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**INFLUENCING FACTORS ON THE TAX COMPLIANCE
IN PRIVATE SME IN YANGON INDUSTRIAL ZONE**

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ABSTRACT

This study attempts to identify the laws and regulations of tax in Myanmar and to analyse the effects of influencing factors on tax compliance in private SME companies. The primary data was collected by using structured questionnaires through interviews with 120 employers of private SME companies. Secondary data was obtained from library research, desk research and records from respective government departments and related website. The survey was conducted in October, 2018. This study only covered influencing factors on tax compliance of social & psychological factors, economic factors, tax laws and regulations of private SME companies in Myanmar. There was a positive and strong relationship between social and psychological factors, tax laws and regulations factors and tax compliance. Moreover, positive and moderate relationship was found between economic factors and tax compliance according to correlation coefficient. The research showed that influencing factors on tax compliance of private SME companies was related with its tax compliance decision. According to this research, social & psychological factors, economic factors, tax laws and regulations factors had significant effect on the tax compliance. Therefore, influencing factors on tax compliances of all factors had significant effect on the tax compliance for SME companies in Myanmar.

ACKNOWLEDGEMENTS

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CHAPTER (1)

INTRODUCTION

Many developing countries are now focusing on taxation to reduce over dependency on aid of one source of revenue for development. The three most popular words meet often by tax administrators and public finance scholars regarding the tax matters are tax avoidance, tax evasion, and tax compliance. Tax avoidance refers to a situation in which people legally find loopholes in tax laws for the purpose of not paying taxes or paying lower taxes. Tax evasion refers to those who illegally avoid paying taxes they owe. Tax compliance describes persons who pay taxes they owe, the opposite of tax noncompliance and tax evasion. Tax avoidance is, however, not considered tax noncompliance as they still comply with tax laws.

Incorporating tax compliance behavior of citizens will help tax collection agencies develop better strategies and increase tax collection efficiency. Thus, tax compliance could be considered an important issue for a public management and financial management that strives for both efficiency and equity. The primary purpose of this study is to explore the private SMEs' perceptions of the Myanmar tax system and the matter of tax compliance. And, the secondary purpose is analysis of what causes, explains, or influences tax compliance.

1.1 Rationale for the Study

Taxation becomes a concern of the government in most countries. Efforts by governments to generate tax revenues are hindered by widespread tax evasion of tax payers in many countries. Tax compliance has long been a widespread matter in all countries. Tax compliance is important in many aspects. First, tax revenues are the largest and most significant sources of revenues for every country. If the governments can promote more compliance from tax-payers, tax revenues will increase without having to raise tax rates or expand the tax base, which could avoid political tensions. This is especially important during economic downturns. Second, tax compliance reflects a country's true tax system. A country's tax system could not only be determined by tax rate and the tax base but also tax administration and enforcement. Progressive tax rate

structure could even become regressive if the taxes are not collected from high-income groups. If that is the case, tax policy will be distorted or will not serve its purpose to achieve efficiency and equity. Third, related to the second point, tax compliance concerns equity and fairness issues in public administration. If taxes are not collected from some groups within society, tax systems, bureaucrats, and the government are not perceived as fair and ethical by its citizens, and then lose their legitimacy. In today's anticorruption era, fairness and transparency are among the most critical issues included in tax administration as governments need to be responsive to their citizens. Lastly but most importantly, tax compliance helps address the problem of organizational design in public management theory. Tax authorities, despite having imperfect information about the tax compliance behavior of citizens, have to design taxation, audit, and punishment schemes to meet their revenue objectives. This is the classic principal-agent problem. Modern public and financial management theories suggest that public organizations operate in an open system and must be responsive to their environment.

Incorporating tax compliance behavior of citizens will help tax collection agencies develop better strategies and increase tax collection efficiency. Thus, tax compliance could be considered an important issue for a public management and financial management that strives for both efficiency and equity. So, this research paper is prepared to explore the tax compliance behaviors of SMEs in Myanmar and to analyze case study in Yangon Hlaing Thar Yar Industrial Zone. This research paper will also examine the factors that influence tax compliance of private SMEs in Hlaing Thar Yar Industrial Zone.

1.2   Objectives of the Study

The objectives of this research paper are:
(1)   to identify the laws and regulations of tax in Yangon Industrial Zone
(2)   to examine the influencing factors of tax compliance in private SME companies.

1.3   Scope and Method of the Study

This study focuses on the tax system and tax compliance in Yangon Industrial Zone and makes case study in private SMEs in Hlaing Thar Yar Industrial Zone, only 50% of SMEs are selected with random sampling method. This paper applies descriptive research method and it uses both primary data as well as secondary data. The primary data are collected by asking perception on the tax compliance to the respective government departments and employers in these SME businesses (sample 120 businesses). The interviews with related persons were conducted by using structured questionnaires. Their perceptions were measured using five-point Likart scale ranging from 1 to 5: 1 represents strongly disagree, 2 for disagree, 3 for uncertain, 4 for agree and 5 for strongly disagree respectively. The secondary data are collected by library research, desk research and records from respective government departments and related website.

1.4   Organization of the Study

This research paper is organized into five chapters to examine the factors that affect corporate taxpayers to be obedient with tax requirements. Chapter one discusses the introduction that consist of briefly explanation of the idea of this paper including the rationale for the study, the objectives of the study, the scope and method of the study, and the organization of the study. Chapter two presents the literature review that involves different approaches to assign the tax compliance behavior among taxpayers, followed by discussing the summary of the previous case studies. Chapter three focuses on the overview on Tax Laws and Regulations in Yangon Industrial Zone. Then chapter four describes the analysis on tax compliance behaviors of private SMEs – case study in Yangon (Hlaing Tharyar) Industrial Zone that discusses the outcome from the data analyses both secondary data and primary data from questionnaire. In the end, chapter five is the conclusion and it will cover the summary of this study including the major findings of this analysis and recommendations based on these findings.

CHAPTER (2)
LITERATURE REVIEW

Taxation becomes a crucial issue of the government in most nations because it can finance the public spending in many sectors in order to achieve economic development. Mobilizing tax revenue will be the most issue to achieve this fiscal objective. Over the years, various governments have simply tried to increase the level of tax compliance by adopting an intransigent attitude towards all taxpayers and by applying laws and regulations to sanction and fine evaders. These means of enforcement proved to be without a significant success. Towards the end of the 20th century, governments have realized that a change is needed in order to increase the amount of taxes collected. Thus, using adequate strategies based on understanding the reasons which drive compliance decisions is of greater help than strictly applying laws and regulations. The present study tries to reveal the different reasons, factors, or determinants which shape taxpayers' behavior and to underline the idea that tax authorities have to be aware of and understand these determinants if their aim is increasing the level of tax compliance.

2.1   Importance of Taxation

Taxation is believed to be central to economic, social and political development. According to several literatures, a strong tax system can play three important roles in national development: revenue generation, lessen inequality (Cobham, 2005) and promote good governance.

First, revenue generation is the most obvious and direct role of taxation. Tax revenue are used to address immediate problems of human development such as outbreak of famine and emergency medical treatment and long term financing of public infrastructures such as railways, roads, airports, hospitals, schools and public areas. However, financing state spending through such sources contributes little to developing the institutional capacity of the state (Moore, 2004; Ross, 2001). In addition, compared to income from aid and natural resources, tax revenues based on more robust domestic resource mobilization are relatively predictable (Bulir & Hamann, 2007).

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Secondly, tax revenues provide income for a government which it may use to distribute as welfare transfers to reduce extreme poverty. Human poverty in middle-income countries is more clearly the result of levels of income inequality than absolutely low income per se (Cobham, 2005). This implies that priority should be given to redistributive measures over an absolute need for tax revenues.

Finally, tax also plays a key role in building up institutions and democracy through making the state accountable to its taxpayers. The formation of accountable and effective states has been closely bound up with the emergence of taxation systems. The bad governance is often correlated with the state being independent of revenue from taxation of citizens and businesses. For example, in developing countries whose income derives mainly from sources other than taxation of their citizens, for instance from natural resources like oil and minerals, are generally characterized by bad governance and poor public institutions (Odd-Helge & Rakner, 2009). Access to substantial foreign aid can also contribute to detaching the state from its citizens, and reducing the need for tax reforms (Brautigam & Knack, 2004).

2.2   Definition of Tax Compliance

Various meanings of tax compliance have been stated by researches by giving the variety of the definitions to support their investigation towards both individual and corporate taxpayers. Allingham and Sandmo (1972) defined that taxpayers can be stated as golden taxpayers when they can declare their true income. The authors also claimed that taxpayers face uncertainty condition to make decision whether to report their tax correctly or not, in which it is related with an advantage and a disadvantage reporting unreal income. They will get the benefit for undeclared true income by saving the amount of tax that they should report to tax office, but it will be the negative action by getting a penalty from tax authority which is the amount to be paid will be higher because they have to pay in accordance with the actual income plus the penalty. Singh (2003) claimed the simple definition of tax compliance as taxpayer behavior voluntarily reporting without the intervention of law enforcement by tax authority.

Next, according to Internal Revenue Service (2009) as stated by Palil and Mustapha (2011), the meaning of tax compliance is the ability of taxpayers to obey tax laws made by tax authority, to inform their real income in tax return and to pay the amount of tax correctly, in which it must be conducted at the right time appropriate with the tax regulation. In contrast to broadly compliance definition, Kircler (2007) as cited by Palil and Mustapha (2011) described that noncompliance is the negative action from the taxpayer either they do not report their tax obligation or not report their actual earnings and expenses. Al lingham and Sandmo (1972) developed this behavior into two attitudes, namely unintentional and intentional actions which can be connected with tax evasion and tax avoidance. Intentional behavior can be defined as the failure of taxpayer to report the tax by shadow economy, incorrect tax return, and lawlessness (Naibei et al, 2012). However, unintentionality is more emphasized on the failure of taxpayer to understand the tax system regulation associated with tax complexity or shallow tax knowledge (James and Alley, 2002).

Furthermore, previous studies also divided tax compliance into different approaches to get deeper understanding in determining the factors that affect tax compliance behavior. Mc Barnet (2001) confirmed four types of compliance that are 'committed compliance', 'capitulative compliance', 'noncompliance' and 'creative compliance'. He defined these types as followed: First type, they will obey the tax laws without complaint even though they feel compelled to conduct it. The second one, they will report their tax return with inappropriate way such as reduction the expenses or doing 'cash economy' in operating their business. The third, they will hire the lawyers from the legal side to help them to interpret the tax law that can give the benefit to manipulate the tax. The last one, they will find the weakness of tax law by redefining their earnings and recalculate their cost when they report their tax. Moreover, Chow (2004) separated compliance into two forms that are administration and exactness in tax return. Taxpayers must collect their tax return on time every year and they also have to pay the reported tax accurately, in which this condition will depend on the behavior of taxpayer themselves who have freedom under SAS.

2.3   Factors Influencing Tax Compliance

Several studies have been devoted to the analysis of tax compliance' determinants as they are of paramount importance for tax levying, public spending, and providing public goods. Allingham and Sandmo (1972), Srinivasan (1972), Yitzhaki (1974), and later on Erard and Feinstein (1994), Slemrod et al. (2001), or Anderhub et al. (2001) focus on the influence of economic factors (tax rate, audit rate, income, penalty) on compliance behavior. In a strongly documented literature review article, Andreoni et al. (1998) stress the idea that psychological (e.g., guilt, shame, regret, envy, anger, sense of duty), demographic, social, and moral factors should be integrated into standard economic models.

The necessity of this integration lies in the significant discrepancy between theoretical models which overpredict non-compliance and real-world compliance behavior (Andreoni et al., 1998: 855). In accordance with this recommendation, Feld and Frey (2002) focus on the role of trust as a psychological contract between taxpayers and tax authorities. Trust is again the central point in Scholtz and Lubell's (1998) article which shows that it increases tax compliance more than punishment aversion or civic duty. Braithwaite (2003) identifies five motivational postures (commitment, capitulation, resistance, disengagement, gameplaying) which shape tax compliance behavior. Torgler (2005) or Trivedi et al. (2004) support the idea that tax morale, i.e., the intrinsic motivation to pay taxes, plays a key role in raising tax compliance levels.

Kirchler (2007) provides a thorough description of the determinants of tax compliance, dividing them into three categories. He states there are social psychological determinants comprising attitudes, different types of norms, fairness perceptions, as well as motivational features relating to tax compliance, political determinants such as complexity of law and tax system, or fiscal policy, and economic determinants like the rational decision-making process and the effect of audits, fines, tax rates, income on tax behavior.

Figure 2.1   Conceptual Framework of Factors influencing Tax Compliance
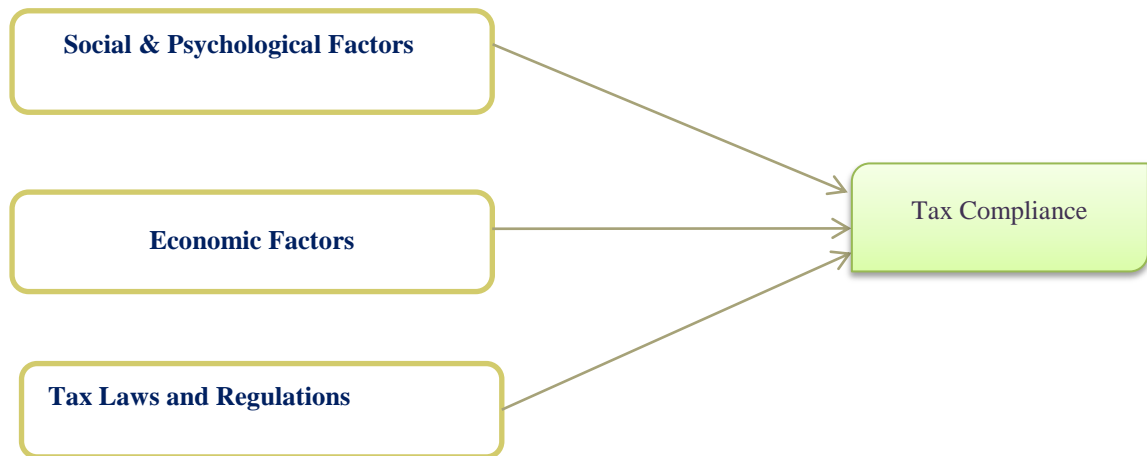
Source: Own Compilation

2.3.1   Social and Psychological Factors

Many researchers have been done for analyzing of behavior of tax compliance and it has been revealed that social and psychological factors are most important factors to determine the tax compliance behavior. The perception of political government accountability can be categorized as social norms, public spending, perceived fairness on tax system and moral tax.

In general Tax attitude depend on the perceived use of funds collected and therefore it is the knowledge as well (Kirchler et.al. 2008), moral, personal, social & national norms. In addition attitudes, norms are important determinants of compliance. Further, behavioral intentions are also determined by subjective norms (Ajzen 1991). (Kirchler et al. 2008).

Attitudes are generally assumed to influence compliance behavior because they represent taxpayer's propensity to respond positively or negatively to a particular situation (Eagly and Chaiken, 1993; Ajzen, 1993). There is a manifold of ways to operationalize and measure attitudes towards taxation starting from general judgments of the government and state (Schmölders, 1960), subjective assessments of tax evasion (Porcano, 1988), ending with moral attitudes towards tax evasion (Orviska and Hudson,

2002). Several empirical studies reveal a statistically significant link between attitudes and self-reported behavior (Chan et al., 2000; Trivedi et al., 2004). Nevertheless, because the link is weak in most of the studies, i.e., attitudes cannot be fully perceived as a convincing proxy for behavior, results have to be cautiously interpreted (Kirchler, 2007: 55).

According to the literature, norms are behavioral standards set at personal, social reference group, and collective level (Kirchler, 2007: 70). Personal norms refer to internalized standards of behavior such as altruism, norm-dependency, or religious beliefs which usually correlate with high tax ethics and willingness to comply. Social norms represent patterns of behavior similarly judged by others (Alm et al., 1999). Generally, if a taxpayer receives from the reference group the signal that non-compliance behavior is acceptable, the level of compliance will decrease. Last but not least, societal norms represent cultural standards integrated in the relationship between taxpayers and authorities as well as in the tax legislation. At this level, compliance can be achieved by reducing the social distance between taxpayers and authorities as well as through cooperation and mutual trust.

When questioned about taxation, the majority of taxpayers mention fairness as one of the most important issues. Irrespectively of the aspects taxpayers assess (tax code, tax burden, tax rate, efficiency of government expenditures), a high perception of fairness yields to a high level of compliance. In terms of which are the tax rate levels perceived to be fair, studies show that a 50% tax rate is the maximum level taxpayers accept (Lévy-Garboua et al., 2006), while a 30% tax rate seems somewhat just (Porschke and Witte, 2002).

In their continuous interaction with authorities, taxpayers develop certain beliefs and attitudes according to which they choose to comply with the tax law or not. Hence, other important determinants of compliance behavior which express the social distance between taxpayers and tax authorities are the motivational postures. According to Braithwaite (2003: 18), these represent "the interconnected sets of beliefs and attitudes that are consciously held and openly shared with others". Compared to the

abovementioned social psychological determinants, the concept of "motivational postures" is more elaborated because it integrates all of them.

2.3.2 Economic Factors

Allingham and Sandmo (1972) and Srinivasan (1973) created separately a model of tax evasion, based on Becker's theory, where the taxpayer is endowed with two strategies: (1) to pay the tax according to the real income, or (2) to declare a smaller amount of income and consequently to pay less tax. Choosing between these two strategies depends on the probability of being audited. As rational maximizers conforming to the von Neumann-Morgenstern axioms, individuals are assumed to opt for the strategy that yields the highest expected utility under uncertainty conditions, therefore evade taxes if it pays. One can notice that if the taxpayer is not audited, the second strategy generates the higher profit, while in case of audit, detection, and fine, the first strategy would be preferred by the rational taxpayer.

In the tradition of tax compliance research, a number of economic factors have been considered important for explaining tax compliance: the level of actual income, tax rate, tax benefits, tax audit, audit probabilities, fines and penalties.

The level of actual income: Spicer and Lundstedt (1976) point out that self-employed have more possibilities to avoid taxes than employed taxpayers. However, self-employed taxpayers have more opportunities for tax evasion and these opportunities might further increase with the number of different income sources. Hence, in tax compliance decisions the level of income might interact with its source. A different aspect of the income source, if income was earned by hard work or an effortless job - has been studied in experiments by Kirchler, Muehlbacher, Hölzl and Webley. Participants were less compliant when they reported income earned by low effort than when they reported hard-earned income. It seems that taxpayers are reluctant to lose their hard-earned money by "gambling" with tax authorities (Kirchler et al., 2007).

Tax rate: Economic models of rational compliance decisions provide either mixed predictions of the effect of the marginal tax rate on compliance, or predict that increased

tax rates would increase compliance (Allingham and Sandmo, 1972). On the contrary, most empirical research finds that higher tax rates decrease compliance or provides mixed results. According to Baldry (1987), the impact of the tax rate would depend on the degree of trust. When trust is low, a high tax rate could be seen as an unfair treatment of taxpayers, as an attempt at taking from the taxpayers what is rightly theirs. When trust is high, the same level of tax rate would be interpreted as contribution to the community, which in turn again profits each individual. For the individual income tax, diverse countries may have the similar structures in the statutory tax rate: flat tax system or the progressive tax system with multiple rates and instilments.

Regarding the source of income, Boylan and Sprinkle (2001) report that participants in their experiment reacted to a tax rate increase with lower compliance if they were endowed with income by the experimenters, but reacted with higher compliance to a tax rate increase if they had to earn their income by performing in a one-hour multiplication exercise.

Audit probabilities: Studies on the impact of audit probabilities on tax compliance have showed weak effects. According to the study of Spicer and Thomas, audit probabilities found low negative effects of audit rates on evasion, especially for precise percentage information on audit probabilities instead of indicating high middle, and low probabilities. In contrast, other experiments report that imprecise information increases tax compliance (Friedland, 1978). Thus, it would be argued that not the objective audit probability is important, but the subjectively perceived probability and its interpretation. A review on tax compliance and audit probabilities (Andreoni, Erard and Feinstein, 1998) showed that objective audit probabilities have little effect on compliance and concluded.

The economic model assumes that taxpayers try to maximize the outcome of the compliance decision by weighing the gain of successful evasion against the risk of detection and punishment. The expected value of non-compliance depends on audit probabilities and fines. Allingham and Sandmo (1972) therefore conclude that an increase in the probability of detection will always lead to a larger income that will be declared by

taxpayers. They assumed that the notification letter induced high income that determined taxpayers to seek help of professional tax advisors to minimize their tax liability.

Penalty: The structure of penalty system may be different in the countries: can be various types of penalty rate by the different tax subjects or different structure of penalty rates by the types of taxpayer. So, penalty rates have been separately applied by the different tax subjects like the individual income tax, capital income tax, value added tax etc. Furthermore, the penalty rates for each tax subject are differentiated by the different types of evasion, like non-filing, timely filing but under-reporting, no bookkeeping of invoices, receipts etc. Or, the penalty rates are differently applied to the types of taxpayers, depending upon their evaded behaviors. If some taxpayers had the intentional evasions, the penalty rate is much higher than that of unintentional evasions (Hyun, 2005). As two kinds of evaded behavior are most common in analyze of tax compliance and are timely filing but underreporting, and non-filing. If the countries have the same system that tax authority prosecutes some intentional and malicious tax evaders for criminal responsibility, after tax audit. This system might play an important role in increasing the level of penalty rates for the behavior of tax evasion. The number of prosecuted cases by tax authority might be an important indicator to compare an additional penalty rate between countries. According to the neoclassical economic theory, taxpayers are selfish rational utility maximizes who, following the optimal strategy, try to evade taxes as a means of obtaining the best outcome.

2.3.3 Tax Law Factors

The political determinants of tax compliance behavior are the ***complexity of tax law***, the ***complexity of tax system***, and the ***fiscal policy***. Before taking the decision to comply, one of the first elements taxpayers are confronted with is the tax law. Its level of complexity can turn a well-intentioned taxpayer into an avoider or evader. The structure of tax system can also hinder taxpayers' willingness to comply, if they perceive the system as being too bureaucratic, with a high tax burden, and a high number of taxes. In the same vein, an inefficient fiscal policy mirrored in squandering of public funds and

low quality of public goods make taxpayers think twice before paying the entire share of their tax liabilities.

From the three aforementioned political determinants of tax compliance, in the following we will draw attention on tax law complexity. People's understanding of tax law is an important factor which shapes their disposition to comply. As the law is intricate, taxpayers become reluctant in trying to understand the provisions contained by the tax law. They often find tax law a burden due to its byzantine wording and perceive it rather as a foreign language. Their level of comprehension depends itself on the education, i.e., the number of schooling years. Plenty of studies have shown that higher-educated people understand better the meaning of tax liabilities and the aim of governmental policies and, as a consequence, they comply more (Schmölders, 1960; Song and Yarbrough, 1978; Spicer and Lundstedt, 1976).

The lack of tax law comprehension engenders distrust and non-compliance. Knowing that, different countries (e.g., Australia, France, New Zealand, USA) have undertaken long and complex endeavors to simplify the tax law, i.e., to rewrite the tax regulations into plain language by using logical structures. Despite the huge number of attempts, they had little effect on the improvement of the tax law grasped by ordinary citizens, business owners, or even by tax authorities, and almost no impact on the increase of tax compliance.

Some studies show that the complexity of tax law creates uncertainty in taxpayers 'minds, thus raising tax compliance levels. Beck et al. (1991) report that compliance increases along with income uncertainty. Moreover, Snow and Warren (2005) conclude that compliance levels increase when taxpayers are uncertain about how many non-compliance acts an audit can detect.

The uncertainty of tax law due to multiple changes generates itself a lack of certainty in the filing behavior and punishment aversion. Hence, most taxpayers hire tax lawyers and preparers. They are called to give expert advice on the correct filling in of the tax returns.

CHAPTER (3)

OVERVIEW ON TAX LAWS AND REGULATIONS IN YANGON INDUSTRIAL ZONE

The Myanmar's tax system is mainly based on the Income Tax Law and the Commercial Tax Law. As the reform agenda put in place by the Myanmar government continues to change the country's political and economic landscape, we also expect that these tax laws will be updated through notifications issued by the Internal Revenue Department (IRD) to accommodate the rapidly changing business environment and to support the government's aim of improving the investment climate in Myanmar. In November 2012, the new Myanmar Foreign Investment Law (MFIL) was approved by the Union Parliament and the president. Apart from establishing land use terms, legal structures and many matters important to an investor, the new MFIL also sets out tax incentives for foreign companies, demonstrating the government's commitment to attract long-term foreign investors. Please refer to the section "Tax Concessions and Incentives under the Myanmar Foreign Investment Law" for further details. Foreign investors may now register their companies under the Myanmar Companies Act (CA) or in conjunction with the MFIL. Permits granted under the MFIL are issued by the Myanmar Investment Committee (MIC). The key differences between companies registered under the CA versus the MFIL include the eligibility for various tax incentives (not limited to corporate, individual and commercial taxes) and longer land use terms.

3.1   Corporate Income Tax

In Myanmar, the Corporate Income tax rate is a tax collected from companies. Its amount is based on the net income companies obtain while exercising their business activity, normally during one business year. The benchmark we use refers to the highest rate for Corporate Income. Revenues from the Corporate Tax Rate are an important source of income for the government of Myanmar.

Income received from any capital assets within Myanmar and from any source of income within the country is deemed to be income received within Myanmar. The

income is generally subject to tax under the normal rules for residents, except that different tax rates apply. Companies incorporated under both the CA and MFIL are subject to corporate income tax of 25% on their total income excluding capital gains, while non-resident foreign organizations are subject to a higher corporate income tax rate of 35% on their income derived from sources within Myanmar. Income that is capital in nature is subject to a different tax rate of 10% for resident companies and 40% for non-resident companies. Generally, branches of foreign companies are deemed to be non-resident companies and hence they are subject to the higher corporate income tax rate of 35%.

3.2   Withholding Tax

Myanmar's withholding tax system applies to both payments to tax residents and non-tax residents. Any person making the following payments is required to withhold income tax at the time of payment at the respective withholding rates:

- Interest payments;
- Royalty payments for the use of licenses, trade-marks and patent rights, etc.
- Payments made under contracts or agreements or any other agreement made by a state organization, local authorities, cooperatives, partnership companies, entities formed under any existing laws for procurements and for services rendered; and/or
- Payments made under contracts or agreements or any other agreement made by foreign enterprises for work performed and procurements made within the country.

The withholding tax rates are as follows:

- Interest payments, resident national or foreigner: 0%; non-resident or foreigner: 15%;
- Royalties for the use of licenses, trademarks, patent rights, etc. resident national or foreigner: 15%; non-resident or foreigner: 20%;

- Payments made under contracts or agreements or any other agreement made by a state organization, local authorities, cooperatives, partnership companies, entities formed under existing laws for procurements and for services rendered within the country: resident national or foreigner: 2%; non-resident or foreigner: 3.5%; and
- Payments made under contracts or agreements by foreign entrepreneurs or foreign companies for procurements and services made within the country: resident national or foreigner: 2% and non-resident or foreigner: 3.5%.

Dividends, branch profits and share of profits of an association of persons which has been taxed are exempt, and therefore no withholding tax is deductible. The tax withheld on behalf of the payer is to be paid to the IRD within seven days from the date of withholding.

3.3   Tax Administration & Payments

The taxable period of a company is the same as its financial year[1] (income year), which is from April 1 to March 31. Income earned during the financial year is assessed for tax in the assessment year, which is the year following the financial year. In general, income tax returns must be filed within three months from the end of the financial year, i.e. by June 30 of the financial year. However, advance payments for tax must be made either in monthly or quarterly installments throughout the income tax year based on the estimated total income for the year. The advance payments and any taxes withheld are creditable against the final tax liability of the taxpayer. The date for settling the final tax liability will be specified in the notice of demand issued by the IRD.

Tax returns for capital gains must be filed within one month from the date of disposal of the capital assets. The corresponding payment for capital gains tax must also be made within one month from the date of disposal. If a taxpayer discontinues his business, returns must be filed within one month from the date of discontinuance of business.

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[1] Financial year is newly determined in 2018 as from October 1st to September 30th.

3.4   Tax Audit Process

Under the Myanmar Income Tax Law, if it is found that there is a fraudulent intention to evade tax, the assessment or reassessment of income tax can be made at any time on the income that has avoided the assessment of tax.

Failure by a taxpayer to file a return of income knowing that assessable income has been obtained, and failure to comply with the notice of the IRD to submit accounts and documents including the tax return and profit and loss accounts within the time prescribed, or submitting forged instruments and other documents, are included within the meaning of fraudulent intention. If the tax authority in the course of investigation finds that a taxpayer has concealed income or particulars relating to income, the taxpayer may be required to fully disclose the facts within the specified time. In addition, the taxpayer must pay a penalty equal to 50% of the increased tax liabilities on account of the concealment. If the taxpayer fails to disclose the particulars within the specified time or discloses less than the income concealed, the director, officer or agent of the taxpayer company will also be subject to prosecution, in addition to paying the tax and penalty. If he is found guilty, the director, officer or agent of the taxpayer company may be punishable with imprisonment for between three to 10 years.

3.5   Taxes on Personal Income

Resident national and foreigner individuals are taxed on their worldwide income, while non-resident foreigners are taxed only on income that has been derived from sources within Myanmar. Foreigners who reside in Myanmar for at least 183 days during an income year are considered resident foreigners, while foreigners who reside in Myanmar for less than 183 days during an income year are considered non-resident foreigners, unless they are working for MFIL companies, in which case they will be taxed at the income tax rates applicable to a resident national regardless of their period of stay in Myanmar.

Individual tax rates on salaries earned in Myanmar by resident nationals and foreigners (including employees of MFIL companies) are progressive ranging from 1% to

20%. Salaries earned by non-resident foreigners are subject to a flat individual tax rate of 35%. Salaries of foreigners engaged under special permission in state-sponsored projects, enterprises, received in kyats are subject to individual tax of 20%. There is no tax payable if total salaries do not exceed MMK1.44m ($1584) a year. Other income earned by individuals is also subject to individual tax rates of 2% to 30% for resident nationals and foreigners, and 35% for non-resident foreigners.

Capital gains taxes are applicable to individuals at a rate of 10% for resident nationals and 40% for foreigners and non-resident foreigners, respectively.

3.6   Commercial Tax

Commercial tax is imposed on a wide range of goods and services produced or supplied within the country, based on the sale proceeds. In addition, the tax is also levied on imported goods, based on the total landed cost, which is the sum of the cost, insurance and freight value, and Customs duties. Collection of these taxes is made at the point of entry and the time of clearance.

Commercial tax rates range from 0% to 100%, depending on the nature of the goods and services described in the schedules appended to the Commercial Tax Law. Generally, the commercial tax rate is 5%. Commercial tax is, however, exempt on all exports of goods except for five natural resource items: natural gas, crude oil, jade, gem stones and wood. In addition, no commercial tax is imposed if the amount of sales or receipts from services for a financial year is not more than MMK10m ($11,000). The commercial tax that a business charges and collects can be regarded as output tax which has to be paid to the IRD. Commercial tax incurred on business purchases and expenses can also be regarded as input tax except in the case of 18 items of special goods as per Schedule 6 of the Commercial Tax Law.

CHAPTER (4)

ANALYSIS ON TAX COMPLIANCE BEHAVIORS OF PRIVATE SME IN YANGON INDUSTRIAL ZONE

This chapter aims to present the profile of respondents and analysis of tax compliance behaviors of private SMEs. It consists of research design, demographic profile of respondents, reliability test of the variables, analysis on influencing factors on the tax compliance of private SMEs, the correlation of influencing factors and tax compliance and multiple regression analysis on influence factors and tax compliance.

4.1 Research Design

This research aims to explore on the relationship between tax compliance and its determinate factors of Yangon Industrial Zone (Hlaing Thar Yar Township). In this paper applies descriptive research method and it uses both primary data as well as secondary data. The data is collected by using structured survey and in-depth questionnaires asked with SMEs' owners. The primary data are collected by asking perception on the tax compliance to the employers in these SME businesses in Hlaing Tharyar Industrial Zone. In Hlaing Thar Yar Industrial Zone have altogether 270 registered businesses. These businesses were manufacturing, transportation, distribution and service. Among them, 67 employers from manufacturing business and 1 employer from transportation business, 35 employer from distribution business and 17 employers from services business, total 120 employers which are represent 45% of business in Hlaing Tharyar Industrial Zone to ask survey questionnaire for this study. Secondary data is gathered from government annual reports, previous researches, relevant text books and internet websites.

4.2   Demographic Profile of Respondents

In this study, profile of SMEs' owner is measured with eight factors. They are gender, age, marital status, education level, type of business, numbers of employees, year of experience and income level of the respondents. The study involved 120 respondents. This can be seen Table (4.1).

Table (4.1)   Demographic Profile of Respondents

	No. of Respondents	Percentage
Gender		
Male	80	66.67
Female	40	33.33
Age		
Below 25	2	1.67
25-34	19	15.83
35-44	31	25.83
45-50	46	38.33
51 and Above	22	18.33
Marital Status		
Single	22	18.33
Married	98	81.67
Education Level		
High School	17	14.17
Diploma level	19	15.83
Bachelor's Degree	71	59.17
Masters Level	13	10.83
Types of Businesses		
Manufacturing	67	55.83
Transportation	1	0.83
Distribution	35	29.17
Service	17	14.17
Numbers of Employees		
10 – 50	45	37.5
51 - 100	55	45.83
101 -150	15	12.5
151- 250	5	4.17

Source: Survey Data, 2018

Table (4.1) Demographic Profile of Respondents (Cont;)

	No. of Respondents	Percentage
Lifespan of Business		
Less than 1 year	14	11.67
1 year - 3 years	13	10.83
3 years - 6 years	25	20.83
6 years - 10 years	45	37.5
More than 10 years	23	19.17
Monthly Business Incomes		
less than 5,000,000	57	47.5
5,000,001 – 10,000,000	36	30
10,000,001– 20,000,000	21	17.5
20,000,000– 50,000,000	6	5

Source: Surveyed Data, 2018

Gender of Respondents

According to Table (4.1), respondents of gender are classified into two groups such as male and female. The percentage of the gender of the respondents was found male respondents are 66.67 percent while female respondents are 33.33percent the survey. Therefore, male respondents are the major distribution of the sample.

Age of Respondents

Age of respondents can be divided into five groups; below 25, between 25 and 34years, between 35 and 44 years, between 45 and 50 years, and 51 years and above.

According to Table (4.1), 2 respondents (1.67 %) are below 25 years, 19 respondents (15.83%) are between 20 and 25 years, 31 respondents (25.83%) are between 35 and 44 years, 46 respondents (38.33 %) are between 45 and 50 years and 22 respondents (18.33 %) are 51 years and above. It is found that the most of respondent are fall in the age group between 45 and 50 years.

Marital Status of Respondents

According to Table (4.1), marital status of respondents is classified into two groups; single and married. It was found that 22 respondents are single and 98 respondents are married. In terms of percentage, 18.33 percent of respondents are single and 81.67 percent of respondents are married. It is found that the most of respondent are fall in the married group; therefore, married respondents are the major distribution of the sample.

Education Level of Respondents

As show in Table (4.1), education level of respondents can be classified into eight groups. There are primary, middle, high school, diploma level, bachelor's degree, masters level and PhD level. It is found that 17 respondents describing 14.17 percent are high school level, 19 respondents describing 15.83 percent are diploma level, 71 respondents describing 59.17 percent are bachelor 's degree and 13 respondents describing 10.83 percent are masters level. It can be deducted that most of the respondents are graduate level.

Types of Businesses

Types of businesses of respondents can be classified into five groups; manufacturing, transportation, distribution, fisheries & livestock and other.

According to Table (4.1), it was found that 67 respondents (55.83%) are working manufacturing business, 1 respondent (0.83 %) are working transportation business, 35 respondents (29.17%) are working distribution business, 2 respondents (1.67 %) are working fisheries & livestock business and 17 respondents (14.17 %) are working other business. It is found that the most of respondent are working manufacturing business.

Numbers of Employees

Numbers of employees of respondents can be classified into four groups; manufacturing, transportation, distribution, fisheries & livestock and other.

According to Table (4.1), it was found that 45 respondents (37.5%) are appointed between 10 and 50 employees, 55 respondents (45.83%) are appointed between 51 and 100 employees, 15 respondents (12.5%) are appointed between 10 1and 150 employees, 5 respondents (4.17%) are appointed between 151 and 250 employees in their business. It is found that the most of respondent are appointed between 51 and 100 employees in their business.

Lifespan of Business of Respondents

Lifespan of business of respondents was classified into five groups: less than 1 year, between 1 and 3 years, between 3 and 6 years of experiences, between 6 and 10years of experiences, and above 10 years of experiences.

As show in Table (4.1), lifespan of business of respondents in SME businesses was found that 14 respondents describing 11.67 percent are less than 1 year, 13 respondents describing 10.83 percent are between 1 year and 3 years, 25 respondents describing 20.83 percent are between 3 years and 6 years and 45 respondents describing 37.5 percent are between 6 years and 10 years and 23 respondents describing 19.17 percent are more than 10 years. It can be deducted that most of the respondents of their lifespan of business are between 6 years and 10 years.

Monthly Business Incomes of Respondents

Monthly business incomes of respondents can be classified into five groups; less than 5,000,000 kyat, between 5,000,001 and 10,000,000 kyats, between 10,000,001 and 20,000,000 kyats, between 20,000,000 and 50,000,000 kyats and above 50,000,001 kyats.

According to the survey, it was found that 57 respondents (47.5 percent) are got less than 5,000,000 kyat, 36 respondents (30 percent) are got between 5,000,001 and 10,000,000 kyat, 21 respondents (17.5 percent) are got between 10,000,001 and 20,000,000 kyat and 6 respondent (5 percent) are got between 20,000,000 – 50,000,000 kyats. Therefore, most of respondents are got income less than 5,000,000 kyats from their business operation.

4.2 Reliability Test of the Variables

Before analysis tax compliance factors and its effect, reliability test is conducted initially. Reliability refers to the extent to which a scale produces consistent results, if the measurements are repeated a number of times. Reliability analysis is determined by obtaining the proportion of systematic variation in a scale, which can be done by determining the association between the scores obtained from different administrations of the scale. Thus, if the association in reliability analysis is high, the scale yields consistent results and is therefore reliable. Cronbach's alpha is one way of measuring the strength of the scale yields consistent results. This method has been recognized as an effective and widely-used approach to determine the internal consistency of study instruments (Cortina, 1993). According to the Zikmund and Bahin (2010), they consider very good reliability when the Cronbach's alpha value is between 0.80 and 0.95, the alpha value between 0.70 and 0.80 shows as good reliability, it is tended to think of the alpha value between 0.60 and 0.70 as fair reliability and an alpha value less than 0.6 is consider to be poor reliability.

In this study, the Cronbach alpha for each of the variables - social & psychological factors, economic factors, tax laws and regulations and tax compliance and are described in Table (4.2).

Table (4.2)   Reliability of the Variables

Sr. No.	Variables	No of items	Alpha
1.	Social & Psychological Factors	8	0.899
2.	Economic Factors	8	0.886
3.	Tax Laws and Regulations	8	0.904
4.	Tax Compliance	6	0.772
	Overall	4	0.843

Source: Survey Data, 2018

In above Table (4.2) was presented that the alpha values for all of variable - each of the independent variables (social & psychological factors, economic factors and tax

laws and regulations) and dependent variable (tax compliance) are demonstrated a high level of reliability. According to the results, the alpha value of social & psychological factors is 0. 899 that it's consider as strong positive reliability for this independent variable. And the result show that the alpha values of economic factors have 0.886 which is also consider as very good reliability, according to the Zikmundand Bahin. In addition, the alpha values for tax laws and regulations are 0.904 that it can be assumed as good reliable and also highest value among these four variables. Furthermore, the dependent variable of tax compliance has reliability coefficient of 0.772 that can be assume good reliability. The overall variables (depended and independent) of alpha values are 0.7 above that are demonstrated as an acceptable reliability.

4.3 Analysis on Influencing Factors on the Tax Compliance of Private SMEs

This section presents the analysis on tax compliance behaviors of private SMEs. In this research paper, the tax compliance behaviors variables are (a) social & psychological factors, (b) economic factors, and (c) tax laws and regulations that were regarded as the independent variables for tax compliance. The tax compliance variable was regarded as the dependent variable according to the conceptual framework of the study. This study prepared structured questionnaire and asked to the owner of private SMEs in Yangon Industrial Zone. The questions are based on the five-point Likert Scale. (5 is strongly agreed, 4 is agreed, 3 is neural, 2 is disagreed and 1 is strongly disagreed).

4.3.1 Influencing Factors on Social & Psychological

The influencing factors on social & psychological factor determine how much employer can consider on their tax payment to government. In this study, the social & psychological factors were moral, fairness and equity, attitude and government accountability. In general tax compliance depends on moral, fairness and equity, attitude and government accountability. In addition moral, fairness and equity, attitude and government accountability are important determinants of tax compliance (Kirchler et.al. 2008)**.**

Influencing factors on social & psychological factors is measured with eight factors. The employer perception on this factor was calculated and presented as mean and standard deviation values that are shown in Table (4.3).

Table (4.3) Influencing Factors on Social & Psychological

Sr. No	Particular	Mean Value	SD
1.	I want to pays the right amount of taxes on time	3.48	0.744
2.	I don't search loopholes ways to tax avoidance and tax evasion on payment taxes.	3.68	0.724
3.	I willing to pay tax because of Tax Laws and Policy are always precise	3.69	0.696
4.	I willingness to obey because the government of tax system are fair and equity for my business.	3.68	0.733
5.	I can pay taxes because of tax penalties are deterrent on my business.	3.68	0.724
6.	I willing to pay tax because tax payment is an indicator of loyalty to the government	3.69	0.696
7.	I willing to pay tax because the number of staff working in the tax office is effective service to keep off the correct record and calculate correct Tax penalties.	3.68	0.733
8.	I willing to pay tax because the government is well-spent on collected tax as public service in country	3.56	0.828
	Overall Values	3.64	0.564

Source: Survey Data, 2018.

According to the results Table (4.3), the overall mean value is 3.64. It means that the employers had agreement on social & psychological factors because of employers had

good moral, accepted on government of tax system because of this taw system was fairness and equity for SME businesses, good attitude and believed on government accountability.

The highest score level of employers perception on among eight factors of social & psychological determinants is that willing to pay tax because of Tax Laws and Policy are always precise and willing to pay tax because tax payment is an indicator of loyalty to the government which mean value with 3.69. This result means that the most of employer was practiced and followed the Myanmar Tax Law policy to pay tax on their business income. And also, most of SMEs owner are considered to have good attitude by regularly contributing tax payment to the government because they assume tax payment is an indicator of loyalty to the government.

Another side, the lowest score level of employers perception among eight factors of social & psychological determinants is that employers want to pays the right amount of taxes on time which mean values is 3.48. This means that although most of employers had desire to pay the right amount of tax, some may not be.

4.3.2 Influencing Factors on Economic

In this study, the economic factors were recognized – tax audit, fines, tax rate and income of SME businesses owners. Because of the tax audit is one of the most effective policies to protect the behavior of tax evasion (Hyun 2005). The level of tax audit can be determined by two elements; how many taxpayers are selected for audit and how much intensive is the audit. Clotfelter (1983) 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, 2007). Higher fines simply make evading taxes more hazardous for taxpayers and should deter from evasion. The higher level of income of the taxpayers will improve tax compliance.

Influencing factors on economic is measured with eight factors. The employer perception on this factor was calculated and presented as mean and standard deviation values that are shown in Table (4.4).

Table (4.4)   Influencing Factors on Economic

Sr. No.	Particular	Mean Value	SD
1.	I appointed auditor to examination of whether my tax has correctly assessed and reported their tax liability and fulfilled other obligations.	3.63	0.810
2.	I think incompetent and un-experienced auditors will get trouble to reveal and to punish under-reported taxes and this leads to tax inequity, and the tax inequity produces a negative response to taxation.	3.63	0.789
3.	I willing to pay penalties because I'm not afraid of existing penalties because the penalties are not strong enough and too soft	3.83	0.585
4.	I can effort to pay the penalty or fines because of the penalty rates are very low	3.67	0.653
5.	I willing to pay tax because of tax rates are too low	3.68	0.624
6.	I willing to pay tax because the tax rate system is almost appropriate and suitable with the economic condition	3.87	0.593
7.	I think incomes accurately is fair to be taxed from their own earnings	3.83	0.575
8.	I think income tax rate does not affect my decision on tax non-compliance because of tax rates are suitable with firm income.	3.87	0.593
	Overall Values	3.75	0.491

Source: Survey Data, 2018.

According to the Table (4.4), the overall mean value is 3.75, that is, the employers had agreement on economic factors because there were audit probability, fines, flexible tax rate, and higher income.

The highest score level of influencing factors on among eight of economic factors is that employers think tax rate system is almost appropriate and suitable with the economic condition and income tax rate does not affect employer's decision on tax non-compliance because of tax rates are suitable with firm income which mean value were 3.87. This results mean that tax rate system is almost appropriate and suitable with the economic condition and tax rate does not affect my decision on tax non-compliance because of tax rates are suitable with firm income.

Another side, the lowest score level of influencing factors on among eight of economic factors is that employers was appointed auditor to examination of whether tax has correctly assessed and reported their tax liability and fulfilled other obligations and employers think incompetent and non-experienced auditors will get trouble to reveal and to punish under-reported taxes and this leads to tax inequity, and the tax inequity produces a negative response to taxation which mean values were 3.63. These results show that most of SMEs owner consider to appoint auditor for examination of whether tax has correctly assessed and reported their tax liability and fulfilled other obligation and also choose competent and experience auditors will get correct taxes report for their business.

4.3.3 Influencing Factors on Tax Laws and Regulations

Influencing factors on tax laws and regulations are measured with eight factors. The employer perception on this factor was calculated and presented as mean and standard deviation values that are shown in Table (4.5).

Table (4.5)   Tax Laws and Regulations

Sr. No.	Particular	Mean Value	SD
1.	I willing to pay tax because this country of tax law are simplicity to understand easy i.e. calculation of tax filing and paying dates	3.86	0.598
2.	I feel this country of tax is an obligation and believe in no corruption	3.83	0.570
3.	I feel of tax system was justice for all taxpayers to become tax compliance (i.e. paying a fair share of tax)	3.87	0.593
4.	I am more willing to pay because of the government of tax system aims for delivers valuable public goods and services in return (i.e if the government not to waste their money)	3.68	0.733
5.	I am more willing to pay because of the government made tax reduce for regularly tax players	3.68	0.624
6.	I think local fiscal policy not only causes costs to the companies in terms of tax payments, but also in terms of compliance costs.	3.86	0.579
7.	I think this county of government was reduces tax cost because of rare to fiscal expansion for use of deficit financing.	3.83	0.575
8.	I was assumed on local fiscal policy does not indeed affect firm profitability	3.87	0.593
	Overall Values	3.81	0.471

Source: Survey Data, 2018.

According to the Table (4.5), the overall mean values of influencing factors on all tax laws and regulations factors are 3.81. Accordingly, the overall mean value represents the acceptable level because government of tax law, system and fiscal policy are not complexity for SMEs' owner.

The highest score level of influencing factors on among the tax laws and regulations factors is that employers feeling of tax system was justice for all taxpayers to become tax compliance (i.e. paying a fair share of tax) and assumed on local fiscal policy does not indeed affect firm profitability which mean values were 3.87. This result means that the Myanmar government tax system was justice for all taxpayers to become tax compliance and local fiscal policy does not indeed affect firm profitability for all SMEs owner.

On the other hand, the lowest score level of influencing factors on among the tax laws and regulations factors is that employers more willing to pay because of the government of tax system aims for delivers valuable public goods and services in return and more willing to pay because of the government made tax reduce for regularly tax players which mean value is 3.33. This mean that most of SMEs owner want to more provide regularly on their tax payment on government for apply valuable public goods and services and most of SMEs owner want to more reduce on their tax payment for regularly tax payment owners.

4.3. 4 Overall Influencing Factors on the Tax Compliance

In this study, overall influencing factors on the tax compliance in private SMEs in Yangon Industrial Zone (Hlaing Tharyar) was measured with 3 factors. These factors are social & psychological factors, economic factors and tax laws and regulations which mean and standard values for each factors and the overall mean value are presented in Table (4.6).

Table (4.6)   Overall Influencing Factors on the Tax Compliance

Sr. No.	Particular	Mean value	SD
1.	Social and Psychological Factors	3.64	0.564
2.	Economic Factors	3.75	0.491
3.	Tax Laws and Regulations Factors	3.81	0.472
	Overall Value	3.73	

Source: Survey Data, 2018

According to the Table (4.6), the influencing factors on the overall tax compliance factors of the overall mean is was 3.73 at agreement level. This assumed that employers was agreement on overall influencing factors on the tax compliance - social & psychological factors, economic factors and tax laws and regulations by structuring of Myanmar Government for private SME organization. In addition, the tax laws and regulations factors have the largest mean value (3.81) among three variables of influencing factors on the tax compliance of SME businesses. On the other hand, social and psychological factors have the lowest mean value (3.64) among three variables of influencing factors on the tax compliance of SME businesses.

In standard deviation results, the influencing factors on the tax compliance of SME businesses of standard deviation values of these three factors are 0.564, 0.491and 0.472 respectively which all of these standard deviation results are lower than 1. According to this result all of these three factors of influencing factors on the tax compliance of SME businesses can able to assume as significant factors to create its making tax payments.

4.4   Analysis on Tax Compliance

In this section was presented the analysis on tax compliance concern with influencing factors on the tax compliance of private SME businesses in Yangon Industrial Zone are measured with six items. The mean and standard deviation values are presented in Table (4.7).

Table (4.7) Tax Compliance

Sr. No	Particular	Mean Value	SD
1.	I want to pay tax because the government is well-spent on collecting tax as public service in Country	3.87	0.593
2.	I'm paying taxes accurately to because tax payment is an indicator of loyalty to the government	3.57	0.658
3.	I willing to pay tax because of government of tax rates are too not high and tax system is fair for SME businesses	3.83	0.706
4.	I willing to pay tax because of government of tax system is appropriate & suitable with the economic condition	3.48	0.722
5.	It will become easier to comply with government regulations	3.68	0.676
6.	I want to pay tax because of government tax system and tax law factors is too simple, clear and frequently not changed for SME businesses	3.67	0.653
	Overall Values	3.68	0.433

Source: Survey Data, 2018

According to the Table (4.7), the tax compliance of the overall mean values is 3.68 at agreement level because most of SMEs cannot avoid or have not wish to avoid tax responsibility.

The highest mean score level of tax compliance that employers want to pay tax because the government is well-spent on collecting tax as public service in country which mean value is 3.87. It shows that the most of employers were recognized government spending on collecting tax as public services from their business income.

On the other hand, the lowest mean score level of tax compliance is that employer willing to pay tax because of government of tax system is appropriate & suitable with the economic condition which mean value is 3.48.

4.5   The Correlation of Influencing Factors and Tax Compliance

In this section presents that the influencing factor on tax compliance variable correlated with influencing factors on the tax payments of SME businesses in Yangon Industrial Zone. The correlation Analysis is the statistical tool used to study the closeness of the relationship between two or more variables. Correlation coefficient range is the between +1 and -1 that +1 indicates the strongest positive correlation possible, and -1 indicates the strongest negative correlation possible.

In this study, the correlation of independent variables (social & psychological factors, economic factors and tax laws and regulations) was tested to show their correlation with dependent variable (tax compliance). The results of the correlations of the measured variables are show in Table (4.8).

Table (4.8) The Correlation of Influencing Factors and Tax Compliance

Sr. No	Description	Correlation Coefficient	P-value
1.	Social and Psychological Factors	0.752**	0.000
2.	Economic Factors	0.618**	0.000
3.	Tax Laws and Regulations Factors	0.708**	0.000

Dependent Variable: Tax Compliance

** Correlation is significant at the 0.01 level (2-tailed)

Source: Survey Data, 2018

According to the table, the tax payments influencing factors have positive correlation with the tax compliance factor at 0.01 levels (2-tailed). The positive correlation coefficient between Social and Psychological Factors and tax compliance is ($r = 0.752$, $P <0.01$). This result shows that social and psychological factors have many factors to influence on tax compliance. And, economic factors and tax compliance is

positive correlated (r = 0.618, P <0.01). Furthermore, tax Laws and regulations factors (r = 0.708, P <0.01) is also positive correlated with tax compliance.

The above value of positive correlations results show that the tax payments influence factors are provided to pay the higher the level of the tax compliance for private SMEs business in Yangon Industrial Zone.

CHAPTER (5)

CONCLUSION

This chapter is the conclusion which is discussed based on the results of the statistical analysis. It consists of findings and discussions, suggestions and recommendation, and limitation and need for future research. This study analyzed the relationship between the influencing factors and tax compliance in private SME companies.

5.1   Findings and Discussion

The findings of the study supported the importance of tax payment influencing factors in enhancing the tax compliance of private SME companies in Yangon Industrial Zone. The main objectives of this study are to test the relationship between the tax payment influencing factors and tax compliance to yield the higher level of tax compliances on SME businesses owner based on tax payment influencing factors. Therefore, it is found that tax payment influencing factors and tax compliance factors effect in the tax payment decision on SMS business owners.

According to the survey data, in gender group, male respondents are more than female respondents. The major age group of age respondents is between 45 and 50 years. In marital status groups, married groups of respondents are more than single groups. The most of respondents are graduated. The type of businesses was found that the most of respondent are working manufacturing business. Numbers of employees is found that the most of SME businesses owner was appointed between 51 and 100 employees in their business.

According to the survey data, lifespan of business of respondents in SME businesses was found that most of SME businesses owner were have experienced between 6 years and 10 years in their business. The monthly business income of most respondents is the got less than 5,000,000 kyats from their business.

According to the mean values analysis of tax payment influence factors, tax laws and regulations factors has the maximum mean value. It can be concluded that Myanmar government can support successfully tax law and regulation activities of the tax payment influence on SME business owners. The tax law and regulation activities, can increase SME businesses owner to improve their tax payment decision because of government of tax law, system and fiscal policy are not complexity for SMEs' owner which can lead to tax compliance for SME businesses owner.

In addition, social and psychological factors have the minimum mean value. It can be concluded that tax payment influence factors of, social and psychological factors are not attractive or influence to get the SMEs owner tax compliance decision and recognition because SMEs owner of employers had generally good commitment, easy capitulation, nonresistance, fair engagement on their tax payment decision.

According to the results of reliability test, all variables are reliable. The correlation results show that there is a positive relationship between tax payment influence factor and tax compliance in private SME companies. Among the tax payment influencing factors, social and psychological factors has the strongest positive relationship with tax compliance. This result shows that social and psychological factors have many factors to influence on SME businesses owner to become tax compliance decision increased. The other the tax payment influencing factors; economic factors have positive correlation with tax compliance. In addition, tax laws and regulations factors have moderate positive correlation with tax compliance. These results show that more tax payment influencing factors are needed to provide by government to get more tax compliance decision increase from SMEs business owner.

Finally, these results provide evidence that taxpayers who have social & psychological factors, economic factors and tax laws and regulation would tend to be less compliant (negative association). Besides, a high probability of being audited would tend to be more compliant (positive). Thus, tax payment influencing factor have many advantaged to improve tax player's tax compliance decision by providing low tax rates and fair tax system are the two most crucial factors associated with high compliance.

Furthermore, insufficient tax auditing, little deterrent effects of tax penalties and tax amnesties enacted frequently have impact on taxpayers' compliance decision. Therefore, government must be considered to fulfill the sufficient tax office staff number and frequent tax code changes affect tax compliance to a lesser extent.

5.2   Suggestions and Recommendations

Findings from the study reveal that all the identified factors have a direct influence on the tax compliance among SMEs. The tax compliance factors examined included social & psychological factors, economic factors, tax laws and regulations. Therefore, from the discussion of findings of the study suggestion and recommendations are presented below importance in order to provide voluntary tax compliance in Yangon Industrial Zone.

This finding implies that gaining tax compliance depends on how well offer and support tax payment influencing factor of SMEs owners by the government and which factors effect on more or less tax compliance decision. It is suggested that tax payment influencing factor of SME businesses owner plays a vital role to contribute and create tax compliance.

For tax laws and tax laws and regulations factors, government needs to consider and provided with strong tax law and regulations for SMEs businesses because of poor structure of the tax system & tax administration that doesn't meet the expectations & needs of tax payers. And, government of tax system needs to appropriate & suitable with the whole SME businesses economic condition for taxpayers. In addition, government should be consider for effective public spending, accurately and clearly taxes rate and tax penalties because of high tax rates are the primary problem of tax payers. Moreover, government should be consider to provide and adapt to technological developments, education level/ training programs and professional knowledge for staff working in the tax office to provide adequate information and effective service for taxpayers because of the relations between staff working in the tax office and tax payers are needed to build positive relation for reduce tax payment influencing factors on tax compliance of SMEs owners. In addition, tax player are also consider political stability of the ruling party of

government in a country may play a significant role in determining tax compliance behavior.

As the result of multiple regression analysis, tax compliance influencing factors (social and psychological factor, economic factors and tax laws and regulations factors) of SME businesses owners shows the significant positive relationship with tax compliance.

For social and psychological factor, government should more focus on social and psychological factor of SME businesses owners which are essentially required the influence factor on tax compliance. In addition, the government needs to acculturate, educate and induct SMEs groups into the Myanmar tax system, so that SMEs taxpayers understand that paying taxes is part of the fabric of this country. Government should be recognized on social and psychological factor SME owners by collecting tax with fairness and equity highly communicate because of tax fairness and equity is only one factor in achieving overall compliance. Other social and psychology factors have found that the fairness and equity of a tax system also impacts upon compliance levels. Furthermore, political/government accountability is one of the psychological factors that influenced to the compliance behavior. Political stability of the ruling party of government in a country may play a significant role in determining tax evasion behavior.

For economic factors and tax laws and regulations factors, government should more focus on this two factors because which factors are weak significantly related with tax compliance according to the result of multiple regression analysis. The results also suggest that the government tax law and regulation structure, which need to consider the current tax rate is fair for every SMEs taxpayer. If tax rates are reduced, most of SMEs owners would be encouraged to pay their taxes and government would be motivated to pay taxes by reducing their tax rates are. Government should be think levels of inflation influence taxpayers' perception to pay taxes. The government should be recognized on high or high inflation level triggers corruption and thus leading to tax evasion and avoidance for tax players. Therefore, tax payers would pay tax if Government was taken aggressively tackle the inflationary trend. Beside, SMEs are recognized internationally for their economic contributions and their tax collection functions for the government.

Finally, government should more consider tax compliance that is critical for long-term government expenditures and fun of nation. Moreover, government should more provides social & psychological factors, economic factors, tax laws and regulations for increasing SME owners reliability and credibility which lead to improve tax compliance. Thus, the better provide on tax payment influencing factors on SME businesses of the government can be higher tax compliance.

5.3   Needs for Further Study

This study is mainly analyzed on the relationship between tax payment influencing factors and tax compliance of private SME companies in Yangon (Hlaing Tharyar) Industrial Zone according to the available data. The data are collected from owners of SMEs companies totally 120 owners using convenience sampling methods. These studies focus SMEs owners only in in Yangon (Hlaing Tharyar) Industrial Zone. There are some limitation of time, cost and data in this study.

Further research should emphasize the limitations of this study to focus additional factors that are not considered in this study to create the effects of influencing factors on tax compliance. In further studies, alternative tax compliance factors, tax payment influencing factors theories should be applied. In additional, the further research should be studied the effects of influencing factors on tax compliance in other industries.

APPENDIX

Questionnaire

This questionnaire is designed to collect data on the influencing factors on tax compliance in private SMEs in Myanmar. The data shall be used for academic purposes only and it will be treated with the confidentiality it deserves.

Section A: Demographic Information

1.   Gender   Female   [   ]   Male   [   ]

2.   Indicate where you fall among the following age brackets (years)

                    Below 25   [   ]   25-34   [   ]

                    35-44   [   ]   45-50   [   ]

                    Above 51   [   ]

3.   Marital Status

     Single   [   ]   Married   [   ]

4.   Level of education

                    High School   [   ]   Diploma level [   ]

                    Bachelor 's Degree Level   [   ]

                    Masters Level [   ]

5.   Type of business

6.   Number of employees in the business

7.   Lifespan of Business

     Less than 1 year   [   ]   1year – 3year [   ]

     3year – 6year   [   ]   6year – 10year[   ]

More than 10years   [   ]

8.   Monthly Business Income

         Below 5,000,000 Kyats   [   ]   5,000,001 – 10,000,000 Kyats[   ]

         10,000,001 – 20,000,000 Kyats[   ]   20,000,001 – 50,000,000 Kyats[   ]

The below questionnaires are indicators of the tax compliances factors of citizens with in private SME companies. Please rank the following on a scale from Strongly Disagree to Strongly Agree to indicate your feelings. Here, 5 is strongly agreed, 4 agreed, 3 is normal, 2 is disagreed and 1 is strongly disagreed.

Social & Psychological Factors

Sr. No	Particular	1	2	3	4	5
1.	I want to pay the right amount of taxes on time					
2.	I don't search loopholes ways to tax avoidance and tax evasion on payment taxes.					
3.	I willing to pay tax because of Tax Laws and Policy are always precise.					
4.	I willingness to obey because the government of tax system are fair and equity for my business.					
5.	I can pay taxes because of tax penalties are different on my business.					
6.	I willing to pay tax because tax payment is an indicator of loyalty to the government.					
7.	I willing to pay tax because the number of staff working in the tax office is effective service to keep off the correct record and calculate correct tax penalties.					
8.	I willing to pay tax because the government is well-spent on collected tax as public service in country.					

Economic Factors

Sr. No	Particular	1	2	3	4	5
1.	I appointed auditor to examination of whether tax has correctly assessed and reported their tax liability and fulfilled other obligations.					
2.	I think incompetent and un-experienced auditors will get trouble to reveal and to punish under-reported taxes and this leads to tax inequity, and the tax inequity produces a negative response to taxation.					
3.	I am not fear of tax audits and prosecution because I always effort to tax compliance.					
4.	I'm not afraid of existing penalties because the penalties are not strong enough and too soft.					
5.	I can afford to pay the penalty or fines because of the penalty rates are too low.					
6.	I willing to pay tax because the tax rate system is almost appropriate and suitable with the economic condition.					
7.	I think tax rate system is almost appropriate and suitable with the economic condition					
8.	I think income tax rate does not affect my decision on tax non-compliance because of tax rates are suitable with firm income.					

Tax Laws and Regulations

Sr. No	Particular	1	2	3	4	5
1.	I willing to pay tax because this country of tax law are simplicity to understand easy i.e. calculation of tax filing and paying dates.					
2.	I feel this country of tax is an obligation and believe in no corruption					
3.	I feel of tax system was justice for all taxpayers to become tax compliance (i.e. paying a fair share of tax)					
4.	I am more willing to pay because of the government of tax system aims for delivers valuable public goods and services in return (i.e if the government not to waste their money)					
5.	I am more willing to pay because of the government made tax reduce for regularly tax players.					
6.	I think local fiscal policy not only causes costs to the companies in terms of tax payments, but also in terms of compliance costs.					
7.	I think government reduces tax cost because of the fiscal expansion for use of deficit financing.					
8.	I was assumed on local fiscal policy does not indeed affect firm profitability.					

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