TAX KNOWLEDGE AND TAX COMPLIANCE AMONG BUSINESS OWNERS: A CORRELATIONAL STUDY

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ABSTRACT

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| Aims: To study correlates the level of tax knowledge—including awareness of sanctions, knowledge of tax rights and responsibilities, and knowledge of business income—with the degree of tax compliance among business owners in Cateel, Davao Oriental, and to identify which knowledge areas most strongly influence compliance behavior.  Study design: The research utilized Descriptive-correlational study.  Place and Duration of Study: The study was conducted at Cateel, Davao Oriental, Philippines. Data collection was conducted between March and April 2025.  Methodology: A total of 139 registered business owners were selected using stratified random sampling from various sectors (trading, services, manufacturing). A structured questionnaire adapted from Twum et al. (2020) was used to collect data on demographic profiles, tax knowledge (rights, business income, and sanctions), and self-reported compliance behavior. Responses were measured using a 5-point Likert scale. Data were analyzed using descriptive statistics, ANOVA, and Pearson’s correlation coefficient to test relationships between knowledge dimensions and compliance.  Results: The findings showed that business owners had extensive tax knowledge (x̄ = 4.46) and high levels of compliance (x̄ = 4.84). Pearson correlation revealed a weak but statistically significant relationship between tax compliance and awareness of sanctions (r = 0.22, p = 0.01), and tax rights and responsibilities (r = 0.15, p = 0.08). However, knowledge of business income was not significantly associated with compliance (r = 0.13, p = 0.13). No significant differences were observed in tax knowledge or compliance based on age, business size/type, education level, or years of operation (p > 0.05).  Conclusion: Specific components of tax knowledge—particularly awareness of sanctions and understanding of tax rights are modest predictors of compliance behavior. These findings support the need for targeted taxpayer education programs that emphasize legal responsibilities and consequences of non-compliance. By focusing on these areas, government agencies may enhance voluntary compliance and improve revenue collection efficiency. |

Keywords: tax knowledge, tax education, tax compliance, sanctions, business owners

INTRODUCTION

Tax compliance remains a major challenge in developing economies, where tax systems are often perceived as complex and enforcement mechanisms limited. In the Philippines, this is especially evident among small and medium enterprises (SMEs), which form a large part of the economy but often struggle with tax obligations (Weeghel, 2015; Alipio, 2020).

Tax knowledge, or a taxpayer's understanding of their rights, responsibilities, and relevant regulations, plays a crucial role in promoting compliance. The Theory of Planned Behavior (Ajzen, 2020) posits that behavioral intention is influenced by attitudes, social norms, and perceived control—factors strongly linked to knowledge.

Despite tax reforms like the TRAIN Law aimed at streamlining processes and reducing burdens, many Filipino business owners, especially in rural areas like Cateel, Davao Oriental, still report difficulties in complying due to limited access to information, low trust in institutions, and lack of tailored tax education.

This study investigates the relationship between tax knowledge and compliance, with a focus on three knowledge components: tax rights and responsibilities, business income, and awareness of sanctions. It also explores whether demographic or business-related factors affect these variables.

**LITERATURE REVIEW**

**Tax Knowledge and Tax Compliance**

Tax knowledge significantly influences compliance behavior. Saad (2014) emphasized that an individual’s ability to comprehend tax laws affects their willingness to comply. Oladipupo and Obazee (2016) found that while penalties had minimal impact, tax knowledge had a strong positive correlation with compliance. Similarly, Eriksen and Fallan (2016) noted that improved understanding reduced filing errors and evasion. Devos (2014) further observed that targeted education programs effectively minimized unintentional non-compliance.Contrary to assumptions, several studies challenge the idea that formal education alone enhances tax knowledge. Zhang (2021) and Bird (2014) contended that education levels do not necessarily predict tax literacy. Baru (2016) and McGee et al. (2018), citing religious influences, argued that beliefs and moral values often outweigh academic attainment in shaping compliance.

**Awareness of Tax Rights and Responsibilities**

Research highlights that awareness of legal obligations significantly improves compliance (Bahl & Martinez-Vazquez, 2018). Mendez and Kauffman (2019) emphasized that taxpayer education helps reduce evasion. Knowledge of taxpayer rights enhances empowerment and accountability (Gutiérrez-Nieto & Serrano-Cinca, 2021; Alm et al., 2019). Torgler (2011) and Feld & Frey (2016) observed that social norms and peer behavior influence compliance when paired with strong tax awareness.

**Knowledge of Business Income and Compliance**

Tax compliance among small businesses hinges on understanding income reporting. Accurate self-assessment is foundational to functional systems (Ali et al., 2014; Alm et al., 2017). Renoria (2024) noted that tax seminars improved compliance among small business owners. Wibowo et al. (2022) found that tax knowledge positively influenced individual compliance.

While audits can deter evasion (Slemrod, 2016), excessive reliance on enforcement may strain relationships with taxpayers (Andreoni et al., 2018). Tax complexity also contributes to evasion (Kastlunger et al., 2015), whereas simplicity encourages voluntary compliance (Luttmer & Singhal, 2014). Digital systems have shown success in reducing non-compliance through streamlined reporting (Awasthi & Engelschalk, 2018).

**Awareness of Sanctions**

Increased awareness of penalties correlates with higher compliance (Kahneman & Tversky, 2019; Wenzel, 2017). Effective communication by tax authorities helps taxpayers understand consequences, fostering a compliance-oriented culture (Belahouaoui, 2016; Swistak, 2016).

Fair and consistent enforcement enhances perceived legitimacy (Baldini et al., 2018; Alm & Torgler, 2019). Social influence also plays a role—individuals are more likely to comply when they perceive that others do so, especially when sanctions are evident (Feld & Frey, 2016).

**Tax Compliance in the Philippine Context**

Tax compliance in the Philippines continues to face challenges, including system complexity, tax evasion, and a large informal sector (Pacaldo, 2020; Lo, 2024; Nguyen & Darsono, 2022). To address these, the Bureau of Internal Revenue (BIR) has expanded digital platforms like the eFPS and electronic invoicing to improve transparency and efficiency (De Castro et al., 2015; UN ESCAP, 2023; Akmed & Masnona, 2024). Enforcement programs such as RATE have also helped deter evasion and strengthen institutional trust (DOF, 2024; Rosid et al., 2018). In 2024, BIR’s collection exceeded ₱446 billion, reflecting gains in taxpayer engagement (Gandia et al., 2024). Broader reforms under the TRAIN law and international cooperation frameworks like AEOI further aim to enhance cross-border compliance and administrative capacity (Santos et al., 2022; Compio et al., 2022; Kleven et al., 2016).

methodology

The study was conducted in Cateel, Davao Oriental, a first-class municipality located in the southeastern region of Mindanao, Philippines. Data collection was conducted over a two-month period from March to April 2025. This study employed a descriptive-correlational research design to assess the level of tax knowledge and tax compliance among business owners and to explore the relationship between these two variables. The correlational component aimed to identify the degree of association between tax knowledge and compliance behaviors. This design is appropriate for identifying relationships without manipulating the variables, aligning with methods described by Creswell (2014). The population of the study consisted of 344 registered business owners in Cateel. Using Slovin’s formula with a 0.10 margin of error, a sample size of 139 was determined. Stratified random sampling was employed to ensure proportionate representation across business types: trading, manufacturing, and servicing. A draw-lots technique was used to randomly select participants within each stratum.

Table 1. Distribution of respondents according to the nature of business

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| --- | --- | --- |
| Business Type | Registered Businesses | Respondents |
| Trading | 202 | 67 |
| Manufacturing | 23 | 18 |
| Servicing | 119 | 54 |

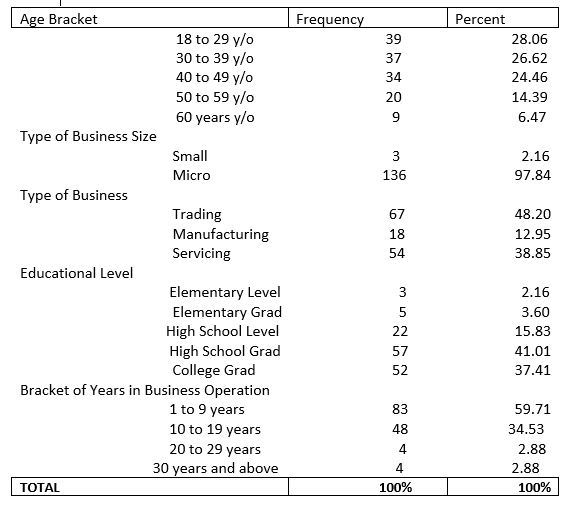
**Research Instrument**

The instrument was adapted and modified from the validated instrument used by Twum et al. (2020) and reviewed by two academic experts for local relevance and clarity. It comprised five major sections: demographics, which included age, business size, type, educational attainment, and years of operation; tax rights knowledge, which assessed understanding of tax laws, filing rules, and allowable deductions; knowledge of business income, which measured awareness related to income reporting and classification; awareness of sanctions, which evaluated knowledge of penalties for tax non-compliance; and tax compliance, which measured self-reported filing and payment behaviors.

results and discussion

This chapter presents the survey results conducted by the researchers, along with the corresponding discussions. The researchers personally distributed the questionnaires to each identified respondent and collected them immediately after completion. Due to the respondents' availability, the data collection process took two months. A total of 139 respondents were randomly selected from the 344 registered business owners in Cateel, Davao Oriental, representing various demographic profiles. The following sections summarize the demographic profile of the respondents, their level of tax knowledge, the level of tax compliance, significant differences in tax knowledge levels, the relationship between tax knowledge and tax compliance, and significant differences in tax compliance levels.

Table 2. Demographic profile of the respondents



The demographic and business profile of respondents reveals that most business owners in Cateel are young to middle-aged adults, with 54.68% aged 18–39, reflecting a youth-driven entrepreneurial sector. This supports Fatoki (2019), who emphasized the agility and opportunity-seeking behavior of younger entrepreneurs. A dominant 97.84% operate microenterprises, consistent with Manipol (2023) and Granfon et al. (2023), who found microbusinesses prevalent in rural areas due to low capital and regulatory requirements. The majority are engaged in trading (48.20%) and services (38.85%), with limited participation in manufacturing (12.95%), a pattern explained by Kritikos (2015), ILO (2015), and UNIDO (2016), citing structural limitations and preference for low-barrier, high-turnover businesses. Educationally, 78.42% have at least completed high school or college, supporting Devos (2016) and Eriksen and Fallan (2016), who linked education with improved tax literacy and compliance, although Bird (2014) noted it is often overlooked in SME policy. Lastly, 59.71% of businesses are under 10 years old, suggesting a young and growing entrepreneurial base, aligned with Ali et al. (2014) and Awasthi and Engelschalk (2018), who associated such trends with evolving market opportunities, necessity-driven startups, and improved access to digital tax systems.

**Level of Tax Knowledge Among Business Owners**

Table 3. Tax knowledge in relation to tax rights and responsibilities

|  |  |  |  |
| --- | --- | --- | --- |
| **Statements** | **Mean** | **Std**.  **Deviation** | **Interpretation** |
| 1. Being educated on the various rights and responsibilities regarding tax issues. | 4.40 | 0.68 | Extensive |
| 2. Tax education creates awareness of the responsibility to pay taxes. | 4.50 | 0.63 | Extensive |
| 3. Tax education provides understanding  that tax rates are fair and justified. | 4.46 | 0.67 | Extensive |
| 4. Tax education increases awareness of the benefits and privileges of paying taxes. | 4.60 | 0.61 | Extensive |
| **Average** | 4.49 | 0.56 | Extensive |

Table 3 shows that entrepreneurs in Cateel have a very high level of business income knowledge (x̄ = 4.49, s = 0.79), indicating that tax education enables them to conduct self-assessments and manage revenue obligations effectively. This supports Renoria (2024), who found that tax education via seminars and media enhances compliant behavior. Wibowo et al. (2022) also confirmed that tax knowledge positively influences taxpayer compliance, highlighting the importance of self-assessment systems in promoting responsible tax practices.

Table 4. Tax knowledge in relation to knowledge of business income

|  |  |  |  |
| --- | --- | --- | --- |
| **Statements** | **Mean** | **Std.**  **Deviation** | **Interpretation** |
| 1. Tax education enables estimation of business revenue and profit. | 4.35 | 0.83 | Extensive |
| 2. Education has been provided on how to keep accounting books. | 4.40 | 0.72 | Extensive |
| 3. Education has been provided on seeking assistance in keeping financial records. | 4.37 | 0.72 | Extensive |
| 4. Tax education creates an awareness of the  need to prepare accounts and present them to tax officers. | 4.47 | 0.67 | Extensive |
| 5. Ability to conduct self-assessment due to tax education | 4.49 | 0.79 | Extensive |
| **Average** | 4.41 | 0.60 | Extensive |

Table 4 reveals that entrepreneurs in Cateel demonstrate a very high level of business income knowledge (x̄ = 4.49, s = 0.79), indicating their capacity for self-assessment due to tax education. This suggests that tax knowledge enables business owners to understand and manage their revenue obligations independently. Renoria (2024) found that tax education through seminars and media positively influences behavior. Similarly, Wibowo et al. (2022) confirmed that tax knowledge significantly boosts compliance, emphasizing the vital role of self-assessment systems in promoting responsible tax practices.

Table 5. Tax knowledge in relation to awareness of sanctions

Table 5 shows that business owners in Cateel have a very high awareness of tax sanctions (x̄ = 4.48, s = 0.58), with all items rated as extensive. This indicates that tax education effectively informs them of the serious consequences of non-compliance, such as fines, prosecution, and business closure. These findings align with Hauptman et al. (2024), who emphasized that understanding penalties increases tax adherence. Kahneman and Tversky (2019) also noted that awareness of sanctions deters non-compliance by enhancing perceived control. Similarly, Oladipupo and Obazee (2016) found that such awareness positively influences behavioral intentions and social norms, leading to improved compliance.

## **LEVEL OF TAX COMPLIANCE AMONG BUSINESS OWNERS**

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| --- | --- | --- | --- |
| **Statements** | **Mean** | **Std.**  **Deviation** | **Interpretation** |
| Tax education creates awareness of the sanctions for non-compliance. | 4.45 | 0.66 | Extensive |
| Tax education creates awareness that a business could be closed for non-compliance. | 4.47 | 0.66 | Extensive |
| Tax education creates awareness that fines  may be imposed for non-compliance. | 4.47 | 0.66 | Extensive |
| Tax education creates awareness of the possibility of prosecution for non-compliance. | 4.50 | 0.73 | Extensive |
| **Average** | 4.48 | 0.58 | Extensive |

Table 6. Level of tax compliance among business owners

|  |  |  |  |
| --- | --- | --- | --- |
| **Statements** | **Mean** | **Std.**  **Deviation** | **Interpretation** |
| 1. Ability to pay taxes voluntarily. | 4.75 | 0.54 | Extensive |
| 2. Payment of taxes without thinking of how to  reduce them. | 4.53 | 0.83 | Extensive |
| 3. Consistent filing of returns to the appropriate  tax authorities without audits. | 4.65 | 0.75 | Extensive |
| 4. Consistent payment of all taxes (obedience to tax payment). | 5.18 | 4.28 | Extensive |
| 5. Knowing that paying taxes is doing the right  thing. | 5.07 | 2.59 | Extensive |
| **Overall Tax Compliance** | 4.84 | 1.08 | Extensive |

Table 6 shows that tax compliance among business owners in Cateel is consistently extensive (x̄ = 4.84, s = 1.08), reflecting strong voluntary compliance, ethical responsibility, and adherence to tax regulations. The highest-rated item—“Knowing that paying taxes is doing the right thing” (x̄ = 5.07)—emphasizes the moral dimension of compliance, while even the lowest-rated item (x̄ = 4.53) still indicates a high level of cooperation. Interpreted through the Theory of Planned Behavior (Yucedogru & Gerçek, 2021), these results suggest that business owners are influenced by favorable attitudes, strong normative pressure, and high perceived control. Bobek et al. (2018), who found that ethical values and perceived behavioral control significantly shape tax compliance behavior.

## **Significant Relationship Between the Level of Tax Knowledge and the Degree of Tax Compliance**

Table 7. Level of Tax Knowledge and the Degree of Tax Compliance

|  |  |  |  |
| --- | --- | --- | --- |
| **Independent Variables** | | **Tax Compliance** | **Interpretation** |
| Tax Rights and Responsibilities | Pearson Correlation | 0.15 | Weak but significant relationship |
| Sig. (2-tailed) |  |
|  | 0.08 |
| Knowledge of Business Income | Pearson Correlation | 0.13 | Weak and not significant relationship |
| Sig. (2-tailed) |  |
|  | 0.13 |
| Awareness of Sanctions | Pearson Correlation | 0.22 | Weak but significant relationship |
| Sig. (2-tailed) |  |
|  | 0.01 |
| **Overall Tax**  **Knowledge** | Pearson Correlation | 0.19 | Weak but significant relationship |
| Sig. (2-tailed) |  |
|  | 0.03 |

The Pearson correlation results indicate that tax rights and responsibilities (r = 0.15, p = 0.08) and awareness of sanctions (r = 0.22, p = 0.01) show weak but statistically significant relationships with tax compliance, while knowledge of business income (r = 0.13, p = 0.13) does not. These findings support the Theory of Planned Behavior (TPB), which emphasizes that attitudes, subjective norms, and perceived behavioral control shape compliance intentions (Taing & Chang, 2021). Prior studies affirm this. Bahl and Martinez-Vazquez (2018) found that informed taxpayers are more likely to comply. Mendez and Kauffman (2019) highlighted the role of education in boosting compliance, while Saad (2014) and Olsen et al. (2022) stressed that awareness of sanctions enhances perceived control. Mas’ud et al. (2019) showed enforcement deters evasion. In contrast, technical knowledge alone—such as understanding business income—does not strongly influence behavior, as it does not directly affect key TPB constructs without motivation or financial literacy (Putra & Osman, 2019).

Conclusion

Based on the results, most of the business owner respondents in Cateel are young to middle-aged adults who primarily operate micro-sized enterprises. A significant portion of them is engaged in the trading and servicing industries. In terms of educational background, the majority are high school and college graduates. Most have been running their businesses for several years, typically within a one to nine-year range. Respondents exhibited high levels of tax knowledge, particularly regarding their rights, responsibilities, and sanctions. This reflects a relatively well-informed business community. The level of tax compliance was found to be extensive. While only a weak correlation was found between tax knowledge and compliance, the significance of the relationship—especially in terms of rights and sanctions—suggests that specific knowledge areas do influence compliance behavior. No significant differences in tax knowledge or tax compliance were found across demographic or business-related variables, indicating consistent knowledge and behavior patterns among different groups. The significant relationships between compliance and both tax rights and awareness of sanctions imply that targeted knowledge influences compliance more than general tax understanding. Since no demographic differences significantly influenced tax compliance, tax-related behavior among business owners appears broadly uniform across various segments.

Consent (where ever applicable)

All authors declare that ‘written informed consent form was obtained from the patient (or other approved parties) for publication of this case report and accompanying images. A copy of the written consent (image) is available anytime if the editor asks for it for review of this journal.

Ethical approval (where ever applicable)

All manuscripts which deal with the study of human subjects must be accompanied by Institutional Review Board (IRB) or Ethical Committee Approval, or the national or regional equivalent. The name of the Board or Committee giving approval and the study number assigned must accompany the submission. If required, author should be ready to submit a scanned copy of the IRB or Ethical Committee Approval at any stage of publication (Pre of post publication stage).

For manuscripts involving human experiments, Authors may use the following wordings for this section: “All authors hereby declare that all experiments have been examined and approved by the appropriate ethics committee and have therefore been performed in accordance with the ethical standards laid down in the 1964 Declaration of Helsinki.”

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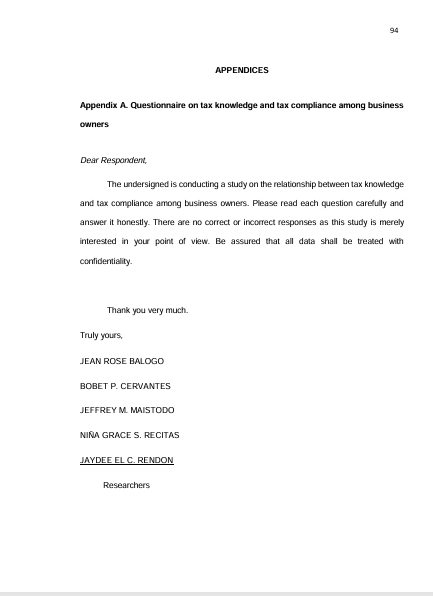
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APPENDIX

