

“Governance quality and informal sector taxpayers’ compliance behavior in Osun state, Nigeria: A perspective from the theory of planned behavior”

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GOVERNANCE QUALITY AND INFORMAL SECTOR TAXPAYERS' COMPLIANCE BEHAVIOR IN OSUN STATE, NIGERIA: A PERSPECTIVE FROM THE THEORY OF PLANNED BEHAVIOR

Abstract

Mistrust in the social contract between governments and citizens in emerging markets remains a significant topic of scholarly research. Hence, the study examined the influence of governance quality on informal sector tax compliance behavior in Osun State, Nigeria. Primary data were obtained through a structured questionnaire spread among 256 respondents from a total population of 710 small and medium-scale enterprises (SMEs), comprising trading associations, petty traders, and market traders, in three major commercial cities from each of the three senatorial districts in the State: Osogbo, Ilesa, and Ede. The data were analyzed using partial least squares structural equation modelling (PLS-SEM). The results revealed that governance quality, measured by factors such as control of corruption ($\beta = 0.36$; $p = 0.00$), regulatory effectiveness ($\beta = 0.663$; $p = 0.00$), and voice and accountability ($\beta = 0.078$; $p = 0.00$), has a positive and significant influence on tax compliance among informal sector taxpayers in Osun State. The study concluded that the pathway from governance quality to informal sector tax compliance behavior in Osun State is the following: governance systems devoid of corruption, fairness of tax regulations, accountability of governance officials in the conduct of public businesses, and free and fair elections of democratically elected government representatives.

Keywords

governance quality, tax compliance, transparency, informal sector, accountability

JEL Classification

H24, H25, H26

INTRODUCTION

Developing countries struggle to collect sufficient tax revenue due to several factors, among which are poor tax compliance, inefficient tax administration, corruption, and multiple taxes (Omodero et al., 2023; Oluwatobi et al., 2024; Lengaram et al., 2025; Sekianti & Nuraini, 2025; Olaitan et al., 2025). This has, however, led to their persistently low tax-to-Gross Domestic Product (GDP) ratio (Abomaye-Nimenibo et al., 2018; Mascagni & Santoro, 2023). Hence, in Nigeria, the need to enhance tax compliance behavior, especially among taxpayers, has continued to receive the attention of scholars and policy makers (Modica et al., 2018; Appiah et al., 2024; Kintu et al., 2025). Several efforts have been made by state governments to narrow the gap between the actual tax revenue and the potential tax revenue. For instance, there had been voluntary assets declaration schemes to engender voluntary tax compliance while waiving prior tax obligations not paid, and the recent tax reforms on tax incentives for the low-income earners and progressive tax systems targeted at high-income earners.

Nevertheless, significant progress has not been made regarding tax compliance among informal sector taxpayers. This is largely because they are difficult to include in the tax system, and their compliance depends not only on efficient tax administration but also on the overall quality of governance (Moore, 2023; Salawu et al., 2023; Farrar & King, 2023; Oluwatobi et al., 2024; Occhiali et al., 2025). Governance quality is the extent to which government institutions make and implement public policies that meet societal needs (Kibria & Toufique, 2023; Rothstein, 2024; Xin & Huang, 2025). The effect of four proxies of governance quality has been examined in relation to tax compliance behavior of taxpayers (Bakar et al., 2021, 2023; Surugiu et al., 2025; Buzohera, 2025), tax evasion (Khaltar, 2024; Nimer et al., 2025), and tax revenue (Mallick, 2021). However, the nexus between the six dimensions of government quality (control of corruption, voice and accountability, government effectiveness, policy stability, regulatory effectiveness, and rule of law) and tax compliance behavior of informal sector taxpayers has not been explored at the sub-national government level in Nigeria. This study addresses the gap by using Ajzen's (1991) theory of planned behavior, which focuses on voluntary tax compliance through behavioral approaches instead of relying on audits and penalties.

1. LITERATURE REVIEW AND HYPOTHESES

Governance (GQ) is the traditions and institutions through which a country's authority in governance is expressed (Kaufmann et al., 2011; Kutuk, 2025). It includes all machineries of government that are used in promulgation of laws, enforcement, and adjudication. According to the World Bank's Worldwide Governance Indicators (WGI) framework developed by Kaufmann et al. (2011), governance quality could be determined by taking into consideration six factors: voice and accountability, policy stability, government effectiveness, regulatory quality, rule of law, and control of corruption.

Voice and accountability are indicators of the perception of the extent to which citizens can sincerely participate in choosing their government and have freedom of expression, association, and a free press. Using voice and accountability, prior empirical studies show evidence of a positive association between tax compliance and voting in elections (Rahayuningsih & Putra, 2025). Wahl et al. (2010) examine the effect of trust in authorities and power to enforce tax compliance using laboratory and online experiments. The study found a positive relationship between trust and the power to enforce tax payments. Hence, trust in authorities engenders voluntary tax compliance and invariably increases tax revenue (Supriyati & Joicenda, 2024; Shelvi & Rachmawati, 2025).

Similarly, Casal et al. (2016) argue that if citizens are allowed to have a say in the formulation of tax laws and on tax distribution, they would comply with tax

regulations without the need for coercion. However, if the government is perceived to be unaccountable to citizens regarding the use of tax revenue and taxpayers are not carried along in tax reforms, there will be resentment toward paying taxes.

Policy stability measures the perception of the probability that there could be politically motivated violence. A positive association was found between the existence of established democratized political systems and tax morale by Alm and Torgler (2006) and Ackom et al. (2025). They argue that where there is policy stability, such that citizens participate in selecting government and enjoy freedom of expression and association, citizens pay taxes without much use of public force and power. Moreover, Torgler and Schneider (2009) opine that government effectiveness and delivery of high-quality public services induce citizens to act legally, including tax compliance. Empirical evidence of positive association also exists for tax compliance and simplicity of tax systems (Awasthi & Bayraktar, 2015).

According to Bakar et al. (2021), policy stability significantly influences tax compliance behavior positively among salary earners and self-employed individuals in East Malaysia. This result was supported by Khaltar (2024), who finds that open government initiatives reduce tax evasion by improving the legitimacy associated with the tax burden and increasing transparency in the conduct of government business. However, Bakar et al. (2023) argue that policy stability does not significantly moderate the relationship between tax morale and tax compliance.

Government effectiveness measures the perception of the quality of public services and the independence of the civil service without any undue political influence from the politicians. It involves satisfying the expectations of citizens as regards the provision of public goods and services that improve their welfare. A government that meets the yearnings of citizens is perceived to be effective in the discharge of constitutional and social contract roles. Hence, such a government enjoys voluntary compliance with tax laws from the citizens and cooperation for the smooth execution of formulated economic policies. According to Khaltar (2024), government effectiveness contributes to combating trade-related tax evasion because taxpayers see payment of taxes as a civil obligation to support the government for the effective provision of public goods and services. In addition, Oladipo (2020) emphasizes that good governance is essential for effective power management in the public sector and the efficient organization of resources. They assert that a strong tax system directly results from good governance, while poor governance leads to negative outcomes. Effective governance and a solid tax system enhance compliance, whereas government failure to provide essential infrastructure drives citizens to disregard tax laws (Akanke et al., 2025).

Regulatory quality is the perception of the indicator of the ability of the government to formulate sound and just policies and implement the same in a justifiable manner. Tax laws are the means through which assessment, collection, and administration of taxation are based. The process of assessing and collecting taxes must be just to all classes of taxpayers and administratively convenient. Where the process is perceived to be unjust, for instance, where low-income earners pay more taxes than wealthy individuals, there will be low compliance with tax laws. According to Occhiali et al. (2025), different states in Nigeria passed sub-national tax laws that introduced additional taxes besides the requirements of the federal tax legislation, which makes the administration of taxes cumbersome. Also, identification of High-Net-Worth Individuals (HNIs) who should pay more taxes is not easily achieved, and this creates a perception of paying multiple taxes and an unjustifiable system of taxation where the low-income earners pay more taxes than the HNIs. However,

where the system of assessment and collection of due taxes is perceived to be just, equitable, transparent, and efficient, tax compliance behavior is expected to increase (Kebede, 2025).

Finally, the rule of law is an indicator of the perception of the extent to which agents of government demonstrate confidence in and abide by regulatory agencies, courts, and societal rules and norms. Bakar et al. (2021, 2023) find that the rule of law enhances tax compliance behavior, and significantly moderates the relationship between tax compliance and tax morale. In many of the developing countries, for example, Nigeria, the government carries out huge business activities annually through the annual budget. Government is, therefore, expected to adhere to the rule of law, strengthen the judicial process, and abide by the decisions of courts, including societal norms, to engender trust in business relationships among citizens and international investors.

When the government violates the rule of law and treats with contempt the decisions of courts, including societal norms, citizens have grounds to disobey government laws, including tax legislation. Hence, tax compliance behavior will decrease (Al-Jundi et al., 2025).

Control of corruption is a measure of the perception of the extent to which public power is used for personal gain and enrichment. Several studies have identified corruption of tax officials and government officials as a determinant of tax non-compliance behavior (Vincent, 2021; Salawu et al., 2023; Kumar et al., 2025; Adenutsi & Massiasta, 2025). Meanwhile, in developing countries, where strong institutional regulations are perceived to be weak, and corruption is perceived to be pervasive, this reduces tax compliance behavior.

However, Khaltar (2024) finds that control of corruption contributes to combating trade-related tax evasion and invariably decreases the tax compliance behavior. The control of corruption in Nigeria has seen the promulgation of laws and the setting up of institutions to fight corruption and financial crimes (e.g., Independent Corrupt Practices Commission and Economic and Financial Crimes Commission). Meanwhile, there are different perceptions of taxpayers on the effectiveness of these bodies in curbing corruption.

Following the literature review, the study attempts to examine the effect of governance quality on the tax compliance behavior of informal sector taxpayers in Osun State. The study is delimited to the hypotheses stated in alternate forms as follows:

- H_1 : *There is significant effect of voice and accountability on the tax compliance behavior of informal sector taxpayers in Osun State.*
- H_2 : *There is significant effect of policy stability on the tax compliance behavior of informal sector taxpayers in Osun State.*
- H_3 : *There is significant effect of government effectiveness on the tax compliance behavior of informal sector taxpayers in Osun State.*
- H_4 : *There is significant effect of regulatory quality on the tax compliance behavior of informal sector taxpayers in Osun State.*
- H_5 : *There is significant effect of the rule of law on the tax compliance behavior of informal sector taxpayers in Osun State.*
- H_6 : *There is significant effect of control of corruption on the tax compliance behavior of informal sector taxpayers in Osun State.*

2. METHOD

Survey research and quantitative research designs were used to capture the perspectives of informal sector taxpayers on governance quality. The population is the 710 SMEs (artisans, petty traders, market traders, owners of small businesses) who are registered with the Osun State Internal Revenue Service in the three major business cities of each senatorial district of the state, which are Osogbo, Ilesa, and Ede. The size of the sample was determined using Yamane approach. Stratified and random sampling tech-

niques were used to select a sample of 256 respondents from the three senatorial districts and from three major cities in each of the senatorial districts in the state. The respondents are self-employed individuals who have records of tax filling with the state internal revenue service. Data was collected through a well-structured questionnaire, which was validated and found reliable with a Cronbach's alpha of 0.78 after a pilot test. Table 1 shows the population and the sample taken from the population.

The research instrument was divided into five sections (Appendix A). It was designed to extract information for analysis and testing of the hypotheses. The questionnaire was closed-ended with 5-point Likert scale rating of strongly agreed, agreed, neutral, disagreed, and strongly disagreed responses.

The study employed both descriptive and inferential statistics to analyze the data collected for the study. The descriptive statistics included frequency and percentages. The inferential statistics involved the use of the partial least squares structural equation modeling (PLS-SEM). The standardized factor loading, Cronbach's alpha, and composite reliability statistics were used for the assessment of the measuring items in the research questionnaire. The Average Variance Extracted (AVE), the Fornell-Larcker, and the Heterotrait-Monotrait (HTMT) criteria provided the convergent and discriminant validity test, while the bootstrapping technique was further used for the path coefficient to test the research hypotheses.

2.1. Model specification

The model of the study established the relationship between the effects of governance quality on informal sector tax compliance behavior. The study adopted the specified model below:

$$ISTC = f(GOQ), \quad (1)$$

Table 1. Population of the informal sector operators

Source: Osun State Internal Revenue Service (2024).

S/N	Towns	Informal Sector			Total	Sample
		Trading Association	Market Traders	Petty Traders		
1	Osogbo	38	128	133	299	108
2	Ilesa	30	117	92	239	86
3	Ede	22	72	78	172	62
Total		90	317	303	710	256

$$ISTC = \beta_0 + \beta_1 VOA + \beta_2 POS + \beta_3 GOE + \beta_4 ROL + \beta_5 REE + \beta_6 COC + \mu, \quad (2)$$

where β_0 = Autonomous Variables;
 β_1 - β_6 = Coefficients of parameter for model 1;
 μ = Error Term.

Table 2 shows the measurements adopted in this study and Figure 1 visualizes the SEM model.

The measurement equations for the constructs are

$$Control\ of\ Corruption\ (CC) = f_{ii} CC_i + e_{ii}, \quad (3)$$

Table 2. Measurement of the variables

S/N	Variable	Measurement
1	Informal sector tax compliance (ISTC)	Ten questions on the survey questionnaire were used to measure compliance with tax laws using a 5-point Likert scale.
2	Voice and Accountability (VOA)	Three questions on the survey questionnaire were used to measure the respondents' perception of the fairness of government institutions and participation of citizens in policy formulation using a 5-point Likert scale.
3	Policy Stability (POS)	Three questions on the survey questionnaire were to measure the respondents' perception of the freedom of the political environment from violence and instability using a 5-point Likert scale.
4	Government Effectiveness (GOE)	Three questions on the survey questionnaire were used to measure the respondents' perception of the quality of public services, independence of the civil service without any political undue influence from the politicians, using a 5-point Likert scale.
5	Rules of Law (ROL)	Three questions on the survey questionnaire were used to measure the respondents' perception of the extent to which agents of government demonstrate confidence in and abide by regulatory agencies, courts, and societal rules and norms. A 5-point Likert scale was used.
6	Regulatory Effectiveness (REE)	Three questions on the survey questionnaire were used to measure the respondents' perception of the ability of the government to formulate sound and just policies and implement the same in a justifiable manner. A 5-point Likert scale was used.
7	Control of Corruption (COC)	Three questions on the survey questionnaire were used to measure the perception of the respondents on the extent to which public power is used for personal gain and enrichment by government officials.

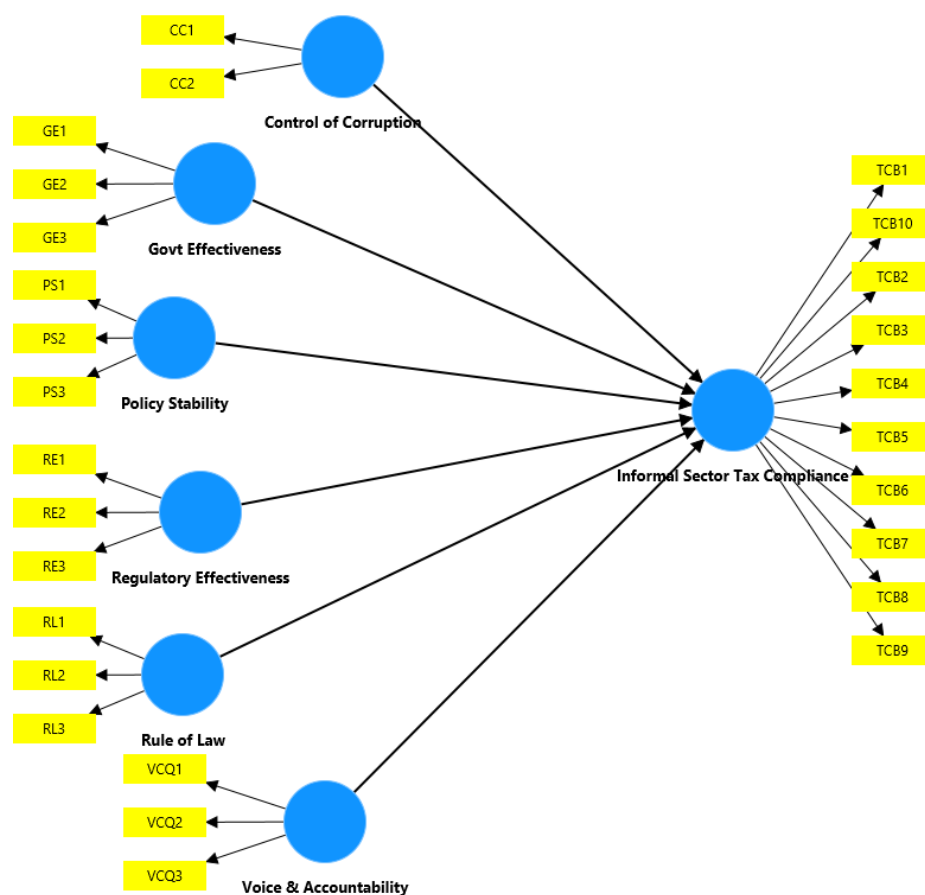


Figure 1. SEM framework

$$\text{Government Effectiveness}(GE) = f_{i2}GE_i + e_{i2}, \quad (4)$$

$$\text{Policy Stability}(PS) = f_{i3}PS_i + e_{i3}, \quad (5)$$

$$\text{Regulatory Effectiveness}(RE) = f_{i4}RE_i + e_{i4}, \quad (6)$$

$$\text{Rule of Law}(RL) = f_{i5}RL_i + e_{i5}, \quad (7)$$

$$\text{Voice \& Accountability}(VCQ) = f_{i6}VCQ_i + e_{i6}, \quad (8)$$

$$\begin{aligned} \text{Informal Sector Tax Compliance}(ISTC) \\ = f_{i7}ISTC_i + e_{i7}, \end{aligned} \quad (9)$$

where, $f_{i1}, f_{i2}, f_{i3}, f_{i4}, f_{i5}, f_{i6}, f_{i7}$ are the factor loadings for the question items. $CC_p, GE_p, PS_i, RE_p, RL_p, VCQ_i$ and $ISTC_i$ are the items in the questionnaire.

3. RESULTS

The demographic analysis in Table 3 provides valuable insights into the characteristics of respondents in Osun State. A total of 256 respondents participated in the study, of which 66.0%

are female (169) and 34.0% are male (87). Age distribution indicates a predominance of respondents in the 31 to 40 years category, accounting for 57.0% (146), while those aged 21 to 30 years represent 14.1% (36) and those aged 41 to 50 years make up 28.9% (74). In terms of educational qualifications, 40.2% (103) hold SSCE and below, and 37.9% (97) possess NCE/ND, with only 9.4% (24) having HND/BSC. Regarding work experience, the majority, 62.1% (159), have between 11 and 20 years of experience, while 4.7% (12) have below ten years. The trade categories show that market traders constitute the largest group at 57% (146), followed by petty traders (street vendors) (30.5%) and the trading association (12.5%). Geographically, the respondents are evenly distributed among Ede (24.2%), Ilesa (33.6%), and Osogbo (42.2%), indicating a diverse representation from various locations within the state.

The assessment includes the factor loadings, reliability test, construct validity, and discriminant validity. It is a prerequisite that the question items

Table 3. Demographics analysis

Particulars	Characteristics	No. of Respondents	Percentages	Cumulative (%)
Gender	Female	169	66.0%	66
	Male	87	34.0%	100
	Total	256	100	100
Age	21-30 years	36	14.1%	14.1
	31-40 years	104	40.6%	54.7
	41-50 years	74	28.9%	83.6
	51 years and above	42	16.4%	100
	Total	256	100	100
Highest Educational Qualification	SSCE and below	103	40.2%	40.2
	NCE/ND	97	37.9%	78.1
	HND/BSC	24	9.4%	87.5
	Professional certificate	32	12.5%	100
	Total	256	100	100
Years of Experience	Below 10 years	12	4.7%	4.7
	11-20 years	159	62.1%	66.8
	21-30 years	73	28.5%	95.3
	31 years above	12	4.7%	100
	Total	256	100	100
Trade category of Respondents	Trading association (artisans)	32	12.5%	12.5
	Petty trading (street vendors)	78	30.5%	43
	Market traders (owners of small businesses)	146	57%	100
	Total	256	100	100
Place of Residence	Ede	62	24.2%	24.2
	Ilesa	86	33.6%	57.8
	Osogbo	108	42.2%	100
	Total	256	100	100

Table 4. Factor loadings, reliability, and construct validity

Constructs	Items	Loadings	Cronbach's Alpha	Composite Reliability (CR)	Average Variance Extracted (AVE)
Control of Corruption	CC1	0.826	0.650	0.849	0.739
	CC2	0.892			
Government Effectiveness	GE1	0.839	0.589	0.830	0.709
	GE2	0.844			
Policy Stability	PS1	0.875	0.766	0.894	0.808
	PS3	0.922			
Regulatory Effectiveness	RE1	0.924	0.815	0.915	0.844
	RE3	0.913			
Rule of Law	RL1	0.810	0.602	0.79	0.557
	RL2	0.708			
	RL3	0.716			
Voice and Accountability	VCQ1	0.815	0.517	0.806	0.674
	VCQ3	0.828			
Informal Sector Tax Compliance	TCB2	0.887	0.858	0.904	0.701
	TCB4	0.830			
	TCB6	0.796			
	TCB8	0.834			

must load appropriately into their respective constructs, while the variables themselves must satisfy the reliability and validity criteria, before being used in the SEM.

Table 4 reveals the items that have been retained for the SEM following the results of the assessment of the measuring instrument. Items that were excluded did not meet the factor loading requirement. The results in Table 4 thus indicate that all the retained items satisfy the minimum factor loading threshold of 0.7, which makes them fit to measure their respective constructs.

Furthermore, Cronbach's alpha and composite reliability statistics were used to assess the internal consistency of the items in the joint measurement of their individual constructs. Results in Table 4 suggest that only two of the constructs have a Cronbach's alpha value below the 0.6 minimum acceptable value. However, their composite reli-

ability statistics are all above the 0.7 minimum benchmark, thus satisfying the reliability criteria. In addition, the Average Variance Extracted (AVE) is widely used to test the convergent validity of construct variables in SEM. It is required that the constructs have AVEs above the 0.5 minimum threshold. The results in Table 5 reveal that all the constructs have AVEs above this threshold, which establishes their convergent validity.

The Fornell-Larcker criterion requires that the square root of the AVEs (bolded) must be greater than any of the inter-construct correlations (other values in Table 5). The results in Table 5 indicate that this condition is satisfied.

The heterotrait-monotrait (HTMT) criterion is based on the multitrait-multimethod matrix. Discriminant validity is a concern if any of the HTMT ratios is equal to or above 0.9. The results in Table 6 show that none of the HTMT ratios exceed

Table 5. Fornell-Larcker criterion

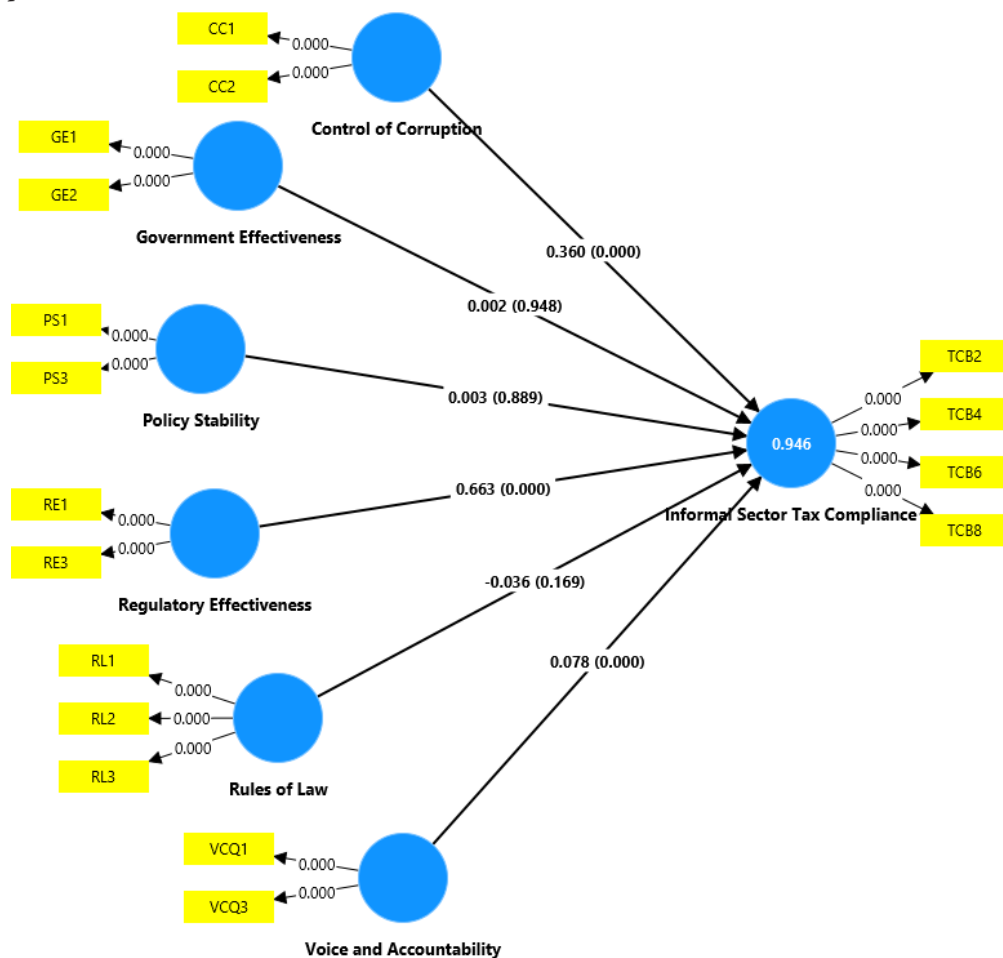
Constructs	CC	GE	ISTC	PS	RE	RL	VCQ
Control of Corruption (CC)	0.859						
Government Effectiveness (GE)	0.447	0.842					
Informal Sector Tax Compliance (ISTC)	0.643	0.555	0.837				
Policy Stability (PS)	0.493	0.518	0.625	0.899			
Regulatory Effectiveness (RE)	0.705	0.563	0.635	0.651	0.918		
Rule of Law (RL)	0.590	0.615	0.634	0.649	0.632	0.746	
Voice and Accountability (VCQ)	0.441	0.515	0.550	0.460	0.494	0.463	0.821

Table 6. Heterotrait-monotrait (HTMT) criterion

Constructs	CC	GE	ISTC	PS	RE	RL	VCQ
Control of Corruption (CC)							
Government Effectiveness (GE)	0.732						
Informal Sector Tax Compliance (ISTC)	0.825	0.774					
Policy Stability (PS)	0.710	0.773	0.754				
Regulatory Effectiveness (RE)	0.873	0.810	0.801	0.817			
Rule of Law (RL)	0.848	0.824	0.872	0.855	0.801		
Voice and Accountability (VCQ)	0.752	0.834	0.827	0.718	0.757	0.826	

this threshold, which also ascertains that there is no problem of discriminant validity among the construct variables. The summary of the results of the assessment of the measuring items has shown that all the retained items, together with their respective constructs, are fit to be used for a path analysis in SEM.

Figure 2 reveals the estimates of the path coefficients for the structural model. These include the regression coefficients, *t*-statistics, and their respective *p*-values.

**Figure 2.** PLS algorithm**Table 7.** Model fit of SEM one

Criteria	Saturated Model	Benchmark
SRMR	0.098	< 0.08
d_ ULS	1.456	< $HI_{.95} = 1.74$
R Squared	0.946	
R Squared Adjusted	0.945	

Table 7 shows the result of the goodness of fit criteria for the structural equation model. Although the Standardized Root Mean Residual (SRMR = 0.098) is above the maximum acceptable benchmark of 0.08, the overall model fit index (d_ ULS =

1.456) is within the acceptable benchmark ($HI.95 = 1.74$). In addition, the adjusted R-squared value of 0.945 implies that the endogenous variables jointly explain 94.5 percent of the total variation in the exogenous variable. The summary of the structural model indicates a good model fit.

Table 8 reveals the results of the estimates of the parameters in the path diagram. The results show a positive coefficient ($\beta = 0.360$) running from control of corruption to informal sector tax compliance. This suggests a direct relationship between the variables. The t -statistics of this path ($t = 16.275$) is also significant at the 5% statistical level ($p = 0.0 < 0.05$). This implies that control of corruption has a significant impact on informal sector tax compliance in Osun State.

Further results from Table 8 show a positive coefficient ($\beta = 0.002$) for the path involving government effectiveness and informal sector tax compliance, suggesting a direct relationship between the variables. However, the t -statistics of this path ($t = 0.065$) is nonsignificant at the 5% level ($p = 0.948 > 0.05$). Hence, it is concluded that government effectiveness has no significant influence on the informal sector tax compliance in Osun State. Similarly, the coefficient of the path from policy stability to informal sector tax compliance is 0.033. However, the t -statistics of this path ($t = 0.139$) is insignificant at the 5% level ($p = 0.889 > 0.05$). Hence, it is concluded that policy stability does not significantly influence informal sector tax compliance in Osun State.

In addition, Table 8 reveals that the coefficient of the path from regulatory effectiveness to informal sector tax compliance is positive ($\beta = 0.663$), which implies a direct relationship. The t -statistics of this path ($t = 23.165$) is statistically significant at the 5% level ($p = 0.0 < 0.05$). This implies that

regulatory effectiveness has a significant effect on informal sector tax compliance in Osun State.

The result on the coefficient of the path from rule of law to informal sector tax compliance is negative ($\beta = -0.036$), which suggests an inverse relationship. However, the t -statistic of this path ($t = 1.376$) is insignificant at the 5% level ($p = 0.169 > 0.05$). Hence, it is concluded that the rule of law does not significantly influence informal sector tax compliance in Osun State. Lastly, the coefficient of the path from voice and accountability to informal sector tax compliance is positive ($\beta = 0.078$), indicating a direct relationship. The t -statistic of this path ($t = 3.625$) is also statistically significant at the 5% level ($p = 0.0 < 0.05$), which implies that voice and accountability significantly affect informal sector tax compliance in Osun State.

4. DISCUSSION

The results indicate a mixed scenario; the analysis revealed that governance quality (control of corruption, regulatory effectiveness, and voice and accountability) has a positive and significant influence on tax compliance among informal sector taxpayers in Osun State. However, government effectiveness, policy stability, and rule of law have no significant relationship with tax compliance behavior of informal sector taxpayers. This implies that when corruption is widespread in tax administration, tax compliance will be low. This aligns with previous empirical studies that found a direct relationship between control of corruption and the tax compliance behavior of informal taxpayers (Salawu et al., 2023; Gwatidzo & Newman, 2024; Kumar et al., 2025; Herani & Angela, 2025).

In addition, the findings on the direct and positive effect of regulatory effectiveness, voice, and accountability on tax compliance behav-

Table 8. Path estimates

Paths	Coefficients	t-statistics	p-values	Decision on the hypotheses
Control of Corruption → Informal Sector Tax Compliance	0.360	16.275	0.000	Accept
Government Effectiveness → Informal Sector Tax Compliance	0.002	0.065	0.948	Reject
Policy Stability → Informal Sector Tax Compliance	0.003	0.139	0.889	Reject
Regulatory Effectiveness → Informal Sector Tax Compliance	0.663	23.165	0.000	Accept
Rule of Law → Informal Sector Tax Compliance	-0.036	1.376	0.169	Reject
Voice and Accountability → Informal Sector Tax Compliance	0.078	3.625	0.000	Accept

ior align with the results of Bakar et al. (2021). Hence, taxpayers' attitude to tax compliance is sharpened by the outcome of their participation in the democratic process in electing those who will represent their interests in governance. Where those elected to represent their interest in government act to satisfy the citizens' needs, tax compliance behavior will be enhanced. Furthermore, subjective norms that are formed based on the government's provision of public goods and services exert societal pressure on informal taxpayers to pay taxes. Finally, perceived behavioral control, which, according to the theory of planned behavior, is the ease or difficulty with which a behavior would be performed, would arise from corrupt tax systems and officials who hinder the transparent process of tax payment and hence reduce tax compliance.

The results also align with the study of Sebele-Mpofu and Msipa (2020), which argues that high levels of corruption and poor tax administration diminish compliance, irrespective of perceived governance quality. Hence, there will be tax aversion whenever there is a perception

that taxes end up in the pockets of public officials and are not deployed for the purpose of providing public goods and services to the citizens (Robinson, 2023; Baba et al., 2024).

However, positive and low coefficient values for aspects like government effectiveness, policy stability (0.002 and 0.003, respectively), and rule of law with a negative value (−0.036) do not have a significant influence on tax compliance among informal sector taxpayers in Osun State. This is contrary to the findings of Bakar (2021), who finds that policy stability and rule of law have a significant effect on tax compliance in Malaysia. Meanwhile, there has been policy stability in Nigeria since the advent of democracy, and this may account for why informal taxpayers ascribed no importance to it. Moreover, many of the informal taxpayers see themselves as indirect beneficiaries of public goods and services since they do not work in government and earn wages from the public purse. Hence, the perception of the informal taxpayers on government quality often relates to what concerns them and perhaps affects their means of livelihood.

CONCLUSION

The study was motivated by the need to examine the interaction of the effect of the six dimensions of governance quality on informal sector tax compliance behavior in Osun State. Primary data was gathered using a survey questionnaire from 256 respondents with a population of 710 registered SMEs. The data were analyzed using partial least squares structural equation modelling (PLS-SEM). The results show that three dimensions of governance quality (control of corruption, regulatory effectiveness, and voice and accountability) have positive and significant effects on the tax compliance behavior of the informal sector taxpayers in Osun State, Nigeria. Thus, it implies that attitudes to tax compliance, societal norms, and pressure to pay or not to pay taxes, and perceived behavioral control of paying taxes are formed from these three dimensions of governance quality. However, three other dimensions of governance quality (government effectiveness, policy stability, and rule of law) do not have a significant effect on the tax compliance behavior of taxpayers in the informal sector in Osun State, Nigeria. Thus, it implies that informal taxpayers in the state are basically concerned with governance quality that directly affects their business and means of livelihood. The study concludes that the Osun State government should pay more attention to governance quality that directly affects the businesses and means of livelihood of informal taxpayers when formulating fiscal and election policies.

The study recommends that state governments in Nigeria should engage the citizens when formulating tax laws and in the democratization process toward the election of public officials to represent them in government. Also, transparency and accountability of tax revenue reports should be rendered to all the citizens of the States. Finally, there should be strong castigatory actions against corruption in government and tax administration.

AUTHOR CONTRIBUTIONS

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APPENDIX A

Table A1. Questionnaire

Part A: Socio-demographic characteristics					
1	Gender:	(a) Male	()	(b) Female	()
2	Age:	(a) 21-30 years	()	(b) 31-40 years	()
		(c) 41-50	()	(d) 51 years and above	()
3	Highest Educational Qualification:	(a) SSCE/GCE and below	()	(b) ND/NCE	()
		(c) HND/BSC	()	(d) Professional certificate	()
4	Years of Experience:	(a) Below 10 years	()	(b) 11-20 years	()
		(c) 21-30 years	()	(d) 31 years above	()
5	Category of Respondents:	(a) Trading association (artisans)	()	(b) Petty trading (street vendors)	()
		(c) Market traders (owners of small businesses)	()	(d) Tax practitioners	()
6	Place of Residence:	(a) Ede	()	(b) Ilesha	()
		(c) Osogbo	()		
					SA A N D SD
Part B: Governance quality dimension					
A	Voice and Accountability				
(i)	The government maintains stability and promotes equity and fairness.				
(ii)	Taxpayers can voice their concerns and participate in the formulation of tax laws and other governmental issues.				
(iii)	Lack of taxpayers' voice and transparency had affected government revenue from the informal sector.				
B	Policy Stability				
(i)	The State is free from violence and the threat of government instability.				
(ii)	There is no powerful taxation force that cares about people's quality of life.				
(iii)	There is always a rift and challenges between the tax authority and informal sector taxpayers on tax policies.				
C	Government Effectiveness				
(i)	The tax administration system is not effective and has adversely affected the revenue generation in the State.				
(ii)	The tax authority has not shown proper conduct in the assessment of tax revenue from the informal sector operators.				
(iii)	The procedure of tax assessment, collection, and remittance from the informal sector is cumbersome and a lot of paperwork.				
D	Rule of Law				
(i)	The tax officials misused power to gain undue advantage and corruption is high.				
(ii)	Taxpayers have a high degree of trust in governments and tax agencies.				
(iii)	Poor tax administration system have diminished morality for both taxpayers and tax administrators.				
E	Regulatory Effectiveness				
(i)	Informal sector operators did not benefit from tax policies of the government, such as tax rates and deductions.				
(ii)	The tax authority neither gives tax reliefs nor provides an enabling environment for the growth and survival of the informal sector.				
(iii)	There is improper engagement of tax consultants and a lopsided MOU with an unfavorable sharing formula.				
F	Control of Corruption				
(i)	Corruption was widespread in the tax administration system.				
(ii)	Tax evaders and offenders always go unpunished.				
Part C: Government expenditure dimensions					
A	Education				
(i)	Private schools have a better outlook and are better equipped than public schools.				
(ii)	Parents prefer to pay higher school fees due to better standards in private schools than public schools.				
(iii)	Private schools engaged experienced and well-paid tutors rather than public school teachers.				

Table A1 (cont.). Questionnaire

		SA	A	N	D	SD
B	Health					
(i)	Government hospitals are well-equipped and have more qualified medical personnel than private hospitals.					
(ii)	Private hospitals provide better health services than government hospitals.					
(iii)	Traders prefer to use private hospitals rather than public hospitals for high-quality medical service.					
C	Electricity					
(i)	The supply of electricity is very poor in the marketplaces.					
(ii)	Traders use generators and spend fortune to buy diesel (AGO) to power energy for use in their businesses.					
(iii)	The electricity tariff is exorbitant and traders find it difficult to cope and recharge energy.					
D	Government Workers Wages and Salaries					
(i)	Regular payment of workers' salaries boost informal sector sales and productivity.					
(ii)	Informal sector operators make more sales and gains when government workers are paid.					
(iii)	Regular payment of workers' salaries enhance consumer's spending power.					
E	Household Income e.g., palliatives					
(i)	Informal sector operators benefit from trader money scheme inaugurated in market places by the government.					
(ii)	Informal sector operators benefit from regular food palliatives distributed by the government					
(iii)	Informal sector taxpayers benefit from monthly social support scheme done by the government					
Part D: Tax compliance behavior of informal sector dimensions						
A	Tax Policy and Obligation					
(i)	The State's tax policy was unjust and did not support the expansion and continued existence of businesses in the unorganized sector.					
(ii)	Low levels of accountability and transparency undermine the informal tax operators' motivation to fulfil their tax duties.					
(iii)	Taxpayers in the informal economy do not have adequate knowledge of tax compliance strategy.					
B	Corruption and Political Interference					
(i)	Corruption in the tax administration system has diminished the morale for informal sector tax compliance.					
(ii)	Tax compliance and the government's capacity to efficiently raise money from the unorganized sector are undermined by systemic corruption.					
(iii)	Political interference had created unfairness in the implementation of tax policy in the informal sector.					
C	Trust and Confidence in Government					
(i)	Operators in the unorganized sector are no longer prepared to pay taxes because they no longer trust the government.					
(ii)	The government is not transparent and accountable for taxpayers' money.					
(iii)	The taxpayers are not impressed with the high level of leakages in Government revenue.					
D	Fulfilment of Social Contract					
(i)	The taxation policy in the State does not achieve the desired goals in the Informal Sector.					
(ii)	Tax money is not used by the government for the intended purpose.					
(iii)	The government fails to meet the demands of its population by providing high-quality public goods and services.					
E	Tax Assessments					
(i)	Informal taxpayers do not maintain accurate accounting records for tax purposes.					
(ii)	Informal sector businesses are not properly registered for tax purposes.					
(iii)	The presumptive tax regime is regressive and does not encourage equity and fairness among informal sector operators.					
Part E: Measurement of tax compliance behavior						
(i)	Paying taxes is the right and proper action for a citizen.					
(ii)	The payment of tax is the right and real thing to do as a citizen.					
(iii)	I pay my tax liabilities within the required timeframe every year.					
(iv)	I keep all accounting records as required by tax laws and my tax liability is correctly reported.					
(v)	I registered for tax within the period stipulated by law.					
(vi)	I accurately report my tax liability.					
(vii)	I file annual returns within the time stipulated by law every year.					
(viii)	I pay correct tax liability within the time stipulated by law for payment every year.					
(ix)	I accept and pay penalties for failing to register within the designated timeframe.					
(x)	I also pay penalties for not filing my returns on time as required by law.					