



IMPACT OF DETERRENCE, GOVERNMENT PERFORMANCE AND RELIGIOUS ETHICS ON TAX EVASION OF SMALL AND MEDIUM ENTERPRISES IN KATSINA NORTH SENATORIAL ZONE

BY

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ABSTRACT

It is examined in the study the impact of deterrence, government performance and religious ethics on tax evasion of SMEs in Katsina State. The researcher collected data from 165 SMEs in Katsina North Senatorial Zone using a structured questionnaire. Three hypotheses were tested using (PLS-SEM). The study found deterrence, government performance and religious ethics are significantly related to tax evasion. Therefore, deterrence, government performance and religious ethics play a vital role in the changes of tax evasion activities of SMEs in Katsina State. It is recommended among other that tax authorities should redesign its deterrence factors in such a way that deterrence factors can be very effective in preventing tax payers from engaging in tax evasion activities. In addition, Katsina State government should provide adequate socio-economic projects in the state as it will motivate taxpayers to pay their taxes as at when due. Additionally, tax authorities should establish a religion unit within the State Board Internal Revenue Service to be charged with the responsibility of educating owners/managers of SMEs on the importance of regular and timely tax payments.

Keywords: *Tax evasion, deterrence, government performance, Religious Ethics,*



INTRODUCTION

Taxation is described as an enforceable contribution of money by the government on the income profit of the individual, partnership and corporate organization. This contribution provides government with the needed resources to provide services to its citizens in relation to education, health and conducive environment (Nightingale, 1997).

Existence of informal sector in the Nigerian economy prevents tax authorities to effectively generate tax revenue up to expectation. A small-scale business owner can earn multiples of what an employed person can earn in a month. Huge amounts of money are lost due to failure of substantial number of SMEs to pay taxes which might have been used in developing economic activities (Ayuba et al., 2018). However, inability of governments to effectively tax businesses in informal sector prevents government from having optimal tax collection (Adediran et al., 2013). Although, SMEs generate a lot of revenues to their owners, very few researches were conducted in Nigeria in relation to tax payment of businesses operating in the informal sector of the Nigerian economy (Ayuba, 2016).

Katsina State Internally Generated Revenue is far below expectation as over the period of 2016 to 2020, as the state can only generate about 30.4% and 20.01% of the budgeted IGR in 2021 and 2022 respectively. It is among the six states in Nigeria that cannot survive without FAAC allocation (Charles et al., 2022). Considering the aforementioned figures, Katsina state needs to intensify its effort to bring more SMEs into its tax net so that the capacity of its IGR will be improved. This can be done through the improvement of deterrence factors, government performance. Also, tax payers should be enlightened that religious ethics should discourage them from engaging in tax evasion activities, as the states is among the states in Nigeria that religion plays a vital in shaping the activities of the citizens.

Even in developed nations. Government do not design tax policies with the expectation of hundred percent compliance. Some set of taxpayers may decide to employ illegal means to evade tax payment. If tax evaders are not traced and punished by tax authorities, tax evasion activities will increase in that economy (Joe, 2007). Deterrence factors such as tax audits and imposition of penalties are used by governments to deter tax evasion (Leandra, 2018).

Government all over the world are the major players in the provision of socio-economic benefits to its citizen, including business communities. Some of these benefits are in the form of provision of security for lives and properties, infrastructure, power, water, communication for residence and economic activities. In fact, these are the very benefits governments provide to attract payment of tax McGee and Robert (2006). In addition, as taxpayers perceived that they are paying over and above the services government provides to them, the taxpayers are likely to evade tax payments (Jackson, 1986; Banele & Getrude, 2020).

Tax payers that are religiously disciplined are likely to abstain themselves from any activity that is considered illegal such tax evasion (Tarmidi et al., 2020). Religious ethics guide tax payers not to participate in evading tax payment. Thus, religion affiliation serves as a medium through which its followers are directed to engage in legal activities and whoever fails to obey the instructions, punishment awaits him.



Based on the issues raised in relation to poor IGR in Katsina state and considering the huge number SMEs in the State, this study intends to provide answer to the following questions: To what extent do deterrence, government performance and religious ethics affect tax evasion of SMEs in Katsina State? This study specifically intends to examine the impact of deterrence, government performance and religious ethics on tax evasion of SMEs in Katsina State. The study states that deterrence, government performance and religious ethics do not significantly affect tax evasion of SMEs in Katsina State.

The study covered only SMEs operating in the main towns of Katsina North Senatorial Zone. The reason for considering the main town in this 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.

The study is significant to tax authorities, potential investors, tax payers and researchers. The finding of the study is expected to guide tax authorities to design policies that can narrow the gap between projected and actual tax revenue to be collected.

Literature Review

The study conceptualized tax evasion, deterrence, government performance 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.

Deterrence

Deterrence is seen as any enforcement tool such as tax audit, penalties and sanctions employed by tax authorities to discourage tax evasion activities committed by tax payers.

Government Performance

Government performance is defined as the ability of government to provide a secured business environment, adequate utility service quality and curtailment of crumbling the business value chain as well as provision of website that will display the performance of government in terms of services provided to the citizens.

Religious Ethics

Religious ethics means the degree of commitment of religion follower that can influence all his daily activities. This implies that commitments of an individual is guided by the teachings of religion one is affiliated to. Individual's spiritual level has effect on the level of tax evasion (Benk et al., 2015).



Empirical Review

The study reviewed literature empirically in order to find the association between deterrence, government performance, religious ethics and tax evasion.

Deterrence and Tax Evasion

In a study conducted by Hoxhaj and Kamolli (2022) to analyse factors affecting tax evasion of businesses in Albania. The data of the study was collected using questionnaire. The study analysed the data with help of multiple regression technique. The study found that, deterrence factors have negative influence on tax evasion.

Moges (2022) examined factors that affect tax evasion of taxpayers in East Addis Ababa. The study collected data using questionnaires from three hundred and seventy -one taxpayers. The sample of the study was gathered using non random sampling technique. Data analysis was conducted using multiple regression model. The study documents that deterrence is a positively and significantly related to tax evasion.

Mark (2021) conducted a study to examine the factors that affect tax evasion in Uganda. Staff of revenue office and traders at Mirama Hills Border serve as the population of the study. Data of the study was gathered from one hundred and nine respondents using questionnaires. Data analysis was conducted using multiple regression technique. The results of the study documents that deterrence is negatively and significantly related to tax evasion.

Ya'u et al. (2020) investigated the deterrence factors on petroleum profit tax compliance. The data of the study was collected from three hundred local and multinational oil and gas companies in Nigeria. The data of the study was analysed using partial least squares-structural equation modeling. The findings showed a positive and significant relationship between penalty and detection probability and petroleum profit tax compliance. This implies that as penalty and probability of detection increase, tax evasion will increase. On the contrary, the findings imply that as penalty and detection probability increase, tax evasion will reduce.

Mohd et al. (2020) assessed the effect of deterrence factors of Small and Medium Enterprises (SMEs) in Selangor. One hundred and thirty respondents filled and returned questionnaires out of one hundred and fifty administered to the SMEs owners. Non-parametric data analysis technique in form of Spearman rank correlation was employed to analyse the data. The results obtained from the analysis showed insignificant effect of deterrence factors on tax compliance.

Government Performance and Tax Evasion

Tsegaye and Mesfin (2022) investigated factors that influence tax evasion activities in Bahirdar and Dessie city. The study collected data using primary source where three hundred and eighty-seven questionnaires were administered to the business owners. Data analysis was conducted using multiple regression technique and findings from the study revealed that tax evasion activities engaged by tax payers is significantly and positively affected by goods and services provided by government to its citizens.



A study was conducted by Athanasios et al. (2021) which examined factors that affect tax evasion activities in Greece. Secondary source of data was employed to collect data from 1995 to 2018 period of annual reports of the businesses. The data of the study was analysed using multiple regression technique. The study documented that government performance and tax evasion activities are significantly and negatively related.

Haile and Destaw (2020) analyzed the determinants of tax compliance in Amhara. The study collected data using questionnaires from two hundred and ninety-five (295) taxpayers in the zone. The data of the study was analysed using descriptive and inferential statistic. The study found that tax compliance is significantly and positively influenced by benefits enjoyed by taxpayers from the government.

Abebayehu (2020) analyzed determinants of tax compliance in Debre Birhan on value-added tax registered taxpayers. Quantitative data method was employed to collect the data of the study. Stratified sampling technique was employed to select 263 tax pairs from 768 VAT-registered taxpayers in Debre Birhan Town administration. The results of the analysis revealed that government spending insignificantly affected tax compliance.

Sani and Daud (2020) empirically evaluated tax factors that affect tax compliance. The study collected data SMEs that engage in agrochemicals businesses in Katsina State. The data of the study was collected from one hundred and thirty-three business owners. The data of the study was analysed using multinomial probit model. The results of the study documents that, perception on government spending significantly and negatively affect tax compliance among agro-allied industries.

Religious Ethics and Tax Evasion

Mohammed et al. 2023 examined 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.

Emmanuel and Anthony (2020) assessed the effect of religion ethics on tax compliance of small and medium-scale enterprises' (SMEs) in Ghanaian markets. Four hundred and seventy-two questionnaires were administered to SMEs owners in Ghana. Data analysis was conducted with PLS-SEM and the results of the study revealed that religiosity does not explain SMEs' tax compliance.

Killian (2020) examined the impact of religiosity on tax evasion of SMEs owners in southern part of Nigeria. The data of the study was gathered using questionnaires administered to 450 self-employed in the region. Data analysis in the study was conducted using multiple regression. The results of the analysis showed significant and positive relationship between religiosity and tax evasion.

Ishak and Mazurina (2020) examined the determinants of tax evasion in Shah Alam, Malaysia. The data of the study was collected from five hundred SMEs owners using administered questionnaires. Regression was employed to analyse the data of the study. It is found from the results that religiosity and tax evasion are significantly and negatively related.

Nurani and Imas (2020) examined the impact of religiosity on taxpayer compliance level. Data of the study was gathered through survey method that was collected from 160 sampled businesses, and the validity and reliability of instruments test were conducted before testing the hypothesis. The result of the study revealed that religiosity and tax compliance are significantly and positively related.

Tomy (2020) examined the impact of religiosity on tax compliance of Micro, Small and Medium Enterprises business actors. Primary source of data was employed in the process of data collection. Data of the study was analysed using PLS-SEM and findings from the analysis revealed significant and positive association between religiosity and compliance of businesses in Indonesia.

Agbetunde et al. (2020) examined the impact of religiosity on tax compliance SMEs in South-West, Nigeria. Data of the study was collected using structured questionnaires distributed to five hundred SMEs in the region. Regression was employed to analyse the data of the study and the results of the analysis revealed that religiosity and tax compliance of SMEs are significantly and positively related.

Theoretical Review

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

Deterrence theory

Deterrence theory is based on the cost-benefit framework. Taxpayers compare the benefits to be enjoyed by engaging in tax evasion activities to the cost that will be incurred if detected by tax authorities. In other words, if deterrence is weak, tax payers will resort to participating in illegal activities to falsify their reports (Hasseldine & Bebbington, 1991). The theory suggests that, taxpayers' behaviour to either to pay or evade tax payment is influenced by the associated gains to be derived or costs to be incurred from such behavior. Usually, the taxpayers conduct crime cost-benefit analysis. Deterrence theory was employed by John and Jan (1991) to explain the relationship between deterrence and tax evasion. The theory is validated by (Augustine, Kembradikemor & Efosa, 2019; Faeyz, 2019).

Equity Theory

Equity theory assumes that when taxpayers perceive that, one community in the state is favored with socio-economic activities compared to other communities, can lead the tax payers to engage in tax evasion activities. Tax payers tend to engage in tax evasion in order to free themselves from those unequal treatments by the government.

This theory implies that, taxpayers would conform to tax regulations, when they perceive that the government treat them equally (Mohammed et al., 2020).

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. It does not mean they are ethical but because they are afraid of Almighty God and the consequences that God will exert for not being ethical. Fear of God serves as the mental pains risen from anticipation of God's punishment for the commitment of acts of disobedience to him (Sayyid, 2021). 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 study used cross sectional survey design and purposive sampling technique was employed to arrive at sample size of 165. 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 from SMEs owners/managers operating in Katsina North senatorial zone. 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 deterrence, government performance and religious ethics.

The functional model of the study is stated as follows:

$$txe = f(ldr, psp, rly)$$

However, the econometric form for the model is specified as:

$$txe = \alpha + \beta_1 ldr_i + \beta_2 psp + \beta_3 rly + \epsilon_i$$

Where:

ldr = Deterrence

psp = Government Performance

rly = Religious ethics

Constructs Measurement

In order to measure tax evasion, nine (9) items are used as follows; Seven (7) items from (Khalil & Yusuf, 2020) were used as follows; one of the item (txe 6) was adopted and the remaining 6 were adapted and the last 2 created to capture the reality in Katsina State. In addition, 7 items are used from the work of Rotimi et al. (2019) to measure deterrence as follows; ldr 3 is adopted and the remaining 6 were adapted. Furthermore, seven (7) Items are used as instrument as follows; 5 adapted from the work of Timothy and Abbas (2021); Nguyen, (2017) and the last 2 created based on the reality in Katsina state are used in measuring government performance While 12 items are used to measure religious ethics; 3 items (rly 1, 2 and 6) are adopted from Worthington et al, (2003); 3 items (rly 5, 7, and 8) are adopted from (Dabor et al., 2021), 1 item (rly 9) was adopted from Ningsih et al. (2018) and the remaining adapted.

Method for Data Analysis

The data of the study collected through survey had been analysed using (PLS-SEM).

Response Rate

One hundred and sixty-five questionnaires were distributed to SMEs owners in Katsina North senatorial zone. The duly responded and returned questionnaires were one hundred and ninety-two (154) representing about 96% of questionnaires distributed to SMEs owners. Only 93.33% percent. 149 questionnaires out of 154 questionnaires returned by the respondents were usable in the analysis process. While five (5) questionnaires out 154 questionnaires representing 3.25% 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 149 questionnaires were retained for data analysis in the study.

Descriptive Statistics of Latent Constructs

Table 1.1 presents the descriptive statistics results

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

Construct	Sample	Mean	Standard Dev
Tax Evasion	149	3.855	0.696
Deterrence	149	4.538	0.713
Government Performance	149	3.223	0.565
Religious Ethics	149	3.058	0.743

It can be seen from Table 1.1 that the mean as well as the standard deviation of the endogenous construct (tax evasion) are 3.855 and 0.696 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 4.538 and 0.713 for deterrence; 3.223 and 0.565 for government performance; 3.058 and 0.743 for religious ethics. Hence, in almost all the exogenous latent constructs, respondents have tended to moderately agree.

Normality Test

Cassel et al., (1999); Qureshi and Compeau (2009); Reinartz et al., (2009); Wetzels et al., (2009) opined that non-normality of the data set of a study does not affect the accuracy of the model estimations using PLS-SEM. However, in another development, Hair et al. (2012); Hair et al. (2013) stated that extremely skewed data can increase bootstrap standard errors and thus may underestimate the statistical significance of path coefficient.

Normality of the data of this study was checked using kurtosis and skewness of the data set. As a rule of thumb, a normal data should have kurtosis and skewness values not greater than ± 1.96 (Rose et al., 2015).

Table 1.2: Normality Test: Skewness and Kurtosis

Construct	Statistic	Std Error	Statistic	Std Error	Skewness	Kurtosis
TXE	0.28	0.121	-0.57	0.23	2.31	-2.47
LDR	-0.20	0.121	-0.41	0.23	-1.65	-1.78
PSP	-0.23	0.121	-0.26	0.23	-1.90	-1.30
RLY	-0.24	0.121	-0.48	0.23	-1.98	-2.09

However, based on the result generated as shown in Table 1.2, the skewness and kurtosis of some constructs are above threshold of ± 1.96 , indicating that the data set is not normally distributed but the normality of the data is not extreme.

Multicollinearity Test

Multicollinearity refers to the association among the exogenous constructs of a study (Pallant, 2010). Hair et al. (2010); Pallant (2010) opined that for a healthy correlation among the exogenous constructs, the interaction should not reach 0.80

Table 1.3: Correlation Matrix

Constructs	txe	ltk	ltf	rly
TXE	1			
LDR	0.6192	1		
LSP	0.7131	-0.6521	1	
RLY	0.4365	0.5382	0.6534	1

It can be seen from Table 1.3 that the correlations among all the latent exogenous constructs are below the 0.80. Thus, indicating absence of multicollinearity among the exogenous constructs of this study.

In addition, variance inflation factor (VIF) and corresponding tolerance values are used to examine multicollinearity issues deterrence, government performance and religiosity in the study (Hair et al., 2011; Hair et al., 2014). As a rule of thumb, the tolerance level should be above 0.20 and VIF value below 5.

Table 1.4: Multicollinearity Test: Variance Inflation Factors and Tolerance Value

Construct	VIF	Tolerance
LDR	2.12	0.3896
PSP	2.28	0.4901
RLY	3.27	0.4235

Table 1.4 reveals that the tolerance levels of all exogenous constructs are above 0.20 and the VIF values also are less than 5 for all the exogenous constructs. This implies that, the data set is free from multicollinearity problem.

PLS-SEMPath Modeling

PLS-SEM is employed to analyse the data of the study as assumptions of normality are not met (Rose, 2015).

Reliability and validity of measurements are checked using outer model. The study while inner model is used to determine coefficient, t-statistics, p-value which are employed to determine the direction and strength of the relationship among the constructs of a study.

Assessment of the Measurement Model

Hair et al. (2014); Henseler et al. (2009) stated that reliability, discriminant validity and convergent validity of constructs of a study are assessed using measurement model.

Individual Item Reliability of Reflective Measurement Models

Hair et al. (2014) asserted that an outer loading value of items measuring a construct of 0.7 and above is reliable and acceptable in survey research. However, outer loading of an indicator of less than 0.70 can be retained in a study unless its removal cannot increase AVE and composite reliability (CR). But, a value of 0.40 should not be retained (Hair et al., 2017). Hence, following Hair et al. (2017) rule of thumb.

Figure 1.1 revealed indicators of the items of the constructs of the study.

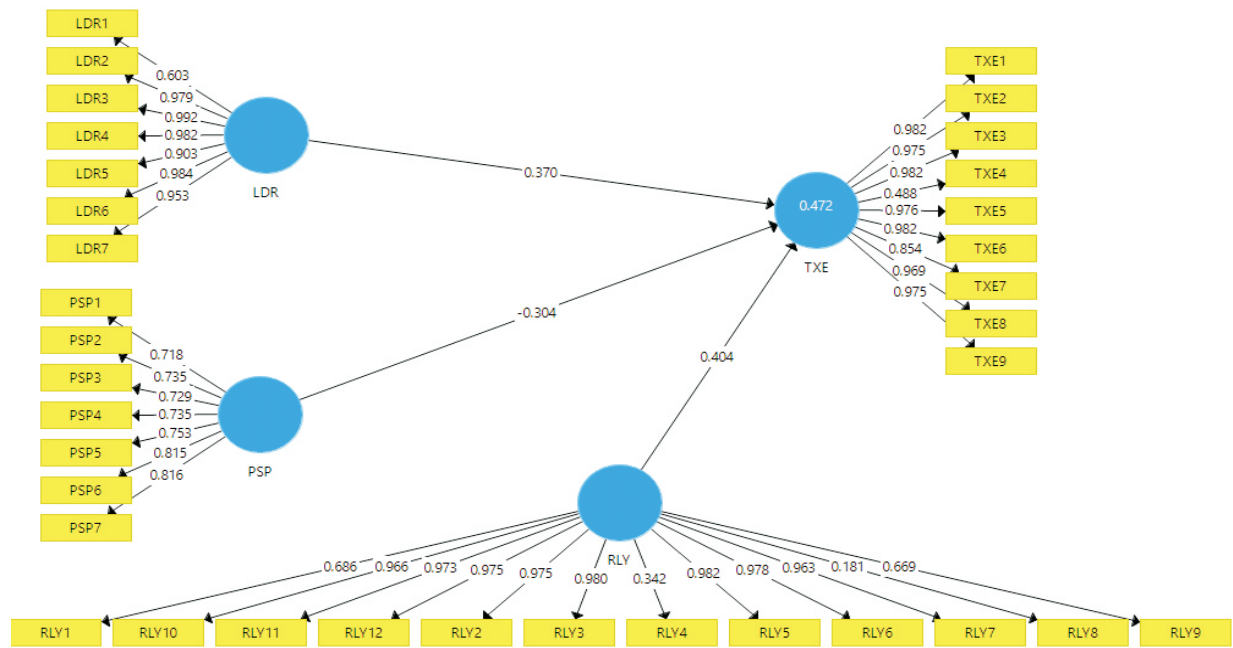


Figure 1.1: Measurement Model (Outer Model)

It can be seen from figure 1.1 that, txe4, 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 cannot increase AVE and composite reliability.

Internal Consistency Reliability of Reflective Models

Bagozzi et al. (1991; Hair et al. (2014); Hair et al. (2011) opined that for a reflective latent construct to be reliable it must have at least 0.70 value of composite reliability. It can be seen in Table 1.5 that the composite reliability of all the reflective constructs in this study ranges from 0.912 to 0.992. Specifically, tax evasion, deterrence, government performance and religious ethics have composite reliability values of 0.9924, 0.935, 0.912 and 0.986 respectively. Going by the aforementioned rule of thumb of 0.70 and above for the acceptable values of composite reliability, the study concluded that all of constructs are reliable as all their respective composite reliability's values are above the threshold.

Table 1.5: Measurement Model: Reliability and Convergent Validity

Construct	Cronbach's Alpha	AVE	CR
Tax Evasion	0.974	0.851	0.980
Lack of Deterrence	0.970	0.852	0.975
Government Performance	0.886	0.575	0.904
Religious Ethics	0.956	0.721	0.965

Convergent Validity of Reflective Models

Hair et al. (2006) stated that convergent validity is used to assess the measurement capability of indicator as well as positive correlation among indicators of a construct. A minimum value of AVE that indicates the construct has a convergent validity is 0.50 and above (Chin, 1998; Hair et al., 2011). Table 1.5 revealed that all the AVE are above 0.50.

Discriminant Validity of Reflective Models

Discriminant validity is employed to assess the distinctness of a particular construct from other constructs of the same model (Duarte & Roposo, 2010; Hair et al., 2014). For a discriminant validity to be established, Fornell-Lacker criterion states that, the square root of construct average variance extracted must be higher than its correlation with any other construct in the same model (Fornell & Larcker, 1981). Based on this criterion, all the constructs in this study have achieved discriminant validity.

Table 1.6: Discriminant Validity (Fornell -Lacker Criterion)

	LDR	PSP	RLY	TXE
LDR	0.923			
PSP	-0.276	0.758		
RLY	0.065	0.010	0.849	
TXE	0.480	-0.402	0.426	0.922

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. Heterotrait-Monotrait Ratio (HTMT) values close to 1 indicates a lack of discriminant validity. Henseler, Ringle and Sarstedt (2015) suggest a threshold of 0.85. This simply means if the value of HTMT is below 0.85, discriminant validity has been established between two reflective constructs (see Table 1.7).

Table 1.7: Heterotrait-Monotrait Ratio (HTMT)

	LDR	PSP	RLY	TXE
LDR				
PSP	0.241			
RLY	0.241	0.155		
TXE	0.451	0.380	0.396	

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

Hair et al. (2014); Hair et al. (2011); Reinartz et al. (2009) recommended that to assess the path coefficient, significance of the relationship among the constructs of the study bootstrap techniques should be employed.

Hypotheses Testing

Structural model presented in Figure 1.2 revealed the findings of the study in relation to the hypotheses stated in the introductory part of the article: deterrence, government performance and religious ethics do not significantly affect tax evasion of SMEs in Katsina State.

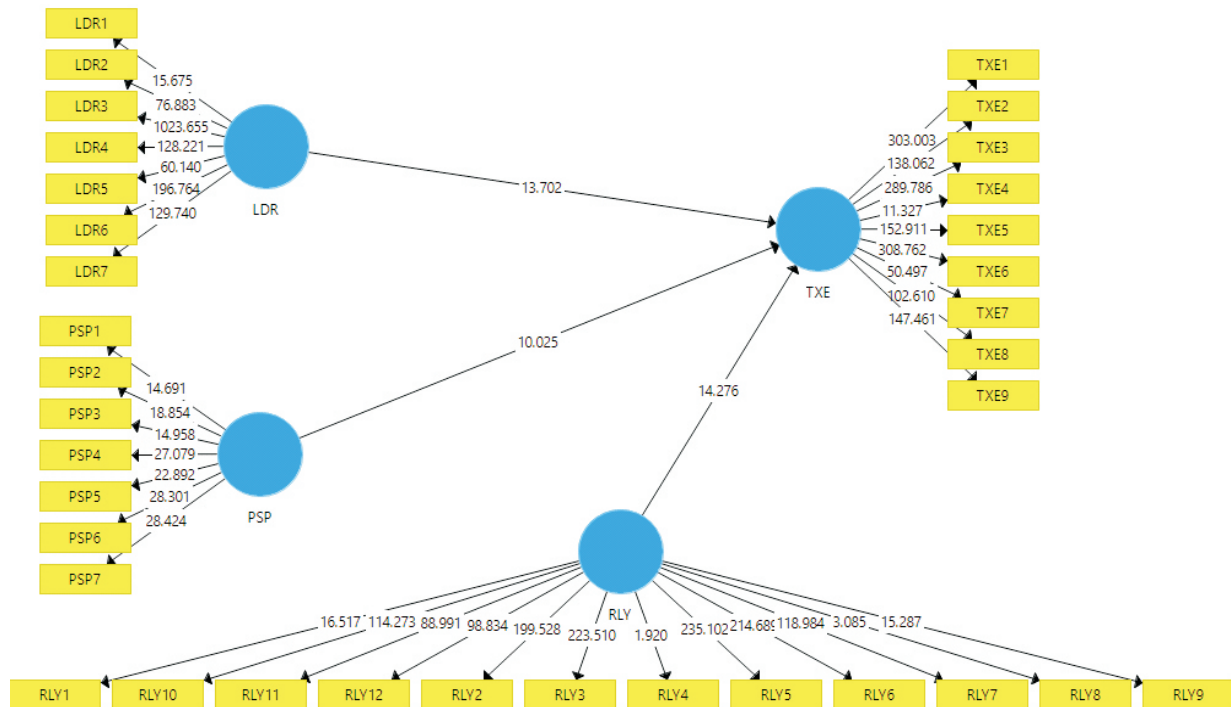


Figure 1.2: Structural Model (Inner Model)

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: Test of Significance

Hypotheses	Relationship	Beta	SE	T Statistics	P.value	Decision
H ₀₁	LDR > TXE	-0.178	0.051	13.702***	0.000	Supported
H ₀₂	PSP > TXE	-0.369	0.046	10.025***	0.000	Supported
H ₀₅	RLY > TXE	-0.308	0.053	14.276***	0.000	Supported

***p < 0.01; **p < 0.05; *p < 0.10; NS=not Significant
(n=149)

Deterrence does not significantly affect tax evasion of SMEs in Katsina State

Table 1.8 reveals that, the coefficient of deterrence is -0.178 with a t-value of 13.702 which is significant at 1%. It means, deterrence is important in reducing tax evasion activities of SMEs in Katsina State. The result implies that for every one percent (1%) increase in deterrence, tax evasion activities of SMEs in Katsina State will decrease by about 17.8%. This documents that, deterrence has a significant and negative impact on tax evasion activities of SMEs in Katsina State at 1% indicating that deterrence and tax evasion activities of SMEs in Katsina State are significantly and negatively related. It therefore follows that deterrence plays a vital role in explaining tax evasion activities of SMEs in Katsina State.

The significant and negative relationship found between deterrence and tax evasion activities of SMEs is consistent with the findings documented by Hoxhaj and Kamolli (2022). The result however, differs from the findings of Moges (2022) who established that tax evasion is significantly and positively affected by deterrence.

Government performance does not significantly affect tax evasion of SMEs in Katsina State

Table 1.8 indicates government performance and tax evasion of SMEs in Katsina State are significantly and negatively related. The coefficient of tax fairness is -0.369, with a t-value of 10.025 which is significant at 1%. The result implies that for every one percent (1%) decrease in government performance, tax evasion activities will increase by 36.9%. This finding revealed that government performance plays a vital role in reducing tax evasion of SMEs in Katsina State.

The significant and negative relationship found between government performance and tax evasion activities of SMEs in Katsina State is consistent with the findings of Athanasios et al. (2021). The result however, differs from the findings of Tsegaye and Mesfin (2022).

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 -0.308, with a t-value of 14.276 which is insignificant at 1%. Therefore, the study rejects the hypothesis that, states religious ethics does not significantly affect tax evasion of SMEs in Katsina State.

The significant relationship found between religious ethics and tax evasion activities of SMEs in Katsina State is consistent with the findings of Muhammad et al. (2023). 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: Coefficient of Determination for Direct Relationships: R- Square

Construct	R ² -Square
Tax Evasion	0.472

Table 1.9 shows that, deterrence, government performance and religious ethics explain about forty-seven per cent (47.3%) of changes in tax evasion of SMEs in Katsina State.

Assessment of the Effect Size

Effect size accounts for the changes in the endogenous construct as a result of the removal of exogenous constructs from the model of the study (Hair et al., 2014). The f^2 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 (f^2) of the study.

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

Construct	f^2	Effect Size
Deterrence	0.238	Medium
Government Performance	0.161	Medium
Religious Ethics	0.308	Medium

Table 1.10 implies that, deterrence, government performance and religious ethics have medium effect on the endogenous latent variable (tax evasion).

Predictive Relevance

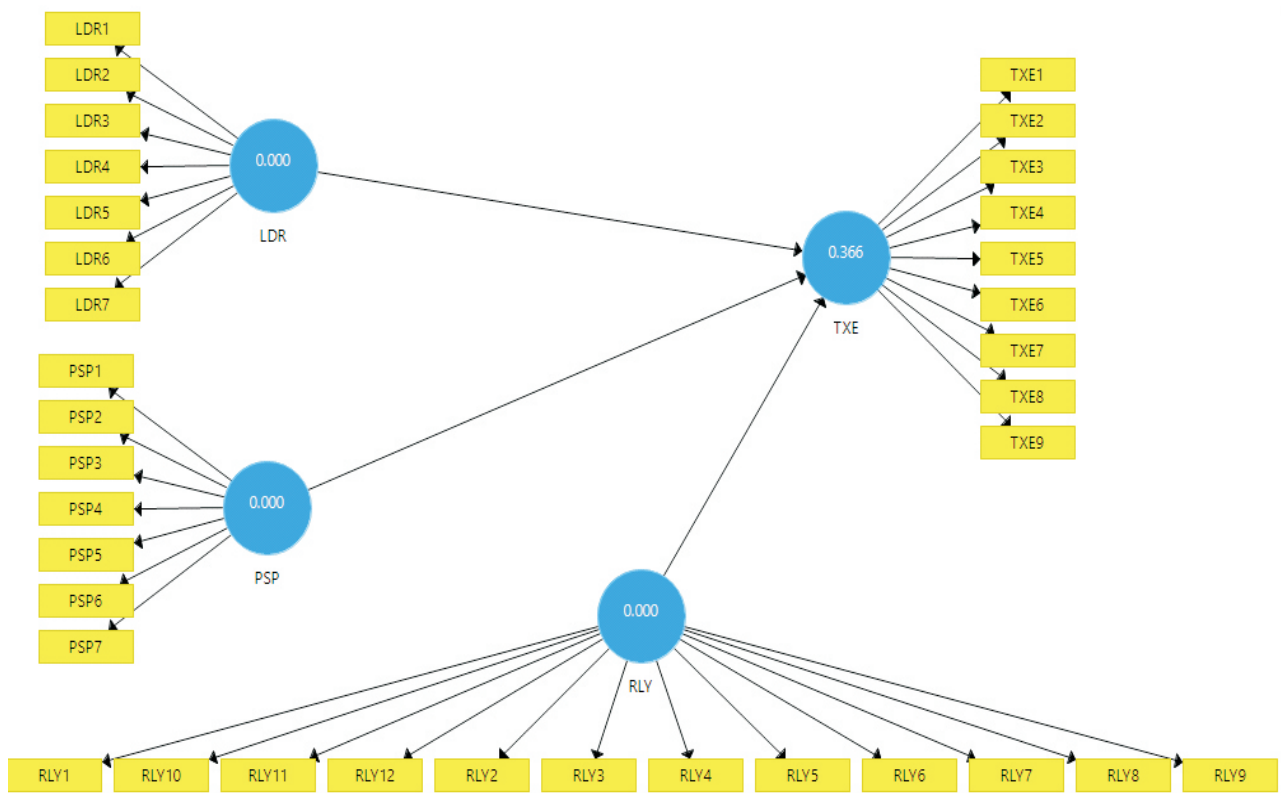
Predictive relevance is an extra assessment of the fitness of the model of a study (Duarte & Raposo, 2010; Stone, 1974). A model with a value of Q^2 greater than zero is assumed to have predictive relevance (Reinartz et al., 2009). The closer the value of Q^2 to zero, the weakness of the predictive relevance of exogenous variable on endogenous constructs of the study and vice versa (Duarte & Raposo, 2010). The predictive relevance is presented in Table 1.11 and Figure 4.4.

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

	SSO	SSE	1-SSE/SSO
Tax Evasion	3285	2082.3	0.366

Table 1.11 and model 3 show that, the latent endogenous variable of the direct relationships model of this study has a value of 0.366. As this cross-validated redundancy (Q^2) is greater than zero, it clearly indicates the presence of path model predictive relevance (Chin, 1998; Hair et al., 2014).

Figure 4. 1: Blindfolding (Direct Relationships)



Conclusions

The study concludes that deterrence, government performance and religious ethics play vital roles in the changes in tax evasion of SMEs in Katsina State. Significant linkage has been established between, deterrence, government performance, religious ethics and tax evasion of SMEs in Katsina State.

Recommendations

It is found by the study that deterrence and tax evasion of SMEs in Katsina State are significantly and negatively related. Therefore, the States Board of Internal Revenues Services should redesign its deterrence factors in such a way that deterrence factors can be very effective in preventing tax payers from engaging in tax evasion activities.

In addition, the study documents that government performance and tax evasion of SMEs in Katsina State are significantly and negatively related. Therefore, Katsina State government should provide adequate socio-economic projects in the state as it will motivate taxpayers to pay their taxes as at when due.

Additionally, it is found by the study that religious ethics and tax evasion of SMEs in Katsina State are significantly and negatively related. Therefore, tax authorities should establish a religion unit within the Board to be charged with the responsibility of educating SMEs owners the importance of doing what is right in terms of tax payment. 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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