

TAX COMPLIANCE STATUS OF BUSINESS ESTABLISHMENTS IN TUGUEGARAO CITY

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ABSTRACT

The main objective of this study is to determine the tax compliance status among businesses in Tuguegarao City, Cagayan with regard to BIR deadlines. This study used a descriptive quantitative method. The respondents of the study were the business owners or managers of business establishments in Tuguegarao City, Cagayan. Random sampling technique was employed. Findings of the study showed that majority of businesses are into servicing and have been operating for 1-10 years. It was also found out that upon registration of the business, the owners or managers were able to comply on time. The study also revealed that all the business respondents were prompt with their taxes relative to registration of the businesses. However, some of the businesses failed to comply with their taxes based on the BIR tax deadline especially payment for annual income tax and quarterly income tax. It was also found that some of the businesses are able to comply to avoid the penalty and also because the owners or managers knew about tax compliance.

Keywords: *Tax Compliance, Tuguegarao City, Taxation*

INTRODUCTION

It is a well-known fact that the revenue generated from the taxation of individuals and businesses is an important stream of income for government. Tax revenue is the source of funds used for development projects such as the provision of infrastructure like good roads, stable power supply, and a stable water supply; all of which combine to create an enabling environment for businesses- and in turn the economy at large-to grow (Ojeka et. al, 2012) According to the National Tax Research Center (NTRC) of the Philippines, they used its allocation from tax pie in 2014 for de clogging of drainage systems, dredging works, cleaning of manholes and hauling and disposal of garbage. The government said that taxes were also used to provide potable water to rural folks. Tax laws in many countries, especially in developing countries, change rapidly, thus producing stability and low transparency of tax code. Taxes imposed in the Philippines have two main categories, first is the National Internal revenue which is collected by Bureau of Internal Revenue (BIR) and the second is the local taxes that are collected by the Local Government Units (LGUs). According to National Internal

Revenue Code (NIRC) Republic Act 8424, Business taxes in the Philippines can either be Value Added Taxes (VAT) or Percentage Taxes.

Philippine tax system is anchored on voluntary compliance where taxes are under pay-as-you-file, where the taxpayers determine for themselves what taxes to pay, when to pay taxes, where to pay taxes, how much to pay, and how to pay taxes in the Philippines. (Tax & Accounting Center Philippines, 2017). Under section 248 of the Tax Code, failure to timely file any return and pay the tax due shall have a penalty equivalent to twenty-five percent (25%) of the amount due. According to Adkins (2013), Taxpayers sometimes face situations that make it difficult or impossible to pay everything on time. The IRS recognizes this and makes allowances or range of penalties for non-payment of taxes or late filings of income tax returns.

Kamleitner (2012) has reiterated that small business owners play an important role in the tax system. They are important players in a country's tax system. According to him, there are key aspects that seem to distinguish small business owners' perceptions of their tax situation: small business owners are likely to perceive more opportunities not to comply; they are more likely to experience a lack of meaningful taxation knowledge; and they view taxes as painful losses. While Akhand (2018) found that corporate sector plays an important role in the effectiveness of tax compliance and he found out that the filing of compliance of large corporate taxpayer is influenced by penalty. As a result from 2010 to 2013 the Department of Finance (DOF) stated that too many Filipinos can get away from paying tax compensation earners earned 60% of the total income in the country but paid as much as 80% of all taxes.

Having reviewed the prior literature on tax compliance, the focus of this study was to examine the tax compliance status among businesses. It would serve as an assessment whether the business establishments in Tuguegarao City are complying with their tax duties and responsibilities.

Research Objective and Questions

The main objective of this study was to determine the tax compliance status among businesses in Tuguegarao City, Cagayan with regard to BIR deadlines. Specifically, it aimed to answer the following questions:

1. What is the profile of the business in terms of:
 - a. Type of business
 - b. Number of years of operation
2. **What is the tax compliance status of businesses in Tuguegarao City?**

Significance of Study

Results of the study will help the Bureau of Internal Revenue or BIR to identify the non-compliant taxpayers among business in Tuguegarao City and to identify further who among them are more compliant. It will also help them to understand the reasons that affect their tax compliance. This study will also help the Local Government Unit or LGU because taxes that are paid by the businesses can be a source of funding for their projects and income for the public. The researchers will also be able to understand the effects of tax compliance among businesses. Therefore, it becomes necessary to investigate the actions of businesses in Tuguegarao City to promote tax fairness and also awareness to every individual.

Literature Review

Conceptual Framework

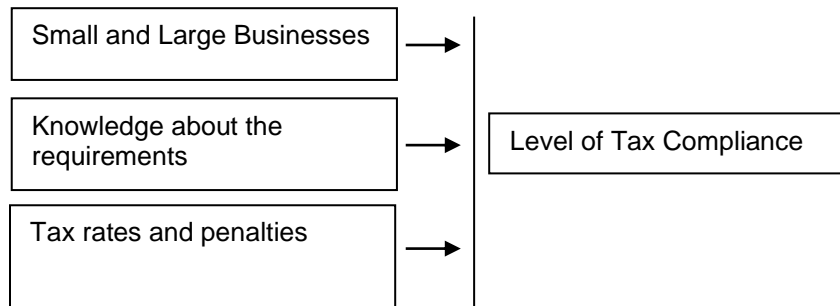


Figure 1. Conceptual Framework

The framework assumes that the three main factors play a universal role for businesses. Kamleitner (2012) has reiterated that small business owners play an important role in the tax system. Small business owners are likely to perceive more opportunities not to comply. On the other hand, Akhand (2018) found out that corporate sector plays an important role in the effectiveness of tax compliance and he found out further that the filing of compliance of large corporate taxpayer is influenced by penalty. Palil (2010) also investigate on knowledge and the role of penalties in determining tax compliance from the taxpayers. Tax penalties possess a significant relationship with tax compliance behavior; namely: rate and punishment, education and knowledge of tax penalties as well as the psychological behavior of taxpayers with tax compliance behavior (Yunus, 2017).

This framework was found useful for the current study as this will help identify the factors affecting the tax compliance among business establishments.

Tax system in the Philippines

The tax system of the Philippines has been reformed twice, the 1986 tax reform and the 1997 tax reform. The 1986 tax reform was established in order to maintain the macroeconomic stability and to restore economic growth of the country. The most important role that fiscal policy can play with regard to growth is to ensure macroeconomic stability but despite two highly visible tax reform programs in less than two decades, the Philippines is now in the midst of a fiscal crisis. This has been brought about by pressures on the spending side of the equation. But the biggest contributor to the present fiscal crisis is the deterioration of the tax system, its declining tax effort and growing unresponsiveness to changes in economic activity. (Diokno 2005)

Tax Compliance Requirements in the Philippines

According to Sec. 236 as Amended RA Nos. 9937 & 10021, every person subject to any internal revenue tax shall register once with appropriate Revenue District Officer; Within ten (10) days from date of employment; on or before the commencement of business; before payment of any tax due and upon filing of a return, statement or declaration as required in this Code.

Persons Required To Register For VAT

Any person who, in the course of trade or business, sells, barter or exchanges goods or properties, or engages in the sale or exchange of services, shall be liable to register for value-added tax if: His gross sales or receipts for past twelve (12) months, other than those that are exempt under Section 109 (A) to (V), have exceeded One million five hundred pesos (P1,500,000); or there are reasonable grounds to believe that his gross sales or receipt for the next twelve (12) months, other than those that are exempt under Section 109 (A) to (V), will exceed One million five hundred pesos (P1,500,000).

Bureau of Internal Revenue (BIR) Tax Deadlines

Value Added Tax is a type of consumption tax that subsequently causes manufacturers/suppliers of goods to pay more on the materials/resources they will use in producing that good. This cost will then

be shouldered by the consumers by paying additional value when they buy that product (Investopedia, 2014)

According to the BIR, Monthly Value Added Tax paid using BIR form 2250M every 20th day after the end of each month. Quarterly Percentage Tax Return using 2550Q BIR form paid every 25th day after the end of each month. Annual income tax return (for corporations and partnerships) paid using form 1702 every April 15. Quarterly income tax return (for corporations and partnerships) paid using BIR form 1702Q. The 1st Quarter paid every May 29 or 60 days after end of each quarter; 2nd quarter paid every August 29 or 60 days after end of each quarter; lastly 3rd quarter paid every November 29 or 60 days after end of each quarter.

Factors that affect Compliance/Non-compliance of business

High tax rates are the primary problem of tax payers, poor tax morale and tax mentality of citizens, inaccurately paid taxes, inability to pay the principal and poor structure of the tax system and tax administration that doesn't meet the expectations and need of taxpayers (Helhel, 2015). According to Yunus (2017), tax penalties do have a significant effect on tax compliance behavior. Study results found all elements of tax penalties possess a significant relationship with tax compliance behavior namely rate and punishment, education and knowledge of tax penalties as well as the psychological behavior of taxpayers with tax compliance behavior. Moreover, Palil (2010) investigated on knowledge and the role of penalties in determining tax compliance from the individual taxpayers.

Penalties for Late Filing of Tax Returns

For late filing of tax returns with tax due paid, the following penalties will be imposed upon filing, in addition to the tax due:

According to National Internal Revenue Code (NIRC) Republic Act 8424, SEC. 248, Civil penalties shall be imposed, in addition to the tax required to be paid, a penalty equivalent to twenty-five percent (25%) of the amount due, in the following cases: First, Failure to file any return and pay the tax due thereon as required under the provisions of this code or rules and regulations on the date prescribed; or unless otherwise authorized by the Commissioner, filing a return with an internal revenue officer other than those whom the return is required to be filed; or Failure to pay the deficiency tax within the time prescribed for its payment in the notice of assessment; or Failure to pay the full or part of the amount of tax shown on any return required to be filed under the provisions of this Code or rules and regulations

or the full amount of tax due for which no return is required to be filed, on or before the date prescribed for its payment. Interest shall be assessed and collected on any unpaid amount of tax, interest at the rate of twenty percent (20%) per annum, or such higher rate as may be prescribed by rules and regulations, from the date prescribed for the payment until the amount is fully paid.

METHODS

This study used a descriptive research design. This study was conducted in Tuguegarao City, Cagayan. The respondents of the study were the business owners or managers of business establishments in Tuguegarao City, Cagayan. Random sampling technique was used. Data collected from respondents using a questionnaire. The questionnaire consisted of two parts. Part I was to gather information about the profile of the business while Part II contained the questions as to the tax compliance status of businesses. A letter of permission to conduct the study was sought from the Office of the Vice President for Academics through the endorsement of the Head of Center for Business Research and Development and the School of Accountancy, Business and Hospitality Academic Dean. Upon approval, the researchers sent a letter to the Department of Trade and Industry (DTI) to obtain the list of businesses in Tuguegarao City. After which, the researchers were personally float the questionnaires among the respondents and retrieved the same. Frequency and percentage were used to determine the profile of the businesses as well as the tax compliance status.

RESULTS

Table 1. Profile of the Business

Type of Business	Frequency	Percentage
Merchandising	12	15.00
Manufacturing	5	6.25
Retailing	13	16.25
Servicing	50	62.50
Total (N)	80	100.00
No. of Years of Operation		
31-40	5	6.25
21-30	6	7.50
11-20	22	27.50
1-10	47	58.75
Total (N)	80	100.00

Table 1 presents type of business and number of years of operation. Majority of the businesses are into servicing and have been operating for 1-10 years.

Table 2a. Tax Compliance Status of Businesses Relative to Type of Business

BIR Standards	Mer	Man	Ret	Ser
	F	F	F	F
Registration of business	12	5	13	50
Punctuality of monthly payment of VAT	12	4	4	33
Punctuality of quarterly payment of percentage tax	2	2	6	33
Promptness of payment if annual income tax	3	0	4	7
Promptness of payment of 1st quarter income tax	2	0	4	7
Promptness of payment of 2nd quarter income tax	2	0	4	7
Promptness of payment of 3rd quarter income tax	3	0	3	7

Legend:

- Mer -Merchandising
- Man -Manufacturing
- Ret -Retailing
- Ser -Servicing

It is gleaned in the table that businesses are punctual in payment for their registration prior the commencement of their business. It also shows that some of the businesses failed to comply on the deadline with their taxes especially the payment for annual income tax and quarterly income tax. The table also shows that servicing type of business is the most punctual on payment of taxes.

Table 2b. Tax Compliance Status of Businesses Relative to Number of Years in Operations

BIR Standards	1-10 yrs	11-20 yrs	21-30 yrs	31-40 yrs
	F	F	F	F
Registration of business	47	22	6	5
Punctuality of monthly payment of VAT	45	16	2	4
Punctuality of quarterly payment of percentage tax	31	14	4	3
Promptness of payment if annual income tax	10	5	2	3
Promptness of payment of 1st quarter income tax	8	5	3	2
Promptness of payment of 2nd quarter income tax	8	5	3	3
Promptness of payment of 3rd quarter income tax	8	5	2	1

It is gleaned in the table that upon registration of the business, 1-40 years in operation are punctual in complying their taxes. It was also revealed that some of the businesses are not able to comply on time relative to their payment of quarter income tax.

DISCUSSION

Findings of the study revealed that majority of the respondents are into servicing and have been operating for 1-10 years. This means that the businesses are more engaged into servicing type of business. Akhand (2018) found that corporate sector plays an important role in the effectiveness of tax compliance and he found that the filing of compliance of large corporate taxpayer is influenced by penalty.

The result also showed that businesses are prompt in payment for the registration prior to the commencement of the business. However, some of the businesses failed to pay on deadline of their taxes especially payment for annual income tax and quarterly income tax. This means that businesses are prompt in paying their taxes prior to the commencement of their businesses. According to National Internal Revenue Code (NIRC) Republic Act 8424, SEC. 248, Civil penalties shall be imposed, in addition to the tax required to be paid, a penalty equivalent to twenty-five percent (25%) of the amount tax due. Tax penalties possess a significant relationship with tax compliance behavior; namely: rate and punishment, education and knowledge of tax penalties as well as the psychological behavior of taxpayers with tax compliance behavior. (Yunus, 2017)

Furthermore, upon registration of the business, majority of those businesses operating for 1-10 years are prompt in complying their taxes. Some of the businesses are not able to comply on time in payment of quarter income tax. This means those 1-10 years of operation is more compliant with their taxes than those businesses that have a longer period of operation relative to the registration of the businesses. According to Sec. 236 as Amended RA Nos. 9937 & 10021, every person subject to any internal revenue tax shall register once with appropriate Revenue District Officer; within ten (10) days from date of employment; on or before the commencement of business; before payment of any tax due and upon filing of a return, statement of declaration as required in this Code.

According to Bureau of Internal Revenue (BIR), any person who, in the course of trade or business, sells, barter or exchanges goods or properties, or engages in the sale or exchange of services, shall be liable to register for value-added tax. The table above presents the tax compliance status of business when grouped according to the type of business and it

was revealed that Monthly payment of VAT and Quaterly payment of Percentage tax are found to have a major role to tax compliance. While the status on the level of tax compliance when grouped according to type of business relative to quarterly payment of tax shows that servicing is more compliant than merchandising. This supports the study of Kamleitner that small business owners are likely to perceive more opportunities not to comply, they are more likely to experience a lack of meaningful taxation knowledge; and they view taxes as painful losses. (Kamleitner, 2012)

There are possible factors that can affect the compliance of businesses. According to Yunus (2017) that tax penalties do have a significant effect on tax compliance behavior. Study results found all elements of tax penalties possess a significant relationship with tax compliance behavior namely rate and punishment, education and knowledge of tax penalties as well as the psychological behavior of taxpayers with tax compliance behavior. Moreover, Palil (2010) investigate on knowledge and the role of penalties in determining tax compliance from the individual taxpayers. High tax rates are the primary problem of tax payers, poor tax morale and tax mentality of citizens, inaccurately paid taxes, inability to pay the principal and poor structure of the tax system and tax administration that doesn't meet the expectations and need of taxpayers (Helhel, 2015).

CONCLUSION

Majority of the businesses are into servicing and have been operating for 1-10 years. In addition, businesses are prompt in payment for the registration prior to the commencement of the business. Furthermore, majority of those businesses operating for 1-10 years are prompt in complying their taxes based on BIR deadlines.

RECOMMENDATION

The researchers recommend that further investigation among businesses be conducted regarding tax compliance. Also the researchers recommend to the next researchers to conduct another study regarding those factors that can affect the tax compliance status especially with those businesses that are engaged in servicing, manufacturing, merchandising and retailing

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