

Hierarchical Component Model Approach on Tax Fairness, Public Governance Quality and Tax Compliance: A Mediating Role of Tax Morale

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Abstract: This study assesses the effect of public tax fairness, public governance quality on tax compliance of MSEs in North-East of Nigeria through tax morale. The study population comprises of the entire 124,231 registered MSEs operating in the North-Eastern states of Nigeria. A sample size of 527 was arrived at after considering non response rate. PLS-SEM was employed to ensure data analysis and hypotheses testing. Internal consistency reliability and validity checks were carried out to ensure that the measurement instrument (Questionnaire) is reliable and valid for data collection. The result of the checks reveals that the instrument is reliable and valid for the study. The findings revealed that direct assessment tax compliance is found to have been positively influenced by public governance quality and tax morale. While, tax compliance was not significantly explained by tax fairness tax morale mediated the effect of public governance quality on tax compliance while no mediation was experience on tax system fairness and DAT compliance. Therefore, the study recommends that government to improve on the quality of its governance by controlling corruption, ensuring rule of law, guarantee political stability and improve on accountability since positive improvement on this factors improves tax morale which consequently improves tax compliance.

Keyword: Public Governance Quality, Tax Fairness, Tax Morale, Tax Compliance

INTRODUCTION

Tax compliance is categorised as either voluntary or enforced compliance. Enforced compliance being the effort of tax administrators, voluntary tax compliance is

more preferred where taxpayer willingly declares all income accurately and paying exact tax liability in compliance with appropriate tax laws to relevant tax authority (Jackson & Milliron, 1986; Palil, 2010). Taxpayers voluntary compliance is now a global phenomenon affecting revenue generation experienced in both developed and developing economies (Mas'ud, 2017; Muhibudeen, 2018). Additionally, the problem tax noncompliance is more evident in the developing economies than developed countries (Kim, 2008; Sarsiti, Trisnowati, Widiastuti, & Budiwinarto, 2018). This may not be unconnected with the absence of direct assessment taxpayers database and existence of large unregistered businesses (Mas'ud, 2017; Terkper, 2003). Consequently, improving direct assessment tax required a serious attention toward achieving more revenue to the government.

In 2019 African countries witnessed an average tax-to-GDP ratio of 16.6% which increased by 0.3% from 2018 while Nigeria experienced a tax-to-GDP ratio of far below the African average of 6% in 2019 which is a decrease of 0.3% from 2018 (OECD, 2021). For the ten year period between 2010 to 2019 Nigerian tax-to-GDP dropped by an average of 1.3% from 7.3% in 2010 to 6.0% in 2019 while African countries average increases by 1.8% within the same period (OECD, 2020). While African average is increasing Nigerians average is decreasing.

The NBS reported that tax collections by states of the country totalling about N683.6 billion where Lagos accounted for about 40% (N268 billion) of the total tax collection in 2015. Moreover, the report of Joint Tax Board has it that there are more than ten million (10,006,304 to be specific) registered individual taxpayers in Nigeria in all the 36 states and FCT with Lagos alone accounting for about 4.6 million (46%) registered taxpayers demonstrating that all other 35 states and FCT accounted for the remaining 54% an average of 153,000 or 1.5% per state for others (Oyedele, 2016).

Since the discovery of oil in Nigeria, government neglected income from non oil sources especially tax revenue. Revenue from oil source is no more reliable for a country that heavily rely on oil with the current realities in the oil sector with full of uncertainties (Oyedele, 2016). Therefore, tax revenue is considered as the more predictable and consistent revenue source to the government at various levels. However, problem of tax noncompliance has been a major dilemma in harnessing this promising sour of government revenue more especially in a developing country like Nigeria.

NBS, (2021) reported that North-East recorded the least revenue (N42,915,002,928.39) accounting for only 5% of the total IGR generated in the

country, as against South-West zone with the highest revenue (N385,414,274,922.27) amounting to more than 45%. Moreover, direct assessment tax accounted to insignificant part of the IGR generated by the states in the North-East where direct assessment tax in the second quarter of 2021 amounted to N1,074,407,181.07 which accounted for only 2.7% of total IGR generated in the region. Despite the low IGR in the region direct assessment tax is badly affected and contributed very low to the revenue despite large number of self employed persons in the region. In view of the foregoing there is a need for a study to explore factors responsible for this poor compliance to direct assessment tax in the region.

Several studies were conducted to explore factors affecting direct assessment tax compliance world over. Earlier studies on tax compliance were more concern on economic model of tax compliance in line with the deterrence theory of compliance where probability of noncompliance detection and penalty for defaulting were the major variables of concern. However, socio-psychological factors are now dominating the tax compliance studies after the realisation of the failure of economic model to adequately explain tax compliance behaviour. Good governance, tax system fairness and tax morale are the most important socio-psychological determinants of tax compliance ((Sebele-Mpofu (2020; Foya and Nhingwa (2022); Cummings, Martinez-Vazquez, McKee & Torgler (2008); Nyamapheni & Robinson (2021); Adeyeye, Otusanya and Arowomole (2016); Deyganto (2018); Oladipo, Nwanji, Eluyela, Godo & Adegboyegun (2022); Abdulraqueeb and SafiahSidek (2022); Hanapi (2022); Rashid, Uddin, Haque, and Hossain (2022); Umar, Derashid, Ibrahim, and Bidin (2018); Lago-Peñas & Lago-Peñas (2010); Sikayu, Rahmat, Nyet & Juliati (2022); Casara, Filippi, Suitner, Dollani & Maass (2022); Alexander & Balavac-Orlic (2022); Kim & Wan (2022); Torgler & Schaffner (2007); Kemme, Parikh & Steigner (2020); Angeles (2021)). However, this study will differ significantly from the previous studies by examining the effect of public governance quality, perceived tax fairness and direct assessment tax compliance. The use of advanced Smart-PLS hierarchical component model in determining the extend of this relationship was employed.

REVIEW OF EMPIRICAL STUDIES AND HYPOTHESES DEVELOPMENT

Perceived Quality of Public Governance and Direct Assessment Tax Compliance

Governance quality is found to have positive relationship with tax compliance in various sectors of both developed and developing economies. Notably among

these studies are Sebele-Mpofu (2020) on Zimbabwe's informal sector; Cummings, Martinez-Vazquez, McKee & Torgler (2008) in Botswana; Abdurrazeeb and SafiahSidek (2022) among SMEs in Dubai ; Foya and Nhingwa (2022) on corporate taxpayers in Zimbabwe; Hanapi (2022) in Malaysia; Rashid, Uddin, Haque, and Hossain (2022) in 20 developed countries whose GDP per capita is greater than or equal to \$12,000 and 17 developing countries whose GDP per capita is less than \$12,000; Umar, Derashid, Ibrahim, and Bidin (2018) conceptual paper in developing countries who found that tax compliance is significantly improved by taxpayers perception on good governance. However, Rashid et al. (2022) found significant negative effect of good governance on tax compliance in developing economies and otherwise in the developed countries.

H₁: Public governance quality has no significant effect on direct assessment tax compliance of MSEs in North-Eastern States of Nigeria.

Perceived Quality of Public Governance and Tax Morale

Several studies were conducted on the effect of quality of public governance on tax compliance of taxpayers across the globe. There exist a consensus among researchers that governance quality improves tax morale prominent among such researches are Lago-Peñas & Lago-Peñas (2010) among European countries, ; Sá, Martins & Gomes (2015) in Portugal; Kondelaji, Sameti, Amiri & Moayedfar (2016) Iran; Sá, Gomes & Martins (2016) Portugal and Spain; Sebele-Mpofu (2020) in Zimbabwe; Nyamapheni & Robinson (2021) South Africa and Zimbabwe; Torgler, Schaffner & Macintyre (2008) in Germany.

H₂: Public governance quality has no significant effect on tax morale of MSEs in North-Eastern States of Nigeria.

Perceived Tax Fairness and Direct Assessment Tax Compliance

Mix findings was experienced on the relationship between tax fairness and tax compliance studies where Nguyen (2022) on SMEs in Vietnam; Niesiobędzka (2014) in Poland argued that procedural tax system fairness affect tax compliance indirectly through tax morale; Siahaan (2005) in Surabaya, East Java; Giray (2015) in Turkey; Adeyeye, Otusanya and Arowomole (2016) on Nigerian tradesmen and artisan; Deyganto (2018) in Ethiopia; Sikayu, Rahmat, Nyet & Juliati (2022) on SMEs in Malaysia found significant positive effect of tax fairness on taxpayers compliance. In the same vein Casara, Filippi, Suitner, Dollani & Maass (2022) in Italy found that

inequality in tax system has negative effect on tax compliance. However, Oladipo, Nwanji, Eluyela, Godo & Adegboyegun (2022) argued that high tax fairness results to low compliance with payment of taxes by manufacturing firms in Nigeria.

H₃: *Tax system fairness has no significant effect on direct assessment tax compliance of MSEs in North-Eastern States of Nigeria.*

Tax Fairness and Tax Morale

Alexander & Balavac-Orlic (2022) tax system fairness influences tax morale where financial and tax literacy is high and otherwise when it is low. Kim & Wan (2022) in South Korea found that vertical, horizontal and exchange tax system fairness has significant positive effect on tax morale. However, distributive fairness was found to have no statistically significant effect. Siahaan (2005) in Surabaya, East Java found that tax system fairness affect tax compliance through ethical attitude; Niesiołędzka (2014) on Polish taxpayers found that procedural tax system fairness significantly affect tax morale;

H₄: *Tax system fairness does not have significant effect on tax morale of MSEs in North-Eastern States of Nigeria.*

Tax Morale and Direct Assessment Tax Compliance

There is consensus of scholars on tax morale and tax compliance where significant positive effect was recorded in almost all part of the world. Prominent among these studies are Torgler & Schaffner (2007) using taxpayers opinion survey in the United States; Luttmer & Singhal (2014); Lisi (2015) Italy Kemme, Parikh & Steigner (2020) 21 OECD Countries using world value survey; Angeles (2021) using mixed method on small business in Philippines; Torgler, Schaffner & Macintyre (2008) in Switzerland, Australia and Costa Rica; Alm & McClellan (2012) on USA firms; Cummings, Martinez-Vazquez, McKee & Torgler (2008) South African and Botswana.

H₅: *Tax morale has no significant effect on direct assessment tax compliance of MSEs in North-Eastern States of Nigeria.*

H6: *Tax morale has no mediating effect on quality of public governance and direct assessment tax compliance of MSEs in North-Eastern States of Nigeria.*

H7: *Tax morale has no mediating effect on tax system fairness and direct assessment tax compliance of MSEs in North-Eastern States of Nigeria.*

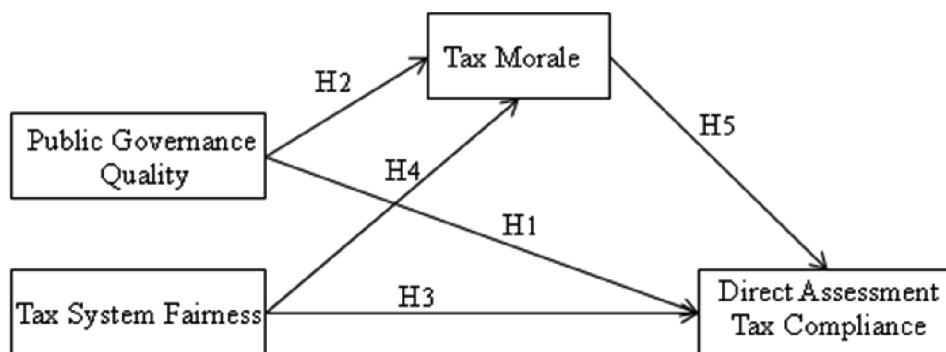


Figure 1: Research Framework

Theoretical Review

A quantitative research requires previous theories to underpin it in order to serve as a framework for further investigations which led researchers to develop theoretical frameworks randomly to underpin their studies (Sinclair, 2007).

Cognitive Theory

Cognitive theory maintained that the main factors influencing compliance, in the area of taxation, are an individual's own morality and level of moral growth (Sutinen & Kuperan, 1999). Personal morality is the internal duty that a person has to act in accordance with his or her understanding of what is right or wrong. According to this theory, a person's personality is a key factor in determining tax compliance. It is believed that an individual is morally fit when he is willing to complying with tax obligations even if it go against his interest, family and religion for the benefit of others (Alabede, Ariffin, & Idris, 2011). It is against this backdrop that cognitive theory underpins this study that a morally sound taxpayer can comply with tax payment irrespective of what the government can do with it. However, factors determining tax morale (governance quality and tax system fairness) are the indirect determinants of tax compliance through tax morale.

METHODOLOGY

Research Design

Survey method was found to be the most appropriate research design recommended for the study investigating perception, attitude, opinion and behaviour of individual taxpayers (Alabede, 2012b; Deyganto, 2018; Hoa et al., 2019; Holly et al., 2019;

Naicker & Rajaram, 2018; Obaid et al., 2020a, 2020b; Okpeyoha et al., 2019; Palil, 2010). Hence, this study adopts taxpayer opinion survey method based on the quantitative research approach.

The entire 124,231 registered self-employed individuals engaged in various micro and small scale businesses in North-Eastern states of Nigeria incomes of which are subject to tax under PIT Act Cap P8 2011 in Nigeria made up the study population.

Sample Size and Sampling Technique

This study drives its sample using multistage proportionate cluster sampling technique. Registered MSEs are randomly selected from the six states in North-East Nigeria in proportion to their population as presented in Table 1. The sample size for this population is 384 as determined using Krejcie and Morgan (1970) table of sample determination which is subsequently increased by 135 (35%) to compensate for the likelihood of non-response as suggested by Israel (2009).

Table 1: Population and Sample Size of registered MSEs in North-East Nigeria

S/N	States	MSEs	Sample Size
1	Adamawa	21,378	89
2	Bauchi	26,303	110
3	Borno	18,842	79
4	Gombe	25,939	108
5	Taraba	17,077	71
6	Yobe	14,692	62
	Total	124,231	519

Source: SMEDAN and NBS, 2021 Survey

Sources and Method of Data Collection

The data for this survey is collected using a well structured online questionnaire adapted from the extant literature. This method was found to be widely used in accounting researches (MacElroy, 1999). Cooper et al. (2006) and Benfield and Szlemko (2006) argued that web based data collection is effective and efficient taking into consideration its cost effectiveness and time management in distribution, retrieval, coding, entry and verification.

Technique for Data Analysis

Hierarchical component model (HCM) of PLS-SEM is used for data analysis and hypotheses testing. HCM was found suitable for the analyses based on the nature

of the variables comprising of both first and second order constructs. Descriptive statistics was first employed before evaluating the inner and outer models of the study. The measurement model assessment is conducted to assess convergent validity, discriminant validity and construct reliability.

Reliability and validity checks

Content validity is performed in order to certify how fit the study instrument measures what it is supposed to measure. Consultations were made with some tax consultants, tax administrators, Owners of MSEs and Academics who are expert in the area of taxation to make a judgment on the appropriateness of items chosen to measure the construct. Due to this, certain items were reworded to accurately assess the construct and ensure that respondents could understand them. To evaluate for internal consistency and convergent validity (CV), factor loadings, average variance extracted (AVE), and composite reliability (CR) were all employed as suggested by Hair, Black, Babin, Andersen, and Tatham (2010). To check for discriminant validity a Fornell-Larcker criterion, cross loading and Hetero Trait Mono Trait (HTMT) criterion were used.

Measurement of Variables and Constructs

Five-point Likert scale with score from 5 to 1 for strongly agree to strongly disagree respectively is used to measure the study variables.

Direct Assessment Tax compliance

Direct assessment tax compliance is measured with four items covering the four components of tax compliance adapted from Bello et al., (2021). Respondents are asked to indicate whether they can DEFINATELY DO, PROBALLY DO, NOT SURE, PROBABLY NOT DO AND NEVER DO to the questions as shown in table 2 below.

Table 2: Measurement of Direct Assessment Tax Compliance

<i>Code</i>	<i>Statements</i>
TCOM1	To correctly register your business with relevant tax authorities
TCOM2	To declare the real income from business to the relevant tax authorities
TCOM3	To always keep proper accounting records of all my business transactions
TCOM4	To always pay correct amount of taxes promptly

Public Governance Quality

Five point likert scale is used to measure each item under public governance quality adapted from Alabede, Ariffin and Idris (2011b). The first order construct of public

governance quality are represented by Accountability, Corruption control, Rule of law and political stability each measured with 3 items as presented in table 3 below.

Table 3: Measurement of Public Governance Quality

<i>Code</i>	<i>Statements</i>
	Accountability
ACT1	There is responsibility on the part of government in relation to tax revenue.
ACT2	I believe that there is no wastefulness in government expenditure.
ACT3	I have access to the published accounts and annual report of the government.
	Political Stability
POS1	I believe that political situation is stable.
POS2	I believe that political protests are not a threat to stability.
POS3	I believe that territorial and sectarian conflict is not a threat to stability.
	Rule of Law
ROL1	I feel that the Judiciary is free from interference of other arms of government.
ROL2	I believe that justice is fairly administered.
ROL3	I believe that government has an effective power in combating crime.
	Control of Corruption
COC1	I trust the financial honesty of political office holders.
COC2	I believe that diversion of public funds due to corruption is not common in the region.
COC3	I believe that individual and firms do not frequently make extra payments in connection to loan application, securing contract etc.

Tax System Fairness

Five point likert scale is used to measure each item under tax system fairness adapted from Alabede, Ariffin and Idris (2011a). The first order construct of tax system fairness are represented by tax fairness and equity of tax system each measured with 3 items as presented in the table below.

Table 4: Measurement of Tax System Fairness

<i>Code</i>	<i>Tax System Fairness</i>
TSF1	I trust legislatures in making good and fair tax laws for Nigeria
TSF2	Nigerian police force is effective in combating crime
TSF3	Justice is fairly administered
	Tax System Equity
TSE1	Taxpayers are treated equally in respective of their status in the society by tax administrators
TSE2	I believe that benefit from tax revenue is fairly distributed to citizens without bias
TSE3	Tax payment is charge in proportionate to the income generated which I consider just

Tax Morale

Five point likert scale is used to measure each item under tax morale adapted from Alm and McClellan (2012). Tax morale is measured with 3 items as presented in table 5 below.

Table 5: Measurement of Tax Morale

<i>Code</i>	<i>Statements</i>
TXM1	I believe that paying appropriate tax is a moral obligation, so I declare the required tax
TXM2	I would feel guilty if I excluded some of my income when completing my tax return
TXM3	I do not think it is ethically wrong if I excludes small amount of income when completing the tax return (Reverse)

RESULTS AND DISCUSSION

The Measurement Model

To appropriately evaluate the measurement model, validity and reliability are the major criteria employed in PLS-SEM analysis (Hair, Gabriel, Silva, & Junior, 2019; Hair, Risher, Sarstedt, & Ringle, 2019). The predictive capacity of the structural model (Inner model) depends to a large extent on how reliable and valid the measures are determined by the measurement (outer) model. The appropriateness of the measurement model can be evaluated based on internal consistency and reliability of individual items using CR and Cronbach's Alpha; Convergent validity which assess individual constructs validity using AVE; and finally, Discriminant validity with the help of indicator's outer loadings, Fornell-Larcker criterion and HTMT.

Internal Consistency

To correctly assess internal consistency reliability of items CR, Cronbach's alpha and cross loadings were examined by calculating standard PLS algorithm using SmartPLS. The result shows that some all the items loaded appropriately with more than 0.5 which is found to be accepted as argued by Hair, Hult, et al. (2014) and Hulland (1999) that only items with outer loadings of less than 0.4 will be considered for deletion.

CR ranges from 0 to 1, and the recommended threshold value is 0.60 (Henseler, Ringle, & Sinkovics, 2009). However, values above 0.70 are most preferred (Hair, Gabriel, et al., 2019). Therefore, the reliability of the measurement model was determined by looking at the CR and Cronbach's alpha values for each of the

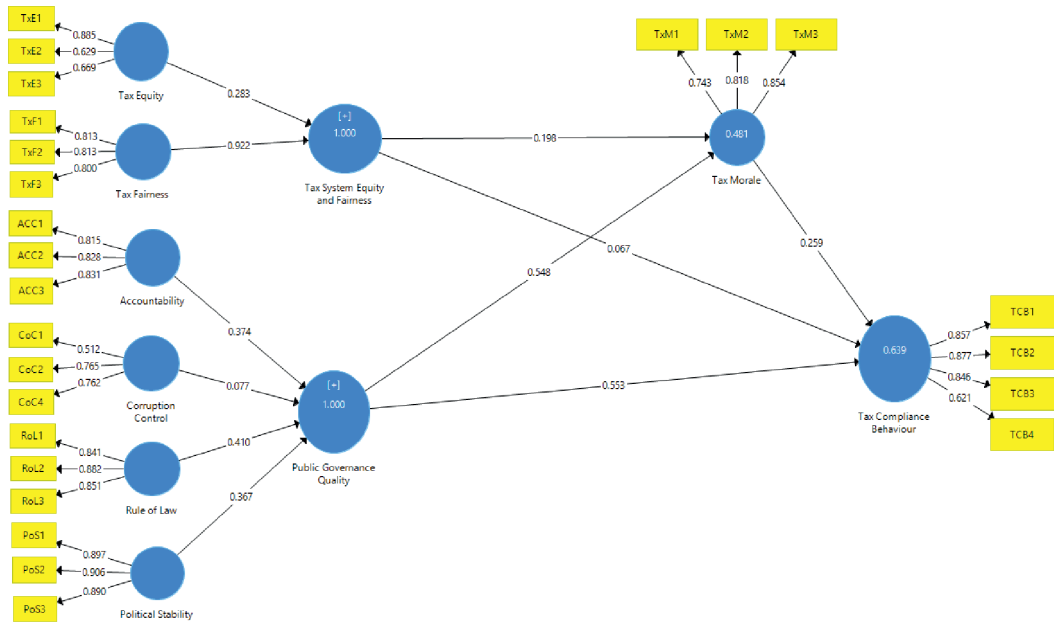


Figure 2: The Measurement Model

constructs in this study. The results show that the CR values ranged from 0.758 to 0.888, exceeding the suggested threshold value of 0.70. When Cronbach’s alpha is close to 1, it suggests greater internal consistency dependability since it measures how effectively items in a collection are positively associated with one another (Sekaran, 2003). The Cronbach’s alpha result indicates that internal consistency is achieved for all the variables with minimum value being 0.568.

Convergent Validity

AVE values were used to evaluate convergent validity, which is the degree of agreement between multiple items in measuring a specific concept (Hair, Hult, Ringle, & Sarstedt, 2014). The results are shown in Table 6, and they show that all of the constructs’ AVE values exceed the cut off value of 0.50 (Hair, Hult, et al., 2014; Hair, Risher, et al., 2019; Henseler, et al., 2009).

Discriminant Validity

Discriminant validity which ensures a distinctiveness of a construct’s measure which is not measured by other measures in SEM (Hair et al., 2010). To ensure that discriminant validity is achieved both cross loading (Chin & Newsted, 1999);

Table 6: CR and AVE Values

	<i>AVE</i>	<i>Composite Reliability</i>
Accountability	0.680	0.865
Corruption Control	0.500	0.726
Political Stability	0.806	0.926
Rule of Law	0.737	0.893
Tax Compliance Behaviour	0.652	0.880
Tax Equity	0.542	0.776
Tax Fairness	0.654	0.850
Tax Morale	0.650	0.848

Fornell and Larcker (1981) and Heterotrait-monotrait (HTMT) (Hair, Risher, et al., 2019) were assessed. Table 7 presented the results of Fornell and Larcker criterion.

Table 7: Discriminant Validity: Fornell-Larcker (1981) Criterion

<i>Constructs</i>	<i>ACT</i>	<i>COC</i>	<i>POS</i>	<i>ROL</i>	<i>TCB</i>	<i>TSE</i>	<i>TSF</i>	<i>TXM</i>
Accountability	0.825							
Corruption Control	0.233	0.690						
Political Stability	0.622	0.158	0.898					
Rule of Law	0.691	0.171	0.449	0.858				
Tax Compliance	0.673	0.211	0.562	0.722	0.807			
Tax Equity	0.216	0.107	0.068	0.193	0.157	0.737		
Tax Fairness	0.529	0.163	0.470	0.638	0.570	0.135	0.809	
Tax Morale	0.641	0.140	0.444	0.642	0.671	0.199	0.540	0.806

The result presented in table 7 above reveals that discriminant validity has been achieved considering the fact that the AVE's square root (**values bolded**) of individual construct is greater than correlation among the latent constructs. Moreover, as explained earlier cross loading and indicator loading is another method for checking discriminant validity. All indicator loadings were compared with cross loading as suggested by Chin (1999) and it is observed that cross loadings are less than the indicator loadings, indicating that discriminant validity is well established.

Finally, an assessment of HTMT criterion is presented in table 8 below. The result indicates that discriminant validity is achieved by establishing a correlation (HTMT values) between the constructs below 0.90 (Hair, Hult, Ringle, & Sarstedt, 2014; Hair, Risher, et al., 2019; Hair, Sarstedt, Hopkins, & Kuppelwieser, 2014; Wong, 2013).

Table 8: Discriminant Validity: Hetrotrait-Monotrait Criterion

Constructs	ACT	COC	POS	ROL	TCB	TSE	TSF	TXM
Accountability								
Corruption Control	0.419							
Political Stability	0.756	0.259						
Rule of Law	0.859	0.288	0.525					
Tax Compliance	0.842	0.354	0.656	0.879				
Tax Equity	0.340	0.282	0.124	0.274	0.222			
Tax Fairness	0.696	0.296	0.581	0.822	0.736	0.211		
Tax Morale	0.827	0.255	0.538	0.796	0.859	0.278	0.708	

The Structural Model

Prior to assessing the inner model (Hair, Gabriel, et al. (2019); Hair, Hult, et al. (2014)) suggested that collinearity to be examined. In view of the above, the result of the multicollinearity indicated that problem of multicollinearity does not exist among the exogenous variables as evident with a Variance Inflation Factor (VIF) below the threshold values of 5. Systematic model analysis of the inner model was conducted in order to provide a thorough representation of the results and subsequently test the hypotheses. The assessment of the structural model commences with an evaluation of the effect of the higher order constructs on the exogeneous variable. PLS-SEM Algorithm was used to examined the size of the path coefficients while PLS-SEM bootstrapping process to evaluate the significance of the relationship.

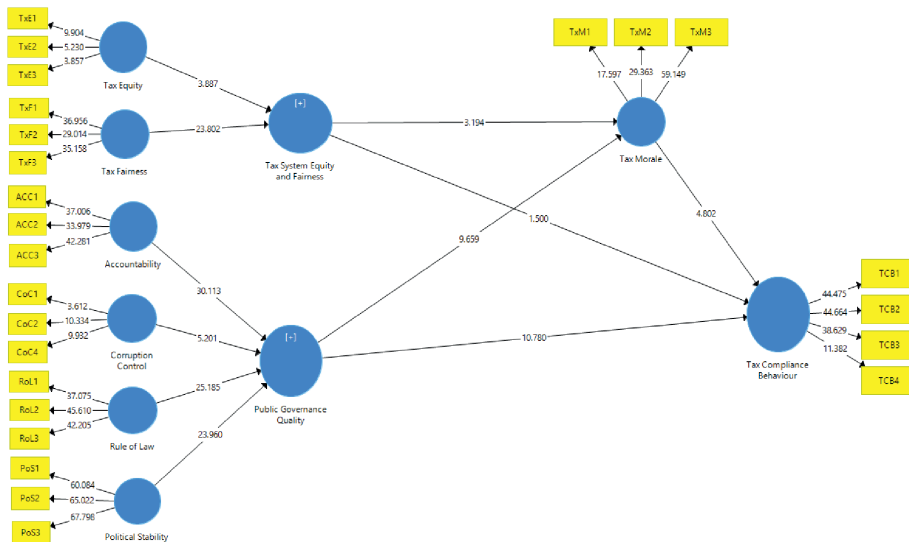


Figure 3: The Structural Model

Test of Hypotheses Direct Relationship

Table 9 below presented the results of testing the study's hypotheses. Hypothesis one (H1) proposed that Public governance quality has no significant effect on direct assessment tax compliance of MSEs in North-Eastern States of Nigeria. The result indicates that higher order quality of public governance positively influences tax compliance ($\beta=0.553$ $t=10.78$ $P=0.000$). This result indicated that a unit increase in perceived quality of public governance increases taxpayers compliance with the payment of direct assessment tax by more than 55%, consequently null hypotheses is hereby rejected.

Similar, with respect to hypotheses two (H2), the result suggests that MSEs tax morale is significantly affected by quality of public governance ($\beta=0.548$; $t=9.66$; $p=0.000$); therefore, H2 is also rejected. However, hypothesis three (H3) is accepted on the basis that tax system fairness has no significant effect on direct assessment tax compliance ($\beta=0.067$; $t=1.50$; $p=0.134$). In the other hand, the results indicated that hypothesis four (H4) is not supported because tax system fairness significantly and positively influences tax morale ($\beta=0.198$; $t=3.194$; $p=0.001$); hence, H4 is rejected. Furthermore, hypothesis five (H5) is hereby rejected that tax morale has no significant effect on direct assessment tax compliance of MSEs ($\beta=0.259$; $t=4.802$; $p=0.000$).

Table 9: Results of Direct Effects

<i>Hypotheses</i>	<i>Path</i>	<i>Path Coefficient</i>	<i>T Stats</i>	<i>P Values</i>	<i>Decision</i>
H1	PGQ -> TCOM	0.553	10.78	0.000	Rejected
H2	PGQ -> TXM	0.548	9.659	0.000	Rejected
H3	TSF -> TCOM	0.067	1.500	0.134	Accepted
H4	TSF -> TXM	0.198	3.194	0.001	Rejected
H5	TXM -> TCOM	0.259	4.802	0.000	Rejected

Test of Hypotheses (Indirect Relationship)

The result of the mediation analysis is presented in table 10 below. Hypothesis six (H6) which proposed that public governance quality affect direct assessment tax compliance through tax morale is hereby rejected with variance accounted for (VAF) valued at 0.620 indicating that tax morale reasonably mediated the relationship between quality of public governance and direct assessment tax compliance. However, the result of hypothesis seven (H7) indicated that tax system fairness did not significantly influence direct assessment tax compliance through tax morale with VAF of 0.134 which is less than the threshold of 0.2 for partial mediation (Hair,

Hult, et al., 2014). The VAF establishes the strength of indirect effect relative to the entire effect (Hair, Hult, et al., 2014) as calculated in table 10 below.

Table 10: Results of Indirect Effects

<i>Path</i>	<i>Indirect Effect</i>	<i>VAF</i>	<i>Decision</i>
PGQ-> TXM-> TCOM	$(0.548 \times 0.259) / 0.548 \times 0.259 + 0.553$	0.620	Mediated
TSF -> TXM->TCOM	$(0.198 \times 0.259) / 0.198 \times 0.259 + 0.553$	0.134	No mediation

Evaluation of R-Squared

As demonstrated in table 11 below, the model of this study explain about 64% of the total variance in direct assessment tax compliance of MSEs in North-Eastern States of Nigeria. This shows that the two (2) sets of higher order exogenous latent variable (i.e. public governance quality and tax system fairness) through tax morale jointly explained about 64% of variation in direct assessment tax compliance.

Table 11: Variance Explained in the Endogenous Latent Variables

<i>Endogenous Latent Variable</i>	<i>Variance explained (R²)</i>	<i>Decision</i>
Direct Assessment Tax Compliance	63.9%	Substantial

Analysis of Effect Size (f^2)

Analysis of the effect sizes as described in table 12 shows that public governance quality has large effect size while tax morale is found to have small effect with tax system fairness having no effect at all. According to Cohen (1988), effect sizes are appraised 0.02, 0.15 or 0.35 as small, medium and large effect respectively. However, Chin and Newsted (1999) argued that yet a small effect size should be accepted if the changes in beta are significant.

Table 12: Effect Sizes of Latent Variables (f^2)

<i>Hypotheses</i>	<i>Path</i>	<i>F Squared (f²)</i>	<i>P Value</i>	<i>Rating Criterion</i>
H1	PGQ -> TCOM	0.365	0.000	Large effect
H2	PGQ -> TXM	0.333	0.000	Large effect
H3	TSF -> TCOM	0.007	0.537	No effect
H4	TSF -> TXM	0.043	0.144	No effect
H5	TXM -> TCOM	0.097	0.033	Small effect

Assessment of Predictive Relevance (Q²)

Hair, Risher, et al. (2019) recommended using Stone-Geisser's Q² to assess the predictive relevance of a model (Geisser, 1974; Stone, 1974), which assumes that

an inner model must be able to provide evidence of prediction of the endogenous latent construct's indicators. This is in addition to examining the degree to which the model explained (R^2) variance in the endogeneous variable as a condition for predictive accuracy (Henseler, Ringle, & Sinkovics, 2009).

The cross-validated redundancy findings show that Direct Assessment Tax Compliance demonstrated predictive relevance, with Q^2 being more than zero (0.41) and being within the model's range of predictability (Hair, Hult, et al., 2014; Hair, Risher, et al., 2019; Henseler et al., 2009).

Table 13: Predictive Relevance

Total	SSO	SSE	Q^2
Direct Assessment Tax Compliance	1,440.000	848.929	0.41

CONCLUSION AND RECOMMENDATION

In general, the study provided considerable results in examining the relationship between exogenous variables (public governance quality and tax system fairness), endogeneous variable (Direct Assessment Tax compliance) and the mediating variable (Tax morale) using the reflective-formative hierarchical component model. Therefore, the study concludes that public governance quality influences direct assessment tax compliance through tax morale. While tax system fairness do not influence direct assessment tax compliance.

Based on the conclusion, the study recommends that government to improve on the quality of its governance by controlling corruption, ensuring rule of law, guarantee political stability and improve on accountability since positive improvement on this factors improves tax morale which is established to improved tax compliance.

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