



TAX COMPLIANCE CHALLENGES ENCOUNTERED BY SMALL ENTERPRISES IN LIPA CITY

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ABSTRACT

Compliance across all taxes is becoming increasingly complex. Companies are struggling to do more with less while driving value out of their tax and finance functions. With this, the study attempted to determine the tax compliance challenges by small enterprises in Lipa City. The study utilized descriptive method of research design among 80 registered small businesses in Lipa City. The result from the questionnaire was tallied, analyzed, and interpreted through the use of statistical tools such as frequency and percentage, weighted mean, analysis of variance, and T-test. The researchers found out that most of the small businesses are merchandising, sole proprietorship, operating 10 years and above, have 10 – 20 employees, have an initial capital of Php 3,000,000 – Php 5,000,000, an average annual income of Php 1,000,000 – Php 3,000,000, and mostly are furniture and home appliances. Also, the researcher found out that tax rate, filing procedure, and taxation is a challenge. The study revealed that in terms of nature of business and in terms of business organization, there is a significant difference in all factors. While in terms of years of existence, average annual income and product/ service offered, there's a significant difference only in taxation. Capitalization, in terms of tax rate and taxation has a significant difference. Lastly, there is no significant difference in terms of number of employees in all factors. The researchers presented an implication of the results of the study to the local government of Lipa City.

Keywords: *filing procedure, small enterprise, taxation, tax compliance, tax rate*

1. INTRODUCTION

Tax is a serious matter in the economy. It is being used for such infrastructure and other developmental purposes. It is a powerful resource to funding the public payments of developed, developing and underdeveloped countries in the world. But the amount of revenue to be generated by a government from taxes for its expenditure program depends on the willingness of the taxpayers to comply with tax laws of a country. It is a requirement for an income earner to comply with their tax obligations. However, it is not easy for some taxpayers to fulfill their obligations.

The money people pay in taxes had gone to many places such as paying the salaries of government workers. Tax money helps to ensure the roads one travels on are safe and well-maintained. Every government needs money to perform civil operations and to administrate the running of the state. This money is generally collected from the citizens of the state in the name of tax. So, it became virtually impossible for the government to run without the tax.

Tax compliance places a large burden on small businesses, both in the aggregate and relative to large businesses. Small businesses are more likely to underpay their taxes because they often deal in cash and engage in transactions that are not reported to the IRS (Internal Revenue Service), small businesses can understate their revenues and overstate their expenses and thus underpay their taxes. Some underpayment is inadvertent, reflecting the difficulty of complying with the complex tax code, and some is intentional. High compliance costs disadvantage responsible small businesses, while the greater opportunity to underpay taxes advantages less responsible ones (Marron, 2014).



However, even if tax is base for the existence of the state, most taxpayers become unwilling to pay their tax obligations due to the presence of negative voluntary compliance attitude. Some companies find it hard to comply with their tax obligations because of several reasons. Little revenue yields or their profit is not enough to comply with tax, imposing higher compliance comes at a cost to both taxpayers and tax administrations, poor tax morale and lastly, poor tax education. This is why the issues of taxation of SMEs are really important in the economy. Non – compliance to tax can have a great impact especially to the government. It is said to be a requirement to comply with tax. Thus, if SMEs encounter too high compliance to tax, then there will be a high tendency of avoiding to pay their taxes.

With this, the researcher adopted the Economic Based Theory also known as deterrence theory and they place emphasis on incentives. The theoretical approaches of tax compliance have commonly been divided into economic deterrence theory and the wider behavioral theory (Frey & Feld, 2002). It can take a form of providing better taxpayer education and increased advertising of incentives in instances of being compliant (Frey & Feld, 2002; Sandmo, 2004; Feld, Schmidt, and Schneider, 2007). It has been established that the different tax systems contend with the challenge of taxpayers who are not compliant with their tax payment obligations and the use of the economic deterrent theory was the most favored in dealing with the tax collection challenge (Hasseldine & Bebbington, 1991).

The researcher conducted the study to know the reasons why there were some small enterprises that do not comply with their tax obligations and the factors of their non-compliance. This study also discussed the tax compliance challenges encountered by small enterprises as to tax rate, filing procedure and taxation. This study would help small enterprises to arise from determining the challenges on how they will comply with their tax obligations considering their annual income and initial capitalization. The study was also deemed significant to the City Government of Lipa which will help them to distinguish the primary reason on why other small enterprises fail to comply with tax liabilities on a given deadline and to imply their actions to the latter.

2. MATERIALS AND METHODS

2.1 Research Design

The researcher made use of the descriptive method to gather and tabulate data. Descriptive research requires the collection of data to answer different questions concerning the present situation and position of the subject under the self-constructed questionnaires to gather information in determining the factors affecting tax compliance among SMEs in Lipa City.

2.2. Respondents of the Study

The respondents of this study were the owners and managers of small businesses in Lipa City. The researcher considered owners and managers of the business because they keep records regarding to tax filing. The researcher obtain the lists of total small businesses in Lipa City which is 114, out of total respondents gathered; only 80 of them answered the survey questionnaire and give their honest response. Thirty- four (34) businesses did not give any response because they said that it is very confidential.

2.3 Data Gathering Instrument

The researcher used published and unpublished materials, specifically books, theses and internet to be able to lead her to available and reliable resources. The instrument used in the study was self-structured questionnaire.

2.4 Data Gathering Procedure



The researcher collected data from different materials which were used in analyzing and interpreting the study. She gathered information from books and other research materials in order to compose a comprehensive study. The materials gathered also served as her basis when she constructed the questionnaire. The researcher prepared a letter of request to the respondents to acquire permission to the management to conduct the survey. A self-constructed questionnaire was used in conducting the survey. The survey questionnaire was validated by research experts. The researcher forwarded a letter to the managers of selected industries to assess the reliability and validity of the questionnaire. Then it was used for the dry-run with only 14 respondents in Tanauan, Batangas City proper. The result of the dry-run is acceptable based on Cronbach’s alpha of 0.826. After the dry-run, the researcher did the actual survey. The same questionnaires were given to 80 small enterprises in Lipa City such as hardware store, groceries store, appliance center, furniture store and school supplies store. The questionnaires were collected from the participants to be analyzed and interpreted. The purpose of the researcher in conducting the survey was to gather facts that will support the study.

2.5. Statistical Treatment of Data

The data gathered through the use of questionnaire were tallied, analyzed and interpreted by using statistical tools considered most appropriate for the study. For this study, relative frequency and weighted mean were utilized.

3. RESULTS AND DISCUSSION

Table 1. Summary of the Composite Mean on the Tax Compliance Challenges Among Small Enterprises in Lipa City

Variables	Composite Mean	Verbal Interpretation
Tax Rate	2.83	Challenge
Filing Procedure	2.92	Challenge
Taxation	2.97	Challenge
Grand Composite Mean	2.91	Challenge

The result showed that the tax compliance among small enterprise in terms of taxation is a challenge. In terms of taxation, it has a very high impact in tax compliance maybe because the size of the business is really an obstacle when it comes to tax compliance because how can you comply to tax if the business is not profitable enough. In terms of filing procedure, it also has an impact when it comes to tax compliance maybe because they have difficulties to access BIR website and maybe because they do not follow several procedure in paying the tax. The result further showed that in terms of tax rate, they agreed that it is one of the challenges encountered by small enterprise when it comes to tax compliance. They encountered challenges in terms of tax rate because there are varying changes in tax rate and maybe because they could not figure out how much tax they need to pay.

Table 2. Implication to the City Government of Lipa

Areas of Concern	Findings	IMPLICATIONS
Tax Rate	2.83 Agree	The city government of Lipa should implement a lower tax rate for the small business owners.
Filing Procedure	2.92 Agree	The city government of Lipa should lessen the number of forms the taxpayers need to fill out in filing their business taxes.



Taxation	2.97 Agree	The city government of Lipa should consider increasing tax incentives and exemptions as this will not only attract investors who are potential taxpayers, it will also encourage voluntary compliance.
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4. CONCLUSION

The researcher found out that majority of the respondents are in line with merchandising, sole proprietorship, most of them are on their 10 years and above, 10-20 employees, initial capitalization of Php 3,000,000- Php 5,000,000, annual average income of Php 1,000,000- Php 3,000,000 and offered furniture and home appliances. The tax compliance challenges among selected small enterprises such as tax rate, filing procedure and taxation were all challenging. The study further revealed that in terms of nature of business and in terms of business organization, there is a significant difference in all factors. While in terms of years of existence, average annual income and product/ service offered, there's a significant difference only in taxation. Capitalization, in terms of tax rate and taxation has a significant difference. Lastly, there is no significant difference in terms of number of employees in all factors.

In the light of findings and conclusions arrived at this study, the bookkeeping among the small enterprises should be improved by offering incentives for example applying for a lower presumptive tax rate for small businesses meeting certain record keeping standards. To demonstrate to people that non-compliance can be detected and is punishable, the government should enhance voluntary compliance by establishing a strong enforcement presence. The capacity of the informal sector will be enhanced by offering facilities like business counselling, training, and reducing the cost of registration. This will spur growth in the sector hence driving economic growth and revenue. Lastly, the tax system should provide clear and simple guidelines on how to file tax returns and also enhance taxpayer education services to enable the taxpayers understand their rights and obligations as taxpayers.

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