

INFLUENCING FACTORS ON TAX COMPLIANCE AMONG REGISTERED SMALL AND MEDIUM ENTERPRISES IN CAMBODIA

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Abstract

Discussions about tax compliance have been sparked by the need to grow and expand the tax base on SMEs. So, the focus of this study will be on how tax policies will affect how well people pay their taxes. The government needs to use the tax policies that are already in place, such as tax penalties, tax rates, and how fair the tax system is.

Most of the research on SMEs taxpayers in Cambodia is focused on e-tax filing. So, this research will be done to fill the gap that was found. The study will use a mix of quantitative and qualitative research approaches and the positivism paradigm. The research will also use stratified sampling and a cross-sectional survey method. To test the research hypotheses, a regression analysis, an ANOVA test, an analysis of the beta coefficients, and a T-Test will be done.

The study will establish the relationship between tax penalty, tax rate, and fairness and equity on how well SMEs will pay their taxes.

Keywords: Registered small and medium enterprises, Business with annual revenue between USD 62,500 to USD 250,000 for agricultural, service and commercial sectors, and USD 62,500 to USD 400,000 for the industrial sector are classified as small taxpayers.

Business with annual revenue between USD 250,000 to USD 1,000,000 for agricultural sector and USD 250,000 to USD 1,500,000 for service and commercial sectors, USD 400,000 to USD 2,000,000 in the industrial sector are classified as medium taxpayers.

1. Introduction

This research looks at how Cambodian SMEs adhere to tax policies. Cambodia's informal economy, which is driven by SMEs, is struggling with worldwide tax compliance. This DBA dissertation investigated tax policies that affect Cambodian SMEs' compliance.

The literature on tax compliance is dominated by non-economic variables, whereas economic considerations focus on detection and punishment (Tan & Braithwaite, 2018). Taxpayer compliance is related to the chance of being caught and sanctioned (Tan & Braithwaite, 2018). Compliance improves taxpayer morale (Tan & Braithwaite, 2018).

Taxation drives economic growth, redistribution, and financial resource mobilization, hence effective tax administration is critical for sustainable development in emerging and transition economies (Chalu & Mzee, 2018). Tax evasion affects government revenue hence all tax authorities are concerned about tax compliance (Alshrouf,

2019). The administration of taxes is critical to the design and efficiency of tax systems in developing and transition countries (Tan & Braithwaite, 2018).

Tax evasion and avoidance are major sources of noncompliance globally (Hanlon et al., 2017). Tax authorities should make tax returns, forms, and rules easier to understand (Zhang, 2019). The government should also distribute tax revenue and provide social services in an effective and transparent manner (Arlen, 2021). Economic development is fueled by cash earned to cover a country's budget (Adimassu & Jerene, 2016). Governments must pay these services entirely.

Taxation is the government's primary revenue source (Asrinanda, 2018). Taxes, according to Hendayana et al., (2021), are significant in every country. Taxation boosts economic efficiency, investment design, and management (Tan & Braithwaite, 2018). Even though death and taxes seem unavoidable, most people are unwilling to pay taxes on time, in the correct amount, and in the correct location. Despite administrative improvements, tax collection remains low. Tax authorities have long struggled to persuade taxpayers to follow the laws (Baldacchino et al., 2017).

The factors influencing tax compliance in Cambodian SMEs are investigated in this study. As Cambodia's economy has progressed from least developed to low-medium, SMEs have grown increasingly important. Cambodia's informal sector, controlled mostly by SMEs, has always battled with tax compliance. The study investigates how registered Cambodian SMEs adhere to tax policies, particularly those in Phnom Penh and surrounding areas.

2. Statement of the Problems

The issue of tax compliance has received increased attention from researchers in recent decades as a result of an increase in non-compliance by potential tax payers, particularly SMEs. This has a negative impact on the government's ability to generate the revenue required to provide social services. Even the fastest growing economies with the most powerful tax authorities have failed to generate the much-needed revenue (Mannan et al., 2020). Although previous research has shed some light on small business taxpayers' attitudes toward tax compliance, few studies have shed light on how to address the issue. Tax evasion and avoidance, as well as as mandated tax compliance, are associated with resistance, disengagement, and game playing (Asrinanda, 2018).

Compliance, compliance costs, e-tax filing, and compliance attitudes among Cambodians small business taxpayers have all been studied (CDRI, 2019). There is a scarcity of research on how Cambodian small business taxpayers position themselves in relation to tax officials in accordance with

government tax policies. This study will focus on government tax policies and their impact on tax compliance by SMEs, with a special focus on small business owners and employees. Tax compliance research in developing countries, including Cambodia, is limited, so this study aims to increase understanding of tax compliance in developing countries.

Specific research objectives

- To determine the impact of tax penalty on tax compliance.
- To ascertain the impact of tax rate on tax compliance.
- To assess the impact of fairness and equity of tax system on tax compliance.

Significance of the study

The study is expected to benefit the SMEs, the Royal Government of Cambodia and the researcher.

SMEs that are tax compliant have a better chance of being recognized as respectable businesses, and as a result, they have a better chance of receiving more and larger orders from customers from both private and public organizations.

If small and medium-sized businesses (SMEs) are tax compliant, then the Royal Government of Cambodia as a whole may receive more revenue, which may allow the government to provide more fundamental and social services to its citizens.

It is possible that the researcher will gain a significant understanding of tax compliance and will be able to provide improved consultancy services to tax clients as a result.

Limitations of the study

The study will be limited to Phnom Penh capital, Kampong Speu, Takeo, Kampot, and Kandal provinces.

Literature review

People are typically considered to obey the law if they believe justice has been served (Sinaga, 2019).

People are more inclined to obey the law if they think the overall tax system is fair (Ali et al., 2013).

A penalty is a tool for the tax authority to deter taxpayers from engaging in illegal behaviour. A tax penalty is a fine that you must pay if you do not pay your taxes on time (Kirchler et al., 2007).

When the detection probability is high, and penalties are severe, fewer people will avoid taxes (Fjeldstad et al., 2012).

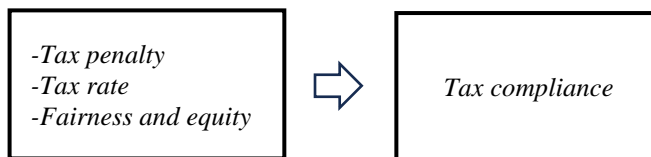
According to Virmani (1989), tax evasion and penalty rates are linked; the higher the penalty rate, the more likely people are to commit fraud.

A high tax rate discourages people from paying their taxes (Abdulsalam, Almustapha, and El, 2014)

Small firms confront several challenges as a result of high tax rates (Ali, 2018)

Conceptual framework

The independent variable is tax policies, and the sub-variables are tax penalties, tax rates, and the fairness and equity of the tax system. The dependent variable is tax compliance.



A penalty is a tool for the tax authority to deter taxpayers from engaging in illegal behavior. A tax penalty is a fine that you must pay if you do not pay your taxes on time (Kirchler et al., 2007). In 1968, Becker developed the first systematic model of people disregarding rules. Becker (1968) believed that persons who disobey the law would consider the advantages and disadvantages of doing so, considering the severity of the penalty and the likelihood of being detected.

The tax rate is the rate at which both enterprises and individuals are taxed on goods and services (Muoki et al., 2014). According to Helhel and Ahmed (2014), one of the primary causes of low compliance is high tax rates. This suggests that a high tax rate discourages people from paying their taxes (Abdulsalam, Almustapha, and El, 2014).

People frequently examine tax fairness from two perspectives: equity of trade (profit made from paying taxes) and equity of income (Kira, 2017). Tax equity is concerned with the aspects of an activity that have a significant impact on a taxpayer's decision to follow the laws (Paper et al., 2016). Trust, views of fairness, and corruption are all critical for tax compliance, according to Güzel et al. (2019). Tax equity is critical to a healthy tax system (Thomas, 2012). Tax administrators and taxpayers believe that one of the primary reasons more people do not pay their taxes is dissatisfaction with how taxes are structured (Chau & Leung, 2009).

Research methodology

Because it is consistent with the study's concept, quantitative and qualitative approaches were used in this investigation. According to (Ramanathan, 2008), the quantitative technique reveals the truth about what is being investigated and can be used again. According to Williams (2011), the initial step in this strategy is to describe the problem and develop hypotheses.

Summary of findings

This chapter will go over an overview of the Cambodian tax system, the tax registration procedure, and the most recent developments in the General Department of Taxation, as well as general questions asked among the tax collectors about the tax collectors' perceptions of the administration of tax policies and procedures, the procedural requirements, and the willingness to pay among SMEs in the country.

Revenue officers in Cambodia generally agree that taxes from SMEs and other firms are a sizable contributor to the coffers of the Royal Government. The funds will be used to pay for public services like healthcare, transportation, border and

heritage protection, government employee salaries, military and police pay, bridge construction, and school funding.

Tax collectors claim that the Government issued several regulations in 2016 with the intention of overhauling the system. These include the elimination of the estimated tax regime, the differentiation of taxpayers under the real tax regime, the overhaul of tax registration procedures, the simplification of accounting rules for smaller taxpayers, the raising of the minimum band threshold for salary tax, and the provision of industry-specific VAT assistance for rice and utilities.

Interviews with tax officials indicate that small and medium-sized enterprises (SMEs) represent a major source of the country's taxable company revenue. The majority of SMEs are notorious for having low tax compliance figures, and SMEs display a great deal of skepticism towards tax officials, according to the tax authorities. To better appreciate the variables driving conformity decisions, it is necessary to recognize that some SMEs conduct business in the informal or cash economy.

Cambodia's tax officials report that many small and medium-sized enterprises (SMEs) have questionable tax practices due to the country's complex tax system. As a result, they rely largely on tax professionals and avoid dealing with the tax authorities. Taxes are perceived as boring and difficult, and worry further discourages people from engaging with them. They continued by saying that most SMEs have a regular pattern of taking orders, talking to customers, making deliveries, and making sales. However, taxes don't follow this pattern because they typically have compliance dates in the distant future. As a result, this may cause small and medium-sized enterprises to put off handling their tax obligations.

Tax professional's agent, according to those surveyed, can help small and medium-sized enterprises (SMEs) meet their tax obligations. Taxpayers have hired tax professional's agent to help them lessen the severity of inspection issues, reduce the amount of tax owed, lessen the likelihood of an audit, and keep them from making costly mistakes. Some common reasons why consumers consult with tax professionals include the that follow: the complexity of the tax rules, sources of income, tax rates, and ambiguity of income. Tax professionals have a lot of sway over the regulatory climate. The tax collectors surveyed believe tax authorities must collaborate with tax practitioners and other parties to impact compliance behavior effectively. Tax professionals help small and medium-sized enterprises meet their tax obligations and offer strategic and financial counsel. According to Cambodia's tax authorities, CPAs and other tax specialists are highly sought after by small and medium-sized enterprises (SMEs). Professional tax advisors may provide SMEs with reliable guidance and assistance.

Conclusions and Recommendations

Numerous recommendations are made to improve SMEs' tax compliance based on the accounts presented above. First, SMEs are apprehensive and reluctant to seek assistance from General Department of Taxation. Instead, most SMEs engage their tax practitioners, but this infrequently occurs due to the hefty expense. There is also a need to bridge the social gap between SMEs and tax authorities. Tax practitioners can bridge this divide by facilitating better communication

between SMEs and GDT, dispelling any misconceptions about tax payments and returns and, as a result, narrowing the tax compliance expectation gap.

Second, it is suggested that GDT be more customer- and service-oriented when working with SMEs by providing technical assistance in completing tax duties. Because of an absence of trust and stress, many SMEs have distanced themselves from GDT. Instead of the typical command and control approach, GDT should consider eliminating or reducing penalties and fines for real mistakes and economic challenges. Rather than continually imposing interest and penalties, GDT should have the option to waive or reduce such sums and instead direct an SME to attend a relevant education course or install particular processes.

Third, it is suggested that SMEs require more resources and incentives to develop their accounting knowledge, and administrative and budgetary skills, particularly considering the financial constraints they may face compared to larger enterprises. For example, it has been argued that providing a "professional advice rebate" is crucial in motivating SMEs to seek professional counsel early in their business lifetime. This could be justified in part as a government cost reimbursement to SMEs for their tax collection efforts. It might also be interpreted as the government encouraging SMEs to seek professional accounting guidance to improve their accounting skills.

Fourth, SMEs should strengthen their accounting expertise, systems, and records. Incentives and assistance should be provided to SMEs to help them establish accounting systems, including information about the managerial benefits of accounting records. Tax professionals' encouragement, knowledge, and assistance can remedy this. Any administrative aid provided to SMEs to establish a strong accounting system can decrease the burden of filing tax returns. This will eventually free up SMEs to focus on increasing income and wealth for their companies. Tax practitioners should also examine whether information provided by tax records might be used to help SMEs.

Fifth, to alleviate animosity toward taxation, the tax authority and tax practitioners must re-educate SMEs on the purpose of taxes and the value of cash management skills. Cash management skills may assist SMEs in avoiding hefty tax fines.

For the government, according to the research, low tax penalties have a substantial beneficial link with tax compliance. Based on the study, the government should consider using modest tax fines to enhance tax compliance.

The findings show a strong beneficial association between a low tax rate and tax compliance. To improve tax compliance among SMEs, the government must impose low tax rates. As a result, it has been demonstrated that the tax system's fairness and equity impact tax compliance in the Cambodian SME sector. Based on the findings, the study suggests that tax administrators promote tax compliance by ensuring that the tax system is fair and equitable;

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