Critical Success Factors of Sales Tax Compliance Behaviour Among SMESin Jordan

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Abstract:
SMEs in Jordan are important to the national employment and to the country's GDP. However, there is a high rate of tax non-compliance behavior in Jordan that costs around JD1.4 billion. Sales tax is the major source of tax revenue in Jordan and revealing the factors that determine the compliance behaviour become important. Therefore, this study examines the possible factors of tax compliance among SMEs in Jordan. The conceptual framework of this study include sales tax compliance behavior as the dependent variable and the antecedents are tax knowledge, tax fairness, tax morale, tax authority, tax rate, and tax penalties. The population of this study is the small and medium-size firms in Jordan represented by owners, CEOs, or financial managers. The final sample size is 385 samples. Results revealed that the six antecedent constructs can explain 52.3 percent of the variance in the tax compliance behaviour. Tax fairness has no significant impact while the other five antecedents have significant relations, in which the p-value scores are above 0.
Key Words:*Tax Compliance Behaviour, Tax Knowledge, Tax Fairness, Tax Morale, Tax Authority, Tax Rate, Tax Penalties, Jordan.*

I. Introduction

Direct taxes, such as sales taxes, is a major source of government revenue in Jordan that generates 70 percent of the government's revenue. Jordan's direct taxes include corporate income taxes, personal income taxes, sales taxes, and other direct taxes (Mdanat et al., 2018). Furthermore, taxes will undoubtedly continue to be the main source of revenue for the Jordanian government. Through Provisional Law No. 29, the government of Jordan adopted the Self-Assessment System (SAS) in 2009 to stimulate the national economy and encourage investment. By exempting a large percentage of medium and limited incomes, the Income and Sales Tax Department (ISTD) stated that the law simplifies tax procedures by improving the legal framework and reducing the tax burden on most citizens (ISTD, 2019). Furthermore, the adoption of SAS is also to encourage voluntary tax compliance (Oloruntoba&Gbemigun , 2019). The adoption of SAS can make the taxpayers voluntarily take responsibility concerning their compliance obligations (Ebimobowei et al., 2014).

The compliance responsibilities for taxpayers comprise the obligation to report, calculate and pay their taxes according to tax laws (Yuniarta&Purnamawati, 2020). Self-assessment system in tax has the main benefit in increasing the compliance rate and consequently increasing the government revenue. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income each year, and pay the right amount of taxes on time (Jayawardane& Low, 2016). Based on the ISTD definition, tax compliance is achieved when taxpayer submits his tax declaration on stipulated dates and increases his commitment by filling out these declarations that correctly express his sales and revenues based on his accounts that he organizes in a manner consistent with the applicable regulations (ISTD, 2021).

The economic model of tax compliance assumes that taxpayers make rational decisions; they conduct a cost-benefit analysis to assess whether the expected benefit of non-compliance outweighs the benefits of compliance (Tin, 2019).The non-compliance of sales tax in SMEs is a worldwide problem, but in Jordan, the rate is at least double the rate in Europe. The weak commitment of managers and owners to follow taxes is a central problem in Jordan because taxes make up 70% the government revenue (Alshir'ah et al., 2016). To continually support the development and growth, governments have a constant need to raise tax revenues to invest in public infrastructure, health care, education, and other public services (Sanogo, 2019). In the years following the world economic crisis, the tax authority has faced many challenges (Christensen & Hearson, 2019). The fiscal deficit has increased the government's need for tax revenue, and the government has turned to

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collaborate with other governments to solve the non-compliance problem (Lois et al., 2019). As a result, tax compliance is an important issue globally, especially in Jordan, which encourages more studies within this area.

Tax compliance is a vital issue worldwide and particularly in Jordan because it has a significant contribution to the national revenue. Thus, encouraging tax compliance behavior is very important, and therefore all countries should take tax compliance into account (De Simone et al., 2020). In the context of Jordan, the country depends heavily on tax revenues, making up approximately 70 percent of the country's domestic revenue in 2019 (Ministry of Finance (MOF, 2019). Moreover, official reports from the Income and Sales Tax Department (ISTD) indicate that income and sales tax revenue in 2020 was JD 4.65 billion. The revenue from sales taxes reached JD 3.4 billion and income taxes were JD 1.25 billion (ISTD, 2020). According to the International Monetary Fund reports, non-compliance in Jordan is estimated at 32 percent, which amounts to JD 1.49 billion. The issue of tax compliance has become a national concern as it affects the economy of Jordan (Alshira'h, 2019). Based on the annual reports of companies, Jordan is still facing an increase in net public debt (Fseifes&Warrad, 2020) despite the government's fiscal measures to increase domestic revenue.

II.   Literature Review
Concept of Tax Knowledge
SMEs understand their tax obligations when the aspect of justice and tax benefit can be received in real terms (Rawlings, 2019). Fauziati et al. (2016) argue that to improve tax compliance and government revenue, it is very important to improve the taxpayer's knowledge. Tax knowledge has a higher tendency to promote tax compliance than tax penalties (Oladipupo&Obazee, 2016).   There is a direct relationship between tax knowledge and tax compliance, where an increase in tax knowledge also increases tax compliance among taxpayers (Newman et al., 2018). Acquiring tax knowledge would save huge tax consultancy costs (Remali et al., 2018). However, the taxpayers need adequate various aspects of tax knowledge to fulfill their tax liability responsibly, precisely and timely (Olaoye et al., 2017). In addition, tax knowledge will increase the awareness of the possible risks of non-compliance behavior such as tax penalties (Kashyap &Wetherilt, 2019). Tax knowledge refers to the methods, whereby citizens become aware of tax regulations and various other tax-related information (Kustiawan et al., 2019). The amount of formal general education received by taxpayers is an essential variable that contributes to the understanding of tax needs, especially concerning enrollment and filling criteria (Mbewe &Jenefa, 2018). Those citizens without tax knowledge are urged to get the solution of tax experts (Kustiawan et al., 2019).

Concept of Tax Fairness
Tax fairness is a judgment arising from actual or imagined comparisons involving oneself or oneself and others (Alexander et al., 2018). Moreover, tax fairness has important ethical implications in a wide variety of social and economic contexts: when individuals perceive fairness, they experience satisfaction and tend to be supportive of a situation, whereas when individuals perceive unfairness, they experience anger and tend to be retaliatory (Yip & Schweitzer, 2016). Tax fairness is a concept of having a nondiscriminatory tax system. Fairness of the tax system is believed by the citizens and tax authority as one of the notable determinants of compliance choice (Alshira' h & Abdul-Jabbar, 2019). Farrar et al., (2018) argued that the recognized injustice in the tax system does not certainly contribute to tax evasion, but it is used to reason non-compliant habits. On the other hand, Adimassu and Jerene (2016), pointed out that if the taxpayers feel that their tax problem is greater than people within the very same earnings group, their tax conformity minimizes. Taxpayers will tend to avoid paying taxes if the tax system is considered unfair (Purwanti&Nurhidayati, 2020). Most previous studies examining the effect of tax justice on compliance show consistent results that tax fairness has a positive impact on voluntary compliance (Alshira'h& Abdul-Jabbar, 2019; Azmi, Zainuddin, Mustapha, &Nawi, 2016). The simple question when creating a tax system is the sum of how to disperse the burden of one of the taxpayers (Breunig& Sainsbury, 2020). The complete satisfaction along with the used companies often tends to boost the viewed justness of taxation (Alzoubi et al., 2020).

Concept of Tax Morale
The concept of tax morale as an informative think about tax observance highlighted that financial phenomenon must be seen coming from a broader viewpoint than the typical neoclassical perspective and should integrate insights coming from social psychology (Vargo et al., 2017). In a study by Alasfour et al. (2016), they found tax morale as an important explanation for tax compliance behavior. This very early job suggested the surfacing value of "personality economics" as a device in knowing individual and group behavior, and it is demonstrated in a series of associated strategies, with roots in the psychology of taxes (Wein, 2018). In the specific context of tax compliance, tax morale is most obviously linked to "intrinsic motivation" (Pukeliene&Kažemekaityte, 2016). The morale of the taxpayers must be considered when examining the tax compliance behavior since it is one of the factors that could explain compliance behavior levels that are higher

than those expected through the economic theory (Christian &Alm, 2014). The prior studies found that tax morale has a positive relation with tax compliance behavior and increasing the tax morale leads to lower tax non-compliance and greater tax compliance (Alshira'h, Abdul-Jabbar, &Samsudin, 2019). The tax morale is, to large extent, to do with the physiological background of the behaviors of tax evasion (Al zaqeba& AL-Rashdan, 2020).

Concept of Tax Authority

A constructive, highly professional relationship between tax authorities and taxpayers is essential for tax compliance (Gangl et al., 2019). Tax compliance is a major problem for many tax authorities, and it is not easy task to persuade taxpayers to comply with tax requirements especially when 'tax laws are not always precise' (Oladipupo&Obazee, 2016). Moreover, the interaction between tax authorities and taxpayers is characterized by mutual trust in government and respect (Gangl et al., 2019). According to Farrar et al. (2020), if taxpayers are treated nicely and fairly by the tax authority, they will cooperate and be more inclined to follow the decisions made by the tax authority. Various other signs which turn on implicit reputable may be indicators of warmth in contrast to animosity or teamwork in contrast to competitors communicated via tax authorities' communication (Gangl et al., 2015). In conclusion, implied leave takes place without the aware appreciation of reasons to count on and thus, without thinking about the capability or even purpose of the main institution. Tax authorities, on the other hand, reinforce implicit trust by showing respect to honest taxpayers (Gangl et al., 2020). Furthermore, the tax authorities perceive themselves as working in the name of the taxpayers; they show empathy and feel obliged to offer support (Murphy, 2019). Taxpayers perceive the tax authorities as working for the good of the community and reciprocate by contributing their share because they feel intrinsic motivation as members of the same community (Gangl et al., 2015). The objective of the tax authority is to maximize expected net revenue by the proper choice of techniques to maximize the net tax returns (Feld & Frey, 2019).

Concept of Tax Rate

The result of the tax rate on tax compliance is wary and still unclear. Clotfelter (1983) said that reducing tax rates is not the mere method of decreasing tax evasion, while (Remali et al., 2018) perspective tax rate as a necessary variable that determines compliance decision. A rise in tax rates is going to dissuade tax compliance while reducing tax rates does not reduce tax evasion (Nuridayu&Rosiati, 2017). According to Basri et al., (2019), the relationship between tax conformity and tax costs concluded that citizens' selection either to comply or otherwise, despite tax fees. Level, Tilahun (2018) showed that the tax rate was discovered to be the determinant element that influences taxpayers' willful compliance. According to Remali et al. (2018) reducing tax rates is not the only policy that has the potential to discourage tax evasion, but the tax rate is also an important factor in determining tax compliance behavior although the exact impact is still unclear and debatable.

Concept of Tax Penalties

The penalties possessed a beneficial result on the number of tax compliances; the higher the charge would result to the much higher frustration for prospective tax evasion (Gadi, 2015) . In addition, Tilahun (2018) located that penalizing citizen when caught suggested taxpayers mention the real revenue they earn. The level of penalty rate is statistically a useful impact to influence tax compliance levels (Bidin et al., 2018). The taxpayer's duty of self-assessment necessarily implicates the actions of tax practitioners who assist the taxpayer and government officials who administer the tax code (Bewket, 2017) . Analysis of the accuracy penalty therefore must include analysis of the corresponding penalties applicable to those parties (Armour et al., 2017). Tax penalties serve the instrumental function of promoting tax compliance, this is widely recognized in the legal and economics literature, although there is little consensus about how penalties promote compliance beyond the basic point that different penalty structures may affect compliance differently (Onyegbule, & indies, 2016).
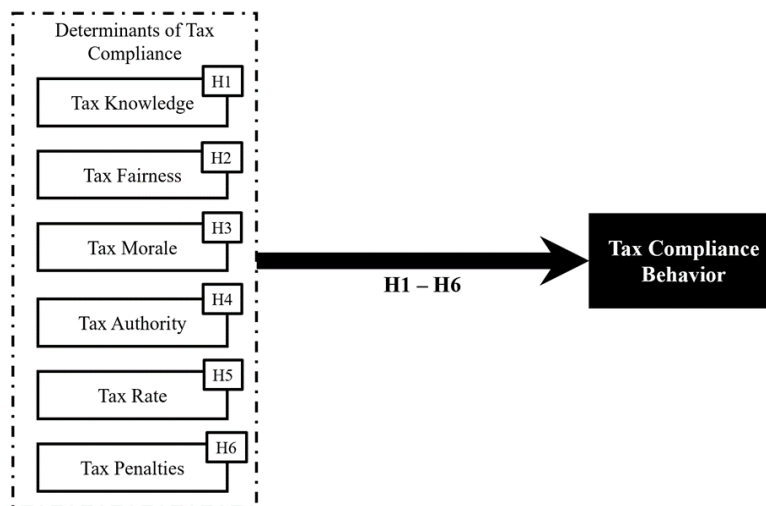
Concept of Tax Compliance Behavior

Tax compliance has become an important subject for individuals and firms' taxation in both developed and developing countries and it emphasizes a taxpayer's responsibility to report income and determines tax liability (Inasius, 2019). The model presumes rational actions one of taxpayers' and recommended that tax rate, probability of diagnosis, and fine price are figuring out factors that affect tax compliance. Tax compliance can be illustrated as the level to which a taxpayer obliges to tax policies and regulations. Tax compliance is specified as the readiness of people and other taxable facilities to behave in harmony within the spirit as effectively as the character of tax law and administration without the treatment of administration activity (Amadi, 2020). With the difficulty of tax non-compliance, it is important to comprehend elements determining an individual's selection to abide by the arrangement of tax regulations (Inasius, 2019). However, taxation often posed many regulatory difficulties to SMEs (Newman, Charity, &Ongayi, 2018). Thus, SMEs tend to be a focus of research by researchers from various disciplines. In taxation studies, several reasons are identified for the increasing

number of studies on the SMEs sector. Firstly, SMEs are considered as having lesser tax commitment in comparison to large companies (Akinboade, 2015). Secondly, the SMEs sector is important for the development and economic growth in most countries (Maseko, 2014). Finally, the SMEs are the ones collecting several taxes (e.g., sales tax, value-added tax) on behalf of the government or tax authority (Akinboade, 2015).

III. Conceptual Framework

The research framework of this particular study has six determinants of tax compliance (tax knowledge, tax fairness, tax morale, tax authority, tax rate, tax penalties) as independent variables that have a direct impact to tax compliance behavior (Figure 1).

Figure1 Conceptual Framework of the Study

IV. Research Methodology

The study assumed that the tax knowledge, tax fairness, tax morale, tax authority, tax rate, tax penalties to tax compliance behavior can be measured in numbers and prediction can be acquired from the analysis. Therefore, the study belongs to positivism philosophy, deduction approach, quantitative methodology, empirical survey of passed study, and used cross-sectional data. The population size is 8,485 company principals and the target sample size is 368. The proper selection of the samples is essential to assure that participants are effective presenters of the population landscape. The questionnaire is developed in English then translated to Arabic and divided into eight sections. The particular questionnaire of this study is adapted to assess the perceptions of participants (owners, CEOs, and financial managers) from SMEs in Jordan for their tax compliance behavior and different determinants of tax compliance. The questionnaire items use the closed-end approach with five agreement options. The technique is known as Likert 5. In Likert 5 style, 1 represents "strongly agree" and 5 as "strongly disagree". This technique is the most used in quantitative social studies (Göb, McCollin, &Ramalhoto, 2007).

V. Findings

Variety and Reliability of Constructs

Several measures have been conducted such as composite reliability, outer loading, convergent validity, and discriminant validity to ensure reliability and validity of the measurement model (Hair Jr, Hult, Ringle, &Sarstedt, 2016; Sekaran & Bougie, 2016) . Items within every variable must be consistent and represent the same concept. Internal consistency can be estimated by Cronbach's Alpha or Composite Reliability measures (Table1). Any measure above the threshold of 0.7 is successful. In addition, 0.6 is considered successful in exploratory research (Bagozzi& Yi, 1988; Hair et al., 2014) . Outer loading and cross-loading for every item are estimated to test it with its associated variable. Every item must have sufficient loading within its associated variable. Any loading above the threshold of 0.708 is sufficient and any loading below the threshold of 0.4 is inadequate. Any measure between 0.4 and 0.7 is suspected and can be deleted or kept based on the unique conditions for every study (Hair Jr et al., 2016; Hulland, 1999). Cross loading scale is used to assure that for every item, it is loading within the associated construct is higher than any other loading in the remaining constructs (Hair Jr et al., 2016; Hulland, 1999). The matrix is a refined matrix of the latent variables' correlations. The test is successful if the value in the diagonal is higher than any other value within

the crossed column and row. The tax rate (TA) has the value of 0.899, which is higher than all the other scores within the shared column and row. Tax authority (TA) has the value of 0.882, which is the second higher than all the other scores within the shared column and raw. Finally, Table 2 shows the matrix of the Fornell-Larcker criterion, which indicates that no discriminate validity issues exist.

Table 1 Constructs reliability and validity

	Composite Reliability	Cronbachs Alpha
Tax Compliance Behavior	0.932	0.919
Tax Fairness	0.879	0.831
Tax Knowledge	0.902	0.873
Tax Morale	0.919	0.902
Tax Penalty	0.882	0.820
Tax Rate	0.927	0.882
Tax authority	0.946	0.929

Table 2 Discriminant validity – Fornell-Larckercriterion

	TCB	TF	TK	TM	TP	TR	TA
Tax Compliance Behavior	0.761						
Tax Fairness	0.074	0.771					
Tax Knowledge	0.293	0.001	0.754				
Tax Morale	0.268	0.292	0.053	0.748			
Tax Penalty	0.608	0.125	0.185	0.206	0.808		
Tax Rate	0.473	0.110	0.141	0.240	0.331	0.899	
Tax authority	0.419	0.109	0.164	0.146	0.276	0.293	0.882

Relationship Examinations and Discussions

Table 3 shows the predictive power of the proposed model. To assess the power of the model construct in predicting the outcome variables, predictive power R^2 and predictive relevance were used (Hair Jr et al., 2016). Results of the main dependent variable, tax compliance behavior (TCB), illustrate a satisfactory predictive power and a medium predictive relevance. As seen in the table the related R square value is 0.523 (a power of 52.3%) and the related Q square is 0.297 (a relevance of 29.7%). The prediction constructs (tax knowledge, tax fairness, tax morale, tax rate, tax authority, and tax penalty) can explain 52.3 percent of the variance in the dependent variable, tax compliance behavior (TCB).

Table 3 Predictive power and predictive relevance of proposed model

	Predictive Power		Predictive Relevance	
	R Square	Status	Q Square	Status
Tax Compliance Behavior	0.523	Moderate	0.297	Medium

Table 4 shows the findings of the relationships between the variables. The rule of thumb to accept or reject the relationship is either the p-value less than 0.05 or the t-statistics is more than 1.98 (Hair Jr, Wolfinbarger, Money, Samouel, & Page, 2015). The t-statistics estimates of the research designed model and the path coefficient assessment with the values of t-statistics and Beta values for the outcome variable tax

compliance behavior (TCB). One of the six determinants has no significant relation while the other five have significant relations, in which the p-value scores are above 0.05 and the t-statistics scores are above 1.98. The precedence for the relations based on the path coefficient value is TP (0.436), TR (0.233), TA (0.199), TK (0.142), and TM (0.103).

Table 4 Path coefficient assessment of the direct relationships

	Relationship	Path Coefficient	Standard Deviation	t-statistics	P Value (one tailed)	Status
H1	TK → TCB	0.142	0.039	3.616	0.000	Significant
H2	TF → TCB	-0.058	0.040	1.455	0.146	Non-Significant
H3	TM → TCB	0.103	0.037	2.810	0.005	Significant
H4	TA → TCB	0.199	0.045	4.426	0.000	Significant
H5	TR → TCB	0.233	0.040	5.824	0.000	Significant
H6	TP → TCB	0.436	0.037	11.901	0.000	Significant

VI. Contributions and Recommendations

This research is limited to the relationship between determinants of tax compliance and tax compliance behavior among SMEs in Jordan. That means, the results are limited and only represent a specific group of the specific area employees. In addition, similar industries in other countries could have different contextual conditions, which may output different results. While the SMEs sector is one of the main sectors in Jordan, there are many other essential sectors such as stock , energy, and many other sectors that have a major impact on the performance. These study results are limited, and the perceptions are associated with SMEs sector only. Data collection of closed questions can limit the perceptions of the respondents to the pre-defined questions. This study used closed-end questions and there are no open-end questions. While this approach is common in the deductive approach, adding open-end questions can provide insight for further inductive results, which may be useful for further research.

This study proposed a developed model with new constructs and relations. While the model was assessed successfully, further research is needed to assess the model in different environments. One of the constraints is the limited approach of implementation, which reduces the generalization, therefore replicating the same assessment education sectors/industries in other countries are recommended to get a better understanding and generalization. Another constraint is the participant's types and selection, employees in the education sector , which reduce the generalization, therefore replicating the same assessment in other industries such as energy or other sector is recommended to get a better understanding and generalization. Recommendations are extended, to test the model and the instrument in other SMEs sectors or even to test whether this model can be suitable for other sectors. Simply, the recommendation is for testing the model in different scenarios and conditions to enhance the generalization of the theory. Further studies must focus on exploring, and examining additional factors, other than the six determinants of tax compliance we chose.

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