

SOCIO-ECONOMIC FACTORS AND TAX COMPLIANCE AMONG
SMALL BUSINESSES IN NIGERIA

OGUNDEKO SODIQ TEMITAYO

Department of Accounting,
Lagos State University, Ojo, Lagos,
Nigeria;

E-mail: 1Sodiq.ogundeko@lasu.edu.ng
+234803-863-3142

TIJANI JAMIU OLAKUNLE

Department of Accounting,
Lagos State University, Ojo, Lagos,
Nigeria;

E-mail: 2olakunle.tijani@lasu.edu.ng
+234812-902-3885

&

PETERS, DEBORAH AMARACHI

Department of Accounting,
Lagos State University, Ojo, Lagos,
Nigeria;

E-mail: petersdeborah6@gmail.com,
+234707-334-5424

Article history:

Received: January 2026;

Received in revised form:

27 January 2026;

Accepted: 09 February 2026;

Key words;

Tax Compliance, Socio-Economic Factors, Tax Literacy, Tax Income Level, Ethnicity, Small Businesses, Nigeria.

Abstract

The objective of the study is to examine the socio-economic factors and tax compliance among small businesses in Nigeria. The study employed a cross sectional survey design and adopted simple random sampling technique. Data was gathered through a structured questionnaire from 237 small business owners in Ojo Local Government Area in Lagos State using Taro Yamane Statistical Formula to ascertain the sample size. It employed Descriptive Statistics and Ordinary Least Square Regression to analyze the data. The results showed that tax literacy level significantly influence tax revenue generation ($\beta = 0.2741$, $p = 0.0000 < 0.01$), while taxpayers' ethnicity had no significant impact on tax evasion ($\beta = 0.0883$, $p = 0.1566 > 0.1$). Additionally, tax income level had an impact on tax gap ($\beta = 0.1731$, $p = 0.0369 < 0.05$). This study therefore recommended tax literacy programs, consideration of income level on tax policies and incentives for small businesses

Introduction

Small businesses are the major determinant of a country's economy. They are the large companies of tomorrow (Richmell, 2016). Small businesses operate in various sectors and contribute greatly to income and wealth distribution. Most of the revenue derived in Nigeria is from the small and medium enterprises (SMEs). And it is a well-known fact that Nigeria is a developing country that needs revenue for growth and development. Small businesses provide employment opportunities for individuals who cannot get job in the formal sector and this has helped to reduce the rate of poverty (Nigerian Investment Promotion Commission, 2013). Even though the turnovers of these businesses are small when compared to large companies, their impact is greatly felt.

For a better understanding, small businesses as defined by Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), is an enterprise with employees between 10-49 and has an asset base of 5 million to less than 50 million excluding land and building. Small businesses constitute about 90% of the industrial sector (Ojelade, Yinus, Ishola & Opaleye, 2022). According to National Bureau of Statistics, SMEs contributes 48% of Nigeria's GDP and employ over 84% of the workforce. Small businesses are therefore very pivotal to the growth and development of every country both a developed and a developing one (Richmell, 2016).

In as much as small businesses contribute tremendously to the economy, there is a great issue on tax compliance by these businesses. Benjamin Franklin once stated that, nothing is certain except death and taxes. This means that every citizen of a particular country are obliged to pay tax from the income they generated (Ertsu, 2021). The National Tax Policy defined tax as a monetary charge on a person's entity or income, property or transaction and is usually collected by a defined authority at the federal and state level. Tax generally is a major source of revenue in a particular country (Ojochogwu & Stephen, 2012). For any country to perform efficiently, build infrastructure, provide for the masses, there is need for adequate payment of tax. Taxes are very essential to ensure sustainable economic development especially during the period of crisis like the COVID-19 pandemic (Egiyi, 2022). However, small businesses are faced with the challenge of paying tax either during assessment or collection process. Even those who pay it are forced by the authorities as no one enjoys paying tax (Ige, Igbekoji & Dagunduro, 2023). This is why most Small businesses choose not to expand to a larger corporation because they feel the compliance cost is much (Ojochogwu & Stephen, 2012).

Before the COVID-19 pandemic, the rate of tax compliance was low and this has led to a decline in the tax revenue (Odukwu, Eke, Effiong & Karimo, 2023). Even though some businesses comply with tax payment, many avoid paying taxes and this has resulted in loss of billions of Naira per year. Small businesses are expected to pay Personal Income Tax, Value Added Tax & Withholding Tax in Nigeria. On a press release by The Cable on the 21st of August, 2021, Former Vice President, Yemi Osinbajo stated that the mortality rates of SMEs are very high and among the factors responsible for this are tax related issues.

Most developing countries, Nigeria inclusive are however struggling with payment of tax (Adebiji, Amole & Oyenuga, 2022). Tax compliance has been a major

objective in Nigeria as a result of the rising public debts of about N87.38 trillion in the 2nd quarter of 2023 (Nigerian Bureau of Statistics). Several reforms have been made over the years to reduce the tax burden of SMEs which include; direct assessment system, self-assessment system, tax presumptive taxation system and so on. To make things easy for SMEs, the finance Act 2019 which took effect from January the next year was targeted at assisting small businesses with certain reforms. SMEs that have annual turnovers below 25 million have been exempted from paying Value Added Taxes (VAT) and Company Income Taxes (CIT) (Budget office of the Federation, 2020). This is to enhance the effectiveness of SMEs and to ensure tax compliance. In spite of all these, small businesses still struggle to be tax compliant.

The question then is, why do SMEs still choose not to comply with payment of tax? Socio- economic factors are responsible for tax compliance among small businesses in Nigeria. These factors include level of income, employment status, level of tax awareness, access to financial resources, ethics and attitudes of tax payers, access to technology, et cetera. Many small business owners are faced with diverse socio-economic factors hindering them from paying taxes. Some businesses lack knowledge on tax matters, they don't see the need to pay tax because they are ignorant on the importance of payment of tax. However, some have solid understanding on the significance of tax compliance but still evade tax not because of the absence of tax laws but due to non-transparency of the tax authorities. In a critical time like this where the country is faced with high rate of inflation, floating of the currency, hike in fuel price, insecurity, among others, tax payers are not moved to comply with payment of tax as they believe the government is mismanaging these funds. It will be disheartening for SMEs to willingly pay their tax and they don't see the results of their payment.

Statement of the Problem

Tax compliance has been a major challenge posed on tax authority (Odukwu, Eke, Effiong & Karimo, 2023). Reports from the National Bureau of Statistics (NBS) in 2021 shows that 80% of small businesses in Nigeria do not pay tax and these small businesses account for about 96% of businesses in Nigeria. This means that only 20% out of the 96% comply with tax laws. Previous researchers have discussed this issue including; (Areo, Obindah & Evans, 2020), (Odukwu, Eke, Effiong & Karimo, 2023), (Ige, Igbekoji & Dagunduro, 2023), (Etim, Nsima & Daniel, 2020), (Ayuba, Saad & Zaimah, 2016), (Salawu & Salawu, 2023) and so on. These researchers focused on the factors that determine tax compliance such as trust in the tax system, perceived service, good governance, transparency and accountability, et.c.

However, the ethnicity of taxpayers, level of tax literacy and level of Income of taxpayers have been understudied. Tax compliance can however be determined if there is an increase in tax revenue, low cases of tax evasion, high voluntary compliance rate, reduction in tax gap and so on. This study aims to address these gaps not addressed by the previous researchers by investigating the relationship between socio-economic factors and tax compliance among small businesses in Nigeria.

Research Objectives

The general objective of the study is to examine the socio-economic factors and tax compliance among small businesses in Nigeria while the specific objectives

Ogundeko Sodiq Temitayo, Tijani Jamiu Olakunle & Peters, Deborah Amarachi

are to:

- i. Explore the extent to which tax literacy levels contribute to generating higher tax revenue among small businesses in Nigeria.
- ii. Examine the relationship between taxpayers' ethnicity and low cases of tax evasion among small businesses in Nigeria.
- iii. Investigate how taxpayers' income levels influence the reduction of the tax gap among small businesses in Nigeria.

Research Questions

- i. What is the extent to which tax literacy level contribute to the generation of higher tax revenue among small businesses in Nigeria?
- ii. What is the relationship between taxpayer's ethnicity and low cases of tax evasion among small businesses in Nigeria?
- iii. How does taxpayer's income level influence the reduction of the tax gap among small businesses in Nigeria?

Research Hypotheses

- i. H_0 : There is no significant effect of tax literacy level on the generation of higher tax revenue among small businesses in Nigeria.
 H_1 : There is a significant effect of tax literacy level on the generation of higher tax revenue among small businesses in Nigeria.
- ii. H_0 : There is no significant relationship between taxpayer's ethnicity and low cases of tax evasion among small businesses in Nigeria.
 H_1 : There is a significant relationship between taxpayer's ethnicity and low cases of tax evasion among small businesses in Nigeria.
- iii. H_0 : There is no significant influence of taxpayer's income level on the reduction of tax gap among small businesses in Nigeria.
 H_1 : There is a significant influence of taxpayer's income level on the reduction of tax gap among small businesses in Nigeria.

Significance of the Study

This research will greatly improve the study of socio-economic factors and tax compliance among small businesses in Nigeria. The study would also benefit small business owners, tax authorities, researchers and scholars who are interested in developing a further study on the subject matter. Understanding this research can help tax authorities design more effective strategies to promote tax compliance and it can help small business owners in navigating tax regulations and optimizing their financial management practices.

Literature Review

Conceptual Review

Tax Compliance

One of the important tools for collecting revenue is by reaching the peak level of tax compliance from the taxpayers themselves (Abubakar et al, 2023). In as much as tax is a compulsory levy, many people still struggle to be compliant. Abiodun (as cited in Abubakar et al, 2023) canvassed that it is a herculean task to appeal to taxpayers to adhere to tax laws even though these laws are subject to change. Tax compliance is the extent to which a taxpayer responds to tax rules and regulations. It is the attitude and responsiveness of taxpayers to the directives of the tax laws and

policies. Tax compliance is a situation whereby individuals or businesses fulfil their responsibilities to pay what they owe to the tax authority (Adebisi et al, 2022). It exists when an individual or business ensures that income is reported accurately and expenses are deducted in line with the applicable tax laws (Inasius, as cited in Salawu & Salawu, 2023). Tax compliance can also be seen according to Olaniyi (2020) as the immediate response of taxpayers to tax payments by presenting necessary information regarding tax matters to the appropriate tax authority.

Presently, the concept of tax compliance is credited to Allingham & Sandmo, 1972 (as cited in Olaniyi, 2020). They made use of economics of crime approach which was developed by Becker, 1968 (as cited in Olaniyi, 2020) to describe taxpayer's compliance and behavior. Compliance may be of three forms namely; committed compliance, capitulative compliance and creative compliance (Mc Barnett, 2003 as cited in Etim et al, 2020). Committed compliance occurs when a taxpayer voluntarily fulfill his/her tax responsibilities without the need to complain or give excuse. Capitulative compliance is a situation whereby a taxpayer fulfil his/her tax responsibilities grudgingly while creative compliance can be seen as any means by which a taxpayer try to lower his tax by manipulating the income and expenses within the jurisdiction of the laws (Etim et al, 2020).

Determinants of Tax Compliance

The high rate of tax evasion by small businesses in Nigeria has a great effect on the revenue generated by the government (Appah & Duoduo, 2023). Factors that determine tax compliance attitude can be classified as social, psychological and economic factors (Jackson & Millron, 1986; Alm et al, as cited in Mohammed, Idawati& Noraza, 2020). However, other determinants of tax compliance include: business factors, industry factors, and so on. These factors describe the level to which taxpayers comply with tax payments. This [study](#) however is limited to Socio-economic factors.

Socio-economic Factors

Socio-economic factors refers to taxpayers desire to comply with tax laws with reference to their attitudes and their social environment (Torgler, as cited in Etim et al, 2020). Loo, 2006 (ascited in Etim et al, 2020) also examines these factors as those activities that come along with the cost and benefits of undertaking the activities. Taxpayers are presumed to be logical tax evaders and they would examine the cost or benefits of not adhering to tax regulations (Torger& Schneider, 2007 as cited in Etim et al, 2020). Generally, taxpayers do not have the desire to pay tax (Gunes, Feride & Adnan, 2019). An approach has been developed since 1970 and it measures the behavior and intrinsic motivation of taxpayers. It adopted the principle of 'trust is good, control is better'(Gunes et al, 2019). Social, cultural and economic determinants that shapes taxpayers' attitude are very essential to examine because they have a great impact on the tax generation rate (Rana, 2020). Socio-economic factors however will be restricted to three factors namely; tax literacy level, ethnicity of taxpayers and income level of taxpayers.

Tax literacy level

Even if tax is compulsory, the individual or business paying tax has the right to know how much the tax liability is and how the amount was gotten (Naibei &

Ogundeko Sodiq Temitayo, Tijani Jamiu Olakunle & Peters, Deborah Amarachi King'ori, 2019). International Adult Literacy Survey (IALS) defines literacy as 'the ability to understand and employ printed information in daily activities at home, at work and in the community to achieve one's goals and to develop one's knowledge and potential'. A literate person according to United Nations Education, Scientific and Cultural Organizations (UNESCO) is 'one who can both read with understanding and write a short simple sentence on his everyday life'. Tax literacy can be seen as the level of knowledge an individual or business has in terms of tax matters. An individual with a high level of tax literacy knows the basic principles of tax, its functions and how it works, taxpayers' rights, how taxes are used, the essence of tax in budgetary system (Gunes et al, 2019).

Educating taxpayers help them to reason that by contributing to the state, they are also participating in the economic and social development of the state which will be of benefit to the state and will as well motivate self-compliance (Naibei & King'ori, 2019). Tax literacy helps people understand tax matters better. The inadequacy in tax knowledge makes small businesses feel the need to evade taxes (Twun et al, 2020). A person without tax knowledge may unknowingly have a greater level of tax non-compliance (Chardon, 2016 as cited in Gunes et al, 2019).

Ethnicity of Taxpayers

This refers to the diverse cultural background or ethnic groups to which taxpayers belong to. The ethnicity of taxpayers can affect how people feel about the tax system. An ethnic group can be spotted out from other groups through its cultural background and language. An ethnic group shares common ties and have the same belief. One of the major components of ethnicity is culture. Generally, culture is the total way of life of people. Savignon and Sysoyer, 2002(as cited in Emovon et al, 2024) defines culture as the system of symbols, ideas and meanings that are passed down from one generation to another. Culture affects tax compliance because it shapes the behavior of taxpayers. If the attitude of not being compliant with tax is acceptable in a particular culture, then the rate of tax noncompliance will rise (Muthaloo et al, 2020).

Income level of Tax payers

Income can be seen as the money people earn from either occupation or employment(active income), trade (business income), investment (portfolio income), dividend (passive income), etc. Usually, taxes are charged on the income of individuals in order to generate revenue to the government and to provide public services. The revenue generated during a particular period is dependent on the tax being paid (Nadee & Premaratna, 2020). The government uses different techniques to ascertain how much people should pay as tax according to their income (Nadee & Premaratna, 2020). Kirchler et al, 2007(as cited in Nadee & Premaratna, 2020) found out that when income is earned in a difficult way, that is, after several obstacles and challenges, taxpayers will be reluctant to pay tax. Currently, Nigeria experiences an economic nosedive. The inflation rate as at March, 2024 rose to 33.2%, which can be attributed to the recent increase in electricity tariff from the current midpoint of N70 Kilowatt per hour (Kwh) to an average of N205 per Kilowatt hour and rise in fuel price. Small businesses struggle to make sales as they experience low patronage. This factor discourages small businesses from paying tax.

Small Business

Various researchers have defined small businesses in different ways. The

Federal Ministry of Industries looked at small and medium sized business as those companies with less than 300 employees and less than \$200 million in capital. Central Bank of Nigeria also defined small business as a business with an annual turnover of not more than N500,000. Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) defined small scale enterprises as business with employment from 10-49 persons and less than N50 million asset base excluding land and building. The National Economic Reconstruction Fund(NERFUND) defines small scale enterprises as one whose total assets are less than N10 million. Section 25 of the Finance Act of Nigeria (2020) described small companies as companies that earns gross turnover of N25 million or less per annum.

Wikipedia defines small businesses as types of corporations, partnerships, or sole proprietorships which have small number of employees and less annual revenue than a regular sized business or corporation. Small businesses range from itinerant traders, kiosk owners, market traders, small scale service providers, et.c. Nigeria is endowed with individuals with a high spirit of entrepreneurship. The country is gifted with fertile lands, various mineral and human resources which makes it convenient for small business to operate in (Adewale & Godwin, 2022).

Theoretical Review

Economic Deterrence Theory

This theory was pioneered by Becker (1968) and first applied to tax compliance by Allingham and Sandmo (1972). This theory assumes that an individual examines the costs and the benefits of evading taxes and chooses not to pay if the benefit of evading tax is more than the cost. This theory assumes that tax non-compliance can be reduced if there are heavy penalties and tax audits for tax evaders. Therefore, if the penalties and audits are very strict, tax compliance will increase to a favourable level but if there are low penalties and audits, there will be tax non-compliance. Deterrence can be attained through different techniques, punitive and persuasive (Okoli and Abegunde, 2022). Deterrence theory assumes that taxpayers are economically rational. The pioneer of this theory, Becker (1968) argues that the use of legal penalties will prevent tax evasion. The theory is based on the assumption of fear of detection and punishment (Allingham and Sandmo, 2012 as cited in Ige et al., 2023). Allingham and Sandmo concluded that taxpayers are unethical individuals who are willing to evade taxes whenever the benefits of tax evasion exceeds the cost of punishment.

The Allingham-Sandmo theory was later modified by Yitzhaki in 1974. He incorporated economic incentives and disincentives for tax evasion. This modification assumes that taxpayers ~~earns~~ the penalty for tax non-compliance if caught, the effect, the strength of the sanction and the likelihood of their imposition (Vincent et al., 2023). This model however has certain limitations. It fails to look at the fact that sometimes, tax evasion is caused by psychological or social factors. Factors like poverty, income inequality, et.c. can influence tax evasion but these factors are overlooked in the deterrence theory. Also, a lot of uncertainties accompany the measurement of the audit and/or nature of the penalty. Some companies may not be audited because their locations are difficult to trace.

Prospect Theory

This theory was developed by Daniel Kahneman and Amos Tversky in 1979. It

Ogundeko Sodiq Temitayo, Tijani Jamiu Olakunle & Peters, Deborah Amarachi

is used to explain how people make decisions under uncertainty. It is based on the idea that the way a decision is crafted can have impact on the choice made by individuals. In 1986, Jackson and Millron explained that prospect theory can be useful in tax compliance. Kahneman and Tversky argued that many individuals can overweigh low probabilities. For instance, if the probability of tax audit is 20%, in making decisions, they will act as if it exceeds 20%. If taxpayers overweigh the probability of the audit, then compliance will be greater. Prospect theory assumes that a taxpayer is ready to incur risk for the purpose of evading tax.

This theory is based on five ideas namely; reference dependence, declining sensitivity, loss aversion, non-linear weighting of probabilities and susceptibility to framing effects. Taxpayers are motivated by the fear of losing money maybe through penalties than the chance of gaining money. The way a tax issue is presented affects a taxpayer's behavior as suggested in this theory. Reference dependence involved taxpayers examining the outcome of tax of either the preceding year's tax liability or their colleague's tax payment. This theory provides a more description of decision making behavior than the economic theories. It suggests that individuals view outcomes based on gains or losses. It has been criticized for its complexity and inconsistency in the behaviors observed.

Empirical Review

Egiyi (2022) examined the role of taxation as a critical instrument in promoting economic growth. Using an ordinary least squares linear regression model, the study evaluated various taxation indicators, including stamp duties, value-added tax (VAT) for both import and non-import items, gas income tax, petroleum profit tax, corporate income tax, and capital gains tax. Data for these indicators were sourced from the 2020 statistical bulletin of the Central Bank of Nigeria. The findings showed that capital income tax and VAT (for imports and non-imports) have a statistically significant positive impact on Nigeria's economic development at a 5% significance level. Ige, Igbekoji, and Dagunduro (2023) explored the relationship between good governance and tax compliance among small and medium-sized enterprises (SMEs) in Nigeria, with a focus on the moderating influence of socio-economic factors. Using a survey research design, data were collected from primary sources via structured questionnaires administered directly to SMEs at their workplaces. The study employed a simple random sampling method for participant selection.

The study focused on a population of 967,468 registered SMEs in Ekiti State, from which a sample of 400 was determined using Taro Yamane's formula. Data collected were analyzed using descriptive statistics, structural equation modeling, ordinary least squares (OLS), and regression analysis. Findings revealed a significant positive relationship between good governance and tax compliance among Nigerian SMEs, indicating that good governance enhances tax compliance in this sector. The study concluded that transparency, accountability, and responsiveness by the government could foster public trust and further improve tax compliance among taxpayers. Rana (2020) examined the impact of socio-economic variables on tax compliance from a fiscal sociology perspective, focusing on European Union and OECD countries. The study aimed to assess how structural societal elements interact with tax compliance, analyzing data from 2008 to 2016 through panel data analysis. The findings indicated that increasing tax compliance depends on society's acceptance of tax policies, suggesting that tax system regulations should align with

societal values and perspectives.

Emovon et al. (2024) explored the role of culture in sustainable tax compliance within Nigeria. This conceptual paper used a library-based approach, reviewing existing literature on cultural influences on tax behavior in Nigeria. The study found that cultural factors, as represented by Hofstede's dimensions, significantly impact tax compliance among individual taxpayers. Furthermore, transparency and accountability in governance were identified as critical for fostering taxpayer trust, as distrust in the tax system can lead to evasion. The authors recommended that Nigerian tax policies, laws, and administration account for cultural factors to improve compliance. Additionally, they suggested strengthening tax authorities and closing loopholes in tax legislation for better enforcement. Nadee and Premaratna (2020) investigated the effect of income level on tax compliance among small and medium-sized taxpayers in Sri Lanka, utilizing the Slippery-Slope Framework to assess this relationship. Focusing on the SME sector, the study explored how a taxpayer's income level impacts their compliance behavior, with considerations of trust in tax authorities and the authority's power. Data were collected through a self-administered questionnaire, yielding 408 responses. The association between income and compliance was measured using Kendall's tau-b and Spearman's correlation coefficients.

Research Methods

Cross-sectional survey research design was adopted which involves collecting data from a sample population at a particular period of time. This was chosen because it provides an insight into the current behaviors and beliefs of small business owners in Nigeria in respect to tax compliance at a given point in time. The research philosophy adopted for this study is Interpretivism. This was chosen because it focuses on the perspectives of small business owners in Nigeria which is very necessary in examining the factors affecting tax compliance rather than just examining numbers and statistics.

Members of the population relevant to this study are Small Business Owners in Lagos State. SMEDAN's report shows that there are about 11,663 Small and Medium Enterprises in Lagos State. This research will be restricted to Ojo Local Government Area in Lagos State which has approximately 583 SMEs (11,663/20 LGAs). This area was selected due to proximity to the researchers which aids effectiveness and low cost. Simple Random Sampling Techniques was used in this study. In this technique, every element in the population has an equal chance of being selected. This technique prevents personal bias because the researchers selected randomly. In order to determine the sample size of 237 SMEs, the researchers applied Taro Yamane Method which was formulated by Taro Yamane in 1967. The formula is given below:

$$n = \frac{N}{1 + N(e)^2}$$
; where n= sample size, N= population, e= margin of error (5%), 1= constant.

Primary Data was majorly used in this study to gather data which involves the use of a Structured Questionnaire. This questionnaire was distributed to Small Business Owners in Nigeria using Lagos State as a case study. The questionnaire was used to determine the Ethnicity of taxpayers, Taxpayers' literacy level and Income level of taxpayers and how they comply with tax obligations. It made use of a

Ogundeko Sodiq Temitayo, Tijani Jamiu Olakunle & Peters, Deborah Amarachi modified Likert scale with 5 points scale ranging from Strongly Agreed of 5 points to Strongly Disagreed of 1 point.

This study adopted the model of Etim et al. (2020) who examined the Individual and Socio- Economic Factors as Tax Compliance Determinant in Self-Assessment System (SAS) In Akwa Ibom State. For the purpose of the research, Socio-economic factors is the Independent variable while Ethnicity, Literacy level and Income level are the proxies. The dependent variable is Tax compliance.

The model will therefore be;

$$TC = \beta_0 + \beta_1(ETH) + \beta_2(LIT) + \beta_3(INC) + \varepsilon$$

Where:

- TC is an acronym for Tax Compliance
- ETN is an acronym for Ethnicity
- LIT is an acronym for Literacy level
- INC is an acronym for Income level
- β is the intercept
- $\beta_1, \beta_2,$ and β_3 are the coefficients for the independent variables
- ε is the error term

The table below shows the Dependent and Independent variables with their a priori expectations.

S/N	VARIABLES	TYPES	A PRIORI EXPECTATION
1.	Tax Compliance	Dependent	
2.	Ethnicity of Taxpayers	Independent	Negative
3.	Literacy level of Taxpayers	Independent	Positive
4.	Income level of Taxpayers	Independent	Positive

Source: Researcher's Work 2025

ANALYSIS AND INTERPRETATION

Descriptive Analysis of the Respondent's Demographics

This section provides the frequency distributions of the demographics of the respondents, viz. age, gender, ethnic group, educational level and business location. Table 1 shows the distribution of the respondents' demographic details. It could be observed that among the surveyed respondents, majority of them are within the age bracket of 36 – 45 years of age, which is about 30.8 percent of the total respondents. Moreover, male respondents appear to be predominant in the survey comprising about 52.3 percent of the total respondents while the female counterparts take the

remaining proportion of about 47.7 percent.

Majority of the surveyed respondents with the small businesses are from the South-Western Nigeria that belong to the Yoruba ethnic group comprising about 43.5 percent of the respondents. The Hausa ethnic group takes the second position comprising about 27.8 percent. Furthermore, it could be observed that majority of the surveyed business owners possess secondary school certificates comprising about 41.8 percent of the total respondents. Meanwhile, 31.6 percent possess higher educational certificates while 26.6 percent of the respondent are primary school certificate holders. The foregoing suggests that majority the surveyed business owners are likely to have some level of tax literacy. Majority of the surveyed small businesses are located in rural vicinity comprising about 61.2 percent of the respondents.

Table1-: Respondents’ Demographics Frequency Distribution

1. Age	Categories	Frequency	%
	18-25 Years	38	16.0
	26-35 Years	72	30.4
	36-45 Years	73	30.8
	46 Years & Above	54	22.8
	Total	237	100.0
2. Gender	Categories	Frequency	%
	Male	124	52.3
	Female	113	47.7
	Total	237	100.0
3. Ethnic Group	Categories	Frequency	%
	Hausa	66	27.8
	Yoruba	103	43.5
	Igbo	52	21.9
	Others	16	6.8
	Total	237	100.0
4. Educational Level	Categories	Frequency	%
	Primary	63	26.6
	Secondary	99	41.8
	Tertiary	75	31.6
	Total	237	100.0
5. Business Location	Categories	Frequency	%
	Urban	92	38.8
	Rural	145	61.2
	Total	237	100.0

Source: Field Survey, 2025.

Descriptive Analysis of Variables

This section provides the statistical evaluation of the variables of the study such as ethnicity of taxpayers (TPE), taxpayers’ literacy level (TLL) and income level of taxpayers (TIL), tax revenue (TREV), tax evasion (TEV) and tax gap (TAXG).

Table 2: Summary Statistics of Variables

Variables	N	Mean	Std. Deviation	Kurtosis	Skewness		
					Statistic	Std. Error	Statistic
TLL	237	3.494	0.687	0.348	0.315	-.506	.158
TPE	237	3.254	0.633	0.780	0.315	.197	.158
TIL	237	3.501	0.644	0.513	0.315	-.197	.158
TREV	237	3.306	0.625	0.918	0.315	.262	.158
TEV	237	3.227	0.613	1.375	0.315	.148	.158
TAXG	237	3.341	0.836	25.168	0.315	2.693	.158

Source: Author's computation (2025) using SPSS

Table 2 shows the summary statistics of the variables under investigation. It could be observed that each of the variables has its standard deviation below the mean statistic. The foregoing suggestion that the responses on the dimensions of socio-economic factors and tax compliance among small businesses have low variability among the respondents. This may also suggest consistency in the responses provided by the selected respondents operating small business. Furthermore, it could be observed that taxpayers (TPE), tax revenue (TREV), tax evasion (TEV) and tax gap (TAXG) have positive skewness coefficients suggesting that most of the responses tend towards “disagree and strongly disagree” response scales. However, taxpayers' literacy level (TLL) and income level of taxpayers (TIL) appear to have negative skewness coefficients and thus, suggesting that most of the responses cluster around “agree and strongly agree” response scales. Meanwhile, the kurtosis coefficients indicate that tax gap (TAXG) is peaked (leptokurtic) in distribution having a large coefficient (56.08). On the contrary, taxpayers (TPE), taxpayers' literacy level (TLL) and income level of taxpayers (TIL), tax revenue (TREV) and tax evasion (TEV) are flat-topped (platykurtic) in distribution with coefficients below the threshold of 3 for a normal distribution.

Model Estimation and Results

The study's model estimation results are provided in this section. Basically, the study employed ordinary least squares (OLS) among the selected cross-sections. Table 3. presents the summary of the estimates and statistics obtained from the estimation of regression models using the pooled OLS. The upper panel or section of the table reveals the estimates of the model. Meanwhile, the lower panel shows the additional statistics and diagnostics arising from the model estimation. Three models were estimated including TREV-model, TEV-model and TAXG-model.

TREV-Model: This model involves the relationship between tax literacy rate (TLL) and tax revenue (TREV). Table 4.3 shows the estimation result of the model.

Table 3-: Model Estimation Results

Sample: N = 237 Respondents

Response Variable	
TREV	
Independent Variable	
Intercept (C)	1.8306***

(0.0000)

<i>TLL</i>	0.2741 ^{***}
(0.0000)	

0.2031 ^{***} (0.1948)	<i>TPE</i>	
--------------------------------	------------	--

<i>TIL</i>	-0.0409
(0.0004)	

	Further Statistics and Tests	Explanatory Power
R-squared		0.1403
Adj. R-squared		0.1293

Overall test

F-statistic	12.6783 ^{***}
(0.0000)	

Post Diagnostics: Heteroscedasticity Test (BPG)

F-Stat.	0.4259
(0.7346)	

Source: Researcher's computation (2025)

Note: The values in the parentheses () are *p*-values of the respective coefficients and statistics while ^{***} denotes statistical significance at the conventional 1% level of significance, respectively.

Evaluation of Hypothesis 1

H01: There is no significant effect of tax literacy level on the generation of higher tax revenue among small businesses in Nigeria.

As displayed in table 3, changes in tax literacy level (TLL) impact statistically significant and positive effect ($\beta = 0.2741$, $p = 0.0000 < 0.01$) on tax revenue generation (TREV) of the selected small business in Nigeria. As it appears, TREV responds positively and significantly to tax literacy level (TLL). Based on the foregoing, the significance position of the empirical test implies the rejection of the null hypothesis.

Meanwhile, changes in taxpayer's ethnicity (TPE) exert positive and statistically significant effect ($\beta = 0.2031$, $p = 0.0009 < 0.01$) on tax revenue generation of the selected small businesses in Nigeria. However, changes in tax income level (TIL) exert negative and statistically insignificant effect ($\beta = -0.0409$, $p = 0.4994 > 0.1$) on tax revenue generation of the selected small businesses in Nigeria

Test of Overall Significance

As shown in table 3, the F-statistics (12.6783) indicates all the included variables (*TLL*, *TPE* and *TIL*) appear to have combined or joint significant impact on tax revenue generation having a *p*-value (0.0000) less than 0.01 level of significance. Thus, the considered socio-economic factor (*TLL*, *TPE* and *TIL*) have joint effect on

Ogundeko Sodiq Temitayo, Tijani Jamiu Olakunle & Peters, Deborah Amarachi
tax revenue generation of the selected small businesses in Nigeria.

Post Estimation Tests

Essentially, the post estimation tests here includes heteroscedasticity test. The post-test is residual-based diagnostic. Table 3 shows the results of the post diagnostic test. The heteroscedasticity test (stat. = 0.4259, $p = 0.7346$) using Breusch-Pagan-Godfrey (BPG) specification yielded insignificant result suggested homoscedasticity in the residuals of the estimated model. Based on the foregoing, the estimates obtained from of the *TREV*-model are valid for inferences and policy making having met fundamental assumptions of the estimation method.

i. **TEV-Model:** This model involves the relationship between taxpayer's ethnicity (TPE) and tax evasion (TEV). Table 4 shows the estimation result of the model.

Table 4.4-: Model Estimation Results Sample: $N = 237$

		Response Variable
TEV		
Independent Variable		
<i>Intercept</i> (C) (0.0000)	2.4139 ^{***}	
<i>TLL</i> (0.0026)		0.1782 ^{***}
<i>TPE</i> (0.1566)		0.0883
<i>TIL</i> (0.6566)		-0.0278
Further Statistics and Tests		Explanatory Power
R-squared		0.0497
Adj. R-squared		0.0375
Overall test		
F-statistic (0.0077)		4.0644 ^{***}
Post Diagnostics: Heteroscedasticity Test (BPG)		
F-Stat. (0.2923)		1.2501

Source: *Researcher's computation (2025)*

Note: The values in the parentheses () are p -values of the respective coefficients and statistics while ^{***} denotes statistical significance at the conventional 1% level of

significance, respectively.

EVALUATION OF HYPOTHESIS 2

H01: There is no significant relationship between taxpayer's ethnicity and low cases of tax evasion among small businesses in Nigeria.

As displayed in table 4, changes in taxpayer's ethnicity (TPE) exert statistically insignificant and positive effect ($\beta = 0.0883, p = 0.1566 > 0.1$) on tax evasion (TEV) of the selected small business in Nigeria. As it appears, TEV responds positively, however, insignificantly to taxpayer's ethnicity (TPE). Based on the foregoing, the significance position of the empirical test implies the retention of the null hypothesis.

Meanwhile, changes in tax income level (TIL) exert positive and statistically significant effect ($\beta = 0.1782, p = 0.0026 < 0.01$) on tax evasion of the selected small businesses in Nigeria. However, changes in tax income level (TIL) exert negative and statistically insignificant effect ($\beta = -0.0278, p = 0.6566 > 0.1$) on tax evasion of the selected small businesses in Nigeria

Test of Overall Significance

As shown in table 4, the F-statistics (4.0644) indicates all the included variables (TLL, TPE and TIL) appear to have combined or joint significant impact on tax evasion (TEV) having a *p*-value (0.0077) less than 0.01 level of significance. Thus, the considered socio-economic factor (TLL, TPE and TIL) have joint effect on tax evasion of the selected small businesses in Nigeria.

Post Estimation Tests

Essentially, the post estimation tests herein includes heteroscedasticity test. The post-test is residual-based diagnostic. Table 4 shows the results of the post diagnostic test. The heteroscedasticity test (stat. = 1.2501, *p* = 0.2923) using Breusch-Pagan-Godfrey (BPG) specification yielded insignificant result suggested homoscedasticity in the residuals of the estimated model. Based on the foregoing, the estimates obtained from of the TEV-model are valid for inferences and policy making having met fundamental assumptions of the estimation method.

ii. **TAXG-Model:** This model involves the relationship between tax income level (TIL) and tax gap (TAXG). Table 5 shows the estimation result of the model.

Table 4.5:- Model Estimation Results Sample: N = 237

		Response Variable
TAXG		
Independent Variable		
<i>Intercept (C)</i> (0.0032)	1.2691 ^{***}	
<i>TLL</i> (0.0003)		0.2878 ^{***}
<i>TPE</i> (0.0865)		0.1414 [*]

TIL 0.1731**
(0.0369)

Further Statistics and Tests	Explanatory Power
R-squared	0.1050
Adj. R-squared	0.0935
Overall test	
F-statistic (0.0000)	9.1109***
Post Diagnostics: Heteroscedasticity Test (BPG)	
F-Stat. (0.3968)	0.9930

Source: Researcher's computation (2025)

Note: The values in the parentheses () are *p*-values of the respective coefficients and statistics while ***, ** & * denotes statistical significance at the conventional 1%, 5% and 10% level of significance, respectively.

Evaluation of Hypothesis 3

H01: There is no significant influence of taxpayer's income level on the reduction of tax gap among small businesses in Nigeria.

As displayed in table 5, changes in tax income level (*TIL*) impact statistically significant and positive effect ($\beta = 0.1731, p = 0.0369 < 0.05$) on tax gap (*TAXG*) of the selected small business in Nigeria. As it appears, *TAXG* responds positively and significantly to tax income level (*TIL*). Based on the foregoing, the significance position of the empirical test implies the rejection of the null hypothesis.

Meanwhile, changes in tax literacy level (*TLL*) exert positive and statistically significant effect ($\beta = 0.2878, p = 0.0003 < 0.01$) on tax gap of the selected small businesses in Nigeria. Similarly, changes in taxpayer ethnicity (*TPE*) exert positive and statistically significant effect ($\beta = 0.1414, p = 0.0865 < 0.1$) on tax gap of the selected small businesses in Nigeria.

Test of Overall Significance

As shown in table 5, the F-statistics (9.1109) indicates all the included variables (*TLL*, *TPE* and *TIL*) appear to have combined or joint significant impact on tax gap having a *p*-value (0.0000) less than 0.01 level of significance. Thus, the considered socio-economic factor (*TLL*, *TPE* and *TIL*) have joint effect on tax gap of the selected small businesses in Nigeria.

Post Estimation Tests

Essentially, the post estimation tests herein includes and heteroscedasticity test. The post-test is residual-based diagnostic. Table 5 shows the results of the post diagnostic test. The heteroscedasticity test (stat. = 0.9930, *p* = 0.3968) using Breusch-Pagan-Godfrey (BPG) specification yielded insignificant result suggested homoscedasticity in the residuals of the estimated model. Based on the foregoing,

the estimates obtained from of the TAXG-model are valid for inferences and policy making having met fundamental assumptions of the estimation method.

Discussion of Findings

This study investigated the nexus between socio-economic factors and tax compliance of selected small businesses in Nigeria. The study employed ethnicity of taxpayers, taxpayers' literacy level and income level of taxpayers as socio-economic factors. Ethnicity of taxpayers, tax revenue, tax evasion and tax gap were employed as dimensions of tax compliance. The study empirical analysis revealed that tax revenue generation is significantly associated with tax literacy levels. However, taxpayer ethnicity appears to be an insignificant determinant of tax evasion of the selected small businesses. Meanwhile, tax income level demonstrates consequential impact on tax gap among the taxpayers of the selected small business.

Conclusion and Recommendations

The study found out that tax literacy level significantly impacts tax revenue generation, taxpayers' ethnicity does not significantly influence tax evasion and tax income level has a consequential impact on tax gap. In conclusion, this study demonstrates that socio-economic factors significantly influence tax compliance among small businesses in Nigeria. The findings highlight the need for targeted interventions, such as tax literacy programs and income-level-based tax policies, to enhance tax compliance. Policymakers, tax authorities, and small business owners can benefit from these insights to promote a more equitable and compliant tax environment. By addressing these factors, Nigeria can increase tax revenue, reduce tax evasion, and promote sustainable economic growth. Ultimately, this study contributes to the development of effective tax policies and interventions that support the growth and development of small businesses in Nigeria, while promoting a culture of tax compliance.

The study further recommended that the government should implement tax literacy programs to educate taxpayers on tax laws and regulations, promoting voluntary compliance. Tax policies should consider the income level of small business owners to promote fairness and equity. Also, ethnicity-based tax incentives should be explored to promote tax compliance among diverse ethnic groups. Lastly, rural areas should receive increased support for small businesses, including access to tax education and financial resources.

References

- Abegunde, B. & Somorin, T. (2024). *Historical perspectives on tax compliance in Nigeria: From colonial times to modern-day challenges*. *Journal of Nigerian Economic History*, 19(2), 12-31.
- Adebisi, Amole, & Oyenuga (2022). *Tax compliance and its challenges for small businesses in Nigeria*. *Nigerian Tax Journal*, 34(2), 45-56.
- Allingham, M. G., & Sandmo, A. (1972). *Income tax evasion: A theoretical analysis*. *Journal of Public Economics*, 1(3-4), 323-338.
- Alm, J. (2012). *Measuring, explaining, and controlling tax evasion: Lessons from theory, experiments, and field studies*. *International Tax and Public Finance*, 19(1), 54-77.

Ogundeko Sodiq Temitayo, Tijani Jamiu Olakunle & Peters, Deborah Amarachi

- Alm, J., & Torgler, B. (2006). *Culture differences and tax morale in the United States and Europe*. *Journal of Economic Psychology*, 27(2), 224-246.
- Alm, J., Bloomquist, K., & McKee, M. (2017). *On the external validity of tax compliance experiments*. *Economic Inquiry*, 55(2), 1-18.
- Anyanfo, A. (1996). *Public finance in a developing economy: The Nigerian case*. Department of Finance, University of Nigeria.
- Appah, E., & Duoduo, M. (2023). *The determinants of tax compliance in small businesses*. *Journal of Development Studies*, 11(4), 81-95.
- Areo, Obindah, & Evans (2020). *Impact of public transportation on small businesses*. *Journal of Nigerian Economics*, 15(1), 112-126.
- Becker, G. S. (1968). *Crime and punishment: An economic approach*. *Journal of Political Economy*, 76(2), 169-217.
- Benjamin, Franklin (2021). *The inevitability of taxes and the cost to small businesses*. *International Journal of Economics*, 8(3), 234-249.
- Bhartia, H. (2009). *Public Finance: Theory and Practice*. New Delhi: Vikas Publishing House.
- Chardon, T. (2016). *The impact of tax knowledge on tax compliance: An empirical study in Australia*. *Australasian Tax Teachers Association Journal*, 11(1), 39-55.
- Danjuma, A. (2014). *Impact of socio-economic factors on tax compliance in Nigeria*. *Nigerian Journal of Economics and Development*, 18(2), 87-110.
- Egiyi, (2022). *Taxes as a significant tool for economic development*. *Nigerian Economic Journal*, 19(1), 67-89.
- Etim, N., Nsima, U., & Daniel, U. (2020). *Individual and socio-economic factors as tax compliance determinants in Self-Assessment System (SAS) in Akwa Ibom State, Nigeria*. *International Journal of Social Science Research*, 5(4), 135-149.
- Hofstede, G. (2001). *Culture's consequences: Comparing values, behaviors, institutions, and organizations across nations*. Sage Publications.
- Ige, Igbekoji, & Dagunduro (2023). *Good governance and tax compliance among SMEs in Nigeria: Moderating role of socio-economic factors*. *African Journal of Business Ethics*, 7(1), 60-78.
- Jackson, B., & Millron, V. C. (1986). *Tax compliance research: Findings, problems, and prospects*. *Journal of Accounting Literature*, 5, 125-165.
- Kirchler, E., Hoelzl, E., & Wahl, I. (2008). *Enforced versus voluntary tax compliance: The "slippery slope" framework*. *Journal of Economic Psychology*, 29(2), 210-225.
- Loo, E. C., & Ho, J. K. (2005). *Competency of Malaysian salaried individuals in relation to tax compliance under the self-assessment system*. *eJournal of Tax Research*, 3(1), 45-62.
- McKerchar, M., Bloomquist, K., & Pope, J. (2009). *Indicators of tax morale: An*

- exploratory study*. eJournal of Tax Research, 7(2), 178-202.
- Michael, A. (2022). *The role of tax compliance in fostering economic stability: Lessons from emerging economies*. Journal of Taxation and Public Finance, 22(3), 29-46.
- Nadee, C., & Premaratna, R. (2020). *The impact of income on tax compliance: Evidence from small and medium taxpayers of Sri Lanka*. Journal of International Business and Taxation, 18(2), 110-128.
- National Bureau of Statistics (2021). *Tax compliance in Nigeria*. Lagos: Nigerian Government Press.
- Nosike, A., & Akwuobi, E. (2022). *Challenges of tax compliance among small businesses in Lagos State, Nigeria*. Journal of Nigerian Business Research, 29(3), 95-109.
- Odukwu, Eke, Effiong, & Karimo (2023). *Tax compliance and economic growth: Moderating effect of tax morale*. Tax Compliance Quarterly, 27(4), 55-71.
- Ojochogwu, W., & Stephen, M. (2012). *Factors that affect tax compliance among SMEs in North Central Nigeria*. International Journal of Business and Management, 7(12), 87-96.
- Palil, M. R., & Mustapha, M. A. (2011). *Factors affecting tax compliance behavior in self-assessment system*. African Journal of Business Management, 5(33), 12864-12872.
- Rana, Z. (2020). *Socio-economic variables and tax compliance: A comparison of EU and OECD countries*. Journal of Fiscal Sociology, 14(3), 89-102.
- Richmell (2016). *Economic role of small businesses*. Lagos Business Review, 12(4), 45-67.
- Saad, N. (2011). *Fairness perceptions and compliance behavior: The case of salaried taxpayers in Malaysia after implementation of the self-assessment system*. eJournal of Tax Research, 9(1), 119-147.
- Slemrod, J. (2007). *Cheating ourselves: The economics of tax evasion*. Journal of Economic Perspectives, 21(1), 25-48.
- Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) (2020). *Overview of small businesses in Nigeria*. Lagos: SMEDAN Publications.
- Tadesse, H. & Goitom, S. (2014). *Determinants of tax compliance behavior in Ethiopia: The case of Bahir Dar city taxpayers*. Journal of Business and Economics, 2(4), 51-65.
- Torgler, B., & Schneider, F. (2007). *What shapes attitudes toward paying taxes? Evidence from multicultural European countries*. Social Science Quarterly, 88(2), 443-470.
- Vincent, et al. (2023). *Sociodemographic determinants of tax compliance behavior among SME entrepreneurs in Nigeria*. Journal of Nigerian Social Sciences, 15(3), 234-257.

Ogundeko Sodiq Temitayo, Tijani Jamiu Olakunle & Peters, Deborah Amarachi
Weber, M., & Hermann, E. (2014). *The influence of income and audit risk on tax compliance behavior*. Journal of Economic Behavior & Organization, 106, 183-194.

Yitzhaki, S. (1974). *A note on income tax evasion: A theoretical analysis*. Journal of Public Economics, 3(2), 201-202.