

IMPACT OF TAX KNOWLEDGE, TAX FAIRNESS AND RELIGIOUS ETHICS ON TAX EVASION OF SMALL AND MEDIUM ENTERPRISES IN KATSINA SOUTH SENATORIAL ZONE.

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Abstract

The study examines the impact of tax knowledge, tax fairness and religious ethics on tax evasion of SMEs in Katsina State. The data of the study was collected from 200 SMEs in Katsina South Senatorial Zone using a structured questionnaire. Three hypotheses were tested using Partial Least Square Structural Equation Modelling (PLS-SEM). The findings of the study revealed that tax knowledge, tax fairness and religious ethics are significantly related to tax evasion. Based on the findings of the study, the study concludes that tax knowledge, tax fairness and religious ethics play vital role in the changes of tax evasion activities of SMEs in Katsina State. Based on the conclusion of the study, the study recommends among other that States Internal Revenues Services should provide adequate knowledge of tax related issues in the State through radio and television programmes as well as social media platforms so that taxpayers in the state will be well equipped on the importance of tax payment and this will minimise number of tax payers participating in tax evasion activities in the State. In addition, the States Internal Revenues Services should redesign its tax policies in such a way that the tax payers will feel that the tax system is fair to them and not the other way round. This will minimise tax evasion activities in the State. Additionally, States Board of Internal Revenues Services should create a religion unit within the Board and engage the services of religion leaders to educate SMEs owners that God knows all their hidden activities and they will be punished by HIM if they engaged in illegal activities such as tax evasion.

Keywords: Tax evasion, Tax Knowledge, Tax Fairness, Religious Ethics.

INTRODUCTION

Tax evasion is a phenomenon that exist in all societies, to a greater or lesser extent, depending on the measures put in place by government of any nation to reduce its occurrences. Tax evasion is a heavy blow to the economy of nations, especially a country that is experiencing negative fluctuations in its sources of revenue, such as Nigeria that depends on revenue from oil sector of the economy. Therefore, tax revenue generation by any nation is affected by the level of tax evasion in that economy (Bott et al., 2017).

Small and Medium Enterprises (SMEs) play an important role in Nigerian society as both employers and drivers of economic growth. Yet, tax evasion among SMEs in Nigeria has been found to be very high (Tom & Joonseok, 2022). Small and Medium Enterprises (SMEs) play a major role in most economies, particularly in developing countries (Weerakkody, 2021). These SMEs constitute the majority of businesses worldwide and are important contributors of job creation and global economic development. They have been found to represent about 96% of businesses and more than 50% of employment in Nigerian economy. However, eighty percent of SMEs are evading tax payment in Nigeria (Olusegun, 2021).

The global economic downturn as a result of fluctuation in revenue sources was so significant that made Nigeria to experience a serious decline of revenue due to the decreasing oil price and production challenges (Enaibre et al., 2021). Katsina state is among the states in Nigeria that has large number of SMEs in operation (Kippa, 2023). However, the performance of the state in terms of revenue generation is below expectation. In 2021, the state budgeted an IGR of ₦53.2 billion, but it was able to generate only ₦16.19 billion internally representing about 30.4% of the budgeted figures. Instead of the state to improve on its IGR in the year 2022 but was able generated only 20.01% of the budgeted figures in 2022. This negative development is part of reasons that motivated the researcher to conduct this study in order to determine the factors that entice tax payers in the state to engage in tax evasion activities (Usman, 2019; Tarko, 2021).

A number of factors may entice tax payers to be involved in activities that are associated with tax evasion. Factors such as tax knowledge (Khalil & Yusuf, 2020), fairness of tax policy (Sikayu et al., 2022), religious ethics (Yessy & Herman, 2023), age and gender of the taxpayers (Dewanta & Zaky, 2019). In other words, the aforementioned factors encourage Small and Medium Enterprises (SMEs) to engage in tax evasion activities. SMEs are those businesses whose total assets (excluding land and building) are above Five Million Naira but not exceeding Five Hundred Million Naira and with a total workforce of between 10 and 199 employees (Kippa, 2023). SMEs in the Nigerian economy are about 41.5 million and they account for about 96% of businesses.

Great numbers of business owners, participate in illegal activities characterized as tax evasion as a result of not having adequate tax knowledge. This prevents such category of taxpayers to pay what is expected from them as at when due. In addition, lack of adequate knowledge of tax system makes tax payers to be victims of circumstances. Tax payers without adequate knowledge of system of taxation tend to be disobedient taxpayers. Furthermore, activities of business owners in respect to tax payments are influenced by adequate understanding of tax system (Nugaha & Hajanirina, 2020). Furthermore, inefficient system of tax collection hinder most governments from collecting adequate tax revenue (Tarko, 2021).

Similarly, taxpayers perceive the tax policy fairness as the equitability of tax system across all tax payers. The intention of tax payers not to embark on tax evasion activities is linked to the fairness of the tax policy (McGee et al., 2008). In another development, tax payers expect fair treatment in tax system within any economy, as it is among the important factors that affect tax payers' behaviour towards tax evasion. This implies that, tax fairness is one of the factors that

affects the behaviours of taxpayers to either engage in or not to participate in tax evasion activities (Nugaha & Hajanirina, 2020).

Religion serves as a medium through which its followers know the ethical and unethical activities. Taxpayers are affiliated to one religion or the other and there is no religion that preaches immorality. Consequently, Small and Mediums Enterprises (SMEs) owners that participate in immoral activities to evade tax payments are aware that, it is immoral for them to engage in such activities. All the engagements of an individual in a society are guided by his belief to what is right or wrong as explain by fear of God theory. The Fear of God is expected to guide an individual not to participate in tax evasion. As tax payers in Katsina State believe in one religion or the other and their religions prohibit them from engaging in illegal activities.

Therefore, SMEs is considered to be examined in this study because of their huge contributions to the development of economies in respect to revenue and employment generation as recognized worldwide (Charoenrat & Harvie, 2014). Based on the issues raised in relation to poor IGR in Katsina and considering the huge number SMEs in the State, this study intends to provide answer to the following questions: To what extent do tax knowledge, tax fairness and religious ethics affect tax evasion of SMEs in Katsina State? This study specifically intends to examine the impact of tax knowledge, tax fairness and religious ethics on tax evasion of SMEs in Katsina State. In line with the objectives of the study, the following hypotheses have been stated in null form: Tax knowledge, tax fairness and religious ethics do not significantly affect tax evasion of SMEs in Katsina State.

The study covered only SMEs operating in Funtua, Sabuwa and Kankara Local Government Areas of Katsina South Senatorial Zone. The reason for considering the main town in the senatorial zone in Katsina State is the concentration of Small and Medium Business activities within the areas. The remaining towns in the zone are excluded from the study due to insecurity in the areas. Also, the study is restricted to only trades, service provision and manufacturing SMEs as they the main businesses in operation in the zone

It is hoped that this may be of importance to tax authorities as they will get to know the importance of providing tax related knowledge to SMEs owners in order to minimize the activities of tax evasion amongst SMEs. In addition, policy makers will benefit from the study as empirical evidence is provided on the role played by tax fairness in minimizing tax evasion. Policy makers will utilize this information to design policies that will be fair to SMEs. Furthermore, SMEs owners will get to know that tax evasion is illegal activities and their religion prohibits them from engaging in illegal activities.

LITERATURE REVIEW

The study conceptualized tax evasion, tax knowledge, tax fairness and religious ethics as follows:

Tax Evasion

Tax evasion activities prevent government from generating adequate funds to discharge its statutory responsibilities (Faeyz, 2019). Tax evasion is defined in this study as any illegal activity engaged by business owners to evade tax payment as a result of failure of governments to provide conducive business environment in respect to the provision of social amenities, security, effective tax policy, covid 19 palliatives, as well as absence of adequate medium of educating tax payers on the importance of business record keeping and tax payment.

Tax Knowledge

Tax knowledge is the level of awareness or sensitivity of the taxpayers to tax legislation. Tax knowledge refers to the processes, by which taxpayers become aware of tax legislation and other tax-related information (Holland et al., 2009). Most SMEs do not have much understanding of what tax laws mean and why the tax system is structured and administered as it is (Braithwaite, 2007). Tax knowledge is defined in this study as the commitments of tax authorities in educating tax payers about tax legislation and other tax related information through enlightenment programmes such as jingle aired on radio and television.

Tax Fairness

Fairness of tax system is directly related to the tax evasion behaviour of taxpayers. If taxpayers perceived that they are paying higher and above what other taxpayers that are on the same income level are paying, this perception will propel them to engage in tax evasion activities (Niway & Wondwossen, 2015).

Religious Ethics

Religious ethics is defined in this study as the effort of religion in shaping the character and guiding the behavior of individuals to avoid engagement with illegal activities such as tax evasion activities (Michiel & Lukas, 2019).

EMPIRICAL REVIEW

The study reviewed literature empirically in order to determine the nature of the relationship between the exogenous and endogenous constructs under consideration.

Tax Knowledge and Tax Evasion

Hamid et al. (2020) examined factors affecting tax compliance among drivers in Malaysia. The quantitative research approach was chosen to obtain relevant data for the study which was conducted among cab drivers providing services on at least one occasion in Malaysia. The results of this study revealed that tax knowledge and attitude influence tax compliance among drivers.

A study conducted by Aremu and Siyanbola (2021) that examined the effect of tax knowledge on tax compliance in the informal sector of Ogun state which documented a significant and

positive effect between tax knowledge and tax compliance. The study used survey research design and primary source of data was utilized for the data collection process. Structured questionnaires were administered to 310 respondents out of a population of 2465. Linear regression model was used to establish the relationship between tax knowledge and tax compliance. The results of the study revealed that there is positive and significant relationship between tax knowledge and tax evasion.

In a study conducted by [Saragih et al. \(2021\)](#) that examined determinants of tax evasion. There were two hundred and ninety participants that consisted of students, lecturers, professionals, and business owners from various backgrounds and majors in Indonesia were used in the process of data collection. The data of the study were analysed using PLS-SEM method. The results showed a negative and significant effect of tax knowledge toward the ethical perception of tax evasion.

A study was conducted by [Eddie and Dickson \(2022\)](#) that examined the influence of economic factors of tax payer personal demographics on tax compliance. The study used cross sectional survey design and quantitative research approach. The population of the study consists of 5324 Small and Medium Enterprises from Ilala Municipality where random sampling was used to arrive at 98 respondents. Structured questionnaire was used in the process of data collection and the data of the study was analysed using multiple linear regression. The result of the study revealed that tax knowledge has positive and significant relationship with tax compliance. This implies that tax knowledge reduces tax evasion in Tanzania.

Tax Fairness and Tax Evasio

[Paul \(2021\)](#) examined factors that influence tax evasion in Nigeria, with a focus on Wukari, Taraba State. The data of the study was collected from a sample size of 308 questionnaires administered. The data was analyzed with the use of the Statistical Package for Social Sciences (SPSS). The results of the study revealed that, tax system unfairness has significant and positive influence on evasion in Nigeria.

In a study conducted by [Sikayu et al. \(2022\)](#) which examined the effect of tax fairness, transparency, and attitude towards tax evasion amongst the owners of Small and Medium Enterprises. A mixed mode survey was used in obtaining data from Sarawak, Malaysia. Data from 91 useable questionnaires were analysed using Smart-PLS. the findings of the study revealed that, tax fairness has significant and negative effect on Small and Medium Enterprises owners' attitude towards tax evasion.

[Olufemi et al. \(2022\)](#) examined the influence of tax fairness on the tax compliance of listed manufacturing companies in Nigeria. The study adopted a survey research method, and four hundred copies of questionnaires were administered to the selected manufacturing companies of both consumer and industrial goods sectors. Multiple regression analysis was employed. The findings of the study revealed that there is a significant and positive impact of tax fairness on tax compliance of the companies.

Nayef and Zainol (2022) empirically analysed the effects of tax fairness, peer influence and moral obligation on sales tax evasion among Jordanian SME owners/managers. A survey was used to obtain data from three regions of Jordan (north, middle, south). Random sampling was utilized in selecting the respondents from SMEs in three sectors (trade, service, and manufacturing). A total of 212 usable questionnaires retrieved from the SMEs were analysed using Smart-PLS 3.0. The results revealed that, tax fairness and moral obligation had a significant and negative effect on sales tax evasion behaviour among SME owner-managers.

Religious Ethics and Tax Evasion

Saragih et al. (2021) investigated the effect of ethical perception on tax compliance. Surveys are conducted with 291 participants consist of students, lecturers, professionals, and business owners from various backgrounds and majors in Indonesia. The data of the study was processed with the PLS-SEM method. The findings of the study revealed that there is no significant effect of religiosity on perception of tax evasion.

Sakirin and Abdullah (2021) examined the effect of tax knowledge, level of trust and religiosity on taxpayers' compliance in paying property tax (PBB) in Indonesia. The population of the study is property taxpayers in Aceh Singkil Regency for the year 2018 with a total of 34,000 taxpayers. Non-probability sampling technique was utilized to draw the research sample which resulted in 396 samples. Primary data was obtained through questionnaires distributed to the respondents and analyzed using multiple linear regression models. The results showed that, religiosity does not affect tax compliance in Aceh Singkil Regency.

Indah (2022) examined the influence of religion ethics on tax evasion, as well as the role of gender in moderating the relationship between religion ethics and Machiavellian on tax evasion. The data of the study was obtained through questionnaire distributed using google form. The sample of this research is 120 personal taxpayers registered in KPP Jakarta and its surroundings was obtained through purposive sampling method. The data of the study was analysed using SMART-PLS software. The findings of the study revealed that religiosity has a positive effect on tax evasion.

Yessy and Herman (2023) conducted research that determined the effect of religion ethics on perceptions of tax evasion of Accounting and Management Students at Muhammadiyah University of Sidoarjo. The data of the study was collected using a structured questionnaire. The data of the study was analysed using the Smart-PLS analysis. The results showed that, religion ethics has an effect on perceptions of tax evasion.

THEORETICAL REVIEW

Individual taxpayers' decisions are influenced by a number of factors that can be backed up by one theory or more.

Fiscal Psychology Theory

Fiscal psychology theory assumes that the behaviour of an individual is predicted by his attitude and belief (Hasseldine & Bebbington, 1991). This theory emphasizes the importance of positive policies developed by the government to improve the cooperation between the taxpayer and the government (Lewis, 1982; Lies & Damayanti, 2020). This theory is employed to connect tax fairness and tax evasion, this is because, SMEs owners' perception of the fairness of the tax system will motivate them not to participate in tax evasion activities.

Equity Theory

Equity theory assumes that when taxpayers perceive that, one community in the state is favored with socio-economic activities than the other communities, a feeling of inequity will exist which in turn can lead the tax payers to engage in tax evasion activities as a result of this feeling (Mohammed et al., 2020). The commitments of government in providing tax related knowledge and awareness can influence SMEs owners' behavior towards tax evasion. Thus, the theory is used in this study to connect tax knowledge and tax evasion.

Fear of God Theory

The theory was propounded by **David Clines in 2003**. The Clines theologically explains that when people act ethically because of the fear of God, they will be rewarded for that individuals (Shehu & Bello, 2019). ALLAH states in the Qur'an that, "And We had enjoined upon those who were given the Scripture before – as well as yourselves – to fear God". Quar'an (4:131). In addition, it is stated in Qur'an (67.12) that those who fear their lord in secret will receive forgiveness and a great reward.

Methodology

The paper contains cross sectional survey study as the data of the study was collected using primary source by administering questionnaires to the owners/managers of SMEs in Katsina South Senatorial Zone in order to collect the responses of the SMEs in respect to the constructs of the study. The study used purposive sampling technique to arrive at sample size of 200 as the SMEs have unique characteristics in respect to tax evasion activities. The study used primary source of data where structured closed ended questionnaire on a likert scale of 1-5 was employed in the data collection process. The study is quantitative in nature in which the endogenous construct of the study is tax evasion while the exogenous constructs of the study are tax knowledge, tax fairness and religious ethics.

Constructs Measurement

Tax evasion measurement items are adapted from (Khalil & Yusuf, 2020). In addition, tax knowledge measurement items are adapted from (Aremu & Siyanbola, 2021). Furthermore, items measuring tax fairness are adapted from (Timothy & Abbas, 2021) and (Olufemi et al., 2022). While religious ethics measurement items are adapted from (Worthington et al., 2003),

(Dabor et al., 2021) and (Ningsih et al., 2018).

METHOD FOR DATA ANALYSIS

The data of the study gathered through survey had been analysed using Partial Least Square Structural Equation Model (PLS-SEM). Smart PLS 3.0 software was used to analyse the data of the study. In using PLS-SEM, there are basically two models, the measurement (outer) model and the structural (inner) model.

Response Rate

Two hundred (200) questionnaires were distributed to the owners/managers of small and medium Enterprises contained in comprehensive list of directed organisations of Katsina State Board of Internal Revenue enterprises in Katsina State. The duly responded and returned questionnaires were one hundred and ninety-two (192) representing about ninety-six percent (96%) of the total questionnaires distributed to the owners/managers of SMEs. Only 90.63% percent (174 questionnaires) out of 192 questionnaires returned by the respondents were usable in the analysis process. While eighteen (18) questionnaires out 192 questionnaires representing 9.37% were removed from the data subjected for analysis that were considered as unusable questionnaires. However, out of the total number of the filled and returned questionnaires only 174 questionnaires were retained for data analysis in the study.

Descriptive Statistics of Latent Constructs

The sample, mean and standard deviation of the constructs of the study are presented in Table 1.1.

Table 1.1: Descriptive Statistics of the Constructs: Mean and Standard Deviation

Construct	Sample	Mean	Standard Dev
Tax Evasion	174	4.353	0.738
Tax Knowledge	174	3.629	0.622
Tax Fairness	174	3.856	0.885
Religious Ethics	174	3.789	0.943

It can be seen from Table 1.1 that the mean as well as the standard deviation of the endogenous construct (tax evasion) are 4.353 and 0.738 respectively, which indicates that, the respondents of the present study have moderately agreed with the statements or questions concerning tax evasion. Similarly, the mean and standard deviation for the exogenous latent constructs are 3.629 and 0.622 for tax knowledge; 3.856 and 0.885 for tax fairness; 3.789 and 0.943 for religious. Hence, in almost all the exogenous latent constructs, respondents have tended to moderately agree/

Normality Test

As reported in researches conducted previously (Cassel, Hackl & Westlund, 1999; Qureshi & Compeau, 2009; Reinartz et al., 2009; Wetzels et al., 2009) using PLS-SEM, non-normality of

the data does not affect the accuracy of the model estimations. However, in studies of Hair et al.(2012) as well as Hair et al. (2013), it is suggested that data normality should be checked as the extremely skewed data can increase bootstrap standard errors (Chernick, 2008) and thus may underestimate the statistical significance of path coefficients (Dijkstra, 1983; Hair et al., 2012).

In order to check the normality of the data of this study, statistical method was employed where kurtosis and skewness are used (Hair et al., 2010). As a rule of thumb, a normal data should have kurtosis and skewness values not greater than ± 1.96 (Rose et al., 2015). Based on the results of the test, that the data of the study is not normally distributed but the normality of the data is not extreme. In addition, the data of the study was subjected to multicollinearity test and the results reveal that the independent variables are free from unhealthy correlation

PLS-SEM Path Modeling

PLS-SEM is a non-parametric data analysis technique that can be applied to data set if it does not meet the assumptions of normality as recommended by Rose et al (2015). As such, this study employed PLS-SEM. The PLS-SEM path model consists of measurement model (outer model) and structural model (inner model) (Hair et al., 2014; Henseler et al., 2009).

Specifically, the measurement model or outer model presents the contribution of items in measuring constructs as well as contribution of constructs in determining coefficient of determination (r^2). Furthermore, reliability and validity of measurements are presented in outer models among others. The study used reflective measurement model.

On the contrary, structural model presents the relationship between constructs in relation to coefficient, t. statistics, p. value that are employed to determined significance of the relationship between the constructs of a study.

ASSESSMENT OF THE MEASUREMENT MODEL

In evaluating the measurement model of the study, the researcher has to assess the reliability of individual indicators in measuring each latent construct. In addition, reliability, discriminant validity and convergent validity for each of reflective constructs are to be assessed (Hair et al., 2014; Henseler et al., 2009).

Individual Item Reliability of Reflective Measurement Models

As a rule of thumb, any item with an outer loading value of 0.7 and above is reliable and acceptable in survey research (Hair et al., 2014). In another development, Hair et al. (2017) argues that, indicator with an outer loading of less than 0.70 can be retained in a study unless its removal can increase AVE and composite reliability (CR). However, they stated that, the indicator outer loading should not be lower than 0.40. Hence, following Hair et al. (2017) rule of thumb. Figure 1.1 revealed indicators of the items of the constructs of the study.

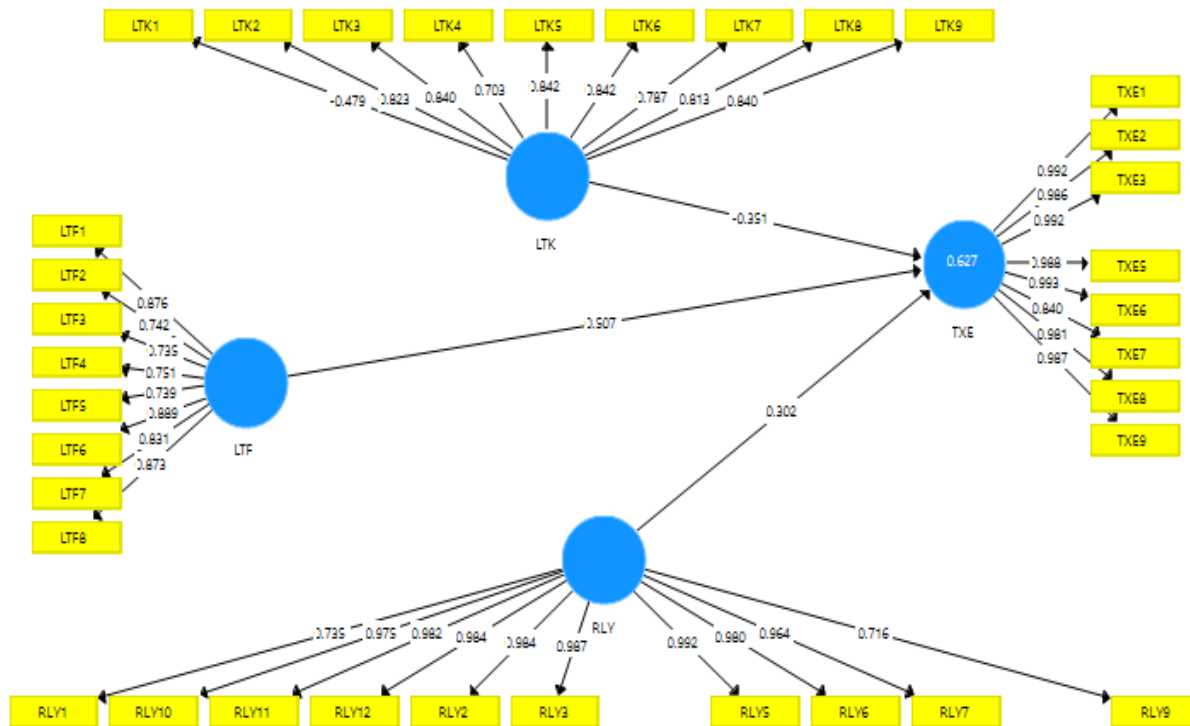


Figure 1.1: Measurement Model (Outer Model)

It can be seen from figure 1.1 that, txe4, ltk1, rly4 and rly8 have values below 0.50. All of them were deleted, as their removal in the model increased average variance extracted and composite reliability/

Convergent Validity of Reflective Models

Convergent validity is used to assess the measurement capability of indicator as well as positive correlation among indicators of the same latent construct (Hair et al., 2006). The construct is assumed to have convergent validity when its items or indicators are converged or shares a high proportion of variance (Hair et al., 2014). Average Variance Extracted (AVE) is the most common method of establishing the convergent validity of the reflective construct. The minimum value of AVE that indicates the construct has a convergent validity which should be 0.50 and above (Chin, 1998; Hair et al., 2011). This is logical because an AVE with 0.50 signifies that the latent construct explains a half of the variance of its items or factors (Hair et al., 2014).

Consequently, following the threshold level of 0.50 value for the AVE, all reflective constructs have convergent validity as each construct has an AVE level above 0.50. It can be seen from Table 1.5 that tax evasion, tax fairness, tax knowledge and religious ethics have AVE of 0.943, 0.651, 0.612 and 0.875 respectively. Thus, these values indicate that all of the aforementioned reflective constructs of the present study have convergent validity, and thus they all explained more than 50 percent of the variance of their respective indicators.

Discriminant Validity of Reflective Models

Based on Fornell and Larcker (1981) criterion all the reflective latent constructs of this study

have achieved discriminant validity (see Table 1.6).

Table 1.6: Measurement Model: Discriminant Validity (Fornell-Lacker Criterion)

	LTF	LTK	RLY	TXE
LTF	0.807			
LTK	-0.256	0.783		
RLY	0.262	0.076	0.936	
TXE	0.676	-0.458	0.409	0.971

Note: The bolded diagonal values correspond to the square root of the AVE of the constructs
 (n=174)

Table 1.6 indicates that, the correlation among the latent constructs of this study is lower than the square roots of their respective average variance extracted. This implies that, latent constructs of the present study are distinctively different from one another as none of them is highly correlated with the other.

In addition, Heterotrait-Monotrait ratio was used to establish discriminant validity of the constructs of this study

Table 1.7: Heterotrait-Monotrait Ratio (HTMT)

	LTF	LTK	RLY	TXE
LTF				
LTK	0.345			
RLY	0.236	0.133		
TXE	0.517	0.452	0.36831	

Table 1.7 shows that, the confidence intervals for HTMT were well within the limits, thereby establishing the uniqueness of all constructs as per empirical standards.

Assessment of the Structural Model

The stated hypotheses of the study are analysed with the help of bootstrap techniques of data analysis. Standard bootstrapping of 5000 bootstrap sample for 174 cases are employed to assess the path coefficient, significance of the relationship among the constructs of the study as recommended by (Hair et al., 2014; Hair et al., 2011; Reinartz et al., 2009). As the objectives of this study is; to empirically examine the impact of tax knowledge, tax fairness and religious ethics on tax evasion of SMEs in Katsina State.

Hypotheses Testing

The structural model (Figure 1.2) presents the results of direct relationship of the study represented by three hypotheses stated in the introduction part of the article: H₀₁: Tax knowledge does not significantly affect tax evasion of SMEs in Katsina State; H₀₂: Tax fairness does not significantly affect tax evasion of SMEs in Katsina State. H₃: Religious ethics does not

significantly affect tax evasion of SMEs in Katsina State.

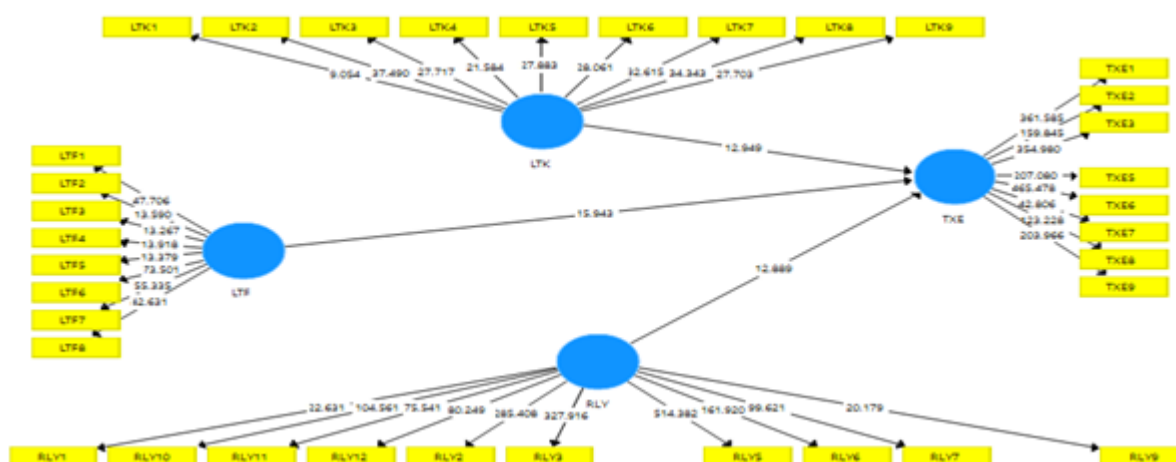


Figure 1.2: Structural Model (Inner Model)

Figure 1.2 depicts that the results of the relationships between the latent constructs of the study. Coefficients (Beta) of the path relationship, the standard error (SE), and t-value (T Statistics) were used in interpreting the results. However, number of asterisk sign (*) on the alpha value of each constructs represents the significant level of that construct. Significance level at 1%, 5% and 10% is represented by three asterisks (***), two asterisks (**) and one asterisk (*) respectively.

Table 1.8: Structural Model: Test of Significance

Hypotheses	Relationship	Beta	SE	T Statistics	P.value	Decision
H01	LTK > TXE	-0.264	0.049	15.943***	0.000	Supported
H02	LTF > TXE	-0.423	0.040	12.949***	0.000	Supported
H05	RLY > TXE	-0.456	0.048	12.889***	0.000	Supported

***p < 0.01; **p < 0.05; *p < 0.10; NS=not Significant

(n=174)

Tax Knowledge does not significantly affect tax evasion of SMEs in Katsina State

Table 1.8 reveals that, the coefficient of tax knowledge is -0.264 with a t-value of 15.943 which is significant at 1%. It means, tax knowledge is important in reducing tax evasion activities of SMEs in Katsina State. The result implies that as taxpayers are educated on tax related issues, tax evasion activities will reduce among SMEs operators. Therefore, the study rejects the null hypothesis of the study which states that tax knowledge does not significantly affect tax evasion activities of SMEs in Katsina State. It therefore follows that tax knowledge plays a vital role in explaining tax evasion activities of SMEs in Katsina State.

The significant and negative relationship found between tax knowledge and tax evasion activities of SMEs in Katsina State is consistent with the findings of (Amin et al., 2022; Saragih et al., 2021). The result however, differs from the findings of Khalil and Yusuf (2020) who established that tax evasion is significantly and positively affected by tax knowledge

Tax Fairness does not significantly affect tax evasion of SMEs in Katsina State

Conversely, the result of the study from Table 1.8 indicates that, tax fairness has a significant and negative effect on tax evasion of SMEs in Katsina State. The coefficient of tax fairness is - 0.423, with a t-value of 12.949 which is significant at 1%. The result implies that for every one percent (1%) decrease in tax fairness, tax evasion activities will increase by 42.3%. Thus, based on the statistical evidence, this study rejects the null hypothesis which states that tax fairness does not significant effect on tax evasion of SMEs in Katsina State. It therefore follows that tax fairness plays a vital role in reducing tax evasion of SMEs in Katsina State. Some of the SMEs owners feel that using presumptive tax system on their businesses is not fair to them as some set of businesses earn income higher than their business but they are placed on the same category.

The significant and negative relationship found between tax fairness and tax evasion activities of SMEs in Katsina State is consistent with the findings of [Sampath and Brayan \(2020\)](#) [Amjad et al. \(2019\)](#) who established that tax evasion is significantly and negatively affected by tax fairness.. The result however, differs from the findings of ([Nurhapizah et al. 2018](#); [Paul, 2021](#)).

Religious ethics does not significantly affect tax evasion of SMEs in Katsina State

From the hypothesis above, the researcher assumes that, religious ethics does not significantly affect tax evasion of SMEs in Katsina State. From the analysis, the coefficient greediness of - 0.456, with a t-value of 12.889 which is insignificant at 1%. This implies that, religious ethics does significantly affect tax evasion of SMEs in Katsina State. Therefore, the study rejects the hypothesis that, states religious ethics does not significantly affect tax evasion of SMEs in Katsina State.

The insignificant relationship found between greed for money and tax evasion activities of SMEs in Katsina State is consistent with the findings of [Syed et al.](#) The result however, differs from the findings of [Indah 2022](#) who established that tax evasion is significantly and positively affected by religious ethics.

Coefficient of Determination

Table 1.9 shows that, the exogenous latent constructs of this study (tax fairness, tax knowledge and religious ethics) explain about sixty-three per cent (62.4%) of changes in endogenous latent construct (tax evasion of SMEs in Katsina State). Following [Chin \(1998\)](#) recommendation, the R²value of this research model has moderate predictive power to explain the direct relationship between the exogenous and endogenous constructs of this study.

Table 1.9: Coefficient of Determination for Direct Relationships: R- Square

Construct	R ² -Square
Tax Evasion	0.624

Table 1.9 shows that, the exogenous latent constructs of this study (tax fairness, tax knowledge and religious ethics) explain about sixty-three per cent (62.4%) of changes in endogenous latent construct (tax evasion of SMEs in Katsina State). Following [Chin \(1998\)](#) recommendation, the

R² value of this research model has moderate predictive power to explain the direct relationship between the exogenous and endogenous constructs of this study.

Assessment of the Effect Size

The f² values of 0.02, 0.15 and 0.35 indicate small, medium, and large effects respectively (Cohen, 1988). Table 26 presents the results of effect size (f²) of the study.

Table 1.10: Assessment of the Effect Size for Direct Relationships: F-Square

Construct	f ²	Effect Size
Tax Knowledge	0.589	Large
Tax Fairness	0.302	Large
Religious Ethics	0.223	Large

Table 1.10 implies that, deterrence, government performance, tax fairness, tax knowledge and greed for money have none, none, large, small and none effect respectively on the endogenous latent variable (tax evasion).

Predictive Relevance

Geisser (1974) and Stone (1974) suggested that researchers should conduct predictive predictive relevance was conducted to examine wellness of the model as well as its parameter estimates as recommended by (Geisser, 1974) and (Stone,1974).The predictive relevance is presented in Table 1.11

Table 1.11: Predictive Relevance for Direct Relationship: Q-Square

	SSO	SSE	1-SSE/SSO
Tax Evasion	2920	1220.6	0.58

Table 1.11 and model 3 show that, the latent endogenous variable of the direct relationships model of this study has a value of 0.580. As this cross-validated redundancy (Q²) is greater than zero, it clearly indicates the presence of path model predictive relevance (Chin, 1998; Hair et al., 2014).

CONCLUSIONS

Based on the findings of the study, the researcher concluded that the study has empirically provided statistical evidence of the significant effect of tax knowledge, tax fairness and religious ethics on tax evasion of SMEs in Katsina State.

Basically, the findings of this study have indicated a great association or linkage between, tax knowledge, tax fairness, religious ethics and tax evasion of SMEs in Katsina State. Hence, the study will be relevant to the States Internal Revenue Services, Federal Inland Revenue Services, SMEDAN, as well as to SME owners in the country.

RECOMMENDATIONS

The States Board of Internal Revenues Services should redesign its tax policies in such a way that the tax collected from the SMEs should be based on the profit generated by the businesses not on presumptive tax system. This can be achieved only if tax payers are educated on the importance of business record keeping. Assessing the taxable income of SMEs will increase the fairness of the tax system and tax evasion activities will be reduced in the State.

In addition, States Board of Internal Revenues Services should establish avenues (radio, television and social media programmes) through which SMEs will educate on the basic tax knowledge and tax related information, as this will bring down tax evasion activities in the State to the minimal level

Additionally, SMEs owner should be reminded by the religion leaders that God knows all their hidden activities and they will be punished by HIM if they engaged in illegal activities such as tax evasion.

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