International Journal of Governance and Development Studies (IJOGDES), 13(1):44-59, 2026
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ISSN: 2971-6691, e-ISSN 2971-6705

Assessing Tax Awareness, Taxpayers' Trust in Governance and Tax Compliance Behaviour of Small and Medium Enterprises (SMEs) in Nigeria

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Abstract

Over the years the federal government of Nigeria has been putting efforts to review tax law and regulation which may have positive and negative effects on big, small and medium firms in Nigeria. Yet, there are suspicions that most small and medium business in Nigeria is characterized with lack of tax awareness and non-compliance behavour. Hence, this research investigated the connection between tax awareness, taxpayers' trust in governance and tax compliance behavoiur of Small and Medium Enterprises in Nigeria. This research adopted both qualitative and quantitative approaches to research. This research employed survey research approach by collecting primary data via the instruments of questionnaire. The population for the study consisted of 39,654,385 SMEs registered in Nigeria as at January 2022, according to SMEDAN. The sample size of 400 SMEs was determined by the scientific approach of Taro Yamane Formula. Moreover, multi-stage and .judgmental sampling techniques were employed to select 40 respondents each from 5 Northern States such as Kano, Kaduna, Kwara, Taraba and Bauchi and 5 states such as Lagos, Oyo, Rivers, Imo, and Delta in southern Nigeria. The findings of the study revealed that both tax awareness and taxpayers' trust in governance has significant positive effect on tax compliance behaviour of SMEs in Nigeria. The study recommended among other that government and its agencies should promote tax awareness campaign and programmes. Also, the tax authorities and government should uphold the principles of accountability and transparency\ in governance in a bid to enhance taxpayers' trust in governance.

Keywords*:* Taxes, Awareness Compliance, Trust, Governance, Tax payers SMEs

1.0 Introduction

Taxation is one of the major instruments of stabilization polices of government of developed and developing countries of the world. It is a major instrument of government fiscal policies used to stabilize the economy in the periods of recession and downturn, and to bring nations' economy

into the equilibrium during the cyclical movement between the incidents of boom and burst. .In other words, taxation is one of the major ways government employs to raise funds in order to cater for public goods and protection of citizens (De vera, 2017). Taxes are mandatory obligation made by the government on properties, people, income and businesses (Tabag, 2018). Revenue generated from taxes are often used to fund the national budget, which in turn cater social investment programmes and public goods such as education, health, agriculture, industry, good governance, security, sustainable economic growth and development.

Globally, it is worrisome that United Stated Inland Revenue Service documented a high likelihood that small businesses are probable to pay less than what is required simply because majority of their activities are often on cash (CFO, Selection Team, 2018). Past empirical studies documented a very low level of tax compliance among SMEs in advanced, emerging and developing economies. (Yuniari & Purnamawar, 2020, Unwanewaram& Zeman, 2020) Moreover, small entities in the United Kingdom amounted to 40% of their tax gap with €14 billion unpaid taxes due to errors lack of adequate tax law interpretation as well negligence (White, 2009). Studies carried out by some researchers documented that more half of promising tax income are outstanding. (Akinsulere, 2017, Unwanewaram & Zeman, 2020). Taxpayers in the informal sector of economy such SMEs are the category with inadequate tax awareness and as a result they make errors in their tax assessments and filling of tax return. (Pratama, 2018). Tax compliance can take form of voluntary or enforced actions. Irrespective of tax payers' perspective, views and their consequential criticism, taxpayers are more likely to be motivated they witness tangible outcome of their compliance through taxes payment in the form of improved standard of living, infrastructural development, social amenities, healthcare, education, social investment programmes (Salele-mpitu, 2020).

Poor tax compliance is a global phenomenon as it is witnessed in both developed and developing economies of the world. Though, the problem is more observed and experienced in developing countries (Bello et al, 2021). This may be as a result of existence of large unregistered firms, low tax awareness of tax law, incentives, and penalties, taxpayers' morale and trust in governance (Ma'shud, 2017, Linda, 2020). Tax compliance is a serious matter that requires continuous efforts by government of developing countries of the world, if tax revenue mobilization to fund national budget is to be improved, especially, in Nigeria where deficit budget financing through external borrowing has become the order of the day. Moreover, tax compliance requires inclusive and transformative awareness programme in a shadow economy like Nigeria, in order to curtail the increasing public debts profile, debt service burden, to improve declining foreign reserve emanated from macroeconomic factors which include creeping inflation, external shocks and volatility in exchange rate.

In a developing economies like Nigeria, SMEs account for over 90% of firms that produce over 50% of private sector employment opportunities (Atawodi & Ojeka, 2020). Majority of bigger firms in Nigeria have the historical background of being micro, small and medium in the past. The implication is that future bigger firms are the today's smaller firms that must be promoted for sustainable growth. SMEs account for 48% of the National GDP in the last five years in Nigeria (PWC, 2020, National Bureau of Statistics SMEs is the foundation of industrialization in any country, SMEs provide job opportunities in the informal sectors, foster international trade, promote investment diversification in the economy(Savitri& Musfialdy, 2018). These researchers further

claimed that some SMEs lack the required knowledge and awareness about tax law, which in turn result into low or non-compliance. Hence, this study examines seeks to explore the effect of tax awareness and taxpayers' trust in governance on compliance behaviour of SMEs in Nigeria.

In Nigeria, despite the significance of non-oil revenue such as income from taxes needed for sustainable economic growth and development and several efforts made by the federal government to ameliorate the tax system and administration through periodical tax reforms, yet several micro, small and medium business owners in Nigeria still lack adequate and reasonable level of knowledge and understanding of taxes and tax law and interpretation, resulting to either non-compliance or low compliance behaviour.

Consequently, public fund required for annual budget funding are tremendously loosing.. As a result federal government continue to rely more on public debts obtained from international organization like International Monetary Fund when on oil revenue which is greatly influenced by several macroeconomic variable such shock in OPEC, volatility in the foreign exchange rate among other, are not enough to cater for national budget. The practice of financing public budget by external debt is worrisome as it may lead to unsustainable growth and economic expansion, vulnerability to external shock, by using public required for public goods for debt servicing.

Most of the empirical studies on the nexus between tax awareness and tax compliance of SMEs are carried out in advanced and emerging countries (Savtri & Musfialdy, 2018, Alabbede et al, 2019). The few empirical studies conducted on phenomena under investigation in Nigeria are limited in scope and study's location. Yerima et al (2022) investigated the effect of tax awareness, knowledge and social costs on compliance of SMEs owners in Jalingo Local government. The study showed a positive significant effect of tax awareness on tax compliance of SMEs owners in Jalingo |local government in Nigeria. Similarly, Umar et al| (2024) examined the link between tax knowledge and tax compliance of SMEs in Gombe State, Nigeria showing a significant positive effect of tax knowledge on tax compliance of SMEs in Gombe State, Nigeria. This research is unique because it seeks to fill the gap existed in the literature by considering all the regions of the country while past empirical studies focused on either a local government or state of the federation. The implication of this study is to shield more light on how to increase revenue base of the government through taxation. The anticipated result of this study will be of great benefits to wide range of policy makers, tax authorities, experts, professionals, academics and practitioners in the industry, and other stakeholder which includes SMEs.

The main objective is to examine the effect of tax awareness and taxpayers' trust in governance on the tax compliance behaviour of SMEs in Nigeria while assessing the effect of tax awareness on the tax compliance behavoiur of SMEs in Nigeria; examining the impact of taxpayers' trust in governance on the compliance behaviour of SMEs in Nigeria; and evaluating the level of awareness and knowledge of tax, tax administration and law among SMEs in Nigeria.

2.0 Literature Review

2.1 Conceptual Review

Taxation is multifaceted and multidisciplinary in nature as it connects the different fields such as Accounting, Law, Economics and Psychology. Taxes and taxations policies are richly formulated

based on several economic theories. Tax administration and practices are usually regulated by tax laws in each jurisdiction. Tax practices, assessment and audit are deeply rooted in Accounting. Behavioral aspects of taxation which includes behaviour of taxes payers deeply rooted in Psychology. Taxation is a fiscal policy instrument used to stabilize economy of every nations of the world. Taxes are imposition made the government on individual and firms. Tax awareness is a responsibility of tax authority to educate general public on tax laws and it interpretation. Tax awareness is an effort by government authority or agency to enlighten the citizen on tax law and regulation, emphasizing the tax incentive and penalty attributable to tax compliance and non-compliance behaviour. Tax awareness has been documented to have a direct impact on tax compliance if service quality is efficient for some taxes (Savitr & Musfialdy, 2018).

Tax awareness should include but not limited persuasive discussion and engagement by tax authorities with taxpayers, public opinion on media, bill board and website creations. In recognizing the connection between tax awareness and compliance, government has made efforts on tax policy through regular tax reforms. The consequence of tax reforms may have both adverse and favorable effect on formal and informal sector. The major players in the informal sectors are SMEs. Tax compliance is a required condition for firms and individual taxpayer to adhere to tax by reporting true and accurate assessment of tax liabilities (Night & Bananuka, 2020). Tax compliance is very germane to public revenue required to redistribute income or wealth, foster sustainable economic growth and development of every countries of the world. However, the compliance behavour of taxpayers in developing countries like Nigeria depicts voluntary and very poor compliance level (Yuniari & Purnamawar, 2020). It has been argued that tax compliance behaviour by taxpayers has been attributed to tax aggressiveness by reporting assessable income that is lower than the actual (Linda, 2020). It is evident therefore, that taxpayers' compliance behaviour is shaped by factors such as tax awareness, taxpayers' trust in governance among others.

2.2 Theoretical Framework

This study is anchored on fiscal exchange theory and political legitimacy theory to explore the nexus between tax awareness, taxpayer's trust in governance and tax compliance of SMEs. Fiscal exchange theory is a blend of social, psychological and economic approach to determinant of tax compliance behavoiur. The theory of fiscal exchange was developed from economic deterrence and the social psychology models in 1963 by Lazarsfeld P. F and Morgenstern. This theory is based on the assumption that that fiscal contact exists between the taxpayers and government, where government provides public goods in return for tax revenue generated from taxpayers. The theory thus posits that taxpayers often consider what they will receive from the government in term of exchange benefit for compliance with relevant tax regulations (Martinez-Vazguez, 2001). In fiscal contract, it is presumed that taxpayer willingness to pay tax is often influenced by social factors such as taxpayers' awareness, belief and trust in governance among others. Taxpayers willing to accept to pay taxes in expectation for rights for good governance, fair representation, accountability, trust and transparency on tax revenues and its utilization is deeply rooted in the theory of social contact.

Moreover, the fiscal exchange theory of tax compliance holds that the level of compliance behaviour is mostly determine the relationship between taxes paid and the benefits received from government (Cowell & Gordon, 1988). This point of view holds that citizens assess the

effectiveness, equity, and benefits of government spending in public goods like infrastructure, healthcare, and education when considering payment of taxes. This theory stresses that taxpayers are willing to pay taxes when they believe that government pay back by provision public goods tangible and intangible benefits (Feld & Frey, 2002). Alm et al (1992) found experimentally that taxpayer compliance rates rise when they are informed of how tax revenues are used. In other words, tax awareness of what government uses the tax revenue for improves compliance behaviour of taxpayers. According to this theory, taxpayers' compliance behavour reduces with perceptions of poor service delivery or governance by government. Taxpayers may protests against high taxes if they are dissatisfied with the fiscal exchange. The relationship between tax awareness, taxpayers' trust in governance and compliance behaviour of SMEs in Nigeria. This theory has been adopted by Aladejebi (2018) and Ferry, Gabriel and Lilian (2015) have made use of the theory in previous related studies.

Political legitimacy theory is an offshoot of political economy theory and organization legitimacy concept defined by Dowling and Pfeffer (1975). Political legitimacy is considered as believe or trust in government and its institutions by the citizens to provide public goods and services for their well-being in exchange for tax payment. The theory assumes that compliance behavoiur is influenced by the taxpayers' trust in the government and its agencies. Kirchler, Hoelz & Wahl, 2008). Tax compliance is deemed to higher in a jurisdictions where taxpayers perceives greater level of trust than lower level of trust. In the world, tax compliance behavoiur is shaped by political legitimacy. Taxpayers trust in government and its agencies will affect tax rules and regulations compilances which will further increase voluntary tax compliance. it is postulated by Adekoya, Oyebamiji and Lawal (2019) that promotion of fairness in the application of tax laws will build trust and enhance voluntary tax compliance.

2.3 Empirical review

Regarding the link between tax awareness and compliance behavoiur among SMEs n Nigeria, Ihenyen et al (2025) examine the nexus between tax knowledge and tax Tax Compliance Behavior of Small Business Owners in Bayelsa State. The study employed survey research design while employing structured questionnaire to gather information. Regression analysis was employed to test the hypotheses formulated for the study. The study revealed that small business owners' compliance is significantly improved by having more tax knowledge. In order to promote voluntary compliance and improve revenue collection in Bayelsa State, it was suggested that tax authorities step up their sensitization campaigns, awareness campaigns, and training on tax obligations and available incentives. Kyla (2024) investigated tax awareness level of small business owners in Philippines and how understanding tax regulation and education influences their tax compliance behavior. The study adopted explanatory sequential research method. It was revealed that a moderate level of awareness of taxes, tax law rand its administration influenced the compliance behavour of small business owners. The study emphasized the need aggressive tax education among the small business owners. Yerima et al(2022) empirically investigated the effect of taxpayers' characteristics on the tax compliance of SMEs operators in Jalingo Local Government of Taraba State. The study utilized survey research design descriptive and inferential statistics. Data were analyzed with aid of Statistics Package for Social Sceince (SPSS) version 23. The finding of the study documented that tax awareness and tax knowledge have significant positive effects on the tax compliance of SMEs operators in Jalingo Local Government of Taraba

while tax social cost has an insignificant negative effect on tax compliance of Small and Medium Scale (SMEs) operators in Jalingo LGA. It was recommended in the study that tax authorities/collectors should as much as possible to create more tax awareness through organization of seminars, workshop and conferences for taxpayers. Similarly, Umar et al| (2024) examined the link between tax knowledge and tax compliance of SMEs in Gombe State, Nigeria showing a significant positive effect of tax knowledge on tax compliance of SMEs in Gombe State, Nigeria.

Regarding the nexus between the taxpayers' trust in governance and Compliance Behavoiur among SMEs in Nigeria. Ige et al (2023) investigated the nexus beween good governance and tax compliance among SMEs in Nigeria. The study documented a positive significant relationship between good governance and tax compliance among SMEs in Nigeria. The study recommends that government should be more accountable, transparent and responsive so as to enhance taxpayers trust and willingness to pay tax. Olurankinse and Oloruntoba (2021) empirically study the link between good governance and personal income tax compliance in Nigeria. It was uncover that there exist a significant relationship between tax fairness and personal income tax compliance in Nigeria. Furthermore, Koumpias, Leonardo and Martinez-Vazquez (2020) carried out empirical investigation on trust in government institutions and tax morale. The study showed that public goods and services provided by the government have impact on tax morale and willingness to pay tax. Adekoya et al (2022) investigated the connection between trust relationship and tax compliance in developing countries with focus on informal sector. The study documented that state government is honest on tax matters and its revenue application, this build trust and enhance voluntary tax compliance. The taxpayers who has no trust in governance will prefer to comply with tax regulations .and pay taxes. Trust is very key as regards the predictor of compliance behavpur of taxpayers in the all countries of the world. . Trust is likened to a lubricant in the relationship between the taxpayers and the government.

3.0 Methodology

Owing to the nature of this research, this study employed mixed mode research method by considering qualitative and quantitative approaches. This offers researcher opportunity to carry out in-depth and holistic research. Both primary and secondary data were collected for the purpose of this research. The primary data were collected through the research instrument of questionnaire and in-depth interview while the secondary data were sourced through internet, textual material and empirical works, Nigerian Bureau of Statistics, SMEDAN and Corporate Affairs Commission.

The study's location covered selected states across the six geo-political zones in Nigeria. This study also adopted survey research method by administering structured questionnaire designed to gather relevant and reliable information from the respondents. Also, cronbach's Alpha scale was explored to measure the reliability of the research instrument. The population for the study will consist of 39,654,385 SMEs registered in Nigeria as at January 2022, according to SMEDAN. The sample size which depicts a reliable representation of the entire population comprised of 400 SMEs across the southern and Northern states in Nigeria. The sample size of 400 was determined by the scientific approach of Taro Yamane. Formula. Furthermore, this study will employed stratified sampling technique to group Nigeria Southern and Northern Nigeria for the purpose of convenient, fair and equitable representation. Moreover, multi-stage and. judgmental sampling techniques

were employed to select 40 respondents each from 5 States such as Kano, Kaduna, Kwara, Taraba and Bauchi and 5 states such as Lagos, Oyo, Rivers, Imo, and Delta in southern Nigeria. In order to show the snap shot of the dependent variable and independent variables under investigation descriptive statistic were also employed. Data collected from the online surveys were tabulated, summarized and interpreted making use of descriptive statistics. The study's findings are presented using tables and mean, standard deviation, percentages and frequency were used for interpretation while study's objectives were achieved using Pearson Correlation Coefficient and Multiple Regression Analysis employing the Statistical Package for Social Sciences (SPSS) version 26.

4.0 Results and Discussion

4.1 Socio –demographic Data of Respondents

Table 4.1 presents the socio-demographic characteristics of the 400 SME respondents. Males constituted the majority (56.8%), consistent with patterns of male dominance in Nigerian business ownership. Respondents aged 30–50 years represented the modal category (51.8%), reflecting the economically active middle-age cohort that dominates Nigeria's SME landscape. The predominance of HND/B.Sc. holders (38.8%) followed by M.Sc./MBA (28.0%) indicates a relatively educated respondent pool. Trading (36.5%) and Service (23.5%) were the most common business types. Most SMEs employed between 0 and 10 staff (41.2%), and the majority reported annual turnovers between ₦5M and ₦25M (40.2%). Notably, 67.0% of respondents possessed a Tax Identification Number (TIN), while 33.0% did not, signaling a significant compliance gap in TIN registration

Table 4.1: Socio-Demographic Profile of Respondents (N = 400)

Variable	Category	Freq.	Variable	Category	Freq.
Gender	Male	227 (56.8%)	**Age**	< 30 years	75 (18.8%)
	Female	173 (43.2%)		30 – 50 years	207 (51.8%)
Qualification	SSCE	15 (3.8%)		51 – 60 years	85 (21.2%)
	ND/NCE	64 (16.0%)		61 & above	33 (8.2%)
	HND/B.Sc.	155 (38.8%)	**TIN Status**	Has TIN	268 (67.0%)

	M.Sc./MBA	112 (28.0%)		No TIN	132 (33.0%)
	Ph.D.	54 (13.5%)	**Employees**	0 – 10	165 (41.2%)
Nature of Business	Trading	146 (36.5%)		11 – 20	129 (32.2%)
	Manufacturing	80 (20.0%)		21 – 50	64 (16.0%)
	Service	94 (23.5%)		51 & above	42 (10.5%)
	Agriculture	41 (10.2%)	**Annual Turnover**	Below ₦5M	63 (15.8%)
	Others	39 (9.8%)		₦5M – ₦25M	161 (40.2%)
				₦26M – ₦100M	134 (33.5%)
				Above ₦100M	42 (10.5%)

Source: Field Survey (2026)

Descriptive statistics

Table 4.3 presents item-level and composite descriptive statistics for the three measurement constructs. Tax Awareness (TA) items recorded the highest mean composite score (M = 3.604, SD = 0.628), indicating that SME operators generally report moderate-to-high levels of awareness regarding their tax obligations. Item means for TA ranged from 3.595 (TA1) to 3.620 (TA3), with all skewness values within the acceptable range of ±1.0, confirming approximate normality of score distributions. These findings suggest that tax authorities' awareness campaigns have achieved some degree of penetration among the sampled SME operators.

Trust in Governance (TG) yielded the lowest composite mean across all three constructs (M = 3.088, SD = 0.692), with individual item means ranging from 3.065 (TG5: confidence in tax authorities' integrity) to 3.113 (TG3: fair treatment by tax officials). While scores above the scale midpoint (3.0) are noted, the relatively narrow margin above the neutral point and the convergence of all TG items near 3.09 suggest persistent scepticism regarding governmental transparency,

accountability, and the quality of public services financed by tax revenues. This pattern aligns with Afrobarometer (2022) survey data documenting low public trust in Nigerian governmental institutions.

Tax Compliance Behaviour (TC) recorded a composite mean of 3.524 (SD = 0.641), indicating moderate compliance behaviour. Items TC6 (M = 3.558, continued compliance even if enforcement is reduced) and TC3 (M = 3.528, voluntary income declaration) recorded the highest means, while TC1 (M = 3.503, timely filing) recorded the lowest, suggesting that self-reported filing accuracy and punctuality represent the weakest compliance dimension relative to normative compliance dispositions.

Table 4.2: Item-Level and Composite Descriptive Statistics (N = 400)

Items	Statement (Abbreviated)	N	Min	Max	Mean	SD	Skewness
Section A: Tax Awareness (TA)							
TA1	Aware of applicable business taxes	400	1	5	3.595	0.808	-0.082
TA2	Sufficient knowledge of SME tax laws	400	1	5	3.603	0.801	-0.073
TA3	Understands tax return filing procedure	400	1	5	3.62	0.817	-0.169
TA4	Aware of penalties for non-compliance	400	1	5	3.598	0.798	-0.04
TA5	Receives updates on tax reforms	400	1	5	3.605	0.804	-0.01
TA6	Familiar with Minimum tax and CITA provisions	400	2	5	3.605	0.807	0.059
Composite TA Score		400	—	—	**3.6042**	0.6283	—
Section B: Taxpayers' Trust in Governance (TG)							
TG1	Trusts govt. use of tax revenue	400	1	5	3.093	0.855	-0.057
TG2	Believes govt. provides adequate services	400	1	5	3.088	0.873	-0.034

TG3	Confident in fair treatment by tax officials	400	1	5	3.113	0.864	-0.079
TG4	Believes govt. is transparent in funds use	400	1	5	3.085	0.851	-0.09
TG5	Confident in NRS integrity	400	1	5	3.065	0.847	-0.174
TG6	Trusts govt. action against tax evasion	400	1	5	3.088	0.852	-0.071
Composite TG Score		400	—	—	**3.0883**	0.692	—
Section C: Tax Compliance Behaviour (TC)							
TC1	Files tax returns accurately and on time	400	2	5	3.503	0.792	0.007
TC2	Keeps proper financial records	400	1	5	3.51	0.779	-0.081
TC3	Voluntarily declares all taxable income	400	1	5	3.528	0.807	-0.147
TC4	Remits all tax liabilities completely	400	2	5	3.518	0.801	0.031
TC5	Complies even with low audit probability	400	1	5	3.53	0.81	-0.14
TC6	Would comply even if enforcement reduced	400	2	5	3.558	0.815	-0.061
Composite TC Score		400	—	—	**3.5242**	0.6412	—

Note: SD = Standard Deviation. Scale: 1 (Strongly Disagree) to 5 (Strongly Agree).

Source: Field Survey (2026)

Reliability Analysis (Cronbach's Alpha)

Internal consistency reliability of the measurement instrument was assessed using Cronbach's alpha coefficient (α). Results are summarized in Table 4. Tax Awareness yielded α = 0.871 (Good); Taxpayers' Trust in Governance yielded α = 0.893 (Good); and Tax Compliance Behaviour yielded α = 0.888 (Good). All three constructs exceed the commonly cited threshold of α ≥ 0.70 recommended by Nunnally (1978) for acceptable reliability, and approach the threshold of α ≥

0.90 recommended for research instruments in organizational and social sciences (Hair et al., 2019). These results confirm that the 18-item questionnaire instrument demonstrates strong internal consistency and is suitable for hypothesis testing.

Table 4.3: Cronbach's Alpha Reliability Analysis (N = 400)

Construct	Items	Cronbach's α	Mean r	Variance	Interpretation
Tax Awareness (TA)	6	**0.8711**	0.5294	0.3947	**Good**
Taxpayers' Trust in Governance (TG)	6	**0.8931**	0.5793	0.4789	**Good**
Tax Compliance Behaviour (TC)	6	**0.8883**	0.5657	0.4111	**Good**

Note: α ≥ 0.90 = Excellent; 0.80–0.89 = Good; 0.70–0.79 = Acceptable. Source: Field Survey (2026).

Pearson Correlation Analysis

Table 4.4 presents the Pearson bivariate correlation matrix for the three composite construct scores. All correlations are statistically significant at the 1% level ($p < .001$). Tax Awareness and Trust in Governance exhibit a moderate positive correlation ($r = 0.327$, $p < .001$), suggesting that SME operators who possess greater tax knowledge tend also to report higher levels of trust in governance institutions. This relationship is consistent with the economic deterrence model

Tax Awareness exhibits the strongest bivariate association with Tax Compliance ($r = 0.497$, $p < .001$), confirming hypothesis H_1 at the bivariate level. Trust in Governance also demonstrates a moderate positive correlation with Tax Compliance ($r = 0.385$, $p < .001$), this result is consistent with the fiscal Exchange and political legitimacy theories prediction that trust promotes voluntary compliance. Variance Inflation Factors (VIF = 1.120 for both predictors) confirm the absence of problematic multicollinearity between the independent variables

Table 4.4: Pearson Correlation Matrix (N = 400)

Variable	Mean (SD)	1. TA	2. TG	3. TC
1. Tax Awareness (TA)	3.6042 (0.6283)	1.000	—	—

2. Taxpayers' Trust in Governance (TG)	3.0883 (0.6920)	**0.327*** **	1.000	—
3. Tax Compliance Behaviour (TC)	3.5242 (0.6412)	**0.497*** **	**0.385*** **	1.000

*** p < .001 (two-tailed). TA = Tax Awareness; TG = Trust in Governance; TC = Tax Compliance Behaviour.

Source: Field Survey (2026).

Multiple Regression Analysis

A multiple OLS regression analysis was conducted with Tax Compliance Behaviour (TC) as the criterion variable and Tax Awareness (TA) and Trust in Governance (TG) as predictor variables. Results are presented in Table 6.

The overall regression model was highly statistically significant [$F(2, 397) = 86.260$, $p < .001$], explaining 30.3% of the variation in tax compliance behaviour ($R^2 = 0.3029$). The adjusted R^2 of 0.2994 confirms that the model retains substantial explanatory power after accounting for the number of predictors, and the Standard Error of Estimate (SEE = 0.5367) indicates acceptable prediction precision.

Tax Awareness (TA) produced a significant positive unstandardized coefficient [$B = 0.4243$, $\beta = 0.416$, $SE = 0.045$, $t = 9.377$, $p < .001$], indicating that a one-unit increase in tax awareness is associated with a 0.4243-unit increase in tax compliance behaviour, holding trust in governance constant. This represents the largest standardized contribution to the model ($\beta = 0.416$) and leads to the rejection of null hypothesis H_{01}.

Trust in Governance (TG) also produced a significant positive coefficient [$B = 0.2312$, $\beta = 0.250$, $SE = 0.041$, $t = 5.627$, $p < .001$], indicating that a one-unit increase in taxpayers' trust in governance is associated with a 0.2312-unit increase in compliance behaviour, independent of tax awareness. Null hypothesis H_{02} is accordingly rejected. With VIF values of 1.120 for both predictors are below the commonly accepted threshold of 5.0 thus, multicollinearity does not threaten the validity of the regression estimates.

The joint significance of both predictors [$F(2, 397) = 86.260$, $p < .001$] leads to the rejection of H_{03}, confirming that tax awareness and trust in governance jointly and significantly predict tax compliance behaviour. These results are robust to the regression assumptions of linearity, homoscedasticity, and non-multicollinearity.

Table 4. 5: Multiple Regression Results: Predictors of Tax Compliance Behaviour (N = 400)

Predictor	B	SE	β	T	p-value	VIF	Decision
Constant (Intercept)	1.2809	0.1729	—	7.4087	< .001	—	N/A
Tax Awareness (TA)	0.4243	0.0453	*0.4158*	**9.3768**	**< .001**	1.120	**Reject H_{01}**
Taxpayers' Trust in Governance (TG)	0.2312	0.0411	*0.2495*	**5.6268**	**< .001**	1.120	**Reject H_{02}**
R = 0.5504 | R^2 = 0.3029 | Adj. R^2 = 0.2994 | F(2, 397) = 86.260 | p < .001 | SEE = 0.5367							

Note: Dependent Variable = Tax Compliance Behaviour (TC). β = Standardised Beta; SE = Standard Error; VIF = Variance Inflation Factor. *** p < .001.

Source: Field Survey (2026).

Discussion of Findings

Regarding the investigation of the level of awareness and knowledge of tax, tax administration and law among SMEs in Nigeria, the descriptive results shows that tax awareness is rated at a moderate level (M = 3.60) rather than a high level suggests that despite government tax campaigns, and awareness programmes, significant awareness gaps remain, particularly regarding the provisions of CITA (TA6: M = 3.605). By implication, the findings of this study reveal that SME operators generally reported a moderate level of awareness regarding their tax obligations. These findings suggest that tax authorities' awareness campaigns have achieved some degree of penetration among the sampled SME operators. These findings corroborate with findings of Ihenyen et al (2025) and Kyla (2024).

As regards the assessment of the effect of tax awareness on the tax compliance behavoiur of SMEs in Nigeria**,** the study findings establish that tax awareness has positive significant effect on of tax compliance behaviour among Nigerian SMEs (β = 0.416, p < .001). This indicates that a one-unit increase in tax awareness is associated with a 0.4243-unit increase in tax compliance behaviour, holding trust in governance constant. Thus is affirming the theoretical position of fiscal exchange theory that knowledge of tax law, obligations, and procedures is a necessary precondition for voluntary compliance. This findings corroborates with the findings of Kyla (2024), Yerima et al (2022) and Umar et al (2024) who similarly identified tax knowledge as a significant predictor of compliance in North-Central Nigeria. The practical implication is direct: SME operators who understand what taxes they owe, how to file returns, and what penalties await non-compliance are substantially more likely to comply.

Concerning the examination of the impact of taxpayers' trust in governance on the compliance behaviour of SMEs in Nigeria**,** the findings of this study also showed that taxpayers' trust in governance (TG) showed a significant positive impact on tax compliance behavour among SMEs in Nigeria ($\beta = 0.250$, $p < .001$). This is an indication that a one-unit increase in taxpayers' trust in governance is associated with a 25 percent (0.250) unit increase in compliance behaviour, independent of tax awareness. This is in line assumption of political legitimacy theory that taxpayers trust in governance is a major predictor of tax compliance berhavoiur. This also corroborate with findings of Ige (2023), Olurankinse and Oloruntoba (2024) and Adekoya et al (2024) who documented significant positive effect of taxpayers trust on tax compliance.

5.0 Conclusion and Recommendations

5.1 Conclusion

This study examines the effect of tax awareness, taxpayers' trust in governance on compliance behavoiur of SMEs in Nigeria. The descriptive results shows that there are a gap in tax awareness and knowledge of tax laws and regulations among SMEs in Nigeria. Based on the results of this research, it is concluded that tax awareness has a significant impact on compliance behaviour of SMEs operators in Nigeria. Similarly, taxpayers' trust in governance has a significant positive effect on compliance bebaviour of SMEs operators in Nigeria.

5.3 Recommendations

In consonance with the research's findings as well as conclusion drawn, the following recommendations were made;

i. The government and its agencies should promote tax awareness campaign and programmes as tax knowledge has positive association with tax compliance - behaviour of taxpayers.
ii. The tax authorities and government should uphold the principles of accountability and transparency in governance in a bid to enhance taxpayers' trust in governance, which significantly predict compliance behaviour of tax payers.
iii. The government is enjoyed to adopt inclusive policy measure that encourages more compliance from taxpayers which will in turn increase the government revenue from taxation.
iv. The tax authorities should adopt friendly approach and reward system to encourage improved compliance beaviour instead of penalty approach.

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