

TAX AWARENESS AND TAX COMPLIANCE OF SERVICE-BASED BUSINESS TAXPAYERS: A BASIS FOR COMMUNITY EXTENSION PROGRAM

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Abstract— This study aimed to examine the relationship between the level of tax awareness and level of tax compliance among service-based business taxpayers in Tuguegarao City, with the goal of developing a community extension program. Although prior studies have explored taxpayer behavior, limited literature focuses on service-based micro and small enterprises in regional cities, particularly in the Philippine context. To fill this gap, the researchers employed a quantitative research design, utilizing a validated survey questionnaire distributed to 119 service-based business owners selected through purposive sampling. The study assessed both the levels of awareness regarding tax obligations and the degree of actual compliance. Results showed that most service-based business owners are fully aware of their tax obligations, particularly in areas such as filing deadlines, income declarations, and EOPT-related changes. Correspondingly, they were also found to be fully compliant in key aspects such as timely filing and accurate payment of taxes. However, gaps were observed in the understanding of VAT thresholds and electronic filing procedures, especially among micro and small enterprises. Statistical analysis revealed a significant positive relationship between tax awareness and tax compliance, and a significant difference in compliance when grouped by business size, but not by years of registration. Based on these findings, the study proposed “Project TAXPERT,” a community extension program designed to enhance tax knowledge and improve compliance among micro and small enterprises through workshops, simulations, and forums. The results contribute to ongoing efforts in strengthening tax systems and fostering voluntary compliance within the service sector.

Keywords— Community Extension Program, Micro and Small Enterprises, Service-Based Business, Tax Awareness, Tax Compliance, SDG 10, SDG 17

I. INTRODUCTION

Taxes are compulsory levies imposed by the government to finance public expenditures incurred for the provision of goods and services to society. Historically, revenue

generated from taxation has served as a cornerstone for governments in sustaining operations and advancing socio-economic development (Simkovic, 2015; Cruz et al., 2018). In the Philippines, taxation plays a pivotal role in funding essential services, supporting social welfare, and fostering inclusive economic growth. However, persistent challenges in tax compliance continue to threaten fiscal stability, as budgetary shortfalls may undermine government efforts to deliver public services vital for sustainable development. A recent study revealed that out of a population of approximately 100 million Filipinos, only about 26 million are active taxpayers, underscoring the urgent need for public awareness on the significance of taxation and voluntary compliance (Malicdem et al., 2023). Failure to address tax non-compliance not only compromises fiscal objectives but also hinders progress toward global commitments such as the United Nations Sustainable Development Goals (SDGs), particularly Goal 8 on promoting sustained economic growth and Goal 16 on building effective institutions.

The Philippine economy is heavily service-oriented, with the sector accounting for more than 60 percent of gross domestic product (GDP) and over half of national employment (Serafica & Vergara, 2019). Service-based businesses, which thrive primarily through providing services rather than selling physical goods, play a crucial role in this growth trajectory. The taxation of this industry, however, varies depending on business structure—ranging from sole proprietorships to corporations—and tax schemes applicable to income earners. The enactment of the Ease of Paying Taxes (EOPT) Act on January 5, 2024, introduced significant reforms in the taxation framework for service-based businesses. Among its provisions are the redefinition of value-added tax (VAT) from gross receipts to gross sales, the implementation of a “file and pay anywhere”

mechanism, the elimination of the annual registration fee, and the increased threshold for invoice issuance. These changes, aimed at streamlining compliance, align with SDG 17 on strengthening partnerships and capacity for sustainable economic systems by modernizing fiscal administration. For small-scale service enterprises, the EOPT further emphasizes simplified percentage tax schemes for those with gross sales not exceeding three million pesos, ensuring inclusivity and fairness in taxation consistent with SDG 10 on reducing inequalities.

Despite these reforms, instances of tax non-compliance in the service industry remain evident. For example, the Bureau of Internal Revenue (BIR) has recently shut down various establishments, including service-related enterprises such as restaurants, salons, and media outlets, due to violations in tax obligations (De Vera, 2022; BIR Shuts Down 60 Establishments in Soccsksargen, 2022). These incidents underscore the vulnerability of the service sector to tax non-compliance and highlight the urgent need to assess determinants of awareness and compliance among service providers. Prior research presents mixed evidence regarding the influence of taxpayer awareness on compliance. Nurlis and Kamil (2015) argue that higher awareness enhances compliance, while studies by Fauziati et al. (2016) and Nasution et al. (2020) found no significant effect. Given these inconsistencies and the new provisions under the EOPT, it is imperative to examine how awareness and business profiles influence compliance in the Philippine service sector.

This study seeks to fill a critical research gap by investigating the tax awareness and compliance of service-based businesses in the Philippines. The findings aim to contribute not only to the strengthening of the national tax system but also to broader development goals by promoting fiscal sustainability, economic growth, and institutional trust. By situating taxation within the global sustainable development agenda, the study aspires to demonstrate how effective tax compliance advances collective aspirations for equitable progress and nation-building.

II. METHODS

This study employed a quantitative research design to investigate the tax awareness and compliance of service-based businesses in Tuguegarao City, Cagayan. The locale was selected due to the significant concentration of service-oriented enterprises in the area, which include restaurants, microfinance agencies, lending institutions, medical clinics, salons, spas, and other similar establishments. Respondents were purposively selected and consisted of business owners or individuals directly responsible for the tax obligations of the establishments, such as managers, bookkeepers, or accountants. The sampling frame was based on the total population of registered service businesses obtained from the Business Permit and Licensing Office (BPLO) of Tuguegarao City, from which 119 participants were drawn to complete the survey.

Data were collected using a structured questionnaire adapted from Addo (2022), who examined the level of tax compliance among SMEs in Ghana in relation to tax awareness and knowledge. The instrument was modified to align with the research objectives and underwent content validation by three tax professionals to ensure clarity, accuracy, and contextual relevance. The questionnaire was divided into three sections: the first focused on the business profile, particularly the number of years of registration with the Bureau of Internal Revenue (BIR) and the size of the enterprise; the second assessed the level of tax awareness of service-based businesses using a four-point Likert scale (fully aware, aware, not aware, not fully aware); and the third measured the level of tax compliance, also using a four-point Likert scale (fully compliant, compliant, not compliant, not fully compliant). Prior to distribution, informed consent forms were provided to participants, who were assured that their involvement was voluntary and that their responses would remain confidential and anonymous. Questionnaires were distributed during the respondents' free time, and completed forms were collected by the researchers.

The analysis of data employed both descriptive and inferential statistical techniques. Descriptive statistics, including frequencies, means, and standard deviations, were used to summarize the profile of respondents, their tax awareness, and their level of compliance. A scale interpretation was applied, where mean scores of 3.5–4.0 indicated full awareness or full compliance, 2.5–3.49 indicated awareness or compliance, 1.5–2.49 indicated lack of awareness or non-compliance, and 1.0–1.49 indicated not fully aware or not fully compliant. Inferential statistics were also utilized: a one-way analysis of variance (ANOVA) tested significant differences in awareness and compliance across business profiles, while Pearson correlation analysis determined the relationship between tax awareness and tax compliance among respondents.

Ethical considerations guided all stages of the research process. The purpose, objectives, and procedures of the study were fully explained to participants, who were informed that they could withdraw at any point without consequence. No identifying information was collected, and responses were reported only in aggregate form to ensure anonymity. Data were stored securely and destroyed after analysis to maintain confidentiality. The study posed minimal risk to participants, requiring only their time to complete the questionnaire, and no financial compensation was provided. Importantly, the study was conducted purely for academic purposes, free from conflicts of interest, and without any external sponsorship. To ensure compliance with ethical standards, the research protocol was reviewed and approved by the University of Saint Louis Research Ethics Board (USL-REB). These measures safeguarded the rights and welfare of the participants while ensuring the integrity and transparency of the study.

III. RESULTS AND DISCUSSION

Table 1. Demographic Profile of Business

Number of Years Registered in BIR	Frequency	Percentage (%)
Below 5 years	27	22.7
6-10 years	56	47.1
11-15 years	8	6.7
16 years and above	28	23.5
Total	119	100
Size of Business		
Micro	57	47.9
Small	31	26.1
Medium	29	24.4
Large	2	1.7
Total	119	100

Table 1 illustrates the distribution of businesses based on their years of registration with the BIR and their size based gross sales, classifying them as micro, small, medium, or large according to the EOPT Act. The data reveal that the largest proportion of businesses (47.1%) have been operating for 6–10 years, suggesting that a significant number have moved beyond the startup phase and attained operational stability. Meanwhile, 23.5% of businesses have been registered for 16 years or more, indicating the presence of long-standing enterprises that contribute to the economic resilience of the city. Conversely, newer businesses (below five years) account for 22.7% of the total, reflecting a dynamic entrepreneurial environment with a continuous emergence of new ventures. The relatively lower percentage of businesses operating for 11–15 years (6.7%) may suggest challenges in long-term business sustainability within this period. This distribution could signify that sample businesses had adequate experience in dealing with tax related issues (Sapiei et al., 2014). The most frequent response from the respondents in this study, indicating a registration period of 6-10 years, aligns with the findings of Granfon et al. (2023), who also observed that the majority of taxpayers in their sample had been registered for a similar duration. Regarding business size, micro-enterprises comprise the largest segment at 47.9%, followed by small businesses at 26.1% and medium-sized enterprises at 24.4%. Large enterprises represent only 1.7% of the total, highlighting the dominance of micro, small, and medium-sized enterprises (MSMEs) in the local economic landscape. This distribution aligns with the findings of Serafica and Vergara (2019), who emphasized the critical role of MSMEs in driving economic growth and employment. Their study further underscores the importance of policy interventions focused on strengthening financial management, enhancing tax compliance, and providing support mechanisms tailored to the needs of small businesses.

Table 2. Level of Tax Awareness of Service – based Business Taxpayers in Tuguegarao City

Statements	Mean	Description
We are aware of the electronic filing of tax return	3.39	Aware
We are aware that tax should be filed and paid on a deadline provided by the law	3.72	Fully Aware
We know which expenses should be deducted when computing taxable income	3.50	Fully Aware
We know that we are required to declare all incomes that fall under the definition of “Gross Income” under the law that we received and earned throughout the year	3.60	Fully Aware
We know the importance of paying taxes and understand our rights and obligations as taxpayers	3.72	Fully Aware
We are aware of the difference between Value-Added Tax (VAT) and Percentage tax as a business taxpayer	3.46	Aware
We are aware that certain services offered to Senior Citizens and Persons with Disability (PWD) are VAT-Exempt sales	3.36	Aware
We are aware of the 3,000,000 VAT Threshold as a business taxpayer	3.05	Aware
We are aware that percentage tax is allowed as a deduction to the gross income.	3.47	Aware
We are aware that the imposition of VAT and percentage tax on services is based on gross sales and no longer on gross receipts in accordance with Ease of Paying Taxes (EOPT) law.	3.42	Aware
We are knowledgeable on how to maintain our books of accounts and proper issuance of invoice	3.68	Fully Aware
We are aware of the different tax types in my Certificate of Registration, their frequency of filing and due dates	3.59	Fully Aware
Based on current regulation under EOPT, we are aware that the issuing of official receipts for services rendered will no longer be regarded as primary supporting evidence of service sales; instead, the issuance of an invoice now serves as the primary evidence.	3.63	Fully Aware
Overall Mean	3.51	Fully Aware

Table 2 presents the level of tax awareness among service-based businesses, with an overall mean score of 3.51, indicating a "Fully Aware" level based on a four-point Likert scale. The highest mean scores were observed in S2 and S5 (3.72), suggesting that business owners demonstrate a strong understanding of certain tax obligations. In contrast, the lowest mean score of 3.05 in S8 highlights areas where awareness is comparatively lower. These findings suggest that while most business owners have a general understanding of tax regulations, specific aspects of taxation require further education and clarification. Lower awareness scores in certain areas may be attributed to the complexity of tax regulations or a lack of accessible tax education programs (Malicdem et al., 2023; Nurlis & Kamil, 2015). Prior research underscores the importance of strengthening taxpayer education, particularly by providing essential tax knowledge that enables business owners to comprehend their responsibilities and meet their tax obligations (Negara & Purnamasari, 2018). The greater the knowledge and understanding taxpayers have, the better they are able to align their behavior with tax regulations (Masari & Suartana, 2019; Nugroho, 2012).

Moreover, the results did not reflect any responses under "Not Aware" or "Not Fully Aware," indicating that service-based business taxpayers generally possess a satisfactory level of tax awareness. This suggests a foundational understanding of tax-related obligations and regulations among business owners. Additionally, the enactment of the Ease of Paying Taxes (EOPT) Act in 2024, which introduced key reforms in tax filing and compliance, further highlights the necessity of enhancing taxpayer awareness to ensure smoother adaptation to regulatory changes. Efforts to enhance taxpayer obedience involve increasing their knowledge of taxation to foster greater awareness and adherence to tax regulations (Masari & Suartana, 2019). Overall, these results suggest that the majority of service-based businesses in the city are aware of their tax obligations.

Table 3. Level of Tax Compliance of Service – based Business Taxpayers in Tuguegarao City

Statements	Mean	Description
We file and pay taxes on time	3.81	Fully Compliant
We declare the correct income we earned on our Income Tax Return	3.76	Fully Compliant
We pay the right amount of taxes	3.79	Fully Compliant
We electronically file tax returns	3.40	Compliant
We take corrective actions, such as paying penalties, when addressing tax defaults.	3.71	Fully Compliant
We report all tax liabilities following applicable tax laws	3.76	Fully Compliant

We put a strikethrough to unused "Official Receipts" and replace them with "Invoices" to comply with new regulations on service sales documentation	3.73	Fully Compliant
We adhere to the registration deadlines for the book of accounts, which vary based on our business status: Existing Business Registrants (Manual, Permanently Bound Loose-Leaf, or Computerized) or New Business Registrants (Manual).	3.71	Fully Compliant
Overall Mean	3.71	Fully Compliant

Table 3 presents the level of tax compliance among service-based businesses, with an overall mean compliance score of 3.71, indicating a "Fully Compliant" level based on a four-point Likert scale. The highest compliance score of 3.81 was observed in S1, suggesting that businesses demonstrate strong adherence to certain tax obligations. Conversely, the lowest compliance score of 3.40 in S4 indicates areas where challenges to full compliance persist. These findings suggest that while businesses generally recognize the importance of fulfilling tax obligations, variations in compliance levels highlight potential barriers such as financial constraints. The lower compliance score in electronic filing indicates that some businesses may struggle with administrative requirements, leading to inconsistencies in tax adherence. This finding also supports the study of Akpubi and Igbekeyi (2019), which stated that electronic taxation provided benefits such as saving time and energy, however, most are not fully aware of e-filing and e-payment procedures which has made full adoption of the system difficult. They also further highlighted that efps cost reduces tax compliance. Furthermore, the results support the findings of Mustafa et al. (2020), which emphasize that interventions such as launching of tax workshops, seminars and awareness programs can enhance compliance levels. Addressing these challenges through targeted policy reforms and taxpayer support mechanisms can contribute to a more efficient and equitable tax system, ultimately fostering greater compliance among businesses.

Table 4. Test of significant difference in the level of tax compliance when grouped according to profile

Profile of Service-Based Business		Compliance Among Service-Based Business Taxpayers			
		Mean	Kruskal Wallis	p value	Decision
No. of years registered in BIR	Below 5 years	3.41	3.89	0.273	Not Significant
	6-10 years	3.54			
	11-15 years	3.13			
	16 years and above	3.46			
Size of Business	Micro	3.28	32.7	<0.001	Significant
	Small	3.35			
	Medium	3.93			
	Large	3.50			

(Significant at $p < 0.05$)

The table shows a significant difference in compliance levels based on business size. This indicates that larger businesses tend to follow regulations better, likely because they have more resources and organized processes. In contrast, smaller businesses may struggle due to limited capacity. However, there is no significant difference in compliance based on how long a business has been registered with the BIR. This suggests that factors like financial capacity or awareness of regulations may have a bigger impact. The results revealed that the number of years a business has been registered with the BIR does not significantly impact its tax compliance levels ($p = 0.273$). The results imply that longevity alone does not determine adherence to tax regulations. This invalidates the claim made by Sapiei et al. (2014) that the age of a business has a significant influence on tax compliance. In contrast, the findings of Paco and Quezon (2022) align with this result, as they revealed no statistically significant variations in tax compliance based on the number of years a business has been in operation. Instead, other factors such as financial resources, organizational capacity, and tax awareness play a more crucial role in influencing compliance behavior (Granfon et al., 2023; Sapiei et al., 2014).

On the other hand, a significant difference ($p < 0.001$) was observed in compliance levels based on business size. Medium-sized businesses exhibited the highest compliance levels (3.93), followed by large businesses (3.50), small businesses (3.35), and micro businesses (3.28). This result is consistent with the study of Mohamad and Deris (2018), who found that tax compliance is positively impacted by the size of a business. This contradicts the findings of Granfon et al. (2023) which states that business size does not contribute to the

differentiation of tax compliance. The finding also opposes the study of Koku & Isaac (2023), a statistically significant negative correlation was found between business size and tax compliance level. Further, the trend suggests that larger businesses have more structured accounting systems, better resources, and dedicated personnel to manage tax obligations, making compliance easier compared to smaller enterprises (Katili et al., 2023; Mohamad & Deris, 2018). This finding is supported by the study of Paco & Quezon (2022), which stated that larger enterprises are more inclined to comply because they have better structure and manner of tax filing than micro and small businesses.

These findings highlight the need for tailored tax support programs to assist micro and small businesses in improving compliance. By addressing these challenges, tax authorities can foster a more inclusive and sustainable tax environment that encourages compliance across all business sizes (Koku & Isaac, 2023; Katigbak, 2023).

Table 5. Test of significant relationship between the level of tax awareness and the level of tax compliance of service – based business taxpayers in Tuguegarao City

Level of tax Compliance	Level of Tax awareness			
	df	r value	p value	Decision
	117	0.483	<0.001	Significant

A p – value of <0.001 indicates that there is a significant relationship between the level of tax awareness and the level of tax compliance of service – based business taxpayers in Tuguegarao City. This suggests that improving tax awareness among service-based business taxpayers in Tuguegarao City can lead to better tax compliance. The results revealed a significant positive correlation ($r = 0.483$, $p < 0.001$), suggesting that businesses with higher tax awareness are more likely to comply with tax regulations. Similar findings have been reported by previous researchers such as Nurlis & Kamil (2015), Mustafa et al. (2020) and Oboh (2019). This finding corroborates the study of Katili et al. (2023) that awareness has a positive and significant impact on taxpayer compliance.

This finding reinforces the idea that education and information dissemination play a crucial role in improving compliance (Nurlis & Kamil, 2015; Renganathan & Jaidi, 2023). When business owners understand tax requirements, deadlines, and consequences of non-compliance, they are more likely to fulfill their tax obligations. Thus if taxpayers are familiar with the tax system, they are most likely to comply with tax regulations (Granfon et al., 2023). Therefore, efforts to enhance compliance should focus on expanding tax education programs, improving access to tax-related information, and simplifying tax regulations to ensure greater awareness among businesses. Trifan et al. (2023) and Latif et al. (2023) support such findings. Furthermore, this result negates the claims of Fauziati et al. (2016) and Nasution et al. (2020) that tax compliance is not influenced by tax knowledge. It can be

concluded that the level of tax awareness of service-based businesses in Tuguegarao City affects their compliance with BIR regulations.

Community Extension Program Proposal

The *Project TAXPERT: Tax Awareness and Compliance Program for Empowering Responsible Service-Based MSE Taxpayers* was conceived in response to the weaknesses identified in the results of the study. Notably, the study revealed that the lowest mean score in the level of tax awareness, 3.05, in the statement "*We are aware of the 3,000,000 VAT Threshold as a business taxpayer*", highlighted a significant gap in tax awareness among service-based micro and small enterprises (MSEs). Additionally, the lowest compliance score, 3.40, in the statement "*We electronically file tax returns*", indicated persistent challenges in achieving full compliance, particularly with regard to electronic tax filing systems. The focus of the study was specifically on micro and small enterprises due to a significant difference ($p < 0.001$) observed in compliance levels based on business size. The results showed that smaller businesses exhibited notably lower levels of compliance compared to larger enterprises.

In response to these identified gaps, *Project TAXPERT* was developed with the objective of equipping MSE owners with the essential knowledge and practical tools to meet their tax obligations. The program aims to improve tax awareness and foster compliance through a series of educational workshops, tax filing simulations, and informational forums. By empowering MSE owners with a better understanding of tax regulations and filing requirements, this program seeks to ensure that they are well-prepared to fulfill their tax responsibilities, thereby contributing to a more efficient and equitable tax system. This initiative would also provide an avenue for disseminating critical updates on tax regulations while improving tax awareness and compliance among business owners. Additionally, it can complement government efforts by ensuring that micro and small businesses remain well-informed about their tax obligations, ultimately contributing to a more compliant and economically sustainable business environment.

Furthermore, *Project TAXPERT* provides an invaluable experiential learning opportunity for students enrolled in the Bachelor of Science in Accounting (BSAC) and Bachelor of Science in Management Accounting (BSMA) programs. These students will have the opportunity to apply their academic knowledge in real-world scenarios, further bridging the gap between theory and practice. In doing so, the program strengthens the collaboration between academic institutions and the local business community, ultimately fostering a more informed, compliant, and sustainable business environment.

IV. CONCLUSION AND RECOMMENDATIONS

The findings of this study highlight that there is an adequate tax awareness and compliance among service-based businesses in Tuguegarao City. A positive correlation exists between tax awareness and compliance, suggesting that enhancing tax awareness can improve adherence to tax obligations. Business size significantly influences compliance levels, with micro and small businesses facing more challenges compared to medium and large enterprises. Notably, medium-sized businesses exhibit the highest levels of tax awareness and compliance, whereas micro enterprises show the lowest, emphasizing the need for targeted interventions to support smaller businesses. However, years of registration do not have a significant effect on compliance, indicating that business experience alone does not determine tax compliance. With such findings, the proposed community extension program can be implemented by the students enrolled in Business Taxation courses, targeting small and micro enterprises in Tuguegarao City. This initiative would also provide an avenue for disseminating critical updates on tax regulations while improving tax awareness and compliance among business owners. Additionally, it can complement government efforts by ensuring that micro and small businesses remain well-informed about their tax obligations, ultimately contributing to a more compliant and economically sustainable business environment.

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