
Factors Affecting the Tax Compliance Among MSME'S in the Municipality of Cabarroguis

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ABSTRACT-The role of taxation pays not only for public services and goods, it is also a key ingredient on the social contract between citizens and the economy. All governments need revenue, but the challenge is to carefully choose not only the level of tax rates but also the tax base. This study is focused on the objectives of identifying various deterrents of Micro, Small, Medium Enterprises (MSME's) on their tax compliance, determining their different problems encountered on tax compliance, assessing the impacts of Tax Compliance among the MSME's, and being able to recommend possible interventions. Technology based interviews were applied and data gathered were reliant on survey questionnaires, and document analysis, or a combination of these. Thus, this study was able to identify that some respondents were unanimously aware of R.A. no. 10653 and honestly file and pay their corresponding taxes. On the other hand, reasons of the MSME's for non-filing were high tax rates and complexity of procedures. These implied that respondents are selective in terms of filing taxes and are fairly knowledgeable of taxation policies. In addition, hindrances such as Psychological, Social, Fiscal Factors, and Financial Hindrances were determined. Furthermore, external factors were identified, whereas tax programs, reforms, rates were involved. Internal factors

whereas respondents were identified to have low understanding on technical matters especially in preparation was imminent. Two dimensions of tax fairness evolved, respectively are the benefits received for tax payment given, and the taxpayers' perception of the vertical equity of the taxation system.

Keywords: Tax, Taxation, Compliance, MSME's, Policies

1. INTRODUCTION

Micro, small and medium enterprises (MSME's) are volatile establishments that need special treatment. Putting their nature into consideration, every little resource at their disposal can make a world of difference. For this reason, a number of Filipino MSME's especially in the provinces choose to remain in the informal sector because they feel the cost of compliance is too high. According to *Finance Secretary Carlos Domingues III*, MSME's received tax breaks amounting to billions of pesos for the first six months of 2018 alone under the *Tax Reform for Acceleration and Inclusion (TRAIN)* Act as they are now covered by a higher *Value -Added Tax (VAT)* threshold. And a considerable number of those who pay only do so

because they are coerced by the authorities. Since the individual MSME pays a very small amount of tax compared to what the larger establishment would pay, tax authorities tend to give the larger corporations more attention (*Mindanao Times, 2016*). As the law puts it, REPUBLIC ACT NO. 386 AN ACT TO ORDAIN AND INSTITUTE THE CIVIL CODE OF THE PHILIPPINES. (1949, June 18), states that ignorance of the law excuses no one from compliance therewith is a great reminder that compliance is a must. In an economy like the Philippines that is struggling to remain afloat, it is even more important. Tax revenue is the source of funds used for development projects such as provision of infrastructure like good roads, stable power supply, stable water supply etc. All of which combine to create an enabling environment for businesses –and in turn the economy at large- to grow.

It is in the foregoing that this study was conducted. Using MSMEs in the municipality of Cabarroguis, it aimed at evaluating the factors that encourage non-compliance with tax obligations by MSMEs.

OBJECTIVES OF THE STUDY

The research study aims to determine the Factors Affecting The Tax Compliance Among MSME's in the Municipality of Cabarroguis. It specifically aims to:

1. Describe the socio-demographic profile of MSME'S in the Municipality of Cabarroguis;
2. Identify the various deterrents if MSME's on their tax compliance.
3. Determine the different problems encountered by the MSME's on tax compliance;
4. Assess the various impact of Tax Compliance among the MSME's in the Municipality of Cabarroguis;
5. Recommend possible interventions to the MSME's.

2. METHODOLOGY

Research Design

This quantitative research relies on survey questionnaires, and document analysis, or a combination of these, to provide an understanding of what is studied.

To fully attain the salient information needed for the study, a key case type of case study in an illustrative case form was employed. It is descriptive in nature and designed to shed light on a particular situation, set of circumstances, and the social relations and processes that are embedded in them.

Research Instrument

The researchers used a modified survey questionnaire which was adopted and from the study entitled “*Factors That Affect Tax Compliance among Small and Medium Enterprises (SMEs) in North Central Nigeria*” by Ojochogwu Winnie Atawodi1 & Stephen Aanu Ojeka of Department of Accounting, Covenant University, Ota, Ogun State, **Nigeria (2012)**. It was composed of 4 parts in particular order, the profile of the respondents, identification of MSME's compliance on various taxes and insurances, and problems encountered. A checklist was also utilized for the analysis on the impact of tax compliance. The Tax Compliance Guide Book requested from the provincial Bureau of Internal Revenue (BIR) was also used as the basis for modification of the Questionnaire.

Research Locale and Respondents

The study is conducted in the municipality of Cabarroguis, Quirino wherein the physical enterprises milieu are most located specifically at Gundaway public market.

Respondents are identified through the list provided by the Department of Trade and Industry (DTI) in the province of Quirino, where 35 registered Micro, Small and Medium Enterprises (MSME) are the respondents of the study.

Sample and Sampling Procedure

Purposive sampling, specifically deviant case sampling was used. Through this method, the researcher purposely selected the participants to understand the main concern (*Creswell, 2008*).

The respondents of the study are the registered Micro, Small and Medium Enterprises duly represented by their respective managers or owners in the municipality. They were purposely pre-screened and selected to meet the need of the study.

Data Gathering Procedure

Considering the ethical principles of research, the participants were informed about the observations done in their respective transactions.

Questionnaires were distributed online through a contact on which the situation is explained to their understanding and relay to the respondents and validated through calls to ensure preserve the original meaning of the articulations.

Statistical Tool

The data gathered were statistically analyzed whereas frequency counts, percentages and mean were used. These were used to describe the demographic and business profile of the respondents.

3. RESULTS AND DISCUSSIONS

This deals with the data obtained from the Micro, Small and Medium Enterprises (MSME's) respondents.

Number of Employees	f	%
1- 5	09	26
6-10	24	69
11-20	02	05
21-30	00	00
Total (N)	35	100

Table 1 presents the Business Profile of the Respondents as to their Number of Employee. This implies that the number of employees of the respondents is below the standard number of employees as to *OECD (2020)* compared to the standard number of employees Micro (1-9), Small (10-49) and Medium (50-249) Enterprises.

Table 2. Business Profile of the Respondents as to their Span of Operation

Operating Span	f	%
1- 12 months	01	03
13-60 months	10	29
61-120 months	19	54
Above 121 months	05	14
Total (N)	35	100

Table 2 presents the average operating span of 8.75. This implies that the operating span of the respondents is 8 months and 22.5 days which is under the typical existence of MSME's compared to *OECD (2020)* of 5 years.

Table 3. Business Profile of the Respondents as to their Starting Capital

Starting Capital	f	%
Below P50,000.00	04	11
P50, 000.00-P99,999.00	01	03
P100,000.00- P 499, 999.00	25	72
P500,000.00- P 999, 999.00	00	00
P1,000,000.00 –P9, 999, 999.00	04	11
P10,000,000.00 – Above	01	03
Total (N)	35	100

Table 3 presents the average starting capital as 5.83. This implies that most of the respondents are classified as MSME's as to their starting capital in line with the standard of *DTI-DICT (2016)* and *OECD (2020)* which comprises Php3,000,000.00 and above.

Table 4. Business Profile of the Respondents as to their Business Line

Business Sector	f	%
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Table 1. Business Profile of the Respondents as to their Number of Employee

Clothing & Shoes	07	20
Grocery Stores	15	42
Hotel and Restaurant	01	03
Office and School Supplies	07	20
Salon	03	09
Agricultural Business	01	03
Hardware	01	03
Total (N)	35	100

Table 4 presents the average business sector as 5.00. This implies that the business sector of the respondents is equivalent to the result of the *OECD (2020)* with wholesale and retail and catering services as the top composition of the MSME's comprising the MSME'S with 60.2%.

Table 5. Business Profile of the Respondents as to their Annual Income

Annual Income	f	%
Below 50, 000	09	25
50, 000-99, 999	16	46
100, 000-149, 999	02	06
150, 000-249,999	00	00
250, 000-499, 999	05	14
500, 000-999,999	02	06
1,000, 000-4,999, 999	01	03
5, 000, 000 Above	00	00
Total (N)	35	100

Table 5 presents the average annual income of 4.38. This implies that the annual income of the respondents is below the standard MSME's annual income of the surveyed net profit of *Asia Pacific Foundation of Canada (2018)* which is 12.6% Return of Investment (ROI).

Table 6. Respondents Awareness on R.A. No. 10653

Parameter	f	%
Awareness on Tax Compliance Guide (R.A. No. 10653)		
Aware	27	77
Slightly Aware	05	14
Unaware	03	09
Total (N)	35	100

Table 6 presents the average awareness on tax compliance guide of 11.67. This implies that awareness of the respondents on tax compliance is

highly inclined with the result of the *BIR reports for 2019* with a high tax compliance from MSME sector.

Table 7. Respondent's Declaration of Tax Obligation

Honest Declaration of Tax Obligation (Amount)	f	%
Yes	30	86
No	05	14
Total (N)	35	100

Majority of the respondents in this table honestly declares their taxable income currently. 5 or 14% of the 35 respondents innocuously do not. The average is at 17.50. This implies that declaration of Tax Obligation of the respondents is high compared to the result surveyed of *Wadesango (2018)* with a 67%.

Table 8 Respondent's Declaration of Taxes

Taxes Honestly Declared by SME's	f	%
Value Added Tax (VAT)	24	69
Percentage Tax	08	23
Excise Tax	00	00
Withholding Tax	14	40
Expanded/ Creditable Withholding Tax	01	03
Income Tax	26	74
Fringe Benefit Tax	00	00
Documentary Stamp Tax	25	71

Table 8 presents the type of taxes currently declared by the respondents. The average annual income is 12.25. This implies that the type of taxes honestly declared by the respondents is subject to limitation compared to the standard set by the provincial *BIR office (2019)* on their latest Tax Compliance Guide.

Table 9 Respondents Payment of Taxes

Tax Payment : On or before Due (Time)	f	%
Yes	27	77
No	08	23
Total (N)	35	100

Table 9 presents that average respondent's payment of taxes as 17.5. This implies that the tax payment due of the respondents is under the expectations of

the BIR according to their assessment last 2019 with an at least of 50%.

Table 10 Tax File by the Respondents

Specific Taxes Filed by MSME's (See Tax Compliance Guide)	f	%
Value Added Tax (VAT)-2550M	2	57
Value Added Tax (VAT)-2550Q	0	06
Income Tax (Individual) – 1701/A	2 5	71
Fringe Benefit Tax -1603	0	00
Withholding Tax – 1604CF with Alphalist	0 5	14
Income Tax (Non-Individual)-1702Q	0 0	00
Income Tax (Non-Individual)-1702RT / 1702MX/ 1702EX	0 0	00
Percentage Tax – 2551Q	0 7	20
Expanded Withholding Tax	0 0	00
Income Tax (Individual) – 1701Q	1 1	31

Documentary Stamp Tax – 2000	2 1	60
Withholding Tax – 1601C	0 9	26
Excise Tax	0 0	00

Table 10 presents the type of taxes a MSME should file, as to *Tax Compliance Guide (TCG)* from the provincial *Bureau of Internal Revenue*, filed by the respondents. The average tax filed is 7.69. This implies that the respondents are voluntarily filing tax compliance compared to the previous records of the *BIR (2019)* with 54%.

Table 11 Respondents reason for Non-Compliance

Reason for Non-Compliance	f	%
Tax rate are too high	06	75
Complex tax filing procedure	02	25
Lack of knowledge	00	00
Never been requested to pay taxes by the government	00	00
Low profit	00	00
Unsatisfied service quality	00	00
Too many tax requirements imposed by the BIR	00	00
Lack of administrative and/ or technological support from the management	00	00

Table 11 presents the respondents' reason for non-compliance. The average annual income is 0.80. This implies that the respondents' reason for non-compliance is aligned and seconded to the result of the study of *Cook, 2015*.

Table 12. Psychological Hindrances to Voluntary Tax Compliance of the MSME's

Psychological Indicators	Mean	Description
It is not acceptable to overstate tax deductions	3.96	Slightly Agree
I should pay my tax obligations promptly.	3.73	Slightly Agree
I should pay my tax obligations even if I know that other are not.	3.37	Undecided/ Unsure
Even if the government will raise the rate of taxes, I will still pay my tax obligation correctly.	4.07	Slightly Agree
It is my moral obligation to pay my tax obligations to BIR.	3.88	Slightly Agree
I pay my tax obligations voluntarily and promptly without force.	3.79	Slightly Agree
I will not avoid paying my tax obligations even if I have the chance.	3.76	Slightly Agree
I believe that not paying the correct tax obligation is a serious crime.	3.45	Slightly Agree
Aggregated Mean (μ)	3.75	Slightly Agree

Legend:

1.00-1.80 Strongly Disagree

2.61-3.40 Undecided / Unsure

4.21 -5.00 Strongly Agree

1.81-2.60 Slightly Disagree

3.41-4.20 Slightly Agree

is a moral obligation to pay their tax obligations voluntarily and promptly without force. The average annual income was 3.75. This implies that psychological hindrance slightly affects the voluntary tax compliance of the respondents as associated with the study of *Bhoganadam (2017)*.

Table 13. Economic Hindrances to Voluntary Tax Compliance of the MSME's

Table 12 presents the Psychological Hindrances to Voluntary Tax Compliance of the MSME's. Majority of the respondents seemed to be unsure if it

Economic Indicators	Mean	Description
Criminal penalties for intentional not filing taxes is too low.	3.94	Slightly Agree
It is not fair to be taxed from the earnings of the MSME's.	4.35	Strongly Agree
I am guilty of inaccurate tax declaration	4.59	Strongly Agree
Likelihood of being detected upon evasion.	4.10	Slightly Agree
I think I am paying too much compared to what I receive.	3.82	<i>Slightly Agree</i>
I believe that the current tax rate is fair and reasonable	4.27	Strongly Agree
Tax authorities are helping me minimize costs in complying with tax laws.	4.17	Slightly Agree
It is a means of support for the role that MSME plays in economic development.	3.76	Slightly Agree
Aggregated Mean (μ)	4.13	Slightly Agree

Legend:

- 1.00-1.80 Strongly Disagree
- 2.61-3.40 Undecided / Unsure
- 4.21 -5.00 Strongly Agree
- 1.81-2.60 Slightly Disagree
- 3.41-4.20 Slightly Agree

Table 13 presents the economic hindrances to voluntary tax compliance of the respondents. The average annual income is 4.13. This implies that economic factors slightly affect the voluntary tax

compliance of the respondents which seconded the study of *Rao, 2017*.

Table 14. Social Hindrances to Voluntary Tax Compliance of the MSME's

Social Indicators	Mean	Description
Tax-payers indention to conform with tax regulations.	3.85	Slightly Agree
I don't think I qualify to register for Tax	4.20	Slightly Agree
The situation of the MSME in the community, other MSME's like us don't pay their taxes as well.	3.94	Slightly Agree
Paying taxes is one of my social obligations.	4.00	Slightly Agree
I believe that regardless of the rate of tax, everyone must pay their tax obligation correctly.	3.65	Slightly Agree
Even if the government will raise the rate of taxes, I will still pay my tax obligations correctly.	3.91	Slightly Agree
I believe that there is a good and functional system of processing, filing and paying my tax obligations.	4.17	Slightly Agree
I pay my tax liabilities correctly because I am afraid that other would criticize me.	3.94	Slightly Agree
Aggregated Mean (μ)	4.47	Strongly Agree

Legend:

- 1.00-1.80 Strongly Disagree
- 2.61-3.40 Undecided / Unsure
- 4.21 -5.00 Strongly Agree
- 1.81-2.60 Slightly Disagree

Table 14 shows the Social Hindrances encountered by the SME's. Majority of the respondents are Unsure or undecided whether paying taxes is one of

their social obligations and pay their tax obligations correctly even if it will be raised in the future.

The average annual income is 4.47. This implies that social factors strongly affect the voluntary tax compliance of the respondents which supports the study of *Sugiarto, 2018* who had noted social factors as the top hindrance on tax compliance.

Table 15. Fiscal Hindrances to Voluntary Tax Compliance of the MSME's

Fiscal Indicators	Mean	Description
Tax authorities are giving me enough professional service assistance to help me understand and meet my tax obligations.	4.35	<i>Strongly Agree</i>
I believe that other taxpayers are also paying the right taxes.	4.59	<i>Strongly Agree</i>
I believe that tax authorities are treating me fairly and reasonable	4.63	<i>Strongly Agree</i>
It is proper for the Revenue Department to conduct a tax audit in order to catch tax evaders.	4.17	<i>Slightly Agree</i>
I lack trust in the revenue department.	3.79	<i>Slightly Agree</i>
Not filing taxes or filing taxes lower than the actual obligation is an acceptable thing to do in Filipino society.	4.07	<i>Slightly Agree</i>
There is enough enforcement on the existing tax laws.	4.50	<i>Strongly Agree</i>
Tax administration procedures in general have treated all people fairly whether rich or poor.	3.97	<i>Slightly Agree</i>
Aggregated Mean (μ)	4.81	<i>Strongly Agree</i>

Legend:
1.00-1.80 *Strongly Disagree*

2.61-3.40 *Undecided / Unsure*
4.21 -5.00 *Strongly Agree*
1.81-2.60 *Slightly Disagree*
3.41-4.20 *Slightly Agree*

Table 3.4 presents the Fiscal hindrances to voluntary compliance of the respondents. The average annual income was 4.81. This implies that fiscal factors highly affect the voluntary tax compliance of the respondents compared to the study of *Rana, 2016* who had considered fiscal factors as less significant.

Table 16. Financial Hindrances to Voluntary Tax Compliance of the MSME's

Financial Indicators	Mean	Description
There is a financial advantage to pay your obligations on time.	3.65	<i>Slightly Agree</i>
I agree with acuties of fairness and equity	4.31	<i>Strongly Agree</i>
I consider tax as a financial rod.	4.10	<i>Slightly Agree</i>
It fears me of the concept of being penalized.	3.79	<i>Slightly Agree</i>
The compliance cost is high for MSME's.	3.85	<i>Slightly Agree</i>
I agree with the concept of paying taxes as a means of providing financial support to the government.	4.10	<i>Slightly Agree</i>
Net profit are reasonable even with the existing tax rate.	4.13	<i>Slightly Agree</i>
The imposition of tighten penalties.	4.17	<i>Slightly Agree</i>
Aggregated Mean (μ)	4.01	<i>Slightly Agree</i>

Legend:
1.00-1.80 *Strongly Disagree*
2.61-3.40 *Undecided / Unsure*
4.21 -5.00 *Strongly Agree*
1.81-2.60 *Slightly Disagree*
3.41-4.20 *Slightly Agree*

Table 16 presents the financial hindrances to voluntary tax compliance of the respondents. Majority of the respondents Slightly Agree that the compliance cost is high for MSME's which fears them of the concept of being penalized but also reiterated that there is a financial advantage in paying tax obligations on time and Slightly Agree with acuties of fairness and equity.

The average annual income was 4.01. This implies that financial factors is slightly affects the voluntary tax compliance of the respondents as to the study of *Vijay (2020)*, *Maksum (2020)* and *DESA (2020)* who had highlighted financial factors as watchful hindrance to voluntary tax compliance

Table 17 Internal Problems Encountered by MSME's on Voluntary Tax Compliance

Internal Indicators	f	%
Fear of tax authorities	03	08
Additional cost for hiring employee to meet the needs of the revenue department.	01	03
Inconvenient/ Troublesome schedule of payment directly affects the productivity of the business.	01	03
Ratio is slightly overstated as cost element includes overheads for customers.	01	03
Low understanding on how to prepare, complete and submit the necessary taxes of the MSME personnel.	17	49
High finance and obtaining credit.	08	23
Low technology available and low production bureaucracy.	03	08
Short time period on preparation of the necessary documents needed.	01	03
Total (N)	35	100

Table 17 presents the internal problems faced by Micro, Small and Medium Enterprises (MSME's) in connection with the R.A. 10653. Problems such as troublesome schedule of payment directly affects the productivity of the business, additional cost for hiring employee to meet the needs of the revenue department, ratio is slightly overstated as cost

element includes overheads for customers and short time period on preparation of the necessary documents needed deemed to slightly concerned the MSME's with a percentage of 3 each.

The average annual income was 4.38. This implies that internal problems encountered by respondents on voluntary tax compliance highly affects the voluntary tax compliance of the respondents as to the study of *Kumar (2013)* and *Sapiei & Kasipallai, (2012)* emphasizing the various internal factors as a painstaking problem to voluntary tax compliance.

Table 18. External Problems Encountered by MSME's on Voluntary Tax Compliance

External Indicators	f	%
Ineffective program in convincing taxpayers to pay their taxes correctly.	09	26
Lack of technical knowledge and unapproachable of the revenue authorities	02	06
High legal sanction for non-compliance.	09	26
High tax value.	05	14
Inefficiency of the tax system led to need for a tax reform.	06	16
Complex and unclear languages and terminologies of tax law.	01	03
High cost implications of the registration, monitoring and payment process.	02	06
Red tape and cumbersome regulatory processes and procedures.	01	03
Total (N)	35	100

Table 18 presents the external problems encountered by the respondents to voluntary tax compliance. Most of the above reveals that ineffective programs in convincing taxpayers to pay their taxes correctly and high legal sanction for non-compliance is at top external concern for the MSME's with a 23%. Inefficiency of the tax system led to the need for a tax reform and high tax value, 21% and 13%, ranked second and third.

This implies that external problems encountered by respondents on voluntary tax compliance are equally significant to the voluntary tax compliance of the respondents as to the study of *Tripathi (2018)* accentuating external factors as a noxious factor to voluntary tax compliance.

Table 19. Impact of R.A. no 10653 to the Respondents

Indicators	f	%
Low annual income due to high tax rates.	16	46
Creditable social standing due to community knowledge on compliance.	05	14
Psychological satisfaction in the MSME's due to the knowledge of government assistance.	02	06
Repulsive behavior of the MSME's towards tax compliance.	06	17
Non-filing of other tax compliance of the business.	01	03
Psychological burden on the MSME's.	01	03
Low productivity.	04	11
Total (N)	35	100

Table 18 presents the impact of R.A. 10653 among the respondents. Most of the respondents agreed that the mentioned republic act lowers the annual income of the MSME's.

The average annual income is at 5.00 which implies that R.A. no 10653 on respondents adversely affects the respondent's ancillary to the study of *Ackah (2011)* and *Wijaya (2017)* heightening low income as top most considered extinguishing factor.

CONCLUSIONS

The study of tax compliance is related to avoiding tax as a measure of reporting compliance because several of the potential determinants of voluntary compliance (*e.g. tax rates, filing thresholds, marginal status*) also have a direct role in the calculation of tax from gross income, making it difficult to separate their impact on compliance (*Plumleu, 2002*). The findings of many studies

suggest that taxpayer's attitudes towards the tax system and the way taxpayers feel treated by a tax authority are important in explaining taxpayer's non-compliance. Related to the tax system itself, there is specific evidence to suggest that perceptions of unfair tax burdens can affect taxpayers' view about paying tax and can go on to affect their compliance decisions.

Tax fairness involves at least two different dimensions (*Jackson and Milliron, 1986*): the first relates to the benefits one receives for the tax given; the second dimensions involve the perceived equity of the taxpayers' burden in reference to that of other individuals. This second dimension relates to taxpayers' perception of the vertical equity of the tax system. If a taxpayer were to feel that they pay more than their fair share of tax when comparing themselves to wealthy taxpayers, they are more likely to see paying tax as a burden than a taxpayer not concerned about these issues.

RECOMMENDATIONS

From the above conclusions, the results of the study support the phenomenon of attitudes being affected by better tax knowledge and demonstrate that this holds true for other attitude dimensions. This positive relationship between tax knowledge and tax compliance could be useful as a key input for the tax authorities in increasing taxpayers' awareness regarding tax matters and as input into the designing of tax education programs.

It could also be useful for helping the authorities in designing the best mechanism of delivering the latest information on tax regulations (*i.e. advertisement, websites, brochure and customer services desks*) and also in achieving its goals in deciding to change the tax collection system to TRAIN. It is also important for the tax authorities to be kept informed of the MSME's taxpayer's knowledge so it can effectively and efficiently communicate and design tax policies (*ex. tax rates, filing, requirements, penalties, etc.*).

Also, it is recommended to conduct further related study on the topic to contain a better view.

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