

LITERATURE REVIEW ON THE IMPACT OF TAX KNOWLEDGE ON TAX COMPLIANCE AMONG SMALL MEDIUM ENTERPRISES IN A DEVELOPING COUNTRY

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ABSTRACT

The purpose of this desktop study was to evaluate the impact of tax knowledge on tax compliance among small medium enterprises (SMEs) in a developing country. The study interrogated literature so as to ascertain if SMEs in the developing country under study possessed tax knowledge and also to identify the possible elements that constitute tax knowledge among SMEs. Other factors that could be influencing noncompliance among SMEs were identified as well as methods which could be adopted by tax Authority to increase awareness and compliance SMEs. The study established that SMEs in this particular developing country do not comply with tax law. They possess only basic tax knowledge and lack a deeper understanding of tax issues. It also emerged that enhancing tax knowledge on its own without addressing the high tax rates and corruption will not positively impact on tax compliance behaviour among SMEs. The study recommends that an introductory tax course be introduced, perhaps as an elective subject at the beginning of higher learning education so that students are aware of their responsibilities as future taxpayers. This education method could be expected to help cultivate responsible taxpayers.

Keywords: Tax, Compliance, Small Medium Enterprises, Developing Country.

INTRODUCTION

This study focuses on reviewing the literature, which is significant to this research study around the world. Different scholars and researches will be evaluated and analysed to explore the objectives of this research study. It therefore went on to provide a systematic analysis of the empirical and theoretical evidence relating to the evaluation of the impact of tax knowledge on tax compliance among the small medium enterprises. The study will therefore review the significance of tax knowledge to SMEs, factors with influence the tax knowledge of SMEs, ways to improve the tax knowledge of SMEs as well as establishing how tax authorities can improve method of imparting tax knowledge to the taxpayers. The researchers shall compare and contrast the various arguments laid forth in line with the investigation and relate it to SMEs in Zimbabwe.

The Taxation and Existence of Tax Knowledge and Tax Compliance among SMEs

The drop or fall in tax compliance has some countercyclical effects on the economy in general and in many countries, noncompliance has become an accepted phenomenon. However, tolerating noncompliance may not be an appropriate response to the fiscal challenges because it is distorting, inequitable and most critical; it hampers the rebuilding of taxation bases over the long term. Tax noncompliance among SMEs is a serious problem, which has worried tax authorities, the academia and nongovernmental organizations all over the world, as argued by Kastlunger et al. (2013) *“tax non-compliance has increased over the last decades and, thus, gained attention in policy making and research”*.

Tax Knowledge among SMEs

Tax knowledge in general is an understanding of the essential tax policy concepts implemented within a country (Fauziati et al., 2016). An understanding of the tax policies by SME's in a country determines the compliance with the tax system. Tax knowledge of various Small Medium Enterprises is an essential element in a voluntary compliance tax system, particularly in determining an accurate tax liability (Baru, 2016).

According to Adam (2012), tax knowledge is an essential element in a voluntary compliance tax system, particularly in determining an accurate tax liability (Palil, 2015; Saad et al., 2013). Studies undertaken in Malaysia (Loo, 2016; Loo et al., 2014) also proposed that tax knowledge is the most influential factor in determining taxpayers' compliance behaviour under the self-assessment system. This is empirically established and supported by several other studies that include, Kasippilai and Jabbar (2013), who documented that possessing tax knowledge would lead to higher compliance rates. Their research indicated that 97% of the respondents possessed tax knowledge and that SME's in Malaysia complies with tax regulations. Harris (2013) who investigated tax knowledge among SMEs in UK, divided tax knowledge into two aspects, namely, knowledge through common or formal education received as a matter of course and knowledge specifically directed at possible opportunities to evade tax. His findings revealed that SMEs in UK have tax knowledge and almost all of them are aware of the tax regulations.

Studies in New Zealand by Ritsema et al. (2013) revealed that SME's in New Zealand have enough knowledge of tax and they comply with the tax regulations of the country. Saad et al. (2014) also added that information about tax regulations is provided through free public lectures in Malaysia. In support of the above findings, Mckerchar and Hansford (2015) argued that the absence of tax knowledge might lead to non-compliance behaviour among taxpayers, either intentionally or unintentionally. This was noted in a study in Australia among small business taxpayers where he construed that small business taxpayers are not even aware of their tax knowledge shortfalls and this may lead to unintentional non-compliance behaviour. Further evidence was documented among individual taxpayers in Malaysia who unintentionally committed mistakes in their tax return forms (Loo et al., 2016)

Bautigam et al. (2015) used the specification model in analysing tax knowledge among small medium enterprises and the results of the model were not conclusive as their findings indicated an equal existence of SMEs with knowledge and those without, their studies were based in Hungary, Dubai and Spain respectively. On a comparable note Adam (2012) revealed that the tax knowledge in Nigeria could not be measured accurately from their findings, which were based on the systematic theory and contemplated that some people have education and

others have tax knowledge. Out of the one hundred questionnaires distributed by the researchers, the result could not distinguish whether the respondents had just been exposed to tax education or knowledge existed amongst the SMEs and therefore failed to conclude if indeed knowledge influenced compliance.

The above-mentioned studies were not consistent with an earlier study by Harris (2012), *“who claimed that tax knowledge has no direct significant effect on taxpayers’ compliance behaviour”*. One possible explanation for such inconsistent results is the difference in tax jurisdictions. The studies mentioned above were conducted in either Malaysia or Australia, while Harris conducted the research in the US. According to Nyamwanza et al. (2014), SMEs in Zimbabwe do not comply with legislation despite having the relevant information indicating that tax knowledge exists among SMEs and is not the contributor to noncompliance behaviour.

Bird (2014) also argues that *“the existence of tax knowledge, which consists of general knowledge, legal knowledge and technical knowledge did not significantly affect tax compliance behaviour of SMEs”*. His findings indicated that knowledgeable taxpayers were not necessarily compliant taxpayers. Research conducted by Alm et al. (2012) reported insignificant change in attitude toward tax and tax behaviour due to increased level of tax knowledge among SMEs. It was also found that tax knowledge has no impact on tax compliance in Indonesia according to Fauziati et al. (2016).

Maseko (2013) found no correlation between tax knowledge and tax registration compliance but a weak negative correlation with tax compliance. He claims that the level of tax knowledge in SMEs has no influence on their decision to either register or not register for tax. Registration for PAYE in Zimbabwe has been found not to depend on any level of tax knowledge according to Maseko (2013). Cuccia (2013) contrariwise argues that *“higher knowledge and understanding of the taxpayer did not lead to a better conformance with the tax regulations”*. Taxpayers who do understand the tax laws are still likely not to obey the tax. Thus, a better understanding of the taxpayer's tax rules only leads to more awareness of the sanctions that will be imposed when shirking the tax obligations. (Bird, 2014) supported him who argued that taxpayers, who understand the rules properly, usually do not abide tax rules in accordance with what is stated in the tax laws. Moreover, Widayanti and Nurlis (2012) suggests that understanding and knowledge of taxes have no significant effect on the willingness to pay SME taxes. Taxpayers who have attended a tax course would be expected to have better tax knowledge and tax compliance attitude in comparison with taxpayers who have never attended a tax course (Mohd, 2012) but findings in his research showed no relationship between the two variables.

Tax Compliance among SMES

James and Alley (2012), defined tax compliance as *“the willingness of the taxpayer to act in accordance with both the ‘spirit’ and the ‘letter’ of the tax law and administration without the application of enforcement activity”*. Their studies in Yemen revealed that SME's in Yemen comply with the tax regulations of the country. Cuccia (2013) conducted his studies in Brazil, defined tax compliance as filing all required tax returns at the proper time, and accurately report tax liability in accordance with the tax law applicable at the time the return is filed. Interviews conducted by Roth et al. (2015) revealed that it was the fear of stiff tax penalties, which compelled the SMEs to comply with tax laws.

The SME taxpayer complies with all requirements by filling their tax returns and paying tax before the due date argues Nkwe, (2013). This was revealed in a study in Botswana where it

was argued that most SMEs have not received any audits by tax collectors, as they were not suspected of anything. He further argues that Botswana is known for its favourable tax environment which has therefore encouraged high compliance among SMEs. In support of high compliance levels among SMEs, Adebisi and Gbegi (2013) argued that *“almost all SMEs in Nigeria pay taxes all the times”*.

Richardson (2015), in a cross-cultural study between Hong Kong and Australia revealed that Australian Small Medium Enterprises were generally more compliant than the Hong Kong taxpayers were. Cuccia (2013) also used a hypothetical tax scenario in their experimental study to investigate the SME taxpayers' noncompliance behaviour in the US, Australia and Singapore and his results indicated that Singaporean SME's taxpayers had the highest compliance rate at almost 74 per cent, while Australian taxpayers had the lowest at 45 per cent. The findings further suggested that complete compliance was lowest in Australia due to lack of tax knowledge within the country and was the highest in Singapore because of the tax knowledge given to the individuals before they embark on a business.

However, Alm et al. (2012) disagreed that *“SME's comply with tax laws, their studies based in Rwanda mention that most of the SME's do not have the knowledge of tax regulations therefore do not comply”*. Cuccia (2013) also condemned the compliance levels of SME's with tax regulations in a study based in Malaysia. SMEs do not believe in the tax system and SMEs in Zimbabwe do not comply with tax according to Nyamwanza et al. (2014). Their research exposed that most SMEs evade tax by paying bribes, relocating or temporarily closing business during compliance blitz and 67% of respondents in the study admitted to never complying with Paye, Nyamwanza et al. (2014). Most SMEs do not pay their taxes according to Maseko (2014). Lubua (2014) argues that a significant percentage of SME taxpayers are defaulters even among clients registered with tax authorities. 68% of respondents in the survey in Tanzania indicated that SME taxpayers did not file their returns as required by law. In support, Atawodi (2012) argues that a good number of SMEs get away with not paying taxes hence revenue that can otherwise be invested in development projects and end up being of benefit to the SMEs is lost. Andreea et al., 2015, Rawling (2013) revealed that information gathered in Bucharest revealed both compliant and non-compliant behaviour among SMEs. They all used the correlation model with results indicating both compliance and non-compliance behaviour. Cuccia (2013) reached the same conclusion and Baru (2016) who studied in Germany; the results of their researches were the same as mentioned above. Kirchler et al. (2013) further argue that *“there are no significant differences in terms of hypothetical tax compliance between small businesses, educated business owners or large corporates”*.

Presumptive Tax as a Form of Taxation for SMEs

According to Bird (2014), Presumptive tax arises when self- assessments cannot be relied upon and administrative assessments are imposed instead. The use of presumptive taxes offers the possibility of reducing tax evasion at low cost and broadening the tax revenue base. Presumptive taxes encourage formalisation, stimulate business growth and employment, broaden the tax base and reduce the cost of collection (Morton, 2011). Presumptive taxes are adopted to simplify the tax administration process, collect revenue from the informal sector and educate them on tax issues with the ultimate aim of incorporating them into the regular tax system argues Bird and Wallace (2013).

Presumptive tax is an assumed or tax liability ascertained through indirect factors and is considered as an optional method to curb rampant non-compliance behaviour without employing

excessive government resources (Gandhi, 2011). In Zimbabwe, the concept covers a wide variety of alternative means of determining the tax base ranging from reconstructing income based on type of enterprise, which can be challenged by the taxpayer, to the true minimum taxes with tax bases specified by legislation, Zimra (2010).

Ghana pursued the presumptive tax but later abolished it and replaced it with innovative tax regimes and the net effect was an increase in informal tax revenue in 2003 (Cuccia, 2013). Formal tax systems are highly dependent on record keeping and equitable taxation should be based on profits but presumptive tax system introduces a prospect of unjust and unfair taxing where an enterprise is charged tax when losses may have been incurred according to Maseko (2012). He also regarded SMEs, as subsistence entrepreneurs and trying to tax this segment is the same as taxing subsistence farmers. The presumptive tax system is ineffective because it is not graduating the informal traders into the formal sector but rather lure those in the formal to regress to the informal sector according to Chan et al. (2014).

According to Haji (2015), the relative contribution of presumptive tax to total has been low and insignificant. He further proposes a need to intensify effective presumptive taxation reform for SME entrepreneurs through rationalising turnover tax regime and influencing behavioural patterns of SMEs in Tanzania. The findings suggested that presumptive tax system tolerates some aspects of informality. According to Cuccia (2013), the basic problem of inefficiency of the presumptive is that it has failed to increase the tax base of the economy. Contrary to expected results, tax revenue has decreased over the years in Russia. They further argue that presumptive tax has brought in some form of unfairness in the tax system.

Similarly, Bird (2014) argues that simplicity should not be pursued at the expense of other more important elements that make the tax system efficient and effective. However, his findings revealed that presumptive taxation in Bangladesh seem quite appropriate and in line with best practices. He argues that permanent use of presumptive taxes, regardless of the size and turnover of the business concerned has serious adverse effects on the overall system. His opinion is based on the background of the fact that tax collection in Bangladesh still stands at 9%.

In the United States, Schepanski and Shearer (2015) noted that the introduction of the presumptive tax regime within the motor trade sector greatly improved the tax head. Thomas (2013) asserts that the effective implementation of presumptive tax can improve revenue generation and collection. Dube (2014) asserted that the presumptive tax legislation and administration in Zimbabwe improved revenue collection, especially during the period 2009-2014. According to Thomas (2013), presumptive taxes enhance efficiency by imposing zero marginal tax rates on above average earnings thereby increasing compliance among SMEs. His findings revealed that since presumptive tax is calculated based upon an average level of earnings for a particular industry, SMEs would try to surpass that limit in order to have an advantage. Mbaye (2012) argued that the introduction of presumptive taxes increased compliance by 3%, 1.3%, and 0.7% in Benin, Burkina Faso and Senegal.

There is, however, no evidence that this presumptive tax collection method has not been cost effective and efficient and the benefits of tracking and collecting revenues through this method are not clearly justified (Dube, 2014).

Factors That Influence Tax Knowledge

“Tax knowledge is the level of awareness or sensitivity of the taxpayer to tax legislation” according to Oladipupo and Obazee (2016). Many things, among other factors formal education, influence it. One's knowledge about an object contains two aspects: positive and negative. Both

of these aspects will determine the attitude of a person. Knowledge is the information known or recognized by someone defined Bird (2014). Knowledge is something that is known to be associated with the learning process. This learning process is influenced by various factors from within such as motivation and external factors such as the means of information available as well as socio-cultural circumstances proposed Bird (2014). The taxpayer's knowledge shows the understanding of the taxpayer in applying the tax rules particularly on income tax.

Level of Education

Educated taxpayers may be aware of noncompliance opportunities, but their potentially better understanding of the tax system and their higher level of moral development promotes a more favourable taxpayer attitude and therefore greater compliance argues Chan et al. (2012). Cuccia (2013) also suggested that those with a higher education level are more likely to have a higher level of moral development and higher-level attitudes toward compliance and thus will tend to comply more. One of the measures to increase voluntary compliance is by assuring that taxpayers have a certain level of qualifications, ability and confidence to exercise their tax responsibility (Mohani, 2012). According to Cuccia (2013), an important factor affecting tax knowledge is the level of education. Their studies were based in Sudan, and they contended that people with higher level of education could easily understand the tax requirement. Iyoke (2016) from her studies in Nigeria also supported that level of education has an influence on tax knowledge.

However, Atawadi (2012) refuted that level of education increases tax knowledge. This was based on his studies in Taiwan where he contested that SMEs have tax knowledge despite their low level of education. On similar note Bird (2014) also argued that taxpayers level of education has been sorely neglected yet the SMEs were complying with tax regulations. Baru (2016) also seconded that the level of education is not necessary on having tax knowledge, but the beliefs of the taxpayer. Her studies were explored in Israel where most of the people believe that paying tax is fraud on its own. This perspective was supported by Mohd et al. (2013) using the religiosity model where he contended that paying tax is an offense in their religion. Tax knowledge also is not related to the level of education according to Nellen (2014), she concluded this in a survey conducted on the level of education on SMEs who comply with tax laws in London and her outcomes presented that even people with low level of education had a better understanding of tax. On similar note, Medley (2015) perpetuated that highly educated SME owners in Ghana still did not have tax knowledge and did not comply.

Alm et al. (2012) were mediocre on the view that the level of education has an effect on the tax knowledge and tax compliance and regarded staff training on tax policies as costly to the organization. The level of education contributes to a certain extend but not necessarily always has an effect on tax knowledge argues McCarthy (2017), Oguntimehi (2011) and Donn (2014). There is a weak relation between the level of education and the ability to operate in a legal system, which means these variables are unrelated and that education does not influence any compliance on the part of managers and owners (Nyamwanza et al., 2014). The level of education was considered in the study in Gweru, Zimbabwe for its impact on compliance of owners and managers on operating within the legal system. The study indicated that the education held by the owners could have failed to include tax compliance on the part of business (Nyamwanza et al., 2014). The non-compliance rate indicates that the education might not be relevant to business or tax issues they argued.

Nonetheless, findings on the relation between level of education and tax compliance are mixed. On the one hand, highly educated groups were shown to agree more with existing fiscal policies than less educated groups argued Scheopansky and Shearer (2013). On the other hand, some researchers found that ordinary education was negatively related to compliance posited Antonides and Robben (2015) also for small business owners (Hite et al., 2013), whereas again others found no clear pattern of non-compliance across levels of education among the SMEs as stated by Schuetze (2012). Further adding to the contradictory pattern, Chan et al. (2012) found a small positive effect (*via* tax attitudes) of level education on tax compliance in a US sample, whereas in a Hong Kong sample, level of education and compliance were unrelated.

Complexity of Tax Law

Tax complexity arises due to the increased sophistication in the tax law argued Richardson and Sawyer (2014). Tax complexity can take many forms such as computational complexity, forms complexity (Bird, 2014), compliance complexity, rule complexity (Carnes and Cuccia, 2011), procedural complexity (Cox and Eger, 2013) and low level of readability (Pau et al., 2015; Richardson and Sawyer, 2014).

Complex tax laws and high tax rates as well as lack of tax education are the most crucial factors causing non-compliance among SMEs Atawodi and Ojeka (2012). Cuccia (2013) argued that *“the complexity of some tax policies causes many people to ignore tax issues; other factors like lack of education only affect tax compliance among SMEs only to a lesser extent”*. The income tax system was also perceived as inherently complex (Saad, 2013), who further argues that the huge amount of paperwork to be completed in complying with tax obligations further escalated the problem and encouraged noncompliance among SMEs.

Navigating through the legal and procedural issues related to taxation is often taxing in itself. In many countries several forms need to be completed, and detailed records need to be kept argues Maingot and Zeghal (2011). Substantial knowledge about the procedural aspects of tax laws is required. This is particularly challenging since tax laws tend to be changed frequently (Chittenden et al., 2012) and to be more complex and ambiguous than laws in general (Carnes and Cuccia, 2012). Tax laws are often too complex to be understood by non-professionals (Kirchler, 2014), which many small business owners undoubtedly are. In addition, tax practitioners acknowledge that the complexity of taxation is making compliance especially difficult to achieve for many small businesses (Cuccia, 2013).

It can be assumed that, sometimes, small business taxpayers are not even sure about whether they are fully compliant or not. For example, in several countries the distinction between the earnings/income from labour and capital is particularly hard to draw in the case of small businesses (Bird, 2014) and self-reported evasion within small businesses did not match actually documented non-compliance (Webley, 2014). This latter finding might be interpreted as resulting from complexity of tax laws resulting in lack of knowledge. Tax Complexity factor which consists of content complexity and compliance complexity implies a negative and significant correlation to tax compliance behaviour of SMEs entrepreneurs. This condition indicates that the higher complexity a tax regulation has, the more reluctant the taxpayers would pay their income taxes.

In Malaysia, Mustafa (2012) who studied taxpayers' perceptions towards the self-assessment system, which was to be introduced (at that time), highlighted the presence of tax complexity in Malaysia, particularly in terms of recordkeeping, too much detail in the tax law and ambiguity. The findings were partly consistent with the six potential causes of complexity

labelled as: ambiguity, calculations, changes, details, forms and record-keeping, identified by Long and Swingen (2011). Such complexity was also present in Australia where it forces taxpayers to engage tax agents to deal with their tax matters (McKerchar, 2011). McKerchar (2013) further identified the most common problem faced by taxpayers is to understand the instructions in the Taxpack 2000. This is followed by the problems of understanding the rules, the tax return forms and other relevant written information provided by the tax authority. His findings were consistent with Cuccia (2013) who focused on the State Road Funds in the US State of Kentucky. The authors found that procedural tax complexity contributes to an increase in tax non-compliance.

Knowledge of E-Filing and Technology on Tax Compliance among SMEs

Electronic tax filing or e-filing is a process where tax documents or tax returns are submitted through the internet, usually without the need to submit any paper return according to Muturi (2015). Electronic tax filing was first coined in United States, where the Internal Revenue Service's began offering tax return e-filing for tax refunds only according to Muita (2011). The aim of tax reforms in many countries is therefore, to achieve higher voluntary compliance and one way to do this is by introducing electronic filing system (Cuccia, 2013).

Keen (2013) argue that taxpayers with certain characteristics are more likely to use e-filing. In the main they argue that large businesses are more likely to use e-filing than small businesses. In addition, they argued that capability in computer usage, awareness of e-filing and knowledge about the process is important for taxpayer's decisions, said Keen (2013). Muita and Mukanga (2010) conducted a study on the adoption of technology as a strategic tool for enhancing tax compliance in Kenya. The case study was based on SMEs and large companies. The study found that that technological knowledge influences acceptance of e-filing and compliance among SMEs. Some people would generally not be interested in e-filing because of a lack of computer knowledge. This was confirmed by Bird (2014), with references to some of the lawyers in Florida who did not want to use e-filing in their law firms due to lack of basic computer knowledge.

Berger (2011) said that South Africa improved its ranking on tax payments from number 32nd to 11th, largely due to the success of e-filing and the way in which returns are filed. She further points out that in South Africa it takes 200 hours for a company to complete and file its tax return, compared to a global average of 268 hours. He further argues that most of the SMEs in South Africa are capable of using e-filing. Mongwaketse (2015) in a study on the effects of e-filing on tax compliance found that only 58.3% of the respondents said they know and understand how to use e-filing indicating a lack of knowledge on the part of the tax payer. The findings also revealed that the majority of respondent had basic tax knowledge, though an unusually big percentage still opted for the use of tax consultant as opposed to e-filing personally.

The taxpayer requires access to a computer, the tax software, a reliable internet connection and the knowledge to utilize the electronic filing (Hussein et al., 2012). Lack of the ability to use the e filing system quickly and efficiently or lack of understanding the type of information required by the online tax filing system forces taxpayers to engage third parties or ignore tax obligations (Bird, 2014). There is a significant relationship between computer literacy, tax knowledge and tax compliance knowledge. Edward and Ambrose (2017) confirmed that SME lack confidence in their ability to correctly calculate the tax payable causing them to hire experts to file for at a cost or totally evade taxes. The study deduced that the technical skill of

filing tax returns is a factor that influences the tax compliance. Akinmboade (2012) proposed that three skills are required by a tax payer to interact well with the system namely spread sheet software, word processing and email. Failure to consider such skills may make the intention of the system not to be realized as confirmed by Jaidi (2013). He confirmed that despite the heavy investment that the Malaysian tax authority put in new online system, only 20% of the targeted taxpayers were able to use it after three years of implementation. This was mainly attributed to lack of necessary user skills like computer literacy; however, taxpayer's behaviour also played a role.

A study of South Korea and Turkey on user evaluation of tax filing web sites was done by Loo et al. (2012), to compare the design and the complexity of the web sites and the ease with taxpayers are able to file tax returns and queries on their tax status. While Turkey had a complex online system, to the contrary Turkish users did not find tax filing system difficult to use. This was attributable to the fact that the SMEs compensated their lack of knowledge by using accounting professionals. Cuccia (2013) did a study on the antecedents of paperless income tax filing by young professionals in India. The objective of his study was to study how young Indian professionals will adopt or behave towards paperless or online filing of tax returns with the aim of enhancing compliance. The regression analysis carried out found that the antecedents of young Indian professionals depended on the perceived ease of the tax system, personal innovativeness in information technology, relative advantage, performance of filing service, and compatibility.

On the other hand, South Korean system was considered less complex but few taxpayers were using it as expected. Having in place an electronic tax filing system is one thing, but being able to be used by taxpayers is another thing. Other factors to be considered should also be the capacity of the system and the efficiency (Bird, 2014). Helhel et al. (2014) stressed that the problem that an increase technology dominance and sophisticated tax return preparation program might increase the incentive for tax policy makers to incorporate additional complexity into the laws, assuming that such technology will help taxpayers to better comply. They argue that such strategy will place those taxpayers at a disadvantage who do not wish for such a computerised support system.

SMEs General Perception of the Tax System

Perception is the process of assessing a person against a particular object. Sari and Huda (2013) defined taxpayer perception as a tax payer's way of thinking towards tax administration system. They further argued that taxpayer understanding tax and perception has a significant impact on tax payer compliance. Listokin et al. (2012) suggest that attitudes should be examined for the degree to which they are a product of myth and misperception. He argued that when myths and misperceptions are replaced by knowledge, a change in attitudes towards taxation would occur even if the taxpayers' basic ideology and values remain unchanged and the tax law is unchanged. He also claimed that misperception probably plays a major role in shaping fairness evaluations.

Perception on Tax Non Compliance

If tax evasion is not viewed as a serious offence, it may explain the degree of non-compliance with tax laws. SMEs perceive tax as a mandatory collection rather than as a form of participating because they feel they have not seen the real impact of the tax for the country and society argued Sari and Huda (2013). According to Berk et al. (2015), the general public does not perceive tax evasion as a serious crime. Their findings in Turkey actually revealed that the average person ranked tax evasion as only somewhat serious. When compared to other white collar crimes it actually ranked lower than accounting fraud.

Tax policies are seen by SMES as an attempt made by the government to deter their growth according to Berhane (2012). Based on third hypothesis (*H3*) Williams (2014) also contemplated that there is a bad perception by SMES on tax policies in Rwanda and revealed that tax policies impact SMES growth negatively. Cuccia (2013) based his studies in Israel and contented that SMEs in Israel viewed tax compliance as an issue which stands against their religion and feel non-compliance has no effect on the performance of their business. Cannes and Cuccia (2012) noted that small business owners were remarkably open and honest about their tax evasion behaviour. They argued that one potential reason of this openness is that tax payers may view tax evasion as a relatively minor offense. Karlinsky et al. (2014) argue that SMEs perceive tax cheating and shop lifting as being almost equivalent offences.

Contrary to the views of most authors, Cuccia (2013) argues that *“some SME owners believe tax evasion can cause long-term harm to their business by damaging reputation and diverting national infrastructure”*. Baru (2016) also argues that *“tax payers perceive and associate paying tax with social responsibility and believe that a company should pay its fair share of taxes”*. Findings in a survey conducted on students in various disciplines and at various levels of education revealed that educated tax payers perceive tax evasion as a crime whereas the least educated found it socially acceptable argued Atawodi et al. (2012). However different studies in developed countries reveal that SMEs actually do not support tax evasion as they believe it inhibits growth of the economy. Gunz et al. (2014) argues that although it seems convenient to evade taxes in order to decrease compliance costs, tax payers in Canada counter argue that taxes can be useful in reforming the economy.

Murtuza and Ghazafar (2012) do not address the issue but discuss Zakat, the Muslim duty to the poor. Morates (2012) discussed the case of Mexican street vendors and their view that feeding their families was more important than paying taxes. Mugenda (2015) concluded that tax compliance perception is of political interests in Iraq so SMEs tend to follow the policies they feel to support their business.

Perception on Tax Authorities

A special focus needs to be placed on tax authorities for they are the ones who maintain direct contact with tax payers, offer services, implement controls and impose punishments argued Alm et al. (2012). Tax payer perception towards tax officers is the taxpayers view or a judgement towards the existing tax officers. The integrity of employees is essential in making sure that the organisation meets its objectives. Employees with good integrity ensure that they provide services in corruption free environments. Sari and Huda (2013) established that SMEs in Indonesia have a negative perception on tax authorities after findings had shown low quality of tax service and the amount of tax revenue misappropriation committed by tax officers.

Perception on Government Expenditure

Government expenditure refers to the spending of government funds, consumption, investments and transfer of payments to the purchase of goods and service, which include public consumption and public investment and transfer of payments consisting of income transfers and capital transfer (Baru, 2016). According to the approach of Cuccia (2013), *“taxpayers perceive their relationship with the state not only as a relationship of coercion, but also as one of exchange”* Ndekwa (2013) argues that *“SMEs in Uganda lack trust in their government and that the lack of accountability and honest on the revenue collected drives the non-compliant gear among SMEs in Uganda”*. He further argues that government should show some degree of accountability to make SMEs understand the connection between tax revenue and expenditure. Djawadi and Fahr (2013) proposed that SME perception on government expenditure can only be improved by involving the public on what public goods they want their tax dollars to be spent on. Their findings showed that compliance could be increased by 18% if the public perceived the government to be fair. However, the fact that the study was conducted in a lab with students as subjects provides reasons for caution. Lack of trust in the fairness of a tax system and the legitimacy of the government increases the likelihood of tax evasion among small business owners Webly (2014). In a similar study in Uganda Fisher (2016) assimilated that SME taxpayers in Uganda alleged the government to be involved in unnecessary costs using their hard earned dollars. This view influenced their non-compliance behaviour.

According to Shamrodi (2016), *“non-accountability by the government did not influence non-compliance among SMEs in Uganda, but it is the ways the taxpayer perceives government expenditure that significantly influences noncompliance behaviour”*. He argued that taxpayers are aware of the uses of tax money but they still perceive that some of the funds are not used for their intended purposes. Bird (2014) studied the tax fairness in developing countries and concluded that lack of fairness in tax authorities causes most of SMEs to relax attaining tax knowledge and cause a short fall in revenue collected by government. Statistical calculations done in China showed a trend of negative correlation between tax fairness to tax compliance behaviour, which means that the more SMEs entrepreneurs are aware of tax knowledge and outs of taxation argued Chan et al. (2012).

However, Bird (2014), still argues that SMEs are only concerned in making their businesses successful by minimising their costs and they are not concerned about the government. Dube (2014) in his research on tax payer perception discovered there were mixed opinions on how the government spends which resulted in mixed compliance behaviours in Canada. While people who mistrust government may be less inclined to pay taxes, people who are un-inclined to pay taxes might also rationalise this impulse by invoking their mistrust of government argues Listokin and Schizer (2012). Survey results in Australia indicated that most SMEs are ignorant and uncertain about the works of the tax system and the policy options under consideration or actually in place by their government.

Conversely, studies in Chile, Rothberg (2014) revealed that small business understood that government should utilise tax money and believed their money was being put to best use. Perception of fairness in tax administration, the perceived equity of government spending, overall level of trust in the government are some of the reasons why Americans comply so readily argues Baru (2016). They further argue that on reason why small business complies is that they perceive that their preference is adequately represented and they are supplied with public goods, therefore their identification with the state increases. According to Mukhlis et al.

(2013) businessmen are willing to fulfil their tax obligations and benefits as long as there is justice of the taxes that have been paid. Adam and Webly (2012), reiterated that the most important principle in the context of the successful tax collection is the fairness in taxation, which is expressed by a statement that every citizen should participate in the financing of the government, as far as possible in proportion to their respective abilities, that is by comparing the earned income with the protection they get from the State.

Taxpayers are more inclined to comply to the law if the exchange between the paid tax and the performed government services are found to be equitable. Cuccia (2013) argues that an increase in deterrence disrupts such a balance based on reciprocity for honest taxpayers. This feeling gets stronger when taxpayers, who consider they to pay fair dues, are audited and fined. The balance will also be disrupted when they notice that other taxpayers who are violating the tax law do not get punished.

CONCLUSION

This study involved an analysis of relevant theoretical and empirical literature on the relationship between tax knowledge and tax compliance, determinants of tax compliance, strategies to increase tax knowledge and reduce tax compliance by SMEs which is essential for the current study. It also provided definition of key terms pertinent to the study. A critique of the various literatures by other authors was conducted. The research study was conducted successfully and the impact of tax knowledge on Tax compliance among SMEs was determined. The researcher gathered enough evidence to answer the research questions of this study.

RECOMMENDATION

Enforcement Strategies

Registering a small business for tax and expecting it to willingly return and pay taxes is being over expectant of any tax authority. Zimra is advised to adopt early enforcement strategies like following up the 1st return in the 1st month of registration to encourage compliance. It is easier to follow up and encourage a tax payer as early more possible than a year later. In this regard new registrations should be issued tax clearances which are valid for 3 months only so that they are encouraged to keep a relationship with the revenue authority.

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