# NEXUS BETWEEN POLITICAL INSTABILITY AND VALUE ADDED TAX COMPLIANCE AMONG SMEs IN SOUTH-EAST, NIGERIA

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## ABSTRACT

The present investigation examines the relationship between political instability and VAT compliance within Small and Medium-sized Enterprises (SMEs) in South-Eastern Region of Nigeria. Specifically, the research examines how geopolitical marginalisation, leadership opacity, and insecurity links Value Added Tax compliance. The survey adopts a descriptive survey design, utilising primary data collected from 4,044 SMEs owners through structured questionnaires. The sample size of 364 was purposively employed to represent the views of respondents in the 5 South Eastern States of Nigeria. Ordinary Least Square regression was utilised to assess the link between political instability and Value Added Tax compliance, providing statistical insights into the factors influencing tax behaviour in politically unstable environments. The findings reveal that geopolitical marginalisation, and leadership opacity has a significant positive link with Value Added Tax compliance, while insecurity exhibits a significant negative relationship with Value Added Tax compliance. The study recommends that since secured and politically stabled environment are salient in relation to VAT compliance, it should be upheld with utmost seriousness to promote tax compliance in general, so as to enhance VAT revenue to the government.

**Keywords:** Political Instability, Leadership Opacity, Insecurity, Value Added Tax, Marginalisation.

**JEL Classification: H26, K34**

## 1.0 INTRODUCTION

Value Added Tax (VAT) represents a significant tool for strengthening domestic revenue generation, particularly in developing economies such as Nigeria. It is structured to apply at every stage of production and consumption, with limited exemptions, thereby offering a wide base for government revenue (Atoyebi, Olabisi, & Ishola, 2022). Compliance among Small and Medium-Sized Enterprises (SMEs) remains a persistent challenge, limiting VAT's capacity to fully contribute to infrastructural and economic development (Oseni, 2022). Political instability has emerged as a major impediment to effective VAT compliance, manifesting through corruption, inefficiencies, insecurity, and abrupt changes in fiscal policy (Abid, Salem, & Frikha, 2024; Ullah, Zubir, & Ariff, 2024). These factors erode public trust and undermine voluntary compliance, creating an environment where VAT-able individuals and businesses feel less obligated to adhere to tax regulations (Adebayo, 2019; Okoye, 2020).

The implications of political instability on VAT compliance extend into administrative corruption, where tax officials may exploit weaknesses in governance to underreport revenues, accept bribes, or grant undue exemptions to politically connected firms (Olusanya, 2020). Frequent leadership changes and the absence of policy continuity add to these problems by creating uncertainty over VAT rates, exemptions, and applicable taxable goods, ultimately discouraging SMEs from strategic planning or full compliance (Nwachukwu, 2021). Weak institutional capacity further compounds these issues, particularly in politically marginalized or insecure regions like South-Eastern Nigeria, where enforcing VAT laws becomes inconsistent (Shittu & Ojo, 2023). Moreover, evidence suggests enforcement often reflects geopolitical alignments, leading to unequal treatment of regions and undermining confidence in the fairness of the tax system (Adeyemo, 2018; Ayuba, 2020; Ojo, 2019). In contexts where governance is opaque and accountability weak, businesses may perceive taxes as providing minimal benefits, fuelling widespread evasion.

Against this background, Nigeria continues to experience low VAT compliance among SMEs, a trend supported by findings from Akinyemi et al. (2021) and Eze and Nweke (2021). Political instability, driven by governance inconsistency, insecurity, and politicized enforcement, appears to worsen this trend, reducing institutional trust and discouraging voluntary compliance (Akinlo et al., 2022; Okoye et al., 2021). Unequal enforcement further deepens regional disparities, as politically connected sectors may be favoured while others face inconsistent oversight, thereby weakening the integrity of VAT administration (Adeyemo, 2018; Ayuba, 2020; Ojo, 2019). To address these issues, this study proposes to examine the nexus between VAT compliance and political instability, specifically through the dimensions of geopolitical marginalization, leadership opacity, and insecurity. By evaluating how these factors interact within the SME sector in South-Eastern Nigeria, the study seeks to enrich existing literature and provide empirical evidence on the political-economic dynamics that shape tax compliance behaviour.

## 2.0 LITERATURE REVIEW

### 2.1 Conceptual Review

#### 2.1.1 Value Added Tax (VAT) Compliance

Value Added Tax (VAT) compliance could portray the conformity of taxable individual to VAT rules and timely remittance requirements associated with any VAT systems. VAT is important for revenue generation in any economies therefore, compliance is a significant driver (Atoyebi, Olabisi & Ishola, 2022; Uadiale & Fagbemi, 2021). VAT compliance are influenced by factors which include but not limited to tax knowledge, administrative efficiency, trust in government, enforcement intensity, and perceived fairness and accountability in tax system (Nwachukwu & Eze, 2021; Oseni, 2022).). This compliance may also be impeded by insecurity, limited financial literacy, weak institution, and volatile economic environments. Again, SMEs may be faced with disproportionate compliance burdens relative to larger firms that have better accounting systems and more access to professional tax advice (Munyeka & Poggenpoel, 2023). As a result, non-compliance in any guise may undermine public revenue boost and create unequal business environments within the economy. Several mechanisms have been put in place by the authorities to improve VAT compliance, yet, the issues of non-compliance persists. Thus, enhancing VAT compliance requires not only administrative reforms but also policy frameworks that promote transparency, simplify procedures, and strengthen civic engagement (Nwachukwu & Eze, 2021; Okoye, Raymond & Akenbor, 2021).

#### 2.1.2 Small and Medium-sized Enterprises (SMEs)

Over time, the definition of Small and Medium Enterprises (SMEs) has varied, with researchers and institutions applying different criteria such as number of employees, annual turnover, asset value, and ownership structure. The Bolton Committee (1971) identified SMEs by their small market share, personalized management, and independence from larger enterprises. In Nigeria, definitions also vary. The Central Bank of Nigeria (CBN) defines SMEs as independent firms with 11–300 employees and annual turnover between ₦5 million and ₦500 million. SMEDAN (2021) classifies businesses into micro, small, and medium based on staff size and assets, with micro enterprises having fewer than 10 employees and assets below ₦5 million.

Additional definitions exist across agencies. For instance, the National Economic Reconstruction Fund (NERF) sets a non-current asset cap of ₦10 million, while the Federal Ministry of Industry emphasizes capital investment under ₦150,000 in machinery. Atijosan (2014) suggests SMEs are wholly Nigerian-owned firms with under 50 employees and a capital base under ₦750,000. The CBN's 1988 Monetary Policy Circular defined SMEs by turnover not exceeding ₦500,000, a figure also echoed in the 1990 federal budget for bank lending purposes. Further, Section 37b (2) of the Companies and Allied Matters Decree (1990) define SMEs by turnover and asset thresholds, with the latter setting a cap of ₦500 million (excluding land and working capital). Finally, the

Companies Income Tax Act Cap C21 LFN 2004 associates SMEs with firms having a turnover of ₦1 million or less in select sectors. These definitions reflect efforts to capture Nigeria's diverse SME landscape. In Nigeria, SMEs account for over 96% of businesses and contribute nearly 50% of the national GDP (SMEDAN & NBS, 2021).

### 2.1.3 Geopolitical Marginalisation

Geopolitical marginalisation in this context, connotes the socio-political and economic exclusion of certain regions or groups within the country from major decisions that shape national economic policies. Most geopolitical marginalisation is often linked to colonial legacies, resource exploitation, and unequal development. For instance, many African countries continue to face structural disadvantages due to their historical subjugation by colonial powers, which left them with limited infrastructure and political capital (Adeyemo, 2018; Adebayo, 2019; Kalu & Falola, 2018). This marginalisation has far-reaching consequences, particularly for small and medium-sized enterprises (SMEs), which are significant to Nigeria's economic growth. In a country where regions experience varying levels of political and economic power, SMEs in marginalized areas often face difficulties related to value-added tax (VAT) compliance (Adeyemo, 2018. The uneven distribution of resources, infrastructure, and access to government services across Nigeria exacerbates the difficulty SMEs face in adhering to VAT regulations. Marginalised regions may have limited access to formal financial services and accounting systems, which are essential for proper VAT compliance (Ojo, 2019). Again, there is a lack of awareness and education about VAT among SME owners, particularly in rural or less-developed areas, further deepening the compliance gap (Eze, 2023). These factors reflect how geopolitical marginalisation, which limits economic and educational opportunities in certain regions, undermines SMEs' ability to contribute to tax revenue efficiently. Furthermore, SMEs in marginalised regions are less likely to benefit from government initiatives aimed at improving VAT compliance due to inadequate infrastructure and government presence (Adeyemi & Gberevbie, 2020). This results in lower levels of VAT compliance by SMEs in these regions.

### 2.1.4 Leadership Opacity

Leadership opacity suggests the absence of openness or transparency in leadership practices, where policies, and actions are not clearly communicated or are hidden from the public eye. In Nigeria, this phenomenon is prevalent in both governmental institutions and business environments, creating an atmosphere of mistrust and uncertainties. Relating this with VAT compliance among SMEs, leadership opacity significantly hinders the effectiveness of tax collection and compliance strategies (Shittu & Ojo, 2023; Vincent, 2021). Opaque leadership in the tax administration system leads to insufficient communication about VAT regulations, deadlines, and incentives, which further exacerbates the difficulties SMEs face in understanding and fulfilling their tax obligations. SME owners lack clarity on tax requirements, penalties, and the benefits of compliance, resulting in poor compliance rates (Olusanya, 2020). Furthermore, inconsistent enforcement of VAT policies and delays in implementing reforms only deepen the setbacks SMEs encounter (Adeyemi & Gberevbie, 2020). These issues are particularly acute in marginalized regions where local tax officials may also lack adequate training or clear guidance, contributing to the opacity surrounding VAT compliance. The lack of transparent leadership at both the governmental and institutional levels prevent the establishment of a strong regulatory framework that SMEs can rely on for consistent guidance.

### 2.1.5 Insecurity

Insecurity, often manifested in the form of violence, armed conflicts, or political unrest, has emerged as a significant hindrance to business operations and regulatory compliance in many developing countries, including Nigeria (Akinlo et al., 2022; Eze et al., 2021). The Nigerian business environment is increasingly impacted by issues of insecurity, especially in south-eastern region affected by insurgencies, ethnic violence, and kidnappings, which in turn affects the ability and willingness and compliance behaviour of Small and Medium Enterprises (SMEs) in matters relating to tax regulations. In the context of VAT compliance, insecurity may lead to a breakdown in business operations, inadequate record-keeping, and an increased risk of corruption, all of which hinder the collection and reporting of taxes. Studies have shown that in regions with high levels of insecurity, businesses are less likely to adhere to tax regulations, including VAT, as they perceive the risks associated with compliance (Bayer & Tibbals, 2020). Insecurity often leads to an environment where businesses are more focused on survival than on adhering to legal obligations (Baker, 2016). This reduces voluntary compliance, especially when businesses perceive that the benefits of compliance do not outweigh the risks posed by a volatile environment (Wilson-Oshilim et al., 2023). SMEs may prioritise their immediate security concerns over long-term obligations like VAT compliance. Additionally, insecurity often correlates with poor enforcement of tax laws, reducing the perceived deterrent effect of fines or audits, which further incentivizes non-compliance (Alm & Beck, 1993). A stable and secure business environment would allow SMEs to better comply with tax laws and contribute to national revenue generation. Insecurity in Nigeria undermines the trust in government institutions, thus lowering tax morale and discouraging voluntary compliance among SMEs.

### 2.1.6 SMEs in South-Eastern Region of Nigeria and VAT Compliance: The Nexus

The South-Eastern region of Nigeria, comprising Abia, Anambra, Ebonyi, Enugu, and Imo States, has long experienced political instability, which significantly affects the economic environment, particularly in relation to tax compliance among Small and Medium Enterprises (SMEs) (Otom, 2022; Owolabi & Adeyemi, 2018). Political instability in this region often manifests as ethnic conflicts, disruptions due to separatist movements, and the challenges associated with shifting government policies. This volatility creates an unpredictable business environment for SMEs, who are crucial contributors to the region's economy, yet face substantial challenges in complying with tax regulations (Eze, & Nweke, 2021). Research has shown that political instability undermines trust in government institutions and tax systems, leading to reduced tax compliance (Bayer &

Tibbals, 2020). In the South-Eastern region, where there have been occasional disruptions due to political unrest, businesses often find it difficult to maintain proper accounting systems and fulfil tax obligations. For SMEs, which typically lack the resources of larger firms, the burden of political instability is particularly acute (Rabiu, & Lawal, 2024). Political indicators, such as the agitation for secession by the Indigenous People of Biafra (IPOB) and clashes with security forces, contribute to a climate of insecurity that discourages VAT compliance (Alabede et al., 2021). Studies indicate that in such unstable environments, businesses often prioritise survival and security over compliance with tax regulations (Abid et al., 2024; Baker, 2016). Additionally, the inconsistent enforcement of VAT laws in the region, along with corruption and inefficient governance, further discourages SMEs from complying with VAT requirements (Alm & Beck, 1993).

## 2.2 Empirical Review

Toklo and Allor (2025) investigate the relationship between tax compliance and insecurity in African nations, emphasizing the effects on security and governance. The results provide information to improve tax compliance, strengthen governance, and advance the stability and prosperity of Africa. They investigate the relationship between tax compliance and emotions of insecurity employing logistic regression and data from the seventh round of the Afro-barometer survey. They balance treated and control samples and improve causal inference by simulating a randomized design using nearest neighbor matching. Their results emphasize how views on performance influence behavior by demonstrating that tax compliance is greatly impacted by perceived government failings in ensuring safety.

The impact of migrant remittances on domestic tax revenues in Africa is examined by Fawzi (2024) to discover if political stability mitigates this effect. In a sample of 40 African nations, it calculates the impact of migrant remittances on local direct and indirect taxes from 2000 to 2019, enabling it to be contingent on political stability. Employing an instrumental variable-based approach, we find that remittances boost direct and indirect tax receipts in nations with stronger institutions but not in unstable ones.

Using data from 52 African countries for the period 1980–2013, the relationship between the tax structure and political instability is analysed by Dalyop (2020). According to the investigation, an increased direct tax rate than an indirect tax rate makes the taxpayer feel more deprived, which in turn fosters political instability. Compared to indirect taxes, that require lesser per transaction payments and are considerably more complicated, direct taxes have a greater potential to cause taxpayer dissatisfaction due to their bigger per transaction payments and comparatively simpler structures, which raise the perceived cost of government services. According to the examination, there is a direct correlation between political instability and the DITR when high long-term average direct tax -indirect tax ratios (1980–2013) are paired with greater variations in the subsequent direct tax values. Regardless of the long-term average DITR value, the same association is also observed when direct tax fluctuations are extremely large and greater than indirect tax variations. On the other hand, raising direct taxes in comparison to indirect taxes reduces political instability in nations with lower long-term average DITRs.

Udefi et al (2025) explores the factors influencing tax compliance among Small and Medium Enterprises (SMEs) in Lagos State, Nigeria. Using a survey research design, data was collected from 286 SME owners and financial managers across three local government areas: Ikeja, Surulere, and Lagos Island. The study specifically aimed to assess the effects of financial literacy, perceived fairness of the tax system, and the ease of filing taxes on compliance behavior. The results showed that a majority of respondents (65%) were moderately knowledgeable about tax regulations, with higher financial literacy correlating to higher compliance rates. Perceived fairness was also a significant factor, as 58% of respondents indicated that a transparent and equitable tax system influenced their willingness to comply. Furthermore, the ease of filing taxes emerged as a critical determinant, with 70% of SMEs stating that simpler tax filing procedures would enhance their compliance. The findings underscore the need for targeted financial literacy programs, improved transparency in the tax system, and simplified tax filing procedures to foster greater tax compliance among SMEs in Lagos State.

The internal and external factors influencing tax compliance among small and medium-sized businesses (SMEs) in Shinyanga municipality are examined by Magasha et al. (2025). Both primary and secondary data were gathered for this investigation using a cross-sectional research design. Questionnaires and interview guides served as the tools for the documentary reviews and interviews. Simple random and purposive selection methods were applied to choose the sample for the research of 201 respondents. Principal Component Analysis, Factor Analysis, and Ordinary Least Square (OLS) were used to examine the data. With an overall mean score of 3.1, outcomes showed that SMEs have an acceptable level of tax compliance.

According to the OLS findings, the rise in tax compliance is influenced by internal variables such as tax knowledge, firm size, and record keeping methods. The findings on external factors indicate that tax incentives are provided, compliance audits are conducted, and corruption is addressed. The findings of the factor analysis show that the external environment accounts for 13.07% of the variations, external factors for 24.06%, and internal factors for 28.49%. The analysis comes to the conclusion that SMEs have a moderate level of tax compliance, which is influenced both externally by tax incentives, compliance checks, and the prevalence of misconduct, and domestically by knowledge about taxes, firm size, and record keeping. Enhancing tax payment compliance education, creating user-friendly digital solutions for SMEs' tax collecting and record-keeping, offering tax incentives, and reducing corruption among tax collection employees are all suggested.

The impact of political affiliation and political instability on tax noncompliance behavior among Libyan self-employed taxpayers was empirically examined by Abodher et al. (2018). 498 Libyan business owners were given a self-administered questionnaire, and 312 completed surveys were examined in the final data analysis. Using PLS-SEM 3.2.7, a structural equation modelling method was applied. The results demonstrate that tax violations among Libyan business owners are significantly influenced by political uncertainty.

In order to determine the correlation between the efficiency of the government, misconduct, and GDP, as well as the connections between tax threshold and political stability, Green and Lopez (2022) employing the Vector Auto-regression (VAR) approach in the panel framework, utilizing country-level panel data from 59 countries for the period 2002 to 2008. The key characteristics of this model are (a) its simplicity, which is based on a small number of variables (five) that are categorical or perpetual and not reliant upon intricate connections or nonlinear outcomes (b) accuracy: with a low error rate, the model is able to differentiate between nations that are more likely to experience political instability and those that are more likely to experience political stability. (c) novelty: the model includes a tool that aids in evaluating and excluding numerous variables used by the conventional literature. (d) generality, the model enables the distinction of political instability types, both generated by criminal behavior and the disintegration of democracies to manifest.

From the empirical studies reviewed, it is notably obvious that the relationship between political instability and VAT compliance among SMEs in Nigeria remains underexplored. While studies have examined the broader effect of political instability on tax compliance (Alm & Beck, 1993; Andreoni et al., 1998), few have focused on Value Added Tax (VAT) compliance within the context of small and medium enterprises (SMEs) in developing economies like Nigeria, specifically the South-East. Toklo and Allor (2025) explores how insecurity influences tax compliance in African countries in general, Dalyop (2020) also evaluate the relationship between the tax structure and political instability in 52 African Countries, **Abodher et al (2018)** empirically examine the effect of political affiliation and political instability on tax noncompliance behaviour among self-employed taxpayers of Libya, while Green and Lopez (2022) tested the relationship between tax level and political stability by using some economic control variables, relating them with government effectiveness, corruption, and GDP. The findings from existing research primarily emphasises tax compliance in large businesses, overlooking SMEs. This underlines a significant gap. Furthermore, while research has examined the role of government effectiveness, economic factors, and institutional quality in shaping tax compliance (Hallsworth et al., 2017), few studies have integrated these factors within the context of political instability in South-East, Nigeria, necessitating this present study that investigates the simultaneous relationship between geopolitical marginalisation, leadership opacity, insecurity, and Value Added Tax Compliance in South-East, Nigeria.

## 2.3 Theoretical Review

Deterrence theory was introduced in classical criminology by Beccaria (1764). It suggests that individuals are less likely to engage in unlawful behaviour when the perceived costs or consequences for non-compliance are not stringent enough. Applied to taxation, the theory stipulates that compliance increases when the probability of detection and the severity of sanctions for evasion are perceived as equitable and consequential irrespective of who is involved (Nagin, 2013). This framework has been instrumental in explaining tax behaviour, among Small and Medium Enterprises that may face structural disadvantages which may affect their value added tax compliance (Alm & Beck, 1993). In the context of political instability, especially in regions with weak institutions like parts of South-East Nigeria, enforcement mechanisms are often compromised. This uncertainty can undermine deterrence by reducing the visibility and credibility of punishment meant for non-compliance. Some prior literature like those of Bayer and Tabbals (2020); Rabiu and Lawal (2024) have obviously shown that small and medium-size enterprises are more likely to evade taxes when they perceive penalties as weak or insufficient compared to the offense being committed. Again, some researchers like Muehlbacher et al. (2017) and Hallsworth et al. (2017) have also argued that classical deterrence theory tends to narrow focus on punitive measures and may neglects important psychological and social dimensions, classified as perceived fairness, legitimacy, and trust in the tax system which VAT is a part. Therefore, while deterrence theory may provide a foundational insight into VAT compliance issues as seen in this context, its explanatory power is seen when combined with thoughts on fairness and transparency in the tax system. This theory is suitable for assessing VAT compliance behaviour among Small and Medium Enterprises operating in politically unstable environments as in this case.

**Conceptual Framework**

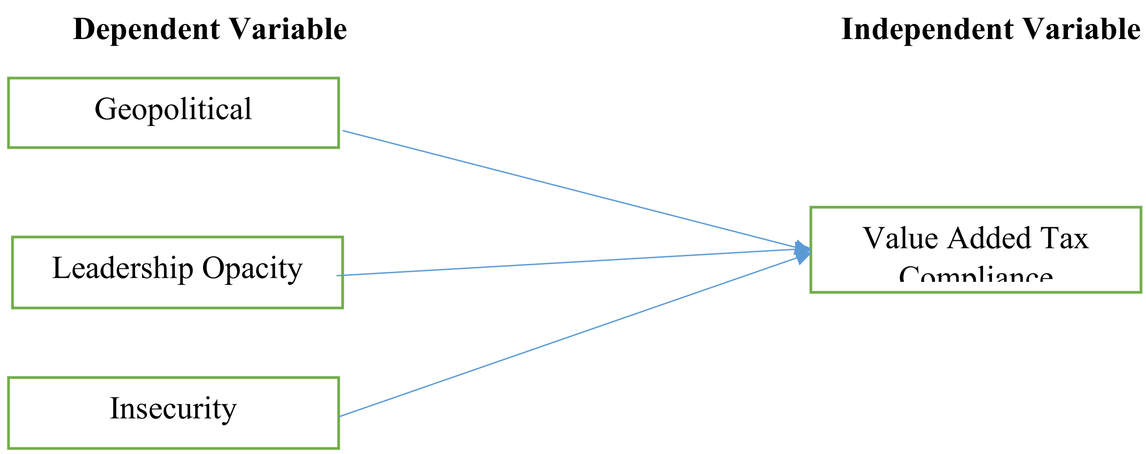


**Figure 1:** *Illustration of the conceptual framework*

## 3.0 METHODOLOGY

A descriptive survey research design, which is considered suitable for generating descriptions of the population and examining issues as they naturally occur, without manipulating study variables was employed in this survey, since it permits the collection of first-hand data directly from the respondents. The South-East of the country accounts for about 8.5% of Nigeria's 670,447 registered SMEs, resulting to about 57,034 SMEs (National Bureau of Ststtistics, (NBS), 2021). These enterprises operate across five states: Abia, Anambra, Ebonyi, Enugu, and Imo. Due to possible impracticality of surveying the entire population, a total of 4,044 structured questionnaires were distributed to CEOs of small and medium-size businesses across the five states namely: Abia (813), Anambra (818), Imo (804), Ebonyi (808), and Enugu (801). The researchers proportionally structured the distribution to capture, as much as possible, the geographical and sectoral business diversity. A sample size of 364 respondents was purposively chosen for the analysis, with 73 respondents each from Abia, Anambra, Enugu, and Imo States, and 72 from Ebonyi State from the structured questionnaire distributed. This sampling technique was adopted to ensure that participants met the set out criteria as requested by the researchers.

In this study, structured questionnaire was employed as an instrument for data collection. Section A captured demographic of the respondents while Section B assessed the impact of political instability and value added tax compliance. The Likert scale question ranges from Strongly Agree (5) to Strongly Disagree (1). The collected data were analysed using SPSS 25. Descriptive Statistics were employed to explain the demographic characteristics of respondents under review. Skewness and kurtosis were also employed to assess the normality of the data set. However, to examine potential multicollinearity among the independent variables of study, the tolerance and Variance Inflation Factor (VIF) values were computed. The Pearson correlation coefficients were calculated to evaluate the effect and direction of the association within the independent variables. Finally, an Ordinary Least Squares regression model was specified to evaluate the effect of political instability variables on value added tax compliance among SMEs in the South Eastern Region of Nigeria.

### 3.1 Model Specification

The study utilises a 5-point Likert scale questionnaire for data collection, ranging from Strongly Agree (5) to Strongly Disagree (1). The econometric model was thus formulated to test these relationships:

$$VATCOM_i = \beta o + \beta_1 GEOMA_i + \beta_2 LEADO_i + \beta_3 INSECi + U_i \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots.. \text{(i)}$$

*VATCOMi* = *Value Added Tax Compliance*
*GEOMAi* = *Geopolitical Marginalisation on VAT compliance*
*LEADOi* = *Leadership Opacity on VAT compliance*
*INSECi* = *Insecurity on VAT Compliance*

## 4.0 DATA PRESENTATION AND ANALYSIS

Table 1: Respondents Demographic Data

| | | Frequency | Percent |
|---|---|---|---|
| **Gender** | Male | 176 | 48.4 |
| | Female | 188 | 51.6 |
| | Total | 364 | 100.0 |
| **Age** | 18-28 years | 60 | 16.5 |
| | 29-39 years | 138 | 37.9 |
| | 40-50 years | 111 | 30.5 |
| | 50 and above | 55 | 15.1 |
| | Total | 364 | 100.0 |
| **Educational Qualification** | Diploma | 153 | 42.0 |
| | Bachelor Degree | 108 | 29.7 |
| | Master's Degree | 81 | 22.3 |
| | PhD | 22 | 6.0 |
| | Total | 364 | 100.0 |
| **Position** | Agriculture | 35 | 9.6 |
| | Manufacturing | 161 | 44.2 |
| | Financial Services | 96 | 26.4 |
| | Retail/Trade | 72 | 19.8 |
| | Total | 364 | 100.0 |
| **Years in Business** | Less than 1 year | 173 | 47.5 |
| | 1-5 years | 68 | 18.7 |
| | 5-10 years | 94 | 25.8 |
| | Over 10 years | 29 | 8.0 |
| | Total | 364 | 100.0 |

***Source:*** *Researcher's Field Work Result (2025)*

The demographic profile of the respondents, as illustrated in Table1, provides insights into the characteristics of small and medium enterprise (SME) owners in South-East Nigeria. Out of 364 respondents, 176 (48.4%) were male, while 188 (51.6%) were female, indicating a relatively balanced gender distribution among business owners. The age distribution reveals that the majority of respondents (37.9%) were between 29-39 years, followed by 40-50 years (30.5%), 18-28 years (16.5%), and those above 50 years (15.1%). This suggests that SME ownership in the region is predominantly within the working-age population, with a notable concentration in the 29-39 age range. Regarding educational qualifications, most respondents held a Diploma (42.0%), followed by Bachelor's degrees (29.7%), Master's degrees (22.3%), and PhDs (6.0%). The prevalence of diploma holders suggests that many SME owners may have obtained vocational or technical education, which is common in entrepreneurial fields. Sectoral distribution shows that the highest percentage of respondents were engaged in manufacturing (44.2%), followed by Financial Services (26.4%), Retail/Trade (19.8%), and Agriculture (9.6%). This indicates that manufacturing is salient in the SME landscape of South-East Nigeria. The distribution of business experience highlights that 47.5% of businesses have operated for less than a year, 18.7% for 1-5 years, 25.8% for 5-10 years, and 8.0% for over 10 years. The high percentage of businesses operating for less than a year may indicate an emerging entrepreneurial culture but also raises concerns about business sustainability.

**Table 2: Test of Normality**

| Variables | Skewness | | Kurtosis | |
|---|---|---|---|---|
| | Statistics | Std. Error | Statistics | Std. Error |
| Geopolitical Marginalization | -.157 | .128 | -1.132 | .255 |
| Leadership Opacity | -.185 | .128 | -.833 | .255 |
| Insecurity | -.454 | .128 | -.994 | .255 |
| VAT Compliance | -.853 | .128 | .369 | .255 |

***Source:*** *Researcher's Field Work Result (2025)*

The skewness and kurtosis values indicate the normality of the dataset. The results show that Geopolitical Marginalization (-0.157), Leadership Opacity (-0.185), and Insecurity (-0.454) all have relatively small negative skewness, suggesting a slight leftward tail. VAT Compliance (-0.853) shows more pronounced skewness, implying a greater deviation from normality. Kurtosis values for all variables range from -1.132 to 0.369, suggesting a relatively flat distribution. The values indicate that while the dataset does not perfectly follow a normal distribution, it is within acceptable limits for statistical analysis.

**Table 3: Multicollinearity Test**

| | Tolerance | VIF |
|---|---|---|
| Geopolitical Marginalization | .803 | 1.246 |
| Leadership Opacity | .410 | 2.437 |
| Insecurity | .377 | 2.649 |

***Source:*** *Researcher's Field Work Result (2025)*

The multicollinearity test was conducted using Tolerance and Variance Inflation Factor (VIF) values. Geopolitical Marginalization has a Tolerance of 0.803 and VIF of 1.246, indicating low multicollinearity. Leadership Opacity has a Tolerance of 0.410 and VIF of 2.437, suggesting moderate collinearity. Insecurity has a Tolerance of 0.377 and VIF of 2.649, which indicates moderate collinearity but still within an acceptable threshold (VIF < 10). These results confirm that collinearity among the independent variables does not pose a significant issue for regression analysis.

**Table 4: Correlations**

| | | Geopolitical Marginalization | Leadership Opacity | Insecurity |
|---|---|---|---|---|
| Geopolitical Marginalization | Pearson Correlation | 1 | | |
| | Sig. (2-tailed) | | | |
| | N | 364 | | |
| Leadership Opacity | Pearson Correlation | .356** | 1 | |
| | Sig. (2-tailed) | .000 | | |
| | N | 364 | 364 | |
| Insecurity | Pearson Correlation | .443** | .768** | 1 |
| | Sig. (2-tailed) | .000 | .000 | |
| | N | 364 | 364 | 364 |

**. Correlation is significant at the 0.01 level (2-tailed).

The correlation matrix in table 4 reveals significant relationships between the variables: Geopolitical Marginalization and Leadership Opacity ($r = 0.356$, $p < 0.01$) – indicating a positive relationship. Geopolitical Marginalization and Insecurity ($r = 0.443$, $p < 0.01$) – suggesting a positive correlation. Leadership Opacity and Insecurity ($r = 0.768$, $p < 0.01$) – showing a very strong positive correlation. These relationships suggest that as political instability increases (via marginalization, leadership opacity, and insecurity), different aspects of governance and compliance issues are interconnected.

**Table 5: Ordinary Least Square**

| Model | | Beta | Std. Error | t | Sig. | Hypotheses |
|---|---|---|---|---|---|---|
| 1 | (Constant) | | .040 | .000 | 1.000 | Insignificant |
| | Geopolitical Marginalisation | .584 | .042 | 13.857 | .000 | Significant |
| | Leadership Opacity | .194 | .047 | 4.147 | .000 | Significant |
| | Insecurity | -.251 | .048 | -5.235 | .000 | Significant |
| SUMMARY STATISTICS – F Stats – 2.123, R – .132a, R Square - .017, Adjusted R Square – .009, Std. Error of the Estimate - .99539285 | | | | | | |

a. Dependent Variable: VAT Compliance

The regression tested the relationship between of Geopolitical Marginalisation, Leadership Opacity, and Insecurity and VAT Compliance. Geopolitical Marginalisation ($\beta = 0.584$, $t = 13.857$, $p = 0.000$) – Shows a significant positive effect, meaning that as geopolitical marginalisation increases, VAT compliance is likely to be affected. Leadership Opacity ($\beta = 0.194$, $t = 4.147$, $p = 0.000$) – Also has a significant positive effect, suggesting that unclear leadership practices negatively impact tax compliance. Insecurity ($\beta = -0.251$, $t = -5.235$, $p = 0.000$) – Has a significant negative effect, meaning that higher insecurity reduces VAT compliance. The overall model fit ($R^2 = 0.017$, Adjusted $R^2 = 0.009$, $F = 2.123$) suggests that the independent variables explain only 1.7% of the variance in VAT Compliance, indicating that other factors not included in the model may also play a significant role.

## 4.2 Test of Hypotheses

**$H_{01}$: Geopolitical marginalization has no significant effect on VAT compliance.**

Regression results: $\beta = 0.584$, $t = 13.857$, $p = 0.000$. This indicates that geopolitical marginalisation has a significant positive relationship with VAT compliance. From the outcome, high beta coefficient may suggests that as perceptions of marginalisation escalates, VAT compliance also increase. This might possibly be due to strategic response by businesses to maintain its position and avoid penalties for any default in politically unstable environments.

**Hypothesis 2: Leadership Opacity and VAT Compliance**

$H_{02}$: Leadership opacity has no significant effect on VAT compliance.

Regression results: $\beta = 0.194$, $t = 4.147$, $p = 0.000$. This confirms that leadership opacity is significantly and positively associated with VAT compliance. This may indicate that leadership opacity which is associated with reduced institutional trust may, can drive some small and medium-size businesses to comply more strictly with VAT regulations, probably as a result of fear of unfavourable and unpredictable policy shifts in governance.

**Hypothesis 3: Insecurity and VAT Compliance**

$H_{03}$: Insecurity has no significant effect on VAT compliance. Regression results: $\beta = -0.251$, $t = -5.235$, $p = 0.000$. The negative beta coefficient (-0.251) suggests that insecurity has a negative significant relationship with VAT compliance. The negative coefficient may reaffirm that rising insecurity can discourage voluntary tax compliance in the South Eastern region since as businesses prioritise sustainability over regulatory obligations in this region..

## 4.3 Discussion of Findings

The findings reveal a significant relationship between political instability and VAT compliance among SMEs in South-East Nigeria. The study identifies Geopolitical Marginalization, Leadership Opacity, and Insecurity as political factors affecting tax compliance. For geopolitical marginalization, the results shows that geopolitical marginalization exhibits a significant positive link with VAT compliance, suggesting that, even when certain regions see themselves as being excluded from government policies or economic benefits which may culminate into lack of trust in public institutions, compliance to value added tax however, is not altered. This finding aligns with Kirchler (2007), Torgler (2007), and Wilson-Oshilim et al (2023) who discovered that uncertainties caused by government favouritism in policy implementation do not negatively affects tax morale and compliance. For the variable of leadership opacity, the study found a significant positive relationship with VAT compliance. It is discovered that with poor leadership and weak tax administration structures SMEs will not be deterred in complying their VAT remittance obligations. The findings support those of Olusanya (2020); Dabla-Norris et al (2017), who noted that unpredictable leadership and inconsistent tax policies do not significantly contribute to tax evasion. However, for insecurity, the findings suggests that businesses operating in unsafe regions exhibit resistance in complying with VAT payment. This supports Adeyemo (2018) and Ojo (2019), who found that insecurity leads to weakened state control and lower compliance with fiscal policies.

## 5.0 CONCLUSION AND RECOMMENDATIONS

The nexus between political instability and Value Added Tax compliance among Small and Medium Enterprises (SMEs) in South-East Nigeria was analysed in the present survey. Three measurements of political instability, which are geopolitical marginalisation, leadership opacity, and insecurity were considered in this study. The main objective was to discover if these political instability affects voluntary compliance among SMEs to payment of VAT and their ability to abide by extant tax regulations. From the regression analysis, it is observed that the three elements of political instability employed in this study have statistically significant relationships with value added tax compliance. Geopolitical marginalisation exhibited a significant positive effect, which may suggest that as perceptions of marginalisation increase, tax compliance behaviour among SMEs in the South Eastern region tends to remain the same, possibly due lack of trust, resistance, or sometimes absence of proper engagement with tax officials. Again, leadership opacity demonstrated a positive and significant relationship with value added tax compliance, probably suggesting an inadequate transparency and accountability which can erodes public trust and weakens tax morale among vat-able individuals. Contrarily, it was observed that insecurity had a significant negative effect on value added tax compliance, obviously illustrating that threats to business safety and continuity substantially can discourage voluntary tax compliance among Small and medium-size businesses. Therefore, it could be seen that transparency, equitable governance, and improved security may aid in rebuilding public trust in related institutions and encouraging voluntary tax compliance among the population of interest and beyond.

It is recommended that tax authorities should see leadership accountability and transparent governance practices as an essential tool for VAT compliance. These measures may be essential for promoting trust in the tax system, thereby encouraging voluntary tax compliance among businesses. The relevant authorities may consider the adoption of inclusive fiscal frameworks that can ensure uniformity in tax enforcement and display equal economic opportunities across all geopolitical zones in the country. This could probably address the issue of perceived marginalisation in certain regions and promote a sense of belonging by SMEs within this region. Lastly, strengthening the region's security can be an appropriate measure to create a stable business environment that is VAT compliance.

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