

TAX ATTITUDE AND PERCEPTION OF FAIRNESS AS PREDICTORS OF TAX COMPLIANCE AMONG SME BUSINESS OWNERS: THE MEDIATING ROLE OF TAX KNOWLEDGE

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ABSTRACT

In this research, the role of tax attitude and perception of fairness in tax compliance among SME owners was examined. Tax knowledge was investigated as a mediator between tax attitude and compliance as well as perception of fairness and tax compliance respectively. 123 SME owners were administered online questionnaire to obtain relevant data for hypotheses testing. The study aimed at identifying significant predictors of tax compliance behaviour, while assessing the role of tax knowledge as a mediator. Findings indicated that tax attitude was positively related with tax compliance, serving as a significant predictor of tax compliance among SME owners. Although perception of tax fairness was positively correlated with tax compliance, it was not a significant predictor of tax compliance. Tax knowledge mediated the impact of tax attitude on tax compliance. However, tax knowledge did not mediate the relationship between perception of fairness and tax compliance.

Keywords: Tax Attitude, Fairness Perception Tax Knowledge SME Business Owners

INTRODUCTION

Psychosocial determinants of tax compliance have been found to be as effective as economic factors (Ayuba, Saad & Ariffin, 2015). Timothy and Abbas (2021) concluded that tax morality, perception of justice and trust were associated with tax compliance by small and medium enterprises (SMEs). Thus, psychosocial factors also impacted organizational tax behaviour. In other words, individual and group tax compliance are susceptible to behavioural and cognitive influences.

These factors tend to work in consonance with other related variables. According to Newman and Nokha (2018), basic tax knowledge can influence tax compliance positively if tax rates and corruption are also addressed. Tax payers are more likely to comply when they perceive their taxes are been put to good use, taxes are fair, and they have sufficient knowledge of the tax system. This study lends credence to the assumption tax compliance is a complex behaviour.

Tax compliance is a test of the tax system's reliability (Yong et al., 2019). With high level of tax compliance, government is guaranteed higher level of revenue, otherwise they may struggle with resources. Recent trends, however, suggest that governments are facing increasing noncompliance due to several reasons, some of which are examined in this research.

When taxes are perceived as fair, trust in authority increases leading to higher level of compliance (Rachmawan et al. 2020). SME tax compliance was directly linked to tax accounting and tax justice in a study by Setyorini (2018). In Nigeria, tax compliance among SMEs has been found to impact government revenue generation (Ayuba et al., 2020). Positive attitude towards compliance resulting in higher revenues and poor attitude associated with low revenue (Ayuba et al., 2020). Thus, tax compliance among SME owners is a key issue because of its economic implication on the society with trends suggesting poor compliance is rising among tax payers in Nigeria (Paying Taxes, 2015). Against the backdrop of economic

challenges such as inflation and increased debt, poor tax compliance poses significant threat to development in the country.

SMEs in Nigeria were likely to avoid tax if there was a low probability of detection, poor incentives, and inadequate public governance (Ayuba et al., 2020). This implies tax compliance is a reaction to quality of governance as well as tax monitoring efficiency. Fadzilah et al. (2017) made similar findings in their study: the implementation of tax understanding, tax payment consciousness, tax services quality, and tax penalties had a positive and significant effect on SMEs tax compliance. Another problem Nigeria contends with is corruption, which has been shown to have negative impact on tax compliance among SMEs (Newman et al., 2018).

To compel tax compliance from SMEs, tax authorities need to understand taxpayers (Zanaria & Lestari, 2020). For example, tax complexity can impede compliance behaviour due to difficulty with processing tax filings (Jusoh et al., 2021). User-friendly tax payment and investment in taxpayer education can decrease the knowledge gap which fosters tax noncompliance. Part of recommendation by Yong and Freudenberg (2020) in a study involving SMEs in New Zealand, was that new strategies to influence compliance can improve tax behaviour. A similar conclusion was reached in Indonesia where tax knowledge reward was discovered to be positively related with tax compliance among SMEs (Firmansyah & Putu, 2018).

According to Alm and Torgler (2011), governments have three tools to influence tax compliance namely service, trust, and enforcement. Improving level of tax knowledge through mass media campaigns, showing proof of tax usage, promoting proper behaviour, etc. are among strategies found to have positive impact on tax compliance behaviour. In this research, factors which have been found to impact tax compliance will be investigated by analysing data from SME owners. Specifically, the impact of tax attitude and perception of tax fairness will be assessed. Also, the role of tax knowledge as a mediator of the relationship between tax attitude, perception of tax fairness and tax compliance will be examined.

REVIEW OF RELATED LITERATURE

Tax attitude and tax compliance

Tax compliance has varying definitions across the literature (Ayuba et al., 2015). According to Tilahun (2019), tax compliance is the degree to which taxpayers conform to tax laws and rules. In this sense, noncompliance implies nonconformity with tax obligations by individuals or organizations. Tax attitude has two dimensions: the positive dimensions correlate with tax compliance while the negative view tend to result in tax evasion (Mitu, 2018). Studies have found that tax compliance can be improved through effort at improving attitude towards payment (Adellia & Islami, 2020; Ogunbade et al., 2021).

H1: There is significant positive relationship between tax attitude and tax compliance.

Perception of fairness and tax compliance

When taxpayers are convinced that their taxes are fair and been put to good use by the government, their level of compliance tend to be higher (Kaplanoglou et al., 2016). Two key influences on perception of fairness are taxpayers' expectation of government (Mangoting & Ganis, 2015) and taxpayers' ability to pay the taxes they're levied (Lestary et al., 2021). Musimenta et al. (2017) found direct link between tax fairness and tax compliance. In their research, benefits from taxes and ability to pay were central to feeling of fairness and taxpayers' willingness to comply with taxes.

H2: There will be significant positive relationship between perception of tax fairness and tax compliance

Tax knowledge, tax attitude, perception of tax fairness and tax compliance

Tax knowledge covers taxpayers' level of understanding about how to file tax returns and pay expected amount. It also includes expected benefit of paying taxes and what regulations apply to tax defaulters (Mardiasmo, 2018). Tax knowledge has been shown to positively relate with tax compliance (Razak & Adafula, 2013). Negative tax attitude has been linked with poor tax knowledge, resulting in poor compliance level (Susanto, 2019). Azmi et al. (2016) investigated the role of tax justice as a mediator on tax knowledge and tax compliance. Findings revealed that while tax knowledge was not a significant predictor of tax compliance, tax knowledge impacted perception of tax fairness. A related study found that tax knowledge has positive relationship with tax compliance while punishment for tax default did not change tax compliance behaviour (Oladipupo & Obazee, 2016).

H3: The influence of tax attitude on tax compliance is mediated by tax knowledge

H4: The influence of perception of tax fairness on tax compliance is mediated by tax knowledge.

Conceptual framework

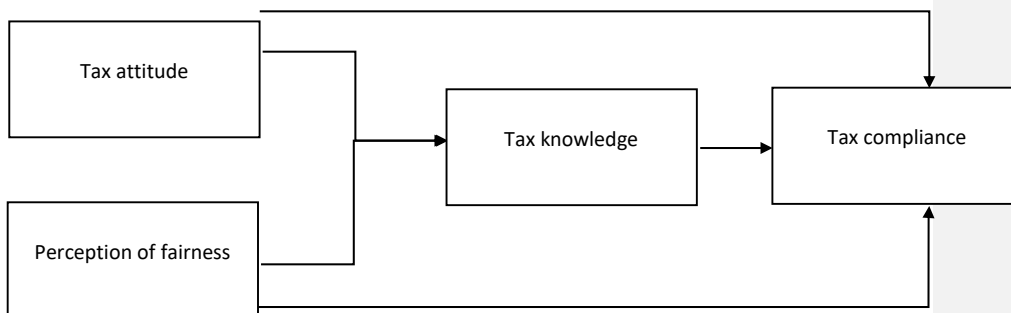


Figure 1: Tax knowledge as mediator of tax attitude and perception of fairness on tax compliance

METHOD

Study design

This study is a survey research and cross-sectional design was employed in data gathering. Data for hypotheses testing was obtained from SME owners through questionnaires.

Participants

123 SME owners were involved in this study. They were recruited through purposive sampling, a non-probability method which entails that participants had to meet certain criteria to qualify as respondents. For this study, participants had to be owners of registered SME businesses that were still in operation. 64(51.6%) respondents were female compared to 60(48.4%) who identified as male. 40(32.2%) were below the age of 30, 28(22.6%) were between the ages of 30-35. 30(24.2%) respondents were between the ages of 36-40 years. 26(21%) were above 40 years of age. Types of businesses participants identified with are retail trade (21%), logistics (20.2%), e-commerce (32.3%), services (26.6%)

Measurements

Tax Compliance

This was assessed in this study using the Tax Compliance Questionnaire developed by Mesiku (2008). This instrument measures level of tax compliance through a five-point Likert-type scoring system, ranging from Strongly Disagree (1) to Strongly Agree (5). High scores implied high level of tax compliance while low score meant the respondent tend not to comply with tax payment obligations.

Tax Attitude

In this study, tax attitude was measured using the Tax Attitude Questionnaire by Mesiku (2008). It uses a five-point Likert scale ranging from Strongly Disagree (1) to Strongly Agree (5) to assess attitude towards tax payment. High scores on this instrument correlated with positive attitude towards taxation. Low scored implied negative attitude towards tax payment.

Perception Of Tax Fairness

Perception of Tax Fairness Questionnaire by Ogunbade et al (2021) was used in this study. It assessed respondents' ability to pay taxes, their feelings regarding how much tax they pay, as well as perception about how easy it is to pay taxes and if the government uses tax payments to the benefit of tax payers. The instrument uses a 5-point Likert scale ranging from Strongly Disagree (1) to Strongly Agree (5). High scores implied positive perception of tax fairness while low score meant the respondent did not think their tax system was fair.

Tax Knowledge

To assess tax knowledge, respondents were administered Tax Knowledge questionnaire developed by Mukasa (2011). Items evaluated respondent's knowledge of the amount they were expected to pay, if they knew what channels to pay through, among other factors. A five-point Likert scale was used with high scored indicating good tax knowledge and low score meaning poor tax knowledge.

Procedure

Questionnaires were administered through online channels including social networks such as WhatsApp, Facebook, and email. Respondents who met study criteria were given link to the questionnaire. After they answered items on the scale, their responses were stored in a secured Google Drive, which was later assessed for data. Ethics such as anonymity and confidentiality were strictly adhered to through intentional design of the questionnaire not to collect personally identifiable information. In addition, the researcher attended to queries respondents had before, during and after the administration of questionnaire.

Statistics

Hierarchical multiple regression was conducted in SPSS version 23 to evaluate the relationship between tax attitude, perception of tax fairness, tax knowledge and tax compliance. Mediation analysis was conducted using AMOS software to examine the mediational impact of tax knowledge on tax compliance.

RESULTS

Table 1: correlation matrix of tax knowledge, perception of fairness, tax attitude, and tax compliance

Variables	1	2	3	4
1. Tax knowledge	-	.	.	.
2. Perception of fairness	.81**	-	.	.
3. Tax attitude	.66**	.81**	-	.
4. Tax compliance	.49**	.62**	.79**	-

Note. ** $p < .01$

From the table of correlation above, tax knowledge was positively and significantly related with tax compliance ($r = .49, p < .01$). This implies that SME owners who scored high in tax knowledge were more likely to score high in tax compliance measures. Also, SME owners who were low on knowledge of taxation were likely to score low on tax compliance measures. Perception of tax fairness had significant positive correlation with tax compliance ($r = .62, p < .01$). Thus, SME owners who felt their taxes were fair were more likely to comply with tax payments while those who felt their taxes were unfair tend not to comply with taxes. Tax attitude also significantly correlated with tax compliance ($r = .79, p < .01$). Similarly, results showed that positive attitude implied higher level of compliance with taxes among SME owners. SME owners who had negative attitude towards taxation tend not to pay their taxes.

Table 2: Hierarchical regression predicting tax compliance by tax attitude and perception of tax fairness

	Model 1			Model 2			Model 3		
	B	β	t	B	β	t	B	β	t
1. Tax attitude	.77	.79	.14	.84	.87	9.13	.84	.87	9.09
2. Perception of tax fairness				-.08	-.09	-.92	-.07	-.07	-.61
3. Tax Knowledge							-.02	-.02	-.16
<i>R</i> ²	.79			.80			.80		
ΔR^2	.63			.63			.63		
<i>F</i>	208.56			.84			.03		
ΔF	.00			.36			.87		

Independent variable: tax compliance

Hierarchical multiple regression revealed that tax attitude significantly predicts tax compliance ($\beta = .79, p < .01$). Tax attitude explained 79% of variance in tax compliance scores ($R^2 = .79$). Based on this result, tax attitude is identified as having significant influence on tax compliance behaviour among SME owners. When attitude towards tax is positive, there is higher likelihood to pay tax. However, negative attitude towards tax tends to result in non-compliance among SME owners. In the second model, perception of tax fairness was added and it was found not to be a predictor of tax compliance ($\beta = -.16, NS$). Perception of tax fairness explained less than 1% of variance in tax compliance scores ($R^2 = .01$). The implication of this result is that perception of fairness does not predict the level of tax compliance among SME owners. Therefore, the level of tax compliance cannot be inferred from the level of perception of fairness. The third included tax knowledge as a potential predictor, results showed that tax knowledge did not significantly predict tax compliance ($\beta = -.02, NS$). Thus, the level of tax knowledge of SME owners does not predict their level of compliance with taxation as tax knowledge was found not to be a significant predictor of tax compliance All the variables in model explained 80% of the variance in tax compliance ($\Delta R^2 = .80$).

Mediation analysis showed that tax knowledge was a significant mediator of the effect of tax attitude on tax compliance (effect = .42, se = .25, 95%CI = -.07, .90, $p < .01$). Tax knowledge was not a significant mediator of the effect of perception of tax fairness on tax compliance (effect = .22, se = .35, 95%CI = -.47, .90, NS).

DISCUSSION

This research investigated tax attitude and perception of fairness as predictors of tax compliance among SME business owners, analysing the mediating role of tax knowledge as part of the study objectives. Findings are examined in this section based on theoretical and empirical studies.

Findings showed a positive relationship between tax compliance and tax attitude. Specifically, positive attitude towards tax related with high level of compliance. This is consistent with findings by Ogunbade et al. (2021) who found that taxpayer with positive attitude tend to comply with tax obligations. Among SMEs owners in Nigeria, level of tax compliance is low as observed in this study and similar research. Some of the issues relate to trust in government and the use of funds gotten from taxpayers. Lestari et al. (2020) supports this through their finding that tax socialization and tax administration affect taxpayer compliance.

Tax attitude is shaped by variety of factors such as individual financial position, referral group, political influence, religiosity, and cultural influence, which have been shown to have a positive effect on tax compliance behaviour (Sritharan & Salawati, 2019). On the other hand, it is possible for negative influences to alter tax attitude leading to noncompliance among SME owners. The Nigerian economic climate has been considerably hostile of recent: rising inflation and other difficulties made running of business especially difficult. It becomes hard to maintain compliance when business does not thrive and certainty of survival is low. Although the law makes provision for SME owners to only pay taxes when they are profitable, an uncertain economic climate incentivises owners to not comply.

Perception of fairness did not significantly predict tax compliance in this study, although there was positive relationship between both variables. This is in consonance with findings by Farrar et al. (2019) who found interactional fairness was not significantly related with tax compliance intentions. One explanation for this finding is the distinct ways individuals and organizations interpret fairness. Due to different circumstances among SME owners, perception of fairness may not have identical impact. Also, it is likely other variables may play a more important role in tax compliance role as observed in the impact of tax attitude in this study. Researchers such as Lestary et al. (2021) found that tax fairness and socialisation positively affect the understanding of taxation, which in turn positively affects taxpayer compliance. In their study, acceptance of technology and other tax knowledge factors tend to occur in social settings. SME owners' tax attitude was moderated by socioeconomic factors such as level of education, exposure to the internet, among other things.

Tax knowledge was a significant mediator between tax attitude and tax compliance. Albab and Suwardi, (2021) made similar findings stating that tax knowledge increases trust, which partially mediates the effect of knowledge on voluntary taxation. SME owners who were aware of tax usage by government and its implication for their business success may have more favourable disposition towards paying their taxes. Low level of tax knowledge could also explain aversion to taxes since the individual may be unaware of how their tax behaviour impacts government ability to provide infrastructure which in turn affect their business.

In addition, tax knowledge may also influence the feelings of difficulty people experience when filing their taxes. With easier tax payment processes, tax knowledge may be higher among taxpayers, leading to positive attitude towards compliance. Tax systems that require higher level of tax knowledge may turn off taxpayers leading to negative attitude towards taxation which in turn leads to noncompliance.



Tax knowledge did not mediate between perception of fairness and tax compliance. This is consistent with findings which showed that tax knowledge and tax compliance behaviour tend not to be consistent (Manual & Xin, 2016). Several aspects of tax behaviour may account for the lack of mediation effect as observed in this study. For example, feelings of trust in government may vary among different SME owners. This in turn could serve as a stronger factor in compliance behaviour than their level of knowledge.

Conclusion

Findings from this study strongly indicates that tax attitude is a strong factor in tax compliance behaviour. Tax knowledge was positively correlated with tax compliance leading to recommendation that government should use it as a means to improve compliance. Gitaru (2017) suggest rewards programs and other forms of incentives can improve tax compliance among SMEs. SME owners in Nigeria can also benefit from this and other programs aimed at improving tax compliance through effort at improving tax knowledge and tax attitude. How business owners perceive fairness of the tax system can benefit from visible investment in infrastructure and economic programs. In conclusion, tax compliance as a critical resource to government and society at large requires more thoughtful approach to compel compliance. Punishment and other negative forms of reinforcement should be disregarded, and more positive approaches as exposed in this study should be adopted.

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