

## Let's Talk About Taxes: Understanding Tax Compliance from Small Business Owners' Perspectives

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### Abstract

**Aim:** This study assessed the tax compliance of small business owners in San Jose City, Nueva Ecija during the Calendar Year 2021.

**Methodology:** Qualitative research design was used in the study. The researchers formulated the guide questions to 10 small business owners which served as participants of the study. Face to face interview, used of phone recorder and taking down of notes were conducted to gather the necessary data for this study. Data gathered were analyzed and interpreted. Lastly, the researchers discussed the themes which led to the formulation of the findings of the study.

**Results:** On the tax compliance of the participants, four distinct themes emerged from the research data, these are: 1) necessity to support tax compliance; 2) advantages/benefits of being tax compliant; 3) proper and efficient compliance with tax obligation; and 4) need of services-professional assistance. In order to improve the compliance in tax payment, some recommendations had been made.

**Conclusions:** Assessment on tax compliance of the participants revealed that 10 of them agree on the importance of tax compliance, it should not be avoided, be fair and acceptable; there were also negative experiences of the participants on tax compliance; they also need professional assistance in the financial management of business since they had late payment of taxes, the need to conduct monitoring of the business including its capacity, and record keeping. On the other hand, business owners were sometimes visited by Bureau of Internal Revenue (BIR) personnel during tax mapping which sometimes led to anomalies in paying of taxes, thus, results to dissatisfaction on the services in the part of the government. Moreover, it is easy to renew business permits and licenses if they are tax compliant. Further, recommendations had been made for the improvement of tax compliance of the participants.

**Keywords:** small business, owners, assessment, tax compliance, taxes

### INTRODUCTION

The spread of Corona virus disease or simply COVID-19 virus affects thousands of people every day and is slowing down the global economy. COVID-19 has rapidly affected people's day-to-day life, businesses, disrupted the world trade and movements. Identification of the disease at an early stage is vital to control the spread of the virus because it very rapidly spreads from person to person. Most of the countries have slowed down their manufacturing of the products (Huang et al. 2020; Wang et al. 2020).

Various industries and sectors are affected by the cause of this disease; these include the pharmaceuticals industry, solar power sector, tourism such as different travel agencies, information and electronics industry, wholesaler and retailer, restaurants and other businesses. This virus creates significant knock-on effects on the daily life of citizens, as well as about the global economy (Halem et al. 2020). Furthermore, the slowing of the manufacturing of essential goods, disrupt the supply chain of products, losses in national and international business, poor cash flow in the market and significant slowing down in the revenue growth are some of the impacts of COVID-19 in our economy. Hence, the economic disruption caused by the pandemic is devastating.

Millions of enterprises face an existential threat. Nearly half of the world's 3.3 billion global workforce are at risk of losing their livelihoods. On the other hand, the informal economy workers are particularly vulnerable because they lack social protection and access to quality health care and have lost access to productive assets. Without the means to earn an income during lockdowns, many are unable to feed themselves and their families. For most, no income means no food, or, at best, less food and less nutritious food (World Health Organization (WHO), 2020).

Due to economic problem brought about by COVID-19 pandemic, running a business is hard. It became a difficult environment for taxpayers particularly those categorized under small business. Thus, taxation is profoundly affected by the pandemic. First and most immediately, taxation plays a role at this current crisis stage in helping to sustain universal access to basic goods and services through "lifeline" measures. Vulnerability to COVID-19 and to its economic impact are very different across social groups. Taxation can help compensate for this uneven playing field—that is an additional argument for progressive taxation (Gaspar, 2020).

The payment of taxes is an important source to raise revenue for the provision of social goods and payment of essential services. The taxes collected from individuals, and businesses contribute immensely to the country's Gross Domestic Product (Young et al. 2016). They are compulsory in the sense that government imposes an obligation on taxpayer to pay a particular amount. Government set the rules that determine the tax base and the rates that are applied to their tax base. Knowing the requirements and proper filing procedures will ensure proper compliance. Undertaking tax system is important to bear the responsibility.

Since small business owners play an important role in the tax system, they are possible to perceive more opportunities not to comply than employed taxpayers. They are more likely to experience a lack of meaningful taxation knowledge, and even to face decision frames that render taxes as painful losses (Kamleitner et al. 2012).

The payment of taxes is beneficial on multiple levels including the development of nation, betterment of infrastructure, the upliftment of the society and even for welfare activities for the nation. However, business owners and self-employed individuals must learn the basic business taxation, comply with the monthly, quarterly, and annual tax obligation and understand the registration requirements in Bureau of Internal Revenue (BIR). Tax is a burden to any, especially if one does not know anything about it or failed to comply properly. Paying the right tax is an obligation of all income earners in the Philippines. The tax collected by the BIR can be used a fund of the government to carry out its duties.

Thus, the small business owners have to be enlightened on the concept and procedure in filing the proper tax in order to be compliant and avoid future tax problems, hence this study.

## **Objectives**

The study generally aimed to assess the tax compliance of small business owners in San Jose City, Nueva Ecija. Specifically, this study sought to:

1. assess the tax compliance of small business owners.
2. provide recommendation on how to improve tax compliance of small business owners.

## **METHODS**

### **Research Design**

The researchers used a qualitative research design to gather the necessary information by means of interviewing the participants that serves as the individuals who have the intellectual capacity to respond to the problems related to this study thereby helping form relevant conclusions. Qualitative work requires reflection on the part of researchers, both before and during the research process, as a way of providing context and understanding for readers. When being reflexive, researchers should not try to simply ignore or avoid their own biases (Sutton & Austin, 2015).

Further, the role of the researchers in qualitative research attempt to access the thoughts and feelings of the participants which is not an easy task as it involves asking people to talk about things that may be very personal to them. Sometimes the experiences being explored are fresh in the minds of participants, whereas on other occasions reliving past experiences may be difficult. Hence, a primary responsibility of the researchers is to safeguard the participants and their data. Mechanisms for such

safeguarding must be clearly articulated to participants and must be approved by a relevant research ethics review board before the research begins. It is also about being a professional interviewer because the researchers need to become sensitive in questioning the participants and deviate from their personal life as much as possible. Most importantly the participants must sense a feeling of trust to the interviewer which is considered to be the one of the essential values to be shown by the interviewer.

Thus, a phenomenological approach in a qualitative research design was used in the study because it best described a phenomenon as perceived by the participants. Phenomenological approaches are based in a paradigm of personal knowledge and subjectivity, and emphasise the importance of personal perspective and interpretation. It is also good at surfacing deep issues and making voices heard. (Lester, 1999).

Proper interpretations and systematic analysis are also being done to articulate the results of the study and further draw the conclusions of the study. By applying this approach in this study, the researchers interpreted without any biases the necessary information gathered from the responses of the participants.

### **Population and Sampling**

The participants of this study were composed of ten (10) small business owners in San Jose City, Nueva Ecija, Philippines. They were chosen based on the minimum number of years (5 years) their business has been operating. The researchers employed purposive sampling in this study.

### **Instrumentation**

The researchers formulated interview guide relevant to this study. These guides also included follow up questions for some clarifications and additional information for the construction of more detailed results. They were translated to Filipino by a professional licensed teacher major in Filipino for better understanding of the participants. The interview guide was composed of two parts. Part I focused on the participants' background information and Part II dealt on the tax compliance of the participants. The researchers conducted face to face interview following the health and safety protocol and used a phone recorder and took down notes to gather the necessary data for this study.

### **Data Collection and Ethical Considerations**

The study applied the following procedures in gathering data. The researchers submitted a letter of request to conduct the study to the proper authority. Once approved, a letter of consent was given to the participants to grant permission to conduct the interview. The researchers then provided the participants some insights on what the study is all about and why it is necessary to conduct it. Before the formal one on one interview began the researcher asked permission to the participants to record the interview by using a phone recorder to facilitate the transcription all their responses before analyzing them. As emphasized by Sutton and Austin (2015), if the researcher will use audio- or video-recording data collection, then the recordings must be transcribed verbatim before data analysis could begin.

Then, the researchers conducted the interview among the participants. While being engaged in the interview, some follow up relevant questions were also asked by the researchers to gather more important data. Due to pandemic, health and safety measures were strictly followed by the researchers during the conduct of the study.

For the researchers, it is necessary to ensure the safety of the participants including their personal demographics and other confidentialities. Fleming (2018) stated that the level of attention on ethical conduct (the actions that are personal, professional, and during research activity) has both increased and broadened in response to society's expectation of greater accountability. She also added that at many educational institutions, to collect data from human participants for research purposes without ethical approval would place the researcher outside the institutions. This is the mere fact that in every research that is being conducted, ethical consideration is very essential and significant.

The researchers asked questions to the participants in a sensitive way and avoided tackling their personal issues or private lives. The questioning focused only on the relevant questions.

In order to assure the privacy and security of the participants, pseudonyms were presented in the results and discussion and other sections in the study. This was done to develop and promote trust, fairness

and integrity to the researcher and as well to the future researchers. Lastly, the participants received a consent and confidentiality letter and a guarantee of confidentiality letter assuring them of their safety.

### Methods of Data Analysis

The researchers employed a content analysis by carefully interpreting the transcribed data. In using the content analysis coding was essentially done by the researcher to make the proper interpretations and analyses of the study. The researchers followed the sequence of steps in transcribing and checking, interpretation of data, reading between the lines, coding, and theming.

Since the study was audio recorded, the researchers, first transcribed and checked all the necessary responses of the participants with ease. Thereafter, the researcher used the descriptive method in carefully interpreting the data that has been transcribed and checked. At this stage, the researcher became conscious on the terms, concepts or ideas expressed by the participants. The researcher read between the lines to make accurate analyzation. At this point also, some common responses were observed by the researcher. After identifying and classifying the responses together, the researcher then performed the coding step.

Field notes compiled during the interview were useful complementary sources of information to facilitate this process, as the gap in time between interviews, transcribing, and coding could result in memory bias regarding nonverbal or environmental context issues that may affect interpretation of data. Coding enabled the researcher to understand the world from each participant's perspective. It can be done manually on a hard copy of the transcript by making notes in the margin or by highlighting and naming sections of text.

In the coding process, the researchers integrated the necessary frameworks and resources including the use of the literature reviews, theoretical framework and the transcripts of the interview to completely construct the final interpretations and analyses of the study. Lastly, the researchers identified the themes and discussion which led to formulate the conclusions and recommendations of the study. Theming refers to the drawing together of codes from one or more transcripts to present the findings of qualitative research in a coherent and meaningful way. After constructing all the codes with proper descriptions, alignment and arrangement, the researcher presented it on a consistent and understandable way.

### RESULTS AND DISCUSSION

The interview analyses were based on the stated problems of the study. Direct quotes were included to illustrate and to support the thematic analysis. Four distinct themes emerged from the research data. Table 1 presents the major and sub-themes identified from the result of the study.

**Table 1. Themes and Sub-themes Emerged**

Themes	Sub-themes
Necessity to Support Tax Compliance	<ul style="list-style-type: none"> <li>• Importance of Tax Compliance</li> <li>• Payment of Tax Should Not Be Avoided</li> </ul>
Advantages/Benefits of Being Tax Compliant	<ul style="list-style-type: none"> <li>• Tax Compliance Makes an Effective Business Person</li> <li>• Tax Compliance Ease Business Renewal</li> </ul>
Issues on Proper and Efficient Compliance with Tax Obligation	<ul style="list-style-type: none"> <li>• Experiences in Payment of Taxes</li> <li>• Commitment Provided by the Government to Taxpayer</li> </ul>
Services Needed-Professional Assistance	<ul style="list-style-type: none"> <li>• Accounting Clerks and Bookkeeper</li> <li>• Business Owner Monitoring</li> </ul>

#### Theme 1. Necessity to Support Tax Compliance

##### Importance of Tax Compliance

Interview result revealed that participants' awareness on tax compliance seemed to be too high. All of the participants agreed that it was very important for business owners to be tax compliant. This was very evident in the response of the participants. Participant 1 believed, "*Tax compliance is important to keep our business going. If you don't pay the taxes, no business permit will be issued.*" For Participant 2, "*Tax is the life blood of a government, without tax there will be no projects for the government to help its*

citizens' welfare and development. Participant 3 added, "Tax compliance supports the service operations of the government which redounds to the benefit and welfare of the people needing government services and assistances; avoiding tax payment is cheating both the government and people in need of assistance. Moreover, Participant 4 and 5 stated, "Important, this is the source of income generation of the government." and "It is important, it helps to support the programs and services of the government."

Furthermore, according to Participant 8, "Collection from taxes is important because it is where the government are getting the funds for the building of roads, bridges, etc. Participant 9 added, "For me it is very important to comply all necessary taxes in order for you to continue your business" while Participant 10 said, "Knowing that tax is the lifeblood of the government, as businessman, I should pay taxes in order to help the government in rendering services. In the first place, I have my profit."

It can be gleaned from the previous statements the commonality among those participants that all of them agreed on the importance of being tax compliant for their business to run smoothly. It can be reflected also that all the participants believed that the tax payments that they paid in the government was a big help for the economy of our country which helped in providing the needs, services and assistance of its constituents.

According to Wadesango et al. (2018) tax knowledge is an essential element in a voluntary compliance tax system, particularly in determining an accurate tax liability. Studies undertaken in Malaysia also proposed that tax knowledge is the most influential factor in determining taxpayers' compliance behavior under the self-assessment system. This is empirically established and supported by several other studies that include, Kasippilai et al. (2003), 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. Blackburn et al. (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 SMEs in New Zealand have enough knowledge of tax and they comply with the tax regulations of the country. Saad (2014) also added that information about tax regulations is provided through free public lectures in Malaysia. In support of the above findings, Mckerchar (2005) argued that the absence of tax knowledge might lead to non-compliance behavior 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 behavior. Further evidence was documented among individual taxpayers in Malaysia who unintentionally committed mistakes in their tax return forms (Loo et al. 2008).

### **Payment of Tax Should Not Be Avoided**

Over the past decade, improvements in the collection of tax revenues, and the lack thereof, have contributed significantly to the fiscal health of the Philippines. Nevertheless, poor tax collections have been plaguing the government and have contributed to chronic deficits that have generated the need to borrow. Over the last 15 years, tax effort<sup>2</sup> in the Philippines has been criticized for being stagnant at around 12 to 14% per year (Diokno, 2008).

The interview analysis revealed, that the participants were aware that payment of tax should not be avoided because this matter is their obligations as business owners. This was very evident on the response of the participants as stated in the following paragraphs:

Participant 1 said, "We should not avoid paying taxes to support the government in its projects." While Participant 5 disclosed, "Avoiding tax payment may lead to business closure." Likewise, Participant 6 stated, "Tax is Mandatory. It should not be avoided since all infrastructure in our place comes from our taxes. Tax is the source of revenue of our government. Furthermore, "Paying taxes should not be avoided because our taxes will be the fund of the government that might help us also in the long run.", Participant 7 added. According to Participant 9, "Avoiding payments will be a headache in a business. It maybe led into tax cases and the closure of a business."

On the firm level, taxes are deemed to influence decision-making with regards to investment and funding policies, wherein managers continue to employ mechanisms to reduce the firm's corporate tax



liabilities. Such mechanisms pertain to tax avoidance, tax aggressiveness, and tax evasion, which the literature tends to use interchangeably (Ledesma et al. 2018). While tax evasion is characterized as an illicit procedure of escaping from taxation, tax avoidance is legal, that is, the firm adopts legitimate tax. Tax leakages represent the losses of revenue through loopholes in paying direct and indirect taxes; these include tax evasion and avoidance (Organization for Economic Co-operation and Development (OECD), 2013). Records show that Singapore and Malaysia have reported a tax effort of more than 20% annually (Araki & Claus, 2014). The personal income tax rate in the Philippines is currently fixed at 32%, whereas the corporate income tax rate is currently marked at 30%. In the literature, "tax avoidance" is used interchangeably with "tax sheltering", "tax planning", "tax aggressiveness", and "tax minimization" policies that reduce the firm's income tax payments (De Leon & De Leon, 2012; Guenther et al., 2013).

## **Theme 2. Advantages/Benefits of Being Tax Compliant**

### **Tax Compliance Makes an Effective Business Person**

Participants agreed that for them compliance of tax payment makes them effective business person. This was very evident on the response of the participants as stated in the following paragraphs:

According to Participant 1, *"Complying with taxes make me an effective business person because I am doing my part in the business world, you will have no problem with the BIR if you pay your taxes"*. Participants 2 and 3 also stated, *"Yes, because you think of the excess penalties for not complying"* and *"Yes, for me I follow the legal rules and regulations and that makes my conscience clear. I don't have to make 'deals' with BIR staff nor hide from them. We become more effective when we do good deeds which make us better and effective persons"* respectively. Moreover, Participant 4 stated, *"We have external accountant who does the taxes requirements"*. In addition, Participant 5 agreed, *"Yes, I have to comply paying taxes to avoid problems in BIR"* while Participant 6 added, *"Yes, because we abide the law."*

Furthermore, Participant 7 stated, *"Yes, complying with taxes means that I have fulfilled one of the responsibilities of a business person."* Participant 8 said, *"Yes, because I'm doing my obligation."* Participant 9 narrated, *"Yes! It is simply helping the whole economy because of the taxes you paid. Since taxes paid by the people is one of the sources of the government revenue."* Participant 10 added, *"Yes, it is good to pay your tax to the government for us to receive goodness as well."*

It can be gleaned from the responses of the participants that all of them were proud of the taxes that they paid in the government and for them this made them a better business person. As small business owners, they play an important role in the tax system. According to this civic duty approach, it is feelings of public responsibility that moves people towards tax compliance (Kirchler et al., 2008).

### **Tax Compliance Ease Business Renewal**

When the participants were asked if tax compliance may ease their business renewal, almost all of them agreed that it was easy for them to renew their business permits and licenses if they were tax compliant. According to Participant 1, *"Complying with taxes eases business registration. If you do not pay taxes, you can't register your business."* Participant 2 said, *"Yes, because when you start a business, you already have a requirement to pay tax."* Participant 3 added, *"Yes, you are not penalized and required to produce documents which sometimes are out of your reach."* Similar answer was given by Participant 4, *"Yes, compliance can avoid penalties for late filling."* In the same matter, Participant 5 said, *"It really eases registration processes because if your business was recorded unpaid or non-compliance of taxes or other payments/obligations you would undergo long period of processes."* Participant 7 agreed, *"Yes, complying with taxes can help you ease business registration. Paying the tax on time prevents any disturbance in my business registration and also, it avoids penalties."* Furthermore, Participant 8 added, *"Of course. Because it's one of the requirements."* Likewise, Participant 9 stated, *"Yes, because you have all the necessary document that might be needed in renewing your permits."*

On the other hand, for Participant 6 and 10 they disagreed that if you were tax compliant it would ease your business renewal. They exclaimed, *"No, because there are lots of requirements needed and more documents were required."*

Republic Act No. 9485 or the Anti-Red Tape Act of 2007, Republic Act No. 11032 also known as Ease of Doing Business and Efficient Government Service Delivery Act of 2018 mandated all government offices and agencies including local government units (LGUs), Government-Owned or -Controlled Corporations (GOCCs) and other government instrumentalities to provide services covering business and

non-business related transactions, which adopts simplified procedures that will reduce red tape and expedite transactions in government.

### **Theme 3. Issues on Proper and Efficient Compliance with Tax Obligation**

Results revealed that the participants agreed that tax payment was fair and acceptable. This was very evident on the response of the participants. Participant 3 said, *"Yes, the fact that there is no need for capital, and the tax required by PCSO is not that much, for me the tax is fair and acceptable."* While, Participant 4 explained, *"Yes, it is fair and acceptable as long as every business is paying their taxes religiously."* And for Participant 5, *"It is fair and acceptable as long as it will benefit the needs of citizen."* Moreover, Participant 6 agreed, *"Yes, because we are only small business."* Participant 7 also said, *"Yes, the tax I pay is fair and acceptable enough the amount of my tax obligation is based on my profit."* Participant 8 said, *"Fair & acceptable if they are using it for the development of our country."* Furthermore, Participant 9 stated, *"Yes! Under the new law R.A 10963 also known as train law. It is not easy to understand how an individual or business pay their taxes. And the taxes paid by the individual or business are based on their income received."* Meanwhile, Participant 10 agreed, *"Yes, because it is just the part of small business in the government."*

Almost all of the participants agreed that the tax that they paid was just and fair. For them, the tax that they paid was of great help to the economy since these taxes can increase the government's funding for the smooth delivery of services to all people. Tax fairness is a non-economic factor that determines the tax collection of the country (Alkhatib et al. 2019). It is known that the tax collection procedures, principles, and implementation must be fair. Unethical behavior may happen due to the unfairness of the tax collection process. The fairness of tax may influence payers positively to pay the tax. When the tax rate is not reasonable and fair, the payers will regret to engage in the tax evasion practices and they will inform authorities their annual income without denying the exact amount. Considering the ability of paying or acceptable tax rates helps to maintain the fairness of the taxation system (Rantelangi & Majid, 2018). The governments choose to levy in what amounts and on whom will pay a high tax rate (Thu, 2017). The tax rate is a factor that induces taxpayers to pay less amount from their income. The rate of tax should be fair and reasonable for the payers (Ozili, 2020). The fairness of tax is controversial and argumentative because there may not happen a similar amount of tax for all payers (Abera, 2019).

### **Experiences in Payment of Taxes**

#### **Negative Experience**

There were issues that break their commitment paying tax. Participants 1 and 2 stated that payment of tax is not fair and acceptable. According to Participant 1, *"The tax I pay is not fair and acceptable. If I add all the amount of taxes from the LGU to the BIR, I think I am working for the government. Most of the taxes are not used for the benefits of the citizen."* Participant 2 added, *"I sometimes think it's fair not until you see the corruption within the government. I started thinking twice as when the corruption with the government hits my business."*

Also, five of the participants encountered untoward bad experiences in paying their taxes to the government. These experiences were supported by their statements. According to Participant 1, *"Paying taxes is not easy. We have hard time logging into the BIR website to accomplish payment forms. During the pandemic, we missed paying taxes, so we were charged with fines."* For Participant 2, *"When you pay your tax, you have to wait for so long which takes time, and for the sake of our business, we have to give our time. There are also arrogant government employees."* For, Participant 6, *"The only problem is payment through bank where there are many transactions, and only few tellers are available."* Participant 7 said, *"In terms of experience I had only encountered the delay of receipts issued by the BIR and the proper documents that I need for my business."* Moreover, Participant 10 added, *"Problem occurs when time spent in paying was too long. Bank tellers are not proportionate to the number of clients."*

Half of the participants encountered negative experiences in paying their taxes, these experiences led them to tax avoidance and evasion. The system of tax payment should be improved further in order that the identified negative experiences by the participants will not happen again. Most taxpayers have been filing and paying their taxes online since early 2016 through electronic filing and payment system. The government has also added new features to the online platform keeping it simple. Many procedures

that were previously undertaken in person at the tax office such as registration, credit certificate applications, payments have been done electronically. Since then, taxpayers can access the online portal, and with the system's improved features, the time to comply with the three major taxes measured by *Doing Business* has decreased by 81 hours (The World Bank, 2018).

### **Late Payment of Tax**

Taxes are economic obligations and consequently the tax burden that taxpayers face has been the subject of many studies (Andreoni et al., 1998; Roth et al., 1989). The literature is unanimous that the perceived size of tax burden significantly affects tax compliance and tax morale (Andreoni et al. 1998; Bernasconi et al. 2014; Kirchler, 2007). Torgler (2007) documented a negative correlation between the size of economic obligation and voluntary tax compliance.

In terms of late payment of tax, four participants experienced late paying of their tax obligations while the other six participants did not encounter late payment of their tax obligations. According to Participant 1, *"I experienced late payments of my tax because of some misinformation. Some late payments are due to the pandemic because we have to close our office, thus missing the tax payments."* While Participant 2 agreed, *"Yes, the former bookkeeper did not pay our taxes, but we already paid it to them"*. Participant 7 added, *"Yes, I have experienced late for our tax payment. There was a time that our accountant lost the documents that we need to comply for our tax payment"*, and Participant 8 *"Yes, sometime if I forgot the schedule due of hectic schedule."*

On the contrary, six of the participants did not experience late payment of their tax obligations. According to Participant 3, *"So far, I/we have not experienced late payment of taxes."* For Participant 4, *"No, because we have accounting officer who monitors/ accomplishes our records."* Participant 5 added, *"No, because I make sure that we (on our business) comply with what the government asked us or commanded us to do."* Moreover, Participant 6 simply answered, *"No"*. Participant 9 further explained, *"As business owner, we must be obedient with the law. We must comply to our obligations no matter what happens to the business."* And for Participant 10, *"No. I am a law-abiding citizen therefore; I should apply it too in my business."*

### **Irregularities in Tax Payment**

It was unavoidable that something strange or unusual could be heard with regard to tax paying duty wherein nine of the participants were affected. Participant 1 said, *"I am not affected with tax anomalies because the government does not use the taxes properly. It does not affect my duty in paying taxes."* Participant 4 simply answered, *"No,"* and for Participant 9 added, *"No, as long as I do my part."*

On the other hand, seven participants were affected, and they expressed their sentiments. According to Participant 2, *"Yes, because it's my own money, it's the people's money. Sometimes I regret paying taxes."* Same sentiments were stated by Participant 3, *"Yes, I'm very much affected especially when filthy rich big people are involved in anomalies and then the government are lenient on them allowing them to cheat. I still do what is legally required and legally right."* Additionally, Participant 5 said, *"In some way, I was affected because on my small business, I make sure I pay the exact taxes in due time to think there are big companies that do not follow what we are doing. Which is unfair on our part."* In addition, Participant 6 stated, *"Yes, because, we, comply while those large companies are not complying."* Likewise, Participant 7 said, *"Yes, of course, I was affected. As a tax paying citizen, I worry and start to question where are my taxes?"* Moreover, according to Participant 8, *"Yes, very much affected because I expect our taxes are used in developing our roads and bridges. But I can't do anything about it."* Participant 10 said, *"Yes, I saw inequality because we in small business always try to do our obligations, but hearing news about big companies that are not complying is unfair."*

### **Inspection by the Tax Mapper**

In this research, participants were asked about their risk aversion to understand their prediction of the possibility of a tax inspection of their businesses. Moreover, their understanding of the inspection process was also investigated so as to understand possible motivations behind risk aversion behavior.

Three participants experienced being visited by the BIR Personnel. Participant 1 said, *"Some BIR personnel visited our office once to monitor the BIR office requirements."* In addition, Participant 2 said, *"They always ask to increase my tax payment as they think it's low and insufficient."* Same situation was experienced by Participant 8, *"Yes, but it is just for reminding us that paying taxes is very important. But aside from that instance, we haven't visited by finance head especially concerning non-compliance of tax"*



yet. "On the other hand, six participants did not experience to be visited by BIR personnel. According to Participant 5, *"No, because just what I've said we make sure we comply with the rules especially in tax compliance."* Participant 6 simply answered *"No."* Additionally, Participant 4 said, *"No, but BIR people regularly check the business."* Moreover, Participant 7 said, *"Not yet. I have never tried being visited by our finance head."* Similarly, Participant 9 said, *"No. If I'm not mistaken, they only visit business that did not comply to taxes."* Participant 10 added, *"No. I always do what is necessary."* While in the case of Participant 3, *"No, PCSO does not send finance officers to look into the operations. If there is problem, I promptly call PCSO to consult/seek advice and vice-versa."*

The BIR has been regularly conducting inspections on business establishments all over the Philippines to verify compliance with registration, invoicing and bookkeeping requirements provided for under the existing internal revenue laws, rules and regulations. This activity is also known as Tax Mapping which is part of the bureau's *"Oplan Kandado"* and Tax Compliance Verification Drive. Tax Mapping is usually done quarterly. BIR representatives will pay a surprise visit to business establishments. As a result, thousands of business establishment have already been filed with charges on their violation during the Tax Mapping (RPV, 2018).

#### **Commitment Provided by the Government as Taxpayer**

When the participants were asked with regard to the commitment provided by the government as taxpayers, four participants were satisfied while the others were not satisfied. According to Participant 4, *"Yes, on how to implement government programs locally"*. While Participant 6 and 9 simply said, *"Yes" without any explanations*. In addition, Participant 10 said, *"Yes, sometimes government recognizes our contributions to the society and to economy."*

On the other hand, Participant 1 said, *"I am not satisfied with the services. One important government function is health services, and I do not see any of these services extended to me and to the needy"*. Likewise, Participant 2 added, *"No, I have not received fair treatment from local government to national government. Even I have to use the road with the tax payer's money, I still have to pay toll to reach my destination"*. Same sentiment was given by Participant 3, *"No, because the basic services are not correctly and comprehensively provided to the people especially to the poor and marginalized due to dishonesty and corruption."* Participant 5 stated, *"No, the government should conduct seminars, trainings and others that will equip us, business owners with important knowledge and skills that will be beneficial to our business especially this time of pandemic."* Furthermore, according to Participant 7, *"No. I am not satisfied. Since I am paying my taxes right, I keep on asking, 'why would I pay?' Simply because I can see the outcome despite my compliance in tax payment."* While, Participant 8 said, *"I am not satisfied with the services provided to tax payer like me. I always look for the acts of government to empower us, small business owners. They can give us trainings or they may conduct business related seminars."*

Collecting taxes and fees is a fundamental way for countries to generate public revenues that makes it possible to finance investments in human capital, infrastructure, and the provision of services for citizens and businesses. Taxes have a key role in making growth sustainable and equitable, especially in the context of the COVID-19 crisis, and through such efforts as "greening" tax systems and fighting tax evasion and avoidance (The World Bank, 2020). Under Revenue Memorandum Order (RMO) No. 7-2015, charges for non-compliance range from P1,000 to P50,000, depending on the type or extent of the violations made. In some worst scenarios, these violations can also lead to permanent closure of the business establishment, criminal charges on the owners, or imprisonment.

#### **Theme 4. Services Needed of a Professional Assistance**

##### **Accounting Clerks and Bookkeeper**

Tax literature commonly agrees that lack of professional staff and resources negatively affects tax compliance (Torgler et al. 2008; Alm et al. 2012). McLisky (2011) found evidence that taxpayers who suffer from a shortage of available resources are more likely to face tax penalties. The interview analysis revealed that seven of the participant seek the assistance of professionals in the field of taxation for them to manage their financial effectively and efficiently.

According to Participant 1, *"Our accounting clerk helps me to prepare our financial reports. I follow his suggestions in preparing the tax forms."* For Participant 2, *"We have bookkeeper, yes because they tell us all the kind of taxes we have to pay for the whole year."* For Participant 3, *"Yes, I have a bookkeeper."*

*I also employ the services of an accountant to prepare the financial report and taxes. Everything is in order in the preparations and payment of taxes. Yes, I follow the accountants' suggestions.*" Furthermore, Participant 4 said, *"We do the recording of sales, the accountant will do the reporting and taxation purposes."* Participant 6 added, *"Yes, we have bookkeeper. We follow her instruction and she taught us how to record transactions on the book of accounts."* Participant 10 also agreed, *"Yes, we have bookkeeper. Upon her approval, transaction must be recorded. Following instructions should be given weight."* And for Participant 7, *"I let the accounting firm help me on preparing my tax."*

However, 3 participants personally prepared the financial reports of their business. Participant 5 said, *"I personally prepared my financial management of my business."* Participant 8 said, *"I'm the one who prepared the financial report and taxes of this business."* Participant 9 added, *"As of today, I only managed the whole financial management of my business. I do the bookkeeping and other preparation that needed in my business."*

The importance of tax agents on the tax compliance decisions of taxpayers is widely discussed in the tax literature (Sakurai & Braithwaite, 2003; Hasseldine et al., 2007; Torgler et al., 2008). Hite and McGill (1992) suggested that small businesses need tax agents because they want assurance that they are correctly fulfilling their tax obligations. Additionally, they found that small business owners commonly follow the recommendations of tax agents.

All the participants have intact records of their business transactions. According to Participant 1, *"I keep a record of my transaction because it is needed in the preparation of financial report."* For Participant 2, *"Yes, sometimes it's useful."* Participant 3 added, *"Yes, we keep record of our daily transaction. It is really very useful and helpful in making financial reports."* Likewise, according to Participant 4, *"Yes, sales report. It is useful."* Similarly, Participant 5 said, *"I keep a record; it is useful because I will be basing my evaluation or assessment of my business on the records kept."* On the other hand, Participant 6 simply answered *"Yes."* Moreover, Participant 7 added, *"Yes, I keep record of my transaction. I also find it useful in making financial report. It helps me with organizing the details needed for my payment."* While Participant 8 stated, *"We have record of any transaction we made because it can be used in doing any business decision someday."* Same affirmation was given by Participants 9 and 10. Like any book of records it will serve as reference especially when details of transactions are needed, and these serve as evidences of their tax payments.

Record keeping plays an important role in the development by providing recorded information which is crucial in the strategic formulation of policies and plans of a business. The study conducted by Balagobei (2019) revealed that record keeping practices have significant positive influence on business performance of small and medium enterprises in Sri Lanka. Also, Ikechukwu (1993) considered keeping records as crucial to the successful performance of a business which makes it possible for entrepreneurs to develop accurate and timely financial reports that show the progress and current condition of the business. With the financial report generated from a good recordkeeping system, performance during one period of time with another period can be compared. An accurate record of the business' financial performance is a good mechanism to monitor performance in specific areas.

### **Business Owner Monitoring**

The conduct of business monitoring should always be done by the owners in order to oversee the status of their business capability. As for the participants' responses all of them said that they conducted regular business monitoring in order to assess their business capacity. According to Participant 1, *"I conduct monthly monitoring of my business. Due to the pandemic, we have losses, but we have to continue the operation to be ready when business goes back to normal."* Participant 5 also added, *"We conduct monthly monitoring. Since we are in Covid19 pandemic, these were many losses in the business but we still manage to continue this."* As for Participant 4, *"At this moment, we have no outstanding financial obligation."* While Participant 6 and 10 simply answered *"Yes."* Moreover, Participant 7 said, *"I conduct monthly monitoring to compare the difference between months. With that, I can see what is wrong."* Same with Participant 8, *"I need a monthly monitoring of our business to see if it meets our obligations and expenses."* While, Participant 9 narrated, *"Since it is a small business, it is easy to manage and handle all payables that my business had."*

However, there were two participants, who did not conduct monthly monitoring. Participant 2 said, *"Before, but not anymore as I think my business still is doing good."* Participant 3 stated, *"I do not conduct*

*monthly monitoring of the lotto operations because we have a daily report of sales and commissions at the end of the day submitted by our lotto teller. We also submit weekly report required by PCSO at their Cabanatuan office."*

In a report done by Dolfinblue (2018) one of the most important tasks successful business owners undertake is monitoring the financial performance of their business on a regular basis. Management who understands where the business currently stands from a performance standpoint as well as where it's heading holds a huge advantage over those who choose not to. By monitoring performance and gaining these types of insights is inevitable to make better business decisions and improve business's performance over the long term.

### **Recommendations by the Participants to Improve Compliance in Tax Payment**

The following were the suggestions of the participants in order to improve the compliance in tax payment. For Participant 1, *"Each business entity should have a competent accounting clerks/bookkeeper or accountant to do the reports and payments. A part time employee will do."* In addition, Participant 2 stated, *"Lessen the "Red Tape" within the government. If a taxpayer comes in, greet with smile. Be courteous to taxpayers."* Likewise, Participant 3 added, *"BIR people must be fair and objective in dealing with business people. Cheating in the BIR system must be eradicated. BIR must constantly review/revise/improve the process of taxation to eliminate/remove red tapes, thereby making things easier for tax payers."*

Moreover, for Participant 4, *"If it can be made online, the BIR must give us free software application for this purpose."* Participant 5 added, *"My concern goes to the officials/employee in charge of tax paying. They must be accommodating with pocketful smile and they must be courteous too so that taxpayers who were stressed on the process can smile too knowing that the in-charge gives positive vibe to the setting."* Participant 6 narrated, *"The return to availability of forms is not online because there were times, internet connectivity is unstable."*

Furthermore, according to Participant 7, *"To improve tax payment the government should give people enough reason to comply, maybe public projects and not just awful news of tax anomalies."* Participant 8 added, *"Improve the tax collection system. Check the standard of living of all the employees specially those working in BIR."* While Participant 9 said, *"As of today, the new law regarding paying taxes is improved unlike before."* Participant 10 stated, *"The visitation of tax officers prior to tax collection must be reintegrated this time, stronger and better."*

### **Conclusions**

In terms of assessment on tax compliance of the participants, ten participants agree on the importance of tax compliance, should not be avoided, fair and acceptable; negative experiences of the participants on tax compliance, they also need professional assistance in the financial management of business since they had late payment of taxes, conduct monitoring of the business including its capacity, and record keeping. On the other hand, business owners were sometimes visited by BIR personnel during tax mapping which sometimes led to anomalies in paying of taxes, thus, results to dissatisfaction on the services in the part of the government. Moreover, it is easy to renew business permits and licenses if they are tax compliant.

The following were the recommendations from the participants to improve the compliance in tax payment. a) Each business entity should have a competent accounting clerks/bookkeeper or accountant to do the reports and payments; b) Lessen the "Red Tape" within the government; c) BIR personnel must be fair and objective in dealing with business people; d) Government officials/employees in charge of taxpaying must be accommodating with pocketful smile and they must be courteous so that taxpayers who were stressed along the process could still smile too knowing that the one in-charge also gives positive vibes; e) Manual forms must be made available because most of the time, internet connectivity is unstable; f) The government should give people enough reason to comply through visible infrastructure projects and excellent services; g) Improve the tax collection system especially in this time of pandemic; and h) Reinforce tax officers' visitation prior to tax collection and it must be reintegrated, stronger and better.

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