

# The Impact of Spiritual Accounting on Value Added Tax Compliance in Nigeria

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## ABSTRACT

This study explores the impact of spiritual accounting on Value Added Tax (VAT) compliance among small and medium-sized enterprises (SMEs) and informal sector operators in Nigeria. VAT remains a critical source of government revenue, yet compliance levels are persistently low due to evasion, weak enforcement, and limited tax morale. Spiritual accounting, which integrates ethical, moral, and religious values into financial reporting, offers a potential solution by reframing VAT obligations as both legal and moral duties. Using survey data from 200 respondents, the study employed descriptive statistics, correlation analysis, regression, and ANOVA to test six hypotheses. Results indicate that spiritual accounting practices, ethical values, religiosity, and transparency significantly predict VAT compliance, with the regression model explaining 31% of the variance in VAT compliance. Findings confirm that moral responsibility and religious convictions discourage evasion, while transparency fosters trust between businesses and tax authorities. Challenges such as a lack of standardized frameworks and resistance from profit-driven enterprises were noted. The study concludes that integrating spiritual accounting into tax education and compliance strategies can strengthen VAT collection, improve accountability, and enhance fiscal sustainability in Nigeria.

**Keywords:** Spiritual Accounting; Value Added Tax (VAT) Compliance; Ethical Values; Tax Morale; Religiosity; Transparency and Accountability; Small and Medium Enterprises (SMEs); Informal Sector; Nigeria; Tax Policy and Governance

## INTRODUCTION

Value Added Tax (VAT) is a critical source of government revenue in Nigeria, introduced in 1993 to broaden the tax base and replace the sales tax system (FIRS, 2022). Despite its importance, VAT compliance remains persistently low due to tax evasion, weak enforcement, and poor record-keeping (Uchenna & Nwankwo, 2020). Conventional accounting practices, focused on profit maximization, often neglect ethical and moral dimensions, contributing to non-compliance (Okafor, 2019).

Spiritual accounting, which integrates honesty, fairness, and religious values into financial reporting, offers a potential solution (Owolabi & Ayodele, 2021). In a society where spirituality strongly influences behavior, embedding moral responsibility into accounting can reshape perceptions of VAT obligations.

**Research Problem:** VAT non-compliance undermines Nigeria's fiscal sustainability, and limited research has examined how spiritual accounting can improve transparency, accountability, and tax morale.

## Objectives of the Study

1. To examine the relationship between spiritual accounting practices and VAT compliance among SMEs and informal sector operators in Nigeria.
2. To evaluate the role of ethical and moral values in financial reporting and their influence on VAT remittance behavior.
3. To determine the extent to which religiosity and spirituality affect tax morale and reduce VAT evasion.

4. To investigate how spiritual accounting enhances transparency and accountability in VAT reporting.
5. To identify challenges and limitations in integrating spiritual accounting into conventional accounting systems.
6. To provide policy recommendations for leveraging spiritual accounting to strengthen VAT compliance and revenue generation.

### Hypotheses:

1. H1: Spiritual accounting practices positively influence VAT compliance.
2. H2: Ethical and moral values significantly affect VAT remittance behavior.
3. H3: Religiosity and spirituality positively affect tax morale and reduce VAT evasion.
4. H4: Spiritual accounting enhances transparency and accountability in VAT reporting.
5. H5: Challenges in integration significantly affect adoption and effectiveness.
6. H6: Policy recommendations based on spiritual accounting can strengthen VAT compliance.

### Theoretical Framework

**Stakeholder Theory** Stakeholder theory posits that organizations have responsibilities not only to shareholders but also to a wider set of stakeholders, including employees, customers, regulators, and society at large. In the context of VAT compliance, spiritual accounting aligns with stakeholder theory by emphasizing fairness, transparency, and accountability in financial reporting. SMEs and informal sector operators, when guided by ethical and spiritual values, recognize VAT payment as a duty to the state and society, thereby fulfilling stakeholder obligations beyond profit maximization.

**Institutional Theory** Institutional theory explains how organizational practices are shaped by social norms, cultural expectations, and regulatory pressures. Spiritual accounting can be understood as an institutional response to Nigeria's socio-cultural environment, where religiosity and moral values strongly influence behavior. By embedding spiritual principles into accounting practices, businesses conformed to societal expectations of honesty and fairness, while also aligning with regulatory frameworks for VAT compliance.

**Integration into the Study** Anchoring spiritual accounting in these frameworks strengthens its conceptual foundation:

- Stakeholder theory highlights the ethical responsibility of businesses to contribute to public revenue through VAT.
- Institutional theory underscores how cultural and religious norms legitimize spiritual accounting as a compliance mechanism.

### METHODS

A descriptive survey design was employed. Data were collected from 200 SMEs and informal sector operators across selected states in Nigeria using structured questionnaires.

- **Sampling:** Stratified random sampling ensured equal representation from SMEs and informal operators.
- **Instrument:** A Likert-scale questionnaire measured perceptions of ethics, religiosity, transparency, and compliance.

## Reliability and Validity

- **Reliability:** Internal consistency of the survey instrument was tested using Cronbach’s alpha. All constructs (Spiritual Accounting Practices, Ethical Values, Religiosity, Transparency, VAT Compliance) achieved alpha values above 0.70, indicating acceptable reliability.
- **Validity:** Content validity was established through expert review by three accounting and taxation scholars. Construct validity was confirmed using factor analysis, with all items loading significantly (>0.60) on their respective factors.

## Sample Expansion

To improve generalizability, the study recommends expanding the sample size beyond 200 respondents and diversifying across more regions of Nigeria. Future research should include northern, eastern, and western zones to capture regional variations in VAT compliance behavior.

- **Analysis:** Descriptive statistics summarized responses, while correlation, regression, and ANOVA tested the hypotheses.

## RESULTS

### 1. Demographic Profile of Respondents

Variable	Frequency	Percentage (%)
Male	120	60
Female	80	40
Age 20–30	70	35
Age 31–40	90	45
Age 41+	40	20
SMEs	100	50
Informal Sector	100	50

### 2. Awareness of VAT Obligations

Response Category	Frequency	Percentage (%)
Fully aware	110	55
Partially aware	60	30
Not aware	30	15

### 3. Regression Analysis

**Dependent Variable: VAT Compliance (VATC)**

Variable	Coefficient ( $\beta$ )	Std. Error	t-value	p-value
Intercept	0.091	0.371	0.247	0.806

SAP (Spiritual Accounting Practices)	0.278	0.052	5.327	
EV (Ethical Values)	0.151	0.057	2.644	<b>0.009</b>
REL (Religiosity)	0.200	0.043	4.694	
TR (Transparency)	0.266	0.051	5.192	

1. **R-squared = 0.311** → The model explains 31% of the variance in VAT compliance.
2. **F-statistic = 22.05, p < 0.001** → The regression model is statistically significant.

#### 4. ANOVA Table

Source	Sum of Squares	df	F-value	p-value
SAP	6.31	1	28.37	
EV	1.55	1	6.99	<b>0.009</b>
REL	4.90	1	22.03	
TR	5.99	1	26.96	
Residual 4	3.38	195		

#### 5. Correlation Matrix

Variable	SAP	EV	REL	TR	VATC
SAP	1.00	0.10	-0.13	0.07	0.32
EV	0.10	1.00	-0.03	-0.10	0.15
REL	-0.13	-0.03	1.00	0.11	0.27
TR	0.07	-0.10	0.11	1.00	0.35
VATC	0.32	0.15	0.27	0.35	1.00

#### 6. Hypothesis Testing Summary

1. **H1:** Supported – SAP significantly predicts VAT compliance ( $p < 0.001$ ).
2. **H2:** Supported – Ethical values significantly influence VAT compliance ( $p = 0.009$ ).
3. **H3:** Supported – Religiosity significantly affects tax morale and compliance ( $p < 0.001$ ).
4. **H4:** Supported – Transparency significantly enhances VAT compliance ( $p < 0.001$ ).
5. **H5:** Partially supported – Adoption challenges noted qualitatively.
6. **H6:** Supported indirectly – Policy recommendations grounded in significant predictors.

## DISCUSSION

The findings confirm that spiritual accounting significantly enhances VAT compliance, aligning with prior studies that link ethics and religiosity to tax morale (Agbetunde et al., 2020; Igbekoyi, 2023; Balogun et al., 2024). By reframing VAT as a moral duty, spiritual accounting reduces evasion and fosters transparency (Owolabi & Ayodele, 2021).

However, adoption challenges highlight the need for standardized frameworks and awareness campaigns (Uchenna & Nwankwo, 2020).

### Policy Implications

The findings have direct implications for Nigeria's fiscal sustainability and governance. Embedding spiritual accounting into VAT compliance strategies can:

1. **Strengthen Revenue Mobilization:** Improved VAT compliance expands Nigeria's non-oil revenue base, reducing dependence on volatile oil markets and ensuring stable funding for public services.
2. **Enhance Governance and Trust:** By framing VAT as both a civic and moral duty, tax authorities can foster transparency and legitimacy, reducing perceptions of corruption.
3. **Leverage Cultural Context:** Nigeria's high religiosity provides a unique opportunity to align compliance strategies with moral and spiritual values, making tax obligations resonate more deeply with citizens.
4. **Comparative Insights:** Countries such as **Turkey** and **Indonesia** have successfully leveraged religiosity to improve tax morale. Nigeria can adapt similar approaches, embedding cultural and ethical dimensions into compliance strategies to strengthen institutional legitimacy.

Policy implications suggest that tax authorities should integrate ethical and spiritual dimensions into compliance strategies to strengthen VAT collection and governance (FIRS, 2022).

## CONCLUSION

Spiritual accounting provides a sustainable pathway for strengthening Nigeria's tax system by embedding ethical and religious values into financial reporting. While challenges remain, its adoption can improve VAT compliance, enhance revenue generation, and promote accountability.

Ultimately, adopting spiritual accounting principles within Nigeria's tax administration can contribute to stronger institutions, more equitable revenue collection, and sustainable economic development.

## RECOMMENDATIONS

1. **Embed Spiritual Accounting in Tax Education:** The Federal Inland Revenue Service (FIRS) should integrate modules on ethical and spiritual responsibility into taxpayer education campaigns. Workshops can highlight VAT as both a civic and moral duty, drawing on religious and cultural values familiar to Nigerian taxpayers.
2. **Collaborate with Religious and Community Leaders:** Partner with faith-based organizations to disseminate messages on tax compliance as a moral obligation. Religious leaders can reinforce the idea that paying VAT contributes to social welfare and community development.
3. **Develop Ethical Compliance Frameworks:** Create standardized guidelines for incorporating spiritual accounting into conventional accounting practices. Encourage SMEs to adopt codes of conduct that emphasize honesty, fairness, and accountability in VAT reporting.

4. **Recognition and Incentives:** Establish awards or certifications for businesses that demonstrate transparent VAT compliance. Public recognition can motivate others to adopt spiritual accounting practices.
5. **Comparative Insights:** In countries like **Turkey** and **Indonesia**, religiosity has been shown to positively influence tax morale, with compliance framed as a moral and civic duty. Nigeria can adapt similar approaches by embedding cultural and religious values into compliance strategies, ensuring resonance with local norms.
6. **Expand Research and Regional Outreach:** Conduct pilot programs across Nigeria's diverse regions to test the effectiveness of spiritual accounting in improving VAT compliance. Comparative studies with other countries where religiosity influences tax behavior can provide benchmarks and best practices.

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