its effect on the family value and reputation (Chen et al., 2010; Sánchez-Marín et al, 2016). In Nigeria most of the SMEs are family owned businesses (Onuoha, 2013). Hence, for fear of causing harm to the “family name”, it may influence the SMEs to comply based on protecting their family reputation. Similarly, the deterrence theory posits that people comply so as to avoid an adverse action from an external body (Morse, 2012) That means that, deterrence can be self-

imposed as a result of reputation so as not to attract stigma from the society for non-compliance behaviour. Some prior studies have established the relationship between reputation and the deterrence theory. For instance, Morse (2012) opined that when the public assigns reputation demerits to non-compliant taxpayers and gives merits to the compliant taxpayer, then the utility of non-compliance decreases and vice versa. This means that, the perception of the public on a compliant taxpayer, increases the reputation of the taxpayer, hence, decreases the non-compliance intention of the taxpayer. For example, an SME that has a reputation in the sight of the public will comply so as to sustain the reputation of the SME. Similarly, a reputational penalty that will be applied by the public on a non-compliant taxpayer or SME for non-remittance of tax and VAT collections, is stigma (Morse, 2012). That is, the public will stigmatized an individual or SME found evading tax or non-remitting the VAT collections in the case of SMEs. Hence, an SME will comply so as to protect its image and reputation.

In addition to the findings, the descriptive statistics (see Table 4.13) conducted and reported in chapter four of this study provides strong evidence indicating that SMEs have a high perception (the highest among the variables used in the study) about their reputation influencing VAT compliance intention in Nigeria. Since SME reputation plays a significant role in VAT compliance intention among SMEs, the government should played its role in ensuring the SMEs perceive the need to sustain the compliance intention based on protecting the 'family name' (reputation) by reducing the cost of compliance and multiple taxation faced by the SMEs (Oladipupo & Izedonmi, 2013).

5.2.4 The Influence of Fairness in the tax system and Mental Tax Accounting on VAT compliance intention among SMEs in Nigeria.

The fourth objective of this study is to examine the influence of fairness in the tax system and mental tax accounting on VAT compliance intention among SMEs in Nigeria. Thus, two hypotheses; H7 and H8 were formulated to represent a significant relationship between fairness in the tax system, mental tax accounting and VAT compliance intention among SMEs in Nigeria. Thus, the subsequent sub-sections provide discussion on the direct relationship, starting with fairness in the tax system.

5.2.4.1 Relationship between Fairness in the Tax System and VAT Compliance Intention among SMEs

The seventh hypothesis formulated in line with objective three of the study is H7 which states, there is a significant relationship between fairness in the tax system and VAT compliance intention among SMEs in Nigeria. This study defines fairness in the tax system as the perception of an SME on the way and manner it is treated by the government in terms of the cost of compliance, complexity in the tax system and issues surrounding multiple taxation, so as to build a mutual relationship between the tax authorities and the SMEs. That is, the government should consider the compliance cost faced by SMEs to soften the burden by way of compensation, through cutting down the cost of compliance and multiply taxation (Oladipupo & Izedonmi, 2013). Based on the regression result reported in chapter four, fairness in the tax system is found to be positively significant to VAT compliance intention among SMEs. That means that, an increase in the perception of fairness by the SMEs, increases their VAT compliance intention.

Thus, the outcome of this findings is in line with previous studies that have demonstrated a significant relationship between fairness in the tax system with tax compliance, which can also be attributed to VAT compliance (Abdul-Razak & Adafula, 2013; Adeyeye & Otusanya, 2015; Devos, 2014; Eragbhe & Modugu, 2014; Farrar & Thorne, 2013; Saad, 2011; Torgler, 2011; Yahaya, 2015). In addition to the findings, the responses obtained from the respondents through the open ended section of this study demonstrated that, fairness in the tax system towards the SMEs can go a long way to strengthen the relationship of other variables with VAT compliance intention. That is, fairness in the tax system can serve as a predictor and also a mediating variable to strengthen the relationship of other predictors with VAT compliance intention among SMEs in Nigeria. This finding also provide support to the social exchange theory, which states that, if in the past, the SMEs are rewarded with some benefits for VAT compliance, for instance; cutting the cost of compliance and reducing the burden for compliance on SMEs, it will encourage the SMEs to comply and remit the VAT collections as at when due.

Similarly, the social exchange theory assumes a cost and benefit analysis between parties. That is, a party weighs the cost in line with the benefits of the transaction. The individual continues the relationship if the benefit outweighs the cost and vice versa. In line with the assumptions of the social exchange theory, this study assumes an increase in the perception of the SME on the fairness in the tax system will result to an increase in VAT compliance intention among SMEs. However, a decrease in the perception of the SME on the fairness in the tax system will result to a decrease in the compliance intention among

SMEs. Hence, fairness in the tax system discourages tax evasion behaviour among SMEs and improves voluntary compliance (Abdul-Razak & Adafula, 2013; Eragbhe & Omoye, 2014).

Therefore, this study suggests that, the government should be seen to be fair in relating with the SMEs because fairness in the tax system stands to be an important factor to influence VAT compliance intention among the SMEs, and also strengthen the relationship between VAT compliance intention and other independent variables, for instance, attitude towards VAT compliance and mental tax accounting, as suggested by the SMEs in the open ended question of this study.

5.2.4.2 Relationship between Mental Tax Accounting and VAT Compliance Intention among SMEs

This study defines mental tax accounting as a process whereby the VAT component is segregated from the business funds and kept in a separate account, which will be remitted to the tax authority as at when due. H8 hypothesized that mental tax accounting is significantly related to VAT compliance intention among SMEs in Nigeria. Contrary to expectations, the finding of the study did not support the previous literature, for example, Adams and Webley (2001); Ashby et al. (2009); Duggan (2016); Muehlbacher et al. (2015); Yusuf and Dansu (2013). That is, the SMEs in Nigeria opined that mental tax accounting does not influence their VAT compliance intention. Although, this result does not support some previous studies, it is consistent with the study by Webley et al. (2002). The study suggests that people do not really bother whether VAT should come from the

business collections. That is, segregating VAT collections from the business proceed has no significance on VAT compliance among SMEs.

In the same vein, the responses obtained from the respondents through the open ended section of the study demonstrated a number of explanations responsible for this finding. For instance, a respondent stated, “Fairness in the tax system towards the SMEs can go a long way to make the SMEs clearly exclude VAT collections from the proceeds of the business”. Another respondent posited that, “It is very possible for us (SMEs) to operate a number of mental accounts if the government is fair to us (SMEs). Because the cost of compliance for us (SMEs) is so high and with the recession experienced in Nigeria, one would see VAT collections as part of the business proceed”.

The assertions by some of the respondents signify that fairness in the tax system can be applied to mediate between mental tax accounting and VAT compliance intention. In the same vein, the concept of mental tax accounting is new in Nigeria context, the study assume that most of the SMEs may not fully recognize the importance of mental tax accounting to both VAT compliance and the sustainability of their SMEs. Hence, this study suggests the inclusion of mental tax accounting in the secondary and tertiary curriculum to educate the populace on mental tax accounting. In addition, the government should be fair to the SMEs in terms of cutting the cost of compliance and reducing the burden for compliance on SMEs, as that will encourage the SMEs to comply and remit the VAT collections as at when due.

As stated above on the low level of VAT compliance intention among SMEs in Nigeria, this study conducted a research on this phenomenon and from the results came up with the implications of this study, which is presented in the next section.

5.3 Implications of the Study

Government, FIRS, tax consultants, practitioners and academic researchers in the area of VAT have given much attention to the VAT compliance intention of SMEs and other variables, influencing their compliance behaviour. Based on the findings of this research work, the study has some few important implications, specifically in terms of VAT compliance intention among SMEs in Nigeria. The results of this study provide practical and theoretical. These implications are discussed in the following sub-sections.

5.3.1 Practical Implications

SMEs are considered as one of the main contributors to the VAT purse as well as the key engine for economic growth in developing countries (Faridy et al., 2014). Therefore, the government, FIRS and policymakers have to recognize that their decisions relating to SMEs have a direct impact on their VAT compliance intention. It is, however, necessary to reveal what government, FIRS and policy makers may do to improve the VAT compliance intention among SMEs in Nigeria.

Based on the findings from this study, it suggests that some changes in the government policies are necessary to improve VAT compliance intentions among SMEs in Nigeria. Firstly, the findings of the study revealed that VAT compliance among SMEs in Nigeria

may be possible with a combination of economic and socio-psychological factors. Hence, increasing the VAT compliance among SMEs in Nigeria will in the long run, increase the revenue base of the Nigerian government. Thus, the model for this study may be used to explain the complex nature of VAT compliance intention among SMEs in Nigeria.

The findings also revealed a positive relationship between fairness in the tax system and VAT compliance intention among SMEs in Nigeria. This is an indication that fairness in the tax system significantly influences VAT compliance intention in Nigeria. However, evidence from the descriptive statistics of this study revealed that SMEs had a moderate perception about fairness in the tax system (refer to Table 4.14). This suggests that policy makers must map out strategies to improve the quality of services through reducing the cost of compliance on the SMEs, tackling the issues surrounding multiple taxation and complexity.

Furthermore, mental tax accounting is not significantly related to VAT compliance intention among SMEs, but its indirect relationship cannot be overlooked. As stated by the respondents through the open ended question of this study, fairness in the tax system will go a long way to enable them operate a number of mental accounts to clearly segregate VAT collections from the business funds. This means that, fairness in the tax system will not only influence VAT compliance intention among SMEs in Nigeria, but also positively influence other variables in the VAT compliance intention model.

In addition to fairness, the SMEs responses to the open ended question suggest that, the government should provide a platform to discuss issues relating to VAT with the SMEs. Issues, such as, the government should set a threshold so that not all SMEs will be charged to remit VAT to the government. As posited by Oladipupo and Izedonmi (2013), the cost of doing business in Nigeria is high, cost of compliance and multiple taxation affect most SMEs, hence, not all businesses can remit VAT collections and still survive. Hence, the policy makers should set a threshold as practiced by most countries (for example, Malaysia, UK, USA, Togo, and Ghana among others). Similarly, the policy makers should be perceived to be fair in all dealings with the SMEs as regard VAT compliance, as that will go a long way to enable them operate a number of mental accounts to clearly segregate VAT collections from the proceeds of the business and also improve the VAT compliance intention among SMEs, which in turn, will increase the revenue base of Nigeria.

Another aspect of the findings that has policy implications is the SME reputation, which is positively significant to VAT compliance intention among SMEs in Nigeria. SME reputation is the value of the SME that is viewed by the society. Most of the respondents admitted that the reputation of their SMEs will be tarnished if they did not remit the VAT collections to the authority, because, most of the SMEs are family owned businesses. Thus, tarnished SME reputation affects the family name in the long run. Therefore, the policy makers should publish the names of SMEs that do not comply, as part of deterrent measure. This will not only encourage VAT compliance intention among SMEs, but also

increase the revenue base of Nigeria through increased VAT compliance rate as well as, serve as deterrence to defaulting SMEs.

In addition to the government agency and FIRS, the SME is not excluded from the practical implications. The SME should see remitting VAT as their obligations and norms that will improve their reputation in the sight of the community members, government and that, in the long run will ensure the success of their businesses. Evidence from the descriptive statistics is an indication that the SMEs strongly agreed that a tarnished reputation affects their business. SMEs remit not because of the penalty from the authority but a fear of their reputation tarnishing as a result of non-remitting of VAT collections to the authority.

This study also indicated that detection probability is a significant determinant of VAT compliance intention among SMEs in Nigeria. This suggests that the FIRS should sustain and improve their performance in detection, inspection and audit, as that will influence the VAT compliance intention among SMEs and also increase the revenue base of Nigeria. In addition, from the open ended question of this study, some SMEs suggest that a case of 'godfatherism' should be eradicated because, it is assumed that, some of families and friends of some FIRS staff are not sanctioned for non-compliance. Furthermore, FIRS should introduce a mechanism for efficient collection of VAT and establish a database for all SMEs, as that will enable the FIRS to locate the SMEs at their fingertips and will go a long way to ensure VAT compliance among SMEs in Nigeria.

Furthermore, two of the TPB constructs; subjective norms and perceived behavioural control were also positively significant to VAT compliance intention among SMEs in Nigeria. Subjective norm was measured on the expectations of family members, peers and co-workers on VAT compliance intention among SMEs. While perceived behavioural control was measured on the SMEs' perception about the effectiveness of detection and penalty by the authority. The policy makers should implement in total, penalties that are meant for defaulters or cheaters and be seen to encourage those SMEs that comply without pressure. This will not only ensure VAT compliance intention among the SMEs in Nigeria, but also improve the rate of VAT compliance intention as well as, increase the revenue base of the Nigerian government.

5.3.2 Theoretical Implications

This study has given a substantial effort to identify factors influencing VAT compliance intention among SMEs in Nigeria. Prior studies have shown that VAT compliance has received a little attention from researchers as most of the studies on compliance focused more on income tax compliance (Webley & Ashby, 2010). In Nigeria, studies on compliance centred on direct tax and the deterrence model (Anyaduba et al., 2012; Modugu & Anyaduba, 2014). However, based on the suggestion by Swistak (2016) that applying both economic and socio-psychological factors will be more effective in VAT compliance, because none of the factors work effectively in isolation and they complement each other. Therefore, this study tested both economic and socio-psychological factors and expanded the TPB.

As contributions to the literature, this study expanded the VAT compliance determinants to incorporate SME reputation and mental tax accounting. These factors were incorporated to be tested empirically based on the suggestions from the literature (Adams & Webley, 2001; Ashby et al., 2009; Bergman & Nevarez, 2006; Bird, 2014; Bobek et al., 2012; Eragbhe & Omoye, 2014; Mittone, 2001; Muehlbacher et al., 2011; Musau, 2015; Webley et al., 2002). In the first place, the study established a strong relationship between SME reputation and VAT compliance intention among SMEs in Nigeria. This indicates that the reputation of the SME influences their VAT compliance intention.

Another contribution to the literature, this study expanded the TPB to include deterrence, social exchange and prospect theories to affirm the assertion that, one theory cannot explain the compliance behaviour of taxpayer (Alabede, 2012). In addition, some of the variables used in this study were conducted on VAT compliance among SMEs in developed countries. Hence, this study was conducted in a developing country (Nigeria), thereby bridging the gaps between developed and developing countries. Finally, this study reaffirmed the findings from previous studies on the positive significant relationship with fairness in the tax system, detection probability, subjective norms and perceived behavioural control and VAT compliance intention among SMEs.

5.4 Limitations and Suggestion for Future Research

Despite the contributions highlighted in this study regarding VAT compliance intention among SMEs, a number of limitations are also identified with this study. The first limitation of this study is the reliance on the compliance intention of SMEs, rather than

the actual behaviour of the SMEs. As stated by Benk et al. (2011); Efebera et al. (2004), intention to perform a behaviour is as strong as performing the behaviour. That is, the probability of an SME to remit the VAT collections to the government is usually high if the SME has an intention to comply. In the same vein, intention is the basis of the TPB, where the chances to exhibit a behaviour lies solely on the intention (Huda et al., 2012). That is, the SME that does not have an intention to comply will be faced with much difficulty to remit the VAT collections to the government. However, scholars have pointed out that intention may not be a true representation of their actual behaviour (Elffers et al., 1992; Langham et al., 2012). Therefore, drawing conclusion from the findings of this study with respect to actual behaviour must be done with caution. Notwithstanding, future research can extend to test the actual behaviour of SMEs.

Secondly, this study applied the quantitative method and used questionnaire as instrument for data collection. Despite all measures taken by the researcher to ensure that the respondents give accurate information, through training of research assistants and granting honorarium (allowances) and well as follow up. The respondents may not be willing to provide accurate responses, thereby resulting to inconsistencies and incorrect responses. Hence, researchers in the future can exploit the possibilities of conducting more research on VAT compliance among SMEs using mixed methods consisting of both qualitative and quantitative research. As posited by Creswell (2007), personal bias of respondents are reduced in mixed methods approach.

Thirdly, this study focused on SMEs operating in Kano state, north-west Nigeria, and it does not include SMEs operating in other parts of Nigeria. However, SMEs in Nigeria share similarities in ownership, number of employees, nature of business, etc. As discussed previously, Kano state is the largest populated city in northern Nigeria (National Population Commission, 2006). Furthermore, the four major ownership of SMEs by economic sector (Education services, wholesale/retail, manufacturing and food/accommodation) are well represented in Kano state (SMEDAN, 2013). Similarly, Kano state is a centre of industrial and commercial activities for decades with a large number of SMEs that has attracted people of different ethnic and religious background. Hence, the sample derived from the population can be relatively homogeneous. Thus, the result obtained may be slightly different if SMEs from other regions are included. Therefore, findings of this study should be generalized with caution to VAT compliance intention of SMEs operating in other region. Hence, future studies should consider other states in Nigeria to take care of generalization.

Fourthly, this study focused on the direct relationship between the predictors to VAT compliance intention among SMEs in Nigeria. Hence there is need to consider some of the predictors as mediators to strengthen the relationship. As earlier discussed, some of the respondents in the open ended question of this study opined that, fairness in the tax system can mediate attitude towards VAT compliance and mental tax accounting with VAT compliance intention among SMEs in Nigeria. Thus, a solid ground for future research.

Finally, there are other factors that are not considered but may be relevant in understanding VAT compliance intention of SMEs. This is evident by the adjusted R^2 of this study which is low (refer to Table 4.20). Therefore, future studies should incorporate other economic and socio-psychological factors that would influence the VAT compliance intention of SMEs in Nigeria. Finally, as an act of restating the advice of certain scholars (Naibie, Momanyi, & Oginda, 2012; Webley & Ashby, 2010), more studies on VAT compliance intention in developing countries should be conducted to bridge the research gap between developed and developing countries.

5.5 Conclusion

The main purpose of this study is to investigate the factors influencing VAT compliance intention among SMEs in Nigeria. Based on prior literature, this study developed a framework that is suitable for VAT compliance intention among SMEs in Nigeria. The framework developed, is underpinned by the TPB and supported by deterrence, social exchange and prospect theories. This is to portray that one theory cannot sufficiently explain the compliance behaviour of taxpayer and SME (Alabede, 2012). In addition, VAT compliance intention among SMEs is influenced by both economic and socio-psychological factors. Thus, the independent variables used in the study are; attitude towards VAT compliance, subjective norms, perceived behavioural control, detection probability, penalty magnitude, SME reputation, fairness in the tax system and mental tax accounting. Four objectives were formulated to address the four research questions as discussed in chapter one. Furthermore, eight hypotheses were formulated and tested

statistically using IBM SPSS statistics 23. The empirical results provide support for five out of the eight hypotheses formulated. Thus, the study has achieved all the four objectives.

The first objective is to identify the level of the SMEs' VAT compliance intention in Nigeria. This objective was achieved through the average mean scores and standard deviation of the four items used to measure the dependent variable (VCI), which are 2.75 and .610, respectively (see Table 4.7). In addition, the open-ended questions analysed in Table 4.16, indicates that, 11 respondents, representing 18% feel they will not remit the VAT collections to the tax authority, because they do not see the need to remit the VAT collections. Hence, this study concludes that, at the time this data are collected for the study, the compliance intention among SMEs in Nigeria is relatively low. This is in line with the tax manager, Mukaila (personal communication on 4th April, 2017), where he opined that, the non-compliance rate is higher among the SMEs.

The second objective of this study is to investigate the relationship between attitude towards VAT compliance, subjective norms, perceived behavioural control and VAT compliance intention among SMEs in Nigeria. This objective was achieved through testing three hypotheses. The empirical evidence shows that subjective norms and perceived behavioural control have positive influence on VAT compliance intention, while attitude towards VAT compliance does not have influence on VAT compliance intention among SMEs in Nigeria. The third objective of this study is to examine the relationship between detection probability, penalty magnitude, SME reputation and VAT

compliance intention among SMEs in Nigeria. Three hypotheses were tested to accomplish this objective. Empirical evidence shows that, detection probability and SME reputation have positive influence on VAT compliance intention, while penalty magnitude does not have influence on VAT compliance intention among SMEs in Nigeria.

The fourth objective is to investigate the relationship between fairness in the tax system, mental tax accounting and VAT compliance intention among SMEs in Nigeria. Like the other three objectives, this objective was also achieved by testing two direct relationship hypotheses. The study provides empirical evidence of the significant positive relationship between fairness in the tax system and VAT compliance intention. While mental tax accounting is not significantly related to VAT compliance intention among SMEs in Nigeria.

Furthermore, the study provides practical and theoretical implications in terms of the influence of these factors on VAT compliance intention among SMEs. In addition, several directions for future research were highlighted based on the limitations of the study. Conclusively, this research work is expected to add value to the literature on VAT compliance intention among SMEs and increase the revenue base of Nigeria through improved VAT compliance.

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APPENDIX A

Copy of Questionnaire with Covering



Letter

Dear participant,

A SURVEY ON THE FACTORS INFLUENCING VALUE ADDED TAX (VAT) COMPLIANCE INTENTION IN NIGERIA

As part of my MSc research, I am conducting a study to obtain information about your perception towards VAT, the influence of your firm' reputation and social group as well as the impact of deterrence in VAT compliance. The main objective of the study is to investigate the factors influencing VAT compliance intention among SMEs in Nigeria. As an SME with the obligation to collect and remit VAT collections to the government of Nigeria, your participation in this survey is vital in order to obtain information needed for the success of the study. Your responses will be treated with ultimate confidentiality and used strictly for academic purpose.

I greatly appreciate your participation in the study. Thank you for your cooperation and giving part of your time for the survey.

Yours sincerely,

Hannatu Yohanna Gimba
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PART A: PERCEPTIONS ON VAT COMPLIANCE BEHAVIOUR

Study the statements below and express your opinion by circling (O) the number that best describes you in the statements. The numbers below have the following meaning.

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

CODE	STATEMENT	SD	D	N	A	SA
AVC1	I would be upset if I don't remit the VAT collections to the government	1	2	3	4	5
AVC2	I would feel guilty if I don't remit the VAT collections to the government	1	2	3	4	5
AVC3	I would feel pleased if I remit the VAT collections to the government	1	2	3	4	5
AVC4	The likelihood of being audited by FIRS is very high, so I will not be pleased if I don't comply	1	2	3	4	5
SN1	My family and peers will expect me to report the VAT collections to FIRS as at when due	1	2	3	4	5
SN2	My family and peers will approve if I don't remit the VAT collections to the government	1	2	3	4	5
SN3	My family and peers would remit the VAT collections if they are faced with similar situation	1	2	3	4	5
SN4	My co-workers would expect me to remit the VAT collections to the government	1	2	3	4	5
PBC1	Due to the effectiveness of detection by the authorities, it is difficult for me not to comply	1	2	3	4	5
PBC2	With the magnitude of detection it is easy for me to remit the VAT collections to the authority	1	2	3	4	5
PBC3	There is threat of detection and audit	1	2	3	4	5
PBC4	It is easy for me to remit the VAT collections to the authority, even without penalty	1	2	3	4	5
PBC5	I will successfully avoid remitting the VAT collections to the authorities even with the presence of detection and penalty	1	2	3	4	5
DP1	In this age of computer, the FIRS will find out if I did not remit VAT collections to FIRS	1	2	3	4	5
DP2	The probability of detection is very high	1	2	3	4	5
DP3	The FIRS will mind if I did not remit the VAT collections	1	2	3	4	5
DP4	I cannot cheat, because the authorities will detect the cheating	1	2	3	4	5

CODE	STATEMENT	SD	D	N	A	SA
PM1	The penalty for VAT non-compliance is very high	1	2	3	4	5
PM2	SMEs can still cheat even with the presence of penalty	1	2	3	4	5
PM3	The penalty of non-compliance is very low. That is, business as usual	1	2	3	4	5
PM4	Other SMEs that are not complying are not being sanctioned by the government	1	2	3	4	5
SR1	The reputation of my business will tarnish if I don't remit the VAT collections to FIRS	1	2	3	4	5
SR2	It is in line with my business principles to report the VAT collections to FIRS	1	2	3	4	5
SR3	A tarnished reputation for not remitting the VAT collections will affect the success of my business	1	2	3	4	5
SR4	I remit VAT not because of the deterrent measures but because of the reputation of my business	1	2	3	4	5
FTS1	The cost of compliance is high as compare to bigger businesses, hence, affects my compliance intention	1	2	3	4	5
FTS2	The amount of VAT I remit and the services I get from the government is not okay	1	2	3	4	5
FTS3	The amount of VAT I remit to the government is higher than the rewards I get from the government	1	2	3	4	5
FTS4	The cost of compliance, multiple taxation and complexity of the tax system affect my compliance intention.	1	2	3	4	5
MTA1	I never consider VAT as my personal money	1	2	3	4	5
MTA2	I record the amount I will remit as VAT instantly after a customer pays me	1	2	3	4	5
MTA3	All the money I earn from my business should not belong to me	1	2	3	4	5
MTA4	Having separate accounts for my business income, expenses and VAT, promotes the success of my business	1	2	3	4	5

PART B: VAT COMPLIANCE INTENTION (VCI)

Study the VAT scenario below and give your opinion by circling (O) the number you feel is appropriate for each question relating to the scenario. The numbers below have the following meaning:

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

VAT SCENARIO

Audu owns an SME in Kano city, Nigeria with an annual turnover of ₦10 million and with a staff strength of 15. The supposed sales for the month ending January, 2017 was ₦6, 300, 000 with a VAT component of ₦300,000 to be remitted to FIRS but due to inflation, the amount realized from sales was ₦8, 400,000 with an actual VAT component of ₦400,000. Which means that, there is an additional VAT collections of ₦100,000 that Audu need to declare to FIRS.

CODE	STATEMENT	SD	D	N	A	SA
VCI1	Audu should declare the ₦100,000 to FIRS because the amount is large	1	2	3	4	5
VCI2	Audu should not keep the ₦100,000 until FIRS comes for audit	1	2	3	4	5
VCI3	Despite the ₦100,000 is small, Audu should still declare the amount to FIRS	1	2	3	4	5
VCI4	Audu should not keep the ₦100,000 as part of his profit	1	2	3	4	5
VCI5	Audu should make effort to declare the total of ₦400,000 at once	1	2	3	4	5

PART C: DEMOGRAPHIC INFORMATION

- Gender Male Female
- Marital status Single Married Others
- Age below 15 years 15 years – 30 years above 30 years
- Position in the business
 Owner/Manager Accountant/Finance Officer Admin/Clerical Staff
 Others

5. How long is your business established?
 Less than one year 1 year – 5years 6years – 10years
 Above 10 years.

6. Please indicate your business' annual turnover
 Less than ~~RM~~5m ~~RM~~5m – ~~RM~~50m ~~RM~~51m – ~~RM~~200m ~~RM~~200m – ~~RM~~500m

7. Please indicate the number of employees in your company
 10 - 49 persons 50 – 99 persons 100 – 149 persons
 150 - 199 persons

8. Please indicate the nature of business
 Educational services Wholesale & Retail Manufacturing
 Accommodation & Food Others

9. Where is the location of your business?
 Bompai Sharada Phase I Sharada Phase II Challawa
 Kawaji Tokarawa Others

10. Does your business make use of a tax agent?
 Yes No

PART D: COMMENTS AND SUGGESTIONS ON VAT

Thank you for your time!!!

APPENDIX B

Summary of Published Tax/VAT Compliance Studies in Nigeria

AUTHOR/YEAR	TITLE	RESPONDENTS	FACTORS INVESTIGATED	RESULTS
Alabede (2012)	An investigation of factors influencing taxpayers' compliance behaviour: Evidence from Nigeria	The Nigerian individual taxpayers who pay their income tax to Federal Inland Revenue Service	<ol style="list-style-type: none"> 1. Perceived Tax Service Quality 2. Public Governance Quality 3. Ethnicity Diversity 4. Tax System Structure 5. Tax Knowledge 6. Moral Reasoning 7. Non-compliance Opportunity 8. Attitude towards Tax Evasion 9. Risk preference 10. Personal Financial Condition 	<ul style="list-style-type: none"> - Tax service quality and public governance quality have significantly relationship with tax compliance behaviour - Taxpayers' financial condition influences tax compliance, as well as significantly moderates the influences of tax system structure, moral reasoning and occupation with tax compliance behaviour
Anyaduba, Eragbhe, & Modugu (2014)	Impact of Deterrent Tax Policies on Tax Compliance: The Nigerian Experience	Nigerian Taxpayers' in the private and public sectors	<ol style="list-style-type: none"> 1. Enforcing Voluntary Compliance 2. accountability and Transparency 3. Stiff Penalties 4. Tax Deterrent Policy 	<ul style="list-style-type: none"> - Existing deterrent tax policies in Nigeria is inadequate and has not helped to promote tax compliance. - Fostering voluntary compliance through taxpayers' morale enhancement will improve tax compliance.
Atawodi & Ojeka (2012)	Factors that affect tax compliance among small and medium enterprises (SMEs) in north central Nigeria	SMEs in Zaria, North-Central Nigeria	<ol style="list-style-type: none"> 1. Tax Rate 2. Tax complexity 3. Multiple taxation 4. Enlightenment/Educating the SMEs 	<ul style="list-style-type: none"> - High tax rates and complex filing procedures have effects on non-compliance of SMEs. - Multiple taxation and lack of proper enlightenment affect tax compliance among the SMEs.

Summary of Published Tax/VAT Compliance Studies in Nigeria (Continued)

AUTHOR/YEAR	TITLE	RESPONDENTS	FACTORS INVESTIGATED	RESULTS
Ebimobowei & Peter (2013)	A causality analysis between tax audit and tax compliance in Nigeria	FIRS Boards in the Niger-Delta region, Nigeria.	<ol style="list-style-type: none"> 1. Random Tax Audit 2. Cut-off Tax Audit 3. Conditional Tax Audit 	Tax audit is one of the compliance strategies that can be used to achieve tax compliance in Nigeria.
Eragbhe & Modugu (2014)	Tax compliance costs of small and medium scale enterprises in Nigeria	SMEs across the six (6) geopolitical zones in Nigeria with a history of paying taxes.	<ol style="list-style-type: none"> 1. Company Income Tax 2. Value-Added Tax 3. Education Tax 4. Customs and Excise duties 5. Employee Tax (PAYE) /Personal Income Tax 6. Withholding tax 	Value Added Tax (VAT) has the highest tax compliance costs accounting for about 33% of the total average tax compliance costs
Eragbhe & Omoye (2014)	SME characteristics and value added tax compliance costs in Nigeria	SMEs across the six (6) geopolitical zones of Nigeria	<ol style="list-style-type: none"> 1. Business Age 2. Outsourcing 3. Employee Size 4. Export Status 5. Turnover 6. Industry Class 7. Distance to Tax Office 	SME attributes do not impact significantly on tax compliance costs for VAT in Nigeria.
Modugu, Eragbhe & Izedonmi (2012)	Government accountability and voluntary tax compliance in Nigeria	Selected tax payers in the six geopolitical zones in Nigeria.	<ol style="list-style-type: none"> 1. Perceived tax fairness/Equity 2. Treatment by tax authorities 3. Perception of governments involvement of citizen 4. Perceived Government Accountability 5. Tax Rate 6. Provision of public goods 7. Probability of detection and punishment. 8. Political party in power 9. Being Religions 10. Simplicity of tax laws 11. Ethics and morality 	Perception of government accountability by the taxpayers shapes tax morale which results to voluntary tax compliance

Summary of Published Tax/VAT Compliance Studies in Nigeria (Continued)

AUTHOR/YEAR	TITLE	RESPONDENTS	FACTORS INVESTIGATED	RESULTS
Modugu & Anyaduba (2014)	Impact of tax audit on tax compliance in Nigeria	Staff of sampled companies in selected states of the five geo-political zones of Nigeria	<ol style="list-style-type: none"> 1. Tax Audit 2. Probability of audit 3. Perceived government spending 4. Penalties and enforcement 5. Changes in government policy 	<ul style="list-style-type: none"> - Positive relationship between tax audit and tax compliance in Nigeria. - Probability of audit, perceived government spending, penalties and enforcement, have a tendency to significantly influence tax compliance in Nigeria.
Ocheni (2015)	A causality analysis between tax compliance behaviour and Nigerian economic growth	Taxpayers in Kogi and Enugu states, Nigeria.	<ol style="list-style-type: none"> 1. Trust in the Government 2. Government Spending 3. Tax Accountability 4. Income 5. Morale Ethics 6. Tax Knowledge 7. Tax Rate 8. Tax System Structure 	Trustworthiness of government, Provision of Infrastructural Amenities, Tax Accountability by Government, Level of government delivery, Income, Morale Ethics, Tax Knowledge, Tax Rate, and The System of Tax Payment were found to influence the tax compliance in Nigeria.
Okoye, Akenbor & Obara (2012)	Promoting sustainable tax compliance in the informal sector in Nigeria	Tax officials and business owner managers in the south-east region of Nigeria	<ol style="list-style-type: none"> 1. Tax Rate 2. Government Spending 3. Transparency and Accountability 4. Tax Audit Unit 5. Deterrent Measures 6. Tax Laws 7. Trust in Government 8. Corruption 	High tax rate, inadequate provision of public goods and services, lack of transparency and accountability, poor funding of tax boards, absence of functional tax audit, ineffective deterrence measures, lack of public trust, and corrupt practices of tax officials have significant influence on non-tax compliance in Nigeria.

APPENDIX C

Full Results of the Non-response Bias Test

		Levene's Test for Equality of Variances		t-test for Equality of Means			
		F	Sig.	t	Df	Sig. (2-tailed)	Mean Difference
VCI	Equal variances assumed	.100	.752	-2.28	371	.02	-.22
	Equal variances not assumed			-2.29	360.217	.02	-.22
AVC	Equal variances assumed	.13	.720	-1.28	371	.20	-.12
	Equal variances not assumed			-1.28	343.920	.20	-.12
SN	Equal variances assumed	.44	.508	-.63	371	.53	-.05
	Equal variances not assumed			-.64	362.520	.53	-.05
PBC	Equal variances assumed	.68	.410	-.59	371	.56	-.06
	Equal variances not assumed			-.59	364.207	.55	-.06
DP	Equal variances assumed	.87	.350	-2.34	371	.02	-.25
	Equal variances not assumed			-2.34	344.738	.02	-.25
PM	Equal variances assumed	.11	.738	-1.02	371	.31	-.11
	Equal variances not assumed			-1.02	353.290	.31	-.11
SR	Equal variances assumed	.013	.908	-1.58	371	.12	-.15
	Equal variances not assumed			-1.58	356.222	.12	-.15
FTS	Equal variances assumed	4.70	.031	-.73	371	.47	-.07
	Equal variances not assumed			-.73	368.908	.46	-.07
MTA	Equal variances assumed	6.45	.011	-1.90	371	.06	-.20
	Equal variances not assumed			-1.90	326.889	.06	-.20

APPENDIX D

Factor Analysis SPSS Output (Communalities before dropping of Items)

Component	Communality
MTA	
MTA1	.806
MTA2	.829
MTA3	.794
MTA4	.692
AVC	
AVC1	.789
AVC2	.815
AVC3	.759
AVC4	.639
PBC	
PBC1	.501
PBC2	.813
PBC3	.802
PBC4	.673
FTS	
FTS1	.732
FTS2	.787
FTS3	.411
FTS4	.590
DP	
DP2	.723
DP3	.806
DP4	.721
PM	
PM2	.558
PM3	.854
PM4	.809
SR	
SR1	.592
SR2	.778
SR3	.579
SR4	.369
SN	
SN1	.518
SN3	.714
SN4	.528
KMO: .796	
Bartlett's test of Sphericity: .000	

Factor Analysis SPSS Output Continued (Anti-image before dropping item)

Component	Anti-image
VCI	
VCI1	.594
VCI2	.281
VCI3	.791
VCI4	.596
VCI5	.770

KMO: .646
Bartlett's test of Sphericity: .000



APPENDIX E

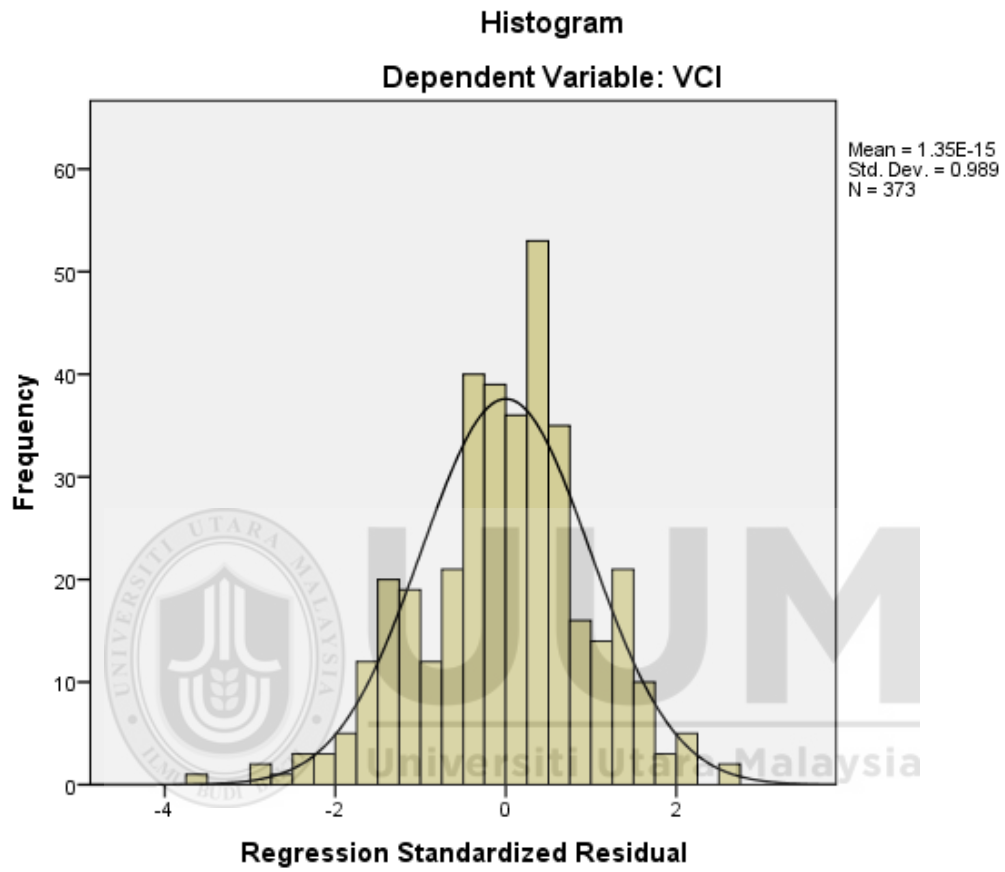
Full Results of the Responses (Descriptive Statistics)

S/N	Code	SD/D	N	SA/A
1	VCI1	227	44	102
2	VCI3	199	72	102
3	VCI4	242	44	97
4	VCI5	230	38	105
5	AVC1	67	52	254
6	AVC2	62	44	267
7	AVC3	63	46	264
8	AVC4	55	65	253
9	SN1	56	72	245
10	SN3	60	63	250
11	SN4	88	56	229
12	PBC1	75	49	249
13	PBC2	81	42	250
14	PBC3	89	65	219
15	PBC4	97	42	234
16	DP2	103	47	223
17	DP3	135	48	190
18	DP4	130	47	196
19	PM2	155	59	159
20	PM3	128	50	195
21	PM4	130	66	177
22	SR1	48	63	262
23	SR2	46	54	273
24	SR3	46	55	272
25	FTS1	69	74	230
26	FTS2	70	50	253
27	FTS4	62	70	241
28	MTA1	84	43	246
29	MTA2	80	56	177
30	MTA3	92	49	232
31	MTA4	58	63	252

NOTE: Strongly Disagree (SD); Disagree (D); Neutral (N); Agree (A);
Strongly Agree (SA).

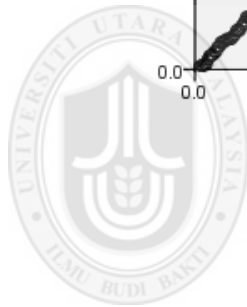
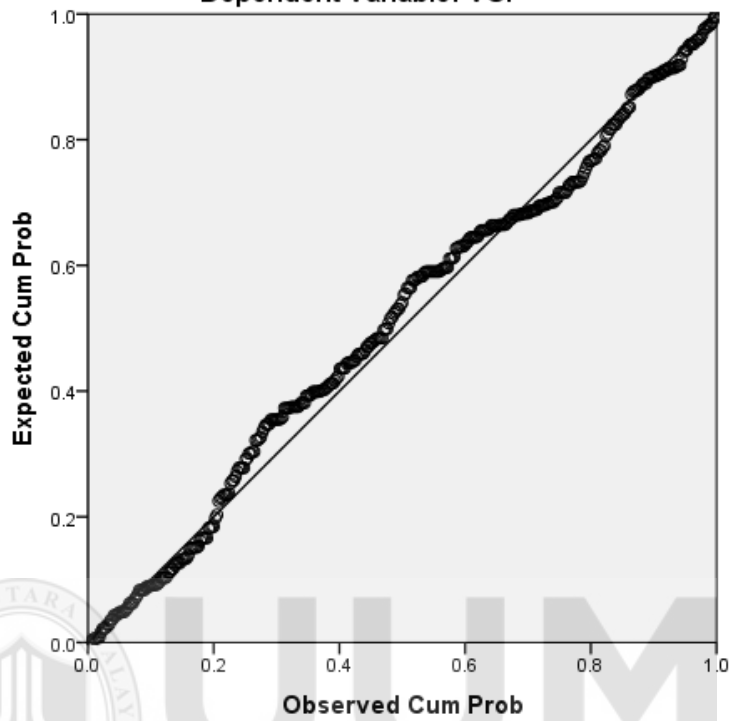
APPENDIX F

Multiple Regression SPSS Output

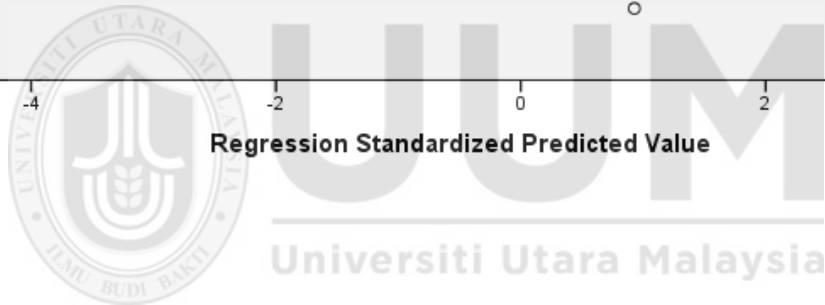
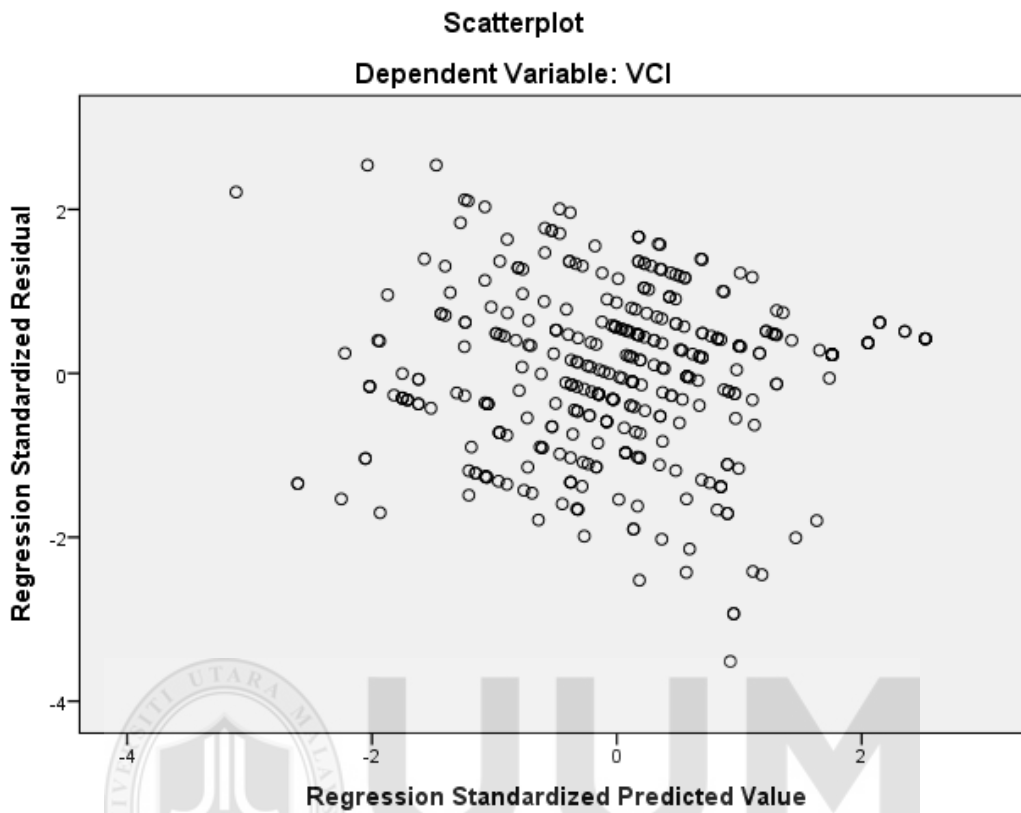


Normal P-P Plot of Regression Standardized Residual

Dependent Variable: VCI



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APPENDIX G

List of SMEs in Nigeria by State

SMEs IN NIGERIA BY SMEDAN

S/N	STATE	NO. OF SMEs PER STATE
1	Abia	1,809
2	Akwa Ibom	1,093
3	Anambra	1,737
4	Bauchi	2,066
5	Bayelsa	426
6	Benue	1,168
7	Cross River	1,294
8	Delta	1,444
9	Ebonyi	1,210
10	Edo	1,997
11	Ekiti	1,029
12	Enugu	911
13	Gombe	1,108
14	Imo	1,394
15	Jigawa	1,097
16	Kaduna	2,882
17	Kano	8,286
18	Katsina	1,355
19	Kebbi	989
20	Kogi	844
21	Kwara	226
22	Lagos	11,663
23	Nasarawa	1,120
24	Niger	1,358
25	Ogun	1,794
26	Ondo	1,999
27	Osun	2,272
28	Oyo	7,987
29	Plateau	2,180
30	Rivers	3,022
31	Sokoto	841
32	Taraba	960
33	Zamfara	593
34	FCT	2,690
	TOTAL	72,838

SMEs IN NORTH-WEST NIGERIA BY SMEDAN

S/N	STATE	NO. OF SMEs PER STATE	% OF SMEs PER STATE
1	Jigawa	1,097	7.2
2	Kaduna	2,882	18.7
3	Kano	8,286	53.6
4	Katsina	1,355	8.7
5	Kebbi	989	6.4
6	Sokoto	841	5.4
	TOTAL	15,450	100

