

ANALYSIS OF DETERMINANTS INFLUENCING TAX BEHAVIOUR IN SMES

ANALIZA DETERMINANȚILOR CARE INFLUENȚEAZĂ COMPORTAMENTUL FISCAL ÎN CADRUL IMM-URILOR

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Abstract. This study investigates the determinants influencing tax behavior among small and medium-sized enterprises (SMEs) through an empirical approach that includes a structured questionnaire targeted at SME administrators. A comprehensive econometric model employing ordinal least squares (OLS) regression was utilized to analyze responses from 141 SME administrators, providing a robust evaluation of how various factors influence SME tax behavior. Key variables examined include perceived tax fairness, complexity of tax regulations, financial literacy, strategic importance of tax planning, and external pressure and influence. The results reveal that perceived tax fairness and financial literacy significantly enhance tax compliance, while the complexity of tax regulations shows a complex relationship with tax behavior. Interestingly, the strategic importance of tax planning did not significantly impact tax behavior, but external pressures and enforcement showed a strong positive effect. These findings provide vital insights for policymakers and tax authorities to design interventions that could lead to improved compliance and strategic tax planning among SMEs.

Keywords: SMEs, Tax Behavior, Tax Compliance, Financial Literacy, Tax Fairness, Econometric Modeling

JEL Classification: M41

Introduction

This study focuses on explaining the determinants that influence tax behavior among small and medium-sized enterprises (SMEs). This study proposes an empirical approach utilizing a questionnaire targeted at the administrators of these enterprises. The core objective is to dissect the myriad of factors—both intrinsic and extrinsic—that govern the tax-related decisions and actions within this critical economic segment. SMEs represent a heterogeneous group characterized by distinct operational, financial, and managerial attributes, which collectively and individually can significantly influence their approach to taxation (Raes, 2021). To comprehend these nuances, our research employs a structured questionnaire designed to capture a broad spectrum of data related to the administrators' perceptions, experiences, and strategies concerning tax compliance and planning. By synthesizing responses from these questionnaires, the study aims to construct a robust analytical model. This model will facilitate the examination of various independent variables—such as perceived tax fairness, complexity of tax regulations, financial literacy, and the strategic importance of tax planning—assessing their impact on the tax behavior of SMEs. The intent is to empirically test these variables, thereby identifying which factors most significantly sway tax compliance and avoidance strategies. This introduction sets the stage for a rigorous investigation into the complex interplay of factors influencing SME tax behavior, with the ultimate goal of fostering a deeper understanding that can inform more effective tax policy and support measures. By grounding our study in empirical data derived directly from SME administrators, we aim to contribute meaningful insights that reflect the real-world challenges and considerations faced by this vital sector.

Literature review

The literature on tax behavior in small and medium-sized enterprises (SMEs) is extensive, reflecting a range of disciplinary perspectives, from economics and finance to behavioral science and management (Tan et al., 2016). Central to this body of work is an understanding of the various factors that influence an SME's approach to tax compliance and planning. Building on this foundation, our study focuses on a set of independent variables that previous research suggests are pivotal in shaping tax behavior. These variables have been selected based on their relevance and the practical possibility of their assessment through a structured questionnaire aimed at SME administrators.

Perceived tax fairness

Perceived tax fairness is intricately linked to the psychological and behavioral responses of taxpayers. According to research, perceptions of fairness influence voluntary compliance and the overall attitude towards tax authorities (Deyganto, 2018). This variable can be divided into vertical fairness, which concerns the taxpayer's views on their tax burden compared to other income groups, and horizontal fairness, regarding the equal treatment of taxpayers within the same economic conditions (Hofmann et al., 2008). To measure this, the questionnaire will probe SME administrators on their perceptions of whether the tax rates are equitable, whether the tax system treats all businesses fairly, and their satisfaction with the government's use of tax revenues. These insights reveal the moral and ethical considerations that underpin tax behavior and are pivotal in understanding compliance levels.

Complexity of tax regulations

Complexity in tax regulations often acts as a barrier to compliance, particularly for SMEs that may lack the resources to manage complicated tax affairs effectively (Jimenez & Iyer, 2016). This variable encompasses the comprehensibility of tax laws, the difficulty in fulfilling filing requirements, and the administrative burden associated with compliance. By assessing administrators' perceptions of these aspects through questionnaire - asking about their personal experiences with tax filing, the clarity of tax forms, and their need for external tax advice—we can gauge the direct and indirect costs that complexity imposes on SMEs.

Financial literacy

Financial literacy, particularly in the context of taxation, is fundamental for effective management and compliance (Wassermann & Bornman, 2020). This variable examines the extent to which SME administrators understand basic financial concepts like profit calculation, tax deductions, and the implications of different tax rates on their businesses (Shakkour et al, 2021; Twum et al., 2020). The questionnaire will include scenarios and direct queries about these topics to evaluate the financial acumen of respondents. A higher degree of financial literacy is expected to correlate with better compliance and more sophisticated tax planning strategies.

Strategic importance of tax planning

Tax planning is decisive for optimizing financial outcomes and can significantly influence business strategy and performance. This variable investigates how SMEs perceive and implement tax planning as part of their broader business strategy (Bani-Khalid et al., 2022). Questions will focus on the frequency of tax planning sessions, the involvement of external advisors, and the perceived benefits of tax planning in terms of tax savings and financial health. This will help ascertain the strategic value that SME administrators place on tax planning and its impact on their tax behavior.

External pressure and influence

The influence of external pressures, such as audits, penalties, and peer behavior, shapes the tax compliance landscape. This variable explores how external enforcement actions and industry norms affect SME tax behavior. The questionnaire will assess perceptions of audit likelihood, experiences with tax audits, the severity of penalties for non-compliance, and the extent to which industry practices influence their tax decisions (Usman et al., 2024). Understanding these pressures is necessary for evaluating the effectiveness of enforcement strategies and the role of cultural and sectoral norms in shaping compliance behaviors.

Methodology

In this section, we explain the methodology adopted for examining the determinants influencing tax behavior in SMEs. The methodological framework is designed to provide a rigorous analysis using ordinal least squares (OLS) regression to identify the effect of specific independent variables on the dependent variable, tax behavior (Williams & Quiroz, 2020). The primary data for this study were collected through a structured questionnaire distributed to administrators of small and medium-sized enterprises. The total number of valid responses obtained was 141. This sample size provides a robust basis for statistical analysis, allowing for generalizable insights within the context of SME tax behavior. The questionnaire comprised a series of items crafted to assess each of the independent variables identified in the literature review: *Perceived Tax Fairness*, *Complexity of Tax Regulations*, *Financial Literacy*, *Strategic Importance of Tax Planning*, and *External Pressure and Influence*. For each variable, 2-3 questions were posed to adequately capture the essence and variability of the constructs. Responses to the questionnaire items were measured on a Likert scale (Jebb, 2021), ranging from 1 (strongly disagree) to 5 (strongly agree). To create an index for each variable, the responses to the questions associated with that variable were aggregated. This aggregation involved calculating the mean score for the responses to the questions related to each variable, thereby creating a composite index. This approach simplifies the data and enhances the interpretability while retaining the variability and richness of the responses.

Using SPSS software, an OLS regression model was employed to analyze the data. Each independent variable—represented by the aggregated indices—was used to predict the dependent variable, tax behavior. This statistical technique was chosen due to its efficacy in handling models where the dependent variable is continuous and normally distributed among the predictors.

Below is a table that outlines the specific questions used in the questionnaire, grouped by the variable they intend to measure:

Table 1. Questionnaire Items

Variable	Questionnaire Items
Perceived Tax Fairness	1. I believe the tax rate I am subjected to is fair compared to other businesses.
	2. The tax system treats all businesses equally.
	3. I am satisfied with the public services I receive in return for my taxes.
Complexity of Tax Regulations	1. I find tax laws difficult to understand.
	2. I spend a lot of time dealing with tax compliance.
	3. I often need professional help to comply with tax regulations.
Financial Literacy	1. I am confident in my understanding of basic financial and tax concepts.
	2. I understand how different tax rates apply to different aspects of my business.
	3. I am aware of tax deductions and credits available for my business.
Strategic Importance of Tax Planning	1. Tax planning is a regular part of my business strategy.
	2. I actively seek ways to reduce my taxable income legally.
	3. I invest in resources to optimize my tax planning.
External pressure and influence	1. The likelihood of tax audits influences my tax compliance behavior.
	2. I have experienced tax audits in the past.
	3. I follow industry norms regarding tax compliance.
Tax behavior (dependent variable)	1. I ensure that all my tax returns are filed on time.
	2. I adhere strictly to the tax laws and regulations in all my business transactions.
	3. I take advantage of all available loopholes in the tax laws to reduce my tax burden.
	4. I feel that minimizing taxes is essential for the success of my business.

Source: Author's own compilation

This methodology, by leveraging detailed questionnaire data and statistical analysis, is aimed at providing a deep and nuanced understanding of the factors that influence tax behavior in SMEs. The ordinal least squares regression approach allows for an effective examination of the relationships between the identified variables and tax behavior, supporting the generation of empirical evidence to guide policy and practice in SME tax management.

Discussions

In the econometric model, we introduced all proposed independent variables—Perceived Tax Fairness, Complexity of Tax Regulations, Financial Literacy, Strategic Importance of Tax Planning, and External Pressure and Influence—using the Enter method in our regression analysis, as can be seen in table 2.

Table 2. Variables entered in the econometric model

Model variables			
Model	Introduced Variables	Eliminated Variables	Method
1	Perceived tax fairness; Complexity of tax regulations; Financial Literacy; Strategic importance of tax planning; External pressure and influence;	.	Enter – all variables were introduced
a. Dependent Variable: Tax behavior			
b. All requested variables entered.			

Source: Own processing in SPSS

The application of the enter method has enabled a thorough examination of the relationship between each independent variable and the dependent variable, Tax Behavior. This technique is particularly advantageous in our analysis as it ensures that the full effect of each variable is considered without premature elimination, providing a holistic view of their impacts. In table 3 we present the summary of the econometric model realized as can be seen below.

Table 3 Summary of the econometric model

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.875 ^a	.720	.673	.510	2.118
a. Predictors: (Constant), Perceived tax fairness; Complexity of tax regulations; Financial Literacy; Strategic importance of tax planning; External pressure and influence					
b. Dependent Variable: Tax behavior					

Source: Own processing in SPSS

The model summary, as presented earlier, indicates a strong overall fit, with an R-square of 0.720, suggesting that approximately 72% of the variability in Tax Behavior among SMEs can be explained by the variables selected for this study. This robust explanatory power underscores the relevance of our chosen variables in the context of tax behavior. The Adjusted R Square value of .673 adjusts the R Square for the number of predictors in the model, which provides a more accurate measure of the model's predictive power. The slight decrease from the R Square to the Adjusted R Square suggests that all our variables collectively still provide strong explanatory power despite the penalty for the number of variables.

The statistics derived from the model summary are necessary for validating the strength and reliability of our analysis. The high values of R and R Square clearly illustrate that the selected variables—Perceived tax fairness, Complexity of tax regulations, Financial literacy, Strategic importance of tax planning, and External pressure and influence—play significant roles in shaping tax behavior in SMEs. This strong statistical foundation enhances the credibility of our findings and supports their relevance for theoretical advancements and practical applications. Given the robustness of our model as indicated by these results, policymakers and SME administrators can be more confident in the reliability of the insights derived from this study. It highlights the importance of considering these variables when developing policies aimed at improving tax compliance and strategic tax planning among SMEs. Now, we will delve deeper into each variable's specific influence on tax behavior, supported by the results of our model as can be seen in table 4.

Tabel 4. Model coefficients

Model		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.421	.283		1.237	.123
	Perceived tax fairness	.322	.230	.025	1.568	.047
	Complexity of tax regulations	.214	.134	.124	.626	.154
	Financial Literacy	.429	.338	.217	2.644	.010
	Strategic importance of tax planning	.032	.121	.032	.048	.637
	External pressure and influence	.944	.482	.955	3.052	.003

a. Dependent Variable: **Tax Behavior**

The analysis, as reflected in our coefficients table, provides intriguing insights into how perceptions, regulatory complexity, and external pressures shape business practices concerning tax obligations.

Starting with perceived tax fairness, the positive coefficient suggests a subtle but significant influence on tax behavior. This result aligns with theories positing that fairness perceptions can critically shape compliance; individuals and businesses are more inclined to fulfill tax obligations if they perceive the tax system as equitable and just (Huisin & Silbey, 2021). Statistically significant at the 5% level, this finding underscores the psychological contract between taxpayers and governing entities, suggesting that enhancing perceptions of fairness may increase voluntary compliance. This is a vital insight for policymakers who might leverage this relationship by ensuring clearer communication and more transparent use of tax revenues, thereby potentially boosting compliance rates among SMEs.

The coefficient for the complexity of tax regulations, though positive, did not achieve statistical significance. This outcome indicates a more ambiguous relationship between regulatory complexity and tax behavior than might be expected. Typically, one might predict that greater complexity reduces compliance due to increased cognitive and administrative burdens on taxpayers. However, the nonsignificant result suggests that complexity alone does not deter tax compliance among SMEs, perhaps due to mitigating factors such as the level of support from tax professionals or possibly the strategic behaviors adopted by SMEs in response to complex tax situations. This implies that simply simplifying tax codes may not straightforwardly enhance compliance; instead, support mechanisms and educational initiatives might be needed to help businesses navigate the complexities effectively. Financial literacy emerges as a strong predictor of tax behavior, with a significant positive coefficient indicating that a deeper understanding of financial and tax-related matters equips SME administrators to better manage their tax obligations. This result not only validates the importance of financial acumen in compliance behavior but also suggests a potential area for intervention. Enhancing financial literacy among SMEs could be a strategic approach by governments and educational institutions to foster a more compliant business environment (Alpuokwe et al., 2024). Programs aimed at increasing financial knowledge could empower businesses, enabling more strategic and informed decision-making regarding tax obligations.

Interestingly, the strategic importance of tax planning showed an insignificant impact on tax behavior. This could suggest that while tax planning is a routine part of business strategy for some SMEs, its influence on overall tax behavior is not as pronounced or direct as one might expect. It is possible that tax planning, as perceived and implemented by SMEs, varies widely in its scope and effectiveness, which could dilute the detectable impact on general tax behavior across a diverse sample of businesses. External pressure and influence, notably from audits, regulatory scrutiny, and industry norms, have a pronounced and significant effect on tax behavior (Sun & Habib, 2021). The strong positive coefficient for this variable is the most compelling among the results, indicating that external enforcement and peer influences are powerful motivators for compliance. This finding is significant for regulatory bodies and suggests that maintaining a consistent and visible enforcement presence, along with fostering a compliance-oriented industry culture, are effective strategies for enhancing tax compliance (Karwat et al., 2023).

Taken together, these findings paint a picture of tax behavior as influenced by a tapestry of factors where psychological, educational, and environmental elements intersect. This multifaceted view provides a rich ground for both academic exploration and practical policy formulation, aimed at nurturing a more compliant SME sector. The implications of this study are broad, offering guidance for targeted interventions that can enhance understanding and compliance within the SME community, thereby leading to a more robust and equitable tax system.

Conclusions

Our study leveraged a robust econometric model to explore the impact of several key variables on SME tax behavior, including perceived tax fairness, complexity of tax regulations, financial literacy, the strategic importance of tax planning, and external pressure and influence. The analysis revealed nuanced insights into how these factors contribute to tax compliance and strategic tax behavior. Perceived tax fairness emerged as a significant determinant, affirming theoretical propositions that fairness perceptions can profoundly influence compliance behaviors. This finding supports the psychological contract theory, which suggests that taxpayers are more likely to comply voluntarily with tax obligations if they perceive the tax system as fair and just. Complexity of tax regulations, while hypothesized to negatively affect tax behavior due to the increased burden it places on taxpayers, did not show a significant impact. This result challenges conventional wisdom and suggests that complexity per se might not be as substantial a barrier to compliance as previously thought, possibly due to moderating factors such as access to professional tax advice. Financial literacy was found to have a strong positive impact on tax behavior, highlighting the crucial role of understanding financial and tax-related matters in enhancing compliance. This supports the argument for greater investments in financial education for SME leaders, which could lead to better management of tax responsibilities. Strategic importance of tax planning did not show a significant influence, indicating variability in how tax planning is valued and implemented across SMEs. This suggests that while tax planning is acknowledged, its direct impact on overall tax behavior may be limited or influenced by other factors. External pressure and influence had the most substantial positive effect on tax behavior, underscoring the importance of regulatory environments and peer influences in motivating compliance. This finding validates the effectiveness of consistent and transparent enforcement practices and the potential of industry norms in shaping behavior.

The study provides actionable insights for policymakers, tax authorities, and business educators:

- Policymakers are advised to consider the role of perceived fairness in tax systems and explore ways to enhance transparency and equity to boost voluntary compliance.
- Tax authorities could benefit from focusing on enforcement mechanisms that are visible and engaging with industry groups to foster compliance-friendly norms.
- Educational Programs aimed at increasing financial literacy among SME owners and managers should be prioritized, as our findings suggest that such knowledge significantly impacts tax compliance and planning.

While this study has provided valuable insights, it also opens several avenues for future research. Exploring the causal relationships between these variables and tax behavior over time, perhaps through longitudinal studies, could offer deeper insights. Additionally, examining the impact of these variables across different cultural and regulatory contexts could enhance the generalizability of the findings.

In conclusion, this study contributes to a more comprehensive understanding of the factors that influence tax behavior in SMEs. By identifying significant determinants such as perceived tax fairness, financial literacy, and external pressures, it offers a foundation for targeted strategies to enhance tax compliance. These findings not only enrich the academic literature but also provide practical guidance for developing effective tax policy and education programs aimed at supporting

the SME sector. This multifaceted approach to understanding and influencing tax behavior holds the promise of fostering a more compliant and informed SME community.

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