



ASSESSING THE DETERMINANTS OF VALUE ADDED TAX INCREMENT COMPLIANCE IN SMALL AND MEDIUM ENTERPRISES WITHIN NORTH-EAST ZONE OF NIGERIA

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Abstract

The study investigated the determinants for value added tax (VAT) increment compliance within the Small and Medium Enterprises (SMEs) in North-East of Nigeria. This study utilized a quantitative approach and employed a survey research design. The study's population consisted of all 293 core tax personnel of the Federal Inland Revenue Service in the North-East Region of Nigeria. A census sampling technique was employed. Primary data were gathered online through a structured questionnaire and were analysed using the Statistical Package for Social Sciences version 23 (SPSS V.23). The quantitative data analysis included descriptive statistics, along with correlation and regression analyses. The results indicated that the tax services quality and taxpayer education significantly and positively impacted on VAT increment compliance among SMEs. Based on these findings, the study suggested that the FIRS should implement robust measures to monitor the quality of tax services and enhance taxpayer education to further improve VAT increment compliance.

Keywords: tax service quality, tax education, value added tax increment compliance, small and medium enterprises, North-East Nigeria

1. Introduction

Every sovereign government attempt to generate adequate revenue sources to provide public amenities and accomplish its programs without stifling private sector growth. In Nigeria, successive governments have used a variety of revenue streams to ensure that public programs and other needs are satisfied. However, according to Aminu (2019), the country's revenue is biased towards the oil sector, which accounts for over 80% of its earnings, a scenario that was particularly evident during the Niger Delta conflict. This necessitates the development of new revenue streams capable of affecting economic growth.

Governments apply taxes to create money in addition to earnings from the oil sector, and this has been a key source of revenue. Direct and indirect taxes are the most common types of taxes. Some Nigerians' attitude toward taxation has resulted in governments losing recoverable taxes, notably direct taxes. The unsavoury habit of tax avoidance and evasion continues to cost the country a significant amount of money. In January 1994, the Federal Government introduced the

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Value Added Tax (VAT) as a consumption tax to replace the Sales tax as a means of cushioning its resources to cope with the ever-increasing obligations (Gashi et al., 2018).

Value Added Tax (VAT) is imposed on the sale of taxable goods and services in Nigeria. It requires that manufacturers, wholesalers, importers, and suppliers of Vatable goods and services register within six months of beginning their operations. Once registered, these entities must charge and collect VAT on the goods and services they sell. The amount collected is known as VAT output. On the other hand, purchasers of Vatable goods and services are also required to pay VAT, referred to as VAT input. The amount that must be remitted to the Federal Inland Revenue Service (FIRS) is the difference between the VAT output and VAT input. Thus, VAT can be considered a form of sales tax.

Currently, Nigeria is experiencing a revenue crisis due to declining crude oil income, which has prompted the government to boost its revenue generation by raising tax rates (Ogbonna & Ebimobowei, 2017). On Wednesday, September 11, 2019, the Nigerian government approved a 50% increase in the Value Added Tax (VAT) rate applied to the selling of goods and services, elevating it from 5 percent to 7.5 percent. This new rate took effect on February 1st of the first quarter of 2020. As a result, the newly introduced finance bill has captured public attention and sparked mixed reactions among Nigerians. It is important to note that the Federal Government attempted to increase the VAT rate to 10 percent in 2007 but faced significant opposition, which led to the withdrawal of the proposed increase. Nonetheless, the VAT rate in Nigeria has remained at 5 percent since it was first implemented in 1993, despite various efforts by different administrations to raise it (FIRS, 2020).

All of these strategic goals are aimed at improving the welfare of the nation's increasing population. Tax reforms consist of changes to Nigeria's tax system designed to enhance the government's revenue capacity to better the welfare of its citizens. No matter how VAT is viewed, its intended purpose is to increase government revenue. Since its launch in 1993 and subsequent implementation in 1994, VAT has achieved significant success in Nigeria. For instance, data from the Federal Inland Revenue Service (FIRS) shows that total VAT revenue rose from N 8.20 billion in 1994 to a remarkable N 163.30 billion in 2004 (ten years after its introduction). By 2014, revenue had reached N616.90 billion, and in 2018, it increased to N 1.7 trillion. However, the total VAT revenue generated by the nation fell by N 53 billion from N 1.7 trillion in 2018 to N 1.17 trillion in 2019 (FIRS, 2022).

The increment in VAT rate has a considerable impact on the economy, and the state of revenue growth before and after the VAT increase since the Value Added Tax (VAT) is currently the most significant prevalent type of consumption tax system utilized globally. This analysis examines VAT and analogous sales tax systems implemented across 145 different nations. While the fundamental concepts of the tax are largely consistent everywhere, the regulations may be enacted and applied variably in different countries, leading to a significant difference in the compliance burden on businesses. Numerous prior studies have explored either the connection or the effects of Value Added Tax (VAT) on revenue generation as well as its influence on economic growth within Nigeria.

Awaluddin and Tamburaka (2019) explore the impacts of Value Added Tax (VAT) on Economic Growth, Gross Domestic Product (GDP), and overall tax revenue in Nigeria. The findings from the regression analysis indicate that VAT significantly influences GDP and Total

Tax Revenue. The government is advised to educate the populace to facilitate an increase in the tax rate, thereby enhancing its annual revenue for economic development.

Small and Medium Enterprises (SMEs) are crucial contributors to employment generation in Nigeria (Sabiuh & Abduh, 2021). Recognizing the essential function of SMEs, the Nigerian Federal Government has established several agencies over time to assist these enterprises. These organizations include the Small and Medium Enterprises Development Agency of Nigeria (SMEDAN), the National Directorate of Employment (NDE), the Peoples Bank of Nigeria (PBN), Microfinance Banks, the National Economic Reconstruction Fund (NERFUND), and the Bank of Industry, which specifically targets SMEs (Makara & Rametse, 2018).

According to Manish and Andre (2019), taxation is essential for funding social and physical infrastructure needs; it provides a solid foundation for maintaining a stable fiscal environment that fosters economic growth and investment; effective utilization of taxation fosters a connection between the government and its citizens; and it ensures the equitable distribution of the costs and benefits of development (Yoshino et al., 2021).

The tax significantly affects the level of foreign investments. SMEs are major contributors to a nation's GDP, thus playing a role in generating national revenue (Czelleng, & Vertes, 2021). In Nigeria, SMEs constitute 95% of the economy. They are regarded as essential for economic prosperity (Adanlawo et al., 2021). However, according to Qamruzzaman (2020), the contribution of SMEs to a country's economic growth and development includes the use of local raw materials, job creation, rural development, fostering entrepreneurship, mobilizing savings, establishing connections with larger firms, distributing investments evenly, and providing training opportunities for managers and artisans.

Qamruzzaman (2020) notes that numerous researchers have recognized the significance of SMEs in economic systems. This includes creating jobs, as most operations in Nigeria rely on labour-intensive methods. SMEs aid in income redistribution by fostering a robust middle class and they can help countries utilize local resources which lessens the need for imports that positively impacting the trade balance. Additionally, SMEs support larger manufacturing firms by supplying them with raw materials; their operations help mitigate rural-to-urban migration.

SMEs foster national industrialization, as evidenced by the growth of many cottage industries in Nigeria; and they have a more extensive geographical distribution compared to large firms in developing nations (Das et al., 2020). SMEs are a critical source of employment in developing countries (Chege, & Wang, 2020). SMEs are crucial for economic advancement, with 99% of businesses in Nigeria falling under the SME category. Furthermore, 98% of enterprises in the European Union are classified as SMEs and account for 67 percent of the workforce in Europe (Nohong et al., 2021).

The matter of VAT compliance regarding increases is fundamentally a behavioural concern; VAT payers are either voluntarily fulfil their obligations or compelled to comply (Mascagni et al., 2021). The extent of trust in the government plays a crucial role in determining the level of compliance with VAT regulations. When the degree of confidence is high, compliance tends to increase, and conversely, when confidence is low, compliance decreases (Mascagni et al., 2021).

VAT compliance refers to the extent to which VAT payers willingly meet their tax responsibilities to the government without coercion. Based on findings by Mascagni, Mengistu et

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al. (2021), the level of compliance among VAT payers is significantly affected by how the government utilizes the revenue for services, the prevalence of fraud and corruption among officials, the government's commitment to combating these issues, and the VAT payers' perceptions regarding accountability.

The revenue generated from VAT serves as a suitable indicator of economic growth, as purchasing power tends to rise during periods of economic development. The operational mechanism of VAT is quite straightforward. It is a self-assessed tax that individuals and businesses remit to the government upon filing their tax returns. The tax includes a refund or credit process, which mitigates the cascading effect often associated with retail sales taxes. Due to this operational framework, the input-output taxation model inherent in VAT ensures it is self-regulating.

Essentially, the VAT owed is calculated as the difference between the output tax and the input tax. This amount reflects what the government collects from the end consumer of the goods. While VAT operates at multiple stages, it maintains a singular impact and does not increase the consumer price beyond the established rate, irrespective of how many stages the tax is applied (Chan & Ramly, 2018).

The Nigerian Value Added Tax System is supervised by the Federal Inland Revenue Service (FIRS) in collaboration with the Nigeria Customs Service (NCS) and the State Internal Revenue Service (SIRS). Individuals subject to taxation must pay tax on goods and services that are taxable at the moment they make a payment to a contractor, and they are required to submit the tax applied to the contract to the nearest local VAT office, as indicated in section 10, subsection 1 and 2 of the VAT Act 1993. This remittance must include a schedule detailing the contractor's name and address, invoice number, total invoice amount, tax amount, and the corresponding return month.

The total VAT collected throughout Nigeria will depend on the efficiency of VAT administration and the effective use of resources. The VAT Act empowers the FIRS to inspect, audit, and investigate businesses to ensure VAT collection. FIRS designates an inspector who can enter the premises of any VAT-registered individual without a warrant to ensure adherence to VAT laws and regulations in all their aspects; verify that the full amount of VAT deducted is accurately reported; review transaction recording methods and offer recommendations when necessary; give VAT payers the chance to ask questions and seek clarifications; and provide education to VAT payers.

Relying excessively on a single source of income is seen as a significant risk for any nation. For example, before 2014, more than 70% of Nigeria's total revenue came from oil revenue (Nura et al., 2017). However, from early 2014 to recent years, oil prices have shown high volatility and experienced a considerable decline. This has led to a drastic reduction in total revenue for oil-dependent nations such as Nigeria (National Bureau of Statistics, 2016). The annual budget deficit in Nigeria rose to over N755 billion naira and reached N2.2 trillion naira in 2015 and 2016 respectively (Central Bank of Nigeria, 2016). To increase revenue and reduce budget deficits, particularly through VAT, Nigeria must take action. In developing nations, losses from VAT revenue due to non-compliance are much more pronounced than in developed countries, primarily because of a large informal economy (Buettner & Tassi, 2023).

VAT compliance in Nigeria is encountering significant challenges compared to other non-oil taxes such as income and corporate tax. Small and Medium Enterprises (SMEs), in particular, require urgent attention as less than 10% of them adhere to VAT regulations in Nigeria (Fowler, 2016). Therefore, targeting this sector is crucial in addressing the overall VAT noncompliance issue in Nigeria. Nevertheless, numerous studies on VAT compliance in developing nations have been conducted, both in Nigeria and internationally. Most previous research has relied on the deterrence model to explore VAT compliance behavior (Woodward & Tan, 2015). According to Nura et al. (2017), certain factors alone are inadequate to explain the low VAT compliance rates, as numerous other aspects influence VAT tax adherence.

The relationship between tax service quality and Value Added Tax (VAT) increment compliance in Small and Medium Enterprises (SMEs) is generally positive and significant (Orlaila et al., 2021). This means that improved tax service quality tends to enhance VAT compliance among SMEs, even when VAT rates are increased.

Tax Service Quality (TSQ) refers to the quality of services provided by tax authorities to taxpayers. This includes clarity of tax information, responsiveness, accessibility, professionalism, and efficiency in handling taxpayer concerns while VAT Increment Compliance is the willingness and actual behavior of SMEs in continuing to comply with VAT obligations despite increases in VAT rates. From a behavioral tax compliance perspective (e.g. fiscal exchange theory, slippery slope framework), taxpayers are more willing to comply when TSQ are provided. Thus, high-quality tax services can counteract the negative perception of VAT increases (Orlaila et al., 2021). Additionally, high tax service quality strengthens VAT compliance among SMEs, even in the face of VAT rate increases. When SMEs feel supported, informed, and treated fairly, they are more likely to comply voluntarily.

Furthermore, the relationship between taxpayer education and Value Added Tax (VAT) increment compliance in Small and Medium Enterprises (SMEs) is typically positive and significant. In other words, the more informed and educated SMEs are about VAT laws, procedures, and benefits, the more likely they are to comply even when VAT rates increase (Pere & Theuri, 2019).

Taxpayer Education is provision of knowledge and information to taxpayers about their tax obligations, rights, procedures, and the importance of taxation and VAT Increment Compliance. This increases the extent to which SMEs continue to file and remit VAT accurately and timely after a VAT rate increase. Hence, tax payer education plays a crucial role in enhancing VAT compliance among SMEs, especially when VAT rates are increased. It also empowers SMEs to understand, accept, and adhere to tax obligations, reducing the risk of evasion and errors (Pere & Theuri, 2019).

Furthermore, the scarcity of research on VAT increment on SMEs compliance in Nigeria, particularly in north-east necessitated this study. This study intends to solve the issue of VAT increment compliance that SMEs in Nigeria face.

The main objective of this study is to examine the influence of the determinants for improving value-added tax increment compliance in Nigeria's Small and Medium enterprise within the North-eastern Zone and the specific objectives are as follows:

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- (i) Investigate the impact of tax service quality on value-added tax increment compliance in Nigeria's Small and Medium enterprise within the North-eastern Zone.
- (ii) Examine the effect of taxpayer education on value-added tax increment compliance in small and medium enterprise within the North-eastern Zone.

In line with the objective of the study the following hypotheses were formulated in null form:

H₀₁: there is no significant impact of tax service quality on value-added tax increment compliance in Nigeria's Small and Medium enterprise within the North-eastern Zone.

H₀₂: there is no significant impact of taxpayer education on value-added tax increment compliance in Nigeria's Small and Medium enterprise within the North-eastern Zone.

2. Literature Review

Conceptualization

Concept of Small and Medium Enterprises (SMEs)

SMEs serve as income sources for their owners, contribute to national outputs and revenue, and supply resources for larger companies (Olatunji, 2013). SMEs are a part of the industrial sector and play vital roles in industrial growth in both developed and developing nations, such as Nigeria (Ahmed, 2006). Globally, SMEs make up the majority of businesses and account for a significant share of total employment and production (Hussain, et al 2006). They play a critical role in economic dynamics, as they represent 90 percent of all businesses and create 60 percent of employment opportunities worldwide. In light of the rising unemployment rates across the globe, SMEs are offering a viable alternative to traditional industrialization (Mutandwa, et al, 2015).

Following the introduction of the Economic Reform Program in Nigeria in 1981, numerous decisions have been made to shift away from capital-intensive, large-scale industrial initiatives, which were primarily based on import development, in favor of SMEs that have greater potential for fostering the domestic economy. This transition is intended to produce the necessary goods and services to advance Nigeria's economy towards development.

On this basis, Ojo (2009) posited that one effective response to developmental challenges in emerging countries, especially Nigeria, is to promote SME initiatives. Currently, SMEs are a crucial component of the economic landscape in the North-eastern Zone. Many impoverished and unemployed Nigerians have turned to starting their own businesses as a means to improve their circumstances. As a result, SMEs are quickly becoming a common presence in households throughout Nigeria.

Concept of VAT Increment Compliance

McNabb (2018) described VAT compliance as the readiness of individuals and other VAT entities to adhere to both the intention and the stipulations of VAT law administration without reliance on enforcement mechanisms. Several factors have been identified as influencing VAT compliance, including economic, social, and psychological factors (Ababayehu, 2020).

Understanding VAT is crucial for VAT compliance, particularly within a self-assessment framework. Alsughayer (2021) noted that having knowledge of VAT results in increased VAT compliance. There are three specific forms of VAT compliance: filing compliance, payment compliance, and reporting compliance (Musau, 2015). VAT compliance can be characterized as

the process of reporting all income and paying all VAT after taking into account all facets of VAT legislation, including regulations and judicial rulings (Alsughayer, 2021). According to Harelimana (2018), Value-Added Tax possesses several features that theoretically simplify its implementation and make it less burdensome for consumers.

First, it operates at a single rate of 5%, which facilitates administration. Second, it utilizes an input-output approach that allows for self-policing, meaning that despite being a multi-stage tax, its impact on consumer pricing should be uniform, adding no more than the designated rate to the price paid by consumers, regardless of the number of stages involved in taxation. Third, all goods and services are subject to VAT, with only a few limited and specifically defined exceptions. All imports are also liable for VAT, whether they are raw materials or finished products, with VAT on imports calculated on the total value, including cost, insurance, and freight. Conversely, exports are zero-rated, indicating that exporters do not collect VAT on their exported goods but can reclaim VAT paid on their inputs.

Concept of Tax Service Quality

According to Satope, and Akanbi, (2019) service quality is an attempt to fulfil needs and desires of customers and deliver accuracy in balancing customer expectations. Tax service quality is the level of service provided by tax authorities to taxpayers. Additionally, administration can be described as a unique exchange between parties where money is exchanged for satisfaction. Quality encompasses the entirety of attributes and features of a product or service that can meet customer needs (Orlaila et al., 2021).

Service quality is characterized by the gap between customer expectations and their actual perceptions of the services received (Orlaila et al., 2021). The qualities of tax services are determined by the dimensions of Human Resources (HR), tax regulations, and tax information systems. Standards of outstanding service quality for the taxpayer community will be achieved if HR fulfills their responsibilities in a professional, disciplined, and transparent manner (Sanni, 2019). Several studies have explored the connection between service quality and tax compliance, demonstrating an empirical relationship. For instance, Yunianti et al. (2019) identified a significant relationship between the quality of tax services and tax compliance.

Concept of Taxpayers' Education

Tax education encompasses both informal and formal initiatives developed by tax authorities and other organizations aimed at assisting taxpayers in correctly filing their tax returns and fostering an understanding of their responsibilities regarding the tax system (Palil, 2010). These initiatives can serve as significant tools to promote voluntary compliance with tax laws and act as a means to engage taxpayers in developing a better understanding and knowledge of all aspects of taxation and tax payment.

According to Misra (2004), the aims of taxpayer education encompass assisting revenue services in fulfilling their broader business goals; establishing an essential link between revenue services and taxpayers via education and easily accessible information; and optimizing the use of educational resources to foster a culture of compliance, awareness, service, and responsible empowerment of taxpayers.

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Review of Empirical Studies

Tax Service Quality and VAT Increment Compliance

This study defines service quality as the quality of the service provide by the tax authorities to the taxpayer. Awaluddin and Tamburaka (2017) examined how the quality of tax services and compliance impacts the payment of motor vehicle taxes. The aim was to assess the relationship between tax service quality and compliance in paying motor vehicle tax. The researchers gathered data primarily through questionnaires, sampling 98 participants. The findings indicated that the quality of service has a significant effect on the compliance with motor vehicle taxes. This study was conducted in Indonesia.

Orlaila et al. (2021) aimed to uncover the factors that influence tax compliance among private health practitioners. They collected data through a primary method using a survey research design with a sample of 271 respondents from Malaysia's health sector. The results showed that taxpayers' attitudes and the costs associated with tax compliance did not have a significant impact on the tax compliance of private health practitioners.

Another study by Judith (2019) sought to explore factors affecting tax compliance, focusing on education, compliance costs, perceptions, and information technology. Utilizing the primary method for data collection, the study gathered data from a sample of 302 individuals. The results indicated that tax awareness and education, along with compliance costs and information technology, have a significant and positive correlation with tax compliance.

Yunianti et al. (2019) examine the empirical data regarding the impact of awareness, moral obligation, tax accessibility, service quality, and tax penalties on the compliance of taxpayers when paying motor vehicle tax in the Banyumas district. The study's population consists of all registered two- and three-wheeler motor vehicle taxpayers in the UPPD Banyumas district up until 2017, totalling 501,400 vehicles. A sample of 100 respondents was determined using Slovin's formula for convenience sampling. Data was collected through surveys utilizing a questionnaire. The data analysis method applied in this research is multiple linear regression. The findings indicated that awareness, moral obligation, service quality, and tax penalties positively influence taxpayer compliance in paying motor vehicle tax. Additionally, the variable of tax accessibility shows a positive effect, although it is not statistically significant concerning taxpayer compliance with motor vehicle tax payments.

Taxpayer Education and VAT Increment Compliance

Olooh and Kilonzi (2022) investigate the influence of taxpayer education on VAT compliance in hotels located in Kisumu County. In particular, the research aimed to assess the impact of taxpayer education through print media, electronic platforms, and sensitization initiatives on VAT compliance. The study utilized a descriptive research design. It targeted 250 hotels functioning in Kisumu County and employed stratified random sampling to select 153 of them. Primary data was collected using questionnaires, and the data was analyzed with the Statistical Package for Social Sciences (SPSS). The results indicated that factors such as taxpayer awareness, perceptions, attitudes, and the enforcement of fines and penalties significantly influence VAT compliance.

Achieng (2019) explored the impact of print media coverage on taxation issues in Kenya. The research was focused on how taxation was reported in two newspapers, the Daily Nation and

the Standard, during the period from June to December 2013, coinciding with budget announcements, reviews following the budget, and after the first revenue quarter. A content analysis was conducted on the publications of these daily newspapers from Monday to Friday, totalling 360 publications in six months. The findings were analyzed using a coding sheet. The study concluded that the reporting of taxation in print media tends to be sensationalized and occurs seasonally. Since media houses are mainly profit-driven entities, the research recommends that these organizations should elevate the importance of taxation in their reporting and adopt a watchdog role to highlight the government projects funded through taxes.

Pere and Theuri (2019) conducted research investigating the communication methods and tax compliance among small taxpayers in Nairobi City County, Kenya. The study examined factors such as electronic media, print media, stakeholder sensitization initiatives, and tax compliance. This research also utilized a descriptive research design. The focus was on all small taxpayers across the four tax districts in Nairobi, totalling approximately 839,560 taxpayers (which includes employees and small-scale traders). The research adopted probability sampling methods together with stratified random sampling. A random sampling technique was subsequently used to select individual taxpayers from each stratum to minimize research bias. The results indicated that while establishing and maintaining electronic communication channels can be expensive, it is crucial for the government to invest in this area, as it serves as a key factor that improves compliance among small taxpayers in Nairobi County.

3. Methodology

The study is on the assessing the determinants for improving value added tax increment compliance in SMEs within north-east zone of Nigeria. The determinants for improving value added tax was measured in terms of tax service quality and taxpayer education against VAT increment compliance in SMEs. The study covered only the core tax service unit of the Federal Inland Revenue Service in the North-eastern zone specifically within Bauchi, Gombe, Yobe, Borno, Adamawa and Taraba states which include all the FIRS. With regard to data collection procedure, 238 questionnaires were distributed to the staff of core tax service units of the Federal Inland Revenue Service in the North-east zone.

The study utilized an ex-post facto research design, focusing on primary data sources. The target population consisted of employees from the essential tax service units across all branches of the Federal Inland Revenue Service located in the North-east region of Nigeria. As of February 2024, there are six FIRS branches in north-eastern Nigeria, employing a total of 293 staff members in their core tax service units, and the study opted for a census approach, examining the entire population.

A structured questionnaire was developed using a 5-point Likert scale that ranged from Strongly Disagreed (1 point) to Strongly Agreed (5 points) for data collection purposes. The questionnaire included test items addressing all relevant variables and successfully underwent reliability and validity testing. It was distributed to all staff members of the designated FIRS units, and the collected data were analysed using both descriptive and inferential statistics.

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Operationalization of Variables and Model specification

This study was set out to assess the determinants for improving value added tax increment compliance in SMEs within north-east zone of Nigeria and has the following constructs: Dependent variable is VAT Increment Compliance Indicators and Independent variable is Determinants of Value Added Tax Increment Compliance.

The study model equation relating to this is as stated as follows: $VATIC = f \{TE, TSQ\}$. Therefore, $VATIC = \beta_0 + \beta_1 TE + \beta_2 TSQ + \epsilon$; Where VATIC is VAT Increment Compliance; β_0 is Constant coefficient; β_1 is Coefficient of TE; TE is Taxpayers Education; β_2 is Coefficient of tax service quality; TSQ is Tax Service quality; ϵ is error terms.

4. Results and Discussion

Two hundred and fifty (250) questionnaires were collected which are deemed usable out of the two hundred and ninety-three (293) that were distributed, yielding an 85.3 percent retrieval rate. The demographic data of the participants provided insights into the responses gathered from the 250 individuals chosen for the study. The information obtained from the respondents indicated that 2% have been in service for 1-4 years, 24.8% have served for 5-8 years, while both 24.8% and 48.4% have worked for 9-11 years and for more than 11 years, respectively, within the Federal Inland Revenue Service.

The findings also showed that the highest educational attainment among the respondents falls within the degree/HND category. The educational qualifications of the respondents are generally satisfactory, with approximately 42.4% holding either HND or degree qualifications, 38.4% possessing Master's degrees, and 3.2% having doctorate degrees as their highest level of education, whereas 16% of the respondents achieved either a senior school leaving certificate or a National Diploma.

Fourteen (14) test items were utilized to gather responses regarding both the dependent and independent variables. The summarized responses from the questionnaires are presented in table 1.

Table 1

Summarized Responses on Measured Variables

Measured Variables	No. of test items	Mean	Std. Dev
VATIC	5	3.5935	0.9501
TSQ	4	4.4377	0.7045
TE	5	4.5108	0.5554

Source: Field Survey, 2024 (Summary of SPSS Output)

Table 1 provides a summary of the mean scores and standard deviations for the number of test items utilized to evaluate each of the measured variables. The mean scores for these variables fall within the range of 3.5935 to 4.5108, while the standard deviations vary from 0.5554 to 0.9501. With a cut-off threshold of 3.0, representing the simple average of the points assigned to the Likert scale, this indicates a strong level of agreement regarding the dependency of each independent variable on compliance with VAT increments. The standard deviation values imply that the responses from the participants regarding the test items for each variable are not significantly different. Therefore, they tend to be close to the average mean score and are unlikely

to fluctuate over time.

The study employed a two-step analysis to evaluate the factors influencing VAT increment compliance indicators at a 5 percent significance level. Initially, the study examined and tested how the two determinants for enhancing value added tax (tax service quality and taxpayer education) individually impact VAT increment compliance and their significance.

Table 2

Coefficient

Model	Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
(Constant)					
TSQ		0.209	0.339	3.213	0.002
TE		0.322	0.201	3.287	0.001

Source: SPSS Analytical Output (2024)

Table 3

Summary of the Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.790	.623	.618	.44938

Source: Field Survey, 2024 (Summary of SPSS Output)

The findings are illustrated in Table 2. The estimated parameters in this table indicate the effects of the two measures for enhancing value added tax, namely tax service quality and taxpayer education. The unstandardized beta coefficients (0.339 and 0.660) for the predictors suggest that both tax service quality and taxpayer education positively correlate with VAT compliance increment and are significant factors, with p-values less than 0.05 ($p = 0.002$ and 0.001). This means that a unit increase in tax service quality and taxpayer education will result in increases of 0.339 and 0.660 in VAT compliance increment, respectively.

Furthermore, the results indicate that if the predictors (SM and TE) are held constant, the dependent variable (VATIC) will see an improvement of 4.839 units. This implies that without monitoring the determinants that enhance value added tax (the explanatory variables), VATIC will remain steady at 4.834, which corresponds to the model's slope.

The model summary presented in Table 3 demonstrates a 79.0% ($R = 0.790$) correlation between VAT compliance increment (VATIC) and the determinants for improving tax service quality and education. The R square ($R^2 = 0.548$) shows that these determinants (SM and TE) account for 54.8% of the variability in VAT compliance increment (VATIC). The adjusted R^2 (Adj. $R^2 = 0.540$), which considers the number of predictor variables and the error term, indicates that the monitoring and consideration of the determinants for enhancing value added tax (SM and TE) explain 54.0% of the variations in VAT compliance increment (VATIC), while the remaining 46% is accounted for by other factors represented by the error term (ϵ), which are not included in the model.

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5. Conclusion and Recommendations

The research focuses on evaluating the factors that contribute to enhancing compliance with value added tax increments among SMEs in the northeast region of Nigeria. The factors for improving value added tax were assessed in terms of the quality of tax services and taxpayer education in relation to compliance with VAT increases. The results of the study indicate that the provision of high-quality services by the FIRS positively and significantly influences VAT compliance among SMEs. This finding aligns with the work of Orlaila et al. (2021), who discovered a strong correlation between tax service quality and VAT compliance within SMEs. This suggests that the quality of tax services has a considerable impact on compliance with VAT increments in SMEs. The current study's findings also demonstrated that consistently delivering quality services is essential for promoting compliance with VAT increases in SMEs. However, this conclusion differed from previous ones. Both factors for enhancing VAT compliance, as indicated in the model, exhibit a positive and significant effect, both individually and collectively, on compliance with VAT increments.

Overall, the study asserts that the factors for improving VAT, measured by staff motivation and tax service quality, positively and significantly influence VAT compliance among SMEs in Nigeria's north-eastern zone. Consequently, the study recommends that the FIRS implement robust measures to monitor tax service quality and staff motivation to improve compliance with VAT increments.

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