



## Factors Influencing Tax Compliance: Evidence from Small and Medium Corporate Taxpayers

Rowell S. Cardenas<sup>1</sup>, Demy M. Nadera-Codnita<sup>2</sup>

<sup>1,2</sup> Saint Mary's University- School of Graduate Studies, Bayombong Nueva Vizcaya, Philippines

### ABSTRACT

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The study primarily aims to determine the influence of tax compliance with three factors (Company-Wide, Legal/Economic, and Tax Preparation Factors). Small and medium corporate taxpayers may use the study as a benchmark regarding their attitude toward tax compliance. The study may likewise be used as a benchmark by taxing authorities to develop tax collection and administration policies or procedures to ensure voluntary compliance of small and medium corporate taxpayers with their tax obligations. The research is designed to obtain quantitative information among small and medium corporate taxpayers in Santiago City about their respective tax compliance perceptions. The study shows that all three factors (Company-Wide, Legal/Economic, and Tax Preparation) are likely to influence the tax compliance of small and medium corporate taxpayers. Hence, to ensure compliance among small and medium corporate taxpayers, internal and external arrangements should be made to ensure that all factors are properly handled so that small and medium corporate taxpayers would want to voluntarily comply with their tax obligations.

### KEYWORDS:

SMEs, Corporate Tax Management, Tax Filing, and Tax Audit

### 1. INTRODUCTION

The lifeblood theory emphasizes that "Taxes are the nation's lifeblood through which government agencies continue to operate and which the State discharges its functions for the welfare of its constituents." Without taxes, a normal government cannot perform its functions, such as providing public safety, public health, and other public programs. Hence, it is imperative that taxpayers properly comply with tax obligations and that taxing power be properly administered by taxing authorities. Tax Compliance is an area of concern for taxpayers because there are existing laws and relevant revenue issuances requiring taxpayers to comply with such. Noncompliance would result in a heavier tax burden, which taxpayers would not want to happen. Tax compliance is likewise an area of concern for taxing authorities to develop tax collection and administration policies or procedures to ensure that government expenditures are sufficiently funded through tax revenues. The study primarily aims to determine the influence of tax compliance with three factors. First are the company-wide

factors (Tax Knowledge, Tax Ethics, Government Connections, Years of Operation and Financial Performance). Second is the legal/economic factors (High Tax Rates, Probability of Tax Assessment, Economic Benefits of Paying Taxes, Tax Reforms, and Tax Consequences). Last is the tax preparation factors (Cost of Tax Preparation and Complexity of Tax Preparation). Small and medium corporate taxpayers may use the study as a benchmark regarding their attitude toward tax compliance. The study may likewise be used as a benchmark by taxing authorities to develop tax collection and administration policies or procedures to ensure voluntary compliance of small and medium corporate taxpayers with their tax obligations.

The research is designed to obtain quantitative information, interpret that information, and conclude on the influence of the tax factors on tax compliance among small and medium corporate taxpayers in Santiago City.

This study aims to determine the factors influencing tax compliance among small and medium corporate taxpayers in Santiago City. Specifically, this study will aim to:

1. describe the extent of influence of company-wide factors in the tax compliance of small and medium corporate taxpayers in Santiago City;

*Corresponding Author: Rowell S. Cardenas*

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2. describe the extent of influence of legal/economic factors in the tax compliance of small and medium corporate taxpayers in Santiago City;

3. describe the extent of influence of tax preparation factors in the tax compliance of small and medium corporate taxpayers in Santiago City.

The study will fill the gaps in the literature regarding factors that influence tax compliance of small and medium corporate taxpayers in Santiago City. The study would aid future researchers who want to investigate the relationship between various variables and tax compliance further. Likewise, the study may serve as a benchmark for corporate tax management where they can analyze their attitude towards tax compliance and if it is, to some degree, similar to the attitude of small and medium corporate taxpayers in Santiago City. Finally, the study may serve as a benchmark on how taxing authorities may update their tax policies and procedures, given the attitude of small and medium corporate taxpayers in Santiago City toward tax compliance.

### Research Framework

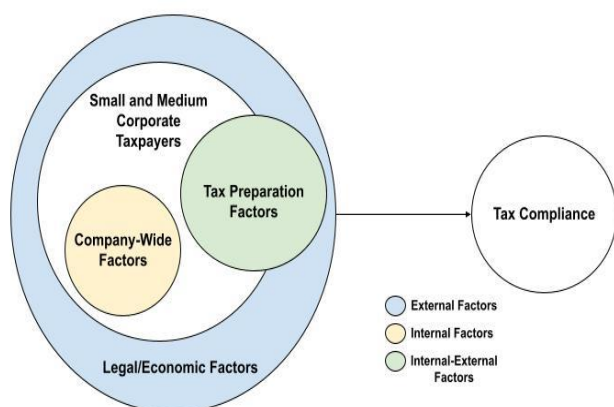


Fig. 1(Relationship of Factors to Tax Compliance)

### Tax Compliance

Tax laws in the Philippines did not specifically provide a standard tax compliance definition.<sup>I</sup> Nonetheless, a simple definition of tax compliance refers to the degree to which taxpayers comply with the existing tax laws, from timely to correctly filing and paying tax obligations. Tax Compliance was one prevalent issue in many countries in the past, nowadays, and will continue to be a prevalent issue in the future. Tax Compliance is an especially prevalent topic in developing countries.<sup>II</sup> The Philippines, as one developing country, is not an exception. That is because the majority of the state's revenues come from taxes. Hence, taxpayers' compliance with their tax obligations would help implement government-funded public programs ranging from infrastructure, internal and external security, disaster management, poverty alleviation programs, etc.

### Company-Wide Factors

Tax Compliance shall refer to the taxpayer's willingness to voluntarily comply with relevant tax laws and administration.

<sup>III</sup> Several factors influence tax compliance, but only three factors have been considered for this study. One of the mentioned factors is the company-wide factors. When used in this study, company-wide factors refer to internal factors that influence an organization's tax compliance. Since these factors are internal, they can be controlled by the company and, thus, may easily be addressed or adjusted if necessary. First, Tax knowledge is essential for taxpayers' compliance with their tax obligations.<sup>IV</sup> Taxpayers cannot comply with these without sufficient knowledge of tax laws and administrations. Second, Tax compliance can be explained by the taxpayer's commitment to the responsibilities of citizenship.<sup>V</sup> If the top management initiates tax evasion practices, the employees primarily tasked with tax preparation will innately follow the orders from top management. Third, the Self-assessment system has been widely practiced in many countries. Self-assessment, which organizations themselves are initiating, would have a positive relationship with tax compliance.<sup>VI</sup> Fourth, Years of Operation refers to the number of years the corporation has been operational since its incorporation. Fifth, the Company's Financial Performance refers to the Profitability of the taxpayer. Finally, political affiliations refer to the taxpayer's connections to local government units, regulatory agencies, and, at maximum, taxing authorities.

### Legal or Economic Factors

One factor considered in this study is the legal/economic factors. Legal/economic factors shall refer to external factors imposed by taxing authorities and other regulatory agencies that potentially influence the taxpayer's compliance with tax obligations. Since these factors are external, the taxpayers themselves cannot control nor adjust to them to ensure tax compliance. However, taxing authorities may use these factors as a guide for implementing viable tax administration procedures and policies to promote voluntary compliance of taxpayers on their tax obligations.

First, the applicable tax rates are the taxes that the taxpayer must pay, including but not limited to Corporate Income Tax Rates, Business Tax Rates, Capital Gains Tax Rate, Final Tax Rates, Donor's Tax Rates, and Local Tax Rates.

Second, taxpayers normally want to comply with their tax obligations because they do not want to get caught and penalized for noncompliance.<sup>VII</sup> Third, Taxpayer's trust in the government that tax payments will be used for the benefit of the general public can potentially influence taxpayers' compliance.<sup>VIII</sup> Fourth, Tax complexity can be caused by tax laws or administrations' sophistication.<sup>IX</sup> Tax complexity refers to complexity in computation, rulings, and understandability. Fifth, the continuous implementation of tax reforms, if it makes taxpayers outdated of the relevant tax laws, can potentially influence taxpayers' compliance. The recent tax reforms in the Philippines are the Tax Reform for Acceleration and Inclusion Act (TRAIN) and the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE).

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### Tax Preparation Factors

Another factor that could potentially influence the taxpayers' compliance with their tax obligations is the tax preparation factors. Tax preparation factors are combinations of internal and external factors. As such, taxpayers, to some extent, can control and adjust their tax preparation procedures to ensure tax compliance. Likewise, taxing authorities may use these factors as a guide to ensure viable tax administration procedures that could influence taxpayers' compliance.

The determinants for the tax preparation factors mainly revolve around the costs associated with preparing tax returns, filing tax returns, and additional costs associated with paying taxes. This includes the Salaries and Professional Fees paid to employees in the tax division or to the outsourced tax practitioners. Another determinant is the Hours/Days spent in tax preparation, which refers to the procedural complexity of preparing tax returns. One determinant is the number of tax returns to be prepared, which refers to the tax returns a taxpayer must comply with within the same or overlapping tax deadlines or during a tax season. Another determinant is the availability of e-filing and e-payment systems, potentially reducing the costs associated with complying with tax obligations. <sup>x</sup> E-Filing and E-Payment System shall refer to EFPS and E-BIR Forms and their availability to most taxpayers. One determinant is the standard operating procedures (SOP), which refers to the internally developed processes that comply with tax obligations, which could potentially increase effectiveness and efficiency in tax compliance. Another determinant is the Location of Revenue District Offices (RDO), which refers to the distance taxpayers need to travel to file their tax returns or pay their tax liabilities. Finally, the availability of tax practitioners refers to consultants who may help taxpayers comply with their tax obligations.

### II. DESIGN AND METHODOLOGY

The researcher used a descriptive-quantitative research design to achieve the study's objectives. The research design is coupled with a survey questionnaire to obtain quantifiable information for statistical analysis. Descriptive research is utilized to explore the opinion of the target population and make generalizations according to the factors that could potentially influence the tax compliance of small and medium corporate taxpayers in Santiago City.

The population for this research study is small and medium corporate taxpayers who have physical operations within Santiago City, Isabela. Small and Medium Corporate Taxpayers shall refer to those Corporate Taxpayers who have total assets of Three Million (P3,000,000) to Three Hundred Fifty Million Pesos (P350,000,000) or total liabilities of Three Million (P3,000,000) to Two Hundred Fifty Million Pesos (P250,000,000). This target population is categorized as small and medium enterprises per Revised SRC Rule 68 imposed by the Securities and Exchange Commission. SMEs have been selected in this study since 99.51% of business

enterprises that operate in the Philippines are categorized as MSMEs, whereas Small and Medium Enterprises account for 9.09%.<sup>x1</sup> SMEs are selected because taxing authorities primarily focus on large taxpayers' compliance. This could lead to high noncompliance among SMEs. If SMEs collectively comply with their tax obligations, that would greatly increase the government's tax revenue generation to fund public-purpose programs. Hence, there is a need to determine the factors that could potentially influence the compliance of small and medium taxpayers on their tax obligations. The study's sample size consists of thirty-one SMEs determined by non-probability incidental sampling.

The Likert-Scale survey questionnaire was utilized as a data-gathering instrument in this study. The survey questionnaire used in this study was divided into three sections. The first section is the Introduction to the respondents. The second part is the demographic profile of the respondents. The third section is the influence of company-wide factors on the tax compliance of small and medium corporate taxpayers.

### III. RESULTS

**Table I. Influence of Company-Wide Factors in Tax Compliance.**

Company – Wide Factors	Mean	Standard Deviation	Qualitative Description
Number of Employees in Tax Division.	2.87	0.88	Likely to Influence
Educational Qualification of Employees in Tax Division.	2.84	0.90	Likely to Influence
Competence of Outsourced Tax Preparers.	3.00	1.06	Likely to Influence
Accessibility to Credible Tax Information Sources.	3.23	0.88	Likely to Influence
Regular Tax Training of Employees in Tax Division.	2.94	0.85	Likely to Influence
Organizational Tax Ethics as embodied by the Top Management.	3.06	1.03	Likely to Influence
Organizational Self-Assessment Programs.	3.10	0.87	Likely to Influence
Years of Operation.	2.94	1.12	Likely to Influence

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Employee Bonus is based on Income After Tax.	2.48	1.09	Unlikely to Influence
Company's Financial Performance.	2.68	1.08	Likely to Influence
Political Affiliations/ Connections with Taxing Authorities.	2.52	1.23	Likely to Influence
<b>Overall Mean/Standard Deviation</b>	<b>2.88</b>	<b>0.63</b>	Likely to Influence

Source: Data Processed

**Table II. Influence of Legal/Economic Factors in Tax Compliance.**

Legal/Economic Factors	Mean	Standard Deviation	Qualitative Description
Applicable Tax Rates to be paid.	2.77	1.15	Likely to Influence
Probability of Tax Assessment/ Tax Audit.	3.10	0.98	Likely to Influence
Perceived Benefits derived from Paying Taxes.	2.81	0.91	Likely to Influence
Complexity of Tax Laws.	3.00	1.00	Likely to Influence
Implementation of Tax Reforms (TRAIN/CREATE).	2.87	1.09	Likely to Influence
Awareness on Tax Consequences for Noncompliance.	3.42	0.81	Likely to Influence
Requirement in Bank Loans.	2.58	1.15	Likely to Influence
<b>Overall Mean/Standard Deviation</b>	<b>2.94</b>	<b>0.75</b>	<b>Likely to Influence</b>

Source: Data Processed

**Table III. Influence of Tax Preparation Factors in Tax Compliance.**

Tax Preparation Factors	Mean	Standard Deviation	Qualitative Description
Salaries Expense paid to Employees in Tax Division.	2.61	1.12	Likely to Influence
Retainer's Fees Paid to Outsourced Tax Preparers.	2.77	0.99	Likely to Influence

Hours/Days spent in tax preparation.	2.87	1.02	Likely to Influence
Number of Tax Returns to be prepared.	2.77	1.06	Likely to Influence
Availability of Electronic Filing and Payment System.	2.84	1.10	Likely to Influence
Availability of Company-Standard Operating Procedures in Tax Preparation.	3.03	0.87	Likely to Influence
Location of Revenue District Offices/Sub-Offices for filing and payment of Tax Returns.	2.58	1.09	Likely to Influence
Availability of Tax Practitioners or Tax Consultants	2.61	1.02	Likely to Influence
<b>Overall Mean/Standard Deviation</b>	<b>2.94</b>	<b>0.75</b>	<b>Likely to Influence</b>

Source: Data Processed

## IV. DISCUSSION

Company-wide factors are likely to influence the tax compliance of small and medium corporate taxpayers ( $m=2.88$ ,  $s=0.63$ ). This implies that taxpayers will likely voluntarily comply with their tax obligations as these factors increase.

These studies support the results of the study. The information that individuals are provided about the tax system and other individuals affects compliance, and the knowledge that taxpayers have – or do not have – about the tax system affects compliance. <sup>vii</sup> An increase in the taxpayer's tax knowledge and awareness and an increase in the taxpayer's income level leads to increased tax compliance. <sup>xii</sup> This implies that the more knowledgeable the taxpayers are, the more they can comply with their tax obligations. Tax morale is one important factor that likely influences tax compliance. <sup>i</sup> Meaning, the management should set a tone at the top in terms of tax compliance. Moreover, tax accountant's ethics have a significant impact on corporate tax compliance. <sup>xiii</sup> Financial constraints have no significant relationship with tax compliance. <sup>xiv</sup> Thus, regardless of the taxpayer's financial status, they should still pay their tax obligations. This however is contradictory to the result of this study. That company's financial performance is likely to influence tax compliance.

Legal/economic factors are likely to influence the tax compliance of small and medium corporate taxpayers

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( $m=2.94$ ,  $s=0.75$ ). This implies that as these factors increase, taxpayers will likely voluntarily comply with their tax obligations.

Tax rates could affect tax compliance. However, this result did not coincide with the result in one study, which presents that the tax rate, whether high or low, would not discourage or encourage tax compliance.<sup>XV</sup> Audits matter regarding tax compliance, and fines, whether financial or non-financial, affect compliance. The probability of audit has a significant relationship with tax compliance.<sup>XV</sup> This root from the economic deterrence theory where taxpayers feel obliged to pay their taxes knowing the probability of audit and the consequences thereof. Rewards to individuals increase compliance.<sup>VII</sup> Moreover, if there is a positive or negative perception of how the government spends tax revenues, it would likely influence tax compliance.<sup>XV</sup> As fines and penalties, tax audits, the complexity of the tax system, and perceived benefits increase, taxpayers would have more regard for their compliance decisions.<sup>XII</sup>

Tax preparation factors are likely to influence the tax compliance of small and medium corporate taxpayers ( $m=2.94$ ,  $s=0.75$ ). This implies that as these factors increase, taxpayers will likely voluntarily comply with their tax obligations.

Tax compliance costs have a positive effect on tax compliance.<sup>XVI</sup> This implies that taxpayers would be more willing to comply with their tax obligations with the hope that the costs associated with compliance would be lower. Aside from the compliance costs associated, it is also important to note that there are chances that a tax accountant's turnover would be high; as such, to ensure continuous compliance despite the high turnover, the availability of tax compliance SOP is a must.

### V. CONCLUSION

The study examined the influence of company-wide factors, legal/economic factors, and tax preparation factors on the tax compliance of small and medium corporate taxpayers in Santiago City. As shown in the results, these factors are likely to influence the tax compliance behavior of small and medium corporate taxpayers. Hence, to ensure compliance among small and medium corporate taxpayers, internal arrangements should be made to properly handle company-wide factors and tax preparation factors. Another way to ensure compliance is to have external arrangements to ensure that legal/economic factors and tax preparation factors influence small and medium corporate taxpayers. One major factor to consider regarding company-wide factors is the availability of credible tax information. Hence, to ensure compliance, companies may subscribe to credible blogs about tax preparations, continuously monitor the revenue issuances issued by the Bureau of Internal Revenue, or subscribe to tax advisories of their chosen tax consulting firms. Another major factor to consider regarding legal/economic factors is taxpayers' awareness of tax consequences due to

noncompliance. Hence, to ensure taxpayers' compliance, taxing authorities should further strengthen their efforts on tax compliance verification drives and impose the applicable penalties due to noncompliance, never resorting to the unofficial settlement of taxpayers' penalties. Lastly, one major tax preparation factor to consider is the Availability of Company Standard Operating Procedures (SOPs). Hence, companies may internally develop SOPs regarding tax compliance to ensure that all tax returns are filed and paid on time. This would also ensure that the succeeding employee would have a proper basis for what, when, and how tax returns should be filed in cases of improper employee turnover. For future research, researchers may consider including a correlational analysis of the factors that affect tax compliance based on the taxpayer's size and the taxpayer's type, as these may present other useful information.

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### VII. DISCLOSURE

The author reports no conflicts of interest or financial interests in this work. The researcher has no personal gain from doing this research, which could affect the integrity of its result.

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