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A Study on Critical Factors of Tax Compliance Behaviour among Small and Medium Enterprises in Libya

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Abstract

Tax compliance can be described as the level to which taxpayers obey or fail to obey the rules of taxation of their country. This is an admitted fact that the aim of an effective administration of tax is to enhance the voluntary compliance of tax with the use of all possible approaches that may include penalties as well. The primary purpose of this study is to assess the tax compliance behaviour among small and medium enterprises in Libya. This study provides a cornerstone for those who are looking for the reasons for tax compliance to be low. Therefore, this study examines the determinants of tax compliance and tax compliance behaviour. To achieve the goals of this study, a questionnaire survey was administered. Multiple regressions were used to test the formulated hypotheses. The results of this study show how the behaviour of tax compliance can be influenced by poor awareness, unfair taxes, low morale, strict authorities, tax rate and tax penalties. In relation to the practical and theoretical contributions, so far, to the best of the researcher's knowledge, no scientific research has been done on this. This research would assist politicians, tax officials and the government of Libya in researching this phenomenon.

Keywords: Tax compliance, Tax compliance behaviour, Determinants of tax, Tax knowledge, Tax penalty

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Introduction

Tax compliance can be described as the level to which taxpayers obey or fail to obey the rules of taxation of their country. This is an admitted fact that the aim of an effective administration of tax is to enhance the voluntary compliance of tax with the use of all possible approaches that may include penalties as well (Sakarnor, Marziana and Norkhazimah, 2012). Compliance responsibilities for taxpayers comprises obligation to report, calculate as well as pay their taxes according to tax laws. These can result to benefits comprising the element of convenience to the taxpayers, reduced costs on the revenue authority, and quality data on tax returns due to elimination of data entry errors associated with manual filing (Gwaro, Maina, & Kwasira, 2016). According to Kirchler, Muehlbacher, Kastlunger, and Wahl (2010), the tax compliance is the most neutral term to describe taxpayers' willingness to pay their taxes.

In a wider definition, tax compliance is referred to taxpayers' ability and willingness to comply with tax laws which are determined by ethics, legal environment and other situational factors at a particular time and place. Similarly, tax compliance is also defined by several tax authorities as the ability and willingness of taxpayers to comply with tax laws, declare the correct income in each year and pay the right amount of taxes on time (Jayawardane & Low, 2016). Increased tax compliance among individual taxpayers would help to reduce the budget deficit without raising taxes (Kiow, Salleh & Kassim, 2017). According to Kiow et al. (2017), both underreporting of income items and over reporting of expense items reduce tax liability.

In general, there is a growing recognition that SMEs can be a vital resource to combating some of the challenges facing the region by contributing to job growth and the economy, and bridging some of the regional economic development imbalances that have emerged within developed and developing countries (Ayozie and Latinwo, 2010; Emine, 2012; Muritala, et al., 2012; Kiraka, et al., 2013; Haque, Anwar, Yasmin & Islam, 2018).

However, it is generally acknowledged that there is substantial evidence that SMEs face large growth constraints and have less access to formal sources of external finance, potentially explaining the lack of SMEs contribution to the country's economic growth (Pandula, 2011; Anis and Mohamed, 2012; Terungwa, 2012; Kira, 2013). Accordingly, SMEs are very important to Libyan economy because of the fact that the economy of Libya suffers from lack of economic diversification in its activities (Eltaweel, 2011; Abdwahab and Abdesamed, 2012; Zarook et al., 2013 a, b). The government has proactively created the national programs for SMEs in 2008 to promote a vibrant SME sector. However, although 96% of the enterprises in Libya are SMEs, their contribution to the GDP of the country is only 4% (Atniesha, 2009; Abdesamed and Abdwahab, 2012; Essmui et al., 2013). This is supported by UN's report of 2008. It stated that: "the contribution of SMEs to the Gross Domestic Product (GDP) is estimated to be less than 10 percent in most African counties" (UN, 2008). The main aspects of this disadvantaged position is due to: (1) the Libyan economy is heavily dependent on the exports of oil for state revenue; more than 96% of exports are from the oil sector (Eltaweel, 2012, UN, 2008), and (2) the financial difficulties for these enterprises to have accessed for bank loan successfully (Zarook et al., 2013a,b).

Direct taxes, such as income tax, are a major source of Government income in modern countries. Direct taxes in Libya is suffering from the weak collection rate. The actual collection for taxes was 803 million LD from an estimation of 6.3 Billion LD since 2010. Libyan government stated that taxes must be better collected to improve the national income and support the government expenses. The law and regulations in Libya did not updated from years and could be not flexible to help companies specially SMEs to facilitate their compliance. However, the situation in Libya beside the weakness of the government control could be another problem (Haendel, 2019).

There is difficulty in dealing with "hard to tax" sectors in Libya such as small businesses, including small farmers, professionals and in some cases, state-owned enterprises (Libyan Organisation for Politics and Strategies, 2016). The reality of taxes in Libya is the weakest in the countries of the region in terms of development of the sector and inability to control the leakage of funds and profits financiers accurately, in addition to the state of partial chaos experienced by that sector for decades of the previous regime, and this led to the expansion and spread The phenomenon of non-compliance with tax, especially in the cities of the Libyan coast, which practice professions informally, especially services related to rents and duplication of residential and commercial property. It is worth mentioning that the lack of accounting books in the private sector is working to promote the

phenomenon of tax evasion, as it is difficult to estimate the results of projects (Libyan Organisation for Politics and Strategies, 2016; Ruhoma, 2015).

Hassan, Nawawi, Salin, and Azlin (2016) suggest that individual taxpayers need adequate various aspects of tax knowledge in order to fulfill their tax liability responsibly, precisely and timely. According to Kiow et al. (2017), both underreporting of income items and over reporting of expense items reduce tax liability. Past studies on this area have noted that studying the determinants of tax compliance is important due to the existence of tax gap. Underreporting of income and/or over reporting of deductions was not surprising in light of the Libyan personal income tax is a progressive system, i.e. up to maximum of 25% (Tradingeconomics, 2019). Tax evasion and avoidance are impediments to the socio-economic development of different countries, particularly for developing ones. Globally, the SME sector contributes significantly to job creation and inclusive growth. In developed countries, SMEs account for as much as 50% of GDP and an even higher share of total employment (Ayyagari et al., 2003). This is not the case in Libya, where SMEs are estimated to contribute 5% to GDP.

While there is no official data available on the contribution to employment, a reasonable assumption based on other data is that SME's account for 11% of total employment.' Relative to other countries, this indicates much untapped growth potential for SME development in Libya. The problem is to be resolved by this study is whether by identifying factors that impact on the development of tax compliance behavior based on the factors identified.

Literature Review

The Theory of Reasoned Action

A theoretical framework that can be applied to the explanation of innovation adoption and dissemination patterns are the Theory of Reasoned Action (TRA), developed by Fischbein and Aizen and has its foundations in the theory of attitude, learning theories, expectancy-value theories, consistency theories (Sadress, Bananuka, Orobias, & Opiso, 2019). TRA is a predictive model that describes how pre-existing attitudes, subjective norms and behavioral intentions influence onto an individual's behavior. In simpler words, it helps us to understand someone's behaviour through attitudes and subjective norms (Haque, Anwar, Yasmin & Islam, 2018; Kabir, 2021; Kumarasiri & Lodhia, 2020). The model shows that behavior (in our case adoption of innovation) is rooted in the intentions (to adopt) that are formed by the attitudes towards the behavior (towards the adoption and the innovation itself) and subjective norms (Andam & Osman, 2019; Kiconco, Gwokyalaya, Sserwanga, & Balunywa, 2019; Mgammal, Bardai, & Ku Ismail, 2018).

Tax Compliance Behavior

Devos (2009) defined tax compliance as filing all required tax returns at the proper time and that the returns accurately report tax liability in accordance with the tax code, regulations and court decisions applicable at the time the return is filed. A review of the literature shows that Allingham and Sandmo (1972) conducted the first study of the theoretical model of tax non-compliance.

Such model is known as an economic deterrence model (Andreoni, Erard, & Feinstein, 1998). The model assumes rational behavior among taxpayers' and suggested that tax rate, probability of detection and penalty rate are determining factors that affect tax compliance. Similarly, tax compliance can be described as the degree to which a taxpayer obliges to tax rules and regulations. James and Alley (2002) indicated that the meaning of

tax compliance concept can be given from different perspectives. To them tax compliance is defined as "...the willingness of individuals and other taxable entities to act in accordance within the spirit as well as the letter of tax law and administration without the application of enforcement activity". To tackle the challenge of tax non-compliance, it is necessary to understand factors influencing individual's decision to comply with provision of tax laws. The early researchers based their work on economic perspective of tax compliance and they identified tax rate, penalty and detection probability as factors influencing taxpayers' behavior (Allingham & Sandmo, 1972).

Additionally, Allingham and Sandmo (1972) asserted that taxpayers' behavior of noncompliance depends on their belief of the probability of being detected through an audit and the severity of legal penalties imposed. The structural factors, which are beyond the taxpayers' control, are usually exogenously determined. For instance, tax administration, tax complexity, tax rate structures and audit possibility (Alm, Jackson & Michal, 1992).

Determinates of Tax Compliance Behavior

Tax Knowledge

Hassan, Nawawi, Salin, and Azlin (2016) suggest that individual taxpayers need adequate various aspects of tax knowledge in order to fulfill their tax liability responsibly, precisely and timely. Without tax knowledge, they may involve in certain risks being penalized by the tax authority. The Economic Deterrence Theory suggests the form of better education/knowledge to enhance tax compliance. Findings from prior researches are mixed. Hassan et al. (2016) said that there are many cases of unhaqueal non-compliance in Malaysia due to taxpayers' limited knowledge about tax and poor familiarity with the new tax system. Ali, Fjeldstad, and Sjursen (2014) come into a conclusion that tax knowledge and awareness are found to be significantly correlated with tax compliance attitude. Kasipillai and Abdul Jabbar (2003) and Kirchler et al. (2010) document that possessing tax knowledge would lead to higher compliance rates.

In Self-Assessment System, tax knowledge is very important for a taxpayer to be able to comply with the tax laws and regulations; therefore, the level of education received by the taxpayer is an important factor (Eriksen and Fallan, 1996). Loo and Ho (2005) conducted a study in Malaysia on 250 salaried individuals in Self-Assessment System, where tax knowledge was measured in terms of chargeable income, exemptions, reliefs, rebates and tax credits. The study concluded that although the respondents have tertiary education, their tax knowledge in relation to personal taxation was considered to be relatively low thus making them incompetent and not ready to exercise appropriate compliance under self-assessment regime. Eriksen and Fallan (1996) claim that a successful means of preventing tax evasion is to provide more tax knowledge to larger segment of society in order to improve tax ethics and people's conception of the fairness of the tax system.

Mohd (2010), in a study in Malaysia on tax knowledge and tax compliance determinants under Self-Assessment System, concluded that tax knowledge is important in Self-Assessment System and significantly affects tax compliance in a positive direction. This means that in Self-Assessment System in Malaysia, developing tax knowledge further would probably help to increase tax compliance.

Tax Fairness

Fairness is a judgment arising from actual or imagined comparisons involving oneself or oneself and others (Alexander, Balavac, Mukherjee, & Massey, 2018). Fairness is also a perception (Tam, 2014). Perceptions of fairness have important ethical implications in a wide

variety of social and economic contexts: when individuals perceive fairness, they experience satisfaction and tend to be supportive of a situation, whereas when individuals perceive unfairness, they experience anger and tend to be retaliatory (Yip & Schweitzer, 2016; Al-Mamun, Haque and Jan, 2020).

One of the main principles of the tax system design is equity or fairness (Smith, 1776). The fairness of the taxation system can be perceived via two dimensional views: the horizontal equity (where people with the same income or wealth brackets should pay the same amount of taxes) and vertical equity (where the taxes paid increase with the amount of the tax base). The conceptual framework for fairness consideration suggests differentiating three areas of fairness. Distributive justice (refers to exchange of resources, both benefits and costs), procedural justice (refers to the process of resources distribution) and the retributive justice (refers to perceived appropriateness of sanctions in the case of norm-breaking (Kirchler et al., 2008).

Wilson and Sheffrin (2005) used the US IRS taxpayers' compliance measurement program data and divided the sample into moral and immoral taxpayers. Moral taxpayers are those who did not tolerate evasion of low amounts, whereas immoral taxpayers were defined as those who did not tolerate evasion of low amounts, whereas immoral taxpayers were defined as those who had more favorable attitudes towards evading higher amounts. Immoral people were found to be less honest than moral taxpayers. When taxpayers considered the tax system to be "very fair" they were 5 per cent more likely to be honest as compared to those perceiving the tax system just "fair". Moreover, immoral people were more likely to cheat if they had a higher income or were self-employed. Mohd (2010) in a study on tax knowledge and tax compliance determinants in Self Assessment System in Malaysia found this factor insignificant to influence compliance behavior. Marti et al. (2010), in their study in Kenya on taxpayers' attitude and tax compliance behavior, found this factor influencing non-compliance.

Tax Morale

The notion of "tax morale" as an explanatory factor in tax compliance behavior goes back as least as far as the 1960s, as demonstrated in work by the "Cologne school of tax psychology" (Schmölders, 1960; Strümpel, 1969). These researchers emphasized that economic phenomena should be seen from a broader perspective than the traditional neoclassical point of view, and should incorporate insights from social psychology. In particular, they saw tax morale as an essential explanation for tax compliance behavior. This early work foreshadowed the emerging importance of "behavioral economics" as a tool in understanding individual and group behavior, and it is reflected in a range of related approaches, with roots in the psychology of taxation (Kirchler et al., 2010). In the specific context of tax compliance, tax morale is most obviously linked to "intrinsic motivation" (Pukeliene & Kažemekaityte, 2016).

Attitude represents the positive or negative evaluation that an individual holds of objects (Nicoletta, 2011). Taxpayers with positive attitude towards tax evasion will tend to be less compliant, whereas taxpayers with negative attitude towards tax evasion will be more compliant. Taxpayers with positive attitude to the tax authorities or trusting tax authorities will consequently be more compliant. As Kirchler et al. (2008) put it, "the tax attitude in general also depends on the perceived use of the money collected and therefore are connected to tax knowledge". As seen previously, researches on the influence of the non-economic factors on tax compliance are limited, that's why it's hard to find data for comparison purposes among countries. However; despite the theoretical prediction of the impact of

attitude towards taxes, Mohd (2010), in a study done in Malaysia found that taxpayers with positive attitude towards taxes (negative attitude towards tax evasion) are more complaints (positive correlation).

Tax Authority

Tax compliance is a major problem for many tax authorities and it is not easy task to persuade taxpayers to comply with tax requirements even though 'tax laws are not always precise' (Oladipupo & Obazee, 2016). According to Murphy and Tyler (2008), if taxpayers are treated nicely and fairly by the tax authority, they will cooperate and be more inclined to comply with the decisions made by the tax authority.

Tax Rate

Remali et al. (2018) claimed that 'reducing tax rates is not the only policy that has the potential to discourage tax evasion' but the tax rate is also an important factor in determining tax compliance behavior although the exact impact is still unclear and debatable (Kirchler et al., 2010). Tax rates have mixed impact on tax compliance. Allingham and Sandmo (1972) concluded that the taxpayers may choose either to fully report income or report less, regardless of tax rates. Tax rates appeared to be insignificant in determining tax evasion.

According to Kirchler (2007), the economic models of rational compliance decisions fail to clearly predict the effect of marginal tax rate on compliance or hypothesize that higher tax rates lead to higher compliance, rather most empirical research show that higher tax rates lead to less compliance. Pommerehne and Weck Hannemann (1996) demonstrate that evasion increases with increasing marginal tax rate. Baldry (1987) reports an experimental investigation on the relationship between income, tax rates and tax evasion, designed in particular to test predictions of the conventional expected utility maximization analysis of evasion behavior. He found that tax rate is insignificant but income was positively related. Tanzi (1980), carried out a study in USA using aggregate data to find out the relationship between tax rate and tax evasion by using an econometric model, and he found that tax rates were positively correlated with tax evasion.

Tax Penalties

A penalty is money paid usually to a government authority, as a punishment for a crime or other offence (Nzioki, 2014). Increases in tax deterrence sanctions pertaining detection likelihood and the severity of penalties resulted in lower non-compliance among tax payers (Assfaw & Sebhat, 2019). Penalties had significant effect on level of tax compliances; the greater the penalty and therefore the potential audit chance the higher discouragement for potential tax evasion (Gadi, 2015). The level of penalty rate is statistically significant to affect tax compliance levels (Bidin, Sinnasamy, & Othman, 2018).

Penalties are frequently assumed to be useful measures to prohibit undesired behavior; consequently, economic scholars have focused on penalty schemes and their effectiveness (Landsberger and Meilijson, 1982). In order to investigate the impact of penalty on compliance behavior, Friedland, Maital and Rutenberg (1978) conducted a pioneering experiment in which framed as a game rather than a real-life tax situation, 15 participants were instructed to try to earn as much money as possible. Tax rates amounted to either 25 per cent or 50 per cent, audit probabilities were either 6.67 per cent with sanctions fifteen times the evaded amount, or 33.3 per cent and sanctions three times the evaded amount. In every round of the experiment, participants were allocated imaginary monthly income of approximately the average monthly income in prior to filing their taxes. The

results from this experiment have shown that, first, a higher tax rate leads to less declared income, and second, higher punishment seems to be slightly more efficient in preventing evasion than higher audit rates.

In an experiment in South Korea, Park and Hyun (2003) found similar results: compliance increased (positive correlation) both with audit rate and fines. In another study, Mohd (2010) found that penalty is highly negatively correlated with the compliance in Malaysia. Marti et al. (2010), in a study in Kenya, concluded that penalty depending on how is applied, it can facilitate compliance and non-compliance.

Tax Knowledge and Tax Compliance Behavior

Previous studies have acknowledged the effects of tax knowledge on tax compliance behavior. Most studies such as (Aondo & Sile, 2018; Bidin et al., 2018) found tax knowledge have a significant impact on tax compliance. Therefore, tax knowledge plays a vital role in influencing tax compliance (Hamid et al., 2019). Based on the above findings the following hypothesis was developed;

- Tax knowledge has significant effect on tax compliance behavior.

Tax Fairness and Tax Compliance Behavior

Upstream research shows that tax fairness has a significant and significant impact on taxpayer compliance (Azmi, Zainuddin, Mustapha, & Nawi, 2016; Faizal & Palil, 2015; Jimenez & Iyer, 2016; Muslichah & Graha, 2018; Zeng, 2014). Based on the explanation, the following hypothesis can be formulated;

- Tax fairness has a significant effect on tax compliance behavior.

Tax Morale and Tax Compliance Behavior

Tax morale is the attitudes of a group of population on a particular subject, in this case tax compliance (Richardson, 2016). Tax morale is the motivation of a tax payer to comply. Studies have shown that tax morale is significantly related to tax compliance (Hamid et al., 2019; Pukeliene & Kažemekaityte, 2016). Based on the explanation, the following hypothesis can be formulated;

- Tax morale has a significant effect on tax compliance behavior.

Tax Authority and Tax Compliance Behavior

Previous research emphasizes that tax authority has a significant and positive relationship with tax compliance behavior role in creating taxpayer compliance (GIRMA, 2017; Hassan et al., 2016; Pukeliene & Kažemekaityte, 2016). Based on the explanation, the following hypothesis can be formulated;

- Tax authority has a significant effect on tax compliance behavior.

Tax Rate and Tax Compliance Behavior

The importance of tax rate in relation to taxpayers' compliance behavior is getting more attention from researchers. For instance, Remali et al. (2018) found that the tax rate demonstrated the significant relationship towards tax compliance among the SME. Previous researches claimed that the tax rate is has a significant influence on tax compliance (Aondo & Sile, 2018; Remali et al., 2018). Based on the explanation, the following hypothesis can be formulated;

- Tax rate has a significant effect on tax compliance behavior.

Tax Penalties and Tax Compliance Behavior

Previous studies showed that the tax penalties do have a significant effect on tax compliance behavior (Gemmell & Ratto, 2017, 2018; Nuridayu & Rosiati, 2017; Oladipupo & Obazee, 2016). Based on the explanation, the following hypothesis can be formulated;

- Tax penalties have a significant effect on tax compliance behavior.

Figure 1: Conceptual Framework

Methods

This research is quantitative approach and will use numerical data representation to reveal the results of the study. Population of the study was all the SMEs in Libya, which had active records in the system of commercial and trading ministry in 2018/2019. Moreover, the specific persons who were eligible for answering the proposed survey are the accountants, CEO, and business owners (Hossain, Islam and Haque, 2021). The result sample size of this research was calculated using G* power calculator (Rahman, Rashid & Haque, 2014; Kang, 2021). For this particular study, the non-probability sampling is choosing and the techniques followed are convenience sampling (Andrade, 2020; Islam, Jantan, Bashir, Masud & Roy, 2017). For this study, we collect data from 383 enterprises with consideration of surveying only one person from the enterprise. The data will be collected from western Libya because it is the most populated and stable area nowadays.

The sampling population workers received a standard rating questionnaire. A survey of appropriate literature (Adu & Amponsah, 2020; Bahar, et al. 2020; Chong, Yusri, Selamat, & Ong, 2019; Night & Bananuka, 2020) was used as a basis for questions to provide an insight into the objectives of the study. In order to uncover possible measurement problems, clarify unclearly formulated subjects and, most crucially, monitor nonverbal actions, the questionnaires conducted a pilot test. The primary method of data collection used was the survey questionnaire, where, after the pilot analysis, all the items' reliability was verified. Before carrying out the research, the questionnaires were then changed as needed. To assess the authenticity of the face and content. To evaluate the internal consistency of each construct, a reliability study was carried out which ensured that the generalization of each

test product was high. The study tool consisted of four components: a permission letter, a biographical information section, a questionnaire of determinants of tax compliance and a questionnaire on compliance of tax. In addition, participation was declared to be optional and the respondents might at any point withdraw from the research. The Innovative Questionnaire, designed by Weiss, Darwisch, England and Lofquist (1967) was adjusted as a whole (alpha coefficient 0.92). The questionnaire consisted of 50 items, all marked on a Likert scale of five points. The questionnaire used a 1–5 rating system, 1 showing extreme disagreement and 5 showing extreme consent (Islam, Jantan, Khan, Rahman & Monshi, 2018; Vincent-Höper & Stein, 2019).

The questionnaire contained relevant information and concerns for each participant. To estimate the homogeneity of the demographics of the participants, closed questions using Likert-type scales were utilized. To obtain demographic information a multi-choice questionnaire was included in the survey packets. The raw data from the surveys were analyzed using SPSS version 21.0. Descriptive data on demographics were analyzed using the means, frequencies, default and range (primary and predictor). Inferential statistics like the T-Test and ANOVA have been used to assess the influence on leadership styles and innovation of biographical variables. A correlation analysis was used to identify the link between determinants of tax compliance and tax compliance behavior. This software was used to calculate the MLR of dependent and independent variables. Data from this program were evaluated at p-value <.05 using this study.

Results and Discussion

Of the 500 questionnaires administered, 424 responses were collected from staff, resulting in 84 percent response rate. There were 33 cases of missing data which, as recommended by Babbie (2005), were omitted. The majority of respondents were aged 41 to 50 years (37.4%), followed by those aged 51 to 60 years (30.5%) and 31 to 40 years (29.2). Around 1.5 percent of the staff were under 31 years of age, while 1.3 percent were older than 60 years of age. The analysis found that male participants accounted for a higher proportion of overall samples (90.7 percent) compared to female participants (9.3 percent). 61.7 per cent of the respondents had intermediate qualifications (241), about 5.8% (23) of respondents went to secondary school, while 31.9% (125) were undergraduates, 0.6% (2) were holders of postgraduate degrees and 20.3% (79) had more than 30 years of working experience.

Table 1: Pearson Correlation Between Study Variables

Variables	Tax knowledge	Tax fairness	Tax morale	Tax authority	Tax rate	Tax penalties	Tax compliance behavior
Tax knowledge	1	.028	.041	.000	.092	.031	.196 ^{**}
Tax fairness		1	.172 ^{**}	.112	.063	.016	.175 ^{**}
Tax morale			1	.018	.128 [*]	.098	.197 ^{**}
Tax authority				1	.022	.032	.161 [*]
Tax rate					1	.000	-.186 ^{**}
Tax penalties						1	.157 [*]
Tax compliance behavior							1

Tax compliance behaviour was found to have a positive correlation with the variables of tax knowledge ($r = .196$, $p = 0.01$); tax fairness ($r = .175$, $p = 0.05$); tax morale ($r = .197$, $p = 0.01$); tax penalties ($r = .157$, $p = 0.01$); tax authority ($r = .161$, $p = 0.05$) and negative with tax rate ($r = -.186$, $p = 0.01$).

Table 2 Multicollinearity test

Variables	Collinearity Tests	
	Tolerance	VIF
(Constant)		
Tax knowledge	.952	1.051
Tax fairness	.933	1.070
Tax morale	.913	1.093
Tax authority	.951	1.051
Tax rate	.931	1.074
Tax penalties	.903	1.107
Tax compliance behavior	.904	1.108

To explain the importance of the regression coefficient, Beta analysis was used. Regression analysis is used to compare the relative influence of independent variables that are calculated by separate units of measurement, whereas the coefficients of regression are translated to a coefficient of Beta. A higher Beta coefficient translates to a greater influence of the variable on the dependent variable. These Beta coefficients will then be compared to each other.

The coefficient of regression indicates which of the variables predict the dependent variable in the model and to what degree the relationship is. For each vector converted to the

same size, uniform coefficients apply to values in order to equate them and calculate the largest beta value (overlooking the negative signs). The highest Beta coefficient, however, was 0.263 for the tax knowledge, suggesting that this variable added greatly to the clarification of the dependent variable. In fact, the tax knowledge was important at less than .001 (sig. = .000), suggesting its distinct contribution to the prediction of the dependent variable (tax compliance behaviour). The Beta value for overall intention to tax compliance was 0.235 (sig. = .000), suggesting that there was a great input from intention to compliance. According to stronger unique contributions, other factors is organised as follows: tax authority .217, Beta (sig. = .000); tax rate -.256, Beta (sig. = .001) and tax fairness .147, Beta (sig. = .009). In the other hand, the tax morale was .103, Beta (sig. = .099) and the tax penalties was .077, Beta (sig. = .140).

A summary of the findings for regression is provided in Table 2 below. The modified decision coefficient (R^2) showed that differences in the independent variables were explained by 0.228 percent of the variance in the dependent variable. This explains that the difference in the tax compliance behaviour was statistically clarified or compensated for by the equation of regression. R^2 , with $F = 9.683$ and $p < 0.000$, was statistically important. The general expression in the regression equation form is then stated as follows:

Tax compliance behaviour = $3.446 + 0.263 \text{ tax knowledge} + 0.147 \text{ tax fairness} + 0.103 \text{ tax morale} + 0.217 \text{ tax authority} - 0.256 \text{ tax rate} + 0.077 \text{ tax penalties}$.

As shown by the positive R-value of .504 in Table below, the predictor variables were shown to be positively correlated to the output of the workers (the dependent variable). A measured R-square value of .254 shows that the factors were responsible for more than 25.4 percent of the variation in the output with a typical 1.042 estimation error. For the following factors, the low proportion of variation described may be related. Second, since this current research focuses on indirect factors, opposed to direct factors, the values of R^2 are typically much smaller.

Table 3 Summary of Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	.504	.254	.228	1.04261

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	84.203	08	10.525	9.683	.000
	Residual	246.759	227	1.087		
	Total	330.962	235			

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.446	.536		6.434	.000
	Tax knowledge	.263	.065	.235	4.069	.000
	Tax fairness	.147	.056	.157	2.640	.009
	Tax morale	.103	.062	.099	1.658	.099
	Tax authority	.217	.061	.205	3.536	.000
	Tax rate	-.256	.075	.201	3.422	.001
	Tax penalties	.077	.052	.088	1.482	.140

The ANOVA indicates that at a 95 percent confidence level with an F- value of 9,683 ($p < 0.01$), the regression model of the effect of predictor variables on the output is significant. Three factors were shown to be statistically important for the tax compliance behaviour (at $p < 0.001$). These variables are tax knowledge, tax authority and one variable was found to be important – tax rate at $p < 0.05$.

The study investigated the most common negative acts experienced in the tax compliance. According to the study data, respondents from small and medium enterprises experienced various negative acts in terms of the tax compliance. The regression study findings revealed a positive and significant association between tax knowledge and tax compliance behaviour ($t = 4.830$, $p = 0.000$). The R-square-measured determination coefficient revealed that 9.2 percent of the variation in tax compliance behaviour tends to explain the effect of tax knowledge. Hassan, Nawawi, Salin, and Azlin (2016) propose that in order to meet their tax obligation responsibly, correctly and timely, individual taxpayers require appropriate various elements of tax knowledge. Without tax awareness, the taxpayer can be interested in the acts liable to be penalized. Ali, Fjeldstad, and Sjursen (2014) argue that tax education and understanding was found to be strongly associated with the attitude towards tax compliance. Kasipillai and Abdul Jabbar (2003) and Kirchler et al. (2010) report that greater compliance rates will benefit from having tax awareness.

Tax literacy is very relevant in the Self-Assessment System for a taxpayer to be able to comply with tax laws and regulations, so the quality of education obtained by the taxpayer is an important consideration (Eriksen & Fallan, 1996). In Malaysia, Loo and Ho (2005) performed a report on 250 workers in the Self-Assessment System, where tax awareness was calculated in terms of taxable income, exemptions, reliefs, discounts and tax incentives. The study concluded that, while the respondents had tertiary qualifications, their tax knowledge was deemed to be comparatively poor in relation to personal taxes, rendering them incapable and not able to practice sufficient self-assessment enforcement. A positive and significant correlation between tax fairness and tax compliance behaviour ($t = 3.068$, $p = 0.002$) was observed in the study. The consequences of tax fairness explain 3.7 percent of the variation in tax compliance behaviour. If taxpayers found the tax system to be "very fair" they were 5 per cent more likely to be fair as opposed to those perceiving the tax system only "fair". (Wilson & Sheffrin, 2005). In their research in Kenya on the mindset of taxpayers and tax compliance behaviour, Marti et al. (2010) found that this aspect affects non-compliance.

According to this study results, low tax morale contributes to poor behavior in tax compliance. The frequency of the interaction is calculated at the p-value of 0.007 by the r value of 0.177. The R^2 calculated coefficient of determination is 0.032. This suggests that tax morale helps justify 3.2 percent of the variation in the behaviour of tax compliance. In a research conducted in Malaysia, Mohd (2010) noticed that taxpayers with a good attitude towards taxes are more compliant (negative attitude towards tax evasion) (positive correlation). Consequently, taxpayers with a positive outlook towards the tax authorities or trustworthy tax authorities would be more compliant.

Furthermore, this study found that for each increment of one unit in tax authority, one predicts a -0.196 increment in the tax compliance behavior. An examination of the t-values ($t = -3.043$, $p < 0.05$) indicates that tax authority contributes to the impact of the tax compliance behavior. According to Murphy and Tyler (2008), if taxpayers are handled nicely and equally by the tax authority, they would cooperate and be more likely to comply with the decisions taken by the tax authority. The regression analysis results showed that each tax rate unit decrease foresees a 0.163 increase in tax compliance behaviour. An analysis of the t-values ($t = -2.512$, $p < 0.05$) reveals that the tax rate leads to the enhancement of tax compliance behaviour. Allingham and Sandmo defined tax rate, penalty and identification chance as variables affecting the actions of taxpayers in a survey (Allingham & Sandmo, 1972).

This results of this study revealed that an expected change of 0.186 in the dependent variable, tax compliance behaviour, occurs for each unit change of the independent variable, tax penalties. The symbol is positive. An analysis of the t-values ($t = 2.881$, $p < 0.05$) reveals that tax penalties lead to changing tax compliance behaviour. The tax rate, penalty and likelihood of identification were established as factors affecting the behaviour of taxpayers (Allingham & Sandmo, 1972). Allingham and Sandmo (1972) believed that the non-compliance behaviour of taxpayers depends on their confidence in the risk of being found by an audit and the magnitude of legal penalties applied. To impact tax enforcement standards, the amount of the penalty rate is statistically important (Bidin, Sinnasamy, & Othman, 2018).

Based on the above results, the tax compliance determinants in the context of Libyan small and medium enterprises should be redesigned to make that environment more suitable and conducive to enhancing tax compliance. In summary, the results of this current study highlighted the effects of determinants of tax compliance on tax compliance behavior in

Libyan small and medium enterprises. This study suggests that policy makers consider the redesigning of such practices to reduce the possibility of poor tax compliance behaviour.

Therefore, the conclusion can be made that the respondents from the Libyan small and medium enterprises had poor tax compliance behaviour. Importantly, these companies should consider the correlation of intention to tax compliance with tax compliance behaviour. This study indicated a significant correlation between determinants of tax compliance and tax compliance behaviour. Thus, this current study shows that tax compliance determinants impact the tax compliance behaviour of respondents of small and medium enterprises.

Implications to Authorities and Policy Makers

Present literature emphasizes tax compliance as a relevant subject for research. The results of the present research contribute to the literature by defining the determining factors of tax compliance and tax compliance behaviour. As a mediator in the relationship between determinants of tax compliance and tax compliance behaviour, this analysis used the intention of tax compliance.

This current research is one of the pioneering studies to investigate the conduct of tax compliance in the background of Libya. Due to the lack of economic diversification of Libya, SMEs are very important to the Libyan economy (Eltaweel, 2011; Abdwahab and Abdesamed, 2012; Zarook et al., 2013 a, b). The study will create proposals to assist policymakers in Libya's government to provide taxpayers, especially small and medium sized companies, with a better taxation system. The outcomes of this research have since rendered important impacts to tax authorities and policy makers. They have first-hand experience of the impact of unsuitable behavioural factors on tax compliance. This study suggests the development of a better taxation mechanism and accepts that, owing to lack of awareness, taxpayers are unable to comply adequately with taxes. As Eriksen and Fallan (1996) concluded, an effective way of avoiding tax evasion is to provide broader portions of society with more tax awareness in order to enhance tax ethics and people's perception of the tax system's fairness.

Individuals are happy and prefer to support a situation when people consider fairness, while when people perceive unfairness, they feel frustration and tend to be retaliatory (Yip & Schweitzer, 2016). The researcher recommends that until taxpayers suffer poor morale, there is a need to eradicate tax unfairness. Such actions will prove detrimental to a taxpayer's confidence unless and until tax unfairness is acknowledged and handled. Therefore, in order to boost tax confidence, tax officials can learn to understand fairness and equality.

The identification and understanding of the impact of tax rate and tax penalties may also improve the ability of tax officials or policy makers to determine the needs of taxpayers and to determine an acceptable tax rate and penalty. Remali et al. (2018) concluded that 'reducing tax rates is not the only strategy that has the power to reduce tax avoidance,' but the tax rate is still an important element in assessing the conduct of tax enforcement. In a research in Kenya, Marti et al. (2010) reported that penalty would promote enforcement and non-compliance, based on how it is implemented. Increases in tax avoidance penalties related to the risk of identification and the seriousness of penalties resulting in lower tax payer non-compliance (Assfaw & Sebhat, 2019). These results advocate for qualitative surveys among taxpayers and tax authorities which will add to the current body of information.

Limitations of the Study

This research has its own limits, not unlike other reports, which are described as follows; First, at a specific point in time, data for this analysis was obtained. It is necessary to emphasize that questionnaire surveys meant to provide close-ended questions do not allow qualitative discussion. Though qualitative analysis is exploratory, this study is only limited to quantitative approach. Secondly, respondents with the aim of non-compliance with tax and non-compliant actions are always hesitant to disclose their experiences and some of the respondents have different ideas on the same subject. Therefore, when answering their survey, some of the participants in this research may not have been fully transparent.

Recommendations for Future Work

The usage of a qualitative approach may be considered in a potential analysis devoted to tax enforcement. In order to have a wide view of the effect of tax enforcement determinants, studies could use a wider representative sample. Respondents may have something to add outside of the survey questions. Any of them may like to include their stories regarding tax rates and tax authorities' errant actions to be heard so that they can be addressed. A qualitative research or mixed approach can also serve to broaden the assessments of certain participants' perceptions and feelings.

The actions of tax authorities can even be studied in potential research. Officials can have a tremendous ability to mistreat themselves by misusing their authority because of their influential status and convenient access to resources and power. Future research could also explore how politicians might obtain additional details in order to detect the interaction between tax authorities and taxpayers and to recognise forms of in-place mistreatment in order to maintain a high degree of taxpayer morale. More specifically, businesses in developed countries could use the survey from this study to assess and compare the overall tax enforcement activity in their community with this study in the context of Libyan economy. Another significant avenue for future studies is to examine the intention to tax compliance that needs to be identified in order to promote a conducive physical atmosphere and avoid non-compliance actions, to foster a positive attitude towards taxes, and to identify the steps needed to cope with tax evasion intentions.

Conclusion

This study showed how the behaviour of tax compliance can be influenced by poor awareness, unfair taxes, low morale, strict authorities, tax rate and tax penalties. According to this study, in order to preserve the good intent of citizens and the dignity of the taxation system, sufficient consideration needs to be paid to developing a positive climate. The study's results are relevant and hence help the literature and add to it. The findings can also add to the knowledge given by policy-makers and tax authorities on how they might handle tax behaviour in the hope of improving the Libyan economy, especially for small and medium-sized enterprises in the background of Libya.

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