

INTERNATIONAL JOURNAL OF MULTIDISCIPLINARY: APPLIED BUSINESS AND EDUCATION RESEARCH

2023, Vol. 4, No. 4, 1350 – 1364

<http://dx.doi.org/10.11594/ijmaber.04.04.29>

Research Article

Factors Affecting Tax Compliance of MSMEs in Dipolog City

Janven A. Granfon¹, Wella Nova Joy D. Lagare², Dexter A. Aling², Neil Bryan D. Dangcalan², Ara A. Ebanay²

¹Assistant Professor 3, College of Business Administration, Jose Rizal Memorial State University, Philippines

²Students, College of Business Administration, Jose Rizal Memorial State University, Philippines

Article history:

Submission February 2023

Revised April 2023

Accepted April 2023

*Corresponding author:

E-mail:

chagelishviliana@yahoo.com

ABSTRACT

This research is made focused on assessing what factors could affect the tax compliance of MSMEs in Dipolog City, one of the major economic drivers are; (1) Tax Inspection Possibility, (2) Tax Rates, (3) Tax Penalties, (4) Tax Policies Complexity, (5) Social Norms and (6) Tax Knowledge. Through random sampling, 96 business owners/managers/bookkeepers of specifically retail MSMEs in Dipolog City were extracted as respondents. A descriptive correlational quantitative method was used in this study, utilizing standardized adapted questionnaires for gathering data which was analyzed and interpreted using frequency, percentage distribution, mean, Kruskal-Wallis test, and Spearman Rho. Findings revealed most of the enterprises belong to a micro level and are still in the business for 2-5 years. Furthermore, among the factors identified, only Tax inspection Possibilities, Tax Penalties, and Tax Knowledge have significant relationships with tax compliance. This means that the possibility of being inspected, delayed payment of obligations, and their knowledge of tax laws increased the respondents' awareness of tax compliance. If a taxpayer has knowledge about tax laws, payments, and tax rates applied to his/her business, compliance increases. It is also recommended that the taxing authority must conduct a statutory tax seminar to MSMEs as taxpayers.

Keywords: MSMEs, Tax Compliance, Tax Inspection Possibilities, Tax Knowledge, Tax Penalties

Introduction

Tax is a system of funding levied on the citizens of the country or state intended for the common good. With the existence of tax,

specifically tax compliance, the government could provide a vast array of public services, to name a few defenses, public order and safety, health, education and social protection among

How to cite:

Granfon, J. A., Lagare, W. N. J. D., Aling, D. A., Dangcalan, N. B. D., & Ebanay, A. A. (2023). Factors Affecting Tax Compliance of MSMEs in Dipolog City. *International Journal of Multidisciplinary: Applied Business and Education Research*. 4(4), 1350 – 1364. doi: 10.11594/ijmaber.04.04.29

others. Tax compliance is the willingness of the taxpayer's to pay taxes, however ultimately necessary to achieve country's economic equilibrium (Winslade, 2013). In layman's terms, tax compliance is the free and complete performance of all tax duties prescribed by law. As said, taxes are the lifeblood of the government and so should be collected without unnecessary hindrance (Gr_l_28896_1988 @ Lawphil.Net, n.d.). As important as tax compliance is to the continued subsistence of the government, Micro, Small and Medium-sized Enterprises (MSMEs), in particular, is to economic growth, in developing the Philippine economy to be exact. In Republic Act No. 9501, Section 3, in particular, MSMEs is defined as "any business activity or enterprise engaged in industry, agribusiness and/or services, whether single proprietorship, cooperative, partnership or corporation whose total assets (exclusive of land) must have value falling under the following categories: (1) Micro – not more than ₱3,000,000, (2) Small – ₱3,000,001 to 15,000,000 and (3) Medium – ₱15,000,001 to 100,000,000".

Although they are small in size compared to large ones, they are vital to the economy because they alleviate poverty through creating jobs for the country's growing labour force, promote economic growth in rural and remote areas, and serve as a breeding ground for new entrepreneurs and large enterprises. Empirically, according to the Department of Trade and Industry (2018), MSMEs in the Philippines account to 99.52% of the registered businesses in the country and provide 63.19% of jobs, thus making itself the backbone or the lifeblood in promoting sustainable and inclusive growth. Accordingly, the collection of taxes from Micro, Small, and Medium Enterprises is a vital source of income for the Bureau of Internal Revenue.

With tax being obligatory in nature, this becomes the source of the majority of MSMEs' concerns. In the country other than the Philippines, specifically Malaysia, depending on the business establishment, MSMEs were taxed as either individual taxpayers for unincorporated businesses or corporate taxpayers for incorporated businesses (Pope & Jabbar, 2008). In fact, with emphasis on tax compliance, this becomes the source of the majority of MSMEs' concerns

because it is being influenced by several factors. Several factors affecting tax compliance such as, tax awareness, and penalties (Paco et al., 2022). Tax inspection possibility, tax rates, tax penalties, tax policies Complexity, social norms, tax knowledge (Nguyen, 2022).

Therefore, in order to assess these factors or to measure the level of how it affects tax compliance, the study analyzed the mentioned ones which affect MSME's tax compliance in Dipolog City. The study being undertaken demonstrates the impact of each factor on MSMEs' tax compliance. Since then, the study also addresses the government and tax regulators/agencies, like the Bureau of Internal Revenue (BIR), to give more attention to tax compliance on MSMEs.

Research in the Philippines at the MSMEs regarding tax compliance is very limited, with this; this study helps to close the gap in the literature by determining significant effects of each factor to the tax compliance of MSMEs. Furthermore, the researchers want to contribute in such a manner that the government recognizes the need to evaluate tax prejudice against MSMEs, if any, which will be beneficial to the major economic driver of the Philippines, the MSMEs, and for better tax compliance among the subject overall. Although this study was successful in demonstrating the significant effects between the variables, additional research on the given variables is still encouraged.

Objectives

This study determined which factors could affect the Tax compliance of Micro, Small and Medium size Entities by answering the following questions:

1. What is the profile of the enterprise in terms of size and length of operation?
2. What is the level of Tax Compliance of MSMEs?
3. What factors affect Tax compliance?
4. What action plan can be developed based on the result of the study?

Review of Related Literature

Tax is a charge that citizens of a country or a state must bear for the primary reason that the government must raise revenue from the

people it governs in order to avoid being paralyzed, which results in a lack of motive power to activate or operate. Additionally, here in the Philippines, it can only be demanded and enforced by the government of the said country upon its citizens and residents thus cannot be enforced on subjects beyond its geographical authority as this would impinge on foreign sovereignty. According to the National Tax Research Center, taxation in the Philippines started on May 15, 1959. This occurred as a result of the enactment of Republic Act (RA) No. 2211, which institutionalized tax research in the Philippines on the said date, "creating the Joint Legislative Executive Tax Commission (JLETC) as a new agency under the administrative supervision of the national economic development authority". Over the years, other taxes and duties have been added through amendments and enactments.

With tax being obligatory in nature, this becomes the source of the majority of MSMEs' concerns. In fact, with emphasis on tax compliance, this becomes the source of the majority of MSMEs' concerns because it was influenced by several different factors. These aforementioned factors are claimed to have an effect on tax compliance cost incurred by MSMEs and these include the following: (1) Tax Inspection Possibility, (2) Tax Rates, (3) Tax Penalties, (4) Tax Policies Complexity, (5) Social Norms and (6) Tax knowledge which will be presented in the following literatures.

Tax Inspection Possibility. Tax inspection was defined as the process of evaluating the completeness and accuracy of information and documents in tax records, as well as taxpayers' compliance with tax laws. That being said and in connection to the study concerning factors affecting tax compliance conducted by Nguyen (2021), of which tax inspection was one of the factors, Tax inspections have a positive impact on reducing tax evasion because they prevent tax fraud and force taxpayers to comply with tax laws, thereby increasing tax compliance. (Kirchler, 2007).

Tax Rates. Tax rate is an important factor determining tax compliance, since this influences taxpayer's decision to comply with the tax laws. Raising marginal tax rates is likely to encourage taxpayers to evade tax even more;

on the other hand, lowering tax rates does not always result in increased tax compliance.

Studies suggested that there was a correlation between tax rates and tax compliance, in other words, tax rates influenced the taxpayer's tax compliance. As evidence, Collins and Plumlee (1991) concludes that the higher the tax rate, the less likely taxpayers were to comply; in other words, high tax rates result in high tax noncompliance. (Tilahun, 2019). Furthermore, when the study looked at the effect of tax rates on tax evasion, the findings revealed that tax rates and tax evasion have a direct relationship. As a result, an increase in tax rates resulted in an increase in tax evasion.

Tax Penalties. A tax penalty is a monetary penalty imposed by the tax law for performing or failing to perform a prescribed act, such as failing to file a return on time, filing it incorrectly, or filing undervalued returns. In the Philippines, as provided by the Bureau of Internal Revenue, tax penalty is divided into three (3) categories namely: (A) Tax Returns with Tax Due, (B) Tax Returns with No Tax Due and (C) Statements/Records Required to be Filed with No Tax Due to be Paid. In the first category, penalties include surcharge embodied in NIRC Sec. 248-Civil Penalties, Interest in NIRC Sec. 249 and NIRC Sec. 255-Compromise. Tax Returns with No Tax Due include the reference specifically found in page 4 of Annex A of RMO No. 7-2015 and the NIRC Sec. 250. Tax penalty concerning the last category was directly attributable to NIRC Sec. 275-Violation of Other Provisions of this Code or Rules and Regulations in General.

Tax Policies Complexity. Tax policies complexity arises due to the increase sophistication in the tax laws, as examined in the literature of (Saad, 2014) on tax complication of which complexity of tax system is classified into calculation, tax forms, compliance costs, principles and procedures.

According to Nguyen (2021), in the study concerning factors affecting tax compliance of which the complexity of tax policies is one of the factors, a complex tax system can have a negative impact on tax compliance through creating barriers and higher compliance costs for taxpayers, as well as reducing preferences and limiting taxpayers' compliance ability.

Social Norms. In the study conducted by (Nguyen, 2022) regarding factors affecting tax compliance, tax compliance is closely related to ethical and social norms. (Battiston & Gamba, 2013, 2016; Fjeldstad & Semboja, 2001; Traxler, 2010), and have influence on the intention of complying taxes (Bobek et al., 2007). However, as a working definition, social norms are construed in accordance with Cialdini & Trost (1998), as “rules and standards that are understood by members of a group, and that guide and/or constrain social behaviour without the force of laws”.

(Nguyen, 2022), in his study regarding factors affecting tax compliance; social pressures have a significant positive impact on voluntary tax compliance among taxpayers. (Battiston & Gamba, 2016). Because of their social acceptance, taxpayers in a social community form compliance intentions.

Tax Knowledge. As defined by Mulya (2012), a tax knowledge is tax information that taxpayers can use to act, make decisions, and pursue specific tax directions or strategies.

In the research conducted by Ilkham & Haryanto, (2017), It demonstrated that when a person has a broad knowledge and understanding of the importance of taxes used by the state to finance his household and for public investment, he or she is more motivated to pay taxes, of which the findings complement to the previous study done by Yunus et al.,(2017) that tax knowledge or tax education have a moderate positive relationship with tax compliance.

The literature and studies included in this study highlighted the variables under consideration, which are the factors affecting tax compliance as well as tax compliance itself. These mentioned factors are perceived to be affecting MSMEs ability towards meeting their tax obligations. Therefore, in order to determine or assess the factors level of influence with regards to MSMEs tax compliance, the study analysis the mentioned ones through relating to the operating MSMEs in Dipolog City, limiting only to those operating retail stores. With the study being undertaken, this demonstrates the influence of each factor on MSMEs’ ability to comply with tax compliance. Since then, the study has also urged the government and tax regulators/agency, such as the Bureau of Internal Revenue (BIR), to pay more attention to MSMEs' tax compliance. Furthermore, the researchers hope to contribute in such a way that the government will recognize the need to evaluate tax prejudice against MSMEs, if any exist, which will benefit the Philippines' main economic driver, MSMEs, as well as better tax compliance among the subject overall.

Particularly, the framework in Figure 1 will be used to determine the impact of the predetermined common factors towards the tax compliance of MSMEs operating retail in Dipolog City. The variables adopted are from results of the previous study of by Nguyen (2022) that are said to be generally affecting tax compliance of MSMEs.

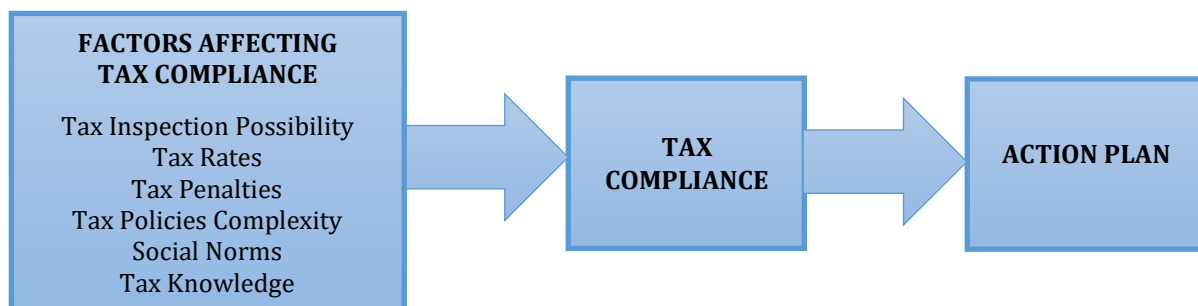


Figure 1. Conceptual Framework

Research Method

The researchers used a quantitative research method. Quantitative research frequently draws conclusions based on statistical

procedures and frequently employs graphs and figures for data analysis. (Pervez Ghauri, 2005). The study collected data through primary sources using a standardized adapted survey

questionnaire with a 4-level Likert scale. Philosophical stances attributed to analyse objectively, was through an etic epistemology through realism ontology, to satisfy the enterprises' profiles, and correlate the impact of the predetermined factors affecting tax compliance.

Research Respondents

This study determined extent on how the predetermined common factors of tax compliance does are affecting the MSMEs, particularly the operating retail stores in Dipolog City. Specifically, the respondents of this study were the MSMEs owner/manager/bookkeeper for they are the one who's well-knew and has direct access with regards to the information concerning the MSMEs tax compliance, specifically the operating retail stores in Dipolog City. As what being mentioned, the study made emphasis on operating retail stores in the said locality and its total population was retrieved from the Department of Trade and Industry (DTI).

Moreover, Slovin's formula was utilized upon obtaining its sample population of which represents the study's total number of respondents. From this sample MSMEs, the researchers surveyed its owner/manager/bookkeeper respectively, of which reason was being mentioned above. Furthermore, qualifications were simplified, for as long as the respondents were involved and knowledgeable enough regarding the business' tax compliance.

Research Instrument

The main instrument for data gathering was the questionnaire. The questionnaire was

divided into two (2) parts. The first part dealt with the respondents profiling such as the name of the business, the category of the business as to whether it is a micro, small or medium, number of years in operation, gross income per year and the respondent's position in the business. The second part dealt with the series of statement in connection to each of the factors affecting tax compliance extracted from the study conducted by Nguyen (2021), as such rated as either Strongly Agree, Agree, Disagree or Strongly Disagree. The factors in the questionnaire specifically include the (1) Tax inspection possibility, (2) Tax rates, (3) Tax penalties, (4) Tax policies complexity, (5) Social Norms and (6) Tax Knowledge. Additionally, there were also statements that focused on tax compliance, to correlate the factors and the tax compliance.

Validation of Instrument

Statements in connection to the factors as well as to the tax compliance were extracted/based on the research study conducted by Nguyen (2021), a study of which scope was in Vietnam. Although, tax vary from place to place as it is territorial in nature so as not to impinge foreign sovereignty, statements were seen as generalized as each of it does not limit to a specific place, specifically Vietnam, thus considered applicable to the undertaken study. In connection to the extracted questionnaire, no modification was made and to assess the reliability of each statement, Cronbach Alpha's reliability test was utilized of which results follow.

Table 1. Cronbach Alpha's Reliability Test

Component	N of Items	Cronbach's Alpha
1. Tax Inspection Possibility	3	0.744
2. Tax Rates	4	0.726
3. Tax Penalties	4	0.725
4. Tax Policies Complexity	5	0.804
5. Social Norms	3	0.785
6. Tax Knowledge	4	0.769
7. Tax Compliance	4	0.798

Cronbach's Alpha coefficients were used to examine the degree of correlation between observed variables in the research model. The

results in Table 1 show that all variables have Cronbach's alpha coefficients greater than 0.6, indicating that the statements can be used

effectively and reliably (Hoang & Chu, 2008). Thus, the results remain the observed variables belonging to the factor groups.

Data Analysis

To treat and interpret the data being gathered as well as to address the study's underlying problems, various statistical treatments were used, of which such were as follows: **Frequency and Percentage Distribution** were utilized to find out the number of research participants in percentage. **Mean** was used to determine the extent to which the factors affect

MSMEs operating retail stores tax compliance. **Kruskal-Wallis Test** was also used to determine if there is a significant difference between the ordinal data namely, size and length of operation and tax compliance. And **Spearman Rho** to measure the strength of association between two variables. In the study, the said statistical treatment was used to determine if there is a significant relationship exists between the study's two variable, the factors affecting tax compliance and the tax compliance itself.

Results and Discussion

Profile of the Enterprise

Table 2. Frequency and Percentage of the Enterprise in their profile

Business Category	Frequency (f)	Percent (%)
Micro	77	80.21
Small	13	13.54
Medium	6	6.25
Total	96	100.00
Length of Operation	Frequency (f)	Percentage (%)
0 - 1 year	18	18.75
2 - 5 years	27	28.13
6 - 10 years	30	31.25
11 - 15 years	10	10.42
16 - 20 years	7	7.29
21 - 50 years	4	4.17
Total	96	100.00

The table above shows the frequency and percentage of the enterprise, specifically the operating retail stores in terms of its business category and its length of service. Of which, as what can be seen in the table, 77 out of 96 retail stores or 80.21% classify themselves as micro businesses. Additionally, 13 retail stores or 13.54% were small and 6 or 6.25% were medium businesses. Moreover, the frequency and percentage of operating retail stores in terms of their length of operation, revealed that most of the surveyed participants were in a range of 6-10 years of operation, specifically, 30 out of 96, yielding a total percentage of 31.25%. Following, 27 out of 96 were in a range of 2-5 years, having 28.13% percentage share. There were 18 and 10 retail store were currently in its 0-1 year and 11-15 years in operation, a percentage share of 18.75% and 10.42% respectively.

There were also operating retail stores who already operate in a number of years, as evidenced in the table, specifically in a range of 16-20 years and 21-50 years of which having a 7 and 4 retail stores, a percentage share of 7.29% and 4.17% respectively.

Factors Affecting Tax Compliance

Tax inspection possibilities consist of three questions in total, and two out of three questions have a mean of 3.21 and 3.18, respectively, while the other one is 3.31. The respondents agreed that tax returns can be tested and the possibility of inspection due to tax frauds, while strongly agreed on fraud are likely to be discovered by tax authorities. The average mean on the tax inspection possibility is 3.24, which implies that the respondents already have insight on the possibility of tax inspection.

Thus, the result suggests that the possibility of tax inspection can influence the tax compliance

of micro, small, and medium-sized enterprises (MSMEs).

Table 3. Factors Affecting Tax Compliance

Factors	Mean	Description
Tax Inspection Possibility	3.24	Agree
Tax Rates	2.42	Disagree
Tax Penalties	2.74	Agree
Tax Policies Complexity	2.66	Agree
Social Norms	3.11	Agree
Tax Knowledge	3.25	Agree
Composite Mean	2.90	Agree

The result is supported by Kirchler et al., (2008), as he stated that tax inspection can affect tax compliance as it increases the level of tax compliance of the taxpayers. Tax inspections have a positive impact on reducing tax evasion because they prevent tax fraud at an early stage and force taxpayers to comply with tax laws. Accordingly, a research conducted by Prihandini (2018), from his study of the optimal level of tax compliance in a hostile climate based on authority and trust, he said that through an effective tax inspection voluntary compliance will increase. If the tax inspection is carried out in an unreasonable manner and the examination process is distressing to the taxpayer, this will result in a negative attitude toward the tax officials.

The composite mean of Tax rates is 2.42 which describe as disagree. One of the four questions has a mean of 2.46, indicating that respondents agree with the statement that high tax rates have been applied to businesses. However, the means for three of the four questions are 2.40, 2.26, and 2.38 indicating that respondents disagree with the statement. Respondents specifically disagree that tax rates are unsuitable for business activity, that tax rates are higher than in other areas, and that businesses are displeased with tax rates and payable tax fees. The findings suggest that tax rates cannot affect the tax compliance of enterprises.

This is supported by most empirical research findings stating that tax rates have significant negative correlation with tax compliance. Accordingly, Masud & Gambo, (2019), findings shows that there is a negative effect on

tax compliance. Thus, experiencing noncompliance should reduce the tax rate to the mean tax rate. Furthermore, (Guztaman, 2019), stated that low tax rate would cause the increase of compliance, yet if the tax rate is high, the tax compliance would be low.

Tax penalties on the other hand has a mean of 2.74 suggesting that tax penalties can influence tax compliance of the taxpayers. Three of the four questions have a mean of 2.40, 2.26, and 2.38, indicating that respondents disagreed, and the fourth has a mean of 2.06, indicating that respondents agreed. Respondents react to the statement that penalties are relatively small. They agreed that tax penalties are high, punishment is strict, and penalties are stringent.

Based on the deterrence theory, there is a positive relationship between tax penalties and compliance. Penalties for noncompliance should be increased to improve compliance. As a result, increased tax penalties would increase tax compliance and vice versa (Oladipupo & Obazee, 2016). In addition, As to Guztaman (2019), tax compliance could be improved by putting pressure on taxpayers to keep them from engaging in any violations or illegal acts in their businesses in order to evade taxes. The act of sanctioning could be carried out if taxpayers were caught committing tax violations through a good and integrated tax administration system and a good, qualified tax examination.

The other factor is the Tax Policies Complexity, this factor measure how it affects their tax compliance. With a description of "Agree," the statement "It is not easy to calculate the tax payable" obtained the lowest rate of 2.61. We

can deduce from the results that the intricacy of tax legislation makes it difficult for respondents to assess their tax liability. The statement "The content for the tax return is confusing" received the highest mean of 2.72, still retaining the description of "Agree." Overall, the factor "Tax Policies Complexity" earned a composite mean of 2.66, which can be classified as "Agree." As a result, the researchers determined that the respondents have difficulty understanding the country's tax rules as well as the processes involved in meeting their obligations to the government and thus, could potentially lead them to inadvertently disobey the tax rules and regulations.

Tax laws are too complex for taxpayers to understand, especially given how frequently they change. That is why, when faced with tax challenges, some corporate taxpayers hire the services of external tax consultant (Noor Sharoja Sapiei & Jeyapalan Kasipillai, 2013). As a result of the complexity of the tax system, inadvertent disobedience occurs frequently. This is because, because it is not a free service, some taxpayers may have difficulty locating the services of external tax professionals.

Social norms is also considered as one of the factors. The statement "Tax evasion will be condemned by the society" received an average rating of 3.00, with an "Agree" response. As a result, it's safe to assume that the respondents are aware of the public's reaction to tax evasion issues. The next statement, "Tax compliance is ethical," earned a mean of 3.36, which is considered "Strongly Agree," indicating that the respondents are fully aware that they should comply with their tax duties. The last statement, "Tax evasion is shameful and wrong," received a mean of 2.96, indicating that the respondents agree that dodging tax duties is immoral. The composite mean for social norms is 3.11, which is considered "Agree," indicating that the respondents appreciate public opinion as it affects their tax compliance and at the same time, recognizing its positive effect.

In their empirical study, Battiston & Gamba (2016), discovered a strong link between traditional ethical principles and tax compliance. They contend that social norms have a

significant influence on voluntary tax compliance. According to (Liu, 2014)'s empirical research, social norms influence both voluntary and compelled tax compliance at the same time. Strong subjective compliance standards effectively replace fines as a deterrent to tax evasion, implying that the deterrent effect of a penalty can be completely eliminated when subjective norms are strong.

Lastly, the respondents rated "Tax Knowledge" as it relates to their tax compliance with a mean of 3.25. The mean value of the statements as displayed, spans from 3.16 to 3.38. Only the statement "Understand the regulations for filling and paying taxes," which had the highest mean value of 3.38, can be considered "Strongly Agree," while the rest were only "Agree." Overall, the factor "Tax Knowledge" received a composite mean of 3.25 which is classified as "Agree". It indicates that the respondents, having enough knowledge about tax, were affected positively on their tax compliance.

Olatunji Olaoye (2017), stated that the level of knowledge and information on tax administration in terms of tax rates, allowances, allowable and non-allowable expenses, and tax penalties determines taxpayers' compliance with tax regulations in terms of filing returns and remittance. Osebe (2013), also found that tax knowledge and education had a strong favorable impact on tax compliance.

Finally, the table showed the results of all the factors as rated by the respondents according to their influence on their tax compliance. From the table, it is clear that the outcome of "Tax Rates" differs from that of the others having a mean of 2.42, with a description of "Disagree". This is because the respondents believe that the tax rate applied to their business is significant, hence it had little impact on their capacity to fulfill their tax responsibilities. The rest of the factors with mean values ranging from 2.66 to 3.25 are regarded as "Agree". From the result, only five of the six factors are considered by the respondents as having an impact on their tax compliance. Overall, the six (6) factors garnered a composite mean of 2.90, which is considered as "Agree".

Table 4. Level of MSMEs Tax Compliance in Dipolog City

Statements	Mean	Description
1. Enterprises register taxes in accordance with regulations.	3.36	Strongly Agree
2. Enterprises declare and calculate taxes strictly according to regulations.	3.33	Strongly Agree
3. Enterprises fully and accurately declare and pay taxes.	3.42	Strongly Agree
4. Enterprises always comply with regulations on invoices and accounting vouchers.	3.14	Agree
Composite Mean	3.31	Strongly Agree

The mean of each tax compliance statement is shown in the table above. There were four statements comprising on tax compliance having the mean of 3.36, 3.33, 3.42, and 3.14 respectively. It showed that respondents strongly agree on paying taxes in accordance with regulations, declaring and calculating taxes in strict accordance with regulations, and paying taxes fully and accurately. Compliance with invoice and accounting voucher regulations is also something that the respondents agreed on. The average mean is 3.31, indicating that tax compliance on MSME is evidently high in Dipolog City. One main reason for this is tax being obligatory in nature. Moreover, micro, small,

and medium-sized enterprises (MSME) is subject to tax and encouraged to pay taxes to tax system.

Accordingly, (Pope & Jabbar, 2008) MSMEs are subject to income tax, either as individual taxpayers (unincorporated businesses) or corporate taxpayers (incorporated businesses), depending on the business establishment. The Income Tax Act of 1967 governs the taxation of both individuals and corporations, with nearly identical tax measures. Business taxpayers of all sizes are required by law to file a yearly tax return, as mandated by Sections 77 and 77A of the said Act.

Table 5. Test of Significant Difference in Respondent's Tax Compliance When Grouped According to Business Size

Tax Compliance Category	Business Size			
	Median	H-Value	p-value @ 0.05	Interpretation
1	5.0	3.61	0.164	Not significant
2	10.0			Not significant
3	5.5			Not significant

Table 5 above illustrates the evaluation of the significant difference across business categories in terms of tax compliance of retail MSMEs in Dipolog City using Kruskal-Wallis H-Test. Kruskal-Wallis H-Test is an ideal statistical treatment for test of difference to be used in nonparametric, independent and ordinal data which does not satisfy normality.

Result showed a p-value of 0.164 which is greater than the level of the significance alpha 0.05. Thus, the difference of the tax compliance

of MSMEs operating retail in Dipolog City is not significant. Empirically, business size does not contribute to the differentiation of the tax compliance of MSMEs operating retail in the locality of Dipolog. There is no study supporting that Micro, Small and Medium enterprises' tax compliance has no significant difference. Therefore, researchers recommend future researches to undertake the tax compliance of each of Micro, Small and Medium enterprises in particular is its difference.

Table 6. Test of Significant Difference in Respondent's Tax Compliance When Grouped According to Length of Operation

Tax Compliance Years in Operation	Length of Operation		
	H-Value	p-value @ 0.05	Interpretation
0 - 1 year	5.68	0.339	Not Significant
2 - 5 years	3.66	0.301	Not Significant
6 - 10 years	1.35	0.852	Not Significant
11 - 15 years	2.15	0.543	Not Significant
16 - 20 years	1.86	0.394	Not Significant
21 - 50 years	2.40	0.494	Not Significant

Table 6 above illustrates the evaluation of the significant difference of tax compliance of retail MSMEs in Dipolog City when grouped according to length of operation using Kruskal-Wallis H-Test.

The data for the length of operation was grouped prior to the evaluation of the significant difference of MSMEs' tax compliance. Results showed a p-value of 0.339, 0.301, 0.852, 0.543, 0.394 and 0.494 respective to the ranges given above which is greater than the level of

the significance alpha 0.05. Thus, the difference of the tax compliance of MSMEs operating retail in Dipolog City is not significant regardless of the years the business operated. Similar to the case above, no sufficient evidence support that there is no significant difference between tax compliance of MSMEs as based on how many years they have operated in the industry. Hence, parallel test is suggested to correspond or object the findings.

Table 7. Test of Significant Relationship between Factors and the Tax Compliance

Variables Correlated	Rho Value	p - value	Strength of Relationship	Decision	Interpretation
Tax Compliance					
Tax Inspection Possibility	0.238	0.02	Slight Positive Relationship	Reject Ho	Significant
Tax Rates	0.065	0.529	Negligible Positive Relationship	Fail to Reject Ho	Not Significant
Tax Penalties	0.232	0.023	Slight Positive Relationship	Reject Ho	Significant
Tax Policies Complexity	0.060	0.559	Negligible Positive Relationship	Fail to Reject Ho	Not Significant
Social Norms	0.024	0.819	Negligible Positive Relationship	Fail to Reject Ho	Not Significant
Tax Knowledge	0.239	0.019	Slight Positive Relationship	Reject Ho	Significant

Table 7 above shows all predetermined factors in the research model (1) Tax Inspection Possibility, (2) Tax Rates, (3) Tax Penalties, (4) Tax Policies Complexity, (5) Social Norms and (6) Tax Knowledge, related to the tax compliance. To test the significant relationship between the factors to the dependent variable,

Spearman rho Correlation Test was put into course.

Among all the factors abovementioned, Tax inspection possibility, Tax penalties and Tax knowledge have projected a significant relationship towards tax compliance. In which, Tax penalties is the most significantly related to tax

compliance with a p-value of 0.023, followed by Tax inspection possibility and Tax Knowledge with p-values of 0.02 and 0.019, respectively. Conversely, there is no significant relationship found between factors namely Tax rates, Tax policies complexity and Social Norms, since the findings have resulted to p-values > 0.05 . Social norms being the least significantly related showing a p-value of 0.819, then Tax policies complexity with p-value of 0.559 and lastly, is the Tax rates representing a p-value of 0.529.

Positive rs-value < 0.3 is shown in all factors of tax compliance, hence there are slight positive to negligible positive relationships present as obtained from the data analysis. This simply means that as the factors increases tax compliance there so follows.

Tax Inspection Possibility and Tax Compliance. The findings of the study show that tax inspection possibility is significantly related to tax compliance of retailing MSMEs in Dipolog City. This entails that the possibility of being inspected by tax authorities actually prompts taxpayers to comply with their tax duties and responsibilities. The high level of tax inspection possibility by tax authorities increases corporate tax costs (Nguyen, 2022). Because businesses believe they will be inspected regarding their tax obligations, they should establish a mechanism for self-declaration, self-calculation, and self-payment of their tax obligations based on the tax provisions in the state budget established by law. A consistent result is found in the study of (Manaye, 2018), positing that the practice of being aware that if an evasion to tax is detected chances are a consequence of penalties which is normally unfavored by enterprises.

Tax Rates and Tax Compliance. Tax rates as the basis of how much should the taxpayer allocate expense for their tax surprisingly has no significant relationship with tax compliance. But a positive negligible relationship has resulted from the data analysis. The result objects the findings in the study of Nguyen (2022), explaining that when tax rates increase the tax compliance decreases, vice versa. Accordingly, an increase in tax rates discourages taxpayers to comply and pushes them hide revenues or income and increase their cost fraudulently as

affirmed by Collins & Plumlee (1991), Tilahun (2019) and Fisman & Wei (2004).

Tax Penalties and Tax Compliance. The analysis of data regarding the relationship of tax penalties and tax compliance shows significance. There is a positive effect to tax compliance by imposed tax penalties. This claim is opposed by Mahdi & Ardiati (2017), stating that there is no significant relationship between the factor tax penalties to the dependent variable, tax compliance. Moreover, a support study by Siamena et al., (2017), implied contrary to the latter. Tax penalties are punishments for the tax payment violations of taxpayers, in which punishment is in accordance to the current regulations written in taxation legislation, expressly, tax penalties are seen as solutions to tax noncompliance (Rahmayanti et al., 2020).

Tax Policies Complexity and Tax Compliance. The result of correlating tax policies complexity to tax compliance yields to a no significant relationship. In accordance with the result, tax policies complexity of the tax system in Dipolog City for retail MSMEs has nothing to do with their tax compliance. This could mean that although some of the taxpayers may find it complicated to understand the tax system for their tax compliance, they will remain tax compliant as affected by other significantly related factors abovementioned. Gambo et al., (2014), do not correspond to the result as he posited that tax complexity has a significant negative correlation to tax compliance. Supporting the insignificance of the relationship between the complexity of tax policies and tax compliance is the study conducted by Musimenta (2020), indicating that regardless of the complex tax system taxpayers comply with their taxes.

Social Norms and Tax Compliance. Social norms appeared to have no significant relationship with tax compliance based on the results of the Spearman rho correlation test utilized. Either normally taxpayers within the community of Dipolog City who belonged to the industry are tax compliant or not, it does not affect the behaviour of taxpayers' compliance with tax authorities. Conversely, personal tax compliance becomes more important when social norms promote it, tax compliance standards are rising which leads to an increase in

compliance intents (Jimenez & Iyer, 2016). Identical to the result obtained, Nguyen (2022), corresponds that social norms factor influences corporate tax compliance with a negligible level of influence. This result is strengthened with studies conducted by (Battiston & Gamba, 2013, 2016; Liu, 2014; Traxler, 2010). Hence, tax evasion could be condemned by the community because when social norms increase so as the tax compliance. The negligible influence of social norms to tax compliance could be traced from the abrupt and gradual globalization and changes of ethical behaviours in the locality as influenced by drastically changing economic community and never-ending developments.

Tax Knowledge and Tax Compliance. The results show a positive significant relationship between tax knowledge and tax compliance, confirming that tax knowledge improves taxpayers' tax compliance ability. This could also be interpreted as the taxpayer having more knowledge and understanding of tax laws, tax declaration and payment, tax obligations, and the tax rate applied to the business, the more

likely they will be tax compliant. Thus, if taxpayers understand the tax system, tax compliance will likely increase. Similarly, the study conducted by Oladipupo & Obazee (2016), has also showed a significant although not strong relationship of tax knowledge and tax compliance. However, differs in their claim that tax knowledge is more significantly related to tax compliance, since the results obtained show the contrary. Additionally, is the study of Inasius (2019), that well supported the significant relationship between tax knowledge and tax compliance, the author indicates that high tax knowledge would increase tax compliance behavior. Intuitively, the more learned a taxpayer is regarding the basis of taxation the more willing to comply they will be and the more there will be no reason for them to evade tax. Because tax knowledge is critical for bettering tax compliance, and hence more revenue to fund the government's recurrent and development expenditures, as well as indicates lower administrative expenses for revenue collection (Clifford Machogu & Jairus Amayi, 2013).

Action Plan

Table 8. Proposed Action Plan on Tax Knowledge Generation to MSMEs

Activity/ Programs	Persons Involved		Purpose	Budget	Date
	Organizer	Participants			
1. 1-Day Business Registration Seminar	BIR and Local Tax authorities	1. MSMEs own-ers/man-agers 2. Potential MSMEs own-ers/man-agers	To fully provide to the current or potential owners/managers of MSMEs of the "know hows" regarding business registrations, notarization of articles, required clearances and fees payments needed for MSMEs operation.	Approx. 6 Million for about 2,000 participants	Every 1 st month of Calendar Year
2. 1-Day Statutory Tax Compliance Seminar	BIR and Local Tax authorities	MSMEs own-ers/managers	To inform the MSMEs owners/managers of all the BIR and Local tax authorities' deadlines, penalties, surcharges and interests imposed for late filing of tax returns and to encourage them to	Approx. 6 Million for about 2,000 participants	Every end of the 2 nd and 4 th quarter of Calendar Year

Activity/ Programs	Persons Involved		Purpose	Budget	Date
	Organizer	Participants			
			appreciate the relative communal benefits of regular and proper tax compliance in engaging ways.		

The Proposed action plan is developed to address the need based on the result of the study. The result showed that Tax Inspection Possibility, Tax Penalties and Tax Knowledge are could really affect the compliance of taxes by the MSMEs. Owners must be knowledgeable enough on the technicalities of the taxes in the taxing authority. To generate this knowledge, information dissemination must be done through seminars, workshops, or even infographics by the authority. Informing them of the possible sanctions and penalties if they do not comply with the tax law.

Conclusion

This study aims to determine the level of tax compliance among MSMEs in Dipolog City, with a focus on the retail industry, as influenced by factors such as the tax inspection possibility, tax rates, tax penalties, tax policies complexity, social norms, and tax knowledge. The study's findings revealed that respondents perceived only five of the six factors to have an influence on their level of tax compliance, with the tax rate having no effect at all.

However, using Spearman Rho as a statistical treatment, data analysis revealed different results for some of the components. Despite the respondents' belief that tax policy complexity and social norms have a substantial impact on their tax compliance, the study found no meaningful association. From this, it can be argued that the potential for tax inspection and societal standards had insufficient influence on the respondents' compliance. The tax rate was regarded by the respondents as having no influence on their compliance. It can be deduced from this that the factors of tax policy complex-

ity, tax rate, and social norms accept the hypothesis. The other factors on the other hand, tax inspection possibility, tax penalties, and tax knowledge rejected the hypothesis as the results showed that these factors exerted significant impact on the respondents' tax compliance. These factors were also perceived by the respondents as having influence on their tax compliance. The possibility of being inspected increased the respondents' awareness of the possibility that their fraud would be discovered. If there is fraud, there is also penalty. Aside from fraud, delayed payment of obligations also lead to having to pay for penalties thus, the presence of tax penalties increases the respondents' tax compliance. Research results also showed that tax knowledge is the most significant factor to affect the tax compliance of MSMEs. If a taxpayer has the knowledge about tax laws, payments and tax rates applied to his/her business, the compliance increases.

Furthermore, the survey found no significant differences in compliance among respondents based on business size or length of operation, thus, it implies that enterprises of all ages and sizes had nearly identical assessments of tax difficulties. Overall, the findings led the researchers to conclude that Dipolog City, particularly the MSMEs in the retail industry, complied with their tax obligation in accordance with the law, having no intentions of evading it. The result of this research also confirmed only three factors – tax inspection possibility, tax penalties, and tax knowledge – out of the six factors to have significant effect on MSMEs tax compliance, refuting the established idea that all six factors have a significant impact on tax compliance of MSMEs.

Recommendations

For MSMEs

1. Regular and honest tax compliance must be practiced.
2. MSMEs must be conscious and prudent in reporting their income to be taxed and understand that the economic state shall be constantly regulated for the good of the overall community.
3. MSMEs in Dipolog City must utilize compliance risk management.
4. MSMEs must consider the community's well-being inextricable to proper tax compliance.
5. Due tax responsibilities must be met. Enterprises must report appropriate amounts in their books.
6. Enterprises must ethically eradicate the norm of tax noncompliance.

For Tax Authorities

1. Tax socializations, seminars, conferences and tax courses freely available for taxpayers like MSMEs' owner/manager.
2. The tax authorities must strictly impose regular unannounced inspections.
3. The tax rates imposed by the tax authorities must be relatively reasonable for the taxpayers' ability to generate business income.
4. Tax penalties imposition must be heightened to prevent tax noncompliance.
5. Tax authorities must invest for improved system of tax inspections.
6. Tax authorities must provide awareness to MSME taxpayers the communal benefit of tax compliance.

For National and Local government

1. Tax policies must be iteratively amended to just simplifications.
2. Tax rates imposed must be reasonably levied to the net income of MSMEs and regular assessment must be administered.
3. Publicly-available tax awareness programs must be employed.

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