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IMPROVED PUBLIC SERVICES AND TAX COMPLIANCE OF SMALL AND MEDIUM SCALE ENTERPRISES IN NIGERIA: A GENERALISED ORDERED LOGISTIC REGRESSION

Oluwafadekemi S. Areo
Obindah Gershon
Evans Osabuohien

1Department of Economics and Development Studies Covenant University, Ota, Nigeria.
Email: oluwa@areo@yahoo.com Tel: +234903670967
2Department of Economics and Development Studies & Co-Cahir, Centre for Economic Policy and Development Research (CEPDeR) Covenant University, Ota, Nigeria.
Email: obindah.gershon@covuniversity.edu.ng Tel: +234818645675
3Department of Economics and Development Studies & Chair, Centre for Economic Policy and Development Research (CEPDeR) Chair, Regional Centre of Expertise Ogun (RCE Ogun) Covenant University, Ota, Nigeria.
Email: evans.osabuohien@covuniversity.edu.ng Tel: +2348146878220
(+ Corresponding author)

ABSTRACT

In this paper, we assess tax compliance among small and medium scale enterprises (SMEs) in Nigeria from the perspective of improving public goods and services. We utilise the Nigerian Economic Summit Group (NESG) 2018 Firms Survey Dataset on taxpayers’ perception and attitudes and estimate the model of this research using the Generalised ordered logistic regression analysis. This methodology relaxes the assumption of equal odds as the explanatory variables increase. The results show a positive relationship between improved public goods and services and tax compliance of SMEs in Nigeria. However, the analysis reveals that a small increase in the improvement of public goods has a higher likelihood of moving SMEs to become low tax compliant than being tax compliant. We also find that the public goods with the highest likelihood of improving tax compliance of SMEs in Nigeria are public transport, security, and law courts. Furthermore, the findings reveal a significant positive relationship between Tax compliance of SMEs in Nigeria and tax knowledge, tax penalty, and trust in the government. The paper concludes that policymakers in Nigeria should revisit tax policies geared at improving Tax compliance of SMEs. The steps should include properly combining economic and psychological factors based on the extent to which tax non-compliant SMEs can be moved to become tax compliant.

Contribution/ Originality: This study contributes to the existing literature on SMEs tax compliance in Nigeria through identification of public goods with the highest likelihood of improving their tax compliance. Also, the adopted methodology revealed why previous tax policies have only increased the proportion of low tax compliant SMEs over tax compliant ones.

1. INTRODUCTION

In Nigeria, the issue of tax non-compliance is seen in both the formal and informal sector, among the wealthy and the poor, among corporate bodies as well as Entrepreneurs. Income taxes are mostly paid by persons who are formally employed, as well as large corporations (Kangave, Nakato, Waiswa, Nalukwago, & Zzimbe, 2018). The informal sector also referred to as the black economy, is made up of small-sized economic activities that are not
being monitored by the tax authorities (Slemrod, 2019). Taxpayers among the Small and Medium Scale Enterprises (SMEs) in Nigeria have been contributing less than 5 per cent to the annual tax revenue generated, despite making up about 96 per cent of businesses, 84 per cent of employment, and 48 per cent of national GDP in the last five years (Obara & Nangih, 2017). This sector of the economy is of utmost importance as it serves as a critical source of employment, competition, innovation, poverty reduction, and economic growth (Ayuba, Saad, & Ariffin, 2018).

However, more than 70 per cent of the SMEs in Nigeria are not paying taxes, and the few that are paying are not paying correctly (Obara & Nangih, 2017).

Among Sub-Saharan African (SSA) countries, Nigeria has one of the lowest tax revenue to Gross Domestic Products (GDP) ratio of about 6.5 per cent, with countries like South Africa and Seychelles having ratios of about 28.4 and 31.5 respectively (International Monetary Fund Fiscal Monitor, 2018). Nigeria is, therefore, yet to attain the minimum tax revenue to GDP threshold of 15-20 per cent, as recommended by the United Nations and the World Bank in 2015, for the achievement of the Sustainable Development Goals (SDGs) in 2030 (Umar, Derashid, Ibrahim, & Bidin, 2019). This threshold is necessary because health, education, power, transportation, and sanitation; which are key targets of the SDGs require additional finances if the SDGs are to be achieved (Adeleye, Osabuohien, & Asongu, 2020; Gaspar, Amaglobeli, Garcia-Escriban, Prady, & Soto, 2019; Gupta & Plant, 2019; Prichard et al., 2019; United Nations, 2017; World Bank, 2018). Tax compliance has, therefore, become a core development objective in Nigeria due to the rising public debts of about US$81.27 and a growing debt servicing ratio of about 50 per cent of government revenue, among other factors (African Development Bank-AFDB, Nigeria Economic Outlook, 2020).

The search for a sustainable solution to tax non-compliance has remained a paramount agenda for the Nigerian government and the tax authorities. The Self-assessment system was introduced in 2011 but failed in its objectives, as the voluntary compliance and knowledge it required were not precisely available (Kasum, Sanni, & Fagbemi, 2019). More so, the primary objective of the National Tax Policies (NTP) implemented in 2012 and 2017 was to put in place a strong and productive tax system in Nigeria, with a focus on legislative amendments, to reduce the tax burdens of corporate firms and SMEs. The presumptive tax regime was implemented based on the tax policies to collect taxes from SMEs (Udoh, 2015). The presumptive taxation system is used to predict taxpayers' income based on information about variables not considered in the standard computation of taxable income (Adeleye, Osabuohien, Bowale, Matthew, & Oduntan, 2018; Bucci, 2019). Despite its objective to increase overall revenue generated from this sector, tax compliance is still low (Olaitan, 2016). The most recent effort is the just enacted 2020 Public Finance Act in Nigeria which has a vital goal to improve the ease of doing business in Nigeria and also to reduce the burdens of SMEs. SMEs with annual turnovers below a particular threshold was therefore exempted from paying Value Added Taxes (VAT) and Company Income Taxes-CIT (Budget Office of the Federation, 2020). The economic and psychological factor schools of thought explain tax compliance. In the psychological school of thought, one of the determinants of tax compliance is the creation of a fiscal social contract (Alasfour, 2019; Bird & Davis-Nozemack, 2018; Da Silva, Guerreiro, & Flores, 2019; Gobena & Van Dijke, 2017; Umar et al., 2019). When tax compliance is explained concerning the provision of socioeconomic goods and services, the creation of a fiscal social contract is in view. This contract binds the government and the citizens and does not disaggregate the citizens into the wealthy and the poor. It opines that citizens should pay their taxes to the government and will, in turn, be given projects and goods and services for the paid taxes (Fjeldstad, Schulz-Herzenberg, & Hoem Sjursen, 2012; George, Olayiwola, Adewole, & Osabuohien, 2013; Timmons, 2005; Umar & Tusubira, 2017). This determining factor has worked in advanced countries like Sweden, where one of the reasons provided for the attainment of a high tax compliance rate is the expansion of the welfare benefits like all-inclusive social insurance schemes and diminishing wage inequality (Nistotskaya & D’Arcy, 2017). The Swedish government used a more service-oriented approach to improve citizens’ voluntary tax compliance which thus created an early fiscal social contract between the Swedish government and the citizens (Nistotskaya & D’Arcy, 2017). However, from the taxpayers’ narratives in Nigeria, it...
has been revealed that the citizens are unhappy with the non-transparent tax systems, and the deplorable state of socioeconomic conditions (Umar & Tusubira, 2017).

Advanced economies have relatively performed well in deploying taxation as a tool for achieving societal development. However, the same cannot be said for developing countries, Nigeria inclusive, where government spending on public goods and services is low (Okorie, Osabuohien, & Oaikhenan, 2020; Traoré, 2018). In Nigeria, recurrent expenditure still takes about 45.7 per cent of the total government spending, while capital expenditure is about 26.3 per cent. The government expenditure allocation to roads is about 2.4 per cent while for electricity it is just about 1.2 per cent (Budget Office of the Federation, 2020). Electricity generation in Nigeria is as low as 3355 megawatts, which is not even enough to power a business district in New York City, how much more cater for the needs of individuals and businesses in Africa's most populous nation (Efobi, Beecroft, & Osabuohien, 2014; Matthew et al., 2019). Expenditure allocations to security and public transportation are as low as 1.1 per cent and 1.14 per cent, respectively. Businesses will always require various means of transportation to bring in raw materials as well as to move out their goods and services to the consumers. This low rate of investment in transportation will, therefore, have adverse effects on small businesses. The low rate of the allocation to security also puts SMEs at risk of theft, slow response to fire outbreaks as well as the destruction of their properties (Olaitan, 2016).

Empirical researches in Nigeria and other developing countries have found mixed results when Tax compliance of SMEs is explained with respect to the various determinants, provision of public goods and services inclusive. The results have shown significant positive or negative relationships between Tax compliance of SMEs and improved tax morale, improved public goods and services, reduced corruption, improved trust in the government as well as tax rates, tax penalties, and tax audits (Lee, Gokalp, & Kim, 2019; Newman, Mwandamhira, Charity, & Ongayi, 2018; Otusanya, Adeyeye, & Ovienbor, 2019; Umar & Tusubira, 2017; Van Dijke, Gobena, & Verboon, 2019). However, these results were just focused on the positivity or negativity of these determining factors of tax compliance and nothing was said about the different extents to which these factors move citizens from being tax non-compliant, to being low tax compliant and eventually tax compliant. Perhaps, these results have not fully informed the government and policymakers on the factors that are most likely to improve tax compliance rates. As such, focus has been on less likely factors or less likely a combination of factors.

From the foregoing, it becomes crucial to assess Tax compliance of SMEs in Nigeria from the extent to which improved public goods and services will move taxpayers from being non-tax complaint and low tax compliant to being tax compliant. This study, therefore, uses the generalized ordered logistic regression to examine the likelihood of Tax compliance of SMEs in Nigeria when public goods are improved. The public good with the most impact on Tax compliance of SMEs in Nigeria will also be ascertained from the regression results as well as the predicted probability results and descriptive analysis. These results will help the government and policymakers revisit strategies for improving Tax compliance of SMEs and focus on them from the most impactful, bearing in mind how the effects actually work.

2. INSIGHTS FROM EXTANT STUDIES

Tax compliance is deciding to pay taxes for the benefit of society and at the expense of personal benefits (Van Dijke et al., 2019). It is the will of the taxpayer to act according to the spirit and letter of tax rules and regulations and tax administration without the use of coercion (José, Quesada, Tapia, & Llàcer, 2014; Newman et al., 2018). While Public goods are referred to as "non-rivalrous": because they do not reduce as persons consume them (Kenton, 2018). These goods are numerous and include public parks, national defence, public sewer systems, electricity, roads and other infrastructure necessary for the survival and growth of any business. These goods are financed publicly through such means as taxes (Ingham, 2015).
The definitions of Small and Medium Scale Enterprises (SMEs) vary across countries. According to the Central Bank of Nigeria-CBN (2005) SMEs are independent firms with 11 to 200 employees and has an asset base between N5-N500million excluding land and buildings (Ayuba et al., 2018).

2.1. Theoretical Review

2.1.1. Economic Deterrence Theory

As described by Allingham and Sandmo (1972) and Becker (1974) economic deterrence explains tax compliance with respect to tax rates, probability of being detected for evasion, and the penalties and threats of punishments (Ali, Fjeldstad, & Sjursen, 2013). The three principles of this theory are certainty; which represents a surety, severity; which represents the weight of punishment, and celerity; which means how fast these punishments would be given to defaulters. It should also be noted, however, that in the course of achieving this seamless tax collection process using deterrence, the taxpayers would try to test their chances of being caught. Where they find higher chances, they would then decide to go on ahead to comply, and where they find lower chances, they would look for loopholes to evade taxes (Feld & Frey, 2006; Sandmo, 2004). This is because the theory assumes that taxpayers’ calculate the costs and opportunities of their actions before taking any actual decision. As such, the taxpayer is applying the economic rationale that makes them evade taxes as much as the payoff from evasion exceeds the supposed cost of being found non-compliant (Pfister, 2009).

2.1.2. Fiscal Social Contract

This theory is said to have sprung up and developed from the deterrence and socio-psychological theories. It is built on government and taxpayer contract embedded in social and relational factors (Fjeldstad et al., 2012; McKerchar & Evans, 2009). Fjeldstad et al. (2012) opined that the taxpayers engage in an exchange of their market purchasing power for government goods and services. However, the exchange is dependent on government authority and its varying performance. According to Timmons (2005) the conditions sufficient for the fulfilment of the fiscal social contract include the ability of the government to produce public goods so that each citizen does not have to do so themselves. Tax prices are to be set above the cost of producing public services so that the government can cover its cost. The enforcement of tax compliance through force must be more costly than producing goods, allowing gains to be obtained from trade. The existence of a probability that one of the citizens will play Tit-For-Tat (TFT); that is, responding to the demands of the government for taxation based on their performance.

2.2. Empirical and Methodological Review

In the qualitative research on the explanations to the issues facing developing countries with respect to the fiscal social contract of taxation, Umar and Tusubira (2017) conducted a semi-structured interview with self-employed business owners in Nigeria. It was concluded that Tax non-compliance is as a result of the people’s dissatisfaction with the non-transparent tax system, the poor condition of socioeconomic goods, and the non-functioning of the tax audit system. On the other hand, Jolodar, Ahmadi, and Imankhan (2019) developed a tax compliance model using socio-psychological factors. A sample of 550 legal persons in Iran’s Sari tax administration liable to pay Value Added Tax (VAT) was drawn from a population of 2900 legal persons. Using Structural Equation Modelling (SEM), it was concluded that given tax fairness, taxpayers’ attitude, trust in the authorities, and tax morale, tax morale has the most impact on tax compliance. Non-pecuniary factors like tax knowledge limitation, non-compliance by other taxpayers, and corruption of the tax officials are key determinants of tax compliance in Sub-Saharan African (SSA) countries as indicated by Kamasa, Adu, and Oteng-Abayie (2019). This conclusion was made using the Afro Barometer round five (5) survey data, and the fiscal social contract was said to have more associations with tax compliance in countries with British origins.
Brockmann, Genschel, and Seelkopf (2016) examined the improvement of tax compliance from the perspective of giving positive rewards to active taxpayers. Using a controlled laboratory experiment, tax compliance was compared in light of deterrence and reward. It was concluded that rewards significantly affect tax compliance; however, this relationship is not straightforward. While women were seen improving their tax compliance, the men were not. Umar et al. (2019) examined the relationship between public governance quality and tax compliance behaviour in developing countries. Their conceptual paper was focused on socioeconomic conditions serving as a mediator between the government and the citizens, with emphasis on maintaining the fiscal social contract. It was concluded that dissatisfaction with the system leads to the boycott of the tax system and in turn, affects economic development. However, being a conceptual effort, they could not correctly explain socioeconomic conditions in all developing countries as these are country-specific characteristics. Also, the provision of goods and services influences taxpayers to comply with tax laws and tax obligations (Otusanya et al., 2019). This conclusion was made in their tax compliance research which employed Ordinary Least Squares (OLS) regression analysis to explain tax compliance of SMEs in Nigeria.

Furthermore, Nistotskaya and D'Arcy (2017) conducted exploratory research on why the tax compliance rate in Sweden is among the highest in the world. It was concluded that the early monitoring of economic activities and the development of a direct vertical and horizontal fiscal social contract between the state and the people had played an enormous role in Sweden's high tax compliance rate, despite the high tax rates. While Da Silva et al. (2019) compared voluntary and enforced tax compliance using the slippery slope framework in Brazil. Using a service paradigm, they proposed that taxpayers' willingness to pay taxes is as a result of their desire to receive proper treatment and quality public services in return for the taxes paid. The outcome of their study confirmed the existence of a trust-based interaction between the taxpayers and the government that boosts tax morale and tax compliance. Thus, as noted by Lamberton, De Neve, and Norton (2014) boosting tax morale and tax compliance is through giving the citizens' voice on their choice of public goods and also being accountable as a government for what you use the tax money for. This conclusion was made in their study on tax compliance through eliciting taxpayers' preferences. Another outcome of the study was that allowing taxpayers' preference to show the distribution pattern of the government in terms of public goods will increase tax compliance by 15 per cent. However, Lee et al. (2019) explained firms' tax compliance in developing countries from the social exchange point of view. Employing multilevel logistic regression analysis, their study emphasised that the creation of social exchange between the firms and the government does not happen in a short space. Therefore, factors like bribery, tax burdens, as well as tax enforcement, are to be appropriately analysed.

2.3. Tax Compliance Strategies in Nigeria

In trying to achieve voluntary tax compliance among these SMEs in Nigeria, the presumptive taxation system has been put in place. The presumptive taxation system is used to predict taxpayers' income based on information about variables not considered in the standard computation of taxable income. This system takes into consideration the poor accounting of business information for auditing allows taxes to be collected from them (Egwaikhide, 2019). Despite its objective to increase overall revenue generated, it cannot be called a sustainable solution to the problem at hand. Taxpayers who typically comply with the rules will want to shift to this regime if they perceive the tax burden to be lower. Taxpayers will thus manipulate income declared and deliberately hide as SMEs to remain within the presumptive tax regime. This will, in turn, tamper with voluntary compliance and erode the actualization of improved revenue (Elifuro, Mienye, & Odubo, 2016).

The Voluntary Assets Income Declaration Scheme (VAIDS) implemented in 2017 was put in place to improve the Nigerian tax base and reduce tax non-compliance. The focus was on persons with income above ₦1 billion and it yielded about ₦54 billion in paid tax and increased the overall tax revenue generated in 2018 to ₦5.32 trillion (Federal Inland Revenue Service–FIRS, 2018). However, the lack of enforcement after its completion killed any
adverse effect that it was meant to have on evasion as people still got away with not truthfully declaring their assets. The Voluntary Offshore Assets Regularisation Scheme (VOARS) launched in 2018 giving wealthy taxpayers a 12 months window to declare their offshore assets and pay the necessary taxes voluntarily has shown little or no enforcement evidence on the part of neither the government nor any form of eagerness on the part of the taxpayers (Adebiyi, Bamfo, & Isiadinso, 2019).

National tax policies contain a set of broad parameters for taxation as a whole. It describes principles and guidelines that govern tax administration and tax collection. The aim is to bring about fiscal responsibility and accountability, correct market failure, pursue fairness and equity, and provide economic stability, among others (Beecroft, Osabuohien, & Olurinola, 2018; Dike, 2014; Osabohien, Ufua, Moses, & Osabuohien, 2020). The 2016 NTP was published to simply the tax system, to provide ease of tax compliance, to provide new policies to improve the tax revenue to Gross Domestic Products (GDP) ratio, among others. The focus was to improve indirect taxes, review tax rates, create a competitive edge, and improve tax revenue generation in Nigeria.

Tax policies are good, but they require strong legal back up so that they can become tax laws. Tax laws are fundamental because they clearly state tax rates and stipulate sanctions for clearly stated tax offences. The most recent tax Act in Nigeria is the 2020 Public Finance Act, called “the Act”; signed on the 13th of January 2020 by President Muhammadu Buhari. Some of the significant changes contained in this Act, according to the Budget Office of the Federation (2020) include:

- Application of excess dividend tax to only untaxed distributions other than profits exempted tax and investment income.
- Small business whose annual turnovers are less than ₦25 million will be exempted paying Company Income taxes (CIT).
- Medium-sized companies with annual turnovers between ₦25 million to ₦100 million will pay low CIT rates of 20 per cent.
- Modification of commencement and cessation rules to get rid of overlaps and gaps and avoid double taxation during commencement.
- There was an amendment of minimum tax provision to 0.5 per cent of annual turnover, with exemptions only for small businesses.
- Medium-sized companies now have 2 per cent bonus for early payments of CIT and a 1 per cent bonus for large companies.
- The requirement of Tax Identification Number (TIN) before bank accounts for individuals while existing account holders are required to provide their TIN for the continued operation of their account.
- Value Added Tax (VAT) registration threshold of ₦25 million as annual turnovers in a calendar year was made.
- Increase of VAT rate from 5 percent to 7.5 percent.

The 2020 Public Finance Act has five specific goals and objectives, which include improving government revenue through various fiscal measures, domestic tax law reforms and aligning them with global best practice. Others include ensuring fiscal equity by reducing instances of regressive taxation, provision of support to small businesses in line with Ease of Business Reforms and the provision of tax incentives for investments in infrastructure and capital market.

3. METHODOLOGY
3.1. Theoretical Framework

This study adopts the fiscal contract paradigm in Timmons (2005) research work on fiscal contract: states, taxes, and public services. This contract states that tax compliance in itself is a tool for regulating government activities and preferences because the citizens can hinder the government by holding back revenue. It is argued that
using bureaucracies to monitor and sanction non-taxpaying citizens is very costly (Fjeldstad et al., 2012). The government should, therefore, make tax compliance cost-effective by remaining committed to the citizens, give the people a voice over policies, provide them with goods of direct benefits, and invest in methods and beliefs that can be substituted for coercion. This, in turn, opens a door for an exchange-based government relationship in which the government sells services for revenue (Timmons, 2005). Therefore, in understanding taxpayers’ behaviour and their unforced willingness to pay their taxes, it is possible to assume that the behaviour and attitude of the taxpayers are determined by satisfaction levels with the fiscal exchange with the government. Therefore, a wrong perception of the tax system may bring about tax non-compliance by the taxpayers, as an attempt to adjust the terms of trade with the government (Lenton, Masiye, & Mosley, 2017; Umar et al., 2019; Umar & Tusubira, 2017).

The conceptual framework for this study is obtained through the modification of the recommended framework in the tax compliance studies carried out by Umar et al. (2019); Lenton et al. (2017) and Timmons (2005).

![Figure 1. Schematic framework for Tax compliance of SMEs in Nigeria.](image1)

From 1, tax compliance of SMEs is obtained directly from either psychological factor, of which provision of public goods and services is included or through tax penalty; which is an economic factor.

### 3.2. Model Specification

To understand the effects of the provision of public goods on Tax compliance of SMEs in Nigeria, the model for this study is specified according to the adapted fiscal social contract by Timmons (2005). Therefore, the model is modified to suit the conceptual framework for this study and written its implicit form as follows:

\[
TC = f (PG, OR, T, TK, TK)
\]

(1)

Where:

* **TC:** Tax compliance.
* **PG:** Improved public goods.
* **OR:** Perception on government’s use of other resources.
* **T:** Trust in the government.
* **TK:** Tax knowledge.
Tax penalty.

Equation 1 can be re-written in its linear form such that:

$$Y_i = \beta_0 + \beta_1 PG_i + \beta_2 OR_i + \beta_3 T_i + \beta_4 TK_i + \beta_5 TP_i + \epsilon_i$$  \hspace{1cm} (2)

Where:

$\beta_0$: Intercept term.

$\beta_1, \beta_2, \beta_3, \beta_4 \text{ and } \beta_5$: Slope coefficients.

$\epsilon_i$: Error term.

### 3.3. Data and Estimation Technique

#### 3.3.1. Data

This research utilized the 2018 Nigeria Economic Summit Group (NESG) quantitative survey dataset on firms’ attitudes and perceptions towards tax compliance in Nigeria. The 8238 firms surveyed were small and were defined based on their sizes, according to the National Bureau of Statistics (NBS). Since most of the firms in the rural areas did not have up to 10 employees, the surveyed small firms used were defined as having employees between 5 and 49 employees. They were a combination of both registered and unregistered firms. The survey was conducted across the states in Nigeria and had an urban to a rural ratio of 70:30.

#### 3.3.2. Estimation Technique

The study employs the generalised ordered logistic regression analysis to assess the role of improved public goods on Tax compliance of SMEs in Nigeria. This method is used when the outcome variable is ordinal and ranked, and when the outcome variable is ordinal and ranked. This methodology is used to relax the assumption of proportional odds as this study believes that the level of Tax compliance of SMEs varies as each explanatory variable increase. The SME is thus either tax non-compliant, low tax compliant or tax compliant. Given the response category of the dependent variable, SMEs that opine that tax non-compliance is not wrong at all are regarded as tax non-compliant. Those that assert that tax non-compliance is wrong but understandable are seen as low tax compliant, while those that state tax non-compliance is wrong and punishable are deemed tax compliant.

The Generalised Ordered Logistic model is specified according to Fullerton and Xu (2016) and McCullagh and Nelder (1989) such that:

$$P_{\tau}(y = z | X) = \left\{ \begin{array}{ll} F(\omega_x - X\alpha_z) \\ \frac{F(\omega_x - X\alpha_z) - F(\omega_{z-1} - X\alpha_z) - 1 - F(\omega_{z-1} - X\alpha_z)}{F(\omega_{z-1} - X\alpha_z)} \end{array} \right. \hspace{1cm} (3)$$

Where F is the logistic Cumulative Density Function (CDF);

$\alpha$ is a vector of logit coefficients that varies freely across logit equation;

$X$ is a vector of explanatory variables;

$\omega$ is a cut-off point;
4. RESULTS AND DISCUSSIONS

4.1. Results

The results for this research are presented in two sets. The first set uses an indicator for overall improved public goods and combines it with the other explanatory variables. The second set, on the other hand, uses eight public goods and tax penalty to explain Tax compliance of SMEs in Nigeria and to ascertain which of these public goods have the most impact on tax compliance. The results of the generalised ordered logistic regression have two panels. The first panel contrasts SMEs that are tax non-compliant with SMEs that are less tax compliant or more tax compliant. While the second panel contrasts SMEs that are tax non-compliant and less tax compliant with SMEs that are more tax compliant. The positive coefficients depict the likelihood to fall into a higher category of tax compliance. In comparison, the negative coefficients depict a less probability of falling into a higher category of tax compliance. For the regression coefficients, only the signs are interpreted. The odds ratio shows the odds that SMEs will comply with taxes when the explanatory variable increases. This is measured by taking the ratio of the probability of tax compliance to the probability of tax non-compliance. The probability value of the Z test statistic, on the other hand, measures the statistical significance of each regression coefficients in explaining tax compliance. The null hypothesis that regression coefficients are not statistically significant is rejected at a 5 per cent level of significance. The Pseudo R squared is not interpreted like the R squared of linear regression analysis. Instead, it is used to compare models.

| Variables                                                   | Coefficients | Odds ratio | P-value |
|-------------------------------------------------------------|--------------|------------|---------|
| Not wrong at all                                            |              |            |         |
| Perception of not paying taxes until better services are provided | -0.121       | 0.886      | 0.005   |
| Perception on the use of other resources to finance government projects | -0.193       | 0.824      | 0.000   |
| Trust in government                                        | 0.131        | 1.141      | 0.000   |
| Tax knowledge                                              | 0.098        | 1.103      | 0.019   |
| Tax penalty                                                 | 0.446        | 1.561      | 0.000   |
| Wrong but understandable                                   |              |            |         |
| Perception of not paying taxes until better services are provided | -0.213       | 0.809      | 0.000   |
| Perception on the use of other resources to finance government projects | -0.228       | 0.796      | 0.000   |
| Trust in government                                        | 0.103        | 1.109      | 0.000   |
| Tax knowledge                                              | 0.111        | 1.118      | 0.001   |
| Tax penalty                                                 | 0.906        | 2.474      | 0.000   |
| P-LR Chi-square                                            | 0.000        |            |         |
| Pseudo R square                                            | 0.045        |            |         |

The results in the first and second panel of Table 1 reveal that all the explanatory variables are statistically significant at 5 per cent in explaining Tax compliance of SMEs in Nigeria. The probability value of the likelihood ratio chi-square is also statistically significant at 5 per cent. Thus, this means that at least one of the regression coefficients in this model is not equal to zero. The test for multicollinearity displayed in Section 10 of the appendices revealed the presence of no strong positive correlation between the explanatory variables.

In the first and second panel of Table 1 the negative regression coefficients for SMEs perception that taxes should not be paid until better services are given and that the government can use other resources instead of taxing firms it reveals a less likelihood of these factors to bring about tax compliance. While the positive regression coefficients for tax penalties, tax knowledge, and trust in government reveals a higher likelihood for tax compliance based on these factors.

Z is the logit.
For the odds ratio, tax penalty and tax knowledge increase the odds for tax compliance as movement is made from the first panel to the second panel, while a slight decrease is seen in the odds of tax compliance for trust in government. On the other hand, SMEs perception that tax should not be paid until better services are given and that the government can use other resources instead of taxing firms show a decrease in the odds of tax compliance.

### Table 2. Predicted probabilities.

| Tax compliance levels | PG  | OR  | T   | TK  | TP  |
|-----------------------|-----|-----|-----|-----|-----|
| Non-tax compliant     | 15% | 15% | 11% | 12% | 8%  |
| Low tax compliant     | 59% | 59% | 57% | 56% | 49% |
| Tax compliant         | 26% | 26% | 33% | 32% | 43% |

Where:
- PG: Improved public goods
- OR: Perception on government’s use of other resources
- T: Trust in the government
- TK: Tax knowledge
- TP: Tax penalty

The predicted probability results presented in Section 3 of the appendices revealed that all the predicted probabilities are statistically significant at 5 per cent. The results in Table 2 show that SMEs perception that taxes should not be paid until better services are provided and perception on the use of other resources to finance projects instead of taxing SMEs, has a higher percentage of making SMEs low tax compliant, than being tax compliant or non-tax compliant. Also, greater trust in government, improved tax knowledge and greater tax penalty have a higher percentage to leave SMEs as low tax compliant than being tax compliant.

### Table 3. Second generalised ordered logistic regression.

| Variables               | Coefficient | Odds ratio | P-value |
|-------------------------|-------------|------------|---------|
| Not wrong at all        |             |            |         |
| Improved telecommunication | -0.136     | 0.871      | 0.042   |
| Improved electricity    | -0.049      | 0.952      | 0.460   |
| Improved public transport | -0.079     | 0.923      | 0.290   |
| Improved financial institution | -0.087 | 0.916      | 0.233   |
| Improved court of law   | -0.055      | 0.946      | 0.453   |
| Improved labour regulation | 0.081     | 1.085      | 0.270   |
| Improved roads          | 0.189       | 1.208      | 0.006   |
| Improved security       | 0.253       | 1.288      | 0.000   |
| Tax penalty             | 0.592       | 1.652      | 0.000   |
| Wrong but understandable|             |            |         |
| Improved telecommunication | -0.036     | 0.965      | 0.500   |
| Improved electricity    | -0.021      | 0.979      | 0.685   |
| Improved public transport | 0.014      | 1.149      | 0.171   |
| Improved financial institution | 0.118  | 1.017      | 0.758   |
| Improved court of law   | 0.144       | 1.154      | 0.013   |
| Improved labour regulation | 0.003      | 1.403      | 0.956   |
| Improved roads          | -0.014      | 0.986      | 0.803   |
| Improved security       | -0.028      | 1.015      | 0.779   |
| Tax penalty             | 0.870       | 2.388      | 0.000   |
| P-LR Chi-square         | 0.000       |            |         |
| Pseudo R square         | 0.004       |            |         |

Table 3 contains several statistically insignificant negative regression coefficients. This analysis was conducted to see the extent to which improving each public goods and services will improve Tax compliance of SMEs. In the first panel, only improved telecommunication, roads and security are statistically significant at 5 per cent and positive in explaining Tax compliance of SMEs in Nigeria. While in the second panel, only improved law court and
public transport are statistically significant. These two variables also have positive signs and thus depict a likelihood of Tax compliance of SMEs. This, therefore, means that in moving SMEs from being tax non-compliant to being low tax compliant or tax compliant, the essential variables are improved telecommunications, roads and security. While to move SMEs from being tax non-compliant or low tax compliant to being tax compliant, the critical factors are improved law court and public transport.

| Tax compliance levels | Telecomm | Roads | Security | Law court | Public transport |
|-----------------------|----------|-------|----------|-----------|------------------|
| Non-tax compliant     | 15%      | 13%   | 13%      | 12%       | 13%              |
| Low tax compliant     | 57%      | 56%   | 56%      | 56%       | 56%              |
| Tax compliant         | 28%      | 30%   | 31%      | 31%       | 31%              |

The results in Table 4 selected the predicted probabilities of only the statistically significant factors in Table 3. It is revealed from Table 4 that employing improved telecommunications, roads and security to move SMEs from being tax non-compliant to being either low tax compliant or tax compliant more of the SMEs will fall in the category of low tax compliance. Also, when an improved court of law and public transport are being employed to move SMEs from being tax non-compliant and low tax compliant to becoming tax compliant, majority of the SMEs will remain low tax compliant. From this result also, it is revealed that improved security, law courts and public transport have the most likelihood to make SMEs tax compliant.

4.2. Summary of Findings

This study found a positive relationship between improved public goods and services and Tax compliance of SMEs in Nigeria. This finding is in line with the empirical studies of Umar and Tusubira (2017) and Lee et al. (2019). Also, the findings on the positive relationship between Tax compliance of SMEs and trust in government as well as tax knowledge and tax penalty are in accordance with theoretical postulations of Allingham and Sandmo (1972) and Feld and Frey (2006). It also corroborates the results of Umar and Tusubira (2017); Jolodar et al. (2019) and Kamasa et al. (2019).

However, being that improving public services requires large funds and investments, the Nigerian government and policymakers can start with improving security, law courts and public transportation. Also, all the economic and psychological factors used in this study have shown that a small increase in these factors will have the most effect on moving tax non-compliant SMEs to become low tax compliant. Therefore, in addressing the issue of tax non-compliance among SMEs, time for strategies to yield the desired objectives should be put into consideration, and hasty decisions should not be made.

5. CONCLUSION AND RECOMMENDATIONS

The primary goal of this study was to assess the likelihood of Tax compliance of SMEs in Nigeria when public goods are improved. Also, the public goods with the most impact on Tax compliance of SMEs in Nigeria was established; given the present conditions of SMEs and the level of trust between the government and the citizens. The findings revealed the likelihood of Tax compliance of SMEs to improve in Nigeria when public goods are improved. It also revealed the importance of improving SME tax knowledge, as well as tax penalties in determining tax compliance in Nigeria. The perception of SMEs that the government can use other resources to finance projects instead of taxing firms also plays a significant negative role in determining tax compliance levels. Furthermore, investment in security, public transportation and law courts can be a starting point for improving public goods in Nigeria, being that they have the most impact on tax compliance.

It is, therefore, worrisome that the allocations of the annual budgets to these socioeconomic goods are still very low. The tax laws already in place to govern the overall Nigerian tax system are very important. However, to
harness the benefits of these tax laws, reduce tax compliance costs, and achieve an improved domestic revenue generation in Nigeria, the Nigerian government and policymakers are advised to take steps to improve the allocation of government expenditure to public goods and services required for the survival and growth of SMEs. Also, efforts should be made to improve taxpayers’ education and tax knowledge.

Furthermore, bearing in mind that getting the people to comply with taxes takes some time even when quality goods and services are being provided, the policymakers in developing countries, Nigeria inclusive can start by focusing on tax compliance that has higher tax compliance likelihood, as revealed in the findings of this research.

The importance of strengthened and improved government institutions cannot be overemphasised. It is important for tax laws to be in place. However, these laws are adhered to concerning the guiding and governing institutions for its enforcement. The government in developing countries should, therefore, deepen the quality of tax institutions and give stronger punishments for tax non-compliance. This will, in turn, reduce the ease at which small businesses evade taxes since they would be more conscious of the repercussions for being caught.

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**APPENDICES**

**Section 1. Test for Multicollinearity**

```
. estat vce, correlation

Correlation matrix of coefficients of ologit model

|     | q21  | q23b | q29d | q54a | q61  | q22e | cut1 | cut2 |
|-----|------|------|------|------|------|------|------|------|
| q21 | 1.000|      |      |      |      |      |      |      |
| q23b| 0.064| 1.000|      |      |      |      |      |      |
| q29d| 0.0021|-0.0754| 1.000|      |      |      |      |      |
| q54a| 0.0196|-0.0057| 0.0106| 1.000|      |      |      |      |
| q61 | 0.02598| 0.0883| -0.0102| -0.0144| 1.000|      |      |      |

. estat vce, correlation

Correlation matrix of coefficients of ologit model

|     | q21  | q26a | q26b | q26c | q26d | q26e | q26f | q26g | q26h | q61  | cut1 | cut2 |
|-----|------|------|------|------|------|------|------|------|------|------|------|------|
| q21 | 1.000|      |      |      |      |      |      |      |      |      |      |      |
| q26a| 0.2473| 1.000|      |      |      |      |      |      |      |      |      |      |
| q26b| -0.2419| 0.0901| 1.000|      |      |      |      |      |      |      |      |      |
| q26c| -0.1055| -0.0950| 0.2587| 1.000|      |      |      |      |      |      |      |      |
| q26d| -0.1328| 0.0104| 0.0003| -0.1180| 1.000|      |      |      |      |      |      |      |
| q26e| -0.0573| -0.0236| 0.1470| -0.1358| 0.3705| 1.000|      |      |      |      |      |      |
| q26f| -0.0251| -0.2222| 0.1226| -0.0626| -0.0322| -0.1091| 1.000|      |      |      |      |      |
| q26g| -0.0701| -0.2336| 0.0381| 0.0239| 0.0240| 0.0230| -0.3835| 1.000|      |      |      |      |
| q61 | -0.0285| -0.0219| 0.0077| -0.0053| 0.0139| -0.0370| 0.0087| 0.0180| 1.000|      |      |      |
```
Section-2. Generalized Ordered Logistic Regression Result

Generalized Ordered Logit Estimates Number of obs = 6762
LR chi2(10) = 586.21
Prob > chi2 = 0.0000
Log likelihood = -6270.1575
Pseudo R2 = 0.2447

| q21 | Coef. Std. Err. z P>|z| [95% Conf. Interval] |
|-----|-----------------|--------|--------|-------------------|
| 1. Not wrong at all |
| q3b | -.1930942 .0476811 -4.05 0.000 -.2865476 -.099641 |
| q6d | .1314677 .0359844 3.65 0.000 .0609396 .2019957 |
| q4a | .0983779 .0419009 2.35 0.019 .0162536 .1805022 |
| q6l | .445611 .0567995 7.85 0.000 .334828 .5565359 |
| q22e | -.1213788 .0428714 -2.83 0.005 -.2054002 -.0373524 |
| _cons | 1.062341 .224666 4.73 0.000 .6230042 1.503679 |

2. Wrong but understandable

| q3b | -.2276283 .0336024 -6.77 0.000 -.2938477 -.1617689 |
| q6d | .1034505 .0277718 3.73 0.000 .0490888 .1578822 |
| q4a | .1114478 .033764 3.30 0.001 .0452716 .1776241 |
| q6l | .9050411 .0491827 18.80 0.000 .8122048 1.000077 |
| q22e | -.2125497 .032295 -6.58 0.000 -.2758467 -.1492527 |
| _cons | -.2846383 .1809546 -12.97 0.000 -.2703047 -.1957118 |

. gologit2 q21 q3b q29d q4a q6l q22e, or

Generalized Ordered Logit Estimates Number of obs = 6762
LR chi2(10) = 586.21
Prob > chi2 = 0.0000
Log likelihood = -6270.1575
Pseudo R2 = 0.2447

| q21 | Odds Ratio Std. Err. z P>|z| [95% Conf. Interval] |
|-----|-----------------|--------|--------|-------------------|
| 1. Not wrong at all |
| q3b | .9244043 .0303085 -4.05 0.000 .7598515 .9515223 |
| q6d | 1.145501 .0410402 3.65 0.000 1.062835 1.223843 |
| q4a | 1.10338 .0468326 2.35 0.019 1.006386 1.179819 |
| q6l | 1.561444 .0886892 7.85 0.000 1.396943 1.745316 |
| q22e | .8856984 .0379711 -2.83 0.005 .8143733 .9633366 |
| _cons | 2.896032 .6506398 4.73 0.000 1.884852 4.498206 |

2. Wrong but understandable

| q3b | .7964202 .0267616 -6.77 0.000 .7456584 .8506378 |
| q6d | 1.108991 .0307987 3.73 0.000 1.005204 1.117028 |
| q4a | 1.117895 .0377446 3.30 0.001 1.046332 1.194376 |
| q6l | 2.479517 .1191806 18.80 0.000 2.135618 2.818492 |
| q22e | .8085201 .0261112 -6.58 0.000 .7658929 .8513535 |
| _cons | .0957147 .017332 -12.97 0.000 .0673352 .1346707 |
|                | q21               | Conf. Std. Err. | z     | P>|z|  | [95% Conf. Interval] |
|----------------|-------------------|-----------------|-------|-----|----------------------|
| 1. Not wrong at all |                   |                 |       |     |                      |
| q26a           | -1.385665         | .0680343        | -2.04 | .042| -2.719333 - .0052339 |
| q26b           | -0.489971         | .063762         | -0.74 | .460| -1.190921 .0810979 |
| q26c           | -0.792403         | .0746158        | -1.06 | .290| -2.260727 .067592 |
| q26d           | -0.0873299        | .0727711        | -1.19 | .233| -2.359603 .0562006 |
| q26e           | -0.554153         | .0738293        | -0.75 | .453| -2.001818 .0892876 |
| q26f           | .0813561          | .0737219        | 1.10  | .270| -.0633363 .2258484 |
| q26g           | .1928359          | .068847         | 2.75  | .006| .0543459 .3242212 |
| q26h           | .253257           | .069861         | 3.97  | .000| .128168 .3782634 |
| q26i           | .502316           | .0589324        | 8.52  | .000| .3867263 .6177369 |
| _cons          | .4130625          | .1603595        | 2.48  | .013| .087004 .7391211   |
| 2. Wrong but understandable |                   |                 |       |     |                      |
| q61a           | -.0361184         | .0535766        | -0.67 | .500| -1.4121269 .088897 |
| q61b           | -.021411          | .052716         | -0.41 | .685| -1.247325 .0819105 |
| q61c           | .138743           | .0583669        | 2.38  | .017| .0244064 .2531222 |
| q61d           | .0176774          | .0513903        | 0.31  | .758| -.0949055 .1301602 |
| q61e           | .1440779          | .0577606        | 2.43  | .013| .0308711 .2572886 |
| q61f           | .0031303          | .0562618        | 0.06  | .956| -.1073708 .1137315 |
| q61g           | -.0135824         | .0543411        | -0.25 | .803| -.122089 .0929242 |
| q61h           | .0144045          | .051266         | 0.28  | .779| -.086075 .114884  |
| q61i           | .8703092          | .0401274        | 17.72 | .000| .7740213 .9665971 |
| _cons          | .3.19392          | .1529264        | 21.11 | .000| 3.490355 .2.897384 |
|                |                   |                 |       |     |                      |
|                |                   |                 |       |     |                      |
| Generalized Ordered Logit Estimates Number of obs = | 6257 |
| LR chi2(18) = | 448.10 |
| Prob > chi2 = | 0.0000 |
| Log likelihood = -5881.3549 Pseudo R2 = | 0.0367 |

Generalized Ordered Logit Estimates
Number of obs = 6257
LR chi2(18) = 448.10
Prob > chi2 = 0.0000
Log likelihood = -5881.3549 Pseudo R2 = 0.0367

|                | q21               | Odds Ratio     | Std. Err. | z     | P>|z|  | [95% Conf. Interval] |
|----------------|-------------------|----------------|------------|-------|-----|----------------------|
| 1. Not wrong at all |                   |                 |            |       |     |                      |
| q26a           | .8706035          | .592309         | 2.04       | .042  | .7626023 .947897    |
| q26b           | .9521893          | .632024         | -0.74      | .460  | .8360289 1.084477  |
| q26c           | .928879          | .692086         | -1.06      | .290  | .7976601 1.069929  |
| q26d           | .9163748         | .671493         | -1.19      | .233  | .7937789 1.057905  |
| q26e           | .9460922         | .698494         | -0.75      | .453  | .818634 1.039395   |
| q26f           | 1.084757         | .709704         | 1.10       | .270  | .5984355 1.253386  |
| q26g           | 1.208384         | .831936         | 2.75       | .006  | 1.05585 1.320963   |
| q26h           | 1.288174         | .821934         | 3.97       | .000  | 1.136744 1.459777  |
| q26i           | 1.652405         | .973801         | 8.52       | .000  | 1.472153 1.854726  |
| _cons          | 1.51144          | .2514423        | 2.48       | .013  | 1.009901 2.049094  |
| 2. Wrong but understandable |                   |                 |            |       |     |                      |
| q26a           | .9645929         | .516761         | -0.67      | .500  | .6837911 1.071318  |
| q26b           | .978816         | .515993         | -0.41      | .685  | .862733 1.083559   |
| q26c           | 1.146853         | .607301         | 2.38       | .017  | 1.004707 1.280414  |
| q26d           | 1.017835         | .584138         | 0.31      | .758  | .9095498 1.139011  |
| q26e           | 1.154976         | .667122         | 2.49       | .013  | 1.033353 1.293418  |
| q26f           | 1.003105         | .564366         | 0.26      | .956  | .8983722 1.120408  |
| q26g           | .9865094         | .553608         | -0.25      | .803  | .866418 1.073739   |
| q26h           | 1.014509         | .520098         | 0.28      | .779  | .937524 1.121743   |
| q26i           | 2.378749         | .117299         | 17.72     | .000  | 2.168469 2.628983  |
| _cons          | .010108          | .0062048        | -21.11     | .000  | .003047 .0051673   |
Section 3. Result for Predicted Probabilities

```
. margins, predict (outcome [1]) at (q22e=3) atmeans

Adjusted predictions Number of obs = 6762
Model VCE : OIM

Expression : Pr(q21=1), predict(outcome [1])
at : q23b = 2.412896 (mean)
    q29d = 2.098492 (mean)
    q54a = 2.560041 (mean)
    q61 = 2.123928 (mean)
    q22e = 3

|             | Delta-method |             |             |             |
|--------------|--------------|--------------|--------------|--------------|
| Margin       | Std. Err.    | z            | P>|z|         | [95% Conf. Interval] |
| _cons        | .1512817     | .0052205     | 28.98       | 0.000        | .1410497    | .1615137   |

. margins, predict (outcome [2]) at (q22e=3) atmeans

Adjusted predictions Number of obs = 6762
Model VCE : OIM

Expression : Pr(q21=2), predict(outcome [2])
at : q23b = 2.412896 (mean)
    q29d = 2.098492 (mean)
    q54a = 2.560041 (mean)
    q61 = 2.123928 (mean)
    q22e = 3

|             | Delta-method |             |             |             |
|--------------|--------------|--------------|--------------|--------------|
| Margin       | Std. Err.    | z            | P>|z|         | [95% Conf. Interval] |
| _cons        | .5894807     | .0065060     | 90.59       | 0.000        | .5767156    | .6022219   |

. margins, predict (outcome [3]) at (q22e=3) atmeans

Adjusted predictions Number of obs = 6762
Model VCE : OIM

Expression : Pr(q21=3), predict(outcome [3])
at : q23b = 2.412896 (mean)
    q29d = 2.098492 (mean)
    q54a = 2.560041 (mean)
    q61 = 2.123928 (mean)
    q22e = 3

|             | Delta-method |             |             |             |
|--------------|--------------|--------------|--------------|--------------|
| Margin       | Std. Err.    | z            | P>|z|         | [95% Conf. Interval] |
| _cons        | .2592496     | .0068771     | 37.70       | 0.000        | .2457707    | .2727285   |
```
. margins, predict (outcome (1)) at (q23b=3) atmeans

Adjusted predictions Number of obs = 6762
Model VCE : OIM

Expression : Pr(q21=1), predict(outcome (1))
at : q23b = 3
q29d = 2.098492 (mean)
q54a = 2.560041 (mean)
q61 = 2.123928 (mean)
q22e = 2.235138 (mean)

|            | Delta-method | Margin Std. Err.  z  P>|z|  [95% Conf. Interval] |
|------------|--------------|---------------------|-------|-------------------|
| _cons      | 0.1499865    | 0.0049476           | 30.32 | 0.000             | 0.1402894 - 0.1596835 |

. margins, predict (outcome (2)) at (q23b=3) atmeans

Adjusted predictions Number of obs = 6762
Model VCE : OIM

Expression : Pr(q21=2), predict(outcome (2))
at : q23b = 3
q29d = 2.098492 (mean)
q54a = 2.560041 (mean)
q61 = 2.123928 (mean)
q22e = 2.235138 (mean)

|            | Delta-method | Margin Std. Err.  z  P>|z|  [95% Conf. Interval] |
|------------|--------------|---------------------|-------|-------------------|
| _cons      | 0.5888151    | 0.0064569           | 91.19 | 0.000             | 0.5761598 - 0.6014704 |

. margins, predict (outcome (3)) at (q23b=3) atmeans

Adjusted predictions Number of obs = 6762
Model VCE : OIM

Expression : Pr(q21=3), predict(outcome (3))
at : q23b = 3
q29d = 2.098492 (mean)
q54a = 2.560041 (mean)
q61 = 2.123928 (mean)
q22e = 2.235138 (mean)

|            | Delta-method | Margin Std. Err.  z  P>|z|  [95% Conf. Interval] |
|------------|--------------|---------------------|-------|-------------------|
| _cons      | 0.2613984    | 0.0064462           | 40.41 | 0.000             | 0.2485289 - 0.2742679 |
. margins, predict (outcome [1]) at (q29d=4) atmeans

Adjusted predictions Number of obs = 6762
Model VCE : OIM

Expression : Pr(q21==1), predict(outcome [1])
at : q23b = 2.412896 (mean)
    q29d = 4
    q54a = 2.560041 (mean)
    q61 = 2.123928 (mean)
    q22e = 2.235138 (mean)

|          | Margin | Std. Err. | z    | P>|z|    |  (95% Conf. Interval) |
|----------|--------|-----------|------|--------|-----------------------|
| _cons   | .1116528 | .005893  | 18.98 | 0.000 | .1003027 - .1234029   |

. margins, predict (outcome [2]) at (q29d=4) atmeans

Adjusted predictions Number of obs = 6762
Model VCE : OIM

Expression : Pr(q21==2), predict(outcome [2])
at : q23b = 2.412896 (mean)
    q29d = 4
    q54a = 2.560041 (mean)
    q61 = 2.123928 (mean)
    q22e = 2.235138 (mean)

|          | Margin | Std. Err. | z    | P>|z|   |  (95% Conf. Interval) |
|----------|--------|-----------|------|-------|-----------------------|
| _cons   | .5568895 | .0083014  | 67.08 | 0.000 | .540619 - .57316      |

. margins, predict (outcome [3]) at (q29d=4) atmeans

Adjusted predictions Number of obs = 6762
Model VCE : OIM

Expression : Pr(q21==3), predict(outcome [3])
at : q23b = 2.412896 (mean)
    q29d = 4
    q54a = 2.560041 (mean)
    q61 = 2.123928 (mean)
    q22e = 2.235138 (mean)

|          | Margin | Std. Err. | z    | P>|z|   |  (95% Conf. Interval) |
|----------|--------|-----------|------|-------|-----------------------|
| _cons   | .3312577 | .0117207  | 28.26 | 0.000 | .3082855 - .3542299   |
. margins, predict (outcome 1) at (q54=4) atmeans

Expression : Pr(q21=1), predict(outcome 1)
at : q53b  =  2.412896 (mean)
       q59d  =  2.098492 (mean)
       q54a  =  4
       q61  =  2.123928 (mean)
       q522  =  2.235138 (mean)

|          | Margin | Std. Err. | z     | P>|z|  | [95% Conf. Interval] |
|----------|--------|-----------|-------|-----|-------------------|
| _cons    | .2175991 | .0057943  | 20.29 | 0.000 | .1962926 .2389057 |

. margins, predict (outcome 2) at (q54=4) atmeans

Expression : Pr(q21=2), predict(outcome 2)
at : q53b  =  2.412896 (mean)
       q59d  =  2.098492 (mean)
       q54a  =  4
       q61  =  2.123928 (mean)
       q522  =  2.235138 (mean)

|          | Margin | Std. Err. | z     | P>|z|  | [95% Conf. Interval] |
|----------|--------|-----------|-------|-----|-------------------|
| _cons    | .5635464 | .0077965  | 72.28 | 0.000 | .5482655 .5788273 |

. margins, predict (outcome 3) at (q54=4) atmeans

Expression : Pr(q21=3), predict(outcome 3)
at : q53b  =  2.412896 (mean)
       q59d  =  2.098492 (mean)
       q54a  =  4
       q61  =  2.123928 (mean)
       q522  =  2.235138 (mean)

|          | Margin | Std. Err. | z     | P>|z|  | [95% Conf. Interval] |
|----------|--------|-----------|-------|-----|-------------------|
| _cons    | .3188649 | .0107869  | 29.56 | 0.000 | .2977225 .3400065 |
. margins, predict (outcome 1) at (q61=3) atmeans

Adjusted predictions Number of obs = 6762
Model VCE : OIM

Expression : Pr(q21=1), predict(outcome 1)
at : q23b = 2.412846 (mean)
     q29d = 2.098492 (mean)
     q54a = 2.560041 (mean)
     q61 = 1
     q22e = 2.235138 (mean)

| Delta-method  | Margin  | Std. Err. | z    | P>|z|  | [95% Conf. Interval] |
|---------------|---------|-----------|------|------|----------------------|
| _cons         | 0.0755892 | 0.0037931 | 19.93 | 0.000 | 0.0681549 - 0.0830235 |

. margins, predict (outcome 2) at (q61=3) atmeans

Adjusted predictions Number of obs = 6762
Model VCE : OIM

Expression : Pr(q21=2), predict(outcome 2)
at : q23b = 2.412846 (mean)
     q29d = 2.098492 (mean)
     q54a = 2.560041 (mean)
     q61 = 1
     q22e = 2.235138 (mean)

| Delta-method  | Margin  | Std. Err. | z    | P>|z|  | [95% Conf. Interval] |
|---------------|---------|-----------|------|------|----------------------|
| _cons         | 0.4916542 | 0.0083312 | 59.01 | 0.000 | 0.4753254 - 0.507983 |

. margins, predict (outcome 3) at (q61=3) atmeans

Adjusted predictions Number of obs = 6762
Model VCE : OIM

Expression : Pr(q21=3), predict(outcome 3)
at : q23b = 2.412846 (mean)
     q29d = 2.098492 (mean)
     q54a = 2.560041 (mean)
     q61 = 1
     q22e = 2.235138 (mean)

| Delta-method  | Margin  | Std. Err. | z    | P>|z|  | [95% Conf. Interval] |
|---------------|---------|-----------|------|------|----------------------|
| _cons         | 0.4327566 | 0.0104165 | 41.55 | 0.000 | 0.4123406 - 0.4531725 |
. margins, predict (outcome [1]) at (q26h=3) atmeans

Expression : Pr(q2i==1), predict(outcome [1])
at:  
q26a = 2.120185 (mean)
q26b = 2.240531 (mean)
q26c = 1.961483 (mean)
q26d = 1.878376 (mean)
q26e = 1.754195 (mean)
q26f = 1.808055 (mean)
q26g = 2.098929 (mean)
q26h = 3
q6l = 2.118268 (mean)

| Delta-method | Margin | Std. Err. | z    | P>|z|   | [95% Conf. Interval] |
|--------------|--------|-----------|------|-------|----------------------|
| _cons        | .1317432 | .0055488  | 23.74 | 0.000 | .1208678             | .1426386               |

. margins, predict (outcome [2]) at (q26h=3) atmeans

Expression : Pr(q2i==2), predict(outcome [2])
at:  
q26a = 2.120185 (mean)
q26b = 2.240531 (mean)
q26c = 1.961483 (mean)
q26d = 1.878376 (mean)
q26e = 1.754195 (mean)
q26f = 1.808055 (mean)
q26g = 2.098929 (mean)
q26h = 3
q6l = 2.118268 (mean)

| Delta-method | Margin | Std. Err. | z    | P>|z|   | [95% Conf. Interval] |
|--------------|--------|-----------|------|-------|----------------------|
| _cons        | .5599249 | .0071325  | 78.50 | 0.000 | .5459456             | .5739043               |

. margins, predict (outcome [3]) at (q26h=3) atmeans

Expression : Pr(q2i==3), predict(outcome [3])
at:  
q26a = 2.120185 (mean)
q26b = 2.240531 (mean)
q26c = 1.961483 (mean)
q26d = 1.878376 (mean)
q26e = 1.754195 (mean)
q26f = 1.808055 (mean)
q26g = 2.098929 (mean)
q26h = 3
q6l = 2.118268 (mean)

| Delta-method | Margin | Std. Err. | z    | P>|z|   | [95% Conf. Interval] |
|--------------|--------|-----------|------|-------|----------------------|
| _cons        | .3083318 | .0099262  | 34.54 | 0.000 | .2908369             | .3258268               |
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. margins, predict (outcome [1]) at (q26a=3) atmeans

| Expression | Model VCE | Number of obs |
|------------|-----------|---------------|
| Pr[q21=1], predict(outcome [1]) | GIM | 6257 |

| at | q26a | q26b | q26c | q26d | q26e | q26f | q26g | q26h | q26i |
|----|------|------|------|------|------|------|------|------|------|
|    | 3    | 2.24031 (mean) | 1.96143 (mean) | 1.878376 (mean) | 1.754195 (mean) | 1.808055 (mean) | 2.038929 (mean) | 2.286879 (mean) | 2.118268 (mean) |

Delta-method

|  | Margin | Std. Err. | z | P>|z| | (95% Conf. Interval) |
|  | _cons | | | | |
|  | 0.1402143 | 0.0068463 | 21.65 | 0.000 | 0.1347959 | 0.1456328 |

. margins, predict (outcome [2]) at (q26a=3) atmeans

| Expression | Model VCE | Number of obs |
|------------|-----------|---------------|
| Pr[q21=2], predict(outcome [2]) | GIM | 6257 |

| at | q26a | q26b | q26c | q26d | q26e | q26f | q26g | q26h | q26i |
|----|------|------|------|------|------|------|------|------|------|
|    | 3    | 2.24031 (mean) | 1.96143 (mean) | 1.878376 (mean) | 1.754195 (mean) | 1.808055 (mean) | 2.038929 (mean) | 2.286879 (mean) | 2.118268 (mean) |

Delta-method

|  | Margin | Std. Err. | z | P>|z| | (95% Conf. Interval) |
|  | _cons | | | | |
|  | 0.5718714 | 0.0072117 | 79.30 | 0.000 | 0.5577368 | 0.586006 |

. margins, predict (outcome [3]) at (q26a=3) atmeans

| Expression | Model VCE | Number of obs |
|------------|-----------|---------------|
| Pr[q21=3], predict(outcome [3]) | GIM | 6257 |

| at | q26a | q26b | q26c | q26d | q26e | q26f | q26g | q26h | q26i |
|----|------|------|------|------|------|------|------|------|------|
|    | 3    | 2.24031 (mean) | 1.96143 (mean) | 1.878376 (mean) | 1.754195 (mean) | 1.808055 (mean) | 2.038929 (mean) | 2.286879 (mean) | 2.118268 (mean) |

Delta-method

|  | Margin | Std. Err. | z | P>|z| | (95% Conf. Interval) |
|  | _cons | | | | |
|  | 0.2799143 | 0.0100415 | 27.48 | 0.000 | 0.2602333 | 0.2995952 |
. margins, predict (outcome [1]) at (q26g=3) atmeans

| Delta-method | Margin  | Std. Err. | t  | P>|t|  | [95% Conf. Interval] |
|--------------|---------|-----------|----|-----|-----------------|
| _cons        | 0.1337177 | 0.004491 | 20.63 | 0.000 | 0.1210152 - 0.1464201 |

. margins, predict (outcome [2]) at (q26g=3) atmeans

| Delta-method | Margin  | Std. Err. | t  | P>|t|  | [95% Conf. Interval] |
|--------------|---------|-----------|----|-----|-----------------|
| _cons        | 0.5615964 | 0.0076036 | 73.86 | 0.000 | 0.5466936 - 0.5764992 |

. margins, predict (outcome [3]) at (q26g=3) atmeans

| Delta-method | Margin  | Std. Err. | t  | P>|t|  | [95% Conf. Interval] |
|--------------|---------|-----------|----|-----|-----------------|
| _cons        | 0.3046859 | 0.0106952 | 28.49 | 0.000 | 0.2837236 - 0.3256482 |
. margins, predict (outcome (1)) at (q26a=1) atmeans

Expression : Pr(q21=1), predict(outcome (1))
at : q26a = 2.120185 (mean)
     q26b = 2.240331 (mean)
     q26c = 1.961483 (mean)
     q26d = 1.878376 (mean)
     q26e = 1
     q26f = 1.800055 (mean)
     q26g = 2.098929 (mean)
     q26h = 2.286879 (mean)
     q61 = 2.118268 (mean)

|                  | Margin | Std. Err. | z     | P>|z|   | [95% Conf. Interval] |
|------------------|--------|-----------|-------|-------|---------------------|
| _cons            | .1289492 | .0002438 | 5.44  | 0.000 | .1270155 .1411693   |

. margins, predict (outcome (2)) at (q26a=3) atmeans

Expression : Pr(q21=2), predict(outcome (2))
at : q26a = 2.120185 (mean)
     q26b = 2.240331 (mean)
     q26c = 1.961483 (mean)
     q26d = 1.878376 (mean)
     q26e = 1
     q26f = 1.800055 (mean)
     q26g = 2.098929 (mean)
     q26h = 2.286879 (mean)
     q61 = 2.118268 (mean)

|                  | Margin | Std. Err. | z     | P>|z|   | [95% Conf. Interval] |
|------------------|--------|-----------|-------|-------|---------------------|
| _cons            | .3136133 | .0148599 | 21.10 | 0.000 | .2844884 .3427382   |

. margins, predict (outcome (3)) at (q26a=3) atmeans

Expression : Pr(q21=3), predict(outcome (3))
at : q26a = 2.120185 (mean)
     q26b = 2.240331 (mean)
     q26c = 1.961483 (mean)
     q26d = 1.878376 (mean)
     q26e = 1
     q26f = 1.800055 (mean)
     q26g = 2.098929 (mean)
     q26h = 2.286879 (mean)
     q61 = 2.118268 (mean)

|                  | Margin | Std. Err. | z     | P>|z|   | [95% Conf. Interval] |
|------------------|--------|-----------|-------|-------|---------------------|
| _cons            | .5574375 | .0091377 | 61.00 | 0.000 | .5395279 .5753471   |
. margins, predict (outcome (1)) at (q26c=3) atmeans

Model VCE : OIM

Expression : Pr(q21=1), predict(outcome (1)) at : q26a = 2.120185 (mean)
q26b = 2.240531 (mean)
q26c = 3
q26d = 1.878376 (mean)
q26e = 1.754195 (mean)
q26f = 1.808055 (mean)
q26g = 2.098929 (mean)
q26h = 2.286879 (mean)
q61 = 2.118268 (mean)

Delta-method
Margin Std. Err. z P>|z| [95% Conf. Interval]
_cons .332605 .0073976 17.93 0.000 .318106 .347104

. margins, predict (outcome (2)) at (q26c=3) atmeans

Model VCE : OIM

Expression : Pr(q21=2), predict(outcome (2)) at : q26a = 2.120185 (mean)
q26b = 2.240531 (mean)
q26c = 3
q26d = 1.878376 (mean)
q26e = 1.754195 (mean)
q26f = 1.808055 (mean)
q26g = 2.098929 (mean)
q26h = 2.286879 (mean)
q61 = 2.118268 (mean)

Delta-method
Margin Std. Err. z P>|z| [95% Conf. Interval]
_cons .5606631 .0082294 68.13 0.000 .5445339 .5767924

. margins, predict (outcome (3)) at (q26c=3) atmeans

Model VCE : OIM

Expression : Pr(q21=3), predict(outcome (3)) at : q26a = 2.120185 (mean)
q26b = 2.240531 (mean)
q26c = 3
q26d = 1.878376 (mean)
q26e = 1.754195 (mean)
q26f = 1.808055 (mean)
q26g = 2.098929 (mean)
q26h = 2.286879 (mean)
q61 = 2.118268 (mean)

Delta-method
Margin Std. Err. z P>|z| [95% Conf. Interval]
_cons .3067319 .0126545 24.24 0.000 .2819296 .3315342
Section-4. Data Measurement

The descriptions of the indicators chosen for this study are as follows:

| Variables                                      | Indicators                                                                 | Response categories                      |
|------------------------------------------------|---------------------------------------------------------------------------|------------------------------------------|
| Tax compliance                                 | Q21: Perception on firms not complying with taxes                         | 1. Not wrong at all<br>2. Wrong but understandable<br>3. Wrong and punishable |
| Improved public goods and services             | Q22c: Firms should not pay taxes until they get better services from the government | 4. Disagree<br>5. Neither agree nor disagree<br>6. Agree |
| Perception on the use of other resources to finance government projects | Q23b: Government can find resources for development without taxing small firms | 7. Disagree<br>8. Neither agree nor disagree<br>Agree |
| Trust in government                           | Q29d: Trust of small firms in the government                              | 1. No trust<br>2. A little trust<br>3. Somewhat trust<br>4. Trust alot |
| Tax knowledge                                  | Q54a: Ease of finding out taxes and fees firms are liable for              | 1. Very difficult<br>2. Difficult<br>3. Easy<br>4. Very easy |
| Tax penalty                                    | Q61: perception of the size of penalty for small firms, if caught not paying taxes | 1. No penalty<br>2. Modest penalty<br>3. Heavy penalty |
| Improved telecommunication                    | Q26a: More taxes for better telecommunication                             | 1. Not willing<br>2. Maybe willing<br>3. Definitely willing |
| Improved electricity                           | Q26b: More taxes for better electricity                                   | 1. Not willing<br>2. Maybe willing<br>3. Definitely willing |
| Improved public transport                      | Q26c: More taxes for better public transport                               | 1. Not willing<br>2. Maybe willing<br>3. Definitely willing |
| Improved financial institutions                 | Q26d: More taxes for better financial institutions                         | 1. Not willing<br>2. Maybe willing<br>3. Definitely willing |
| Improved law court                             | Q26e: More taxes for better law courts                                    | 1. Not willing<br>2. Maybe willing<br>3. Definitely willing |
| Improved labor regulation                      | Q26f: More taxes for better labor regulation                               | 1. Not willing<br>2. Maybe willing<br>3. Definitely willing |
| Improved roads                                 | Q26g: More taxes for better roads                                          | 0. Agree with statement 2<br>1. Agree with statement 1 |
| Improved security                              | Q26h: More taxes for better security                                      | 1. The good of Nigerians<br>2. For its own good |

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