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**DOES TAX EDUCATION PROMOTE TAX COMPLIANCE? EXPERIENCE FROM
SMALL ENTERPRISES**

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ABSTRACT

This study focused on analyzing the influence of tax education on predicting tax compliance among small enterprise in Tanzania. Quantitative approach was used to guide on statistical data collection for hypothesis testing. Structured questionnaire was formulated and used to collect suitable data for statistical analysis. The study population was small enterprise in Dar es Salaam in Tanzania where simple random sampling was used to pick sample of 173 from the targeted population. Pilot study was conducted prior main survey to ensure the quality of data collection tools.

Findings using Smart Pls 4 structural equation modelling revealed that tax education has significant influence on promoting tax compliance among small enterprises. It was further found that tax education is significant due to the explanatory prediction of tax law education, general tax education, tax information system education and accounting skills education. This study concluded that tax education has significant influence on promotion of tax compliance among Small enterprises. It was recommended that the revenue authority should continue to offer tax law education, general tax education, tax information system education and accounting skills education so as to enable small enterprise to pay tax.

Key words: *Tax compliance, tax education, small enterprise*

1. Introduction

Priveous studies have evidenced that taxpayer behaviors toward Tax compliance is promoted by many social-economic and psychological factors (Tehulu, 2016; Adegboye and Adekanla, 2023). However, tax education has been shown to be one of the most relevant and primary factors for promoting tax compliance among small enterprises (Assfaw and Sebhat, 2019; Machfuzhoh and Puspanita, 2021). The importance of tax education in determining tax compliance is evident in a human capital theory of Backer (1964). In his theory, the author advocates that education or training imparts useful knowledge and skills which in turn increases performance of the targeted group. He particularly state that tax compliance will be relatively high when tax education towards tax compliance is exposed to tax payer for them to acquire relevant knowledge and skills on the benefit of paying tax. This is consistent with Mammadli and Zeynalova (2021) who empirically establish the positive link between tax education toward tax compliance in Azerbaijan. In Ghana, Mbilla ,et al.(2020) found that taxpayers with relevant tax education would be more compliant to tax obligation. In other words, owners of small enterprise do willingly to comply with their tax obligations if they are aware of tax regulation, tax compliance benefit and government accountability to the collected tax revenue.

In spite of the evidence that tax education promotes tax compliance, some of the empirical evidence have found tax education to have insignificant influence on promoting tax compliance

(Shaharuddin and Palil, 2016; Putri and Venusita, 2019). Notably example, Putri and Venusita (2019) found and concluded that tax education have no influence to tax compliance. Given this conflicting findings, it is not clear whether tax education is promoting tax compliance or not. Further, there has not been a universally recognized system of indicator variables for the development of tax education in promotion of tax compliance. This study filled the gap by answering the research question that; Does tax education promote tax compliance in the context of Dar es Salaam City in Tanzania?

2. Related Literature Review

2.1 Definition of Key Concepts

Tax Compliance

According to Trawule, et al. (2022) tax compliance is defined as something occurs when people choose to comply willingly when they are faced with a tax bill. On the other hand, Notably Hanapi (2022) defined tax compliance as submission of a tax return to the tax authority within the stipulated period by correctly stating income and deductions. Similarly, : Amin,et al.(2022) further defined tax compliance as a degree to which a taxpayer complies (or fails to comply) with the tax rules of his country, for example by declaring income, filing a return, and paying the tax due in a timely manner. Given the definitions above, in this study, tax compliance is defined through the process where SMEs declare correct and pay tax on time through transparency reporting and being acting legally.

Tax education

According to Shamana and Alito (2020) taxpayer education is a tool designed to enable taxpayers to understand tax laws and procedures. They added that it involves training of special units within the revenue departments, for providing education, counseling and support to the taxpayers, through different media which include newspapers, television, radio programs, websites, seminars, and front desk help to disseminate key information to the taxpayers. On the other hand, Hanapi (2022) defined tax education as program focused on enabling individual's understanding of tax laws related to tax liability, fulfilling her/his tax obligations and evaluating the possible tax risks independently in her/his financial environment. Further Hidayati, et al.(2023) tax education is defined as marketing which intended to enhance taxpayer compliance with fiscal obligations and hence boost tax revenues. Given the definitions above, in this study, tax education is defined as a tool designed to enable taxpayers to understand tax laws, tax system and procedures.

2.2 Relevant Theory

Human Capital Theory

In order to assess the explanatory power of tax education in predicting tax compliance, Backer (1964) came up with the human capital theory. He advocates that education or training tend to create useful knowledge and awareness which in tun increase the performance behavioral. As in the current study, the idea of Backer posited that tax education for small business tends to create

tax knowledge and awareness which in turn increases tax compliance. The applicability of the human capital theory in studying the effects of tax education and tax compliance is observed in several studies (Shamana and Alito, 2020; Assfaw and Sebhat, 2019). Given this situation, this study will use this theory to predict the significant influence of tax education in promoting tax compliance.

2.3 Empirical Literature Review

Worldwide, Le, *et al.* (2020) conducted a study on Factors Affecting Tax Compliance among Small- and Medium-sized Enterprises Evidence from Vietnam. Finding using multiple regressions indicated that tax education is significant influencing tax compliance. It is recommended that tax agencies should help SMEs improve their accounting skills and increase their knowledge by organizing training workshops and short courses on taxation. On the other hand, Bernard, *et al.* (2015) carried examine the influence of tax knowledge & awareness on tax compliance among Export Processing Zones investors in Kenya. The study findings using Multiple regression revealed that tax knowledge & awareness has a very close relationship with taxpayers' ability to understand the laws and regulations of taxation, and their ability to comply with them. It was therefore possible to conclude that firms with well-trained employees on tax issues had a high likelihood of complying voluntarily with tax laws and regulations. The study also led to a conclusion that tax knowledge and awareness had a positive and significant relationship with tax compliance. The study recommends that the Revenue Authorities should embark on public awareness campaigns to educate the public and investors on their role and responsibilities in taxation rather than approaching the matter from a legal obligation perspective.

Given the above empirical evidence, this study posit a hypothesis which state that:

Tax education has significantly influences on tax compliance among Small enterprises in Dar es salaam

2.4 Conceptual Framework

This conceptual framework was designed to hypothesized the predictive power of tax education in promoting tax compliance among small enterprises in Tanzania.

Figure 1 Conceptual Framework



Source: constructed by authors based on literature review (2023)

3. Methods

This study focused on analyzing the influence of tax education on predicting tax compliance among small enterprise in Tanzania. Quantitative approach was used to guide on statistical data collection for hypothesis testing. Structured questionnaire was formulated and used to collect suitable data for statistical analysis. The study population was small enterprise in Dar es Salaam in Tanzania where simple random sampling was used to pick sample of 173 from the targeted population. Pilot study was conducted prior main survey to ensure the quality of data collection tools. Data was analyzed using Smart PLS 4 structural equation modeling.

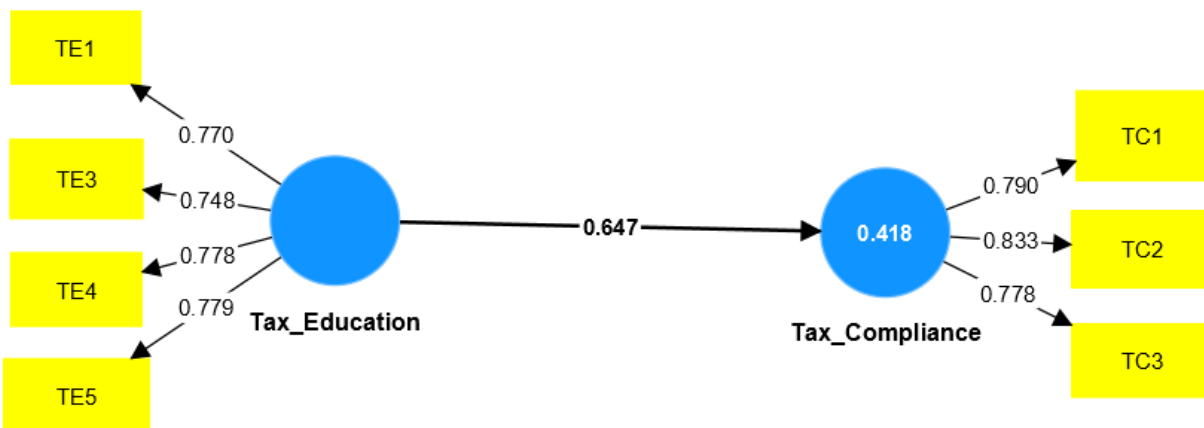
4. Findings

This section comprises of two sections. The first sections provide detail findings on validity and reliability issues and second section present the finding for hypothesis testing as follows.

4.1 Validity and Reliability of the Study Finding

To ensure the quality of research results, factor analysis was run using measurement model as presented in figure 2 below. At the first run, two indicator variables were found to perform poor which were affecting negatively the performance of the overall model. To enhance the performance of the model, the two indicator variables namely Tax penalties education(TE2) and TC4 which were affecting the model performance were removed from the model. After the removal of these two-indicator variable then second run of the measurement models indicated model performance as presented below and in the next sections.

Figure 2 Measurement Model



Key:

Constructs	Indicator variables
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Tax Education (TE)	Tax law education (TE1), General Tax Education (TE3), Tax Information System Education (TE4) and accounting skills education (TE5)
Tax Compliance (TC)	Proper Accounting Information (TC1), Due time (TC2) and issuance receipt (TC3)

From the measurement model, further evaluation of the validity and reliability was done using outer loading, convergency validity, reliability and discriminant validity as follows:

Outer Loading

Table 1 shows that each indicator variables of each construct presented have scored a loading 0.7 and above. According to Hair et al., (2019) pointed out that a study finding is considered validity when the measurement model scores a value of 0.7 and above for each indicator variable of the model. Base on this recommendation, it justify that the current study has achieved recommended value for a study to be considered valid.

Table 1. Outer Loading

	Tax Compliance	Tax Education
TC1	0.790	
TC2	0.833	
TC3	0.778	
TE1		0.770
TE3		0.748
TE4		0.778
TE5		0.779

Reliability and Convergence validity

In table 4, the study model has produced both cronbach's and composite reliability p-value of 0.7 and above. According to Hair et al. (2022) for a study model to achieve internal consistence, it must produce a p-value of 0.7 and above for each construct. This finding prove that the study has achieved the internal consistent required for reliable results.

Further analysis was done to evaluate convergence validity. For a study to achieve convergent validity each construct must produce average variance extracted (AVE), which is recommended to be 0.5 and above (Liengard et al., 2021; Hair et al., 2022). The results for AVE in table 4 indicate that all constructs have scored the value of AVE >0.5, which is recommended and accepted by prior scholars for the model to achieve convergence validity.

Table 1 Reliability and Convergency Validity

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Tax Compliance	0.720	0.725	0.842	0.641
Tax Education	0.773	0.782	0.852	0.591

4.2 Hypothesis Testing

The study was designed to test hypothetical relationship on the influence of tax education on tax compliance among small farmers. This is a very important stage in assessing the hypothetical relationship between the predictor variable (tax education) on the outcome variable (tax compliance). The structural model was run to assess the study's hypothesis, and the results from the structural model are presented in Figure 3. In Figure 3 path coefficient of both the hypothetical relationship of independent variable to the dependent variable indicate a significant relationship using the p-value of less than 0.05. Furthermore, Figure 3, shows the significant influence of each indicator variable since all indicator variables have scored a p-value of less than 0.05. Hair et al. [37] recommended a p-value of 0.5 or less for a model hypothesis to be significant. Hence in the current study, all indicator variables were contributing to explaining the significant influence of independent variables to the dependent variables

Figure 2 Structural Model

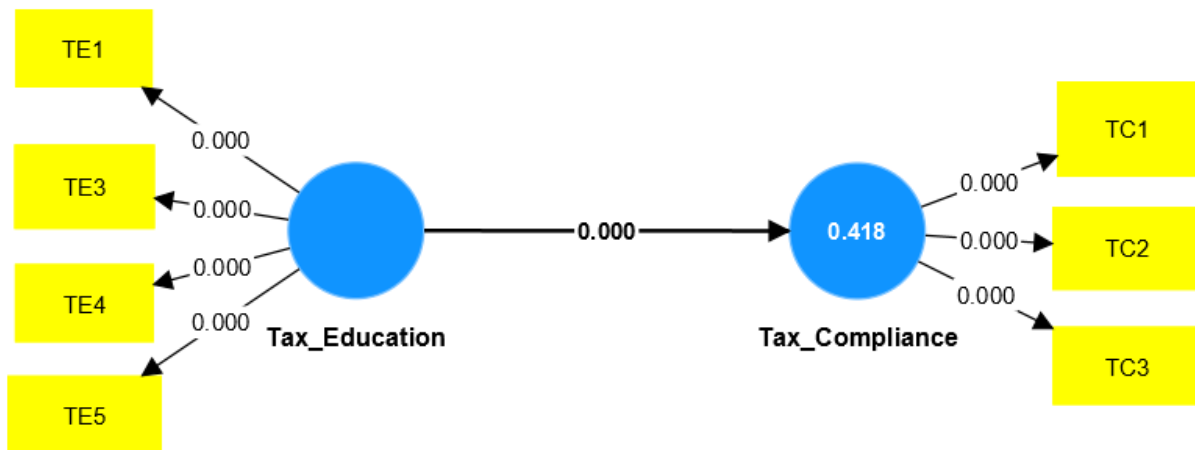


Table 4 Hypothesis Testing on Influence of Tax Education on Tax Compliance

Hypothesis	Sample mean (M)	Standard deviation (STDEV)	T statistics ((O/STDEV)	P values	Remarks
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Tax_Education -> Tax_Compliance	0.649	0.038	17.176	0.000	Accepted
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In table 4 above, the hypothetical relationship on the influence of tax education on tax compliance has yielded a significant path coefficient (p-value) of 0.00. According to Hair et al. (2022) recommended that a hypothesis relationship is considered to be significant if its path coefficient (p value) <0.05 otherwise the hypothesis is considered to be insignificant. This means that in the current study the hypothetical relationship on the significant influence of tax education on tax compliance is significant and is accepted.

5. Discussion of the finding

This study hypothesized that tax education has significant influence on tax compliance among small enterprise. Finding from this study has revealed that tax education as significant influence on tax compliance in Tanzania. The finding has demonstrated that tax education is significant influencing tax compliance due to the explanatory power of indicator variable namely tax law education, general tax education, tax information system education and accounting skills education. This finding supports the human capital theory by Becker (1964) who posited that tax education for small business tends to create tax knowledge and awareness which in turn increases tax compliance. The finding also has collaborated with Nyamapheni and Robinson (2021) recommendation who recommend that continued tax education and improvements should be included in the mix of tax compliance enhancement strategies to increase the level of tax compliance.

While the current study findings collaborate with the findings from prior studies on the influence of tax education but they differ in terms of how tax education is influencing. For example, Hidayatia, et al. (2023) found that the significant influence of tax education is explained by promotion of taxation laws education and by increasing the awareness of the role of tax in national development, and especially to explain how and where the money collected is spent by the government. This explanation differs from the current study which advocate that the influence of tax education is explained by provision of tax law education, general tax education, tax information system education and accounting skills education. This implies that the explanatory power of tax education is affected by contextual variable.

On the other hand, other scholars have found a insignificant contribution of the influence of tax education on tax compliance. For example Mukhlis, et al.(2014) found insignificant influence of tax education and they explained that SME entrepreneurs is able to understand their tax obligations when there is an aspect of fairness and tax benefits that can be received in real terms by SME entrepreneurs. This implies that their other important variable other than tax education that promote tax compliance.

6. Conclusion and Recommendation

This study concludes that tax education is an important factor in promoting tax compliance among small enterprises in Dar es Salaam in Tanzania. This study further concluded that for tax education to contribute to the promotion of tax compliance there should be provision of tax law education, general tax education, tax information system education and accounting skills education. Following this conclusion, this study has made the following recommendation;

The tax authority should continue to offer tax law education to tax payers in order to enable them to comply with tax law.

It is recommended that general tax education should be given to enable tax payers to understand the benefits of paying tax. This will help to build their behavioral toward tax compliance

Further, it is recommended that tax education on tax information system should be promoted by tax authority. This will enable tax payers to be able to use tax information system and simplify their way toward the use of tax information system.

Recommendation for further studies

This study used only one independent variable namely tax education, it is recommended that future studies should be conducted using other variables rather than tax education. This will enable to widen the scope in explaining tax compliance

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