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PUBLIC GOVERNANCE QUALITY AND TAX COMPLIANCE: A STUDY OF SMALL AND MEDIUM ENTERPRISES IN GOMBE METROPOLIS

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Abstract

This study examined the effect of public governance quality on tax compliance among SMEs in the Gombe metropolis, Nigeria. Public governance quality is proxied using voice and accountability, political stability, government effectiveness, adherence to the rule of law, anti-corruption measures, and regulation quality on tax compliance among SMEs in the Gombe metropolis. A survey research design was used and a sample size of Three hundred and twenty six (326) SMEs were drawn using a random sampling technique from the population of One thousand two hundred and two (1,202) SMEs registered with the Gombe State Ministry of Commerce and Industries as of October 2024. Data for the study were collected by administering a questionnaire and a structural equation model was employed for data analysis. The study established that voice and accountability, adherence to the rule of law, and anti-corruption measures positively and significantly affect the tax compliance of SMEs in the Gombe metropolis and that government effectiveness, political stability, and regulation quality positively and insignificantly affect tax compliance of SMEs in the Gombe metropolis. The study recommends among others that, the quality of governance should be enhanced by truly imbibing the tenets of representative democracy, and governments at all levels should make accountability and transparency their watchwords to get public trust and motivate taxpayers to comply with tax laws.

Keywords: Public Governance Quality, Tax Compliance, Voice and Accountability, Rule of Law

1. Introduction

Tax is one of the main sources of government revenue that may be used to finance government expenditures to stabilize the economy. In Nigeria, the government imposed taxes (direct and indirect), among others; as major and vital sources of public revenue to promote its economic process (Olatunji, 2017). The economic development of any country depends on the tax generated for the availability of infrastructure and alternative social services (Abdu & Wondimu, 2019). Thus, Sulaimon *et al.* (2022), see tax as a vital tool in funding government activities and making government more responsible and responsive to the needs of citizens. Compared to

developed countries, developing countries face serious problems of tax non-compliance (Jingyuan, 2023). As such, the countries' tax revenues cannot always finance their needs.

Nigerians' tax compliance rate is significantly low compared to other countries (e.g. America, France) especially given the weak revenue administration capacity to deal with evasion and lack of data mainly around the informal sector (Ibrahim & Lawal, 2022). When the tax compliance rate is meager, it limits the government's ability to raise revenue for public goods and services (Radae & Sekhon, 2017). Tax non-compliance is a major issue every government must tackle to avoid

dwindling revenue and improve the government's ability to source loans to aid the effective functioning of the business environment (Ibrahim & Lawal, 2022).

According to Palil and Mustapha (2011), tax compliance is the process in which an individual reveals all his income truthfully and pays the tax due appropriately on the due date as approved in relevant tax laws. Prichard (2015) contends that taxation could help to create a fiscal exchange between citizens and government concerning the quality of public goods. Concerning that, some Nigerian citizens avoid paying taxes as a form of protest for the lack of quality public goods and services (Obaid, 2021). Public governance is the practice of administrative, economic, and political authorities to administer state affairs at all levels. It includes institutions, mechanisms, and processes, through which people and groups express their interests, practice their rights, meet their obligations, and go between their differences (Bello *et al.*, 2023).

Public governance quality is a fundamental motivator to pay tax, which can help to explain the high degree of tax compliance. Non-tax compliance in Nigeria is caused by corruption. Corruption delimitates many public services, such as health care and education, by diminishing public revenue (Gupta, *et al.* 2000). In addition to this, controlling corruption might be difficult in emerging economies due to the high protection given to political officeholders and the huge amount of money that is required to build technology that detects tax evaders (Celimene, *et al.* 2016). More so, in any nation that experienced political instability, citizens might choose to build up savings to access private services instead of paying taxes, since they do not rely on governments' pledges towards a rise of quality in public service and economic growth. Therefore, political stability is fundamental for a fair, effective, and efficient taxation system.

Equally, Bello *et al.* (2023) stated that an effective government ensures an effective tax system. Increasing tax income by establishing better tax management, knowledgeable administration, and defined macroeconomic policies is possible. In addition, Ajaz and Ahmad (2010) noticed that the absence of the rule of law

and government accountability influences tax compliance. Since distrust of the state of the law might negatively affect voluntary compliance with the formal economy. Hence, policies that promote improvement in transparency and accountability that enhance the governance mechanisms through an independent and efficient justice system have a vital impact on tax compliance. To improve revenue generation, the Gombe state government has completely reviewed the entire Revenue Administration Law 2018 to Gombe State Revenue Codification and Consolidation Law 2020, by reviewing obsolescent rates, fees, fines, levies, and charges, which enhanced collections by the Service in collaboration with the MDAs.

Despite that, a report released by the National Bureau for Statistics – NBS (2024), between 2019 – 2023, Gombe State has appeared on the bottom rungs of many states regarding tax generation due to non-tax compliance. In 2019, 2020, 2021, 2022, and 2023, Gombe State was ranked 35th, 33rd, 34th, 31st, and 33rd in collections respectively out of 36 states of the country including the Federal Capital Territory. The report further revealed that the Gombe State tax administration was ranked better than only two states (Imo and Taraba) of the 36 states (Federal Capital Territory is inclusive) at the end of 2019. Therefore, Gombe is considered to be in a poor position concerning tax compliance compared to the other states in Nigeria. In a report released by Gombe State Government (2023) publicized that, of the estimated Internally Generated Revenue (IGR) in the year 2023, out of N18,217,450,000.00 only N11,643,576,452.23 was collected; constituting 63.91% for the 4th quarters in the year 2023, leaving a huge sum of over N6,573,873,548.00 representing approximately 36.09% tax gap. Although, 63.91% performance might be seen as a good performance; however, the IGR performance is not impressive when compared to the statutory allocation performance of 103% in the same period.

SMEs play a pivotal role in propelling economic advancement and stand as vital contributors to numerous global economies, particularly in developing and emerging nations. Augustine (2018), viewed that due recognition has been given to Small and Medium-Scale

Enterprises (SMEs), particularly in developed nations, for playing key roles in fostering accelerated economic growth and development. Similarly, Taylor (2013) revealed that SMEs comprise the largest proportion of businesses globally. By their nature, these enterprises play a remarkable role in employment generation and hugely contribute to the Gross Domestic Product (GDP) of many countries. In Nigeria, SMEs contribute over 70% to the national GDP whose activities are difficult to bring into the national tax net (Vincent, 2021). Small corporate taxpayers were identified with a high potentiality of generating tax revenue; but hampered by a high level of tax non-compliance. Reducing tax non-compliance of this class of taxpayers may increase revenue generation for the government (Abiola, *et al.* 2023).

Efforts have been made from both developed and emerging markets to measure the link between public governance quality and tax compliance. Results from their studies are mixed and inconclusive. Previous studies (including Abdul-Jabbar & Al-Ttaf 2023; Isyaku, *et al.* 2023) include voice and accountability, government effectiveness, adherence to rule of law, and anti – corruption measures have negative and significant associations with tax compliance. However, Bello, *et al.* (2023); Abu Bakar, *et al.* (2023_b), and Abiola, *et al.* (2023) reveal that public governance quality is positively connected with tax compliance. In addition, findings from the previous studies could be different from this study owing to the differences in the method of data analysis in measuring the connection between public governance quality and tax compliance. For instance, Abiola, *et al.* (2023); Isyaku, *et al.* (2023); and Mas'ud, *et al.* (2021) used Pearson correlation and multiple regression analysis method of data analysis to measure the link between public governance quality and tax compliance as against current study that employed a structural equation model (SEM) using Stata.

In Nigeria, few studies were carried out on public governance quality and tax compliance (Abiola, *et al.* (2023); Bello, *et al.* (2023); Oyebamiji, (2020); Salam, (2019); Otusanya, *et al.* 2019). These studies were conducted outside of Gombe state. However, in Gombe state a study undertaken by Isyaku, *et al.* (2023) on the

elements impacting tax compliance of SMEs in Gombe state was limited to voice, accountability, government effectiveness, and political stability as the variables that can be used to measure public governance quality. But, other variables such as confidence in the rule of law, anti-corruption measures, and regulatory quality, were not examined. Therefore, this study endeavors to fill the gap by utilizing the six intermediaries of administration pointers created by Kaufmann, *et al.* (2010) to explore the degree to which the perception of public governance quality in the Gombe metropolis will influence taxpayers' compliance.

The broad objective of this study is to examine the link between public governance quality and tax compliance among SMEs in the Gombe metropolis. The study specifically sought to:-

- i. Examine the effect of voice and accountability on tax compliance among SMEs in the Gombe metropolis.
- ii. Investigate the effect of political stability on tax compliance among SMEs in the Gombe metropolis.
- iii. Determine the effect of government effectiveness on tax compliance among SMEs in the Gombe metropolis.
- iv. Examine the effect of confidence in the rule of law on tax compliance among SMEs in the Gombe metropolis.
- v. Determine the effect of control of corruption on tax compliance among SMEs in the Gombe metropolis.
- vi. Determine the effect of regulation quality on tax compliance among SMEs in the Gombe metropolis

To achieve the objectives of the study, the hypotheses of the study were formulated.

H₀₁: There is a positive impact between voice, accountability, and SMEs tax compliance in the Gombe metropolis.

H₀₂: There is a positive impact between political stability and SMEs tax compliance in the Gombe metropolis.

Ho₃: There is a positive impact between government effectiveness and SMEs tax compliance in the Gombe metropolis.

Ho₄: There is a positive impact between adherence to the rule of law and SMEs tax compliance in the Gombe metropolis.

Ho₅: There is a positive impact between anti-corruption measures and SMEs tax compliance in the Gombe metropolis.

Ho₆: There is a positive impact between regulation quality and SMEs tax compliance in the Gombe metropolis.

2. Literature Review

Relevant literature related to public governance quality determinants, tax compliance as well as supporting theory of this study were reviewed. The literature review was put under three subheadings; conceptual, empirical, and theoretical.

2.1 Conceptual Review

Consideration was given to related concepts, including public governance quality and determinants thereof, as well as tax compliance, under the following sub-sections as follows

2.1.1 Public Governance Quality and Tax Compliance

One of the essential factors that decides tax compliance is public governance quality. Salam, (2019) viewed public governance as the customs and the establishments by which authority is used for the benefit of all of the people living in the environment. Good public governance increases tax compliance by citizens and eventually leads to the availability of more funds for public programs equally, poor public governance quality impoverishes and dissatisfies people who also respond by declining to pay tax and, accordingly, funds for public programs will be inadequate (Umar, *et al.*, 2016). Kaufman, *et al.* (2010) declared that the public governance quality can be proxied by certain indicators and they offer the effectiveness of government in the delivery of goods and services required by its citizens. The indicators encompass the following: regulatory effectiveness, political stability, government

effectiveness in the provision of quality of public goods, adherence to the rule of law, anti-corruption measures, and participation in governance through democracy and accountability.

2.1.2 Voice and Accountability

This dimension measures the level of citizen participation in the selection of the government. Likewise, it measures the financial management of the government in terms of transparency. Taxpayers, according to Abu Bakar, *et al.* (2023_B) perceive that their voices should be heard to represent their participation in governmental policy, that is, the government should be accountable for any of their actions, with a view that power has been entrusted to them through public approval. In a taxation setting, taxpayers' significant participation in policymaking by democratic means increases individuals' willingness to pay taxes because of the trust-based relationship between governments and taxpayers (Torgler, 2003). In connection to that, (Modugu, *et al.* 2012) stated that if governments are considered accountable, many people will willingly pay their taxes, thus reducing the need for coercion. However, if governments are perceived as unaccountable, any demand (for example new or increased taxes) is retaliated with protest and violence.

2.1.3 Political stability

Political instability captured the perceptions of the probability that the government destabilized or dethroned by unconstitutional or violent means, comprising political violence or terrorism (Oyebamiji, 2020). In addition, Elbahnasawy, *et al.* (2016) claimed that the political environment influences the government's efficiency in collecting tax, and thus the government's capability to detect informal production. This implies that tax behavior is influenced by the attitude of the government toward tax revenue whereby political instability is considered to discourage the prudent utilization of tax revenue, thus stimulating negative beliefs or tax compliance behavior (Obaid, 2021). Therefore, a stable environment for sustaining political stability and democracy will keep increasing the level of MSEs tax compliance in a peaceful stable environment, lack of terrorism, and political hooliganism.

2.1.4 Government Effectiveness

Another indicator of public governance quality with predictive power on tax compliance is government effectiveness. Government effectiveness refers to the efficiency of formulating government policy and how much the government is responsible for the implementation of such policies (Rashid *et al.*, 2021). More so, According to Abu Bakar, *et al.* (2021_a), government effectiveness can be explained as the ability of governments to satisfy the expectations of people in terms of public goods and services or political goods as well as the civil service's quality. This indicator thus emphasizes the insights that every state must have to develop and enforce effective public programs.

2.1.5 Adherence to the Rule of Law

This is measured by the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. The absence of an effective and efficient rule of law may undermine public readiness to pay tax. On these notions, a country with an established and effective rule of law is widely perceived and accepted by its people as a social norm, thereby showing better compliance than a country without an effective rule of law (Bergman 2009). Similarly, Mohammed *et al.* (2019) stated that the willingness to pay tax is high because the effective rule of law ensures adequate sanction for non-compliance.

2.1.6 Anti-Corruption Measures

Corruption is defined as the presence of trusted public power for private gain (Kaufman, *et al.* 2010). This dimension measures the perception of the taxpayers about corruption in the public sector (Darby, *et al.* 2010). Corruption has been reported to play an important role in tax compliance behavior. According to Augustine and Enyi (2020), trust in government is connected to corruption perception in the form of bribery and misuse of power for personal benefit. Tax non-compliance undoubtedly rises year by year in some countries despite the significance of taxes. This is more pronounced in developing countries than in developed economies due to corruption, lack of accountability, and transparency (Kira,

2017). According to Achor (2014), Nigeria is undergoing a very low rate of tax compliance because many potential individual taxpayers feel tax payment is optional and of no necessity. Moreover, citizens' perceptions of tax payment might be perhaps traced to non-transparency and non-accountability, and a high rate of corruption which discourages tax compliance (Oyedele, 2015).

2.1.7 Regulatory Quality

Following State Revenue (codification and consolidation) Law 2021, the Gombe State Ministry of Trade, industry, and Tourism in the year 2022 released guidelines for individuals and organizations seeking to start small or small or medium scale. Regulatory quality measures the perception of the ability of the government to encourage private sector development through formulating and implementing sound policies and regulations. (Rashid, *et al.*, 2021). To institute and sustain a good association with taxpayers, governments should establish transparent and fair regulations that foster a healthy environment for the private sector to thrive. Hofmann *et al.* (2013) argued that creating such an environment through high regulatory quality should reduce the hostile and antagonistic interactions towards the government that can lead to higher tax compliance levels. Also, high regulatory quality boosts tax complaints.

2.1.8 Concept of Tax Compliance

Numerous definitions exist for the concept of tax compliance. However, there is no generally accepted definition of tax compliance globally, though it depends on the viewpoint of scholars (Obaid, 2021). Tax compliance is defined by Murphy, (2008) as the administrative rules of loading and paying tax effectively when due. The process of tax compliance, according to Efuntade and Efuntade (2023), comprises announcing income, reporting taxes, and paying taxes on time. More so, Ayuba, *et al.* (2016) pointed out that tax compliance is the ability of taxpayers and their willingness to abide by the tax laws, disclose their actual income, and remit the right amount of taxes on the due date to the relevant tax authority. It is also clear from the definitions that the taxpayers are to exercise care to lodge proper tax returns in line with the necessities of the tax legislation. This is to

avoid unintended evasion and also to stop deliberate evasion of tax.

2.2 Empirical Review

This section examines existing empirical studies on the association between public governance quality and tax compliance. Studies done both in developed and developing countries are examined, the review is as follows:

Abu Bakar, *et al.* (2023_b) explored the association between public governance quality and tax compliance in Malaysia. Two dimensions of public governance quality (political stability and rule of law) were employed in the study. Data were collected from 592 salaried and self-employed taxpayers. Results from Partial Least Squares-Structural Equation Modelling (PLS-SEM) analyses exposed that political stability had a positive and significant influence on tax compliance, while the rule of law had a positive and insignificant influence on tax compliance in Malaysia. Geographically, the study under review was conducted in Malaysia as against the current study being carried out in Gombe state.

Using a sample size of 393 SMEs across all the states in the Southwest region of Nigeria, Abiola, *et al.* (2023) examined the effect of religiosity, tax knowledge, and public governance quality on taxpayers' compliance. Descriptive research of a survey type was adopted in the study. A close-ended questionnaire was used to elicit the needed information from the sampled respondents across the study location. Pearson correlation and simple linear regression were used to analyze the responses of the respondents. It was discovered that public governance quality has a positive and significant effect on tax compliance among SMEs in Southwest, Nigeria. The current study employed a structural equation model as the method of data analysis against the study under review that used Pearson correlation and multiple regression analysis.

The study of Bello, *et al.* (2023) assessed the effect of tax fairness and public governance quality on tax compliance of MSEs in North-Eastern States of Nigeria through tax morale. Public governance quality was measured by

accountability, political stability, rule of law, and control of corruption. The study population is 124,231 registered MSEs in the North-Eastern states of Nigeria where the sample of 527 MSEs was used. PLS-SEM was employed to ensure data analysis and hypothesis testing. The findings of the study revealed that direct assessment tax compliance is found to have been positively influenced by public governance quality. While the study under review was conducted in the entire North-Eastern states, the current study is delimited to Gombe State.

Another study by Abdul-Jabbar and Al-Ttaf (2023) investigated the effect of public governance quality on tax compliance among small and medium enterprises in Yemen. The independent variable was measured using four (4) indicators of public governance quality which include voice, democracy and accountability, government effectiveness, rule of law, and control of corruption. A questionnaire was designed and utilized to collect data from the 339 respondents of the study. The outcome from regression publicized that public governance quality is negatively and significantly associated with tax compliance. The result of this study may not be reliable because Yemen is characterized by political unrest.

Similarly, the effect of public governance quality and tax compliance among Micro-Small Enterprises (MSEs) in Gombe State was examined by Isyaku, *et al.* (2023). Data were collected using a questionnaire from 136 owner-managers of registered small enterprises with the Gombe State Ministry of Commerce, Trade, and Tourism. Multiple regression results revealed a positive and significant relationship between government effectiveness, political stability, and MSEs' tax compliance in Gombe State. However, voice and accountability revealed a negative and insignificant relationship with MSEs' tax compliance in Gombe State. The study used three (3) public governance quality indicators on tax compliance while the current study intended to use six (6) public governance quality on tax compliance in Gombe state.

Using a sample size of 37 Sub-Saharan countries between 2002 – 2015, Günay and Topal, (2021) considered the impact of governance quality on tax effort. The study specifically analyzed the impact of six governance

indicators (voice and accountability, government effectiveness, political stability, regulation quality, rule of law, and control of corruption) of the World Bank and the composite quality of governance index on tax effort. Secondary data were used in the study. Findings from the system-generalized method of moment (Sys-GMM) indicated that all the governance quality indicators positively and significantly impact tax efforts in sub-Saharan African countries.

In Malaysia, Abu Bakar, Palil, and Maelah (2021_a) examined the link between public governance quality and tax compliance. Four indicators of public governance quality were examined in the study, namely, voice and accountability (VA), political stability (PS), government effectiveness (GE), and rule of law (RL). The hypotheses were tested using structural equation modeling of partial least squares. Four results indicate that political stability and the rule of law are found to influence tax compliance behavior positively and significantly. At the same time, the other two proxies of voice and accountability and government effectiveness showed otherwise with insignificant findings.

The study of Rashid, *et al.* (2021) tests the effects of governance quality and religiosity on tax evasion in the OECD (Organization for Economic Co-operation and Development) countries. Ordinary least squares have been used to analyze the data gathered from 36 OECD countries covering the period of 2002–2015 based on the latest data on tax evasion. Among the governance qualities, the higher the government effectiveness, the rule of law, and regulatory quality have a negatively significant impact on tax evasion. On the contrary, the positive impact of the voice of accountability and political stability on tax evasion.

In another study, Mas'ud, *et al.* (2021) observed the influence of public governance quality indicators (accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption) on tax compliance. Cross-country data obtained from 38 African countries for the year 2015 was used and analyzed using Ordinary Least Squares (OLS) regression analysis. The study found that accountability, political stability, control of corruption, and trust have a

significant influence on tax compliance among the sampled African countries, but government effectiveness, regulatory quality, and the rule of law have insignificant influence on tax compliance.

In Nigeria, Oyebamiji, (2020), determined the effect of public governance quality on tax compliance between 2008 and 2018. The study employed secondary data. Data for governance quality indicators were sourced from the World Bank Group (WBG), and Worldwide Governance Indicator (WGI), while data for Gross Domestic Product (GDP) and tax revenue were obtained from the Central Bank of Nigeria Statistical Bulletin and Federal Inland Revenue Service Statistical report. Collected data were analyzed using unit root test and Autoregressive Distributed Lags (ARDL). The result from the study showed that government effectiveness, political stability, regulatory quality, and control of corruption had a positive significant effect on tax compliance in Nigeria. The result further showed that voice and accountability had a negative and statistically significant effect on tax compliance in Nigeria.

Using a sample size of Three Hundred and Ninety-Four (394) respondents, Salam, (2019), surveyed the relationship between public governance quality and the direct tax version of personnel income tax compliance in Ilorin metropolis, Kwara state, Nigeria. Data were collected using a structured questionnaire. The result from ordered logistic regression indicates that voice and accountability, political stability, confidence in the rule of law, and regulation quality have no relationship with tax compliance. However, government effectiveness and control of corruption have a positive and significant relationship with tax compliance.

In Edo state, using Nine hundred and Nineteen (919) respondents, Otusanya, *et al.* (2019) scrutinized the influence of government accountability on voluntary tax compliance. The study adopts a cross-sectional survey research design and employs primary data. The collected data were analyzed using both descriptive and inferential statistics. Results from regression analysis indicated that government accountability has a positive significant influence on voluntary tax compliance.

2.3 Theoretical Framework

This section explains the related theory on which the study is based. Social exchange and fiscal exchange theories were used to explain the theoretical link between public governance quality and tax compliance among SMEs in the Gombe metropolis.

2.3.1 Social Exchange Theory

Social exchange theory was developed based on the work of George Casper Homans by Blau (1964). Based on the social exchange theory, AL-Ttaffi (2017) established that the associations between government and citizens are created by the use of subjective cost and benefit and evolve on the principle of give and take. So, it is expected that the government will equally keep its part of the contract by providing quality public governance. Several studies have used this theory to explain tax compliance behavior (e.g. Alabede, 2012; Spicer, 1974). More specifically, Spicer (1974) focused on the view of exchange equity. Spicer emphasized that the provision of public goods and services is connected to the perceived inequity in taxes paid. Alabede (2012) showed that the theory indicates the exchange of the value forms the basis of the relationship between the government and taxpayers. The taxpayer pays taxes in expectation of returns in the form of public goods and services, participatory democracy, accountability, and control of corruption (quality governance).

2.3.2 Fiscal Exchange Theory

Buchanan (1976) proposed fiscal exchange theory. The theory was developed from the economic deterrence and the social psychology models (Mckerchar & Evans, 2009). According to fiscal exchange theory, the two sides of the fiscal account (taxes and expenditure) must be evaluated concurrently and from the perspective of the political framework (Otusanya, *et al.* 2019). In addition, Efuntade & Efuntade, (2023) proved that citizens willingly comply with tax laws when they are contented with the quality of public goods and services they receive in exchange. Also, the fiscal exchange theory submits that government expenditures may influence tax compliance and that governments can increase tax compliance by

providing quality public goods and services; and making them more available to the public (Syadullah, 2015). Therefore, citizens would like to pay taxes in exchange for public facilities they value since they are concerned about what they will get in return for the levy they pay.

3. Methodology

The study adopts a survey research design to generate the relevant primary data required for the study and all the One thousand two hundred and two 1,202 SMEs registered with the Gombe State Ministry of Commerce and Industries as of October 2024 were considered. The random technique of selecting a sample was used to select a sample of one hundred and Ninety (326) SMEs. The data for the study was assembled through the administration of a questionnaire adopted from the work of Bello *et al.* (2023), Salam, (2019); and Augustine (2018). The Stata was used for the analysis and transformation of data, whereas structural equation model (SEM) analysis was used as a technique for the analysis of data in this study.

3.1 Model Specification

The study expected that the independent variable public governance quality would increase tax compliance. It is therefore expected that voice and accountability (VA), political instability (PIS), government effectiveness (GE), compliance in the rule of law (CRL), control of corruption (COC), and regulation quality (RQ) would determine tax compliance. The dependent variable is Tax Compliance (TC). The study adapted the models used by Isyaku, *et al.* (2023) to examine the public governance quality in improving taxpayers' compliance. However, the model was adjusted to achieve the stated objectives. While tax compliance was retained as the outcome variable, compliance in the rule of law, control of corruption, and regulatory quality were added to the initial predictor.

$$TC = \beta_0 + \beta_1 VA_i + \beta_2 PIS_i + \beta_3 GE_i + \beta_4 CRL_i + \beta_5 COC_i + \beta_6 RQ_i + \varepsilon \quad (1)$$

TC = Tax Compliance

VA = Voice and Accountability

PIS = Political instability

GE = Government effectiveness

CRL = Adherence to the rule of law

COC = Anti-corruption measures

RQ = Regulatory Quality

b = coefficient or estimate of the parameter of the independent variable

ε = disturbance term or error term

4. Results and Discussion

For this study, Three Hundred and Sixty (360) copies of the questionnaire were distributed to the respondents out of which Three Hundred and Twenty Six (326) copies were returned (a response rate of 91%). Thus, the analysis and discussion are based on the Three Hundred and Twenty-six (326) copies returned.

4.1 Correlation Matrix

The strength of the link between the dependent variable (tax compliance) and, the independent variable (public governance quality) is frequently measured through a correlation matrix. Table 3 exhibits the correlation between the independent and dependent variables individually. The tax compliance is believed to have a positive link with voice and accountability, political stability, government effectiveness, adherence to rule of law, anti-corruption and regulation quality. In that order, the correlation coefficients of 0.2318, 0.3043, 0.3413, 0.3883, 0.4258 and 0.341 displayed a positive correlation.

Table 1: Correlation Matrix of Dependent and Independent Variables

	CTN	VA	PS	GEE	ARL	ACM	RGQ
CTN	1.0000						
VA	0.2318	1.0000					
PS	0.3043	0.3142	1.0000				
GEE	0.3413	0.1734	0.4762	1.0000			
ARL	0.3883	0.1231	0.2906	0.4080	1.0000		
ACM	0.4258	0.1874	0.4187	0.5475	0.4615	1.0000	
RGQ	0.3401	0.1050	0.3365	0.4419	0.3855	0.5599	1.0000

Source Stata Output Result 2024

4.2 Analysis of Structural Equation Model Result

Results exhibited in Table 2 reveal a cumulative R^2 of 0.261, which is the multiple coefficients of determination that gives the percentage or proportion of the total variation in the dependent variable (tax compliance) explained by the independent variables jointly. Thus, it shows that 26.1% of the total variation in tax compliance

among SMEs in the Gombe metropolis, Gombe state, Nigeria is affected by the voice and accountability, political instability, government effectiveness, adherence to the rule of law, control of corruption, and regulation quality, whereas 73.9% of the variation is the result of other variables not considered in this study. The structural equation model results on how public governance quality affects tax compliance behavior are shown in Table 2

Table 2: structural equation model results

Variables	Coefficient	$P>/z/$
VA	0.1607515	0.010
PS	0.0743363	0.268
GEE	0.0611835	0.361
ARL	0.2166252	0.000
COC	0.2042002	0.002
RGQ	0.0939569	0.129

Equation – level of goodness
of fit

R ²	0.26
Number of Obs	326

Source: Stata output 2024

4.3 Test of Hypothesis

H₁: There is a positive impact between voice, accountability, and SMEs tax compliance in the Gombe metropolis.

The outcomes as revealed in Table 2 show that voice and accountability display a positive and significant influence on tax compliance (coefficient 0.161 and p-value 0.010), this offers proof for accepting alternate hypothesis one (1) of this study. The present findings also align with other earlier studies that indicated that taxpayers appear to be more willing to comply with tax rules and regulations including paying their taxes in situations in which they can observe a direct relationship between their contributions and the quality of public service (governance) provided by the government (Abu Bakar *et al.* 2021a; Otusanya, *et al.* 2019). However, the result contrasts what Isyaku, *et al.* (2023) documented, who revealed that voice and accountability have a negative and insignificant impact on tax compliance.

H₂: There is a positive impact between political stability and SMEs tax compliance in the Gombe metropolis.

In addition, the model also provides evidence of a positive and insignificant relationship between political stability and tax compliance in the Gombe metropolis. This can be witnessed by the coefficient of 0.075 with a p-value of 0.268 which is insignificant. This indicates that political stability is positively affecting tax compliance in the Gombe metropolis. The implication of the result, the greater the public governance quality proxied by political stability, the greater tax compliance in the Gombe metropolis. Though it is insignificant, any increase in political stability in the Gombe metropolis may result to increase in taxpayers' compliance by 7.5%. The result, therefore serves as a basis for accepting hypothesis two (2) of the study which states that political stability has positive effect on tax compliance in the Gombe metropolis. This is in line with was documented by Isyaku, *et al.* (2023). However, is contrary to the

findings of Abdul-Jabbar and Al-Ttaf (2023) who reported a negative association between political stability and tax compliance.

H₃: There is a positive impact between government effectiveness and SMEs tax compliance in the Gombe metropolis.

The regression results verified that government effectiveness had a positive and insignificant impact on tax compliance. ($\beta=0.0644$ and p-value = 0.361). Consequently, hypothesis three (3) was accepted and the study concluded that government effectiveness has positive and insignificant effect on SMEs tax compliance in the Gombe metropolis. These results are supported by earlier studies by Mas'ud, *et al.* (2021) and Abu Bakar, *et al.* (2021a) who testified government effectiveness has a positive and insignificant link with tax compliance.

H₄: There is a positive impact between adherence to the rule of law and SMEs tax compliance in the Gombe metropolis.

The fourth discovery was that the rule of quality has a positive and significant effect on taxpayers' compliance in Gombe, to the tune of 0.216 (p=0.000.) indicating that a 1% increase in the rule of law will cause a 21.6% increase in taxpayers' compliance, this provides evidence for the accepting hypothesis four (4) of this study. This suggests that fair administration of justice, and confidence in the legal system have a significant impact on taxpayers' compliance. The discovery is in line with what was previously found by Abu Bakar, *et al.* (2021a), and Günay and Topal, (2021). However, it invalidates the findings of Mas'ud, *et al.* (2021) and Abdul-Jabbar and Al-Ttaf (2023). They reported a negative effect of the rule of law on taxpayers' compliance.

H₅: There is a positive impact between anti-corruption measures and SMEs tax compliance in the Gombe metropolis.

Results from Table 2 exhibited that the coefficient of the anti-corruption measures is positive and significant. (Coefficient = 0.204 and p-value = 0.002). This submits a significant linkage between anti-corruption measures and tax compliance. Hence, hypothesis 5 which states that there is a positive impact between anti-corruption measures and SMEs tax compliance in the Gombe metropolis was supported. The implication is that anti-corruption may improve tax compliance. This suggests that lack of control of corruption in terms of diversion of public funds by government officials at all levels for their personal interest and lack of fiscal transparency may affect taxpayers' compliance. This is akin to what was documented by Oyebamiji, (2020), and Salam, (2019) who affirmed that control of corruption has a positive and significant impact on tax compliance.

Ho₆: There is a positive impact between regulation quality and SMEs tax compliance in the Gombe metropolis.

Finally, table 2 revealed a coefficient value of 0.093 with a p-value of 0.129 on the impact between regulation quality and SMEs tax compliance in the Gombe metropolis. The positive association between regulation quality and tax compliance among SMEs in Gombe Metropolis offers the basis for accepting hypothesis six (6). This could be as the result of ambitious hopes in government that have been shattered by a growing lack of effectiveness, transparency and regulatory efficiency, even in the midst of a democratic system. This outcome is akin to what was found by Oyebamiji, (2020) who documented that the presence of regulatory quality in Nigeria positively impacted tax compliance. This is contrary to what was found by Rashid, *et al*, (2021), Mas'ud, *et al*. (2021) and Salam, (2019) who revealed that regulation quality has no significant effect on tax compliance.

5. Conclusion and Recommendations

The study examined the effect of public governance quality on tax compliance among SMEs in the Gombe metropolis, Gombe state Nigeria. Based on the study's findings, it is concluded that;

- i. Voice and accountability positively and significantly affect tax compliance in Gombe

state. This indicates that the way in which government officials are chosen and account for the revenue collected affects taxpayer's compliance.

- ii. Political stability positively and insignificantly affects tax compliance in Gombe State. This shows the higher the level of political stability, the greater the taxpayer's compliance with the tax laws.
- iii. Government effectiveness in terms of the provision of quality infrastructure, quality health service, and quality education system has no significant impact on taxpayer compliance in the Gombe metropolis.
- iv. Adherence to the rule of law has a positive and significant impact on tax compliance in the Gombe metropolis. This submits that fair administration of justice and confidence in the legal system determine taxpayer compliance.
- v. Anti-corruption measures in terms of the diversion of public funds by government officials at all levels positively affect taxpayer compliance in the Gombe metropolis.
- vi. The presence of regulatory quality in the Gombe metropolis positively impacted tax compliance.

Based on the following findings and conclusion of the study, the following recommendations are offered.

- i. The quality of governance should be enhanced by truly imbibing the tenets of representative democracy, and governments at all levels should make accountability and transparency their watchwords to get public trust and motivate taxpayers to comply with tax laws.
- ii. The Gombe state government should maintain an optimum governance quality supported by a stable political climate which is necessary to promote tax compliance.
- iii. The government should continue to invest in superior social services such as health services, education services, and infrastructure.
- iv. Ample measures be put in place to strengthen the existing machinery to control corruption by institutionalizing the governance process in the state.

- v. Rule of law and regulatory quality should be supported in fighting corruption at all levels instead of employing enforcement efforts.

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