

FACTORS AFFECTING TAX COMPLIANCE AMONG SMALL AND MEDIUM ENTERPRISES IN THE CITY OF BALIWAG, BULACAN

*Kristoffer Carlo R. Crisostomo, Ana Pauline C. Cruz
Ricielle B. Cruz, Trisha Anne DC. Hipolito*

Abstract

This study delved into the intricate dynamics affecting tax compliance within the Small and Medium Enterprises (SMEs) sector in Baliwag City, Bulacan. Employing a quantitative - correlational approach, data is gathered through face to face survey. The study identified several pivotal factors shaping tax compliance behavior among SMEs, including Tax morale, Fairness, Tax audit, Tax rate, Simplicity of the the Process, Rewards and Penalty. Financial literacy emerges as a critical determinant, with SME owners demonstrating higher levels of understanding exhibiting greater compliance. Perceptions of tax fairness significantly affecting compliance behavior, underscoring the importance of building trust in the tax system. Moreover, access to government support programs positively correlates with compliance levels, emphasizing the role of policy interventions in fostering adherence to tax regulations. Awareness of tax regulations also emerges as a key influencer, with SMEs lacking knowledge of their tax obligations exhibiting lower compliance rates. The study underscored the need for targeted educational initiatives and support programs to enhance SMEs' understanding of tax laws and requirements. The recommendations included the implementation of tax compliance workshops, one-on-one consultations with tax experts, provision of accessible resources, and promotion of government support programs. By addressing these factors and fostering a culture of compliance, policymakers and tax authorities can formulate more effective strategies to promote tax compliance and contribute to the economic development of Baliwag City, Bulacan.

Keywords: tax compliance, BIR, SME, tax morale

Introduction

In the Philippines, SME (small and medium enterprises) are businesses classified by size and financial parameters. Micro-enterprises are businesses with assets size and annual revenue not exceeding 3 million Philippine Pesos (PHP), small businesses with assets size and annual revenue ranging from more than 3 million to 15 million PHP, while mid-sized companies have assets and revenues of more than 3 million Philippine pesos (PHP) from 15 million to 100 million PHP. These classifications are used for a variety of purposes, including access to government support and incentive programs, and play an important role in the country's economy, contributing significantly to the country's economy in job creation and economic growth.

Tax compliance in small and medium enterprises (SMEs) refers to compliance with and fulfilment of all tax obligations and responsibilities set forth by the government. This includes accurate and timely tax returns, payment of taxes due and compliance with tax regulations, such as VAT (value added tax), income tax and business tax. Ensuring tax compliance is essential for small and medium businesses to avoid legal issues, penalties and fines, and maintain a positive financial reputation. It also allows small and medium enterprises to contribute their fair share to government revenue and support the development of infrastructure and public services. In addition, tax compliance helps SMEs build trust with stakeholders, including customers, investors and regulators, which can be critical for growth and corporate sustainability.

Tax compliance can have a significant impact on small and medium-sized businesses (SMEs) in several ways. First, the complexity of tax regulations and reporting requirements can place a heavy burden on SMEs, often requiring them to spend valuable time and resources navigating the tax system. Second, the financial pressures of paying taxes, including income taxes and payroll taxes can reduce the capital available to invest, expand, and hire. Failure to comply can lead to penalties and legal problems that drain additional resources and damage the company's reputation. In addition, SMEs may find it difficult to access tax incentives or deductions that larger companies can use more

effectively, which can put them at a competitive disadvantage painting. Overall, tax compliance challenges can impede the growth and sustainability of SMEs, prompting policymakers to consider the unique needs of these businesses when designing tax policy.

In this study, the objective is to understand the factors affecting the tax compliance of small and medium enterprises in Baliwag City, Bulacan area. As accounting students, we can help small and medium businesses file their taxes to avoid delays and penalties for late filing.

Review of Related Literature

In this part of the study, the researchers made a connection on a literature review to gather more data and broad the knowledge about the topic. Here are some of the following had discover of this study.

Levels of Income

According to the study conducted by Meda Andini and Alfa Rahmiati (2020), individuals prefer to spend their income on their daily needs rather than pay taxes. People who earn enough money, or perhaps a lot of money, will be better able to pay their taxes and maintain their daily necessities. It will be more difficult for people whose income is limited to meeting their basic necessities to comply with their tax obligations. The level of income in the theory of planned behavior is related to control belief. It means that how healthy one's income level influences one's tax morale is in encouraging or inhibiting tax morale. Research conducted by Solichah and Soewarno (2019) stated that an individual's income level has no relationship with the tax morale of the individual. Based on the theory of planned behavior, the level of income can affect a person's intention to behave; this intention will later encourage or hinder the behavior of taxpayers in complying with their obligations. Taxpayers who have high incomes will tend to use their income for their own needs and have low motivation to act in compliance with taxes.

Number of Years in Operation

The study conducted by Khamis et al. (2018) attempts to show whether length of business operation determines compliance behavior of business zakat among owners of SMEs through application of Rasch Measurement Model. Therefore, this study assumes that the length of business operation has a beneficial influence on business zakat compliance behaviors through the application of the Rasch Measurement Model. Yet, the relationship has not been empirically investigated due to the scope of studies by previous researchers that mainly focused on zakat on income. Therefore, the purpose of this study is to identify either length of business operation influence compliance behaviour of business zakat among owners of SMEs.

Small and Medium-sized Enterprises

Small and medium-sized enterprises (SMEs) play a vital role in improving the economic well-being and development of a country. According to Alraja et al. (2020), SMEs serves as the financial backbone of the economy. It makes important contributions, especially in the provision of jobs Alraja et al. 2020; Talukder et al. (2020). In the study conducted by Yoshino and Taghizadeh-Hesary (2018), more than 96% of businesses in Asia are small and medium-sized enterprises. Thus, having support measures for SMEs is essential for the success of the economies in Asian countries. Successfully and appropriately established SMEs will greatly contribute to the expansion of the national economy.

Tax Compliance

In a case study conducted by Nguyen Thi Le Thuy (2018), it is stated that: "The tax compliance of an enterprise is the act of fulfilling tax obligations according to the purposes of the lawfully, voluntarily and on time." Tax authorities have primarily relied on deterrent actions to ensure compliance, including conducting tax audits and investigations and charging higher fines on persistent taxpayers Sikayu et al. (2022). Over the past 50 years, researches about tax compliance have become increasingly popular. These researches' findings have resulted that tax compliance is dependent on a variety of factors, including deterrence, economic, social, norms, attitudinal, psychological, fair-

ness, trust, cultural, political, opportunities and perception factors Yong et al., (2020). Taxpayers' comprehension of the tax code has an impact on tax compliance, but the overall effect is not addressed. Taxpayers frequently are unsure of how much they should pay in taxes due to the complicated and unreliable tax system. As a result, people are relying more and more on software for tax preparation and hired tax professionals Alm et al., (2020).

Tax Compliance and SMEs

Small and medium-sized enterprises (SMEs) are crucial to growing nations, particularly in addressing issues with unemployment and economic growth. As stated in the study conducted by Bruce-Twum Ernest et al. (2022), SMEs are particularly burdened by numerous types of restrictions, including tax laws and regulations. Following tax laws frequently results in higher expenses and a considerable decline in revenues. The different elements that affect how much it costs SMEs to comply with tax laws are not well understood, particularly in Africa Bruce-Twum et al., (2022).

Factors Affecting Tax Compliance

According to Nguyen Thi Mai Huong and Pham Mai Phuong (2021), taxes are regarded as the primary source of funding for the federal budget and are a crucial tool for regulating the macro economy, encouraging investment, and managing inflation. The most significant source of income is taxes, and they are getting bigger as the economy grows. Therefore, taxes are both developed and emerging countries' top concerns. In Quang Ninh, thousands of businesses—including small and medium-sized ones—register each month Huong & Phuong, (2021). As stated in the case study conducted by Nguyen Thi Mai Huong and Pham Mai Phuong (2021), one of the factors affecting tax compliance is the field of operation of the enterprise. The enterprise's industry influences tax compliance to some extent. Income, on which the business must pay taxes, will be directly impacted by the sector and revenue. Depending on the business sectors, controlling the revenue may be difficult or simple. Azmi et al. (2020) emphasized that it is the duty of a taxpayer to arm oneself with knowledge in order to disclose, report, and pay tax at the same time.

Tax Morale

To reduce tax evasion and avoidance, the tax authority must boost tax compliance. Tax morale has the potential to raise intrinsic motivation to pay taxes, illuminating the fact that there are more important reasons to pay taxes than only obeying the law. Low tax morale contributes to low levels of tax compliance Yuniadi, (2018). According to the research study conducted by Mayowan Yuniadi (2018), tax morale is the underlying desire to pay taxes. The tax morale index measures how willing people are to pay taxes or how they feel about themselves as a result of having to. Raising tax morale has the potential to boost revenue while requiring (relatively) little enforcement effort. As stated in the study of OECD/CAF/UN ECLAC (2018), the general trend is that countries with high tax to gross domestic product (GDP) ratios have higher tax morale, notwithstanding significant country-specific variation.

Fairness

Based on the study conducted by Sikayu et al. (2022), tax fairness is the equitable payment of tax (and any associated penalties) to taxing authorities, with the incidental amount being equal to the tax amount that was really paid. Kassa (2021) stated that tax fairness is defined as the equity of tax collection principles, practices, and execution. Unfair tax collection techniques may give rise to immoral behavior. Tax fairness might encourage people to pay their taxes on time. The sustainable equity of the tax system is influenced by taking into account the capacity of SME owners and managers to pay reasonable tax rates Rantelangi et al., (2018). Tax fairness is an argumentative, controversial, and contentious issue, since not all taxpayers might pay the same rate of taxes Abate (2019). Individuals deserve fair treatment, according to Dissanayake and Kirchler (2021), not only because they hope that fair distribution would follow, but also because the chance to voice one's own opinion has inherent value.

Tax Audit

Widuri et al. (2019) stated that tax audits affect taxpayer compliance. The findings demonstrate that routine tax audits reduce the amount of fraud committed by taxpayers and have a

dissuasive effect on offenders, hence increasing corporate taxpayer compliance Rahmayanti et al., (2020). In order to establish and maintain compliance, tax audits are a crucial tool, and increasing the number of audits has both direct and indirect effects on taxpayer behavior. Based on the study of James Alm and Joel Slemmon (2019), the assessment of additional taxes, interest, and penalties to the subjects of audits results in a direct increase in revenue. Tax audits also have indirect consequences since they discourage future noncompliance from both audited and unaudited taxpayers (specific deterrence and general deterrence).

Tax Rate

According to Hana Paleka and Vanja Vitezić (2023), almost every fundamental theory of tax compliance includes tax rate as one of the most influential factors. Empirical evidence shows that a decline in the level of taxpayers' voluntary compliance in Tanzania is caused by tax rates Masud & Gambo, (2019). In the previous studies conducted by Abdulsalam Masud and El-Maude Jibreel Gambo (2019), with supporting research from NBAA (2019), high level of tax rates causes the taxpayers' voluntary compliance to decline and the essence of low-level tax rate causes the level of taxpayers' voluntary compliance to increase. Previous research indicates that unsystematic tax rate arrangements lead to prejudice and as a result, increase corruption and lower taxation compliance in developing nations TRA, (2019). Kanbiro Orkaido Deyganto (2018) suggested that raising additional tax rates will be likely to improve taxpayers to compliance with tax.

Simplicity of the Tax Process

Based on the study entitled Key Elements of the U.S. Tax System (2020), simplifying tax laws may increase compliance by lowering unintentional tax evasion. People may not pay taxes to some (uncertain) amount because they do not comprehend the tax code. An ideal tax system, in the opinion of Hassan et al. (2021), promotes economic growth and is easy to understand, equitable, and enforceable. As a result, the decision to comply with tax laws may be greatly influenced by how simple the legislation is Hassan et al., (2021). Taxpayers will no longer delegate the task to experts by making the process of filing their returns simpler; instead, they will think about doing it themselves

Hassan et al., (2021). According to earlier researchers, simplifying tax payments is a significant element in voluntary compliance, suggesting that a complex tax system can discourage people from voluntarily complying with the law e.g. Hassan et al., (2021); Santoro, (2021). When tax legislation and regulations are similar in their application and performance, tax systems will be much less confusing, which might promote tax compliance.

Rewards

According to the study conducted by Geatano Lisi (2022), governments and tax administrations can create methods to boost tax collection by using tax incentives as an important and practical tool for fiscal policy. The increasing empirical literature on tax compliance has mostly avoided evaluating the effects of rewards Slemrod, (2019). Governments at all levels, including the federal and municipal, have used and continue to use methods that compensate taxpayers for their "good behaviour" in the real world. According to Gaetano Lisi (2022), tax rewards are seen as a crucial component of fiscal policies that encourage tax compliance. However, empirical evidence does not support the efficacy of reward-based approaches. Such compensation makes the tax code more equitable, which promotes ethical tax practices Lisi, (2022). As a result, a recommendation for practical and experimental studies follows from this theoretical model: by utilizing an appropriate concept of award, a favourable effect of tax reward on tax compliance can be found Lisi, (2022). Instead of the concepts of "lucky reward" and "donation reward," it needs to utilize a concept of tax reward that is directly associated with honest tax behaviours.

Penalty

Penalties and tax compliance have a complex relationship. According to the previous studies, the researchers discovered a favourable association between fines and tax compliance Oladele et al., (2019); Remali et al., (2018). In fact, with a focus on tax compliance, this ends up being the root of the bulk of MSMEs' worries because it is affected by a variety of circumstances. Tax inspection possibility, tax rates, tax penalties, tax laws' complexity, societal norms, and tax knowledge are only a few of the factors that affect tax compliance Paco & Quezon, (2022). For instance, based on the research study conducted by

Janven Granfon, Wella Lagare, Dexter Aling, Neil Dangcalan, and Ara Ebanay (2023), tax penalties have a mean of 2.74, indicating that they may influence taxpayers' tax compliance. A mean of 2.40, 2.26, and 2.38 for three of the four questions indicates that respondents disagreed, and a mean of 2.06 for the fourth question indicates that respondents agreed.

Theoretical Framework

In this study, the researchers will discuss several theories about the topic which is the tax compliance. The following theories would benefit to all to determine if there is a factors affecting tax compliance among small medium enterprises.

Theory of Planned Behavior (TPB). This theory attempts to explain human behaviour and what influences individuals to act in a certain way under determined factors. The theory posits that an individual will have the goal to act in a way that is motivated by reasons to do so. Ajzen (1991) argued that a person will consider their attitudes, including control, before developing compliance intentions. Behavioural intention depends on attitude and is influenced by beliefs, normative beliefs, and control beliefs. This theory focuses on the ethics and morality of taxpayers, who may comply even when detectability is weak. Unlike economic deterrence theory, which imposes sanctions when taxpayers fail to comply, this theory attempts to change individuals' attitudes toward the tax system.

Economic Deterrence Theory (EDT). This theory emphasizes sanctions for tax non-compliance and is based on criminology. Sanctions can include the possibility of being caught for tax evasion, harsher penalties, or providing better tax education or tax incentives to improve tax compliance Frey and Feld, (2002). This theory is appropriate in a context where people calculate the risk of not paying taxes based on the benefits and consequences. Factors such as tax audits and penalties tend to encourage taxpayer compliance. The standard deterrence model states that taxpayers (SMEs) comply with their tax obligations to avoid legal sanctions such as fines and detention. Faced with such sanctions, they comply to avoid costly consequences. The justification for tax penalties appears to motivate taxpayers to comply.

Conceptual Framework

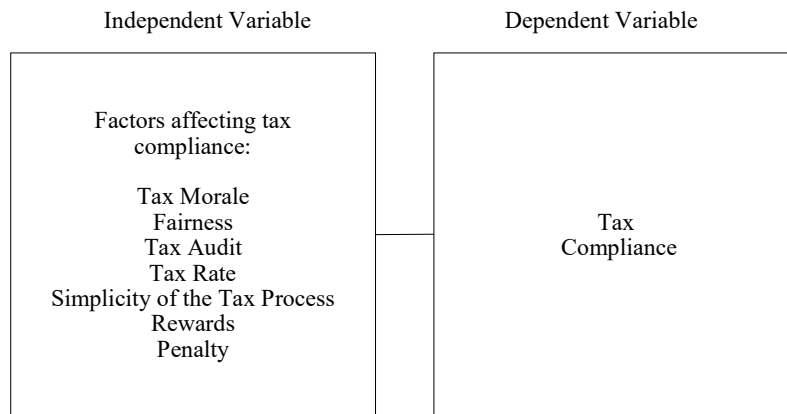


Figure 1. Research Paradigm of the Study

The study employs a quantitative research approach, thus utilizing the systematic Independent Variable and Dependent Variable (IV-DV) model. Within this model, there are two boxes with a line connecting them, illustrating the relationship between the two variables. The first box represents the independent variable, which encompasses the factors affecting tax compliance. The second box represents the dependent variable, focusing on tax compliance.

Statement of the Problem

This study aims to determine the factors affecting tax compliance among small and medium enterprises in Baliwag City, Bulacan.

Moreover, this sought to answer the following questions:

1. What is the firmographic profile of the respondents in terms of:
 - 1.1 Type of Industry
 - 1.2 Level of income
 - 1.3 Number of years of operations, and
 - 1.4 Education level of the owner?

2. How may the factors affecting tax compliance of the small and medium enterprises be described in terms of:
 - 2.1 Tax Morale,
 - 2.2 Fairness,
 - 2.3 Tax Audit,
 - 2.4 Tax Rate,
 - 2.5 Simplicity of the Tax Process,
 - 2.6 Rewards, and
 - 2.7 Penalty?
3. How may the tax compliance of the respondents be described?
4. Is there a significant difference in the effects of factors to the respondents' tax compliance when they are grouped according to their firmographic profile?
5. Is there a significant difference in the respondents' assessment on tax compliance when they are grouped according to their firmographic profile?
6. Is there a significant relationship between the factors affecting the respondents' tax compliance and their actual tax compliance?

Hypotheses of the Study

- Ho₁: There is no significant difference in the effects of factors to the respondents' tax compliance when they are grouped according to their firmographic profile.
- Ho₂: There is no significant difference in the respondents' assessment on tax compliance when they are grouped according to their firmographic profile.
- Ho₃: There is no significant relationship between the factors affecting the respondents' tax compliance and their actual tax compliance.

Method

Research Design

This study used a descriptive correlational research design under quantitative approach to gather information or data about the factors affecting tax compliance among small and medium enterprises in Baliwag City, Bulacan. According to Abi Bhat, (2023), Descriptive correlational research is a type of research design that tries to explain the relationship between two or more variables without making any claims about cause and effect. It includes collecting and analyzing data on at least two variables to see if there is a link between them.

Population and Sampling

In this study, Probability sampling Jasko Mahmutovic, (2023) will be used. It is one of the sampling methods. The goal is to ensure that everyone in the population has a chance to be part of the sample. To achieve this, a random subset of the population is selected. The researcher will determine the number of respondents using the slovin's formula as shown:

$$n = \frac{N}{(1 + Ne^2)}$$

Wherein:

n = sample size
N = population size
e = error tolerance

When the formula is applied to the number of total population, it would be follow by using the stratified random sampling. According to Saul Mcleod, PhD, (2023), it is a sample selection method in which the researcher first divides the population into small subgroups or strata based on common characteristics among the members and then randomly selects from each stratum to form the final sample. The following table shows below are based from the records as of 2023 at City Enterprises and Economic Affairs Office in Baliwag.

Table 1. Population of Small and Medium Enterprises in entire Baliwag

Size	Total Population	Percentage
Small	461	76%
Medium	145	24%
Total	606	100%

In this table, it shows the total number of population of business establishment around Baliwag City. 461 (76%) out of 606 establishments from the small enterprises and 145 (24%) out of 606 establishments from the medium enterprises.

Table 2. Stratified Population of Small Enterprises in the City of Baliwag

Barangay	Total Population	Total Small Enterprises	Stratified Population	Percentage
Bagong Nayon	56	37	34	34%
Poblacion	99	80	67	66%
Total	226	170	101	100%

The table shows below the stratified number of populations of small enterprises to be selected randomly as the respondents of the study. 34 (34%) out of 101 establishments from the Barangay Bagong Nayon and 67 (66%) out of 101 establishments from the Barangay Poblacion.

Table 3. Stratified Population of Medium Enterprises in the City of Baliwag

Barangay	Total Population	Total Medium Enterprises	Stratified Population	Percentage
Bagong Nayon	56	19	18	50%
Poblacion	99	19	18	50%
Total	226	38	36	100%

The table shows below the stratified number of populations of small enterprises to be selected randomly as the respondents of the study. 18 (50%) out of 36 establishments will be from Barangay Bagong Nayon and 18 (50%) out of 36 establishments will be from Barangay Poblacion.

Data Gathering Procedure

Before the administration of the questionnaire, the business owners are asked to sign a consent form for them to inform on what to do beforehand. Proper instruction to the manner of answering will be provided by the researchers. If the business owner is unavailable at the establishment, the researchers will proceed to interview other business owners included in the study. Participation in the study is entirely voluntary and participants may withdraw at anytime without providing reason.

The researchers make sure that the result obtained from the study will be kept confidential. Furthermore, the researchers manifest integrity, self-discipline and neutrality throughout the course of work.

Statistical Treatment

After the data gathering procedures, all the raw data were tabulated, computed and interpreted using appropriate statistical tools that included in the following:

These are the measures that are used to describe the gathered data from the responses of the business owners where it was statistically analysed the means of data.

Frequency and Percentage method. It will be used to the Statement of the Problem 1 that represents the firmographic profile in terms of Level of Income and Industry.

Formula:

$$\% = \frac{f}{n} \times 100$$

Wherein:

$$\begin{aligned} \% &= \text{percentage} \\ f &= \text{frequency} \\ n &= \text{total number of respondents} \end{aligned}$$

Weighted mean. It will be used to answer Statement of the Problem 2 and 3 to describe the indicators factors that affects tax compliance among small and medium enterprises in getting the average scores or central value.

Kruskal Wallis Test. It will be utilized in Statement of the Problem 4 and 5 to examine the significant difference between tax compliance among small and medium enterprises. This statistical treatment is used when the computed target number of respondents for the data gathering did not reach its completion.

Level of Values	Limit Index	Interpretation
4	3.26 – 4.00	Very High
3	2.51 – 3.25	High
2	1.76 – 2.50	Low
1	1.00 – 1.75	Very Low

Product – Pearson Moment Correlation. It will be utilized in Statement of the Problem 6 to examine the significant relationship between the tax compliance among small and medium enterprises.

Results and Discussions

Table 4. Frequency and Percentage Distribution of Respondents according to Type of Industry

Industry	Frequency	Percentage
Accommodation and food service	24	30.38
Health care and social assistance	11	13.92
Manufacturing	5	6.33
Professional	14	17.72
Retail trade	25	31.65
Total	79	100.00

The distribution of the respondents according to type of industry is shown in Table 4. Out of the 79 respondents, 24 (30.38%) are from the accommodation and food service industry. Eleven (13.92%) are from health care and social assistance industry. Five (6.33%) are from the manufacturing industry. There were 14(17.72%) who are from the professional industry. Lastly, 25 (31.65%) of the respondents came from retail trade industry.

According to the study conducted by Ma. Victoria Raquiza (2021), businesses are classified as SMEs by the Department of Trade and Industry (DTI) depending on the amount of their assets and the number of employees they employ. Businesses are classified as small if they have assets between Php 3,000,001 and Php 15,000,000, and as medium if they have assets between Php 15,000,001 and Php 100,000,000. A company is also regarded as a small firm if it employs 10 to 99 people, and a medium enterprise if it has 200 or more. Small businesses typically cover a small geographic area. Due to the logistical challenges of expanding, small enterprises have to confine their activities to a relatively narrow geographic area. On the other hand, majority of medium enterprises are privately owned and run by their original owners, just like small businesses. They most likely have remote workers and several locations Business Sizes: Classifications and Characteristics (2022).

Table 5. Frequency and Percentage Distribution of Respondents according to Level of Income

Level of Income	Frequency	Percentage
Under 10,000	16	20.25
10,000 – 19,999	15	18.99
20,000 – 29,999	9	11.39
30,000 – 39,999	8	10.13
40,000 – 49,999	5	6.33
50,000 – 59,999	4	5.06
70,000 – 79,999	3	3.80
90,000 – 99,999	3	3.80
100,000 – 149,999	5	6.33
150,000 – 249,999	2	2.53
250,000 – 499,999	5	6.33
500,000 – 999,999	1	1.27
1,000,000 and above	3	3.80
Total	79	100.00

Research conducted by Solichah and Soewarno (2019) stated that an individual's income level has no relationship with the tax morale of the individual. Based on the theory of planned behavior, the level of income can affect a person's intention to behave; this intention will later encourage or hinder the behavior of taxpayers in complying with their obligations. Taxpayers who have high incomes will tend to use their income for their own needs and have low motivation to act in compliance with taxes. Meanwhile, those with low income are considered to have high motivation to pay taxes because if they violate and are known by the tax authorities, then the sanctions they must bear will be much burdensome for them in the future. According to Mahestyanti, Juanda, and Anggraeni (2018), the level of income has a relationship with taxpayer compliance.

Table 6. Frequency and Percentage Distribution of Respondents according to Number of Years in Operation

Number of Years	Frequency	Percentage
Below 1 year	16	20.25
1 to 2 years	19	24.05
3 to 4 years	20	25.32
5 years and above	24	30.38
Total	79	100.00

The distribution of the respondents according to the number of years in operation is shown in Table 6. Out of the 79 respondents, 16 (20.25%) have only been in operation for less than a year. Next, 19 (24.05%) have been in operation for one to two years. Twenty (25.32%) have been operating for three to four years. Lastly, 24 (30.38%) of the respondents have been in operation for five years and above.

The study conducted by Khamis et al. (2018) attempts to show whether length of business operation determines compliance behavior of business zakat among owners of SMEs through application of Rasch Measurement Model. Therefore, this study assumes that the length of business operation has a beneficial influence on business zakat compliance behaviors through the application of the Rasch Measurement Model.

Table 7. Frequency and Percentage Distribution of Respondents according to Educational Level of the Owner

Educational Attainment	Frequency	Percentage
High School Graduate	4	5.06
College Undergraduate	11	13.92
Vocational	4	5.06
Bachelor's Degree	53	67.09
Master's Degree	4	5.06
Doctorate Degree	3	3.80
Total	79	100.00

The distribution of the respondents according to the owner's educational level is presented in Table 7. Out of the 79 respondents, four (5.06%) have an owner who is a high school graduate. Eleven (13.92%) of the respondents have owners who are college undergraduate. Next, four (5.06%) have owners who finished a vocational course. Fifty-three (67.09%) of the respondents have owners who are Bachelor's degree holders. Next, four (5.06%) have owners who finished their Master's degree. Lastly, three (3.80%) of the businesses are owned by Doctorate degree holders.

Table 8. Mean and Standard Deviation Interpretation of the Respondents' Perception of Tax Morale as a Factor Affecting Tax Compliance

Tax Morale	<i>M</i>	<i>SD</i>	Interpretation
I should pay my tax obligations correctly and promptly.	3.59	0.631	Very High
It is my moral obligation to pay my tax obligations to the BIR.	3.52	0.658	Very High
I pay my tax obligation voluntarily and promptly without force.	3.57	0.654	Very High
I should honestly declare earnings in my tax returns.	3.46	0.656	Very High
I should pay my tax obligations even if I know that others are not.	3.44	0.729	Very High
I believe that not paying the correct tax obligation is a serious crime.	3.43	0.728	Very High
I will not avoid paying my tax obligations even if I have the chance.	3.38	0.756	Very High
It is not acceptable to overstate tax deductions.	3.24	0.720	High
Overall Weighted Mean	3.45	0.692	Very High

Table 8 shows the mean and standard deviation of the respondents' perception of the tax morale. The overall mean of all indicators shows that the respondents have a very high level of perception about this factor ($M = 3.45$, $SD = .692$, $N = 79$). It should be noted also that all the indicators received an interpretation of "Very High" except for one: "It is not acceptable to overstate tax deductions" ($M = 3.24$, $SD = .720$, $N = 79$).

Tax morale has the potential to raise intrinsic motivation to pay taxes, illuminating the fact that there are more important reasons to pay taxes than only obeying the law. Low tax morale contributes to low levels of tax compliance Yuniadi, (2018). According to the research study conducted by Mayowan Yuniadi (2018), tax morale is the underlying desire to pay taxes. The tax morale index measures how willing people are to pay taxes or how they feel about themselves as a result of having to.

Table 9. Mean and Standard Deviation Interpretation of the Respondents' Perception of Fairness as a Factor Affecting Tax Compliance

Fairness	<i>M</i>	<i>SD</i>	Interpretation
I believe that tax authorities are treating my tax records with full confidentiality.	3.13	0.774	High
I believe that tax authorities are treating me fairly and reasonably.	3.08	0.747	High
I believe that tax authorities are treating me as honest in my tax affairs.	3.00	0.801	High
I believe that tax authorities are giving me enough advice and information that I can rely on.	2.99	0.792	High
I believe that tax authorities are giving me enough professional service and assistance to help me understand and meet my tax obligations.	2.96	0.792	High
I believe that tax authorities are fair in treating my tax rights.	2.96	0.775	High
I receive enough social services and public goods from the taxes I pay to the government.	2.92	0.888	High
I believe that other taxpayers are also paying their right taxes.	2.77	0.800	High
Overall Weighted Mean	2.98	0.796	High

Table 9 shows the mean and standard deviation of the respondents' perception of fairness as a factor of tax compliance. The overall mean of the eight indicators shows that the respond-

ents have a high level of perception about this factor ($M = 2.98$, $SD = .796$, $N = 79$). Likewise, all indicators of the said variable also received an interpretation of "High."

Based on the study conducted by Sikayu et al. (2022), tax fairness is the equitable payment of tax (and any associated penalties) to taxing authorities, with the incidental amount being equal to the tax amount that was really paid. Kassa (2021) stated that tax fairness is defined as the equity of tax collection principles, practices, and execution. Unfair tax collection techniques may give rise to immoral behavior. Tax fairness might encourage people to pay their taxes on time.

Table 10. Mean and Standard Deviation Interpretation of the Respondents' Perception of Tax Audit as a Factor Affecting Tax Compliance

Tax Audit	<i>M</i>	<i>SD</i>	Interpretation
It is proper for the BIR to conduct tax audits in order to catch tax evaders.	3.38	0.666	Very High
Tax Audit is an effective program in convincing taxpayers to pay their tax liabilities correctly.	3.35	0.717	Very High
I pay my taxes correctly because I am afraid of the tax audit.	3.29	0.850	Very High
I believe that everyone can be subjected to tax audit at any time of this year.	3.27	0.746	Very High
Tax authorities are giving me enough explanation about my tax obligations.	3.13	0.790	High
Tax authorities are conducting tax audits fairly and reasonably.	3.10	0.744	High
Overall Weighted Mean	3.25	0.752	High

Table 10 shows the mean and standard deviation of the respondents' perception of tax audit as a factor of tax compliance. The overall mean of the six indicators shows that the respondents also have a high level of perception about this factor ($M = 3.25$, $SD = .752$, $N = 79$). Four of these statements received an interpretation of "Very High" while two indicators of the received an interpretation of "High."

Widuri et al. (2019) stated that tax audits affect taxpayer compliance. The findings demonstrate that routine tax audits reduce the amount of fraud committed by taxpayers and have a dissuasive effect on offenders, hence increasing corporate taxpayer compliance Rahmayanti et al., (2020). In order to establish and maintain compliance, tax audits are a crucial tool, and increasing the number of audits has both direct and indirect effects on taxpayer behavior.

Table 11. Mean and Standard Deviation Interpretation of the Respondents' Perception of Tax Rate as a Factor Affecting Tax Compliance

Tax Rate	<i>M</i>	<i>SD</i>	Interpretation
I believe that regardless of the rate of tax, everyone must pay their tax obligations correctly.	3.35	0.699	Very High
Even if the government will raise the rate of taxes, I will still pay my tax obligations correctly.	3.13	0.757	High
I believe that the current tax rate is fair and reasonable.	3.04	0.808	High
Overall Weighted Mean	3.17	0.755	High

Table 11 shows the mean and standard deviation of the respondents' perception of tax rate as a factor of tax compliance. The overall mean of the three indicators shows that the respondents also have a high level of perception about this factor ($M = 3.17$, $SD = .755$, $N = 79$). Only one of these statements received an interpretation of "Very High" and this is "I believe that regardless of the rate of tax, everyone must pay their tax obligations correctly" ($M = 3.35$, $SD = .699$, $N = 79$).

According to Hana Paleka and Vanja Vitezić (2023), almost every fundamental theory of tax compliance includes tax rate as one of the most influential factors. Empirical evidence shows that a decline in the level of taxpayers' voluntary compliance in Tanzania is caused by tax rates Masud & Gambo, (2019). In the previous studies conducted by Abdulsalam Masud and El-Maude Jibreel Gambo (2019), with supporting research from NBAA (2019), high level of tax rates causes the taxpayers' voluntary compliance to decline and the essence of low-level tax

rate causes the level of taxpayers' voluntary compliance to increase. Furthermore, according to Muhammad Yudhy Guztaman (2019), a low tax rate would result in higher compliance, whereas a high tax rate would result in lower compliance.

Table 12. Mean and Standard Deviation Interpretation of the Respondents' Perception of Simplicity of the Tax Process as a Factor Affecting Tax Compliance

Simplicity of the Tax Process	<i>M</i>	<i>SD</i>	Interpretation
I believe that there is a good and functional system of processing, filing and paying my tax obligations.	3.14	0.780	High
Income tax regulations are simple and easy to understand.	3.13	0.822	High
Tax authorities are giving me enough information on how to process my tax return.	3.09	0.819	High
Income tax preparations are simple and easy to comply.	3.01	0.759	High
Tax authorities are helping me minimize costs in complying tax laws.	2.91	0.819	High
I am satisfied in the number of hours I spend to process and file my tax returns.	2.89	0.784	High
I don't need bookkeepers to process and file my tax returns.	2.56	0.997	High
Overall Weighted Mean	2.96	0.826	High

Table 12 shows the mean and standard deviation of the respondents' perception of the simplicity of the tax process as a factor of tax compliance. The overall mean of the seven indicators shows that the respondents also have a high level of perception about this factor ($M = 2.96$, $SD = .826$, $N = 79$). Likewise, all the statements of this variable received an interpretation of "High."

Based on the study entitled Key Elements of the U.S. Tax System (2020), simplifying tax laws may increase compliance by lowering unintentional tax evasion. People may not pay taxes to some (uncertain) amount because they do not compre-

hend the tax code. An ideal tax system, in the opinion of Hassan et al. (2021), promotes economic growth and is easy to understand, equitable, and enforceable. As a result, the decision to comply with tax laws may be greatly influenced by how simple the legislation is Hassan et al., (2021).

Table 13. Mean and Standard Deviation Interpretation of the Respondents' Perception of Rewards as a Factor Affecting Tax Compliance

Rewards	<i>M</i>	<i>SD</i>	Interpretation
I believe that giving rewards can motivate taxpayers to pay taxes correctly and honestly.	3.11	0.800	High
I believe that the BIR is giving good rewards to motivate taxpayers to pay correct taxes.	2.80	0.897	High
I believe that honest taxpayers are fully rewarded by the BIR.	2.75	0.926	High
I pay my taxes correctly and promptly because of the possible rewards.	2.70	0.925	High
Overall Weighted Mean	2.84	0.887	High

Table 13 shows the mean and standard deviation of the respondents' perception of rewards as a factor of tax compliance. The overall mean of the four indicators shows that the respondents also have a high level of perception about this factor ($M = 2.84$, $SD = .887$, $N = 79$). Similarly, all the four statements of this variable received an interpretation of "High."

According to the study conducted by Geatano Lisi (2022), governments and tax administrations can create methods to boost tax collection by using tax incentives as an important and practical tool for fiscal policy. The increasing experimental empirical literature on tax compliance has mostly avoided evaluating the effects of rewards Slemrod, (2019). Governments at all levels, including the federal and municipal, have used and continue to use methods that compensate taxpayers for their "good behaviour" in the real world. According to Gaetano Lisi (2022), tax rewards are seen as a crucial component of fiscal policies that encourage tax compliance.

Table 14. Mean and Standard Deviation Interpretation of the Respondents' Perception of Penalty as a Factor Affecting Tax Compliance

Penalty	<i>M</i>	<i>SD</i>	Interpretation
I pay my tax obligation on or before deadline because of the very high penalty.	3.29	0.701	Very High
There is a big chance that I will be caught if I violate any tax law.	3.25	0.742	High
I am afraid of not paying my tax obligation because the legal sanction, if caught, is very high.	3.23	0.800	High
I believe that the penalty of not paying the right taxes is high enough.	3.19	0.735	High
I pay my tax liabilities correctly because I am afraid that others would criticize me.	2.94	0.852	High
Overall Weighted Mean	3.18	0.765	High

Table 14 shows the mean and standard deviation of the respondents' perception of penalty as a factor of tax compliance. The overall mean of the four indicators shows that the respondents also have a high level of perception about this factor ($M = 3.18$, $SD = .765$, $N = 79$). Four of the five statements of this variable received an interpretation of "High." Meanwhile, one statement received an interpretation of "Very High," and this is "I pay my tax obligation on or before deadline because of the very high penalty" ($M = 3.29$, $SD = .701$, $N = 79$).

Penalties and tax compliance have a complex relationship. According to the previous studies, the researchers discovered a favourable association between fines and tax compliance Oladele et al., (2019); Remali et al., (2018). In fact, with a focus on tax compliance, this ends up being the root of the bulk of MSMEs' worries because it is affected by a variety of circumstances. Tax inspection possibility, tax rates, tax penalties, tax laws' complexity, societal norms, and tax knowledge are only a few of the factors that affect tax compliance Paco & Quezon, (2022).

Table 15. Overall Mean and Standard Deviation Interpretation for the Factors Affecting Tax Compliance

Factor	<i>M</i>	<i>SD</i>	Interpretation
Tax Morale	3.45	0.692	Very High
Fairness	2.98	0.796	High
Tax Audit	3.25	0.752	High
Tax Rate	3.17	0.755	High
Simplicity of the tax process	2.96	0.826	High
Rewards	2.84	0.887	High
Penalty	3.18	0.765	High

Table 15 shows the overall mean and standard deviation of the respondents' perception towards the seven identified factors which could affect their tax compliance. These include tax morale, fairness, tax audit, tax rate, simplicity of the tax process, rewards, and penalty.

Out of the seven factors, only one was found to have an interpretation of "Very High," and this is tax morale ($M = 3.45$, $SD = .692$, $N = 79$). Meanwhile, an interpretation of "High" was received by the rest of the factors, namely, fairness ($M = 2.98$, $SD = .796$, $N = 79$), tax audit ($M = 3.25$, $SD = .752$, $N = 79$), tax rate ($M = 3.17$, $SD = .755$, $N = 79$), simplicity of the tax process ($M = 2.96$, $SD = .826$, $N = 79$), rewards ($M = 2.84$, $SD = .887$, $N = 79$), and penalty ($M = 3.18$, $SD = .765$, $N = 79$).

The next seven tables present the mean and standard deviation of each of the indicators of the seven factors mentioned.

According to Nguyen Thi Mai Huong and Pham Mai Phuong (2021), taxes are regarded as the primary source of funding for the federal budget and are a crucial tool for regulating the macro economy, encouraging investment, and managing inflation. As stated in the case study conducted by Nguyen Thi Mai Huong and Pham Mai Phuong (2021), one of the factors affecting tax compliance is the field of operation of the enterprise. The enterprise's industry influences tax compliance to some extent.

Income, on which the business must pay taxes, will be directly impacted by the sector and revenue. Numerous studies on the impact of tax knowledge on tax compliance have been published in the past Hamid et al., 2019; Musimenta, (2020).

Table 16. Mean and Standard Deviation Interpretation of the Respondents' Tax Compliance

Tax Compliance	<i>M</i>	<i>SD</i>	Interpretation
I have been paying my tax obligations correctly.	3.56	0.675	Very High
I have been paying my tax obligations on time.	3.56	0.675	Very High
I have no problem in complying my tax obligations.	3.39	0.869	Very High
I am fully satisfied with all tax requirements imposed by the BIR.	3.25	0.839	Very High
Overall Weighted Mean	3.44	0.764	Very High

Table 16 shows the mean and standard deviation of the respondents' assessment of their tax compliance. The overall mean of the four indicators shows that the respondents have a very high level of tax compliance ($M = 3.44$, $SD = .764$, $N = 79$). All four statements received an interpretation of "Very High."

In a case study conducted by Nguyen Thi Le Thuy (2018), it is stated that: "The tax compliance of an enterprise is the act of fulfilling tax obligations according to the purposes of the lawfully, voluntarily and on time." Tax authorities have primarily relied on deterrent actions to ensure compliance, including conducting tax audits and investigations and charging higher fines on persistent taxpayers Sikayu et al. (2022). Over the past 50 years, researches about tax compliance have become increasingly popular. These researches' findings have resulted that tax compliance is dependent on a variety of factors, including deterrence, economic, social, norms, attitudinal, psychological, fairness, trust, cultural, political, opportunities and perception factors Yong et al., (2020).

Table 17. Kruskal-Wallis Test for Perception of Factors Affecting Tax Compliance across Types of Industry

Factor	Kruskal-Wallis <i>H</i>	<i>Df</i>	<i>P</i>
Tax Morale	3.43	4	.489
Fairness	7.75	4	.101
Tax Audit	2.28	4	.684
Tax Rate	7.43	4	.115
Simplicity of the tax process	1.10	4	.894
Rewards	3.45	4	.486
Penalty	6.60	4	.158

A series of Kruskal-Wallis tests was used to determine whether there are significant differences across the groupings based on industry types in terms of the seven identified factors which could affect tax compliance. Due to the non-parametric nature of the data, Kruskal-Wallis was deemed appropriate to be used.

Results showed that the groups do not significantly differ in terms of their perceptions of the seven factors, namely, tax morale [$H(4) = 3.43, p = .489$], fairness [$H(4) = 7.75, p = .489$], tax audit [$H(4) = 2.28, p = .489$], tax rate [$H(4) = 7.43, p = .489$], simplicity of the tax process [$H(4) = 1.10, p = .489$], rewards [$H(4) = 3.45, p = .489$], and penalty [$H(4) = 6.60, p = .489$].

These results indicate that based on the data gathered, the type of industry where a company is a part of does not affect its perception of the seven factors. According to the study conducted by Ma. Victoria Raquiza (2021), businesses are classified as SMEs by the Department of Trade and Industry (DTI) depending on the amount of their assets and the number of employees they employ. Businesses are classified as small if they have assets between Php 3,000,001 and Php 15,000,000, and as medium if they have assets between Php 15,000,001 and Php 100,000,000. A company is also regarded as a small firm if it employs 10 to 99 people, and a medium enterprise if it has 200 or more. Large en-

terprises (LE) are companies with larger asset sizes and higher personnel counts. On the study made by Indeed Editorial Team (2023), over 31.7 million SMEs exist in the United States.

Table 18. Kruskal-Wallis Test for Perception of Factors Affecting Tax Compliance across Levels of Income

Factor	Kruskal-Wallis <i>H</i>	<i>Df</i>	<i>P</i>
Tax Morale	16.97	12	.151
Fairness	14.36	12	.278
Tax Audit	18.43	12	.103
Tax Rate	11.12	12	.518
Simplicity of the tax process	15.13	12	.234
Rewards	13.35	12	.344
Penalty	8.35	12	.757

Another series of Kruskal-Wallis tests was done to determine whether there are significant differences across the groupings based on level of income in terms of the seven identified factors which could affect tax compliance.

Results showed that the groups again do not significantly differ in terms of their perceptions of the seven factors, namely, tax morale [$H(12) = 16.97, p = .151$], fairness [$H(12) = 14.36, p = .278$], tax audit [$H(12) = 18.43, p = .103$], tax rate [$H(12) = 11.12, p = .518$], simplicity of the tax process [$H(12) = 15.13, p = .234$], rewards [$H(12) = 13.35, p = .344$], and penalty [$H(12) = 8.35, p = .757$].

These results imply that based on the data gathered, the level of income of a company does not affect its perception of the seven factors. According to the study conducted by Meda Andini and Alfa Rahmiati (2020), individuals prefer to spend their income on their daily needs rather than pay taxes. People who earn enough money, or perhaps a lot of money, will be better able to pay their taxes and maintain their daily necessities. It will be more difficult for people whose income is limited to meeting their basic necessities to comply with their tax obligations. As stated in the study by Musimenta (2020), a person's income level

influences awareness of paying taxes, the higher a person's income, the greater the amount of tax must be paid. Income is a determining factor in taxpayer compliance, and it makes sense that greater income levels correspond to higher levels of compliance. According to Lisa & Hermant (2018), income levels had a good influence on taxpayer compliance.

Table 19. Kruskal-Wallis Test for Perception of Factors Affecting Tax Compliance across Groupings based on the Number of Years in Operation

Factor	Kruskal-Wallis H	Df	P
Tax Morale	4.89	3	.180
Fairness	.946	3	.814
Tax Audit	.708	3	.871
Tax Rate	1.18	3	.758
Simplicity of the tax process	2.26	3	.521
Rewards	3.43	3	.330
Penalty	.723	3	.868

Another series of Kruskal-Wallis tests was done to determine whether there are significant differences across the groupings, this time, based on the number of years in operation in terms of the seven identified factors which could affect tax compliance.

Results showed that the groups again do not significantly differ in terms of their perceptions of the seven factors, namely, tax morale [$H(3) = 4.89$, $p = .180$], fairness [$H(3) = .946$, $p = .814$], tax audit [$H(3) = .708$, $p = .871$], tax rate [$H(3) = 1.18$, $p = .758$], simplicity of the tax process [$H(3) = 2.26$, $p = .521$], rewards [$H(3) = 3.43$, $p = .330$], and penalty [$H(3) = .723$, $p = .868$].

These results indicate that based on the data gathered, a company's number of years in operation does not affect its perception of the seven factors. The study conducted by Khamis et al. (2018) attempts to show whether length of business operation determines compliance behavior of business zakat among owners

of SMEs through application of Rasch Measurement Model. Therefore, this study assumes that the length of business operation has a beneficial influence on business zakat compliance behaviors through the application of the Rasch Measurement Model.

Table 20. Kruskal-Wallis Test for Perception of Factors Affecting Tax Compliance across Groupings based on the Education Level of the Owner

Factor	Kruskal-Wallis H	Df	P
Tax Morale	6.21	5	.286
Fairness	5.66	5	.341
Tax Audit	5.06	5	.408
Tax Rate	5.11	5	.403
Simplicity of the tax process	3.75	5	.586
Rewards	2.48	5	.779
Penalty	5.04	5	.411

Another series of Kruskal-Wallis tests was done to determine whether there are significant differences in terms of the seven identified factors which could affect tax compliance across the groupings based on the educational attainment of the owner.

As shown in the table, results showed that the groups again do not significantly differ in terms of their perceptions of the seven factors, namely, tax morale [$H(5) = 6.21$, $p = .286$], fairness [$H(5) = 5.66$, $p = .341$], tax audit [$H(5) = 5.06$, $p = .408$], tax rate [$H(5) = 5.11$, $p = .403$], simplicity of the tax process [$H(5) = 3.75$, $p = .586$], rewards [$H(5) = 2.48$, $p = .779$], and penalty [$H(5) = 5.04$, $p = .411$].

These results show that based on the data gathered the educational attainment of the owner does not affect a company's perception of the seven factors. Previous research has demonstrated a positive correlation between tax compliance and education levels. Mbilla et al. (2020) revealed that 90.20 % of the respondents recognized and are aware of the importance of tax education in increasing their knowledge base of tax issues. Accord-

ing to the results of their study, tax education is crucial for lowering noncompliance rates, raising tax accountability, raising tax compliance awareness, and enhancing knowledge of tax laws.

Table 21. Kruskal-Wallis Test for Respondents' Tax Compliance based on Firmographic Variables

Firmographic variables	Statistical Treatment	Tax Compliance
Type of Industry	Kruskal-Wallis	4.71
	Df	4
	Sig.	.318
Level of Income	Kruskal-Wallis	13.32
	Df	12
	Sig.	.346
Number of Years in Operation	Kruskal-Wallis	1.67
	Df	3
	Sig.	.644
Education Level of the Owner	Kruskal-Wallis	5.55
	Df	5
	Sig.	.352

Another set of Kruskal-Wallis tests was done to determine whether the groupings based on the firmographic variables determine the level of tax compliance of the company.

The first row shows the computation of differences in tax compliance across industry types. Results show that there is no significant difference across industry types when it comes to tax compliance [$H(4) = 4.71, p = .318$]. Likewise, there is no significant difference in the tax compliance across levels of income [$H(12) = 13.32, p = .346$]. There is also no significant difference in tax compliance across groupings based on the number of years in operation [$H(3) = 1.67, p = .644$]. Lastly, there is also no significant difference in tax compliance across groupings based on the education level of the owner [$H(5) = 5.55, p = .352$]. On the study made by Indeed Editorial Team (2023), over 31.7 million SMEs exist in the United States. As reported by Small Business Administration (SBA) statistics, the top five industries for small businesses employment were: Health care and social assistance, Accommodation and food service, Retail trade, Construction, Professional, scientific and technical services.

Table 22. Pearson Product-Moment Coefficient Table for the Respondents' Tax Compliance and their Perception of the Seven Factors

Factor	Statistical Treatment	Tax Compliance
Tax Morale	Pearson Correlation	.709**
	Sig.	.000
	N	79
Fairness	Pearson Correlation	.598**
	Sig.	.000
	N	79
Tax Audit	Pearson Correlation	.697**
	Sig.	.000
	N	79
Tax Rate	Pearson Correlation	.667**
	Sig.	.000
	N	79
Simplicity of the Tax Process	Pearson Correlation	.563**
	Sig.	.000
	N	79
Rewards	Pearson Correlation	.549**
	Sig.	.000
	N	79
Penalty	Pearson Correlation	.792**
	Sig.	.000
	N	79

Pearson product-moment correlation coefficients were computed to determine the relationship between the respondents' tax compliance and their perception of each of the seven factors, namely, tax morale, fairness, tax audit, tax rate, simplicity of the tax process, rewards, and penalty.

As shown, there is a strong positive significant relationship between tax compliance and tax morale ($r = .709, N = 79, p < 0.001$). There is a moderate positive significant relationship

between tax compliance and fairness ($r = .709$, $N = 79$, $p < 0.001$). Furthermore, there is a strong positive significant relationship between tax compliance and tax audit ($r = .697$, $N = 79$, $p < 0.001$). There is also a strong positive significant relationship between tax compliance and tax rate ($r = .709$, $N = 79$, $p < 0.001$). A moderate positive significant relationship between tax compliance and simplicity of the tax process ($r = .563$, $N = 79$, $p < 0.001$). There is also a moderate positive significant relationship between tax compliance and rewards ($r = .709$, $N = 79$, $p < 0.001$). Finally, a strong positive significant relationship between tax compliance and penalty ($r = .792$, $N = 79$, $p < 0.001$).

These findings are conclusive because the relationships are found to be significant. This means that when the company's perception of the factors increases, their level of tax compliance also decreases. Low tax morale contributes to low levels of tax compliance Yuniadi, (2018). According to the research study conducted by Mayowan Yuniadi (2018), tax morale is the underlying desire to pay taxes. The tax morale index measures how willing people are to pay taxes or how they feel about themselves as a result of having to. Kassa (2021) stated that tax fairness is defined as the equity of tax collection principles, practices, and execution. Unfair tax collection techniques may give rise to immoral behavior. Tax fairness might encourage people to pay their taxes on time.

Widuri et al. (2019) stated that tax audits affect taxpayer compliance. The findings demonstrate that routine tax audits reduce the amount of fraud committed by taxpayers and have a dissuasive effect on offenders, hence increasing corporate taxpayer compliance Rahmayanti et al., (2020). According to Hana Paleka and Vanja Vitezić (2023), almost every fundamental theory of tax compliance includes tax rate as one of the most influential factors. Furthermore, according to Muhammad Yudhy Guzta-man (2019), a low tax rate would result in higher compliance, whereas a high tax rate would result in lower compliance. Based on the study entitled Key Elements of the U.S. Tax System (2020), simplifying tax laws may increase compliance by lowering unintentional tax evasion.

Conclusions

The comprehensive findings of this study offer valuable insights into the firmographic profile of respondents and the factors affecting tax compliance among small and medium enterprises (SMEs). Firstly, the dominance of the retail trade industry among surveyed businesses highlights its significance within the sample population, indicating potential areas for targeted policy interventions or support. Moreover, the diverse income levels represented, with a notable segment earning under 10,000 per month, underscores the economic spectrum within the SME landscape. Additionally, the longevity of operation exhibited by a significant portion of establishments operating for more than five years suggests a level of stability and experience that may influence tax compliance behaviors.

Furthermore, the study's nuanced examination of factors affecting tax compliance reveals a collective perception of "Very High" compliance among respondents, reflecting a positive overall assessment of adherence to tax obligations within the surveyed business community. This assessment is crucial for policymakers and tax authorities in gauging the effectiveness of existing compliance strategies and identifying areas for improvement. Moreover, the rigorous statistical analysis conducted, particularly through Kruskal-Wallis tests, sheds light on consistent perceptions across various firmographic dimensions, suggesting that while characteristics may vary, perceptions of tax compliance factors remain relatively stable.

Lastly, the study underscores the significant relationship between respondents' perceptions of tax compliance factors and their actual compliance behavior, emphasizing the crucial role of perceptions in shaping actions. This finding highlights the importance of fostering positive perceptions and understanding the intricate interplay between perceptions and actions in promoting tax compliance among SMEs. Ultimately, by leveraging these insights, policymakers and tax authorities can develop targeted interventions and strategies to enhance tax compliance within the SME sector, ultimately contributing to broader economic growth and fiscal sustainability.

Recommendations

Based on the findings and conclusion, here are the following recommendations suggested.

1. **Targeted Support for Retail Sector:** Given the significance of the retail trade industry within the SME landscape, policymakers could consider implementing targeted policy interventions or support programs tailored to the needs of businesses operating in this sector.
2. **Income-Level Specific Initiatives:** Recognizing the diverse income levels represented among respondents, there is a need for income-level specific initiatives aimed at supporting businesses earning under 10,000 per month, potentially through financial assistance programs or tax relief measures.
3. **Longevity-Based Support:** Considering the stability and experience exhibited by businesses operating for more than five years, policymakers could focus on providing support mechanisms or incentives to encourage longevity in operation, such as access to mentorship programs or funding opportunities for expansion.
4. **Continuous Evaluation of Tax Compliance Strategies:** Given the positive perception of tax compliance among respondents, policymakers and tax authorities should continue to evaluate and refine existing compliance strategies to maintain the perceived high level of compliance, ensuring they remain effective and responsive to evolving needs.
5. **Education and Awareness Campaigns:** Enhancing education and awareness campaigns on tax compliance could further reinforce positive perceptions and behaviors among SMEs, potentially through workshops, seminars, or online resources tailored to the specific needs and preferences of entrepreneurs.
6. **Tailored Interventions Based on Firmographic Characteristics:** While firmographic characteristics may vary, policymakers should recognize the consistent perceptions

of tax compliance factors across different dimensions and develop tailored interventions that acknowledge these variations, ensuring they effectively address the diverse needs of SMEs.

7. **Leveraging Perceptions to Drive Compliance:** Understanding the significant relationship between perceptions and actual compliance behavior, policymakers should leverage positive perceptions to drive continued adherence to tax obligations among SMEs, potentially through targeted messaging campaigns or incentive programs.
8. **Explore Industry-Specific Dynamics:** Investigate how industry-specific factors influence tax compliance behaviors among SMEs. By focusing on different sectors, researchers can uncover unique challenges and opportunities that may impact compliance rates and perceptions.

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