



Research Article

Determinants of Tax Compliance Among MSME Food Establishments in Lipa City, Batangas

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ABSTRACT

The significance of MSMEs in the economic development of the Philippines necessitates the determination of factors that influence their performance and behavior in doing business in the country, one of which is tax compliance. This causal research aimed to determine the effect of tax morale and the costs of compliance on the tax compliance of MSME food establishments in Lipa City, Batangas. A survey questionnaire was utilized to gather pertinent data from 107 respondents, who were selected and classified into micro, small, and medium food establishments using the stratified random sampling method. The data was analyzed through various tools in SPSS, including mean, standard deviation, and multiple linear regression. The results indicated that both tax morale and compliance costs have a significant effect on tax compliance, with tax morale having a more positive and significant effect than compliance costs. The study recommends implementing Taxistema, a three-phase project aiming to improve the MSME food establishments' perceptions of taxes to improve their compliance.

INTRODUCTION

The 2020 data on micro, small and medium Enterprises (MSMEs) of the Philippine Statistics Authority [PSA] showed that 957,620, or 99.51%, of businesses across the country are MSMEs. Of these entities, 139,363, operated in Region 4-A (CALABARZON)—the region with the second-highest number of MSMEs in the Philippines (Department of Trade and Industry [DTI], 2020). The emerging cities within the said region include Lipa City, where businesses have become more “competitive, innovative, and resourceful” due to its highly urbanized location and rapid economic growth (Malaluan, 2019). The 2021 data from the Lipa City Permits and Licensing Office presented a total number of 8,698 businesses in the city, of which 48.6% were from the service sector, 46.4% were from the trade sector, and the rest were from

other industries. The massive influence of the sector suggested that its growth prompted the improvement of economic activities not only in the locale, but also in the country. Therefore, it was essential to recognize the areas affecting the performance of MSME food establishments, including business tax compliance.

In relation to this, the Lifeblood Theory provided a foundation for studying the necessity of taxes and their intended benefit to the country. As held by the Supreme Court in *Commissioner v. Algue* (1988), “Taxes are the lifeblood of the government and so should be collected without unnecessary hindrance.” Taxes primarily enable the state and its governmental organizations to perform their duties for the benefit of the citizens through taxation (*Commissioner v.*





Manila Bankers' Life Insurance Corporation, 2011). Therefore, it is imperative to collect taxes for the sustenance of the government, which provides its people with public goods and services. The Doctrine of Symbiotic Relationship supplied another basis for taxation, which denotes that the inhabitants of a state hold the obligation to pay taxes, while the government has the responsibility to administer protection and advantages to the people (Tabag & Garcia, 2020, p. 6). Herewith, the Supreme Court declared that every able person must contribute his share so that the government could fulfill its function of providing tangible and intangible benefits to establish an organized society and enhance the quality of life of its people (Commissioner v. Algue, 1988). These were determined to be significant to the study because the provision of benefits by the government justifies the importance of compliance of taxpayers with their obligations.

Several international studies examined factors that affect tax compliance. Musimenta, et al. (2019), in their study conducted in Uganda, described tax compliance as the degree to which individual and non-individual taxpayers abide by the rules and regulations. Reinganum and Wilde (1985, as cited in Musimenta et al., 2019) asserted that as individual taxpayers choose to disclose their incomes, which may not accurately represent their real income, the current income taxation system functions based on voluntary compliance. Therein, the proponents found that tax morale and compliance costs are predictors of tax compliance. Furthermore, some of the determinants of tax compliance identified in a study undertaken in Ethiopia include the "education level of taxpayers", "simplicity of the tax system", "attitude of taxpayers towards

tax", "perceived role of government expenditure", and "rewarding scheme [of] for loyal taxpayers" (Assfaw & Sebhat, 2019). Among the few available studies in the Philippines, the study of Cain and Montañó (2021) in Tagum City produced a framework showing factors that affect tax compliance, such as (1) perception of equity and fairness, (2) tax psychological cost, (3) knowledge of current tax policies/tax rates, and (4) quality of tax officers' service.

Tax morale, among these identified factors of tax compliance, was defined by Torgler and Schneider (2007), as cited in Timothy & Abbas, 2021) as the intrinsic motivation to pay taxes. However, the term "willingness" did not apply to tax-paying action motivation. Although tax morale was not immediately observable, it was a "multidimensional notion" connected to intrinsic motivation, taxpayer ethics, societal norms, power and trust views, various types of compliance, and deterrent objectives. Moreover, trust in government institutions, fiscal trade among taxpayers, and government and individual traits might all have impacted tax morale (Horodnic, 2018).

In addition, there was a wide range of factors that were more likely to boost the tax morale of business owners and managers. The study of Pacaldo and Ferrer (2020) revealed that the willingness of taxpayers to pay taxes was determined by how the government treated them. Their results showed that the construct of trust in government was highly relevant and had a significant influence on tax morale. This confirmed that tax morale rose in accordance with the general sense of the government's reliability.



Furthermore, Koumpias, et al. (2020) argued that the way citizens were treated when interacting with government institutions during the routine provision of public goods and services affected their trust in the government and, consequently, their willingness to abide by tax regulations. Even though in Philippine taxes, the government and the taxpayers shared responsibilities, they found that those who trusted the government were more likely to have higher tax morale and that faith in the government's output organizations also likely improved tax morale. Moreover, the misuse of government funds and the unjust enforcement of tax laws among the nation's socio-economic classes were also included in the study by Cumagun (2022) as contributing factors that deterred Filipinos from paying taxes. When publicized government agency negligence involved the citizens' taxes, the taxpayers' trust in the government was put at risk. As Abrea (2022) predicted a probable increase in taxes to be collected if effective governance was evident, tax morale in the Philippine context was therefore influenced by how reliable the government agencies were in managing the taxes paid on a regular basis. In addition, tax evasion increased as a result of the onerous rules (Españo, 2016). This argument supported a financial institution's claim that small and medium-sized businesses were discouraged by high tax compliance expenses (Ibañez, 2022).

According to Naicker and Rajaram (2018), the view that the tax burden is excessive drives non-compliance among taxpayers. Likewise, Angeles (2021) affirmed this behavioral perception as she indicated that compliance is positive when those who should pay taxes feel that the government has compensating

benefits that would "add value to their businesses". Consequently, there becomes a disparity in achieving the national goals of eliminating poverty and unemployment as tax compliance issues affect the growth of businesses (Naicker & Rajaram, 2018).

Bruce-Twum and Schutte (2021) asserted tax compliance cost as the value of resources spent by taxpayers in completing their tax responsibilities. High compliance expenses might overburden taxpayers, forcing some to close their businesses or opt not to comply. Similarly, compliance levels may be lower than expected as many businesses believe that the tax system is unfair due to the high compliance expenses that could overburden taxpayers and result in non-compliance or foreclosure of businesses (Bruce-Twum & Schutte, 2021). This argument coincided with the claim of Naicker and Rajaram (2018) that non-compliance was prompted by a disproportionate tax burden. Jabagat (2021) further stated that small and medium establishments are acknowledged due to their direct contribution to the economic activities of the Philippines. In his study, governments often utilize economic laws to further improve the utilization of resources to provide goods and services more efficiently. The standard perspective of regulation as a cost, burden, or constraint to small firms is that the quantity, quality, and enforcement of regulation are connected with administrative and compliance costs that can negatively affect their business performance and success. Despite this, Angeles (2021) emphasized that while additional costs will be imposed on businesses due to these legislations, following these regulations improve their operational confidence.



In the context of tax compliance of MSMEs in the Philippines, businesses are required to file applicable returns for taxes such as, but not limited to, basic income tax (BIR Form 1701Q), corporate tax (BIR Form 1702Q), final tax (BIR Form 1601-FQ), and value-added tax (BIR Form 2550Q) or other percentage tax (BIR Form 2551Q). About this, the BIR (n.d.) only included compensation income and minimum wage earners, among others, as persons or entities exempt from filing income tax returns (ITRs). Consequently, appropriate tax penalties also apply to MSMEs like in cases of negligence in filing tax returns and deficiencies in tax payment. Fajiculay (2019, as cited in San Luis, 2019) suggested that charges related to ongoing delayed tax payments include surcharges, interests, and other additional costs in addition to the burdensome costs associated with tax compliance.

Accordingly, Ghani et al. (2020) sought to gauge the level and awareness of tax compliance among self-employed individuals in Malaysia by examining the pertinent factors affecting the tax compliance of the said population. It was identified that an increase in the level of tax compliance could be explained by an increase in tax morale among self-employed individuals because of the positive relationship between the two constructs. Meanwhile, a negative relationship was found between tax compliance costs and tax compliance, as well as between tax complexity and tax compliance (Ghani et al., 2020). Similar to Ghani et al. (2020), Musimenta (2020) found that compliance costs and tax compliance have a significant negative relationship among VAT-registered withholding agents in Uganda. In the study, Musimenta (2020) noted that between the two dimensions of compli-

ance costs, internal and external costs, the former had a more significant impact because entities still incur them regardless of whether or not they sought external practitioners. It was assessed that a higher level of tax complexity induced costs of compliance because it would compel taxpayers to undergo training and seek expertise for tax compliance. With this, compliance costs are partially mediated between tax complexity and tax compliance (Musimenta, 2020).

In an Indonesian study conducted among small and medium enterprises (SMEs), some factors may relate to tax compliance, such as tax morality, trust in public authority, perception of justice, and tax knowledge (Timothy & Abbas, 2021). It was also designed to determine the extent of association the variables had. The findings of the study showed that there was a positive association between tax morality and tax compliance. This implied that entities with high tax morale had a higher probability of complying with tax requirements, and that those with low tax morale were likely to justify tax evasion and consider taxes as a burden. In addition, tax morality bears a significant influence on taxpayer decisions, as the study results indicated that among the assessed factors, tax morality had the highest magnitude (Timothy & Abbas, 2021).

Musimenta et al. (2019) conducted a study that identified the relationship between tax morale and compliance costs on the tax compliance of financial services firms in Uganda. The theory of reasoned action (TRA), developed by Ajzen and Fishbein (1980, as cited in Musimenta et al., 2019), denoted that compliance with tax payments depended on taxpayers' attitudes towards the tax system in their country. Mean-



while, developed by Allingham and Sandmo (1972, as cited in Musimenta et al., 2019), the utility theory recognized taxpayers as “utility maximizers”. It indicated that taxpayers highly considered the financial gains and costs in their decisions on tax compliance.

Considering the said theories, Musimenta et al. (2019) established tax morale and compliance costs as variables that possibly affected the tax compliance of businesses and identified their dimensions based on prior studies. On the one hand, tax morale comprised the components of trust in government and national pride, while perceived compliance costs encompassed administration costs and specialist costs. On the other hand, the components of tax compliance were timely payments and timely filing of returns. The study determined that tax morale and compliance costs had a significant positive relationship with tax compliance. Also, the researchers perceived the findings to imply that a positive change in tax compliance would most likely be prompted by positive changes in tax morale and compliance costs, respectively.

As taxes remain one of the main drivers of government services, they are vital resources in the continuity of government services from which individuals and businesses in a jurisdiction benefit. Despite this, previous studies supported that tax compliance continues to be a problem due to the burdensome perception linked with taxes. In addition, the Bureau of Internal Revenue (BIR) declared that around 3% of the total collections in the past two fiscal years were derived through agency audits (Aznar, 2023). While the ratio of voluntary tax payments was high, the significant amount of audit-derived payments indicated that a

significant number of taxpayers did not entirely comply with the requirements of the regulatory body unless they underwent the process of audit. In the locale of the study, it was reflected through the avoidance of tax mapping by some businesses, wherein they opted to close their operations to prevent the inspection of books that were to be performed by the local branch of the agency.

Given these circumstances and the limited available local studies concerning tax compliance, it was necessary to conduct a study regarding tax compliance of MSME food establishments in the country as the results may benefit various stakeholders. The study was particularly essential to determine necessary steps for the development of tax-related programs for MSME food establishments, which taxing authorities could adopt and implement, to promote tax compliance and expand the knowledge of business owners on the implications of taxes in their businesses. Moreover, this study serves as a guide for business owners on factors that must be prioritized to prevent tax evasion and unnecessary tax avoidance. The study could also be an avenue for the conduct of future research by accounting educators and students, as well as tax practitioners, given the novelty of the study of taxation and tax compliance in the country. In line with Sustainable Development Goal 8 “Decent Work and Economic Growth” of the United Nations, there was a need to study tax compliance factors of MSME food establishments as taxes entail costs or add value to businesses with government support. When tax compliance of businesses is improved, the government gains more funds to provide financial support to projects that develop the sector of MSME food es-



tablishments to boost the economy and increase job opportunities.

The study aimed to determine the effect of tax morale and compliance costs on the tax compliance of MSME food establishments. Moreover, it sought to achieve the following objectives:

1. Identify the perception of MSME food establishment owners and managers in Lipa City, Batangas on their tax morale, compliance costs, and tax compliance;
2. Assess the effect of tax morale and compliance costs as determinants of tax compliance among MSME food establishments in Lipa City, Batangas;
3. Determine necessary steps for the development of tax-related programs for MSME food establishments that will promote tax compliance and expand the knowledge of business owners on the significant implications of taxes in their respective businesses.

Aligned with the research focus of the study, the following hypotheses will be tested:

Ho1: Tax morale does not have a significant effect on tax compliance of MSME food establishments.

Ho2: Compliance cost does not have a significant effect on tax compliance of MSME food establishments.

The study utilized a framework that was adapted from the study of Musimenta et al. (2019). The factors of tax morale and compliance costs were examined

in different locales and industries to determine their significance to tax compliance, as proven in previous studies. Figure 1 presents the diagram of the relationship between the variables used in this study.

Tax morale was the attitude of the taxpayers toward tax compliance. Specifically, as its dimensions included trust in government and national pride, the variable was described as the perception of MSME food establishment owners and managers in terms of performing responsibilities and holding accountability in spending tax revenues by the government. It likewise represented the understanding of the respondents on their roles as taxpayers that contribute to nation-building. Meanwhile, compliance costs, which encompassed specialist costs and administration costs as dimensions, were the obligations taxpayers paid in addition to their tax responsibilities. This variable referred to the perception of the respondents on their need for expert opinion regarding tax matters and legislative changes. It was also characterized as the expenses that MSME food establishments relatively incurred in the payment of taxes, such as employing personnel, filing returns, and lining up in the bank. Tax compliance was the perception of the participants on their adherence to the regulations which include payment of actual tax assessed on time, disclosing of income, and provision of accurate reports to the taxing authority. Its dimensions were excluded from the study as its components in the study of Musimenta et al. were inherent in the necessity of taxes to be levied and paid without unnecessary hindrance (Tabag & Garcia, 2020).

Given these, the framework has laid a foundation



to study the same variables in MSME food establishments in Lipa City, Batangas and verify the findings of Angeles and Musimenta et al. in their respective studies. Moreover, while previous studies had contradicting results regarding the significance of compliance costs, this study substantiated the relationship among the business owners in the food business sector within the locale.

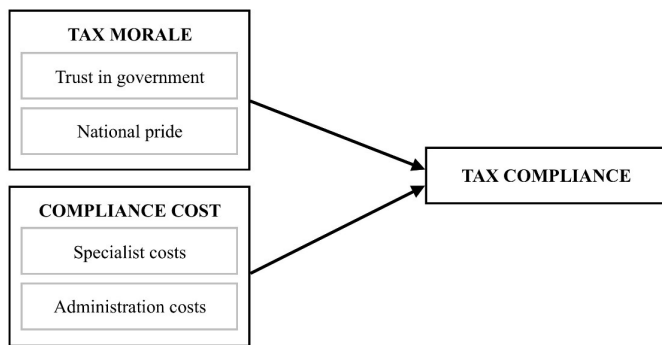


Figure 1. Operational Framework of Factors Affecting Tax Compliance of MSME food establishments

MATERIALS AND METHODS

The method of this study was a quantitative causal research design that focused on the effect of both tax morale and compliance costs on tax compliance among MSME food establishments in Lipa City, Batangas. Through a quantitative causal research design, the researchers identified the effect of the relationship of the variables in the context of business owners in the food business sector of Lipa City. In addition, a descriptive research design was used in the study to describe the characteristics of the respondents per variable. Furthermore, since food service businesses comprise 14% of the entire MSME population in the Philippines (DTI, 2020), and MSMEs comprise most of the businesses in Lipa City (Malaluan, 2019), the respondents of this study involved the owners or man-

agers of MSME food establishments in the area who handle the tax and regulatory requirements, excluding entities who outsource their tax return preparations. This contribution was made through examining factors influencing tax compliance to determine the necessary steps to improve the compliance behavior of MSME food establishments in the Philippines.

This study employed the stratified sampling method, in which researchers divided subjects into subgroups based on shared characteristics. The participants were classified as to asset size, such as micro, small, and medium enterprises. Consequently, the participants were randomly selected in each subgroup which provided a reliable sample of the population under investigation. By using the G*Power application and taking the framework of the study into account, at 95% power of the test and 0.15 effect size, the study required at least 107 respondents to test the effect of tax morale and tax compliance. Table 1 below shows the portion of the sample size for each stratum.

Table 1. Stratification and proportion of sample size

Stratum	n = 107	Portion of n (%)
Micro	70	65%
Small	20	19%
Medium	17	16%

This study was conducted in Lipa City, Batangas, a first-class urban area in the province of Batangas. It is located south of Manila and is one of the most populous cities in the province. The city of Lipa is rapidly developing into a center for commerce in the province, with its environment attractive enough to encourage doing business in the province (Malaluan,



2019). The city has 8,698 registered enterprises, of which 99.77% are MSMEs. In total, 4,227 businesses are in the services industry, and 530 are in the food service industry (City Permits and Licensing Office [CPLO], 2021). Based on the community needs assessment (Appendix C), the burdensome perception of taxes still prevails among MSME food establishments in the city and additional costs are incurred aside from their tax returns. Therefore, through conducting the study in this area, the researchers aim to contribute in promoting tax compliance among MSME food establishment owners and managers in the city.

A questionnaire with close-ended questions was utilized in the study to collect pertinent data. Appendix A shows the questionnaire form that was disseminated to the respondents. The form required the demographic information of the respondents, including their name, the name of the business they own or manage, the asset size of the firm, and the age of the business. In addition, it encompassed twenty-three (23) questions adapted from the study of Musimenta et al. (2019) which were classified by the variable they discuss. There were eight (8) items for tax morale, seven (7) items for compliance costs, and eight (8) items related to tax compliance. Each item in the questionnaire measured the respondents' degree of agreement through a six-point Likert scale, ranging from Strongly Disagree (1) to Strongly Agree (6).

Meanwhile, the items under each variable were categorized into specific dimensions as presented in Appendix B. As exhibited therein, the dimensions of tax morale, trust in government and national pride have five (5) items and three (3) items, respectively.

Regarding the dimensions of compliance costs, specialist costs have three (3) items while administration costs have four (4) items. For the purposes of this study, several items in the questionnaire were modified to become applicable in the Philippine setting. In the questionnaire of Musimenta et al. (2019), items under the variable tax compliance specified the URA or Uganda Revenue Authority as the taxing authority. This was replaced with the taxing authority applicable in the Philippines, the BIR. The survey questionnaire was initially administered among thirty (30) MSME food establishments that operate outside the identified locale, Lipa City, Batangas to determine the reliability and validity of the instrument under the proposed circumstances of the study.

The Cronbach alpha results reflected in Table 2 indicate that the questions used in the instrument were consistent. Shiu et al. (2009, p.403, as cited in Fanoberova & Kuczkowska, 2016), suggests that greater consistency is obtained when the coefficient is "closer to 1". In addition, reliability is achieved when the threshold of 0.7 for Cronbach alpha values is surpassed as contended by most researchers (Schutte et al., 2000, p. 56, as cited in Fanoberova & Kuczkowska, 2016). Given this, as the Cronbach alpha values of the research instrument range from 0.703 to 0.887, the questions used were consistent and reliable for the conduct of the study.



Table 2. Cronbach Alpha Results

Factors	Cronbach's Alpha	N of Items
<i>Trust in Government</i>	0.875	5
<i>National Pride</i>	0.707	3
<i>Tax Morale</i>	0.887	8
<i>Specialist Costs</i>	0.735	3
<i>Administration Costs</i>	0.733	4
<i>Compliance Cost</i>	0.737	7
<i>Tax Compliance</i>	0.703	8

The raw data of MSME food establishments in the city was obtained from the City Permits and Licensing Office through a request letter sent to the City Permits and Licensing Officer (Appendix D). From this, the researchers segregated the list to generate a separate list of food establishments in the city since the main focus of the study was on food service establishment owners in the locale. Subsequently, it was stratified into micro, small, and medium establishments to establish the participation of all strata in the sample size. As the required sample size was determined, the survey questionnaire was disseminated through a Google Form link, where respondents accessed the link and accomplished the necessary information in the form. In addition, researchers also utilized physical copies of the questionnaire for door-to-door surveys. The researchers ensured that the data collected from the respondents and primary sources shall be treated with utmost privacy, confidentiality, and anonymity. Only the researchers had access to these data, which will be solely used for research purposes. Furthermore, they ensured that all respondents were voluntarily participating and their consent was obtained before the conduct of the study.

After necessary data were collected, these were analyzed using the Statistical Package for Social

Sciences (SPSS) program. In the program, several descriptive and inferential statistical methods were utilized to conduct the study’s analysis. The aspect of descriptive statistics included the independent mean and standard deviation of the variables. The interpretation for the mean of each variable is presented in Table 3 below. This table was adapted from the study of Pimentel (2019) and the researchers aligned the descriptions parallel with the legend indicated in the questionnaire.

Table 3. Mean Interpretation Table adapted from Pimentel (2019)

Range	Description
1.00-1.82	<i>Very low</i>
1.83-2.65	<i>Low</i>
2.66-3.48	<i>Somewhat low</i>
3.49-4.31	<i>Somewhat high</i>
4.32-5.14	<i>High</i>
5.15-6.00	<i>Very high</i>

Furthermore, to validate tax morale and compliance costs as a predictor of tax compliance of MSME food establishments, a multiple regression analysis was conducted with tax morale and compliance costs as the independent variables (IV) and tax compliance as the dependent variable (DV). Multiple regression analysis is a statistical tool used to measure the effect of multiple independent variables on one dependent variable (Affes, 2020). This method was essential as it presented the predictability of the IVs in determining the tax compliance of business owners. To interpret the results, the r-square, beta coefficient, and p-values of each predictor obtained from SPSS were displayed





to determine which among the variables have a significant effect on tax compliance. The results from these methods were analyzed in comparison with results from previous studies to determine whether the hypotheses introduced in this study are acceptable based on the results of the regression analysis.

RESULTS AND DISCUSSION

In describing the perception of the respondents, means and standard deviations are interpreted in Table 4. Using the mean interpretation table in Table 3, the respondents have a positive perception of their level of tax morale, compliance cost, and tax compliance as these variables obtained means of 4.73 (High), 4.85 (High), and 5.37 (Very high), respectively. In addition, the standard deviation of tax morale, compliance cost, and tax compliance ranges from 0.70 to 0.88. The results of the analysis, as presented in Table 4, indicate that most respondents have a high tax morale, with a mean score of 4.73 and a standard deviation of 0.86. This suggests that the respondents of the study generally think positively of the government's use of tax for the public interest. Furthermore, the dimensions – trust in government and national pride, are shown as significant factors contributing to tax morale with trust in government obtaining a mean score of 4.64 and a standard deviation of 0.95 and national pride obtaining a mean score of 4.82 and a standard deviation of 0.89. This indicates that most respondents highly believe that the government is acting in their best interests and they feel a high sense of loyalty and patriotism towards their country, which may motivate them to comply with tax laws and regulations. Compliance costs obtained a mean score of 4.85 with a standard deviation of 0.70, with its dimension, special-

ist costs, having a mean score of 5.09 and a standard deviation of 0.82. and administration costs obtained a mean score of 4.61 and a standard deviation of 0.81. This shows that the respondents perceive the need to have experts through which they could acquire information regarding issues and legislative changes on tax and that for the respondents, complying and filing tax returns are time-consuming which they consider as a factor for additional cost to the business.

For tax compliance, a mean score of 5.37 and a standard deviation of 0.88 are presented, which signify that the majority of the participants of the study have a high perception of tax compliance. There are eight items encompassing the variable, seven of which were strongly agreed to by the respondents. These indicate that MSME food establishment owners and managers notably perceive that they pay accurate amounts of taxes on time. Similarly, they remain forthright with the information they declare in their reports including, but not limited to, the income they earned. In reference to Young et al. (2016, as cited in Musimenta et al., 2019), affirm that there is a significant degree of adherence to tax laws and regulations within the food service industry. Meanwhile, the participants also recognized the importance of prompt payment of taxes. They likewise acknowledged that the taxing authority provides notice on the date of filing and instances of delay in payments.



Table 4. Descriptive Statistics for the Variables and their Dimensions

	Mean	Std. Deviation	Interpretation
Trust in Government	4.64	0.95	High
National Pride	4.82	0.89	High
Tax Morale	4.73	0.86	High
Specialist Costs	5.09	0.82	High
Administration Costs	4.61	0.81	High
Compliance Costs	4.85	0.70	High
Tax Compliance	5.37	0.88	Very High

The findings for tax morale affirm the study of Koumpias, et al. (2020), which argued that the way citizens are treated while engaging with government institutions affects their trust in government, and consequently, their willingness to comply with tax rules. This result highlights the importance of trust and pride in fostering collaboration between the food service industry and the government. In other words, citizens are more likely to comply with tax laws and regulations when they perceive the government as acting in their best interest and providing them with the services they need. Thus, the results obtained and the affirmed study highlight the critical role of trust and pride in shaping tax morale. Meanwhile, the results for compliance costs indicate that the additional cost of filing tax returns affects the tax compliance of each entity. This affirms the study of Angeles (2021) which explains that even though these laws will cost businesses more money, adhering to the rules will increase their operational confidence and at the same time, avoid unnecessary penalties and costs for non-compliance.

Table 5. Effect of Tax Morale and Compliance Cost on Tax Compliance

	Unstandardized Coefficients		Standardized B Coefficients	t	p-value	Interpretation
	B	Std. Error				
(Constant)	1.248	.461		2.705	0.008	
Tax Morale	.424	.089	0.414	4.750	0.000	Significant
Compliance Cost	.436	.109	0.349	3.999	0.000	Significant

R² = 0.454
 F-Value = 43.251
 p-Value = 0.000
 Dependent Variable – Tax Compliance

As shown in Table 5, a multiple regression analysis was conducted predicting the DV from the IVs. Overall, the regression was significant, $F(2,104) = 43.251, p < 0.05, R^2 = 0.454$. Upon investigation, both tax morale ($\beta = 0.414, t(106) = 4.750, p < 0.05$) and compliance cost ($\beta = 0.349, t(106) = 3.999, p < 0.05$) were found as significant predictors of tax compliance. Between these predictors, tax morale more positively affects tax compliance. Nevertheless, compliance cost remains a positive predictor of tax compliance.

The results affirm the study of Musimenta, et al. (2019) which also presented tax morale and compliance costs as significant predictors of tax compliance. This study, alongside the studies of Ghani, et al. (2020) and Timothy and Abbas (2021) respectively confirms that tax morale has a positive effect on tax compliance. Tax compliance is significantly impacted by tax morale since compliance is an action, but morale is an attitude. Tax morale is a component of the intrinsic incentive to pay taxes derived from moral or religious principles. This implies that increasing intrinsic desire is anticipated to increase tax compliance (Ghani, et al, 2020). Tax morale can have a higher effect on the tax compliance of MSME food establishments because it affects the intrinsic motivation of taxpayers to voluntarily comply with tax obligations. MSME food establishments with higher tax morale are more likely to comply with tax obligations voluntarily, regardless of how high or low tax compliance costs are since they have a sense of moral obligation to contribute to society and the country’s development. Additionally, MSME food establishments with higher tax morale may have a reputation to maintain in their community, and they may be motivated to comply with tax





obligations to uphold their reputation and legitimacy as a business.

However, the positive effect of compliance costs on tax compliance contradicts the study of Musimenta (2020). In relation to the utility theory, wherein taxpayers are driven to comply with tax laws by evaluating financial gains and costs, MSME food establishments perceive that incurring the costs relative to adhering to tax regulations is better than no compliance at all because of the penalties and damages that it could entail. Moreover, managers' business decisions are ultimately influenced by the costs associated with regulatory compliance. Various measures of a business' success, performance, or growth can be impacted by the compliance costs associated with adhering to the policy objectives of a specific regulation due to how owners of those businesses perceive those regulations affect business development and investment choices (Jabagat, 2021). Thus, despite the substantial costs, entities are still compelled to comply with their tax obligations. However, with the contradiction presented in the results, compliance costs as a determinant of tax compliance can still be explored in a larger sample or a different business industry.

To summarize, in the context of food service establishments in Lipa City, the results of the study showed that tax morale and compliance costs have a significant effect on their tax compliance. The country's tax system relies heavily on income taxes and value-added tax, which are paid by individuals and businesses. Also, the compliance costs can be relatively high, as they may have limited resources and expertise to navigate the complex tax system. The adminis-

trative burden of complying with tax obligations can be challenging, particularly for informal businesses operating with no government-imposed regulations. However, improving tax morale among MSME food establishments in the Philippines may help mitigate the impact of the expenses for handling tax returns on tax compliance. By promoting a sense of moral obligation to contribute to the country's development through paying taxes, business owners may be more willing to invest time and resources in complying with tax regulations. Despite the high costs needed to comply with tax regulations, taxpayers in this sector are aware of their need for these additions as part of increasing their operational confidence.

CONCLUSION AND RECOMMENDATIONS

The results show that participants generally have a positive disposition towards the government and its representation of the public interest through taxation policies, as they presented a high level of agreement with statements relative to tax morale. They likewise agreed to statements regarding compliance costs, which signify their recognition of complying and filing tax returns as factors that require a considerable amount of time and financial resources. The respondents also assented to statements about tax compliance, which indicate that they conform to accurate and timely payment of taxes. Meanwhile, the results indicated the independent variables as significant predictors of tax compliance, thus, rejecting the hypotheses. This suggested a positive association between the independent as taxpayers are willing to invest more resources to comply with tax regulations and avoid penalties and surcharges for noncompliance.



As the study was conducted, the effect of tax morale and compliance costs were addressed. However, the actual costs of tax compliance in the businesses were not addressed by the study. Therefore, the question of whether these incurred costs by the businesses are a contributing factor to tax compliance is also still on the horizon. Furthermore, while owners and managers were the main targets of the study, it was observed that an individual taxpayer perspective could also be a focal point of future studies as perceptions of employees towards their tax compliance could also be studied further. Given the results and limitations of this study, future researchers may consider conducting a similar study on a different locale in the Philippines and increasing the number of respondents to provide a better generalization of the study results. As this study was conducted among MSME establishments, tax researchers may further look into other rising industries such as content creation and freelancing. They may also look into other self-employed individuals to verify whether the positive effect of tax morale and negative effect of compliance costs are similar to the study of Ghani, et al. (2020). Additionally, future researchers may explore other factors and their tax compliance predictability such as tax complexity and tax knowledge, among others, including a comparison of collected tax payments and disbursement of government funds from previous years and its possible implications on the industry's tax compliance. The researchers also propose forming partnerships with academic organizations and BIR to initiate knowledge-awareness-action projects that utilize the study's findings. For instance, webinars may be conducted to boost the tax morale of taxpayers and encourage them to pay taxes. Along with this, campaigns and informa-

tive online content will help the BIR to engage with taxpayers and organizations to increase knowledge and awareness among them. Lastly, enhancing the tax filing and payment systems will enable better compliance among taxpayers as less costs are incurred.

Given that tax morale and compliance costs have been identified as factors positively influencing tax compliance among respondents, it is important to adopt a comprehensive approach that encompasses both improving taxpayers' attitudes and willingness to pay taxes, as well as minimizing the expenses associated with tax compliance. In line with this, the researchers propose a CAPSTONE project called Taxistema. It is an information drive project focusing on the dissemination of informative content about the Philippine taxation system to MSME owners. It is a 3-phase project that aims to motivate MSME food establishments in Lipa City to pay the right tax dues given its potential benefits both to businesses and individuals.

Phase 1 of the project will focus on establishing initial engagements with target participants through online postings of information about the tax system. For instance, tax morale will be uplifted as the taxpayers become more knowledgeable of and take pride in projects where the government exhibits reliability in spending taxes for their intended purpose. Similarly, beginning with Phase 1, clarity about the taxation system will be addressed through infographic content that will guide taxpayers in complying with their tax obligations such as a photo summary of the different payment methods available for the remittance of taxes, tax returns to be filed, and the process of filing.



Furthermore, Phase 2 emphasizes collaboration with tax experts to further enlighten the taxpayers about the complexities of the Philippine taxation system and its tangible and intangible cost implications to businesses, to suggest ways for specialist and administration cost optimization, and to encourage accurate filing of returns to avoid penalties and surcharges. Given this, the perception of taxpayers surrounding taxes will become uplifted while they gain insights into how they can better manage their tax compliance costs. Moreover, in Phase 3, studies about taxation will be encouraged among academic institutions for the pursuance of improving tax compliance of MSME food establishments with new and improved projects. Thus, Taxistema provides a strategic approach to assist the government in improving its tax collections and to guide MSME food establishments in better complying with their tax obligations without both incurring unnecessary costs and sacrificing the accuracy and on-time filing of tax returns. In turn, the shared responsibility of the government and the taxpayers will not be burdensome to any party. Presented in Table 6 is the action plan for the said project.

Table 6. CAPSTONE Action Plan

Table with 2 columns: Field (Title of the Project, Project Description, Goals/Objectives, Project Team) and Content (Taxistema, project details, objectives, team members).

Table with 5 columns: Activities, In-Charge, Resources, Communication Plan, Timeline. It details three phases of the project with specific tasks, responsible parties, and completion dates.

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