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Determinants of Tax Compliance Behavior in Small and Medium Enterprises

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ABSTRACT

For Somaliland government, to increase the collection of different tax revenue from the various taxable citizens, it is very crucial to explore why people comply or not comply with tax rules and regulations of the country and consequently, achieve a level where people voluntarily comply with tax laws and file tax return on time without underestimating the income statement. Hence, the goal of this study was to look into the factors that influence tax compliance behavior in Burao, Somaliland, using small and medium-sized enterprises (SMEs) as a case study. The study focused on factors such as tax audit, tax rate, tax payers' perception of government spending, penalty, fairness and equity of the tax system, referent group influence, tax knowledge and awareness, and tax authority efficiency. The study employed a quantitative research approach and a descriptive study in design. The study's target population was the SMEs in Burao, which numbered 1069, according to the Ministry of Finance Development and the Ministry of Trade and Tourism, and the researcher selected a sample of 171 SMEs using stratified random sampling. Self-administered questionnaire was used as a data collection instrument for the study. In addition to that, the author utilized both descriptive and econometric analysis; multiple regression was used as an econometric technique to determine the effect of a predictor on the predicted. The findings from the regression indicated that tax audit, tax knowledge and awareness, perception of government spending, the influence of referent groups, and the efficiency of tax authorities are the main determinants that have a statistically significant positive impact on the tax compliance behavior of the SME taxpayers in Burao City. On the other hand, it has been identified that tax rates, the fairness and equity in the tax system, and penalties/fines are found to have a statistically insignificant positive influence on the tax compliance behavior of SME taxpayers. Finally, to boost the tax compliance of the Burao SME taxpayers, the study put forward some recommendations

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according to the study's findings, including enhancing the auditing/investigation capabilities of tax authorities, boosting the tax knowledge and awareness of the SME taxpayers, improving the perception of taxpayers towards government spending, and strengthening the effectiveness and efficiency of tax authorities in terms of their service delivery, enforcing laws, creating awareness, and offering consulting services to clients.

Keywords: Tax Compliance; Determinants of Tax Compliance; SMEs.

INTRODUCTION

A tax is a mandatory charge, and individuals who are taxed must pay the amounts regardless of the government's direct return of services or products. Government need financial resources in order to function as a government and fulfill the public's expectations [1]. Tax imposes a personal obligation on individuals to pay the tax if they are liable to do so. Taxpayers should pay according to their means, and those in similar financial situations should be taxed similarly [2]. Governments levy taxes for a number of reasons which include but not limited to raising funds in order to cover government's expenditures, provision of public goods and services; building schools and hospitals, construction of roads, dams, railways, airports/ports and purchase of defense armaments. Domestic revenue mobilization is key to sustainable development finance – only self-sufficiency will allow the development of fully-functioning states with flourishing systems of political representation and economies reflecting societies' expressed preferences in regard to [3]. Any revenue authority's primary purpose is to collect taxes and duties due in accordance with the law. However, when it comes to the legal responsibilities imposed on them, taxpayers are not always prepared and ready to comply [4]. According to Palil and Mustapha [5], tax compliance is described as a taxpayer's ability and willingness to follow tax laws, as determined by ethics, the legal environment, and other situational considerations at a given time and location. Likewise, Tax compliance is defined by Allingham and Sandmo [6] as the decision to declare actual income to tax authorities in the face of uncertainty. In a vast number of industrialized and emerging countries, tax compliance has been a significant research topic. Because each country has its own strategy to controlling tax compliance levels, as well as its own set of tax rules and regulations, the elements that influence tax compliance behavior appear to differ [7].

Failure to file a tax return, misreporting income, or failing to record permitted deductions from taxable income or tax payable are all forms of tax non-compliance [8]. In many nations, governments' efforts to raise tax income are impeded by widespread tax noncompliance among taxpayers. Tax revenues lost due to evasion are estimated to be in excess of US\$ 3.1 trillion,

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accounting for around 5.1 percent of global GDP. Tax evasion accounts for around 54.9 percent of healthcare spending. In underdeveloped countries, the consequences of willfully failing to pay taxes to the government are more severe. For example, tax evasion accounts for 97.7% and 138.5 percent of health-care budgets in African and South American countries, respectively [9]. Because of tax disobedience, most governments in developing countries are having problems collecting the revenue they require [3]. Characterizing and explaining the observed patterns of compliance problem, and ultimately finding ways to improve it, are of obvious importance to nations, particularly in developing countries, because tax avoidance and tax evasion undermine developing countries' ability to finance their public sectors [10].

Tax noncompliance is a continually growing global challenge which needs to be addressed the underlying causes of this problem in a local, national, regional and international level. Developing countries, Sub Saharan Africa in particular are the hardest hit areas. According to Marandu et al. [5], the desire to evade tax is widely spread in every country and this phenomena has grabbed the interest of many academics who want to learn more about the causes. Unfortunately, tax authorities in the developing world do not take the issue of taxpayer's behavior seriously compared to those in the developed countries in view of its great importance to revenue generation improvement. According to [11], the factors that influence tax compliance behavior have been divided into four groups, which are economic, social, Institutional and Individual/personal. Furthermore, Damayanti, Sutrisno, Subekti, & Baridwan [8] identified social norms influenced by social pressure that influence people's attitudes toward tax compliance. Government spending on public goods and services has the greatest impact on tax compliance [12]. Ali, Fjeldstad and Sjursen [5] studied factors responsible for people's tax compliance in Kenya, Tanzania, Uganda and South Africa using Afrobarometer survey data. They found that the tax compliance attitude of citizens in those four countries is positively associated with the provision of public services. In addition to that, the results indicate a positive linkage between improved public goods and services and tax compliance of SMEs in Nigeria. Also the findings further show a significant relationship between tax compliance of SMEs in Nigeria and tax knowledge, tax penalty and trust in the government [5]. According to Ademe and Simret [1], the audit rate, tax payer attitude, impression of tax system equality and government benefit, as well as education, were found to have a statistically significant favorable impact on the tax compliance behavior of category "A" and "B" tax payers in the South Gondor Zone of Ethiopia.

On the other hand, according to Ademe and Simret [1], tax rate, audit probability, social norm, compliance cost, and sex are all statistically significant negative drivers of tax compliance behavior. Biru [8] examined factors that affect tax compliance behavior of small and medium enterprises in Nekemte city, Ethiopia. The findings of the research depicted that

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tax rate had statistically significant negative impact on tax compliance behavior of SMEs tax payers, however, the level of income, fine and penalty, Rewarding and incentives, simplicity of tax system, perceptions of government spending, tax audit, Attitude toward tax and tax knowledge and awareness were statistically, significantly and positively related with tax compliance behavior of small and medium enterprises tax payers. In Somaliland, since it is an unrecognized state which does not have an access to international loans and does not receive a tangible amount of foreign aid such as budgetary support from international donors, the major source of revenue is the tax collected from Somalilanders who are taxable according to the law. Consequently, Somaliland heavily relies on tax revenue more than any other country in the world due to its special status. According to the annual government budget projection of 2022, issued by the Somaliland Ministry of Finance Development [13], more than 77% (which is equivalent to 1, 856, 749, 059, 97 SLsh) of the government revenue will come from the Customs while only 20% (which is equivalent to 488,218,301,227 SLsh) will come from the Inland Revenue. The very low Inland Revenue is a series concern to the tax authority in particular and Somaliland government at large, given the fact that the Inland Revenue is the only stable and reliable source of revenue for governments worldwide. “Yet some goods and services are not yet taxed, and compliance levels are still relatively low” [14]. Furthermore, Tax as a proportion of GDP is one indicator used to estimate a country's tax mobilization (tax compliance) [15]. In Somaliland, the Government revenue collections are still below the recommended 15% threshold ratio to the Gross Domestic Product (GDP) for sustainably public finances [10]. Thus, understanding the underlying factors causing tax compliance is critical for Somaliland's tax authorities in general, and the tax authorities in Burao in particular. Unfortunately, this issue is one of the least researched topics in Somaliland, which has a dire need to find out the compliance behavior of its citizens. Therefore, this study was done to examine the main determinants of tax compliance behavior of SMEs in Burao City.

Taxation is an important source of income for governments worldwide, let alone Somaliland, since it is an unrecognized state that does not have access to international loans and does not receive a tangible amount of foreign aid, such as budgetary support from international donors. The major source of revenue is the tax collected from Somalilanders who are taxable according to the law. Due to its special status, Somaliland heavily relies on tax revenue more than any other country in the world. According to Abdirahman [11], one of the main obstacles facing Somaliland is on how to make sure that tax compliance is adhered to. Only 33.5 percent of the 2 million eligible taxpayers pay income taxes. Only roughly 10.45 percent of employees in the private formal sector pay taxes, aside from those on the government payroll [11]. For Somaliland government, to increase the collection of different tax revenue from the various taxable citizens, it is very crucial to explore why people comply or not comply

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with tax rules and regulations of the country and consequently, achieve a level where people voluntarily comply with tax laws and file tax return on time without underestimating the income statement. Additionally, it is worth noting that there is a positive correlation between tax compliance of tax payers and the revenue generation of a country. Hence it is a matter of paramount importance to examine factors influence tax compliance behavior of the citizens, particularly the Small and Medium Enterprises because the largest portion of tax revenue of any country comes from the SMEs and Somaliland is not different. The SMEs sector is Somaliland's largest source of income and jobs. Clothing, food, agricultural products, consumables, gold, beverages, fruits, transportation, and smallscale manufacturing and processing are the most common [16]. Extant studies associated with the factors causing tax compliance behavior in Somaliland remain very scanty. The few existing local studies regarding the subject of the study did not specifically address the determinants of tax compliance. For example, Farah [17] undertook a study entitled "Factors Affecting Attitudes towards Ethics of Tax Evasion in Burao, Somaliland". The author examined the effects of gender, age, education level, Islamic religious knowledge, and confidence in the executive, justice system, and parliament on tax evasion attitudes. Another study conducted by Elmi, Evans, and Tirimba [11] entitled "Relationship between Tax Compliance Barriers and the Government's Revenue Generation at Gobonimo Market in Somaliland". The researcher specifically sought to find out the effect of tax computerization, tax literacy, tax investigation and audits on government revenue generation. Both of the abovementioned studies did not try to find out various other factors, such as tax rate, penalty, peer influence, efficiency of tax authorities, tax fairness, and so on, and their impact on tax compliance behavior.

RESEARCH ELABORATIONS

Taxpayer behavior models often reflect one of five theories: (1) economic deterrent; (2) fiscal exchange; (3) social factors; (4) comparative treatment; and (5) political legitimacy. These theories are intertwined to some extent, and some represent a progression of others. The last three are highly linked, and might all be viewed as tax compliance behavioral models [5]. According to the economic deterrence theory, factors defining the benefits and costs of evasion, such as the tax rate, the probability of detection, and fraud penalties, impact taxpayer behavior [5, 6]. Few people will avoid taxes if they are likely to be discovered and the penalties are harsh. Under low audit probabilities and low penalties, on the other hand, the projected return to evasion is substantial [5]. The elements of this theory are certainty, which denotes certainty, severity, which denotes the severity of punishment, and celerity, which denotes the speed with which these punishments would be applied to defaulters. However, it should be highlighted

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that, in order to achieve this flawless tax collecting procedure through deterrent, taxpayers would try to evaluate their odds of being discovered. They would choose to comply where they found higher odds, and they would hunt for loopholes to evade taxes where they found lesser chances [8]. Similarly, the theory of fiscal exchange is said to have originated and evolved from the deterrence and sociopsychological theories. It is based on a government-taxpayer contract that is rooted in social and relational elements [13]. According to the fiscal exchange theory, the presence of government expenditures can inspire individuals to comply, and governments can promote compliance by delivering goods that citizens demand in a more efficient and accessible manner [5]. According to Alm et al. [4], compliance rises as (perceptions of) public goods and services become more readily available. As a result, taxpayers' primary concern is what they receive directly in exchange for their tax payments in the form of public services (*quid pro quo*) [5].

Further, According to the social influence theory, compliance behavior and attitudes towards the tax system is assumed to be affected by the conduct and social norms of an individual's reference group. It is plausible to suppose that human behavior in the field of taxation, like other forms of behavior, is influenced by social relationships [5]. As a result, an individual's tax behavior and attitudes may be influenced by the behavior of his or her reference group, such as relatives, neighbors, and friends. As a result, if a taxpayer knows numerous people who evade taxes in circles that are important to him or her, his or her commitment to comply will be eroded. Social interactions, on the other hand, may assist dissuade people from engaging in evasion because they are afraid of the social consequences if they are detected and revealed publicly (*ibid*). In the same manner, the comparative treatment approach is founded on equity theory, which states that resolving inequities in the government-taxpayer exchange relationship will lead to increased compliance [2]. The impact of perceived fairness of the tax system on compliance decisions is not confined to the treatment of individual taxpayers, but also includes other people's tax obligations and observed compliance behavior [8]. If the state favors particular groups, the citizen's relationship with the state and the group getting favors may be tainted. Not only what a person receives from the state, but also how the state treats the person in relation to others in the person's wider national community, becomes a critical determinant. Individuals who believe they and their group (which could be defined by money, education, age, religion, ethnicity, etc.) are treated fairly by the government are more likely to be tax compliant, according to the comparative treatment theory [5].

Finally, the degree to which citizens trust their government influences tax compliance. The legitimacy of a political situation is determined by citizens' belief or trust in the authorities, institutions, and social structures to be acceptable, proper, just, and operate for the common good. How political legitimacy and civic affiliation are fostered has been studied by political

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scientists [1]. Persson [1], for example, claims that African countries that prioritized national identity above ethnic identity when they gained independence were more successful than those that let ethnicity become the major political animus. We expect to discover a higher likelihood of tax compliance among persons who trust the government than among those who do not, based on this rationale. Other empirical investigations have found evidence that political legitimacy and national pride are major factors in tax compliance [13]. In the 1990s, Alm et al. [4] discover a positive association between tax attitudes and trust in the government, as well as national pride in Russia. Many factors can influence taxpayer compliance behavior. The factors that determine tax compliance behavior differ from one country to the next and from one individual to the next [2]. Vincent [8] studied small and medium enterprises tax noncompliance behavior in Sub Saharan Africa, an insight from Nigeria. The study found that that tax system complexity, tax deterrence sanction, tax non-compliance opportunity, tax information and tax attitude and perception are important factors of tax compliance behavior, while tax rate and tax compliance cost may not necessarily exert significant effect on tax compliance behavior. Ahmed and Kedir [3] examined tax compliance and its determinants in the case of Jima Zone category "A" taxpayers, Ethiopia. The result of their study revealed that age, gender, penalty, tax audit, simplicity of tax system, fairness and government perception were found to affect tax compliance. Furthermore, Multiple factors influence taxpayers when accumulating their tax obligation, including their bias toward public institutions, perceived fairness of taxation, prevalent social norms, and the possibility of noncompliance being identified and punished (ibid).

Modugu and Anyaduba [4] investigated the impact of tax audit on tax compliance of companies in Nigeria using ordered logistic regression. The results of their research noted that there is a positive correlation between tax audit and tax compliance. Similarly, Modugu and Anyaduba [4] showed that the perception of government spending significantly influence the tax compliance of taxpayers in Nigeria. Further, Oladipupo and Obazee [6] examined Tax Knowledge, Penalties and Tax Compliance in Small and Medium Scale Enterprises in Nigeria. Their findings revealed that penalty had minor or insignificant effect on tax compliance of the SMEs in Nigeria. According to Tilahun [4], there is a positive and significant relationship between tax compliance and the fairness of the tax system. This implies that making the tax system more equitable leads to higher levels of tax compliance among taxpayers. Referent groups have a strong and positive impact on compliance behaviors. Whenever tax payers get an increasing influence from friends and family members, they surprisingly incline to increase their compliant behavior [16].

In summary, the researcher examined a large number of prior papers classified as "empirical studies relating to the factors of tax compliance." The majority of empirical research

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on tax compliance have been conducted in industrialized nations. Despite the fact that many research on this issue have been undertaken in developing nations, the number is lower when compared to developed countries. The researcher concentrated on the factors that influence tax compliance in small and medium-sized businesses. The conclusions of the empirical research that has been evaluated differ from one another. Some factors, for example, are favorable in one research but negative in another. Furthermore, one variable is significant in one research but not in another. As a consequence, it is acceptable to say that the results of tax compliance variables are inconclusive, or that the conclusions are contested among various academics throughout the world. Furthermore, the researcher found no empirical studies on the drivers of tax compliance undertaken in Somaliland in general or in Burao City in particular. Thus, to the best of the researcher's knowledge, no previous study on the factors of tax compliance in Somaliland has been conducted. Despite its relevance in terms of improving revenue production, this issue remains understudied in Somaliland. With this stated research gap in mind, the purpose of this study was to evaluate the factors of tax compliance in the instance of small and medium firms in Burao City. Finally, this study will address a research gap that has been identified, and its findings will contribute to the current body of knowledge.

The firm-specific human capital can be sub-divided as task-specific and non-task-specific human capital. Workers get task-specific experiences in the current position over time [18]. The non-task-specific human capital is captured from the experiences in prior jobs within the same organization. No doubt task-specific experience makes workers more productive and the non-task specific experience provides a solid foundation for the current job. An organization usually gets general human capital from the job market. Through working and training and development, workers become firm-specific and task-specific human capital. When workers are shifted to the other departments or processes or activities or promoted to higher positions then their experience becomes non-task specific and accumulates new task-specific knowledge. This is a continuous process. In the case of human resource planning, career planning, training and development planning, succession planning and so on, these dynamics of human capital management must be kept in mind.

RESULTS AND DISCUSSIONS

Tax rate has a statistically significant effect on the tax compliance of the SME taxpayers in Burao city. According to the above regression results, the tax rate is a positive but minor statistical predictor of tax compliance. With a 1% rise in the tax rate, the compliance of SMEs will increase by 7.3%, keeping other things equal. The p-value of the tax rate is 0.257, which is greater than 0.05 and hence insignificant. Therefore, hypothesis one (H1) is rejected. This

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implies that the respondents regarded the effect of the tax rate as being unimportant to tax compliance. The result is consistent with Adimassu and Jerene [2], who noted that the tax rate had a statistically insignificant positive effect on tax compliance. tax audit significantly influences the tax compliance behavior of the SME taxpayers in Burao. As per the regression table, the tax audit has a positive and statistically significant impact on the level of tax compliance of the SMEs in Burao City. This is evidenced in the p-value of the tax audit, which is 0.000, much less than 0.01 and showing a 1% significance level. Other things being equal, this regression result demonstrates that if the tax authorities increase their usage of tax audit/investigation, then the tax compliance of their taxpayers will also rise. Hence, the second hypothesis is accepted. There are plenty of studies which found that tax audits had a significant impact on tax compliance. This is consistent with a study done by Biru [8] which stated that tax audits significantly affected tax compliance of small and medium enterprises. In that study, a tax audit was found with a p-value of 0.018. Furthermore, it was revealed that desk audit, field audit, back duty audit, and registration audit positively and significantly influenced tax compliance in Ekiti State (Nigeria) with the p-value of 0.001, 0.000, 0.000, and 0.000, respectively [17]. Similarly, Ademe and Simret [1], Bedada [7] and Mebratu [2] all found similar results with the above mentioned authors, which implies that tax audits have a positive and significant effect on tax compliance. Likewise, Modugu and Anyaduba [4], employing logistic regression as their econometric model, confirmed in their study that tax audits had a statistically substantial positive impact on tax compliance, which is again in line with the result of this study.

Tax penalty significantly affects the tax compliance behavior of the SME taxpayers in Burao city. Based on the regression output, if the tax authorities increase the imposition of penalties/fines on SMEs who fail to comply with the tax rules, the tax compliance of these SMEs will increase by 3.6%, *ceteris paribus*. But the p-value of the penalty coefficient is greater than 0.05, which means it is not statistically significant. This result is consistent with a study conducted by Ademe and Simret [1], who revealed that penalties and fines did not have a significant influence on the tax compliance of taxpayers in the Gondor Zone of Ethiopia. Further, Oladipupo and Obazee [10] examined tax knowledge, penalties, and tax compliance in small and medium-scale enterprises in Nigeria. Their findings revealed that penalties had a minor or insignificant effect on the tax compliance of SMEs in Nigeria. In addition to this, Engida and Baisa [12] studied factors influencing taxpayers' compliance with the tax system in Mekelle, Ethiopia. They found that the penalty had no influence on tax compliance. Ha4: the perception of taxpayers towards government spending has a significant effect on the tax compliance of the SMEs in Burao City. From the regression table, it shows that if the perception of government spending is increased, which means if the SME taxpayers have a good

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perception of the government's expenditure on their taxes, the level of their tax compliance will rise by 14%, other things remaining constant. The p-value of the PGS is 0.091, which is significant at the 10% significance level. Hence, the researcher has got enough evidence to accept this hypothesis. This outcome is compatible with a study done by Modugu and Anyaduba [4] which showed that the perception of government spending significantly and positively influences the tax compliance of taxpayers in Nigeria. Similarly, Tilahun [4] also found that the perception of government spending substantially and positively impacts on the tax compliance of taxpayers in Bahir Dar city of Ethiopia. In the same manner, a research conducted by Ahmed and Kedir [3] in the Jimma Zone of Ethiopia noted that the perception of government spending had a positive and statistically significant effect on the tax compliance of category "A" taxpayers, which implies that a positive perception of government expenditures could lead taxpayers to comply more with tax rules. In the same manner, the result is also in line with the findings of Ali, Fjeldstad and Sjursen [5] and Palil [9].

Fairness of the tax system positively and significantly impact the tax compliance behavior of the SMEs in Burao city. Based on the regression outcome, the fairness of the tax system has a positive effect on the tax compliance behavior of SMEs. With a one-unit increase in the fairness of the tax system, tax compliance will rise by 0.09 units, keeping other things equal. The p-value of the fairness is 0.138, which makes it statistically insignificant. As a result, hypothesis five is partially accepted. This result implies that if the tax system is fair and equitable, taxpayers are more inclined to comply with tax rules and regulations; in contrast, if there is no fair and equitable tax system, taxpayers will be noncompliant. But the degree of fairness in tax compliance of the SMEs in Burao City is negligible. Furthermore, the result of the study is in agreement with a study done by Jemberie [17], who confirmed that tax fairness and equity had a positive effect on tax compliance but was not significant.

Tax knowledge and awareness significantly affect the tax compliance behavior of the SMEs in Burao city. According to the regression result, the taxpayers' knowledge and awareness have a statistically significant impact on the tax compliance of the small and medium enterprises in Burao City because the p-value of the tax knowledge and awareness is 0.001, which is less than 0.05. All other things being equal, a rise in the knowledge and awareness of the SMEs in Burao City means their tax compliance will increase by 24%. This hypothesis is fully accepted. There are a lot of studies that are in line with this result. For instance, Jemberie [17] stated that tax knowledge and awareness have a significant positive influence on tax compliance. Biru [8] also found that tax knowledge and awareness had a statistically substantial positive impact on tax compliance of SMEs in Nekemet City, Ethiopia. The efficiency of tax authority significantly influence the tax compliance of the SMEs in Burao city. The efficiency of tax authorities has a statistically significant positive influence on the tax compliance of the

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SME taxpayers in Burao City, *ceteris paribus*. The p-value of the ETA is 0.045, which is significant at the 5% significance level. Improvement in the efficiency of the tax authorities in terms of their administrative, service delivery, consulting services, and awareness creation will result in a 15.4% increase in the tax compliance behavior of SME taxpayers. So the researcher found enough evidence to accept the hypothesis. This outcome is in line with a research done by Hamza and Mulugeta [16] in Diri Dawa of Ethiopia which showed that the efficiency of tax authorities strongly and positively impacts on the tax compliance behavior of tax payers.

Referent group influence has a significant impact on the tax compliance behavior among the SMEs in Burao city. With respect to the regression result, the influence of referent groups has a statistically significant positive effect on tax compliance. The p-value of the RG is 0.078, which is significant at the 10% significance level. Therefore, the researcher did get enough evidence to accept this hypothesis, and as a result, it is fully accepted. This result is consistent with a study conducted by Hamza and Mulugeta [16], who found a statistically significant positive influence of peer groups (friends and relatives) on tax compliance. Likewise, the results of this study are consistent with a study conducted by Tehulu and Dinberu [6]. The result of their research indicated that referral groups (friends, relatives, etc.) significantly influence the tax compliance behavior of taxpayers in Bahir Dar.

CONCLUSIONS

Based on the results found in chapter four, the following conclusion was attained. Tax audit/rechecking is the most important factor that determines taxpayers' tax compliance, according to the regression results. The compliance level of taxpayers will improve greatly if tax authorities boost their usage of tax rechecking to ensure that their taxpayers properly filed the return after the due date. Another important component in tax compliance is taxpayer knowledge and understanding of the taxation system. Tax awareness and understanding have a statistically significant favorable impact on SME taxpayers' tax compliance. This is because if taxpayers were informed and aware of the importance of tax income to the general growth and development of the country, they would be more likely to pay the required amount in compliance with the law. As a result, it is critical for tax authorities to raise taxpayer's understanding by holding tax-related training courses and launching an awareness-raising campaign via social media, radio, and television. It is also a strong predictor of tax compliance when it comes to the effectiveness of tax authorities. The degree of compliance among taxpayers is likely to rise dramatically if tax authorities improve their administrative efficiency, service delivery, advising, and awareness building.

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With respect to the perception of taxpayers towards government spending on their collected taxes, it is similarly a crucial factor for tax compliance behavior. If the government expends taxes collected from its tax payers judiciously, surely the taxpayers will be more compliant. For the government to gain more taxes from its potential taxpayers, it should be free from corruption, misappropriation of funds, embezzlement, and all other financial malpractices. Finally, peer pressure from relatives and friends has been shown to have a large and favorable impact on tax compliance. This means that if the taxpayers' closest family and friends are tax compliant, the taxpayers will be more compliant as well. Tax rates, the fairness and equity of the tax system, and penalties and fines, on the other hand, are found to have a statistically minimal positive impact on SME taxpayers' tax compliance behavior.

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