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The Moderating Effect of Tax Knowledge on the Relationship between Tax Rates and Tax Compliance of MSMES in Nigeria

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Abstract

Findings from prior studies have confirmed the inconsistencies and weak relationship that exists between tax rates and tax compliance. This study, therefore, tested the strength of the relationship between tax rates and tax compliance of MSMEs by introducing tax knowledge as the moderating variable. From 500 questionnaires administered, 325 were collected and from data cleansing 304 respondents were tested. Stratified and proportional sampling techniques were used in selecting the samples. The study found that tax knowledge moderated the relationship that exists between the tax rates and tax compliance of MSMEs in Nigeria. Also, the study found that tax rates and tax knowledge have a significant effect on the tax compliance of MSMEs in Nigeria. Tax literacy is important in improving the basic tax education of the citizens and trust in government. The study, therefore, recommended that the government should include taxation in the curriculum of elementary classes in Nigeria.

Keywords: Tax Compliance, Tax Rates, Tax Knowledge, MSMEs, Nigeria.

1.0 Introduction

The main objective of every government in tax administration is to ensure voluntary payment of taxes without enforcement. Tax compliance is obeying all tax laws. The Nigerian tax administration before the colonial master was a success (Taiwo et al., 2019). The Nigerian tax system was unified through the Income Tax Management and Company Income Tax Act of 1961. To ensure every citizen carries out their civic duties, the citizens must declare their income honestly to the relevant tax authorities and pay their tax liabilities promptly to the State (Nigeria Constitution, 1999, Section 24(f) as amended).

Unfortunately, not all citizens comply with this section of the constitution that demands them to pay part of their income as tax. The citizens employ different tactics to reduce their tax liabilities through tax avoidance and tax evasion (Mohdali et al., 2014). The failure of taxpayers to register for tax purposes, inaccurate tax computation and declaration, non-payment or underpayment of the computed tax liabilities, and failure to file tax returns constitute tax compliance issues (Batrancea et al., 2012).

The importance of tax cannot be overemphasized. The widening gap between the budget and the revenue to fund this budget has made the Nigerian government come up with different ideas for improving the revenue. The government granted amnesty to tax defaulters to declare their assets ("VAIDS and the Trust Deficit", 2018). Also, the government came up with the idea to forgive interest on tax penalties for taxpayers (Akinmurule, 2023) or transfer the tax burden to the wealthy in the society (Onu & Osae-Brown, 2023) to improve tax compliance in Nigeria.

It has been difficult for the Nigerian government to raise revenue to fund its budget thereby making the government have a budget deficit. The tax compliance problem has widened the revenue and expenditure gap leading to more borrowings. This is caused by the failure of businesses to pay their taxes to the government. Consequently, the government loses $15 billion annually (Okwe, 2019). Literature Nwokoye et al. (2023) have confirmed that tax rates influence tax compliance.

All these efforts have not yielded any positive impact on tax compliance in Nigeria, hence causing a low tax-to-GDP ratio in Nigeria (Kolade & Ajogbor, 2019). OECD member countries have a 34.5 per cent tax-to-GDP ratio, the Latin American Countries have an average ratio of 23.1 per cent while the average of 30 African countries is 16.1 per cent (OECD, 2020). The OECD report shows that Nigeria has the lowest tax-to-GDP ratio in Africa at 6%. This has affected the country's ability to fund its expenditure. The United Nations suggests a minimum of 15 per cent tax-to-GDP ratio to enable countries to have adequate funds to support development (United Nations, 2019).

Different factors have been confirmed by authors to influence the tax compliance of taxpayers. There is a consensus that tax rates have an association and influence on tax compliance (Sinnasamy & Bidin, 2017; Yunus et al., 2017; Adimasu & Daare, 2017; Inasius, 2018; Okpeyo et al., 2019). In addition, it is believed the relationship between tax rates and tax compliance is positive and significant (Nwokoye et al., 2023). However, Chindengwike and Kira (2022) believe the relationship is negative while Dewi et al. (2021) argue that the relationship is partial. Some of the findings from the literature reviewed show that the relationship between tax rates and tax compliance is inconsistent and contradictory, hence there is a need for further study by introducing tax knowledge as a moderator variable.

MSMEs help drive the economy of most countries (Le et al., 2020; Nguyen, 2022). Because of the importance of MSMEs in Nigeria, the government laid down the control of private businesses in the early 1970s (Feyitimi et al., 2016). The ability of Nigeria to grow as fast as it would have wanted is slowed down because of the lack of a strong MSME sub-sector (Feyitimi et al., 2016). The success of MSMEs is tied to the effective management of funds available to the business (Muhammed et al., 2023). Also, Business performance is linked to the quality of ownership (Ahmed & Umar, 2023). Despite the importance of MSMEs in creating jobs, one of their main challenges is tax compliance (Aladejebi, 2018; Le et al., 2020). Financial decisions should be made by stakeholders based on the financial statements of the companies (Egbadju, 2023). However, SMEs are described as businesses that do not have public accountability and publish general-purpose financial statements meant for public users (IFRS for SMEs, 2014, Section 1). Further, Conditional cash transfers have helped many households in Nigeria (Maitalata & Aliebba, 2023). Some of these households use this transfer as a source of capital. In addition, Most MSMEs are established to reduce unemployment in Nigeria and this is mostly done with personal savings, therefore, any unfriendly tax policies may affect the operation and in turn tax compliance (Adanlawo & Vegi-Magigaba, 2022).

Most of the MSMEs that pay high taxes collapse in their first year of operation because the high tax rates affect MSMEs' investments in Nigeria (Confidence et al., 2021). Also, high tax rates affect the tax compliance of MSMEs (Sani & Ezekiel, 2022). What is not known by previous findings is the consistency, strength and direction of the relationship between the tax rates and tax compliance in Nigeria. When there is this type of doubt, the moderating variable can be introduced which is why this study seeks to know the strength of the relationship between the tax rates and tax compliance in Nigeria.

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2.0 Literature Review and Hypotheses Development

Conceptual Review

The concepts, theories and empirical studies are reviewed in this section. Tax rates, tax education and tax compliance which are the main concepts of this study are discussed in this section. Individuals and businesses are required to pay their taxes to the relevant tax authorities. To achieve this the taxpayers are expected to declare all their incomes, ensure accurate computation of their tax liabilities, pay the tax and file the tax returns when due. James and Alley (2009) opine that when the tax liabilities are paid without enforcement, it is called tax compliance.

Furthermore, there are four basic rules of tax compliance which are to report the actual tax base to the tax authorities; the tax liabilities should be correctly computed; file tax returns at the right time; and ensure paying the liabilities when due (Batrancea et al., 2012). James and Alley (2009) state that tax compliance can be measured through the 'tax gap', which they assert is the difference between the actual money collected and the money that would have been collected had there been total compliance by the taxpayers.

In continuation, any tax must be backed by a tax law. From the colonial master's proclamation to the Income Tax Management Act and Company Income Tax Act of 1961 different rates have been applied to taxable income in Nigeria. The present tax laws in Nigeria have different tax rates. The following are taxes paid by individuals and registered businesses in Nigeria. Tax rates are percentages that apply to the taxable income of taxpayers. The Nigerian Personal Income Tax Act (PITA) rate is progressive. PITA has graduated tax rates from 7 to 24 per cent on ₦300,000 to above ₦3,200,000 respectively. The rate of capital gains tax shall be for every ₦1, 10 Kobo paid as tax (Section 2(1) CGT, 2004 as amended). Further, for Stamp Duties, different duties are paid; those that do not vary with consideration (fixed) and those that vary with consideration (*ad valorem)* (Stamp Duties Act, 2004 as amended). The tax rate applicable for Value-Added Tax (VAT) shall be 7.5 per cent on the value of all vatable goods and services (Sections 4,5 & 6 of VAT, 2004 as amended).

Moderating variables help determine the strength and direction of a relationship between an independent variable and a dependent variable. To choose a variable as a moderator variable, it needs to attain some characteristics. The moderating variable must be able to affect the direction and strength of the relationship between the IV and the DV, it must be uncorrelated between the IV and the DV, and can itself serve as an independent variable (Baron & Kenny, 1986). Tax knowledge fits the above description and therefore, is adopted as the moderating variable of the study.

The awareness and sensitivity of taxpayers to tax laws and regulations are referred to as tax knowledge (Umar et al., 2016). Tax knowledge does not include the tax ability to understand the technical aspect of tax alone but includes how they show the skills and confidence which enable them to obey the tax laws (Wong & Lo, 2015). Bornman and Ramutumbu (2019) in their framework defined tax knowledge as general, procedural and legal. The authors explained the general as knowing the basic and general tax, that is, fiscal awareness, procedural as knowing the tax procedure which is the ability to keep records and legal as knowing tax regulations.

To illustrate this Palil et al. (2013) advised that to improve tax compliance, the citizens need to be literate in tax matters as such tax knowledge should be included in the curriculum of tertiary institutions for undergraduates notwithstanding the students' discipline. To improve tax voluntary tax compliance, Olowookere and Fasina (2013) state that tax knowledge should focus on the socioeconomic consequence of tax evasion, and Eiya et al. (2016) recommend that tax knowledge should be introduced at an early stage. Tax knowledge has been tested by some scholars as a factor of tax compliance, this is evident in the work of Oladipupo and Obazee (2016). Further, taxpayers need to be literate in tax matters which helps them understand the importance of paying taxes and participate without enforcement (Naitili et al., 2022).

Theoretical Framework

The hypothesis is developed based on the slippery slope theory. The theory believes socio-psychological variables also tend to improve tax compliance just as the economic factors (Yasa & Martadinata, 2018). The slippery slope theory assumes the economic determinants of tax compliance are power in the hands of the enforcement authority (Benk & Budak, 2012). The authors believe that psychological determinants lead to trust in government and, consequently voluntary tax compliance. The interaction of both economic factors, authority of government and trust are seen to be important in tax compliance (Kirchler et al., 2008).

The correlation between the slippery slope theory, tax rate and tax compliance is the external influence variable like tax knowledge has on taxpayers’ willingness to comply with their tax obligations. Literacy in tax matters helps taxpayers understand the importance of paying taxes and participating without enforcement (Naitili et al., 2022). This means tax knowledge affects the mindset of the taxpayers making them more aware of the functions tax performs rather than seeing it as a burden. Tax literacy is akin to socio-psychology which improves one's mindset and personality and helps improve the relationship between tax rates and tax compliance.

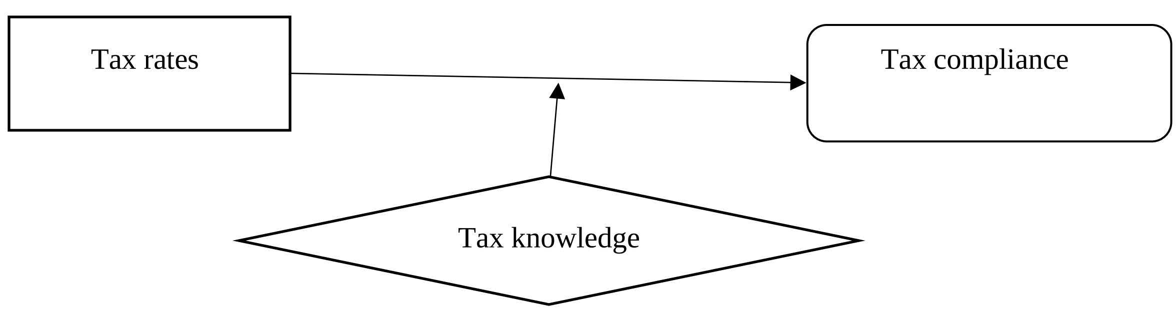

Figure 1: Conceptual Framework
Source: Adapted from Naitili et al. (2022)

Empirical Review

This section reviews previous studies that are relevant to this study; the dependent variable, tax compliance and the independent variables, the tax rates, and tax knowledge as the moderating variable. Mas’ud et al. (2014) found that tax rate has a negative effect on tax compliance. A consensus sampling technique was adopted where 61 African countries were the scope of the study. However, data from only 17 countries was analysed, therefore, making the authors recommend further research to consider increasing the number of samples. In contrast, Yunus et al (2017) found that tax rates and tax compliance have a positive and moderate relationship. The study employed a regression technique in the analysis. Also, Jayawardane and Low (2017) found that tax rates have a significant effect on tax compliance. Further, Sinnasamy and Bidin (2017) concluded that the perception of tax rates has an influence and positive effect on tax compliance. The study, however, focused only on excise duties as the predictor variable of this study. Also, Adimasu and Daare (2017) posited that tax rates have a significant effect on tax compliance. in its analysis, the study adopted both primary and secondary data.

Further, different from a study by Sinnasamy and Bidin (2017), Inasius (2018) measured the factors influencing MSMEs' tax compliance and concluded that perception of tax rate does affect tax compliance. A descriptive technique was employed to analyse the data generated through a questionnaire. Similarly, Remali et al. (2018) found that tax rate is positively correlated to tax compliance. Okpeyo et al. (2019), revealed that tax rate has a significant impact on tax compliance. The study adopted a regression technique for their analysis. Tilahun (2019) also concluded that tax rates have a significant effect on tax compliance. Similarly, Tessema (2020) concluded that tax rates have a significant effect on tax compliance. The study employed both survey and interview techniques to collect data and employed descriptive and explanatory techniques for the analysis. This study also adopted the quantitative design; however, this study does not employ the interview method of data collection.

In a study, Dewi et al. (2021) showed that tax compliance is partially affected by tax rates. The tools of analysis adopted were also employed by this study but guided by different theories and tax jurisdictions. In the same vein but a different scope of the study, Nam and Minh (2021) used Correlation and Regression techniques in the analysis and concluded that tax rates have a significant and negative effect on tax compliance. The finding is a confirmation of a study by Mas'ud et al. (2014). Similarly, Chindengwike and Kira (2022) in a study employed both qualitative and quantitative designs and found that tax rates have a negative effect on voluntary taxpayers' compliance. The authors stated that good tax rates motivate taxpayers to comply with tax laws. To investigate the tax compliance behaviour of firms in industrial clusters in Nigeria, Nwokoye et al. (2023) found that tax rates have a significant effect on tax compliance. The focus of the study is on industry which is different from this study.

To measure the importance of education and religion to tax compliance, Palil et al. (2013) revealed that tax knowledge has a negative relationship with tax compliance and they concluded that religious values play an important role in tax compliance. The outcome of the study might be due to the rate of religious beliefs in that country. Also, Ocheni (2015) revealed that tax knowledge influenced tax compliance. Mustapha et al. (2015) revealed that tax awareness has a significant positive relationship with the level of tax compliance. In addition, Oladipupo and Obazee (2016) compared tax knowledge with the tax penalties of SMEs and found that tax knowledge has a higher tendency to promote tax compliance than tax penalties. Furthermore, Fauziati et al. (2016) revealed that tax knowledge does not influence tax compliance. Furthermore, to test the causal relationship between tax awareness and tax compliance, Adimasu and Daare (2017) stated that tax awareness has a significant effect on tax compliance. The outcome of the study by Gitaru (2017) revealed that educating taxpayers through the electronic and print media, and stakeholder engagement all influence tax compliance. Similarly, Yunus et al. (2017) showed that tax knowledge has a positive relationship with tax compliance. Asrinanda (2018) found that under the self-assessment system, tax knowledge and tax awareness have a significant effect on taxpayers' compliance. To test how tax knowledge affects tax compliance of SMEs, Remali et al. (2018) showed that tax knowledge has a significant effect on tax compliance.

Also, to find the relationship between tax knowledge and tax compliance, Newman and Nokhu (2018) found that education has no significant influence on tax compliance. In line with the findings of Newman and Nokhu (2018), Inasius (2018) tested the factors influencing SMEs' tax compliance and revealed that tax knowledge does not substantially affect SMEs' tax compliance. this study conducted a similar study although the description of the SME is different. Assfaw and Sebhat (2019) employed a survey design descriptive statistics and an economic model in their analysis and found that tax education has a significant effect on tax compliance. Similarly, Shiferaw and Tesfaye (2020) used both primary and secondary data and from the regression analysis, it was found that tax knowledge has a significant effect on tax compliance. Further, Permatasari and Mutoharoh (2020) found that tax knowledge has a significant effect on tax compliance. Also, Alemu (2020) found that tax education has a significant effect on tax compliance. Tessema (2020) agreed that tax knowledge significantly affected tax compliance. In contrast, Nasution et al. (2020a) in a study employed confirmatory factor analysis (CFA) using structural equation modelling (SEM) approach for their analysis and the study found that tax knowledge has no significant effect on tax compliance. Similarly, Kushwah et al. (2021) found that tax knowledge does not have a significant influence on corporate taxpayers' compliance.

Furthermore, Nam and Min (2021) found that tax knowledge has a significant effect on tax compliance. Amin et al. (2022) found that tax education has a significant effect on tax compliance. Sari et al. (2022) in one of their findings also found that taxpayer awareness has a positive and significant effect on tax compliance. Employing a quantitative design and a regression analysis for their analysis, Oladipo et al. (2022) asserted that tax knowledge has a significant effect on the tax compliance of manufacturing companies. To test the impact of tax fairness and tax knowledge on tax compliance, Oladipo et al. (2022) employed a survey design to collect data from industrial and consumer goods manufacturing companies and found that tax knowledge influenced tax compliance behaviour. Further, Adhikara et al. (2022) in a study concluded that tax knowledge has a partial effect on tax compliance.

Adimasu and Daare (2017); Yunus et al. (2017); and Asrinanda (2018) all have shown that tax knowledge improves tax compliance, this, however, does not have the same findings as the study conducted by Fauziati et al. (2016); Inasius (2018); Newman and Nokhu (2018). Knowing the strength and direction of the relationship between tax rates and tax compliance is important, however, prior studies have failed to test the effect of tax knowledge on the relationship between tax rates and tax compliance. Based on the previous empirical findings, this study developed the following hypotheses.

Ho_1: Tax rates do not have a significant effect on tax compliance of MSMEs in Nigeria.

Ho_2: Tax knowledge does not have a significant effect on tax compliance of MSMEs in Nigeria.

Ho_3: Tax knowledge does not strengthen the relationship between tax rates and tax compliance of MSMEs in Nigeria.

3.0 Methodology

In this section, the research design, sampling size and techniques are discussed. The study adopted a quantitative design and this means a survey is used to generate the data for analysis. This design is adopted because the data can be measured. An investigation of a phenomenon using data means it is quantitative (Watson, 2015). The study used MSMEs in Nigeria as the population. MSMEs are adopted for this study because they are the backbone of Nigerian economic growth, yet they have tax compliance problems (Aladejebi, 2018). The NBS/SMEDAN 2021 survey put MSMEs number in Nigeria at 39,654,385. The study employed Taro Yamane's 1967 formula to select the sample size.

The formula is: $Ss = N/\{1+N(e)^2\}$

$$= \frac{39,654,385}{\{1+39,654,385\ (0.05)^2\}}$$

= 400.

To overcome the fear of response bias because the businesses may not divulge sensitive information, the sample size is increased to 500. To make up for response bias, Israel (1992) suggested a 30 per cent increment in sample size. After the determination of the sample size, the study employed stratified and proportional sampling techniques for the selection. The stratified method helps in categorising the sample size in strata; Nano/Homestead, Micro, Small and Medium while proportional is based on the concentration of the MSMEs in the States. The study administered 500 questionnaires, however, 325 fully filed were collected. In the process of data cleansing, 21 respondents could not meet the outlier requirements and, therefore, were deleted as suggested by Tabachnick and Fidell (2007). This study adopted stratified and proportional sampling techniques in the selection of the sample size. A stratified sampling technique was adopted to sort the respondents based on the strata of the organisation, that is, micro, small and medium. Furthermore, proportional sampling is adopted in addition to the stratified sampling technique because the respondents are sorted based on the number of MSMEs operating in different geographical zones to avoid any bias.

Table 1: Number of Questionnaires Distributed According to States

S/N	Zone	State	Formal Enterprises by State	Questionnaire Administered
1	South West	Lagos	91,097	123
2		Ogun	49,813	67
3	North West	Kano	79,328	107
4		Kaduna	38,908	53
5	North Central	Plateau	32,028	43
6		Nasarawa	21,456	29
7	North East	Bauchi	34,685	47
8		Yobe	22,425	30

Source: NBS/SMEDAN 2021/ Researcher Analysis 2024.

The questionnaire was in two parts; the first part contains information about the respondents while the second section contains questions on tax compliance, tax rates and tax knowledge. In the questionnaire, there are three variables (tax rates, tax knowledge and tax compliance) and each variable contains items/indicators that helped in defining the constructs for ease of analysis. The items to measure tax rates, tax knowledge, and tax compliance were adapted from Nguyen et al. (2020) and Nam and Minh (2021). It is closed-ended questions and this method is preferred because it is good for quantitative research and also helps the study in designing and applying measuring instruments for the questionnaire (Jonker & Pennink, 2010). Jonker and Pennink (2010) opine that a closed-ended question is a type of measurement that presents the respondents with a fixed set of questions and unlike the open-ended question, the respondents are not given the possibility of presenting their personal opinions. Also, the closed-ended questions are easier to process and reduce coder variability (Bradburn, et al., 2004).

The questionnaire adopted the 5-point Likert Scale validity and reliability have been tested and are found to be useful. The study equally noted that human attention span peaks at six items at a time – hence the 5-point Likert Scale does not make respondents lose interest in the adoption of this study. The importance of a 5-point Likert Scale in measuring attitude is confirmed by a study by Likert (1932) where it was described as having a distribution with a semblance of a normal distribution. Also, Park and Park (2019) confirmed that the scale is equally useful for individuals with intellectual disabilities.

Table 2: Measurement Instruments and their Sources

S/N	Variable	Item	Source
1	Tax rates	4	Nguyen et al. (2020), Nam and Minh (2021)
2	Tax knowledge	6	Nguyen et al. (2020), Nam and Minh (2021)
3	Tax compliance	4	Nguyen et al. (2020), Nam and Minh (2021)

Source: Author Analysis (2023).

In the administration of the questionnaires, this study initially developed Google Forms and KoboCollect to deploy to the respondents for data collection. The response rate from the mailed questionnaires is 10 per cent, as such the study opted for a self-administered method. For the administration of the questionnaire in the north-central, Plateau State and Nasarawa State were chosen. As for the North East, Bauchi and Yobe States were chosen. Further, as for South West, Lagos and Ogun States were chosen. While Kano and Kaduna States were selected for the study. The States were chosen based on the concentration of MSMEs in the zones as shown in the SMEDAN report (2021). The analysis used the regression and moderated regression analysis through the statistical package for the social sciences (SPSS). This is to measure the causal relationship that exists between a dependent variable and either one or more independent variables (Hair et al., 2014).

4.0 Results and Discussion

The analysis of data generated is done in this section. To ensure data is not noisy and to also ensure accurate analysis, the regression assumptions are checked. The assumptions checked are reliability, normality, linearity, multicollinearity and homoscedasticity.

Reliability

To test the internal consistency of the measurement items, the study checked the reliability through Cronbach Alpha as recommended (Hair et al., 2010; Sekaran & Bougie, 2010). Also, it is recommended that the coefficient of the Cronbach alpha should be 0.7 and above. The reliability test of the study is represented in the table below.

Table 3: Reliability Statistics

Variables	No. of Items	Cronbach's Alpha
Tax Compliance (TC)	4	0.817
Tax Knowledge (TK)	6	0.854
Tax Rates (TR)	4	0.786

Source: Author Analysis (2023).

Table 3 represents the reliability analysis of the study. Cronbach Alpha coefficients of 0.7 and more means the interpretation of the analysis of the regression cannot be affected and therefore, the study can be replicated.

Normality

Testing the normality of the data using the graph shows that the data was normally distributed because the distribution line runs diagonally through the normality plot. Having met the normality assumption, the Z-test, T-test and F-test will not be affected in a parametric test. Also, the measure of central tendency is not affected. The figure is available on demand.

Linearity

In a regression analysis, the IVs and the DV must be linear (Tabachnick & Fidell, 2007) and having met the assumption requirement, the analysis will not be discontinued. The Figure below shows that the distribution is concentrated at the centre in a rectangular format which means the assumption requirement

Homoscedasticity

The diagonal line across the Scatterplot showed that the residuals of the dependent variable have an equal distance from the independent variables meaning the variance of the error term is equally distributed and as such the homoscedasticity assumption is not violated. The figure is available on demand.

Multicollinearity

Table 4: Multicollinearity

Model	**Tolerance**	**VIF**
Tax_R	0.679	1.474
Tax_K	0.618	1.617

Source: SPSS Analysis by Researcher (2023).

A value of tolerance of not less than 0.1 and the variance inflator factor (VIF) of not more than 10 (See Table 4 above) showed that the IVs are not highly correlated which means the assumption is met as suggested by Hair et al. (2014). When the assumption requirement is met, testing individual regression coefficients would no longer be a problem.

Hypothesis Testing

Ho$_1$: Tax rates do not have a significant effect on tax compliance of MSMEs in Nigeria.

Table 5: Influence of TR on TC

Variable	Standardized Coefficient Beta	t-value	p-value	
TR	0.454	8.859	0.000	
R^2				0.206
Adjusted R^2				0.204
F-value				78.489

Source: SPSS Analysis by Researcher (2023).

The regression analysis showed that tax rates do have a significant effect on MSMEs’ compliance. With F (1, 302) = 78.489, $p < 0.05$, tax rates play a significant role in the decision of MSMEs’ tax compliance. This study, therefore, does not confirm the evidence documented by Adimasu and Daare (2017); and Inasius (2018).

Ho$_2$: Tax knowledge does not have a significant effect on tax compliance of MSMEs in Nigeria.

Table 6: Influence of TK on TC

Variable	Standardized Coefficient Beta	t-value	p-value	
TP	0.053	15.796	0.000	
R^2				0.452
Adjusted R^2				0.451
F-value				249.5

Source: Author Analysis (2023).

From the regression analysis, tax knowledge does have a significant effect on taxpayers' compliance, $F(1, 302) = 249.5$, $p < 0.05$ and this means tax knowledge can play a significant role in taxpayers' decisions on tax compliance issues in Nigeria. 45.2 per cent change in DV is accounted for by the IV. The coefficient table showed that for every unit of increase in tax knowledge, there is an 83.9 per cent change in tax compliance of MSMEs in Nigeria. The study, therefore, does confirm the study by Adimasu and Daare (2017); Yunus et al. (2017); Asrinanda (2018).

Ho_3: Tax knowledge does not strengthen the relationship between tax rates and tax compliance of MSMEs in Nigeria.

Table 7: Summary of Moderation Results

Variable	Beta Coefficient	R^2	F Change	p-value
Tax_R_Interaction	0.149	0.472	4.241	0.04

Source: Author Analysis (2023).

The moderated regression analysis equally showed that tax knowledge strengthened the relationship between tax rates and tax compliance of MSMEs in Nigeria. A p-value of 0.04 showed that the moderation variable introduced has significantly improved the prediction and this is accounted for by 47.2 per cent. This means tax knowledge can influence taxpayers to comply with tax laws. This shows that this study supports the slippery slope theory. There is no available evidence to relate this finding with, however, Naitili et al. (2022) found that tax knowledge does not strengthen the relationship between tax incentives and tax compliance.

Revenue generation agencies in Nigeria employ techniques and control measures including enacting laws that help in investigating taxpayers' compliance behaviour to detect and ensure non-compliance is equally prevented (Establishment Act, 2007, Section 8(h)); They also, encourage research to support government efforts to stimulate the growth of the economy and make appropriate recommendations to improve government's tax policies (Establishment Act, 2007, Section 8(n)); and ensure continual review of tax policies and also ensure such policies are implemented to discourage tax evasion (Establishment Act, 2007, Section 8(o)). This study implies that Nigerian tax authorities such as the FIRS, SIRS and the local government revenue committees can improve the tax compliance of individuals and business owners who are made to acquire basic tax knowledge. Also, this study has added to the existing body of knowledge on tax rates, tax knowledge and tax compliance thereby filling knowledge gaps. This, also, helps other researchers interested in the area of tax compliance.

5.0 Conclusion and Recommendations

The inconsistencies and contradictory findings in the relationship between tax rates and tax compliance allowed the study to introduce tax knowledge to investigate the strength of the relationship. The regression analysis was employed for the analysis and the study found that tax knowledge moderated the relationship between tax rates and tax compliance of MSMEs in Nigeria. The other findings of the study showed that tax rates and tax knowledge have a significant effect on the tax compliance of MSMEs in Nigeria.

Tax knowledge is important in improving the basic tax education of citizens. It is also confirmed that tax knowledge enhances the taxpayers' ability to understand the determinants of tax compliance which could lead to improving trust between taxpayers and the government. Having known the importance of tax knowledge to tax compliance of a country, the study recommends that the government introduces taxation at every level of education most especially the elementary level in Nigeria. Doing this will foster the culture of patriotism, and help citizens participate in the civic responsibility of their country. This study is limited to MSMEs in Nigeria. Therefore, for further study, this study recommends the expansion of the study to include all taxpayers.

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