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Influencing of Tax Rate on Taxpayer Compliance in Cambodia

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A B S T R A C T

The purpose of this article is to examine the tax rates that apply to businesses that conduct business and are required to pay taxes. The percentage of wealth or income that a government takes in tax form from its people is known as the tax rate. The kind of tax, the taxpayer's income, and the jurisdiction where the tax is imposed can all affect tax rates. Both people and corporations are significantly impacted by tax rates. The study concludes that while low tax rates may reduce government revenue and make it more difficult to fund public programs, high tax rates may discourage investment and economic activity.

Keywords: Taxation, Tax rate

Introduction

This research looks at how Cambodian SMEs adhere to tax policies that affected by tax rate. Cambodia's informal economy, which is driven by SMEs, is struggling with worldwide tax compliance. The factors of tax rate that influencing tax compliance in Cambodian SMEs are investigated in this study. As Cambodia's economy has progressed from least developed to low-medium, SMEs have grown increasingly important. Cambodia's informal sector, controlled mostly by SMEs, has always battled with tax compliance. The study investigates how registered Cambodian SMEs adhere to tax rate policies, particularly those in Phnom Penh capital.

LITERATURE REVIEW

The tax rate is the rate at which both enterprises and individuals are taxed on goods and services (Muoki et al., 2014). According to Helhel and Ahmed (2014), one of the primary causes of low compliance is high tax rates. This suggests that a high tax rate discourages people from paying their taxes (Abdulsalam, Almustapha, and El, 2014).

If taxpayers have a positive connection with tax officials, they are more inclined to comply with the rules when the tax rate rises because they believe they are getting excellent value for their money. However, a 2016 study upon the variables that influence tax evasion by Mansor and Garuma discovered that the tax rate has a positive but not particularly large effect on tax evasion. This is consistent with Agbadi's (2011) finding that no major relationship exists between tax rate and tax payment. According to Papp and Takáts (2008), tax decreases increase tax revenue.

When academics and politicians discuss the economic effects of taxes, they frequently discuss how responsive tax bases are to changes in tax rates (Dahlby and Ferede, 2017). When governments raise tax rates to raise revenue, the changes in how resources are employed make the economy less efficient. As a result, tax base elasticity, or the sensitivity of tax bases to changes in tax rates, is an important topic in tax policy discussions and analysis (Sinaga & Sinaga, 2019).

Tax evasion is defined as any illegal act committed on purpose by a taxpayer to reduce their tax liability (Kirchler, 2007). The tax rate can also influence whether or not persons pay their taxes (Kira, 2017). According to taxation rules, the tax rate determines how people perceive the tax system's fairness (Kira, 2017).

Because taxpayers believe that a high tax rate is an excuse not to pay taxes, they fail to report their income and earnings to the government. Rahhal (2017) investigated what occurred to tax evasion in Palestine when tax rates were reduced. The study discovered a strong relationship between the two. Contrary to previous findings, several research studies demonstrated a negative relationship between tax rates and tax evasion.

METHODOLOGY

The research study sites are conducted in Phnom Penh Capital of Cambodia and 460 small and medium-sized businesses participated in the survey.

The sample size technique is determined in two phases. To begin, we calculate the sample size for an infinite population. The sample size is then adjusted to meet the people we are interested in participating in the survey. The sample size formula is expressed as follows:

Formula: Sample size for a finite group

Adjusted Sample Size = Population (S)1 + Population (S)1 + Population (S1)

Where:

S = sample size for an infinite group

Z = Z score

P = the percentage of the population

M = error rate

Results

Impact of Tax Rate on Tax Compliance *(Source: Survey results conducted by researcher 2023)*

Codes	Scale	N	Mean	Std. Deviation	Variance
TRAT1	Low tax rates can improve taxpayer compliance	460	3.4457	1.05579	1.115
TRAT2	Low tax rates eliminate bribery and corruption	460	3.2935	0.96945	0.940
TRAT3	A higher tax rate will force taxpayers to choose between risk aversion and the danger of penalty for successful tax evasion.	460	3.4957	0.92295	0.852
TRAT4	The tax rates in Cambodia are too high	460	3.4370	0.97593	0.952
TRAT5	Fair tax rate should be the same for every company, regardless of their size (small, medium, or large).	460	2.8696	1.20653	1.456

According to the respondents, the following effects of the tax rate on tax compliance: (a) Low tax rates can increase taxpayer compliance (3.4457); (b) Low tax rates eliminate bribery and corruption (3.2935); (c) A higher tax rate will force taxpayers to decide between risk aversion and the risk of a penalty for successful tax evasion (3.4370); and (e) A fair tax rate should be the same for every company, regardless of size (i.e., small, medium, and large (2.8696).

RECOMMENDATION

The findings show a strong beneficial association between a low tax rate and tax compliance. To improve tax compliance among SMEs, the government must impose low tax rates. This indicates that a tax rate perceived as exorbitant, unreasonable, or inequitable discourages taxpayers from adhering to the rules and regulations. The government must levy minimal or fair tax penalties that deter tax evasion but are not severe, as this may lead to corruption among tax authorities and tax non-compliance.

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